Teekay LNG Partners L.P.
Form 20-F
April 27, 2010

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

(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, 2009

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
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(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.

44,972,563 Common Units
7,367,286 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o 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

TEEKAY LNG PARTNERS L.P.
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PART I

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

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

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

- our ability to make cash distributions on our units or any increases in quarterly distributions;
- the expected timing of the conversion of our subordinated units to common units;
- our future financial condition and results of operations and our future revenues and expenses;
- growth prospects of the liquefied natural gas (or *LNG*) and liquefied petroleum gas (or *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;
- estimated costs and timing of implementation of the EU Directive to burn only low sulphur fuel, and our ability to timely comply with this Directive;
- 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;
- the recent economic downturn and financial crisis in the global market, including disruptions in the global credit and stock markets and potential negative effects on our customers ability to charter our vessels and pay for our services;
- obtaining LNG and LPG projects that we or Teekay Corporation bid on or that Teekay Corporation has been awarded;
- 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 leased 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;
- the future valuation of goodwill;
- anticipated taxation of our partnership and its subsidiaries; and

our business strategy and other plans and objectives for future operations.

Forward-looking 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 or furnish to the U.S. Securities and Exchange Commission (or the *SEC*).

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

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

The following tables presents, in each case for the periods and as of the dates indicated, summary 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 Teekay Luxembourg S.a.r.l. (or *Luxco*) from Teekay Corporation.

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

- the period from January 1, 2005 to May 9, 2005 (or the *2005 Pre-IPO Period*) reflects the acquisition of Naviera F. Tapias S.A. and its subsidiaries (or *Teekay Spain*) in April 2004 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 as at December 31, 2005, 2006, 2007 and 2008, and for the periods from May 10, 2005 to December 31, 2005, and for the years ended December 31, 2006, 2007, 2008 and 2009 reflect its initial public offering and related acquisition of Luxco from Teekay Corporation and are derived from the audited consolidated financial statements of Teekay LNG Partners.

Our historical operating results include the historical results of Luxco for the 2005 Pre-IPO Period. During this period, Luxco had no revenues, expenses or income, or assets or liabilities, other than:

- net interest expense related to the advances of $7.3 for the 2005 Pre-IPO Period;
- a $23.8 million unrealized foreign exchange gain related to the advances for the 2005 Pre-IPO Period;
- other expenses of $0.1 million for the respective period;
- 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.

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 table should be read together with, and is qualified in its 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, 2009, 2008 and 2007.

In November 2005, we acquired three Suezmax tankers and related long-term fixed rate time-charter contracts from Teekay Corporation. In May 2005, Teekay Corporation contributed the *Granada Spirit* to the Partnership. In addition, please refer to Item 5 Operating and Financial Review and Prospects: Results of Operations Items You Should Consider When Evaluating Our Results of Operations for a discussion relating to the LPG carrier and the two LNG carriers we acquired from Teekay Corporation in January 2007 and April 2008, respectively. These transactions were deemed to be business acquisitions between entities under common control. Accordingly, we have accounted for these transactions in a manner similar to the pooling of interest method whereby our financial statements prior to the date these vessels were acquired by us are retroactively adjusted to include the results of these acquired vessels. The periods retroactively adjusted include all periods that we and the acquired vessels were both under the common control of Teekay Corporation and had begun operations. As a result, our statements of income (loss) for the years ended December 31, 2009, 2008, 2007, 2006 and 2005 reflect the results of operations of these seven vessels, referred to herein as the *Dropdown Predecessor*, as if we had acquired them when each respective vessel began operations under the ownership of Teekay Corporation, which were September 26, 2003, November 10, 2003, and January 4, 2004 (the three Suezmax tankers); April 1, 2003 (the LPG carrier); December 13 and 14, 2007 (the two LNG carriers); and as if we had not sold the vessel to Teekay Corporation on December 6, 2004 (*Granada Spirit*).

The information presented in the following table and related footnotes has been adjusted to reflect the inclusion of the Dropdown Predecessor in our financial results for the years ended December 31, 2009, 2008, 2007, 2006 and 2005 as the Company accounts for the acquisition of the seven vessels as business combinations between entities under common control.
Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (or *GAAP*).

	January 1 to May 9, 2005	May 10 to December 31, 2005	Year Ended December 31, 2006	Year Ended December 31, 2007	Year Ended December 31, 2008	Year Ended December 31, 2009
	(in thousands, except per unit and fleet data)					
Income Statement Data:						
Voyage revenues	$ 67,575	$ 116,603	$ 192,353	$ 257,769	$ 314,404	$ 326,029
Operating expenses:						
Voyage expenses [1]	1,934	639	2,036	1,197	3,253	1,902
Vessel operating expenses [2]	14,609	22,646	40,977	56,863	77,113	77,482
Depreciation and amortization	18,134	32,570	53,076	66,017	76,880	78,742
General and administrative	4,481	8,732	14,152	15,186	20,201	18,162
Restructuring charge						3,250
Goodwill impairment					3,648	
Total operating expenses	39,158	64,587	110,241	139,263	181,095	179,538
Income from vessel operations	28,417	52,016	82,112	118,506	133,309	146,491
Interest expense	(35,677)	(33,442)	(82,099)	(145,073)	(138,317)	(59,281)
Interest income	9,098	14,098	40,162	68,329	64,325	13,873
Realized and unrealized (loss) gain on derivative instruments [3]	(12,891)	(27,481)	14,207	9,816	(99,954)	(40,950)
Foreign currency exchange gain (loss) [4]	52,295	29,523	(39,590)	(41,241)	18,244	(10,835)
Equity (loss) income [5]			(38)	(130)	136	27,639
Other (expense) income	(17,159)	3,045	(391)	(1,284)	1,045	(302)
Net income (loss)	24,083	37,759	14,363	8,923	(21,212)	76,635
Non-controlling interest in net income (loss) [6]			3,234	(16,739)	(40,698)	29,310
Dropdown Predecessor s interest in net income (loss)	3,383	1,588	(123)	520	894	

General Partner s interest in net income (loss)		6,229	1,542	9,752	11,989	5,180
Limited partners interest in net income (loss)	20,700	29,942	9,710	15,390	6,603	42,145
Limited partners interest in net income (loss) per:						
Common unit (basic and diluted) [7]	0.88	1.21	0.32	0.64	0.63	0.86
Subordinated unit (basic and diluted) [7]	0.88	1.06	0.32	0.66	(0.29)	0.80
Total unit (basic and diluted) [7]	0.88	1.14	0.32	0.65	0.36	0.85
Cash distributions declared per unit		0.65	1.80	2.05	2.22	2.28
Balance Sheet Data (at end of period):						
Cash and cash equivalents		$ 35,955	$ 29,288	$ 91,891	$ 117,641	$ 102,570
Restricted cash [8]		298,323	670,758	679,229	642,949	611,520
Vessels and equipment [9]		1,522,887	1,715,662	2,065,572	2,207,878	1,874,435
Net investments in direct financing leases [10]						421,441
Total assets [8]		2,085,634	2,928,422	3,818,616	3,432,849	3,362,354
Total debt and capital lease obligations [8]		1,266,281	1,854,654	2,582,991	2,199,952	2,133,342
Total stockholder s/partners equity (deficit)		736,599	703,190	709,292	805,851	860,218
Common units outstanding	8,734,572	20,238,072	20,240,547	22,540,547	33,338,320	44,972,563
Subordinated units outstanding	14,734,572	14,734,572	14,734,572	14,734,572	11,050,929	7,367,286
Cash Flow Data:						
Net cash provided by (used in):						
Operating activities	$ 15,980	$ 59,726	$ 89,383	$ 115,450	$ 149,570	$ 164,496
Financing activities	(163,646)	36,530	(266,048)	630,395	403,262	(9,648)
Investing activities	18,758	(87,803)	169,998	(683,242)	(527,082)	(169,919)
Other Financial Data:						
Net voyage revenues [11]	$ 65,641	$ 115,964	$ 190,317	$ 256,572	$ 311,151	$ 324,127
EBITDA [12]	71,135	86,625	109,751	152,839	129,865	201,479
Adjusted EBITDA [12]	47,013	81,621	130,534	182,333	206,603	244,638
Capital expenditures:						
Expenditures for vessels and equipment [13]	44,270	158,045	1,037	160,757	172,093	134,230
Expenditures for drydocking	371	3,494	3,693	3,724	11,966	9,729
Liquefied Gas Fleet Data:						
Calendar-ship-days [14]	645	1,180	1,887	2,897	3,701	4,637
Average age of our fleet (in years at end of period) [15]	1.9	2.8	3.0	4.3	4.4	4.6

Vessels at end of period (16)	5	5	6	10	11	14
Suezmax Fleet Data:						
Calendar-ship-days (14)	1,032	1,833	2,920	2,920	2,928	2,920
Average age of our fleet (in years at end of period)	4.3	3.0	4.0	4.5	5.5	6.5
Vessels at end of period	8	8	8	8	8	8

(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) We entered into interest rate swaps to mitigate our interest rate risk from our floating-rate debt, leases and restricted cash. Changes in the fair value of our derivatives are recognized immediately into income and are presented as realized and unrealized (loss) gain on derivative instruments in the statements of income (loss). Please see Item 18 Financial Statements: Note 12 Derivative Instruments.

(4) Substantially all of these foreign currency exchange gains and losses were unrealized and not settled in cash. Under GAAP, all foreign currency-denominated monetary assets and liabilities, such as cash and cash equivalents, accounts receivable, 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 exchange gains and losses is our

Euro-denominated term loans, which totaled 304.3 million Euros ($444.0 million) at December 31, 2007, 296.4 million Euros ($414.1 million) at December 31, 2008 and 288.0 million Euros ($412.4 million) at December 31, 2009.

(5) Equity (loss) income includes unrealized gain on derivative instruments of $10.9 million for the year ended December 31, 2009 and nil for all the preceding periods.

(6) In January 2009, we adopted an amendment to Financial Accounting Standards Board (or *FASB*) Accounting Standards Codification (or *ASC*) 810, *Consolidations*, which requires us to change the portion of net income (loss) that is attributable to the non-controlling interest. This change was not applied retroactively, please read Item 18 Financial Statements: Note 1 - Adoption of New Accounting Pronouncements to see the 2009 pro forma net income (loss) attributable to the non-controlling interest had we not adopted FASB ASC 810.

(7) In January 2009, the we adopted an amendment to FASB ASC 260, Earnings Per Share, and based on this amendment, the General Partner s, common unitholders and subordinated unitholder s interests in net income (loss) are calculated as if all net income (loss), after deducting the amount of net income (loss) attributable to the Dropdown Predecessor, the non-controlling interest and the General Partner s interest, was distributed according to the terms of the Partnership s partnership agreement, regardless of whether those earnings would or could be distributed. This amendment was applied retrospectively to all periods presented. Please Read Item 18 Financial Statements: Note 15 Total Capital and Net Income (Loss) Per Unit.

(8) 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 consolidated balance sheets. 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.

(9) 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.

(10) The external charters which commenced in 2009 under the Tangguh LNG project have been accounted for as direct financing leases and as a result, the two LNG vessels relating to this project are not included as part of vessels and equipment.

(11) 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 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.

	January 1 to May 9, 2005	**May 10 to December 31, 2005**	**Year Ended December 31, 2006**	**Year Ended December 31, 2007**	**Year Ended December 31, 2008**	**Year Ended December 31, 2009**
Voyage revenues	$ 67,575	$ 116,603	$ 192,353	$ 257,769	$ 314,404	$ 326,029
Voyage expenses	(1,934)	(639)	(2,036)	(1,197)	(3,253)	(1,902)
Net voyage revenues	$ 65,641	$ 115,964	$ 190,317	$ 256,572	$ 311,151	$ 324.127

(12) EBITDA and Adjusted EBIDTA 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 and Adjusted EBITDA assist 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 and Adjusted EBITDA information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest expense, taxes, depreciation or amortization and realized and unrealized gain (loss) on derivative instruments relating to interest rate swaps, 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 and Adjusted EBITDA as financial and operating measures benefits investors in (a) selecting between investing in us and other investment alternatives and (b) monitoring our ongoing financial and operational strength and health in assessing whether to continue to hold our common units.

Liquidity. EBITDA and Adjusted EBITDA 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 and Adjusted 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 and Adjusted 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.

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

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

	January 1 to May 9, 2005	**May 10 to December 31, 2005**	**Year Ended December 31, 2006**	**Year Ended December 31, 2007**	**Year Ended December 31, 2008**	**Year Ended December 31, 2009**
Reconciliation of EBITDA and Adjusted EBITDA to Net income (loss) :						
Net income (loss)	$ 24,083	$ 37,759	$ 14,363	$ 8,923	$ (21,212)	$ 76,635
Depreciation and amortization	18,134	32,570	53,076	66,017	76,880	78,742
Interest expense, net of interest income	26,579	19,344	41,937	76,744	73,992	45,408
Provision (benefit) for income taxes	2,339	(3,048)	375	1,155	205	694
EBITDA	$ 71,135	$ 86,625	$ 109,751	$ 152,839	$ 129,865	$ 201,479
Restructuring charge						3,250
Foreign currency exchange (gain) loss	(52,295)	(29,523)	39,590	41,241	(18,244)	10,835
Loss (gain) on sale of assets	15,282	(186)				
Goodwill impairment					3,648	
	8,071	20,860	(23,308)	(10,941)	84,546	3,788

Unrealized loss (gain) on derivative instruments												
Realized loss (gain) on interest rate swaps		4,820		3,845		4,501		(806)		6,788		36,222
Unrealized gain on interest rate swaps in joint venture												(10,936)
Adjusted EBITDA [i]	$	47,013	$	81,621	$	130,534	$	182,333	$	206,603	$	244,638
Reconciliation of Adjusted EBITDA to Net operating cash flow :												
Net operating cash flow	$	15,980	$	59,726	$	89,383	$	115,450	$	149,570	$	164,496
Expenditures for drydocking		371		3,494		3,693		3,724		11,966		9,729
Interest expense, net of interest income		26,579		19,344		41,937		76,744		73,992		45,408
Change in operating assets and liabilities		2,209		(4,763)		(1,208)		(12,313)		(31,962)		(29,537)
Equity (loss) income from joint venture						(38)		(130)		136		27,639
Restructuring charge												3,250
Realized loss (gain) on interest rate swaps		4,820		3,845		4,501		(806)		6,788		36,222
Unrealized gain on interest rate swaps in joint venture												(10,936)
Other, net		(2,946)		(25)		(7,734)		(336)		(3,887)		(1,633)
Adjusted EBITDA	$	47,013	$	81,621	$	130,534	$	182,333	$	206,603	$	244,638

(13) Expenditures for vessels and equipment excludes non-cash investing activities. Please read Item 18 Financial Statements: Note 14 Supplemental Cash Flow Information.

(14)

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).

(15) Includes the newbuildings that have been consolidated in our balance sheets.

(16) Does not include four LNG carriers (or the *RasGas 3 LNG Carriers*) relating to our joint venture with QGTC Nakilat (1643-6) Holdings Corporation which are accounted for under the equity method following their deliveries between May and July of 2008.

RISK FACTORS

We may not have sufficient cash from operations to enable us to pay the current level of quarterly distributions 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 current level of quarterly distributions 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 Teekay GP L.L.C., our general partner (or the *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.

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 (as defined in our partnership agreement) each quarter in an effort to reduce fluctuations in operating surplus. 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 will be required to make substantial capital expenditures to expand the size of our fleet. We generally will be 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 required payments on our debt securities and cash distributions on our common units may be diminished or our financial leverage could increase or our unitholders could be diluted.

We make substantial capital expenditures to increase the size of our fleet. As of the date of this Report, we have agreed to purchase from Teekay Corporation its interests in two newbuilding Multigas vessels and from I.M. Skaugen ASA (or *Skaugen*) one LPG carrier. Teekay Corporation is obligated to offer to us its interests in additional vessels. Please read Item 5 Operating and Financial Review and Prospects, for additional information about some of these pending and proposed acquisitions. In addition, we are obligated to purchase five of our leased Suezmax tankers upon the termination of the related capital leases, which will occur at various times in late 2011. On March 17, 2010 we acquired from Teekay Corporation, for a total purchase price of $160 million, two 2009-built Suezmax tankers and a 2007-built Handymax product tanker and the associated long-term charter contracts currently operating under 12 and 10 year fixed-rate contracts, respectively.

We and Teekay Corporation regularly evaluate and pursue opportunities to provide the marine transportation requirements for new or expanding LNG and LPG projects. 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 maintain our level of quarterly distributions 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 at December 31, 2009, our consolidated debt, capital lease obligations and advances from affiliates totaled $2.2 billion and we had the capacity to borrow an additional $0.38 billion 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.

Our ability to service our debt depends upon, among other things, our future financial and operating performance, which is 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 read Item 18 Financial Statements: Note 4 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 sales agreement or a prolonged force majeure event affecting the customer, including damage to or destruction of relevant 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, LPG and oil 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.

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 main 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;
- additional sources of natural gas, including shale gas;
- 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, and as a consequence, the LPG 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/LPG project includes production, liquefaction, regasification, storage and distribution facilities and LNG/LPG carriers. Existing LNG/LPG projects and infrastructure are limited, and new or expanded LNG/LPG projects are highly complex and capital-intensive, with new projects often costing several billion dollars. Many factors could negatively affect continued development of LNG/LPG infrastructure or disrupt the supply of LNG/LPG, including:

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

If the LNG/LPG supply chain is disrupted or does not continue to grow, or if a significant LNG/LPG 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, LPG and oil time-charters. The process of obtaining new long-term time-charters is highly competitive and generally involves an intensive screening process and competitive bids, and often extends for several months. 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;
- shipping experience and quality of ship operations (including cost effectiveness);
- quality and experience of seafaring crew;
- the ability to finance 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 energy projects with a number of experienced companies, including state-sponsored entities and major energy companies affiliated with the energy project requiring energy 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 energy 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 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 LNG time-charters if an active short-term or spot 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. In recent years the number of spot and short term LNG charters which we defined as charters under four years has been increasing. In 2008 they accounted for approximately 18% of global LNG trade.

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 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