Teekay LNG Partners L.P.
Form 20-F/A
December 02, 2008

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F/A

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2007

OR

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

OR

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

Date of event requiring this shell company report __________
For the transition period from __________ to __________
Commission file number 1- 32479
TEEKAY LNG PARTNERS L.P.
(Exact name of Registrant as specified in its charter)
Republic of The Marshall Islands
(Jurisdiction of incorporation or organization)
4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda
(Address of principal executive offices)

Roy Spires
4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda
Telephone: (441) 298-2530
Fax: (441) 292-3931
(Contact information for company contact person)

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

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

Securities registered or to be registered pursuant to Section 12(g) of the Act.
None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.
None

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

22,540,547 Common Units
14,734,572 Subordinated Units

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No þ

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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

Large Accelerated Filer o	Accelerated Filer þ	Non-Accelerated Filer o

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

U.S. GAAP þ	International Financial Reporting Standards as issued by the International Accounting Standards Board o	Other o

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

EXPLANATORY NOTE

Teekay LNG Partners L.P. (generally referred to herein as *the Partnership*, *Teekay LNG Partners Predecessor*, *the Predecessor*, *we*, *our* or *us*) is filing this Annual Report on Form 20-F/A for the year ended December 31, 2007 (this *Amendment* or this *2007 Form 20-F/A Report*) to amend our Annual Report on Form 20-F for the year ended December 31, 2007 (the *Original Filing*) that was filed with the Securities and Exchange Commission (or *SEC*) on April 11, 2008.

a. Derivative Instruments and Hedging Activities

In August 2008, we commenced a review of our application of Statement of Financial Accounting Standards (or *SFAS*) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. Although we believe that our derivative transactions were consistent with our risk management policies and that our overall risk management policies continue to be sound, based on our review we concluded that our derivative instruments did not qualify for hedge accounting treatment under SFAS No. 133 for the years ended December 31, 2007, 2006, 2005 and 2004.

Certain of our hedge documentation, in respect of our assessment of effectiveness and measurement of ineffectiveness of our derivative instruments for accounting purposes, was not in accordance with the technical requirements of SFAS No. 133. One of our derivative agreements is between Teekay Corporation and us, which relates to hire payments under the time charter contract for the Suezmax tanker the *Toledo Spirit*. Prior to April 2007, this agreement with Teekay Corporation was not accounted for as a derivative agreement subject to the provisions of SFAS No. 133, and after April 2007, the agreement did not qualify for hedge accounting treatment under SFAS No. 133.

Accordingly, although we believe each of these derivative instruments were and continue to be effective economic hedges, for accounting purposes we should have reflected changes in fair value of these derivative instruments as increases or decreases to our net income (loss) on our consolidated statements of income, instead of being reflected as increases or decreases to accumulated other comprehensive income, a component of partners equity/stockholder deficit on our consolidated balance sheets and statements of changes in partners equity/stockholder deficit.

The change in accounting for these transactions does not affect the economics of the derivative transactions or our cash flows, liquidity, or cash distributions to partners.

b. Vessels Acquired from Teekay Corporation

In connection with assessing the potential impact of SFAS No. 141(R), which replaces SFAS No. 141 *Business Combinations*, and is effective for fiscal years beginning after December 15, 2008, we re-assessed our accounting treatment for interests in vessels we have purchased from Teekay Corporation subsequent to our initial public offering in May 2005. We have historically treated the acquisition of the interests in these vessels as asset acquisitions, not business acquisitions. If the acquisitions were deemed to be business acquisitions, the acquisitions would have been accounted for in a manner similar to the pooling of interest method whereby our consolidated financial statements prior to the date the interests in these vessels were acquired by us would be retroactively adjusted to include the results of these acquired vessels (referred to herein as the *Dropdown Predecessor)* from the date that we and the acquired vessels were both under the common control of Teekay Corporation and had begun operations. Although substantially all of the value relating to these transactions is attributable to the vessels and associated contracts, we have now determined that the acquisitions should have been accounted for as business acquisitions under United States generally accepted accounting principles (or *GAAP*).

The impact of retroactive Dropdown Predecessor adjustments does not affect our limited partners interest in net income, earnings per unit, or cash distributions to partners.

c. Gross-up Presentation of RasGas Joint Ventures and Other

Subsequent to the release of our preliminary second quarter financial results, we reviewed and revised our financial statement presentation of debt and interest rate swap agreements related to our joint venture interests in the RasGas II and RasGas 3 LNG carriers. As a result, certain of our assets and liabilities have been grossed up for accounting presentation purposes. These adjustments, which do not affect our net income, cash flow, liquidity, cash distributions or partners equity in any period, are described below.

In January 2006, we entered into a sale and 30-year leaseback arrangement pertaining to shipbuilding contracts for our 70 percent interest in the three RasGas II LNG carriers. We have since determined that we should have recorded the accumulated construction cost of these vessels for accounting purposes in accordance with Emerging Issues Task

Force Issue 97-10, as we retained certain construction period risks subsequent to the RasGas II sale-leaseback transaction. This adjustment does not impact the accounting treatment for these vessels in any period subsequent to their delivery in the first quarter of 2007. We have now restated our consolidated balance sheet as at December 31, 2006 to record the accumulated cost of approximately $295 million for these vessels under construction, and related capital lease obligations.

Through a wholly-owned subsidiary, which is a variable interest entity (or *VIE*) for us, Teekay Corporation owns a 40 percent interest in the four RasGas 3 LNG carriers. The joint venture partner, a wholly-owned subsidiary of Qatar Gas Transport Company, owns the remaining 60 percent interest. Both wholly-owned subsidiaries are joint and several co-borrowers with respect to the RasGas 3 term loan and related interest rate swap agreements. Previously, we recorded 40 percent of the RasGas 3 term loan and interest rate swap obligations in our financial statements. We have made adjustments to our balance sheet to reflect 100 percent of the RasGas 3 term loan (2007 $360.6 million; 2006 $90.7 million) and interest rate swap obligations (2007 $9.6 million; 2006 $(0.4) million), as well as offsetting increases in assets, for the fourth quarter of 2006 through the fourth quarter of 2007. We have also made adjustments to our statements of income to reflect 100 percent of the interest expense (2007 $17.1 million; 2006 $1.3 million) on the RasGas 3 term loan with an offsetting amount to interest income from our advances to the joint venture. These RasGas 3 adjustments do not result in any increase to our net exposure in this joint venture. We have also restated certain other items primarily related to accounting for the non-controlling interest in our joint venture and VIEs.

Table of Contents

As a result of the conclusions described above, we are restating in this 2007 Form 20-F/A Report our historical balance sheets as of December 31, 2007 and 2006, our statements of income, cash flows and changes in partners equity/stockholder deficit for the years ended 2007, 2006 and 2005 and selected financial data as of and for the years ended December 31, 2007, 2006, 2005, 2004 and 2003.
The following table sets forth a reconciliation of previously reported and restated net income (loss) and partners equity/stockholder deficit as of the date and for the periods shown (in thousands of US dollars):

	Net Income (Loss)							
	Year Ended December 31, 2007	Year Ended December 31, 2006	January 1 to May 9, 2005	May 10 to December 31, 2005	January 1 to April 30, 2004	May 1 to December 31, 2004	Year Ended December 31, 2003	Stockholder Deficit At December 31, 2002
As Previously Reported	(9,438)	(9,591)	29,215	50,332	16,164	(84,395)	(59,432)	(106,105)
Adjustments:								
Derivative Instruments, net of non-controlling interest	35,210	22,654	(8,515)	(14,161)		(43,678)		
Dropdown Predecessor (1)		(123)	3,383	1,588	3,554	6,270	3,096	
Other	(630)	(1,811)						
As Restated	25,142	11,129	24,083	37,759	19,718	(121,803)	(56,336)	(106,105)

(1) Relates to the results for the pre-acquisition periods in which we and the acquired interests in vessels, as listed below, were both in operation and under the common control of Teekay Corporation, as follows:

Dania Spirit for April 1, 2003 to December 31, 2006;

European Spirit for September 26, 2003 to November 22, 2005;

African Spirit for November 10, 2003 to November 22, 2005;

Asian Spirit for January 5, 2004 to November 22, 2005; and

Granada Spirit for December 6, 2004 to May 9, 2005.

Note 17 of the notes to the consolidated financial statements included in this 2007 Form 20-F/A Report reflects the changes to our consolidated financial statements as a result of our restatement and provides additional information about the restatement.

We have also restated in this 2007 Form 20-F/A our General Partner s historical balance sheet as at December 31, 2007. Note 14 of the notes to the General Partner s consolidated financial statements included in this 2007 Form 20-F/A Report reflects the changes to its consolidated balance sheet as a result of our restatement and provides additional information about the restatement.

Management also has determined that control deficiencies relating to the preparation of hedge documentation and to the accounting for non-routine, complex financial structures and arrangements, which gave rise in part to this restatement, constituted material weaknesses in our internal control over financial reporting. We believe, as of the date of this filing, that we have fully remediated these material weaknesses in our internal control over financial reporting. Please read Item 15. Controls and Procedures for additional discussion.

For the convenience of the reader, this 2007 Form 20-F/A Report sets forth the Original Filing in its entirety, although we are only restating portions of Items 3, 4, 5, 7, 11, 15, 18 and 19 affected by the corrected financial information. This 2007 Form 20-F/A Report includes currently-dated certifications from the Chief Executive Officer and Chief Financial Officer of our General Partner, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, as well as the currently dated consent of our independent registered public accounting firm. The changes we have made are a result of and reflect the restatement described herein; no other information in the Original Filing has been updated.

Except for the amended or restated information described above, this 2007 Form 20-F/A Report continues to speak as of the date of the Original Filing. Other events occurring after the filing of the Original Filing or other disclosures necessary to reflect subsequent events have been or will be addressed in other reports filed with or furnished to the SEC subsequent to the date of the Original Filing.

Because this 2007 Form 20-F/A Report restates all of the pertinent financial data for the affected periods, we do not intend to amend our previously-filed Annual Reports on Form 20-F or previously furnished Reports on Form 6-K for periods ending prior to December 31, 2007. As a result, the reader should rely not on the prior filings, but should rely upon the restated financial statements, reports of our independent registered public accounting firm and related financial information for affected periods contained in this 2007 Form 20-F/A Report.

TEEKAY LNG PARTNERS L.P.
INDEX TO REPORT ON FORM 20-F/A

PART I

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

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

- our ability to make cash distributions on our units or any increases in quarterly distributions;
- our future financial condition and results of operations and our future revenues and expenses;
- growth prospects of the liquefied natural gas (LNG) and liquefied petroleum gas (LPG) shipping and oil tanker markets;
- LNG, LPG and tanker market fundamentals, including the balance of supply and demand in the LNG, LPG and tanker markets;
- the expected lifespan of a new LNG carrier, LPG carrier and Suezmax tanker;
- estimated capital expenditures and the availability of capital resources to fund capital expenditures;
- our ability to maintain long-term relationships with major LNG and LPG importers and exporters and major crude oil companies;
- our ability to leverage to our advantage Teekay Corporation s relationships and reputation in the shipping industry;
- our continued ability to enter into long-term, fixed-rate time charters with our LNG and LPG customers;
- obtaining LNG and LPG projects that we or Teekay Corporation bid on or that Teekay Corporation has been awarded, including Teekay Corporation s offer of the Kenai LNG vessels to the Partnership;
- the expected timing of Teekay Corporation s offer of the Angola LNG project vessels to the Partnership;
- our ability to maximize the use of our vessels, including the re-deployment or disposition of vessels no longer under long-term charter;
- expected purchases and deliveries of newbuilding vessels and commencement of service of newbuildings under long-term contracts;
- the expected timing, amount and method of financing for the purchase of five of our existing Suezmax tankers;
- our expected financial flexibility to pursue acquisitions and other expansion opportunities;
- the expected cost of, and our ability to comply with, governmental regulations and maritime self-regulatory organization standards applicable to our business;

- the expected impact of heightened environmental and quality concerns of insurance underwriters, regulators and charterers;
- anticipated taxation of our partnership and its subsidiaries; and
- our business strategy and other plans and objectives for future operations.

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, 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 those factors discussed in Item 3: Key Information Risk Factors, and other factors detailed from time to time in other reports we file with the SEC.

Table of Contents

Forward-looking statements in this Annual Report are necessarily estimates reflecting the judgment of senior management and involve known and unknown risks and uncertainties. These forward-looking statements 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. Accordingly, these forward-looking statements should be considered in light of various important factors, including those set forth in this Annual Report under the heading Risk Factors .

Item 1. Identity of Directors, Senior Management and Advisors

The information included in Item 1 in the Original Filing has not been updated for information or events occurring after the date of the Original Filing and has not been updated to reflect the passage of time since the date of the Original Filing.

Not applicable.

Item 2. Offer Statistics and Expected Timetable

The information included in Item 2 in the Original Filing has not been updated for information or events occurring after the date of the Original Filing and has not been updated to reflect the passage of time since the date of the Original Filing.

Not applicable.

Item 3. Key Information

Selected Financial Data (Restated)

The following tables present, in each case for the periods and as of the dates indicated, summary:

- historical financial and operating data of Teekay Shipping Spain S.L. and its subsidiaries (or *Teekay Spain*), which was named Naviera F. Tapias S.A. prior to its acquisition by Teekay Corporation through its subsidiary Teekay Luxembourg S.a.r.l. (or Luxco), on April 30, 2004; and
- historical financial and operating data of Teekay LNG Partners L.P. and its subsidiaries since its initial public offering on May 10, 2005, in connection with which it acquired Luxco from Teekay Corporation.

The summary historical financial and operating data has been prepared on the following basis:

- the historical financial and operating data of Teekay Spain excludes financial information related to three businesses previously held in separate subsidiaries and unrelated to the marine transportation of LNG and crude oil, which were disposed of prior to Teekay Corporation s acquisition of Teekay Spain;
- the historical financial and operating data of Teekay Spain as at and for the years ended December 31, 2002 and 2003 and the four months ended April 30, 2004 are derived from the consolidated financial statements of Teekay Spain;
- the historical financial and operating data of Luxco as at December 31, 2004 and for the eight months ended December 31, 2004 and the period from January 1, 2005 to May 9, 2005 (or the *2005 Pre-IPO Period*) reflect the acquisition of Teekay Spain by Teekay Corporation through Luxco and are derived from the consolidated financial statements of Luxco; and
- the historical financial and operating data of Teekay LNG Partners L.P. as at December 31, 2005, 2006 and 2007, and for the periods from May 10, 2005 to December 31, 2005, and for the years ended December 31, 2006 and 2007 reflect its initial public offering and related acquisition of Luxco and are derived from the audited consolidated financial statements of the Partnership.

Our historical operating results include the historical results of Luxco for the nine months ended December 31, 2004 and the 2005 Pre-IPO Period. During these periods, Luxco had no revenues, expenses or income, or assets or liabilities, other than:

- advances (including accrued interest) of $465.7 million as of December 31, 2004, from Teekay Corporation that Luxco used to purchase Teekay Spain and to prepay certain debt of Teekay Spain;
- net interest expense related to the advances of $9.8 million and $7.3 million for the nine months ended December 31, 2004 and for the 2005 Pre-IPO Period, respectively;
- an unrealized foreign exchange loss of $44.7 million for the nine months ended December 31, 2004 related to the advances, which are Euro-denominated, and a $23.8 million unrealized foreign exchange gain related to the advances for the 2005 Pre-IPO Period;

other expenses of $1.1 million and $0.1 million for those respective periods;
cash and cash equivalents of $2.2 million as of December 31, 2004; and
its ownership interest in Teekay Spain and certain purchase rights and obligations for Suezmax tankers operated by Teekay Spain under capital lease arrangements, which it acquired from Teekay Spain on December 30, 2004.

Table of Contents

Luxco s results relate solely to the financing of the acquisition of Teekay Spain and repayment of Teekay Spain debt by Teekay Corporation and do not relate to the historical results of Teekay Spain. In addition, because the capital stock of Luxco and the advances from Teekay Corporation were contributed to us in connection with our initial public offering, these advances and their related effects were eliminated on consolidation in the periods subsequent to May 9, 2005. Consequently, certain of our historical financial and operating data for the 2005 Pre-IPO Period may not be comparable to subsequent periods.

The following tables should be read together with, and are qualified in their entirety by reference to, (a) Item 5. Operating and Financial Review and Prospects, included herein, and (b) the historical consolidated financial statements and the accompanying notes and the Report of Independent Registered Public Accounting Firm therein (which are included herein), with respect to the consolidated financial statements for the years ended December 31, 2007, 2006 and 2005, aggregated as follows:

Year ended December 31, 2007

January 1 to December 31, 2007

Year ended December 31, 2006

January 1 to December 31, 2006

Year ended December 31, 2005

January 1 to May 9, 2005

May 10 to December 31, 2005

The information presented in the following tables and related footnotes have been adjusted to reflect the restatement of our financial results which is described in the Explanatory Note above. A reconciliation of our previously reported consolidated financial statements to our restated consolidated financial statements as at December 31, 2007 and 2006 and for the years ended December 31, 2007, 2006, and 2005 is included in Note 17 of the notes to our consolidated financial statements. A reconciliation of our previously reported consolidated financial statements to our restated consolidated financial information as at December 31, 2005, 2004 and 2003 and for the years ended December 31, 2004 and 2003 follows the table.

Table of Contents

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

	Year Ended December 31, 2003 (restated)	January 1 to April 30, 2004 (restated)	May 1 to December 31, 2004 (restated)	January 1 to May 9, 2005 (restated)	May 10 to December 31, 2005 (restated)	Year Ended December 31, 2006 (restated)	Year Ended December 31, 2007 (restated)
			(in thousands, except per unit and fleet data)				
ncome Statement Data:							
/oyage revenues	$ 94,373	$ 51,849	$ 105,762	$ 67,575	$ 107,343	$ 186,880	$ 267,939
)perating expenses:							
/oyage expenses (1)	4,960	1,994	3,888	1,934	639	2,036	1,197
/essel operating expenses (2)	28,192	12,783	25,703	14,609	22,646	40,977	56,460
)epreciation and amortization	25,062	11,008	31,223	18,134	32,570	53,076	65,501
Seneral and administrative	9,563	3,112	6,494	4,481	8,732	14,152	15,090
'otal operating expenses	67,777	28,897	67,308	39,158	64,587	110,241	138,248
ncome from vessel operations	26,596	22,952	38,454	28,417	42,756	76,639	129,691
nterest expense (4)	(20,478)	(19,002)	(98,871)	(48,568)	(51,663)	(35,298)	(167,370
nterest income (4)	8,431	8,692	13,519	9,098	14,098	13,041	88,737
'oreign currency exchange gain loss) (3)	(71,502)	18,010	(78,831)	52,295	29,523	(39,590)	(41,241
)ther income (loss) (5)	617	(10,934)	3,926	(17,159)	3,045	(429)	(1,414
Loss) income before on-controlling interest	(56,336)	19,718	(121,803)	24,083	37,759	14,363	8,403
Non-controlling interest						(3,234)	16,739
Net (loss) income	(56,336)	19,718	(121,803)	24,083	37,759	11,129	25,142
)ropdown Predecessor s interest 1 net income (loss)	$ 3,096	$ 3,554	$ 6,270	$ 3,383	$ 1,588	$ (123)	$
Seneral Partner s interest in net ncome					6,229	1,542	9,752
.imited partners interest:							
Net (loss) income	(59,432)	16,164	(128,073)	20,700	29,942	9,710	15,390
Net (loss) income per:							
Common unit (basic and diluted) 5)	(2.53)	0.69	(5.46)	0.88	1.19	0.42	0.58
ubordinated unit (basic and iluted) (6)	(2.53)	0.69	(5.46)	0.88	0.71	0.07	0.27
'otal unit (basic and diluted) (6)	(2.53)	0.69	(5.46)	0.88	0.97	0.27	0.45
Cash distributions declared per nit					0.65	1.80	2.05

Balance Sheet Data (at end of period):							
Cash and marketable securities	$ 22,533	$ 11,289	$ 156,410		$ 35,955	$ 29,288	$ 91,891
Restricted cash (7)	398,038	385,564	435,112		298,323	670,758	679,229
Vessels and equipment (8)	733,306	785,498	1,247,766		1,522,887	1,715,662	1,836,504
Total assets (7)(9)	1,200,512	1,206,217	2,089,636		2,085,634	2,928,422	3,589,148
Total debt and capital lease obligations (7)	1,238,905	1,213,587	2,034,353		1,266,281	1,961,021	2,623,941
Total stockholder s/partners equity (deficit)	(143,864)	(100,872)	(103,262)		736,599	703,190	708,174
Common units outstanding (6)	8,734,572	8,734,572	8,734,572	8,734,572	20,238,072	20,240,547	22,540,547
Subordinated units outstanding (6)	14,734,572	14,734,572	14,734,572	14,734,572	14,734,572	14,734,572	14,734,572
Cash Flow Data:							
Net cash provided by (used in):							
Operating activities	$ 23,418	$ 20,785	$ 23,628	$ 15,980	$ 59,726	$ 84,009	$ 114,461
Financing activities	(282,716)	(31,823)	406,289	(163,646)	36,530	(260,674)	631,384
Investing activities	262,766	901	(284,698)	18,758	(87,803)	169,998	(683,242
Other Financial Data:							
Net voyage revenues (9)	$ 89,413	$ 49,855	$ 101,874	$ 65,641	$ 106,704	$ 184,844	$ 266,742
EBITDA (10)	(16,194)	40,391	(5,845)	84,026	104,846	86,837	170,431
Capital expenditures:							
Expenditures for vessels and equipment (12)	133,628	5,522	83,703	44,270	158,045	1,037	160,757
Expenditures for drydocking	4,711		4,085	371	3,494	3,693	3,724
Liquefied Gas Fleet Data:							
Calendar-ship-days (11)	793	363	905	645	1,180	1,887	2,862
Average age of our fleet (in years at end of period)	1.8	2.1	1.8	1.9	2.8	3.0	3.2
Vessels at end of period	3.0	3.0	5.0	5.0	5.0	6.0	8.0
Suezmax Fleet Data:							
Calendar-ship-days (11)	2,337	1,054	1,924	1,032	1,833	2,920	2,920
Average age of our fleet (in years at end of period)	6.4	6.0	3.9	4.3	3.0	4.0	5.0
Vessels at end of period	8.0	9.0	8.0	8.0	8.0	8.0	8.0

(1) Voyage expenses are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions.

(2) Vessel operating expenses include crewing, repairs and maintenance, insurance, stores, lube

oils and communication expenses.

(3) Substantially all of these foreign currency exchange gains and losses were unrealized and not settled in cash. Under U.S. accounting guidelines, all foreign currency-denominated monetary assets and liabilities, such as cash and cash equivalents, accounts receivable, restricted cash, accounts payable, long-term debt and capital lease obligations, are revalued and reported based on the prevailing exchange rate at the end of the period. Our primary source for the foreign currency gains and losses is our Euro-denominated term loans, which totaled 318.5 million Euros ($377.4 million) at December 31, 2005, 311.6 million Euros ($411.3 million) at December 31, 2006, 304.3 million Euros ($444.0 million) at December 31, 2007.

(4) We entered into interest rate swaps to mitigate our interest rate risk from our floating-rate debt used to purchase our LNG carriers. Changes in the fair value of our derivatives are recognized immediately into income and are presented as interest expense and/or interest income.

(5) The $17.1 million other loss in the period from January 1, 2005 to May 9, 2005 primarily resulted from a write-off of capitalized loan costs and a loss on cancellation of interest rate swaps.

(6) Net income (loss) per unit is determined by dividing net income (loss), after deducting the amount of net income (loss) attributable to the Dropdown Predecessor Impact and the amount of net income (loss) allocated to our General

Partner s interest for periods subsequent to our initial public issuance date of common units on May 10, 2005, by the weighted-average number of units outstanding during the period. For periods prior to May 10, 2005, such units are deemed equal to the common and subordinated units received by Teekay Corporation in exchange for net assets it contributed to us in connection with the initial public offering.

(7) We operate certain of our LNG carriers under tax lease arrangements. Under these arrangements, we borrow under term loans and deposit the proceeds into restricted cash accounts. Concurrently, we enter into capital leases for the vessels, and the vessels are recorded as assets on our balance sheet. The restricted cash deposits, plus the

interest earned on the deposits, will equal the remaining amounts we owe under the capital lease arrangements, including our obligations to purchase the vessels at the end of the lease term where applicable. Therefore, the payments under our capital leases are fully funded through our restricted cash deposits, and our continuing obligation is the repayment of the term loans. However, under GAAP we record both the obligations under the capital leases and the term loans as liabilities, and both the restricted cash deposits and our vessels under capital leases as assets. This accounting treatment has the effect of increasing our assets and liabilities by the amount of restricted cash deposits relating to the corresponding capital lease obligations.

(8) Vessels and equipment consist of (a) our vessels, at cost less accumulated depreciation, (b) vessels under capital leases, at cost less accumulated depreciation, and (c) advances on our newbuildings.

(9) Consistent with general practice in the shipping industry, we use net voyage revenues (defined as voyage revenues less voyage expenses) as a measure of equating revenues generated from voyage charters to revenues generated from time charters, which assists us in making operating decisions about the deployment of our vessels and their performance. Under time charters the charterer pays the voyage expenses, whereas under voyage charter contracts the ship owner pays these expenses. Some voyage expenses are fixed, and the remainder can be estimated. If we, as the ship owner, pay the voyage

expenses, we typically pass the approximate amount of these expenses on to our customers by charging higher rates under the contract or billing the expenses to them. As a result, although voyage revenues from different types of contracts may vary, the net revenues after subtracting voyage expenses, which we call net voyage revenues, are comparable across the different types of contracts. We principally use net voyage revenues, a non-GAAP financial measure, because it provides more meaningful information to us than voyage revenues, the most directly comparable GAAP financial measure. Net voyage revenues are also widely used by investors and analysts in the shipping industry for comparing financial performance between companies and to industry averages. The following table reconciles net voyage revenues with voyage revenues.

	Year Ended December 31, 2003 (restated)	January 1 to April 30, 2004 (restated)	May 1 to December 31, 2004 (restated)	January 1 to May 9, 2005 (restated)	May 10 to December 31, 2005 (restated)	Year Ended December 31, 2006 (restated)	Year Ended December 31, 2007 (restated)
Voyage revenues	$ 94,373	$ 51,849	$ 105,762	$ 67,575	$ 107,343	$ 186,880	$ 267,939
Voyage expenses	(4,960)	(1,994)	(3,888)	(1,934)	(639)	(2,036)	(1,197)
Net voyage revenues	$ 89,413	$ 49,855	$ 101,874	$ 65,641	$ 106,704	$ 184,844	$ 266,742

(10) EBITDA is used as a supplemental financial measure by management and by external users of our financial statements, such as investors, as discussed below:

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

Liquidity. EBITDA allows us to assess the ability of assets to generate cash sufficient to service debt, pay distributions and undertake capital expenditures. By eliminating the cash flow effect resulting from our existing capitalization and other items such as drydocking expenditures, working capital changes and foreign currency exchange gains and losses, EBITDA provides a consistent measure of our ability to generate cash over the long term. Management uses this information as a significant factor in determining (a) our proper capitalization (including assessing how much debt to incur and whether changes to the capitalization should be made) and (b) whether to undertake material capital expenditures and how to finance them, all in light of our cash distribution policy. Use of EBITDA as a liquidity measure also permits investors to assess the fundamental ability of our business to generate cash sufficient to meet cash needs, including distributions on our common units.

Table of Contents

EBITDA should not be considered an alternative to net income, operating income, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with GAAP. EBITDA excludes some, but not all, items that affect net income and operating income, and these measures may vary among other companies. Therefore, EBITDA as presented below may not be comparable to similarly titled measures of other companies.

	Year Ended December 31, 2003 (restated)	January 1 to April 30, 2004 (restated)	May 1 to December 31, 2004 (restated)	January 1 to May 9, 2005 (restated)	May 10 to December 31, 2005 (restated)	Year Ended December 31, 2006 (restated)	Year Ended December 31, 2007 (restated)
Reconciliation of EBITDA to Net income (loss) :							
Net income (loss)	$ (56,336)	$ 19,718	$ (121,803)	$ 24,083	$ 37,759	$ 11,129	$ 25,142
Depreciation and amortization	25,062	11,008	31,223	18,134	32,570	53,076	65,501
Interest expense, net	12,047	10,310	85,352	39,470	37,565	22,257	78,633
Provision (benefit) for income taxes	3,033	(645)	(617)	2,339	(3,048)	375	1,155
EBITDA (1)	$ (16,194)	$ 40,391	$ (5,845)	$ 84,026	$ 104,846	$ 86,837	$ 170,431
Reconciliation of EBITDA to Net operating cash flow :							
Net operating cash flow	$ 23,418	$ 20,785	$ 23,628	$ 15,980	$ 59,726	$ 84,009	$ 114,461
Non-controlling interest						(3,234)	16,739
Expenditures for drydocking	4,711		4,085	371	3,494	3,693	3,724
Interest expense, net	12,047	10,310	85,352	39,470	37,565	22,257	78,633
Gain (loss) on sale of assets	1,576	(11,837)	3,428	(15,282)	186		
Change in working capital	(569)	(911)	(9,861)	2,209	(4,763)	4,166	(12,505)
Change in fair value of interest rate swaps	14,715	3,985	(43,678)	(8,447)	(14,000)	24,180	(3,195)

Foreign currency exchange (loss) gain and other, net	(72,092)	18,059	(68,799)	49,725	22,638	(48,234)	(27,426)
EBITDA	$ (16,194)	$ 40,391	$ (5,845)	$ 84,026	$ 104,846	$ 86,837	$ 170,431

(1) EBITDA is net of non-controlling interest expense of $16.7 million and $(3.2) million for the years ended December 31, 2007 and 2006, respectively. Non-controlling interest is nil for the year ended December 31, 2003 and the periods January 1 to April 30, 2004, May 1 to December 31, 2004, January 1 to May 9, 2005, and May 10 to December 31, 2005.

EBITDA also includes the following:

	Year Ended December 31, 2003 (restated)	**January 1 to April 30, 2004 (restated)**	**May 1 to December 31, 2004 (restated)**	**January 1 to May 9, 2005 (restated)**	**May 10 to December 31, 2005 (restated)**	**Year Ended December 31, 2006 (restated)**	**Year Ended December 31, 2007 (restated)**
Foreign currency exchange (loss) gain	$ (71,502)	$ 18,010	$ (78,831)	$ 52,295	$ 29,523	$ (39,590)	$ (41,241)
Change in fair value of the Toledo Spirit					(6,484)	(873)	14,136

derivative included in revenue													
	$	(71,502)	$	18,010	$	(78,831)	$	52,295	$	23,039	$	(40,463)	$	(27,105)

(11) Calendar-ship-days are equal to the aggregate number of calendar days in a period that our vessels were in our possession during that period (including five vessels deemed to be in our possession for accounting purposes as a result of the impact of the Dropdown Predecessor prior to our actual acquisition of such vessels).

(12) Expenditures for vessels and equipment excludes non-cash investing activities. Please read Item 18 Financial Statements: Note 15 Supplemental Cash Flow Information.

(13) A reconciliation of our previously reported consolidated financial information to our restated consolidated financial

information as at December 31, 2005, 2004 and 2003 and for the years ended December 31, 2004 and 2003 is contained in the following table. Only those line items in the selected financial data table that are from our consolidated financial information and were affected by the restatement are contained below.

Table of Contents

	As Reported $	Adjustments: Derivative Instruments $	Adjustments: Dropdown Predecessor $	Adjustments: Gross-up Presentation and Other $	As Restated $
		(in thousands, except unit and per unit data)			
Income Statement Data:					
January 1 to April 31, 2004					
Voyage revenues	$ 40,718		$ 11,131		$ 51,849
Operating expenses:					
Voyage expenses	1,842		152		1,994
Vessel operating expenses	10,302		2,481		12,783
Depreciation and amortization	8,585		2,423		11,008
General and administrative	2,103		1,009		3,112
Total operating expenses	22,832		6,065		28,897
Income from vessel operations	17,886		5,066		22,952
Interest expense	(17,490)		(1,512)		(19,002)
Interest income	8,692				8,692
Foreign currency exchange gain	18,010				18,010
Other loss	(10,934)				(10,934)
Income before non-controlling interest	16,164		3,554		19,718
Non-controlling interest					
Net income	$ 16,164	$	$ 3,554	$	$ 19,718
Dropdown Predecessor s interest in net income	$				$ 3,554
General Partner s interest in net income					
Limited partners interest:					
Net income	16,164				16,164
Net income per:					
Common unit (basic and diluted)	0.69				0.69
Subordinated unit (basic and diluted)	0.69				0.69
Total unit (basic and diluted)	0.69				0.69
Cash distributions declared per unit					
May 1 to December 31, 2004					
Voyage revenues	$ 83,115		$ 22,647	$	$ 105,762
Operating expenses:					
Voyage expenses	3,090		798		3,888
Vessel operating expenses	20,315		5,388		25,703

Depreciation and amortization	26,275		4,948		31,223
General and administrative	4,375		2,119		6,494
Total operating expenses	54,055		13,253		67,308
Income from vessel operations	29,060		9,394		38,454
Interest expense	(50,485)	(45,262)	(3,124)		(98,871)
Interest income	13,519				13,519
Foreign currency exchange loss	(78,831)				(78,831)
Other income	2,342	1,584			3,926
(Loss) income before non-controlling interest	(84,395)	(43,678)	6,270		(121,803)
Non-controlling interest					
Net (loss) income	$ (84,395)	$ (43,678)	$ 6,270	$	$ (121,803)
Dropdown Predecessor s interest in net income	$				$ 6,270
General Partner s interest in net income					
Limited partners interest:					
Net loss	(84,395)				(128,073)
Net loss per:					
Common unit (basic and diluted)	(3.60)				(5.46)
Subordinated unit (basic and diluted)	(3.60)				(5.46)
Total unit (basic and diluted)	(3.60)				(5.46)
Cash distributions declared per unit					

Table of Contents

	As Reported $	Adjustments: Derivative Instruments $	Adjustments: Dropdown Predecessor $	Adjustments: Gross-up Presentation and Other $	As Restated $
		(in thousands, except unit and per unit data)			
Income Statement Data:					
Year ended December 31, 2003					
Voyage revenues	$ 86,709		$ 7,664		$ 94,373
Operating expenses:					
Voyage expenses	4,911		49		4,960
Vessel operating expenses	26,440		1,752		28,192
Depreciation and amortization	23,390		1,672		25,062
General and administrative	8,799		764		9,563
Total operating expenses	63,540		4,237		67,777
Income from vessel operations	23,169		3,427		26,596
Interest expense	(20,147)		(331)		(20,478)
Interest income	8,431				8,431
Foreign currency exchange loss	(71,502)				(71,502)
Other income	617				617
(Loss) income before non-controlling interest	(59,432)		3,096		(56,336)
Non-controlling interest					
Net (loss) income	$ (59,432)	$	$ 3,096	$	$ (56,336)
Dropdown Predecessor s interest in net income	$				$ 3,096
General Partner s interest in net income					
Limited partners interest:					
Net loss	(59,432)				(59,432)
Net loss per:					
Common unit (basic and diluted)	(2.53)				(2.53)
Subordinated unit (basic and diluted)	(2.53)				(2.53)
Total unit (basic and diluted)	(2.53)				(2.53)
Cash distributions declared per unit					
Balance Sheet Data (at end of year):					
As at December 31, 2005					
Cash and marketable securities	$ 34,469	$	$ 1,486	$	35,955
Restricted cash	298,323				298,323

Vessels and equipment	1,502,386		20,501		1,522,887
Total assets	2,070,815		21,889	(7,070)	2,085,634
Total debt and capital lease obligations	1,248,136		18,145		1,266,281
Total stockholder s/partners equity (deficit)	769,139	(29,213)	3,743	(7,070)	736,599
As at December 31, 2004					
Cash and marketable securities	$ 156,410	$	$	$	$ 156,410
Restricted cash	435,112				435,112
Vessels and equipment	1,045,068		202,698		1,247,766
Total assets	1,885,366		204,270		2,089,636
Total debt and capital lease obligations	1,853,869		180,484		2,034,353
Total stockholder s/partners equity (deficit)	(123,002)		19,740		(103,262)
As at April 30, 2004					
Cash and marketable securities	$ 11,289	$	$	$	$ 11,289
Restricted cash	385,564				385,564
Vessels and equipment	602,055		183,443		785,498
Total assets	1,021,695		184,522		1,206,217
Total debt and capital lease obligations	1,072,379		141,208		1,213,587
Total stockholder s/partners equity (deficit)	(144,186)		43,314		(100,872)
As at December 31, 2003					
Cash and marketable securities	$ 22,533	$	$	$	$ 22,533
Restricted cash	398,038				398,038
Vessels and equipment	602,550		130,756		733,306
Total assets	1,069,081		131,431		1,200,512
Total debt and capital lease obligations	1,129,426		109,479		1,238,905
Total stockholder s/partners equity (deficit)	(164,809)		20,945		(143,864)

	As Reported $	Adjustments: Derivative Instruments $	Adjustments: Dropdown Predecessor $	Adjustments: Gross-up Presentation and Other $	As Restated $
	(in thousands, except unit and per unit data)				
Cash Flow Data:					
For the period January 1 to April 30, 2004					
Net cash provided by (used in):					
Operating activities	$ 14,808	$	$ 5,977	$	$ 20,785
Financing activities	(25,846)		(5,977)		(31,823)
Investing activities	901				901
For the period May 1 to December 31, 2004					
Net cash provided by (used in):					
Operating activities	$ 10,268	$	$ 13,360	$	$ 23,628
Financing activities	393,149		13,140		406,289
Investing activities	(258,198)		(26,500)		(284,698)
For the year ended December 31, 2003					
Net cash provided by (used in):					
Operating activities	$ 18,318	$	$ 5,100	$	$ 23,418
Financing activities	(277,616)		(5,100)		(282,716)
Investing activities	262,766				262,766

Risk Factors

The information included in Item 3 Risk Factors in the Original Filing has not been updated for information or events occurring after the date of the Original Filing and has not been updated to reflect the passage of time since the date of the Original Filing.

We may not have sufficient cash from operations to enable us to pay the minimum quarterly distribution on our common units following the establishment of cash reserves and payment of fees and expenses.

We may not have sufficient cash available each quarter to pay the minimum quarterly distribution on our common units. The amount of cash we can distribute on our common units principally depends upon the amount of cash we generate from our operations, which may fluctuate based on, among other things:

- the rates we obtain from our charters;
- the level of our operating costs, such as the cost of crews and insurance;
- the continued availability of LNG and LPG production, liquefaction and regasification facilities;
- the number of unscheduled off-hire days for our fleet and the timing of, and number of days required for, scheduled drydocking of our vessels;
- delays in the delivery of newbuildings and the beginning of payments under charters relating to those vessels;
- prevailing global and regional economic and political conditions;
- currency exchange rate fluctuations; and

- the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of our business.

The actual amount of cash we will have available for distribution also will depend on factors such as:

- the level of capital expenditures we make, including for maintaining vessels, building new vessels, acquiring existing vessels and complying with regulations;
- our debt service requirements and restrictions on distributions contained in our debt instruments;
- fluctuations in our working capital needs;
- our ability to make working capital borrowings, including to pay distributions to unitholders; and
- the amount of any cash reserves, including reserves for future capital expenditures and other matters, established by our General Partner in its discretion.

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

Table of Contents

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

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

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

Our significant maintenance capital expenditures reduce the amount of cash we have available for distribution to our unitholders.

In addition, our actual maintenance capital expenditures vary significantly from quarter to quarter based on, among other things, the number of vessels drydocked during that quarter. Our partnership agreement requires our General Partner to deduct estimated, rather than actual, maintenance capital expenditures from operating surplus each quarter in an effort to reduce fluctuations in operating surplus (as defined in our partnership agreement). The amount of estimated maintenance capital expenditures deducted from operating surplus is subject to review and change by the conflicts committee of our General Partner s board of directors at least once a year. In years when estimated maintenance capital expenditures are higher than actual maintenance capital expenditures as we expect will be the case in the years we are not required to make expenditures for mandatory drydockings the amount of cash available for distribution to unitholders will be lower than if actual maintenance capital expenditures were deducted from operating surplus. If our General Partner underestimates the appropriate level of estimated maintenance capital expenditures, we may have less cash available for distribution in future periods when actual capital expenditures begin to exceed our previous estimates.

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

We make substantial capital expenditures to increase the size of our fleet, particularly the number of LNG and LPG carriers we own. We have agreed to purchase from Teekay Corporation its interests in a number of LNG newbuilding carriers and from I.M. Skaugen ASA (or *Skaugen*) three LPG carriers. Teekay Corporation is obligated to offer to us its interests in additional vessels. Please read Item 4: Information on the Partnership Overview, History and Development, for additional information about some of these pending and proposed acquisitions. In addition, we are obligated to purchase five of our existing Suezmax tankers upon the termination of the related capital leases, which will occur at various times from 2008 to 2011.

We and Teekay Corporation regularly evaluate and pursue opportunities to provide the marine transportation requirements for new or expanding LNG and LPG projects. Teekay Corporation currently has submitted bids to provide transportation solutions for LNG and LPG projects and we and Teekay Corporation may submit additional bids from time to time. The award process relating to LNG transportation opportunities typically involves various stages and takes several months to complete. Neither we nor Teekay Corporation may be awarded charters relating to any of the projects we or it pursues. If any LNG and LPG project charters are awarded to Teekay Corporation, it must offer them to us pursuant to the terms of an omnibus agreement entered into in connection with our initial public offering. If we elect pursuant to the omnibus agreement to obtain Teekay Corporation s interests in any projects Teekay Corporation may be awarded, or if we bid on and are awarded contracts relating to any LNG and LPG project, we will need to incur significant capital expenditures to buy Teekay Corporation s interest in these LNG and LPG projects or to build the LNG and LPG carriers.

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

A shipowner typically is required to expend substantial sums as progress payments during construction of a newbuilding, but does not derive any income from the vessel until after its delivery. If we were unable to obtain financing required to complete payments on any future newbuilding orders, we could effectively forfeit all or a portion of the progress payments previously made.

Our ability to grow may be adversely affected by our cash distribution policy.

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

Our substantial debt levels may limit our flexibility in obtaining additional financing and in pursuing other business opportunities.

As of December 31, 2007, our consolidated debt, capital lease obligations and advances from affiliates totaled \$2.6 billion and we had the capacity to borrow an additional \$431.0 million under our credit facilities. These facilities may be used by us for General Partnership purposes. If we are awarded contracts for new LNG or LPG projects, our consolidated debt and capital lease obligations will increase, perhaps significantly. We will continue to have the ability to incur additional debt, subject to limitations in our credit facilities. Our level of debt could have important consequences to us, including the following:

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

Table of Contents

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

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

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

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

In addition, some of our financing arrangements require us to maintain a minimum level of tangible net worth and a minimum level of aggregate liquidity, a maximum level of leverage and require one of our subsidiaries to maintain restricted cash deposits. Our ability to comply with covenants and restrictions contained in debt instruments may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, compliance with these covenants may be impaired. If restrictions, covenants, ratios or tests in the financing agreements are breached, a significant portion of the obligations may become immediately due and payable, and the lenders commitment to make further loans may terminate. We might not have or be able to obtain sufficient funds to make these accelerated payments. In addition, our obligations under our existing credit facilities are secured by certain of our vessels, and if we are unable to repay debt under the credit facilities, the lenders could seek to foreclose on those assets.

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

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

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

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

We have derived, and believe that we will continue to derive, a significant portion of our revenues and cash flow from a limited number of customers. Please see Item 18 Financial Statements: Note 3 Segment Reporting.

We could lose a customer or the benefits of a time charter if:

- the customer fails to make charter payments because of its financial inability, disagreements with us or otherwise;
- the customer exercises certain rights to terminate the charter, purchase or cause the sale of the vessel or, under some of our charters, convert the time charter to a bareboat charter (some of which rights are exercisable at any time);
- the customer terminates the charter because we fail to deliver the vessel within a fixed period of time, the vessel is lost or damaged beyond repair, there are serious deficiencies in the vessel or prolonged periods of off-hire, or we default under the charter; or
- under some of our time charters, the customer terminates the charter because of the termination of the charterer s LNG sales agreement supplying the LNG designated for our services, or a prolonged force majeure event affecting the customer, including damage to or destruction of relevant LNG production or regasification facilities, war or political unrest preventing us from performing services for that customer.

If we lose a key LNG or LPG time charter, we may be unable to re-deploy the related vessel on terms as favorable to us due to the long-term nature of most LNG and LPG time charters and the lack of an established LNG spot market. If we are unable to re-deploy an LNG carrier, we will not receive any revenues from that vessel, but we may be required to pay expenses necessary to maintain the vessel in proper operating condition. In addition, if a customer exercises its right to purchase a vessel, we would not receive any further revenue from the vessel and may be unable to obtain a substitute vessel and charter. This may cause us to receive decreased revenue and cash flows from having fewer vessels operating in our fleet. Any compensation under our charters for a purchase of the vessels may not adequately compensate us for the loss of the vessel and related time charter.

If we lose a key Suezmax tanker customer, we may be unable to obtain other long-term Suezmax charters and may become subject to the volatile spot market, which is highly competitive and subject to significant price fluctuations. If a customer exercises its right under some charters to purchase or force a sale of the vessel, we may be unable to acquire an adequate replacement vessel or may be forced to construct a new vessel. Any replacement newbuilding would not generate revenues during its construction and we may be unable to charter any replacement vessel on terms as favorable to us as those of the terminated charter.

The loss of any of our customers, time charters or vessels, or a decline in payments under our charters, could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions.

We depend on Teekay Corporation to assist us in operating our business, competing in our markets, and providing interim financing for certain vessel acquisitions.

Pursuant to certain services agreements between us and certain of our operating subsidiaries, on the one hand, and certain subsidiaries of Teekay Corporation, on the other hand, the Teekay Corporation subsidiaries provide to us administrative services and to our operating subsidiaries significant operational services (including vessel maintenance, crewing for some of our vessels, purchasing, shipyard supervision, insurance and financial services) and other technical, advisory and administrative services. Our operational success and ability to execute our growth strategy depend significantly upon Teekay Corporation s satisfactory performance of these services. Our business will be harmed if Teekay Corporation fails to perform these services satisfactorily or if Teekay Corporation stops providing these services to us.

Our ability to compete for the transportation requirements of LNG and LPG projects and to enter into new time charters and expand our customer relationships depends largely on our ability to leverage our relationship with Teekay Corporation and its reputation and relationships in the shipping industry. If Teekay Corporation suffers material damage to its reputation or relationships it may harm our ability to:

- renew existing charters upon their expiration;
- obtain new charters;

- successfully interact with shipyards during periods of shipyard construction constraints;
- obtain financing on commercially acceptable terms; or
- maintain satisfactory relationships with our employees and suppliers.

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

Table of Contents

Teekay Corporation is also incurring all costs for the construction and delivery of certain newbuildings, which we refer to as warehousing. Upon their delivery, we will purchase all of the interest of Teekay Corporation in the vessels at a price that will reimburse Teekay Corporation for these costs and compensate it for its average weighted cost of capital on the construction payments. We may enter into similar arrangements with Teekay Corporation or third parties in the future. If Teekay Corporation or any such third party fails to make construction payments for these newbuildings or other vessels warehoused for us, we could lose access to the vessels as a result of the default or we may need to finance these vessels before they begin operating and generating voyage revenues, which could harm our business and reduce our ability to make cash distributions.

Our growth depends on continued growth in demand for LNG and LPG shipping.

Our growth strategy focuses on continued expansion in the LNG and LPG shipping sectors. Accordingly, our growth depends on continued growth in world and regional demand for LNG and LPG shipping, which could be negatively affected by a number of factors, such as:

- increases in the cost of natural gas derived from LNG relative to the cost of natural gas generally;
- increase in the cost of LPG relative to the cost of naphtha and other competing petrochemicals;
- increases in the production of natural gas in areas linked by pipelines to consuming areas, the extension of existing, or the development of new, pipeline systems in markets we may serve, or the conversion of existing non-natural gas pipelines to natural gas pipelines in those markets;
- decreases in the consumption of natural gas due to increases in its price relative to other energy sources or other factors making consumption of natural gas less attractive;
- availability of new, alternative energy sources, including compressed natural gas; and
- negative global or regional economic or political conditions, particularly in LNG and LPG consuming regions, which could reduce energy consumption or its growth.

Reduced demand for LNG and LPG shipping would have a material adverse effect on our future growth and could harm our business, results of operations and financial condition.

Growth of the LNG market may be limited by infrastructure constraints and community environmental group resistance to new LNG infrastructure over concerns about the environment, safety and terrorism

A complete LNG project includes production, liquefaction, regasification, storage and distribution facilities and LNG carriers. Existing LNG projects and infrastructure are limited, and new or expanded LNG projects are highly complex and capital-intensive, with new projects often costing several billion dollars. Many factors could negatively affect continued development of LNG infrastructure or disrupt the supply of LNG, including:

- increases in interest rates or other events that may affect the availability of sufficient financing for LNG projects on commercially reasonable terms;
- decreases in the price of LNG, which might decrease the expected returns relating to investments in LNG projects;
- the inability of project owners or operators to obtain governmental approvals to construct or operate LNG facilities;
- local community resistance to proposed or existing LNG facilities based on safety, environmental or security concerns;
- any significant explosion, spill or similar incident involving an LNG facility or LNG carrier;
- labor or political unrest affecting existing or proposed areas of LNG production; and
- capacity constraints at existing shipyards, which are expected to continue until at least the end of the decade.

If the LNG supply chain is disrupted or does not continue to grow, or if a significant LNG explosion, spill or similar incident occurs, it could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions.

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

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

- shipping industry relationships and reputation for customer service and safety;
- LNG shipping experience and quality of ship operations (including cost effectiveness);
- quality and experience of seafaring crew;

- the ability to finance LNG carriers at competitive rates and financial stability generally;
- relationships with shipyards and the ability to get suitable berths;
- construction management experience, including the ability to obtain on-time delivery of new vessels according to customer specifications;
- willingness to accept operational risks pursuant to the charter, such as allowing termination of the charter for force majeure events; and
- competitiveness of the bid in terms of overall price.

We compete for providing marine transportation services for potential LNG projects with a number of experienced companies, including state-sponsored entities and major energy companies affiliated with the LNG project requiring LNG shipping services. Many of these competitors have significantly greater financial resources than we do or Teekay Corporation does. We anticipate that an increasing number of marine transportation companies including many with strong reputations and extensive resources and experience will enter the LNG transportation sector. This increased competition may cause greater price competition for time charters. As a result of these factors, we may be unable to expand our relationships with existing customers or to obtain new customers on a profitable basis, if at all, which would have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions.

Delays in deliveries of newbuildings could harm our operating results and lead to the termination of related time charters.

We have agreed to purchase various newbuilding vessels. The delivery of these vessels, or any other newbuildings we may order or otherwise acquire, could be delayed, which would delay our receipt of revenues under the time charters for the vessels. In addition, under some of our charters if our delivery of a vessel to our customer is delayed, we may be required to pay liquidated damages in amounts equal to or, under some charters, almost double, the hire rate during the delay. For prolonged delays, the customer may terminate the time charter and, in addition to the resulting loss of revenues, we may be responsible for additional, substantial liquidated damages.

Our receipt of newbuildings could be delayed because of:

- quality or engineering problems;
- changes in governmental regulations or maritime self-regulatory organization standards;
- work stoppages or other labor disturbances at the shipyard;
- bankruptcy or other financial crisis of the shipbuilder;
- a backlog of orders at the shipyard;
- political or economic disturbances in South Korea or other locations, where our vessels are being or may be built;
- weather interference or catastrophic event, such as a major earthquake or fire;
- our requests for changes to the original vessel specifications;
- shortages of or delays in the receipt of necessary construction materials, such as steel;
- our inability to finance the purchase of the vessels; or
- our inability to obtain requisite permits or approvals.

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

We may have more difficulty entering into long-term, fixed-rate time charters if an active short-term or spot LNG shipping market develops.

LNG shipping historically has been transacted with long-term, fixed-rate time charters, usually with terms ranging from 20 to 25 years. One of our principal strategies is to enter into additional long-term, fixed-rate LNG time charters. However, the number of spot and short-term charters has been increasing, with LNG charters under 12 months in duration growing from less than 2% of the market in the late 1990s to almost 13% in 2006.

If an active spot or short-term market continues to develop, we may have increased difficulty entering into long-term, fixed-rate time charters for our LNG vessels and, as a result, our cash flow may decrease and be less stable. In addition, an active short-term or spot LNG market may require us to enter into charters based on changing market prices, as opposed to contracts based on a fixed rate, which could result in a decrease in our cash flow in periods when the market price for shipping LNG is depressed or insufficient funds are available to cover our financing costs for related vessels.

Over time vessel values may fluctuate substantially and, if these values are lower at a time when we are attempting to dispose of a vessel, we may incur a loss.

Vessel values for LNG and LPG carriers and Suezmax oil tankers can fluctuate substantially over time due to a number of different factors, including:

- prevailing economic conditions in natural gas, oil and energy markets;
- a substantial or extended decline in demand for natural gas, LNG, LPG or oil;
- increases in the supply of vessel capacity; and
- the cost of retrofitting or modifying existing vessels, as a result of technological advances in vessel design or equipment, changes in applicable environmental or other regulation or standards, or otherwise.

Vessel values may decline substantially from existing levels. If a charter terminates, we may be unable to re-deploy the vessel at attractive rates and, rather than continue to incur costs to maintain and finance it, may seek to dispose of it. Our inability to dispose of the vessel at a reasonable value could result in a loss on its sale and adversely affect our results of operations and financial condition.

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

Our growth strategy includes selectively acquiring existing LNG carriers or LNG shipping businesses. Historically, there have been very few purchases of existing vessels and businesses in the LNG shipping industry. Factors that may contribute to a limited number of acquisition opportunities in the LNG industry in the near term include the relatively small number of independent LNG fleet owners and the limited number of LNG carriers not subject to existing long-term charter contracts. In addition, competition from other companies could reduce our acquisition opportunities or cause us to pay higher prices.

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

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

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

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

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

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

Terrorist attacks, or the perception that LNG facilities and LNG carriers are potential terrorist targets, could materially and adversely affect expansion of LNG infrastructure and the continued supply of LNG to the United States and other countries. Concern that LNG facilities may be targeted for attack by terrorists has contributed to significant community and environmental resistance to the construction of a number of LNG facilities, primarily in North America. If a terrorist incident involving an LNG facility or LNG carrier did occur, in addition to the possible effects identified in the previous paragraph, the incident may adversely affect construction of additional LNG facilities in the United States and other countries or lead to the temporary or permanent closing of various LNG facilities currently in operation.

Table of Contents

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

Because our operations are primarily conducted outside of the United States, they may be affected by economic, political and governmental conditions in the countries where we are engaged in business or where our vessels are registered. Any disruption caused by these factors could harm our business. In particular, we derive a substantial portion of our revenues from shipping LNG and oil from politically unstable regions. Past political conflicts in these regions, particularly in the Arabian Gulf, have included attacks on ships, mining of waterways and other efforts to disrupt shipping in the area.

Future hostilities or other political instability in the Arabian Gulf or other regions where we operate or may operate could have a material adverse effect on the growth of our business, results of operations and financial condition and our ability to make cash distributions. In addition, tariffs, trade embargoes and other economic sanctions by Spain, the United States or other countries against countries in the Middle East, Southeast Asia or elsewhere as a result of terrorist attacks, hostilities or otherwise may limit trading activities with those countries, which could also harm our business and ability to make cash distributions.

Marine transportation is inherently risky, and an incident involving significant loss of or environmental contamination by any of our vessels could harm our reputation and business.

Our vessels and their cargoes are at risk of being damaged or lost because of events such as:

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

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

- death or injury to persons, loss of property or environmental damage;
- delays in the delivery of cargo;
- loss of revenues from or termination of charter contracts;
- governmental fines, penalties or restrictions on conducting business;
- higher insurance rates; and
- damage to our reputation and customer relationships generally.

Any of these results could have a material adverse effect on our business, financial condition and operating results.

Our insurance may be insufficient to cover losses that may occur to our property or result from our operations.

The operation of LNG and LPG carriers and oil tankers is inherently risky. Although we carry hull and machinery (marine and war risks) and protection and indemnity insurance, all risks may not be adequately insured against, and any particular claim may not be paid. In addition, we do not carry insurance on our oil tankers covering the loss of revenues resulting from vessel off-hire time based on its cost compared to our off-hire experience. Teekay Corporation provides off-hire insurance for our LNG carriers. Any claims covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. Certain of our insurance coverage is maintained through mutual protection and indemnity associations, and as a member of such associations we may be required to make additional payments over and above budgeted premiums if member claims exceed association reserves.

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

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

The marine energy transportation industry is subject to substantial environmental and other regulations, which may significantly limit our operations or increase our expenses.

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

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

The United States Oil Pollution Act of 1990 (or *OPA 90*), for instance, allows for potentially unlimited liability for owners, operators and bareboat charterers for oil pollution and related damages in U.S. waters, which include the U.S. territorial sea and the 200-nautical mile exclusive economic zone around the United States, without regard to fault of such owners, operators and bareboat charterers. OPA 90 expressly permits individual states to impose their own liability regimes with regard to hazardous materials and oil pollution incidents occurring within their boundaries. Coastal states in the United States have enacted pollution prevention liability and response laws, many providing for unlimited liability. Similarly, the International Convention on Civil Liability for Oil Pollution Damage, 1969, as amended, which has been adopted by many countries outside of the United States, imposes liability for oil pollution in international waters. In addition, in complying with OPA 90, regulations of the International Maritime Organization (or *IMO*), European Union directives and other existing laws and regulations and those that may be adopted, ship-owners may incur significant additional costs in meeting new maintenance and inspection requirements, in developing contingency arrangements for potential spills and in obtaining insurance coverage.

OPA 90 does not preclude claimants from seeking damages for the discharge of oil and hazardous substances under other applicable law, including maritime tort law. Such claims could include attempts to characterize seaborne transportation of LNG or LPG as an ultra-hazardous activity, which attempts, if successful, would lead to our being strictly liable for damages resulting from that activity.

Various jurisdictions are considering regulating the management of ballast water to prevent the introduction of non-indigenous species considered to be invasive. For example, the United States Clean Water Act prohibits the discharge of oil or hazardous substances in U.S. navigable waters and imposes strict liability in the form of penalties for unauthorized discharges. Certain exemptions promulgated by the Environmental Protection Agency (or *EPA*) under the Clean Water Act allow vessels in U.S. ports to discharge certain substances, including ballast water, without obtaining a permit to do so. However, a U.S. district court has invalidated the exemption. If the EPA does not successfully appeal the district court decision, we may be subject to ballast water treatment obligations that could increase the costs of operating in the United States.

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

We are paid in Euros under some of our charters, and a majority of our vessel operating expenses and general and administrative expenses currently are denominated in Euros, which is primarily a function of the nationality of our crew and administrative staff. We also make payments under two Euro-denominated term loans. If the amount of our

Euro-denominated obligations exceeds our Euro-denominated revenues, we must convert other currencies, primarily the U.S. Dollar, into Euros. An increase in the strength of the Euro relative to the U.S. Dollar would require us to convert more U.S. Dollars to Euros to satisfy those obligations, which would cause us to have less cash available for distribution. In addition, if we do not have sufficient U.S. Dollars, we may be required to convert Euros into U.S. Dollars for distributions to unitholders. An increase in the strength of the U.S. Dollar relative to the Euro could cause us to have less cash available for distribution in this circumstance. We have not entered into currency swaps or forward contracts or similar derivatives to mitigate this risk.

Because we report our operating results in U.S. Dollars, changes in the value of the U.S. Dollar relative to the Euro also result in fluctuations in our reported revenues and earnings. In addition, under U.S. accounting guidelines, all foreign currency-denominated monetary assets and liabilities such as cash and cash equivalents, accounts receivable, restricted cash, accounts payable, long-term debt and capital lease obligations, are revalued and reported based on the prevailing exchange rate at the end of the period. This revaluation historically has caused us to report significant non-monetary foreign currency exchange gains or losses each period. The primary source for these gains and losses is our Euro-denominated term loans.

Table of Contents

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

A significant portion of our seafarers, and the seafarers employed by Teekay Corporation and its other affiliates that crew some of our vessels, are employed under collective bargaining agreements, which expire at varying times through 2008. The collective bargaining agreement for our Filipino LNG tanker crew members (covering four Spanish LNG tankers) has been renewed. The collective bargaining agreement for our Spanish Suezmax tanker crew members (covering five Spanish Suezmax tankers) and the collective bargaining agreement for our Spanish LNG tanker officers (covering four Spanish LNG tankers) expire at the end of 2008 and will be renegotiated during 2008. We may be subject to similar labor agreements in the future. Crew compensation levels under new or renegotiated collective bargaining agreements may exceed existing compensation levels, which would adversely affect our results of operations and cash flows. We may be subject to labor disruptions in the future if our relationships deteriorate with our seafarers or the unions that represent them. Our collective bargaining agreements may not prevent labor disruptions, particularly when the agreements are being renegotiated. Any labor disruptions could harm our operations and could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions.

Teekay Corporation may be unable to attract and retain qualified, skilled employees or crew necessary to operate our business.

Our success depends in large part on Teekay Corporation s ability to attract and retain highly skilled and qualified personnel. In crewing our vessels, we require technically skilled employees with specialized training who can perform physically demanding work. Competition to attract and retain qualified crew members is intense. We expect crew costs to increase in 2008. If we are not able to increase our rates to compensate for any crew cost increases, our financial condition and results of operations may be adversely affected. Any inability we experience in the future to hire, train and retain a sufficient number of qualified employees could impair our ability to manage, maintain and grow our business.

Due to our lack of diversification, adverse developments in our LNG or oil marine transportation businesses could reduce our ability to make distributions to our unitholders.

We rely exclusively on the cash flow generated from our LNG carriers and Suezmax oil tankers that operate in the LNG and oil marine transportation business. Due to our lack of diversification, an adverse development in the LNG or oil shipping industry would have a significantly greater impact on our financial condition and results of operations than if we maintained more diverse assets or lines of business.

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

Teekay Corporation and its affiliates, including Teekay Offshore Partners L.P. (or *Teekay Offshore*), may engage in competition with us. Pursuant to an omnibus agreement between Teekay Corporation, Teekay Offshore, us and other related parties, Teekay Corporation, Teekay Offshore and their respective controlled affiliates (other than us and our subsidiaries) generally will agree not to own, operate or charter LNG carriers without the consent of our General Partner. The omnibus agreement, however, allows Teekay Corporation, Teekay Offshore or any of such controlled affiliates to:

- acquire LNG carriers and related time charters as part of a business if a majority of the value of the total assets or business acquired is not attributable to the LNG carriers and time charters, as determined in good faith by the board of directors of Teekay Corporation or the board of directors of Teekay Offshore s General Partner; however, if at any time Teekay Corporation or Teekay Offshore completes such an acquisition, it must offer to sell the LNG carriers and related time charters to us for their fair market value plus any additional tax or other similar costs to Teekay Corporation or Teekay Offshore that would be required to transfer the LNG carriers and time charters to us separately from the acquired business; or
- own, operate and charter LNG carriers that relate to a bid or award for a proposed LNG project that Teekay Corporation or any of its subsidiaries has submitted or hereafter submits or receives; however, at least 180 days prior to the scheduled delivery date of any such LNG carrier, Teekay Corporation must offer to sell the LNG carrier and related time charter to us, with the vessel valued at its fully-built-up cost, which represents the aggregate expenditures incurred (or to be incurred prior to delivery to us) by Teekay

Corporation to acquire or construct and bring such LNG carrier to the condition and location necessary for our intended use, plus a reasonable allocation of overhead costs related to the development of such a project and other projects that would have been subject to the offer rights set forth in the omnibus agreement but were not completed.

If we decline the offer to purchase the LNG carriers and time charters described above, Teekay Corporation or Teekay Offshore may own and operate the LNG carriers, but may not expand that portion of its business.

In addition, pursuant to the omnibus agreement, Teekay Corporation, Teekay Offshore or any of their respective controlled affiliates (other than us and our subsidiaries) may:

- acquire, operate or charter LNG carriers if our General Partner has previously advised Teekay Corporation or Teekay Offshore that the board of directors of our General Partner has elected, with the approval of its conflicts committee, not to cause us or our subsidiaries to acquire or operate the carriers;
- acquire up to a 9.9% equity ownership, voting or profit participation interest in any publicly traded company that owns or operate LNG carriers; and
- provide ship management services relating to LNG carriers.

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

Our General Partner and its other affiliates have conflicts of interest and limited fiduciary duties, which may permit them to favor their own interests to those of unitholders.

Teekay Corporation, which owns and controls our General Partner, indirectly owns the 2% General Partner interest and currently owns a 61.7% limited partner interest in us. Conflicts of interest may arise between Teekay Corporation and its affiliates, including our General Partner, on the one hand, and us and our unitholders, on the other hand. As a result of these conflicts, our General Partner may favor its own interests and the interests of its affiliates over the interests of our unitholders. These conflicts include, among others, the following situations:

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

Certain of our lease arrangements contain provisions whereby we have provided a tax indemnification to third parties.

We are the lessee under 30-year capital lease arrangements with a third party for three LNG carriers. Under the terms of these capital lease arrangements, the lessor claims tax depreciation on the capital expenditures it incurred to acquire these vessels. As is typical in these leasing arrangements, tax and change of law risks are assumed by the lessee. The rentals payable under the lease arrangements are predicated on the basis of certain tax and financial assumptions at the commencement of the leases. If an assumption proves to be incorrect or there is a change in the applicable tax legislation, the lessor is entitled to increase the rentals so as to maintain its agreed after-tax margin. However, the terms of the lease arrangements enable us to terminate the lease arrangement on a voluntary basis at any time. In the event of an early termination of the lease arrangements, we may be obliged to pay termination sums to the lessor sufficient to repay its investment in the vessels and to compensate it for the tax effect of the terminations, including recapture of tax depreciation, if any.

In addition, the subsidiaries of the Teekay Tangguh Joint Venture have entered into lease arrangements with a third party for two LNG carriers, and we expect to purchase Teekay Corporation s interest in the Teekay Tangguh Joint Venture in November 2008. The terms of the lease arrangements provide similar tax and change of law risk assumption by the Teekay Tangguh Joint Venture as we have with the three LNG carriers above.

Item 4. Information on the Partnership

Except for the percentage of our consolidated voyage revenues generated from Repsol YPF, Gas Natural SDG, Union Fenosa Gas, S.A., CEPSA and ConocoPhillips and the percentage of our net voyage revenues earned by each of our segments, as a result of the inclusion of the Dropdown Predecessor, the information included in Item 4 in the Original Filing has not been updated for information or events occurring after the date of the Original Filing and has not been updated to reflect the passage of time since the date of the Original Filing.

A. Overview, History and Development

Overview and History

We are an international provider of marine transportation services for liquefied natural gas (or *LNG*), liquefied petroleum gas (or *LPG*) and crude oil. We were formed on November 3, 2004 by Teekay Corporation, the world s largest owner and operator of medium-sized crude oil tankers, to expand its operations in the LNG shipping sector. Our primary growth strategy focuses on expanding our fleet of LNG carriers under long-term, fixed-rate charters. In December 2006, we announced that we would be acquiring upon their deliveries in 2008 and 2009 three LPG newbuilding carriers. LPG is a by-product of natural gas separation and crude oil refining. We believe LPG transportation services are a natural extension of our core LNG transportation business. We view our Suezmax tanker fleet primarily as a source of stable cash flow as we expand our LNG and LPG operations. We seek to leverage the expertise, relationships and reputation of Teekay Corporation and its affiliates to pursue growth opportunities in the LNG and LPG shipping sector. As of December 31, 2007, Teekay Corporation, which owned and controls our General Partner, owned a 63.7% interest in us, including a 2% General Partner interest.

Table of Contents

As of April 1, 2008, our fleet, excluding newbuildings, consisted of nine LNG carriers (including two carriers acquired April 1), eight Suezmax class crude oil tankers and one LPG carrier, all of which are double-hulled. Our fleet is young, with an average age of approximately six years for our LNG carriers, approximately five years for our Suezmax tankers, and approximately eight years for our LPG carrier, compared to world averages of 12 years, 9 years, and 18 years, respectively, as of December 31, 2007.

Our vessels operate under long-term, fixed-rate time charters with major energy and utility companies. The average remaining term for these charters is approximately 15 years for our LNG carriers, approximately 12 years for our Suezmax tankers, and eight years for our LPG carrier, subject, in certain circumstances, to termination or vessel purchase rights.

Our fleet of existing LNG carriers currently has approximately 1.16 million cubic meters of total capacity, which will increase to approximately 2.34 million cubic meters by 2011 upon delivery of the four RasGas 3 and the two Tangguh newbuilding carriers described below. The aggregate capacity of our Suezmax tanker fleet is 1,252,700 deadweight tones (*dwt*). Upon delivery of the three LPG newbuilding carriers mentioned above, our fleet of LPG carriers will increase to approximately 35,898 cubic meters.

Our original fleet was established by Naviera F. Tapias S.A. (or *Tapias*), a private Spanish company founded in 1991 to ship crude oil. Tapias began shipping LNG with the acquisition of its first LNG carrier in 2002. Teekay Corporation acquired Tapias in April 2004 and changed its name to Teekay Shipping Spain S.L. (or *Teekay Spain*). As part of the acquisition, Teekay Spain retained its senior management, including its chief executive officer, and other personnel, who continue to manage the day-to-day operations of Teekay Spain with input on strategic decisions from our General Partner. Teekay Spain also obtains strategic consulting, advisory, ship management, technical and administrative services from affiliates of Teekay Corporation.

We were formed in connection with our initial public offering. Upon the closing of that offering on May 10, 2005, we acquired Teekay Spain, among other assets, and began operating as a publicly traded limited partnership.

We are incorporated under the laws of the Republic of The Marshall Islands as Teekay LNG Partners L.P. and maintain our principal executive headquarters at 4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda. Our telephone number at such address is (441) 298-2530.

Recent LNG Carrier Acquisition

In December 2007, Teekay Corporation acquired two 1993-built LNG carriers (or the *Kenai LNG Carriers*) from a joint venture between Marathon Oil Corporation and ConocoPhillips for a total cost of $230 million and chartered back the vessels to the sellers until April 2009 (with options exercisable by the charterers to extend up to an additional seven years). The specialized ice-strengthened vessels were purpose-built to carry LNG from Alaska s Kenai LNG plant to Japan. Teekay Corporation offered these vessels to us in accordance with the omnibus agreement entered into in connection with our initial public offering of common units. On April 1, 2008, we acquired these vessels from Teekay Corporation for a total cost of $230 million and immediately chartered the vessels back to Teekay Corporation for a period of ten years (plus options exercisable by Teekay to extend up to an additional fifteen years). We have financed the acquisition with borrowings under our revolving credit facilities.

Agreement to Purchase Tangguh and RasGas 3 Interests

On November 1, 2006, we agreed to acquire from Teekay Corporation its interest in the following two LNG projects described below. The purchases will occur upon the deliveries of the first newbuildings for each project, which are scheduled for April and November 2008, respectively. The estimated purchase price (net of assumed debt) for Teekay Corporation s 70% interest in the Tangguh LNG project and its 40% interest in the RasGas 3 LNG project is $80.3 million and $104.7 million, respectively:

> *Tangguh LNG Project*. Teekay Corporation was awarded a 70% interest in two LNG carriers and related 20-year, fixed-rate time charters to service the Tangguh LNG project in Indonesia. The customer will be The Tangguh Production Sharing Contractors, a consortium led by BP Berau Ltd., a subsidiary of BP plc. Teekay Corporation has contracted to construct two double-hulled LNG carriers of 155,000 cubic meters each (or the *Tangguh LNG Carriers*) at a total delivered cost of approximately $376.9 million, excluding capitalized interest, of which we will be responsible for 70%. The charters will commence upon vessel deliveries, which are scheduled for November 2008 and January 2009. We will have operational responsibility for the vessels

in this project. The remaining 30% interest in the joint venture relating to this project (or the *Teekay Tangguh Joint Venture*) is held by BLT LNG Tangguh Corporation, a subsidiary of PT Berlian Laju Tanker Tbk.

RasGas 3 LNG Project. Teekay Corporation was awarded a 40% interest in four LNG carriers and related 25-year, fixed-rate time charters (with options to extend up to an additional 10 years) to service expansion of an LNG project in Qatar. The customer will be Ras Laffan Liquefied Natural Gas Co. Limited (3), a joint venture company between Qatar Petroleum and a subsidiary of ExxonMobil Corporation. Teekay Corporation has contracted to construct four double-hulled LNG carriers of 217,000 cubic meters each (or the *RasGas 3 LNG Carriers*) at a total delivered cost of approximately $1.0 billion, excluding capitalized interest, of which we will be responsible for 40%. The charters will commence upon vessel deliveries, which are scheduled for the first half of 2008, commencing in April 2008. The remaining 60% interest in the joint venture relating to this project (or the *RasGas 3 Joint Venture*) will be held by QGTC Nakilat (1643-6) Holdings Corporation. We will have operational responsibility for the vessels in this project, although our partner may assume operational responsibility beginning 10 years following delivery of the vessels.

Other Upcoming and Potential Projects

In December 2006, we agreed to acquire three LPG carriers (or the *Skaugen LPG Carriers*) from I.M. Skaugen ASA (or *Skaugen*) for approximately $29.3 million per vessel. The vessels are currently under construction and are expected to deliver between mid-2008 and mid-2009. We will acquire the vessels upon their deliveries and finance the acquisition of these vessels through existing or incremental debt, surplus cash balances, issuance of additional common units or combinations thereof. Upon delivery, the vessels will be chartered at fixed rates for 15 years to Skaugen, which engages in the marine transportation of petrochemical gases and LPG, and the lightering of crude oil.

Table of Contents

In July 2007, Teekay Corporation announced that a consortium in which it has a 33% ownership interest had signed a letter of intent to charter four newbuilding 160,400-cubic meter LNG carriers for a period of 20 years to the Angola LNG Project, which is being developed by subsidiaries of Chevron Corporation, Sociedade Nacional de Combustiveis de Angola EP, BP Plc, Total S.A., and Eni SpA. Final award of the charter contract was made in December 2007. The vessels will be chartered at fixed rates, with inflation adjustments, commencing in 2011. Mitsui & Co., Ltd. and NYK Bulkship (Europe) have 34% and 33% ownership interests in the consortium, respectively. In accordance with the omnibus agreement, Teekay Corporation is required to offer to us its 33% ownership interest in these vessels and related charter contracts not later than 180 days before delivery of the newbuilding LNG carriers.

B. Operations

Our Charters

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

- Time charters, where vessels 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; and
- Voyage charters, which are charters for shorter intervals, usually a single round trip, that are priced on a current, or spot, market rate.

During 2007, 2006, and 2005, we derived 100% of our revenues from time charters. During these periods, all our vessels were employed on long-term time charters. We do not anticipate earning revenues from voyage charters in the foreseeable future.

Hire rate refers to the basic payment from the customer for the use of a vessel. Hire is payable monthly, in advance, in U.S. Dollars or Euros, as specified in the charter. The hire rate generally includes two components a capital cost component and an operating expense component. The capital component typically approximates the amount we are required to pay under vessel financing obligations and, for all but three of our existing Suezmax tankers, adjusts for changes in the floating interest rates relating to the underlying vessel financing. The operating component, which adjusts annually for inflation, is intended to compensate us for vessel operating expenses and provide us a profit.

The time charters for three of our Suezmax tankers include a fixed monthly rate for their initial 12-year term, which increases the initial term for any extensions. These time charters do not include separately identified capital or operating components or adjust for inflation.

For most of our charters, other than the charters for the three RasGas II vessels and the ConocoPhillips Tankers, we earn a profit from a margin built into the operating component. Under other charters, this margin is built into the capital component.

In addition, we may receive additional revenues beyond the fixed hire rate when current market rates exceed specified amounts under our time charter for one Suezmax tanker, the *Teide Spirit*.

Hire payments may be reduced or, under some charters, we must pay liquidated damages, if the vessel does not perform to certain of its specifications, such as if the average vessel speed falls below a guaranteed speed or the amount of fuel consumed to power the vessel under normal circumstances exceeds a guaranteed amount. Historically, we have had few instances of hire rate reductions and none that have had a material impact on our operating results.

When a vessel is off-hire or not available for service generally the customer is not required to pay the hire rate and we are responsible for all costs. Prolonged off-hire may lead to vessel substitution or termination of the time charter.

A vessel will be deemed to be off-hire if it is in drydock. We must periodically drydock each of our vessels for inspection, repairs and maintenance and any modifications to comply with industry certification or governmental requirements. In addition, a vessel generally will be deemed off-hire if there is a loss of time due to, among other things: operational deficiencies; equipment breakdowns; delays due to accidents, crewing strikes, certain vessel detentions or similar problems; or our failure to maintain the vessel in compliance with its specifications and contractual standards or to provide the required crew.

Liquefied Gas Segment

LNG Carriers

The LNG carriers in our liquefied gas segment compete in the LNG market. LNG carriers are usually chartered to carry LNG pursuant to time charter contracts, where a vessel is hired for a fixed period of time, usually between 20 and 25 years, and the charter rate is payable to the owner on a monthly basis. LNG shipping historically has been transacted with long-term, fixed-rate time charter contracts. LNG projects require significant capital expenditures and typically involve an integrated chain of dedicated facilities and cooperative activities. Accordingly, the overall success of an LNG project depends heavily on long-range planning and coordination of project activities, including marine transportation. Although most shipping requirements for new LNG projects continue to be provided on a long-term basis, spot voyages (typically consisting of a single voyage) and short-term time charters of less than 12 months duration have grown from 1% of the market in 1992 to approximately 13% in 2006.

In the LNG market, we compete principally with other private and state-controlled energy and utilities companies that generally operate captive fleets, and independent ship owners and operators. Many major energy companies compete directly with independent owners by transporting LNG for third parties in addition to their own LNG. Given the complex, long-term nature of LNG projects, major energy companies historically have transported LNG through their captive fleets. However, independent fleet operators have been obtaining an increasing percentage of charters for new or expanded LNG projects as some major energy companies have continued to divest non-core businesses.

Table of Contents

LNG carriers transport LNG internationally between liquefaction facilities and import terminals. After natural gas is transported by pipeline from production fields to a liquefaction facility, it is supercooled to a temperature of approximately negative 260 degrees Fahrenheit. This process reduces its volume to approximately 1/600th of its volume in a gaseous state. The reduced volume facilitates economical storage and transportation by ship over long distances, enabling countries with limited natural gas reserves or limited access to long-distance transmission pipelines to import natural gas. LNG carriers include a sophisticated containment system that holds and insulates the LNG so it maintains its liquid form. LNG is transported overseas in specially built tanks on double-hulled ships to a receiving terminal, where it is offloaded and stored in heavily insulated tanks. In regasification facilities at the receiving terminal, the LNG is returned to its gaseous state (or *regasified*) and then shipped by pipeline for distribution to natural gas customers.

Most new vessels, including all of our vessels, are being built with a membrane containment system. These systems are built inside the carrier and consist of insulation between thin primary and secondary barriers that are designed to accommodate thermal expansion and contraction without overstressing the membrane. New LNG carriers are generally expected to have a lifespan of approximately 35 to 40 years. Unlike the oil tanker industry, there currently are no regulations that require the phase-out from trading of LNG carriers after they reach a certain age. As at December 31, 2007, our LNG carriers had an average age of approximately three years, compared to the world LNG carrier fleet average age of approximately 12 years. In addition, as at that date, there were approximately 254 vessels in the world LNG fleet and approximately 136 additional LNG carriers under construction or on order for delivery through 2011.

The following table provides additional information about our LNG vessels as of December 31, 2007, other than for Kenai LNG Carriers (the *Arctic Spirit* and the *Polar Spirit*), which we acquired on April 1, 2008.

Vessel	**Capacity (cubic meters)**	**Delivery**	**Our Ownership**	**Charterer**	**Remaining Charter Term (1)**
Operating LNG carriers:					
Hispania Spirit	140,500	2002	100%	Repsol YPF	16 years (5)
Catalunya Spirit	138,000	2003	100%	Gas Natural SDG	17 years (5)
Galicia Spirit	140,500	2004	100%	Uniòn Fenosa Gas	23 years (6)
Madrid Spirit	138,000	2004	Capital lease (2)	Repsol YPF	18 years (5)
Al Marrouna	140,500	2006	Capital lease (2)	RasGas II	19 years (7)
Al Areesh	140,500	2007	Capital lease (2)	RasGas II	19 years (7)
Al Daayen	140,500	2007	Capital lease (2)	RasGas II	19 years (7)
Newbuildings:					
Hull No. 1643	217,300	2008	Teekay-owned (3)	RasGas 3	25 years (5)
Hull No. 1644	217,300	2008	Teekay-owned (3)	RasGas 3	25 years (5)
Hull No. 1645	217,300	2008	Teekay-owned (3)	RasGas 3	25 years (5)
Hull No. 1646	217,300	2008	Teekay-owned (3)	RasGas 3	25 years (5)
Hull No. 1780	155,000	2008	Teekay-owned (4)	Tangguh	20 years
Hull No. S298	155,000	2009	Teekay-owned (4)	Tangguh	20 years
Total Capacity:	2,157,700				

(1) Each of our time charters are

subject to certain termination and purchase provisions.

(2) We lease the vessel under a tax lease arrangement. Please read Item 18 Financial Statements: Note 4 Leases and Restricted Cash.

(3) These newbuilding vessels are currently owned by subsidiaries of Teekay Corporation. Upon the delivery of the first vessel, we will purchase Teekay Corporation s 40% interest in the RasGas 3 Joint Venture (Teekay Nakilat (III) Corporation), which owns the vessels. Until delivery, Teekay Corporation has agreed to finance the construction of these three vessels, which allows us to defer our need to finance them. The delivery dates for the newbuildings are based on current shipyard schedules. Please read Item 18 Financial Statements: Note 12(j) Related Party Transactions and Note 14(a)

Commitments and Contingencies.

(4) These newbuilding vessels are currently owned by subsidiaries of Teekay Corporation. Upon the delivery of the first vessel, we will purchase Teekay Corporation s 70% interest in the Teekay Tangguh Joint Venture (Teekay BLT Corporation), which owns the vessels. Until delivery, Teekay Corporation has agreed to finance the construction of these three vessels, which allows us to defer our need to finance them. The delivery dates for the newbuildings are based on current shipyard schedules. Upon delivery of the vessels, subsidiaries of the Teekay Tangguh Joint Venture will lease the vessels to Everest Leasing Company Limited (Everest) for a period of 20 years under a tax lease arrangement. Simultaneously, Everest will lease the vessels back to other subsidiaries of the Teekay

Tangguh Joint Venture for a period of 20 years. Please read Item 18 Financial Statements: Note 12(i) Related Party Transactions and Note 14(a) Commitments and Contingencies.

(5) The charterer has two options to extend the term for an additional five years each.

(6) The charterer has one option to extend the term for an additional five years.

(7) The charterer has three options to extend the term for an additional five years each.

Repsol YPF, Gas Natural SDG and Unión Fenosa Gas, S.A. accounted for 27%, 15% and 13% of our revenues in 2005, 27%, 13% and 13% of our revenues in 2006, and 19%, 11% and 9% of our revenues in 2007, respectively. We also derived 23% of our revenues in 2007 from RasGas II. No other LNG customer accounted for 10% or more of our revenues during any of these periods. The loss of any significant customer or a substantial decline in the amount of services requested by a significant customer could harm our business, financial condition and results of operations.

Each LNG carrier that is owned by us (or that we have agreed to purchase from Teekay Corporation), is encumbered by a mortgage relating to the vessel s financing. Each of the *Madrid Spirit, Al Marrouna, Al Areesh and Al Daayen* is considered to be a capital lease. Please read Item 18 - Financial Statements: Note 4 Leases and Restricted Cash.

Table of Contents

LPG Carriers

LPG shipping involves the transportation of three main categories of cargo: liquid petroleum gases including propane, butane and ethane; petrochemical gases including ethylene, propylene and butadiene; and ammonia.

As of December 31, 2007, the worldwide LPG tanker fleet consisted of approximately 1,075 vessels with an average age of approximately 18 years and approximately 200 additional LPG vessels were on order for delivery through 2011. LPG carriers range in size from approximately 500 to approximately 70,000 cubic meters (or *cbm*). Approximately 60% of the worldwide fleet is less than 5,000 cbm. New LPG carriers are generally expected to have a lifespan of approximately 30 to 35 years.

LPG carriers are mainly chartered to carry LPG on time charters of three to five years, on contracts of affreightment or spot voyage charters. The two largest consumers of LPG are residential users and the petrochemical industry. Residential users, particularly in developing regions where electricity and gas pipelines are not developed, do not have fuel switching alternatives and generally are not LPG price sensitive. The petrochemical industry, however, has the ability to switch between LPG and other feedstock fuels depending on price and availability of alternatives.

The following table provides additional information about our LPG vessels as of December 31, 2007:

Vessel	Capacity (cubic meters)	Delivery	Ownership	Charterer	Remaining Charter Term
Operating LPG carriers:					
Dania Spirit	7,392	2000	100%	Statoil ASA	8 years
Newbuildings:					
Hull No. WZL 0501 (1)	9,650	2008	100%	I.M. Skaguen ASA	15 years
Hull No. WZL 0502 (1)	9,650	2009	100%	I.M. Skaguen ASA	15 years
Hull No. WZL 0503 (1)	9,206	2009	100%	I.M. Skaguen ASA	15 years
Total Capacity:	35,898				

(1) In December 2006, we agreed to acquire three LPG carriers from I.M. Skaugen ASA for approximately $29.3 million per vessel. We will acquire the vessels upon their deliveries in 2008 and 2009.

Suezmax Tanker Segment

Oil has been the world s primary energy source for decades. Seaborne crude oil transportation is a mature industry. The two main types of oil tanker operators are major oil companies (including state-owned companies) that generally operate captive fleets, and independent operators that charter out their vessels for voyage or time-charter use. Most conventional oil tankers controlled by independent fleet operators are hired for one or a few voyages at a time at fluctuating market rates based on the existing tanker supply and demand. These charter rates are extremely sensitive to this balance of supply and demand, and small changes in tanker utilization have historically led to relatively large short-term rate changes. Long-term, fixed-rate charters for crude oil transportation, such as those applicable to our Suezmax tanker fleet, are less typical in the industry. As used in this discussion, conventional oil tankers exclude those vessels that can carry dry bulk and ore, tankers that currently are used for storage purposes and shuttle tankers that are designed to transport oil from offshore production platforms to onshore storage and refinery facilities.

Oil tanker demand is primarily a function of several factors, including the locations of oil production, refining and consumption and world oil demand and supply, while oil tanker supply is primarily a function of new vessel deliveries, vessel scrapping and the conversion or loss of tonnage.

The majority of crude oil tankers range in size from approximately 80,000 to approximately 320,000 dwt. Suezmax tankers, which typically range from 120,000 to 200,000 dwt, are the mid-size of the various primary oil tanker types, typically sized from 120,000 to 200,000 dwt. As of December 31, 2007, the world tanker fleet included 314 conventional Suezmax tankers, representing approximately 13% of worldwide oil tanker capacity, excluding tankers under 10,000 dwt.

As of December 31, 2007, our Suezmax tankers had an average age of approximately five years, compared to the average age of nine years for the world Suezmax conventional tanker fleet. New Suezmax tankers generally are expected to have a lifespan of approximately 25 to 30 years, based on estimated hull fatigue life. However, United States and international regulations require the phase-out of double-hulled vessels by 25 years. All of our Suezmax tankers are double-hulled.

Table of Contents

The following table provides additional information about our Suezmax oil tankers as of December 31, 2007.

Tanker	Capacity (dwt)	Delivery	Our Ownership	Charterer	Remaining Charter Term
Operating Suezmax tankers:					
Tenerife Spirit	159,500	2000	Capital lease(1)	CEPSA	13 years (2)
Algeciras Spirit	159,500	2000	Capital lease(1)	CEPSA	13 years (2)
Huelva Spirit	159,500	2001	Capital lease(1)	CEPSA	14 years (2)
Teide Spirit	159,500	2004	Capital lease(1)	CEPSA	17 years (2)
Toledo Spirit	159,500	2005	Capital lease(1)	CEPSA	18 years (2)
European Spirit	151,800	2003	100%	ConocoPhillips	8 years (3)
African Spirit	151,700	2003	100%	ConocoPhillips	8 years (3)
Asian Spirit	151,700	2004	100%	ConocoPhillips	8 years (3)
Total Capacity:	1,252,700				

(1) We are the lessee under a capital lease arrangement and are required to purchase the vessel approximately seven years after the commencement of the capital lease, which we expect to accomplish by assuming the existing vessel financing. Please read Item 18 - Financial Statements: Note 4 Leases and Restricted Cash.

(2) CEPSA has the right to terminate the time charter

13 years after the original delivery date, in which case we are generally expected to sell the vessel, subject to our right of first refusal to purchase the vessel.

(3) The term of the time charter is 12 years from the original delivery date, which may be extended at the customer s option for up to an additional six years. In addition, the customer has the right to terminate the time charter upon notice and payment of a cancellation fee. Either party also may require the sale of the vessel to a third party at any time, subject to the other party s right of first refusal to purchase the vessel.

CEPSA accounted for 26%, 29% and 20% of our 2005, 2006 and 2007 revenues, respectively. We also derived 16%, 15% and 11% of our revenues in 2005, 2006 and 2007, respectively, from ConocoPhillips. No other Suezmax tanker customer accounted for 10% or more of our revenues during either of these periods. The loss of any significant customer or a substantial decline in the amount of services requested by a significant customer could harm our business, financial condition and results of operations.

Business Strategies

Our primary business objective is to increase distributable cash flow per unit by executing the following strategies:

Acquire new LNG and LPG carriers built to project specifications after long-term, fixed-rate time charters have been awarded for the LNG and LPG projects. Our LNG and LPG carriers were built or will be built to customer specifications included in the related long-term, fixed-rate time charters for the vessels. We intend to continue our practice of acquiring LNG and LPG carriers as needed for approved projects only after the long-term, fixed-rate time charters for the projects have been awarded, rather than ordering vessels on a speculative basis. We believe this approach is preferable to speculative newbuilding because it:

- eliminates the risk of incremental or duplicative expenditures to alter our LNG and LPG carriers to meet customer specifications;
- facilitates the financing of new LNG and LPG carriers based on their anticipated future revenues; and
- ensures that new vessels will be employed upon acquisition, which should generate more stable cash flow.

Expand our LNG and LPG operations globally. We seek to capitalize on opportunities emerging from the global expansion of the LNG and LPG sector by selectively targeting:

- long-term, fixed-rate time charters wherever there is significant growth in LNG and LPG trade;
- joint ventures and partnerships with companies that may provide increased access to opportunities in attractive LNG and LPG importing and exporting geographic regions; and
- strategic vessel and business acquisitions.

Provide superior customer service by maintaining high reliability, safety, environmental and quality standards. LNG and LPG project operators seek LNG and LPG transportation partners that have a reputation for high reliability, safety, environmental and quality standards. We seek to leverage our own and Teekay Corporation s operational expertise to create a sustainable competitive advantage with consistent delivery of superior customer service.

Manage our Suezmax tanker fleet to provide stable cash flows. The remaining terms for our existing long-term Suezmax tanker charters are 8 to 18 years. We believe the fixed-rate time charters for our oil tanker fleet provide us stable cash flows during their terms and a source of funding for expanding our LNG and LPG operations. Depending on prevailing market conditions during and at the end of each existing charter, we may seek to extend the charter, enter into a new charter, operate the vessel on the spot market or sell the vessel, in an effort to maximize returns on our Suezmax fleet while managing residual risk.

Table of Contents

Safety, Management of Ship Operations and Administration

Safety and environmental compliance are our top operational priorities. We operate our vessels in a manner intended to protect the safety and health of our employees, the general public and the environment. We seek to manage the risks inherent in our business and are committed to eliminating incidents that threaten the safety and integrity of our vessels, such as groundings, fires, collisions and petroleum spills. In 2007 we introduced a behavior-based safety program called Safety in Action to further enhance the safety culture in our fleet. We are also committed to reducing our emissions and waste generation.

Teekay Corporation, through its subsidiaries, assists us in managing our ship operations. Teekay Corporation has achieved certification under the standards reflected in International Standards Organization s (or *ISO*) 9001 for Quality Assurance, ISO 14001 for Environment Management Systems, Occupational Health and Safety Advisory Services 18001 for Occupational Health and Safety, and the IMO s International Management Code for the Safe Operation of Ships and Pollution Prevention on a fully integrated basis. As part of Teekay Corporation s compliance with the International Safety Management (or *ISM*) Code, all of our vessels safety management certificates are maintained through ongoing internal audits performed by our certified internal auditors and intermediate external audits performed by the classification society Det Norske Veritas. Subject to satisfactory completion of these internal and external audits, certification is valid for five years.

We have established key performance indicators to facilitate regular monitoring of our operational performance. We set targets on an annual basis to drive continuous improvement, and we review performance indicators monthly to determine if remedial action is necessary to reach our targets.

In addition to our operational experience, Teekay Corporation s in-house global shore staff performs, through its subsidiaries, the full range of technical, commercial and business development services for our LNG and LPG operations. This staff also provides administrative support to our operations in finance, accounting and human resources. We believe this arrangement affords a safe, efficient and cost-effective operation.

Critical ship management functions that Teekay Corporation provides to us through its Teekay Marine Services division located in various offices around the world include:

- vessel maintenance;
- crewing;
- purchasing;
- shipyard supervision;
- insurance; and
- financial management services.

These functions are supported by onboard and onshore systems for maintenance, inventory, purchasing and budget management.

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

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

Risk of Loss, Insurance and Risk Management

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

We carry hull and machinery (marine and war risks) and protection and indemnity insurance coverage to protect against most of the accident-related risks involved in the conduct of our business. Hull and machinery insurance covers loss of or damage to a vessel due to marine perils such as collisions, grounding and weather. Protection and indemnity insurance indemnifies us against liabilities incurred while operating vessels, including injury to our crew or third parties, cargo loss and pollution. The current available amount of our coverage for pollution is $1 billion per vessel per incident. We also carry insurance policies covering war risks (including piracy and terrorism) and, for our LNG carriers, loss of revenues resulting from vessel off-hire time due to a marine casualty. Teekay Corporation provides this off-hire insurance for our LNG carriers. We believe that our current insurance coverage is adequate to protect against most of the accident-related risks involved in the conduct of our business and that we maintain appropriate levels of environmental damage and pollution insurance coverage. However, we cannot assure that all covered risks are adequately insured against, that any particular claim will be paid or that we will be able to procure adequate insurance coverage at commercially reasonable rates in the future. More stringent environmental regulations have resulted in increased costs for, and may result in the lack of availability of, insurance against risks of environmental damage or pollution.

Table of Contents

We use in our operations Teekay Corporation s thorough risk management program that includes, among other things, computer-aided risk analysis tools, maintenance and assessment programs, a seafarers competence training program, seafarers workshops and membership in emergency response organizations. We believe we benefit from Teekay Corporation s commitment to safety and environmental protection as certain of its subsidiaries assist us in managing our vessel operations.

Classification, Audits and Inspections

The hull and machinery of all our vessels is classed by one of the major classification societies: Det Norske Veritas or Lloyd s Register of Shipping. The classification society certifies that the vessel has been built and maintained in accordance with its rules. Each vessel is inspected by a classification society surveyor annually, with either the second or third annual inspection being a more detailed survey (or an *Intermediate Survey*) and the fourth or fifth annual inspection being the most comprehensive survey (or a *Special Survey*). The inspection cycle resumes after each Special Survey. Vessels also may be required to be drydocked at each Intermediate and Special Survey for inspection of the underwater parts of the vessel in addition to a more detailed inspection of the hull and machinery. Many of our vessels have qualified with their respective classification societies for drydocking every four or five years in connection with the Special Survey and are no longer subject to drydocking at Intermediate Surveys. To qualify, we were required to enhance the resiliency of the underwater coatings of each vessel and mark the hull to accommodate underwater inspections by divers.

The vessel s flag state, or the vessel s classification society if nominated by the flag state, also inspects our vessels to ensure they comply with applicable rules and regulations of the country of registry of the vessel and the international conventions of which that country is a signatory. Port state authorities, such as the U.S. Coast Guard, also inspect our vessels when they visit their ports.

In addition to the classification inspections, many of our customers regularly inspect our vessels as a condition to chartering, and regular inspections are standard practice under long-term charters.

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

Our vessels are also regularly inspected by our seafaring staff, who perform much of the necessary routine maintenance. Shore-based operational and technical specialists also inspect our vessels at least twice a year. Upon completion of each inspection, action plans are developed to address any items requiring improvement. All plans are monitored until they are completed. The objectives of these inspections are to:

- ensure adherence to our operating standards;
- maintain the structural integrity of the vessel;
- maintain machinery and equipment to give full reliability in service;
- optimize performance in terms of speed and fuel consumption; and
- ensure the vessel s appearance will support our brand and meet customer expectations.

To achieve our vessel structural integrity objective, we use a comprehensive Structural Integrity Management System developed by Teekay Corporation. This system is designed to closely monitor the condition of our vessels and to ensure that structural strength and integrity are maintained throughout a vessel s life.

Teekay Corporation, which assists us in managing our ship operations through its subsidiaries, has obtained approval for its safety management system as being in compliance with the ISM Code. To maintain compliance, the system is audited regularly by either the vessels flag state or, when nominated by the flag state, a classification society. Certification is valid for five years subject to satisfactorily completing internal and external audits.

Properties

Other than our vessels, we do not have any material property.

Organizational Structure

Our sole General Partner is Teekay GP L.L.C., which is a wholly owned subsidiary of Teekay Corporation. Teekay Corporation also controls its public subsidiaries Teekay Offshore Partners L.P. (NYSE: TOO) and Teekay Tankers Ltd. (NYSE: TNK).

Table of Contents

The following is a list of our significant subsidiaries as at December 31, 2007:

Name of Significant Subsidiary	Ownership	State or Jurisdiction of Incorporation
Naviera Teekay Gas, SL	100%	Spain
Naviera Teekay Gas II, SL		