Teekay LNG Partners L.P.
Form 20-F
April 04, 2011

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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, 2010

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 principle executive offices)
Mark Cave
4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda
Telephone: (441) 298-2530
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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 issuer s classes of capital or common stock as of the close of the period covered by the annual report.

55,106,100 Common Units

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

Yes þ No o

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 if 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 if the registrant (1) 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 þ	Accelerated Filer o	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

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PART II.

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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;
- 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;
- our ability to conduct and operate our business and the business of our subsidiaries in a manner than minimizes taxes imposed upon us and our subsidiaries;
- the expected lifespan of a new LNG carrier, LPG carrier and Conventional tanker;
- the expected source of funds for short-term and long-term liquidity needs;
- 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;
- our expectation of not earning revenues from voyage charters in the foreseeable future;
- 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 delivery date, total price and method of financing for the purchase of Teekay Corporation s 33% interest in the four LNG carriers expected to serve the Angola LNG Project;
- 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 delivery date and method of financing for the purchase of our LPG carrier and two Multigas ships from Skaugen and Teekay Corporation;
- 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;
- our ability to continue to obtain all permits, licenses, and certificates material to our operations;

our ability to obtain safety management certificates for each newbuilding vessel upon delivery;
the expected cost of, and our ability to comply with, governmental regulations and maritime self-regulatory organization standards applicable to our business;
the expected cost to install ballast water treatment systems on our tankers in compliance with IMO proposals;

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- the expected impact of heightened environmental and quality concerns of insurance underwriters, regulators and charterers;
- the adequacy of our insurance coverage for accident-related risks, environmental damage and pollution;
- 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

Set forth below is selected consolidated financial and other data of Teekay LNG Partners and its subsidiaries for the fiscal years 2010, 2009, 2008, 2007 and 2006, which have been derived from our consolidated financial statements. 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, 2010, 2009 and 2008.

From time to time we purchase vessels from Teekay Corporation. In January 2007, we acquired an LPG carrier from Teekay Corporation. In April 2008 and March 2010, we acquired two LNG carriers and three Conventional tankers from Teekay Corporation, 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 consolidated statements of income (loss) for the years ended December 31, 2010, 2009, 2008, 2007 and 2006 reflect the results of operations of these six 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 April 1, 2003 (the LPG carrier); December 13 and 14, 2007 (the two LNG carriers); and from May 2009 to September 2009 (the three Conventional tankers). Please refer to Item 5 Operating and Financial Review and Prospects: Results of Operations Items Your Should Consider When Evaluating Our Results of Operations.

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

	Year Ended December 31, 2006	Year Ended December 31, 2007	Year Ended December 31, 2008	Year Ended December 31, 2009	Year Ended December 31, 2010
	(in thousands, except per unit and fleet data)				
Income Statement Data:					
Voyage revenues	$ 192,353	$ 257,769	$ 314,404	$ 343,048	$ 374,008
Operating expenses:					
Voyage expenses[(1)]	2,036	1,197	3,253	2,034	2,042
Vessel operating expenses[(2)]	40,977	56,863	77,113	82,374	84,577
Depreciation and amortization	53,076	66,017	76,880	82,686	89,347
General and administrative	14,152	15,186	20,201	19,764	23,247
Gain on sale of vessel					(4,340)
Restructuring charge				3,250	175
Goodwill impairment			3,648		
Total operating expenses	110,241	139,263	181,095	190,108	195,048
Income from vessel operations	82,112	118,506	133,309	152,940	178,960
Interest expense	(82,099)	(145,073)	(138,317)	(60,457)	(49,019)
Interest income	40,162	68,329	64,325	13,873	7,190
Realized and unrealized gain (loss) on derivative instruments[(3)]	14,207	9,816	(99,954)	(40,950)	(78,720)
Foreign currency exchange (loss) gain[(4)]	(39,590)	(41,241)	18,244	(10,806)	27,545
Equity (loss) income[(5)]	(38)	(130)	136	27,639	8,043
Other (expense) income	(16)	(129)	1,250	392	615
Income tax expense	(375)	(1,155)	(205)	(694)	(1,670)
Net income (loss)	14,363	8,923	(21,212)	81,937	92,944
Non-controlling interest in net income (loss)	3,234	(16,739)	(40,698)	29,310	3,062
Dropdown Predecessor s interest in net income (loss)	(123)	520	894	5,302	2,258
General Partner s interest in net income (loss)	1,542	9,752	11,989	5,180	8,896
Limited partners interest in net income (loss)	9,710	15,390	6,603	42,145	78,728
Limited partners interest in net income (loss) per:					
Common unit (basic and diluted)	0.32	0.64	0.63	0.86	1.46
Subordinated unit (basic and diluted)	0.32	0.66	(0.29)	0.80	2.04
Total unit (basic and diluted)	0.32	0.65	0.36	0.85	1.48
	1.80	1.98	2.18	2.28	2.37

Cash distributions declared per unit					
Balance Sheet Data (at end of period):					
Cash and cash equivalents	$ 29,288	$ 91,891	$ 117,641	$ 108,350	$ 81,055
Restricted cash(6)	670,758	679,229	642,949	611,520	572,138
Vessels and equipment(7)	1,715,662	2,065,572	2,207,878	2,077,604	2,019,576
Net investments in direct financing leases(8)				421,441	415,695
Total assets(6)	2,928,422	3,818,616	3,432,849	3,578,411	3,547,395
Total debt and capital lease obligations(6)	1,854,654	2,582,991	2,199,952	2,257,604	2,137,249
Partners and Dropdown Predecessor equity	703,190	709,292	805,851	903,231	896,200
Common units outstanding	20,240,547	22,540,547	33,338,320	44,972,563	55,106,100
Subordinated units outstanding	14,734,572	14,734,572	11,050,929	7,367,286	
Cash Flow Data:					
Net cash provided by (used in):					
Operating activities	$ 89,383	$ 115,450	$ 149,570	$ 171,384	$ 174,970
Financing activities	(266,048)	630,395	403,262	(10,060)	(167,746)
Investing activities	169,998	(683,242)	(527,082)	(170,615)	(34,519)
Other Financial Data:					
Net voyage revenues(9)	$ 190,317	$ 256,572	$ 311,151	$ 341,014	$ 371,966
EBITDA(10)	109,751	152,839	129,865	211,901	225,790
Adjusted EBITDA(10)	130,534	182,333	206,603	255,031	277,334
Capital expenditures:					
Expenditures for vessels and equipment(11)	1,037	160,757	172,093	134,926	26,652
Expenditures for drydocking	3,693	3,724	11,966	9,729	12,727
Liquefied Gas Fleet Data:(12)					
Calendar-ship-days (13)	1,887	2,897	3,701	4,637	5,051
Average age of our fleet (in years at end of period)(14)	3.0	4.3	4.4	4.6	5.3
Vessels at end of period	6	10	11	14	13
Conventional Fleet Data:					
Calendar-ship-days(13)	2,920	2,920	2,928	3,448	4,015
Average age of our fleet (in years at end of period)	4.0	4.5	5.5	5.1	6.1
Vessels at end of period	8	8	8	11	11

(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.

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(3) We entered into interest rate swaps to mitigate our interest rate risk from our floating-rate debt, leases and restricted cash. We also have entered into an agreement with Teekay Corporation relating to the Toledo Spirit time-charter contract under which Teekay Corporation pays us any amounts payable to the charterer as a result of spot rates being below the fixed rate, and we pay Teekay Corporation any amounts payable to us as a result of spot rates being in excess of the fixed rate. Changes in the fair value of our derivatives are recognized immediately into income and are presented as realized and unrealized gain (loss) on derivative instruments in the consolidated 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, accrued liabilities, unearned revenue, advances from affiliates, 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 311.6 million Euros ($411.3 million) at December 31, 2006, 304.3 million Euros ($444.0 million) at December 31, 2007, 296.4 million Euros ($414.1 million) at December 31, 2008, 288.0 million Euros ($412.4 million) at December 31, 2009 and 278.9 million Euros ($373.3 million) at December 31, 2010.

(5) Equity (loss) income includes unrealized (losses) gains on derivative instruments of ($6.5) million for the year ended December 31, 2010, $10.9 million for the year ended December 31, 2009 and nil for all the preceding periods.

(6) 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.

(7) 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.

(8) 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.

(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 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, 2006	**Year Ended December 31, 2007**	**Year Ended December 31, 2008**	**Year Ended December 31, 2009**	**Year Ended December 31, 2010**
Voyage revenues	192,353	257,769	314,404	343,048	374,008
Voyage expenses	(2,036)	(1,197)	(3,253)	(2,034)	(2,042)
Net voyage revenues	190,317	256,572	311,151	341,014	371,966

(10) EBITDA and Adjusted EBIDTA are 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 (loss) 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.

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Neither EBITDA nor Adjusted EBITDA, which are non-GAAP measures, should be considered as an alternative to net income (loss), 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 (loss) 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 (loss), and our historical consolidated Adjusted EBITDA to net operating cash flow.

	Year Ended December 31, 2006	**Year Ended December 31, 2007**	**Year Ended December 31, 2008**	**Year Ended December 31, 2009**	**Year Ended December 31, 2010**
Reconciliation of EBITDA and Adjusted EBITDA to Net income (loss) :					
Net income (loss)	14,363	8,923	(21,212)	81,937	92,944
Depreciation and amortization	53,076	66,017	76,880	82,686	89,347
Interest expense, net of interest income	41,937	76,744	73,992	46,584	41,829
Income tax expense	375	1,155	205	694	1,670
EBITDA	109,751	152,839	129,865	211,901	225,790
Restructuring charge				3,250	175
Foreign currency exchange loss (gain)	39,590	41,241	(18,244)	10,806	(27,545)
Gain on sale of vessel					(4,340)
Goodwill impairment			3,648		
Unrealized (gain) loss on derivative instruments	(23,308)	(10,941)	84,546	3,788	34,306
Realized loss (gain) on interest rate swaps	4,501	(806)	6,788	36,222	42,495
Unrealized (gain) loss on interest rate swaps in joint ventures included in equity (loss) income				(10,936)	6,453
Adjusted EBITDA	130,534	182,333	206,603	255,031	277,334
Reconciliation of Adjusted EBITDA to Net operating cash flow :					
Net operating cash flow	89,383	115,450	149,570	171,384	174,970
Expenditures for drydocking	3,693	3,724	11,966	9,729	12,727
Interest expense, net of interest income	41,937	76,744	73,992	46,584	41,829
	(1,208)	(12,313)	(31,962)	(26,988)	(3,029)

Change in operating assets and liabilities					
Equity (loss) income from joint ventures	(38)	(130)	136	27,639	8,043
Restructuring charge				3,250	175
Realized loss (gain) on interest rate swaps	4,501	(806)	6,788	36,222	42,495
Unrealized (gain) loss on interest rate swaps in joint ventures included in equity (loss) income				(10,936)	6,453
Other, net	(7,734)	(336)	(3,887)	(1,853)	(6,329)
Adjusted EBITDA	130,534	182,333	206,603	255,031	277,334

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

(12) Fleet data does not include four LNG carriers (or the *RasGas 3 LNG Carriers*) relating to our joint venture with QGTC Nakilat (1643-6) Holdings Corporation and two LNG carriers relating to our joint ventures with Exmar NV which are accounted for under the equity method.

(13) 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 six 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).

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

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.

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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 100% interest in two newbuilding Multigas vessels and its 33% interest in four LNG 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 and one of our leased LNG carrier upon the termination of the related capital leases, which may occur at various times in late 2011.

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, 2010, our consolidated debt, capital lease obligations and advances from affiliates totaled $2.3 billion and we had the capacity to borrow an additional $378.6 million under our credit facilities. These facilities may be used by us for general partnership purposes, except $40 million which is specifically linked to the purchase of the Multigas unit. 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.

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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.

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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.

For example, the charters for the Angola LNG Project allow the charterer to terminate the charter upon 120 days notice and payment of a termination fee, or terminate for other customary reasons. In addition, we will assume a credit risk by entering a charter agreement with Angola LNG Supply Services L.L.C., an unrated entity who will pay us from revenue generated from its sale of gas.

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 a 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 Conventional tanker customer, we may be unable to obtain other long-term Conventional 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 certain 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.

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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.

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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 2009 they accounted for approximately 16% 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 Conventional 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.

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Vessel values have declined considerably between the third quarter of 2008 and early 2011. 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/LPG industries in the near term include the relatively small number of independent LNG/LPG fleet owners and the limited number of LNG/LPG 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, piracy, increased hostilities or war could lead to further economic instability, increased costs and disruption of our business.

Terrorist attacks, piracy, and the current conflicts in Iraq, Afghanistan and Libya 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, or elsewhere, which may contribute further to economic instability and disruption of LNG/LPG 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 and our vessels could be targets of pirates or hijackers. 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, LPG, natural gas and oil to or from certain locations. Terrorist attacks, war, piracy, hijacking or other events beyond our control that adversely affect the distribution, production or transportation of LNG, LPG 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. We anticipate beginning to serve the Angola LNG Project in the fall of 2011. Angola is affected by political instability, a poor economy, poor infrastructure and high unemployment, any of which could lead to one or more of these harms.

Terrorist attacks, or the perception that LNG/LPG facilities and carriers are potential terrorist targets, could materially and adversely affect expansion of LNG/LPG infrastructure and the continued supply of LNG/LPG to the United States and other countries. Concern that LNG/LPG facilities may be targeted for attack by terrorists has contributed to significant community and environmental resistance to the construction of a number of LNG/LPG facilities, primarily in North America. If a terrorist incident involving an LNG/LPG facility or LNG/LPG 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/LPG facilities currently in operation.

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 engage in business or where our vessels are registered. Any disruption caused by these factors could harm our business, including by reducing the levels of oil exploration, development and production activities in these areas. We derive some of our revenues from shipping oil and LNG from politically unstable regions. Conflicts in these regions have included attacks on ships and other efforts to disrupt shipping. Hostilities or other political instability in regions where we operate or where we may operate could have a material adverse effect on the growth of our business, results of operations and financial condition and ability to make cash distributions. In addition, tariffs, trade embargoes and other economic sanctions by the United States or other countries against countries to which we trade may limit trading activities with those countries, which could also harm our business and ability to make cash distributions. Finally, a government could requisition one or more of our vessels, which is most likely during war or national emergency. Any such requisition would cause a loss of the vessel and could harm our cash flow and financial results.

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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, only certain of our LNG carriers carry insurance covering the loss of revenues resulting from vessel off-hire time based on its cost compared to our off-hire experience. 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.

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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. For further information about regulations affecting our business and related requirements on us, please read Item 4 Information on the Partnership: C. Regulations.

Climate change and greenhouse gas restrictions may adversely impact our operations and markets.

Due to concern over the risk of climate change, a number of countries have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions. These regulatory measures include, among others, adoption of cap and trade regimes, carbon taxes, increased efficiency standards, and incentives or mandates for renewable energy. Compliance with changes in laws, regulations and obligations relating to climate change could increase our costs related to operating and maintaining our vessels and require us to install new emission controls, acquire allowances or pay taxes related to our greenhouse gas emissions, or administer and manage a greenhouse gas emissions program. Revenue generation and strategic growth opportunities may also be adversely affected.

Adverse effects upon the oil and gas industry relating to climate change may also adversely affect demand for our services. Although we do not expect that demand for oil and gas will lessen dramatically over the short term, in the long term climate change may reduce the demand for oil and gas or increased regulation of greenhouse gases may create greater incentives for use of alternative energy sources. Any long-term material adverse effect on the oil and gas industry could have a significant financial and operational adverse impact on our business that we cannot predict with certainty at this time.

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 certain 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.

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. While most of our labor agreements have recently been renewed, crew compensation levels under future 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, or may have to pay substantially increased costs for its employees and crew.

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 and crew manning costs continue to increase.

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, LPG 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 and LPG carriers and Conventional oil tankers that operate in the LNG, LPG and oil marine transportation business. Due to our lack of diversification, an adverse development in the LNG, LPG 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 have agreed 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 the conflicts committee of its board of directors, 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 as at December 31, 2010 owned a 44.8% 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 incentive distributions to affiliates to Teekay Corporation;

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.

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

We and a joint venture partner 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 and our joint venture partner to terminate the lease arrangement on a voluntary basis at any time. In the event of an early termination of the lease arrangements, the joint venture 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 another joint venture formed to service the Tangguh LNG project in Indonesia have entered into lease arrangements with a third party for two LNG carriers. We purchased Teekay Corporation s interest in this joint venture in 2009. The terms of the lease arrangements provide similar tax and change of law risk assumption by this joint venture as we have with the three LNG carriers above.

United States common unitholders will be required to pay U.S. taxes on their share of our income even if they do not receive any cash distributions from us.

U.S. citizens, residents or other U.S. taxpayers will be required to pay U.S. federal income taxes and, in some cases, U.S. state and local income taxes on their share of our taxable income, whether or not they receive cash distributions from us. U.S. common unitholders may not receive cash distributions from us equal to their share of our taxable income or even equal to the actual tax liability that results from their share of our taxable income.

Because distributions may reduce a common unitholder s tax basis in our common units, common unitholders may realize greater gain on the disposition of their units than they otherwise may expect, and common unitholders may have a tax gain even if the price they receive is less than their original cost.

If common unitholders sell their common units, they will recognize gain or loss for U.S. federal income tax purposes that is equal to the difference between the amount realized and their tax basis in those common units. Prior distributions in excess of the total net taxable income allocated decrease a common unitholder s tax basis and will, in effect, become taxable income if common units are sold at a price greater than their tax basis, even if the price received is less than the original cost. Assuming we are not treated as a corporation for U.S. federal income tax purposes, a substantial portion of the amount realized on a sale of units, whether or not representing gain, may be ordinary income.

The decision of the United States Court of Appeals for the Fifth Circuit in Tidewater Inc. v. United States creates some uncertainty as to whether we will be classified as a partnership for U.S. federal income tax purposes.

In order for us to be classified as a partnership for U.S. federal income tax purposes, more than 90% of our gross income each year must be qualifying income under Section 7704 of the U.S. Internal Revenue Code of 1986, as amended (the *Code*). For this purpose, qualifying income includes income from providing marine transportation services to customers with respect to crude oil, natural gas and certain products thereof but does not include rental income from leasing vessels to customers.

The decision of the United States Court of Appeals for the Fifth Circuit in *Tidewater Inc. v. United States,* 565 F.3d 299 (5th Cir. 2009) held that income derived from certain time chartering activities should be treated as rental income rather than service income for purposes of a foreign sales corporation provision of the Code. However, the Internal Revenue Service (or *IRS*) stated in an Action on Decision (AOD 2010-001) that it disagrees with, and will not acquiesce to, the way that the rental versus services framework was applied to the facts in the *Tidewater* decision, and in its discussion stated that the time charters at issue in *Tidewater* would be treated as producing services income for purposes of the passive foreign investment company provisions of the Code. The IRS s statement with respect to *Tidewater* cannot be relied upon or otherwise cited as precedent by taxpayers. Consequently, in the absence of any binding legal authority specifically relating to the statutory provisions governing qualifying income under Section 7704 of the Code, there can be no assurance that the IRS or a court would not follow the *Tidewater* decision in interpreting the qualifying income provisions under Section 7704 of the Code. Nevertheless, we intend to take the position that our time charter income is qualifying income within the meaning of Section 7704(d) of the Code. No assurance can be given, however, that the IRS, or a court of law, will accept our position. As such, there is some uncertainty regarding the status of our time charter income as qualifying income and therefore some uncertainty as to whether we will be classified as a partnership for federal income tax purposes. Please read Item 10 Additional Information Taxation United States Tax Consequences Classification as a Partnership.

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The after-tax benefit of an investment in the common units may be reduced if we are not treated as a partnership for U.S. federal income tax purposes.

The anticipated after-tax benefit of an investment in common units may be reduced if we are not treated as a partnership for U.S. federal income tax purposes. If we are not treated as a partnership for U.S. federal income tax purposes, we would be treated as a corporation for such purposes, and common unitholders could suffer material adverse tax or economic consequences, including the following:

The ratio of taxable income to distributions with respect to common units would increase because items would not be allocated to account for any differences between the fair market value and the basis of our assets at the time our common units are issued.

Common unitholders may recognize income or gain on any change in our status from a partnership to a corporation that occurs while they hold units.

We would not be permitted to adjust the tax basis of a secondary market purchaser in our assets under Section 743(b) of the Code. As a result, a person who purchases common units from a common unitholder in the secondary market after this offering may realize materially more taxable income each year with respect to the units. This could reduce the value of common unitholders common units.

Common unitholders would not be entitled to claim any credit against their U.S. federal income tax liability for non-U.S. income tax liabilities incurred by us.

As to the U.S. source portion of our income attributable to transportation that begins or ends (but not both) in the United States, we will be subject to U.S. tax on such income on a gross basis (that is, without any allowance for deductions) at a rate of 4%. The imposition of this tax would have a negative effect on our business and would result in decreased cash available for distribution to common unitholders.

We also may be considered a passive foreign investment company (or *PFIC*) for U.S. federal income tax purposes. U.S. shareholders of a PFIC are subject to an adverse U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC, and the gain, if any, they derive from the sale or other disposition of their interests in the PFIC.

Please read Item 10 Additional Information Taxation United States Tax Consequences Possible Classification as a Corporation. .

U.S. tax-exempt entities and non-U.S. persons face unique U.S. tax issues from owning common units that may result in adverse U.S. tax consequences to them.

Investments in common units by U.S. tax-exempt entities, including individual retirement accounts (known as *IRAs*), other retirements plans and non-U.S. persons raise issues unique to them. Assuming we are classified as a partnership for U.S. federal income tax purposes, virtually all of our income allocated to organizations exempt from U.S. federal income tax will be unrelated business taxable income and generally will be subject to U.S. federal income tax. In addition, non-U.S. persons may be subject to a 4% U.S. federal income tax on the U.S. source portion of our gross income attributable to transportation that begins or ends (but not both) in the United States, or distributions to them may be reduced on account of withholding of U.S. federal income tax by us in the event we are treated as having a fixed place of business in the United States or otherwise earn U.S. effectively connected income, unless an exemption applies and they file U.S. federal income tax returns to claim such exemption.

The sale or exchange of 50% or more of our capital or profits interests in any 12-month period will result in the termination of our partnership for U.S. federal income tax purposes.

We will be considered to have been terminated for U.S. federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital or profits within any 12-month period. Our termination would, among other things, result in the closing of our taxable year for all unitholders and could result in a deferral of depreciation deductions allowable in computing our taxable income. Please read Item 10 Additional Information Taxation United States Tax Consequences Disposition of Common Units Constructive Termination.

Some of our subsidiaries that are classified as corporations for U.S. federal income tax purposes might be treated as passive foreign investment companies, which could result in additional taxes to our unitholders.

Certain of our subsidiaries that are classified as corporations for U.S. federal income tax purposes could be treated as passive foreign investment companies (or PFICs) for U.S. federal income tax purposes. U.S. shareholders of a PFIC are subject to an adverse U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC, and the gain, if any, they derive from the sale or other disposition of their interests in the PFIC. We have received a ruling from the IRS that our subsidiary Teekay LNG Holdco L.L.C. will be classified as a CFC rather than a PFIC as long as it is wholly-owned by a U.S. partnership and we have restructured our subsidiaries Arctic Spirit L.L.C. and Polar Spirit L.L.C. such that they are also owned by our U.S. partnership. We intend to take the position that these subsidiaries should also be treated as CFCs rather than PFICs following this restructuring. Moreover, we believe and intend to take the position that these subsidiaries were not PFICs at any time prior to the restructuring. No assurance can be given, however, that the IRS, or a court of law, will accept this position. Please read Item 10 Additional Information Taxation United States Tax Consequences Taxation of our Subsidiary Corporations.

Teekay Corporation owns less than 50% of our outstanding equity interests, which could cause certain of our subsidiaries and us to be subject to additional tax.

Certain of our subsidiaries are classified as corporations for U.S. federal income tax purposes. As such, these subsidiaries will be subject to U.S. federal income tax on the U.S. source portion of our income attributable to transportation that begins or ends (but not both) in the United States if they fail to qualify for an exemption from U.S. federal income tax (the *Section 883 Exemption*). Teekay Corporation indirectly owns less than 50% of certain of our subsidiaries and our outstanding equity interests. Consequently, we expect these subsidiaries failed to qualify for the Section 883 Exemption in 2010 and will fail to qualify for the Section 883 Exemption in subsequent tax years. Any resulting imposition of U.S. federal income taxes will result in decreased cash available for distribution to common unitholders. Please read Item 10 Additional Information Taxation United States Tax Consequences Taxation of our Subsidiary Corporations.

In addition, if we are not treated as a partnership for U.S. federal income tax purposes, we expect that we also would fail to qualify for the Section 883 Exemption in subsequent tax years and that any resulting imposition of U.S. federal income taxes would result in decreased cash available for distribution to common unitholders.

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The Internal Revenue Service (or IRS) may challenge the manner in which we value our assets in determining the amount of income, gain, loss and deduction allocable to the unitholders, which could adversely affect the value of the common units.

A unitholder s taxable income or loss with respect to a common unit each year will depend upon a number of factors, including the nature and fair market value of our assets at the time the holder acquired the common unit, whether we issue additional units or whether we engage in certain other transactions, and the manner in which our items of income, gain, loss and deduction are allocated among our partners. For this purpose, we determine the value of our assets and the relative amounts of our items of income, gain, loss and deduction allocable to our unitholders and our general partner as holder of the incentive distribution rights by reference to the value of our interests, including the incentive distribution rights. The IRS may challenge any valuation determinations that we make, particularly as to the incentive distribution rights, for which there is no public market. In addition, the IRS could challenge certain other aspects of the manner in which we determine the relative allocations made to our unitholders and to the general partner as holder of our incentive distribution rights. A successful IRS challenge to our valuation or allocation methods could increase the amount of net taxable income and gain realized by a unitholder with respect to a common unit. Any such IRS challenge, whether or not successful, could adversely affect the value of our common units.

Common unitholders may be subject to income tax in one or more non-U.S. countries, including Canada, as a result of owning our common units if, under the laws of any such country, we are considered to be carrying on business there. Such laws may require common unitholders to file a tax return with, and pay taxes to, those countries. Any foreign taxes imposed on us or any of our subsidiaries will reduce our cash available for distribution to common unitholders.

We intend that our affairs and the business of each of our subsidiaries is conducted and operated in a manner that minimizes foreign income taxes imposed upon us and our subsidiaries or which may be imposed upon you as a result of owning our common units. However, there is a risk that common unitholders will be subject to tax in one or more countries, including Canada, as a result of owning our common units if, under the laws of any such country, we are considered to be carrying on business there. If common unitholders are subject to tax in any such country, common unitholders may be required to file a tax return with, and pay taxes to, that country based on their allocable share of our income. We may be required to reduce distributions to common unitholders on account of any withholding obligations imposed upon us by that country in respect of such allocation to common unitholders. The United States may not allow a tax credit for any foreign income taxes that common unitholders directly or indirectly incur. Any foreign taxes imposed on us or any of our subsidiaries will reduce our cash available for common unitholders.

Item 4. Information on the Partnership

A. Overview, History and Development

Overview and History

Teekay LNG Partners L.P. is an international provider of marine transportation services for LNG, LPG and crude oil. We were formed in 2004 by Teekay Corporation (NYSE: TK), 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 and LPG carriers under long-term, fixed-rate charters. We intend to continue our practice of acquiring LNG and LPG carriers as needed for approved projects only after the long-term charters for the projects have been awarded to us, rather than ordering vessels on a speculative basis. In executing our growth strategy, we may engage in vessel or business acquisitions or enter into joint ventures and partnerships with companies that may provide increased access to emerging opportunities from global expansion of the LNG and LPG sectors. We seek to leverage the expertise, relationships and reputation of Teekay Corporation and its affiliates to pursue these opportunities in the LNG and LPG sectors and may consider other opportunities to which our competitive strengths are well suited. Although we may acquire additional crude oil tankers from time to time, we view our Conventional tanker fleet primarily as a source of stable cash flow as we seek to continue to expand our LNG and LPG operations.

As of March 1, 2011, our fleet, excluding newbuildings, consisted of 17 LNG carriers (including the four RasGas 3 LNG Carriers and the two LNG carriers jointly owned with Exmar), 10 Suezmax-class crude oil tankers, one Handymax product tanker and two LPG carriers, all of which are double-hulled. Our fleet is young, with an average age of approximately six years for our LNG carriers, approximately six years for our Conventional tankers, and approximately one year for our LPG carriers, compared to world averages of 10, 8 and 16 years, respectively, as of December 31, 2010.

Our vessels operate under long-term, fixed-rate charters primarily with major energy and utility companies and Teekay Corporation. The average remaining term for these charters is approximately 16 years for our LNG carriers, approximately 9 years for our Conventional tankers (Suezmax and Handymax), and approximately 14 years for our LPG carriers, subject, in certain circumstances, to termination or vessel purchase rights.

Our fleet of existing LNG carriers currently has approximately 2.6 million cubic meters of total capacity. The aggregate capacity of our Conventional tanker fleet, including our recently acquired tankers, is approximately 1.6 million deadweight tonnes (*dwt*). Upon delivery of the three remaining LPG newbuilding carriers, the total capacity of our fleet of LPG carriers will increase to approximately 54,000 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 and 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.

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B. Operations

Our Charters

We generate revenues by charging customers for the transportation of their LNG, LPG and crude oil using our vessels. These services are provided through either a time-charter or bareboat charter contract, 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.

Currently, all our vessels are employed on long-term 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 five of our existing Conventional 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.

In addition, we may receive additional revenues beyond the fixed hire rate when current market rates exceed specified amounts under our time-charter for four Suezmax tankers, the *Teide Spirit*, *Algeciras Spirit*, *Huelva Spirit* and *Tenerife 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. Most shipping requirements for new LNG projects continue to be provided on a long-term basis, though the level of spot voyages (typically consisting of a single voyage) and short-term time-charters of less than 12 months duration have grown in the past few years.

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.

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 the LNG and provides insulation to reduce the amount of LNG that boils off naturally. The natural boil off is either used as fuel to power the engines on the ship or it can be reliquefied and put back into the tanks. LNG is transported overseas in specially built tanks on double-hulled ships to a receiving terminal, where it is offloaded and stored in 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.

With the exception of the *Arctic Spirit* and *Polar Spirit* which are the only two ships in the world that utilise the IHI SPB independent tank technology, the remainder of our fleet makes use of one of the GTT membrane containment systems. The GTT membrane systems are used in the majority of LNG tankers now being constructed. 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, 2010 our LNG carriers had an average age of approximately six years, compared to the world LNG carrier fleet average age of approximately 10 years. In addition, as at that date, there were approximately 362 vessels in the world LNG fleet and approximately 22 additional LNG carriers under construction or on order for delivery through 2014.

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The following table provides additional information about our LNG vessels as of December 31, 2010.

Vessel	Capacity (cubic meters)	Delivery	Our Ownership	Charterer	Remaining Charter Term[1]
Operating LNG carriers:					
Hispania Spirit	137,814	2002	100%	Repsol YPF	12 years [3]
Catalunya Spirit	135,423	2003	100%	Gas Natural SDG	13 years [3]
Galicia Spirit	137,814	2004	100%	Uniòn Fenosa Gas	19 years [4]
Madrid Spirit	135,423	2004	Capital lease[2]	Repsol YPF	14 years [3]
Al Marrouna	149,539	2006	Capital lease[2]	Ras Laffan Liquefied Natural Gas Company Ltd.	16 years [5]
Al Areesh	148,786	2007	Capital lease[2]	Ras Laffan Liquefied Natural Gas Company Ltd.	16 years [5]
Al Daayen	148,853	2007	Capital lease[2]	Ras Laffan Liquefied Natural Gas Company Ltd.	16 years [5]
Tangguh Hiri	151,885	2008	69%	The Tangguh Production Sharing Contractors	18 years
Tangguh Sago	155,000	2009	69%	The Tangguh Production Sharing Contractors	18 years
Al Huwaila	214,176	2008	40%[6]	Ras Laffan Liquefied Natural Gas Company Ltd.[3]	22 years [3]
Al Kharsaah	214,198	2008	40%[6]	Ras Laffan Liquefied Natural Gas Company Ltd.[3]	22 years [3]
Al Shamal	213,536	2008	40%[6]	Ras Laffan Liquefied Natural Gas Company Ltd.[3]	22 years [3]
Al Khuwair	213,101	2008	40%[6]	Ras Laffan Liquefied Natural Gas Company Ltd.[3]	23 years [3]
Arctic Spirit	87,305	1993	99%	Teekay Corporation	7 years [5]
Polar Spirit	87,305	1993	99%	Teekay Corporation	7 years [5]
Excelsior	138,087	2005	50%[7]	Excelerate Energy LP	14 years [3]
Excalibur	138,000	2002	50%[7]	Excelerate Energy LP	11 years
Total Capacity:	2,606,245				

(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 5 Leases and Restricted Cash.

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

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

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

(6) The RasGas 3 LNG Carriers are accounted for under the equity method.

(7) The *Excelsior* and *Excalibur* LNG carriers are accounted for under the equity method.

The following table presents the percentage of consolidated voyage revenues for customers that accounted for more than 10% of our consolidated voyage revenues during 2010, 2009 and 2008.

	Year Ended December 31,		
	2010	**2009**	**2008**
Ras Laffan Liquefied Natural Gas Company Ltd.	18%	20%	22%
Repsol YPF, S.A.	14%	15%	18%
The Tangguh Production Sharing Contractors	11%	Less than 10%	
Teekay Corporation	10%	11%	Less than 10%

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 5 Leases and Restricted Cash.

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, 2010, the worldwide LPG tanker fleet consisted of approximately 1,189 vessels with an average age of approximately 16 years and approximately 121 additional LPG vessels were on order for delivery through 2014. LPG carriers range in size from approximately 500 to approximately 70,000 cubic meters. Approximately 55% of the worldwide fleet is less than 5,000 cubic meters (in terms of vessel numbers). New LPG carriers are generally expected to have a lifespan of approximately 30 to 35 years.

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LPG carriers are mainly chartered to carry LPG on time-charters, 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 carriers as of December 31, 2010:

Vessel	Capacity (cubic meters)	Delivery / Expected Delivery	Ownership	Charterer	Remaining Charter Term
Operating LPG carriers:					
Norgas Pan(1)	10,000	2009	100%	I.M. Skaguen ASA	13 years
Norgas Cathinka(1)	10,000	2009	100%	I.M. Skaguen ASA	14 years
Newbuildings:					
Norgas Camilla(1)	10,000	2011		I.M. Skaguen ASA	15 years
Dingheng Jiangsu 1(2)	12,000	2011		I.M. Skaguen ASA	15 years
Dingheng Jiangsu 2 (2)	12,000	2011		I.M. Skaguen ASA	15 years
Total Capacity:	54,000				

(1) In December 2006, we agreed to acquire three LPG carriers from Skaugen (or the *Skaugen LPG Carriers*) upon their deliveries for approximately $33 million per vessel. Two vessels were delivered in April and November 2009 and the third vessel is scheduled to be delivered in 2011.

(2) In July 2008, subsidiaries of Teekay Corporation (or the *Skaugen Multigas Subsidiaries*) purchased two technically advanced 12,000-cubic meter newbuilding Multigas ships from Skaugen subsidiaries and we will acquire the Skaugen Multigas Subsidiaries from Teekay Corporation upon their deliveries for approximately $53 million per vessel. Both vessels are expected to be delivered in 2011.

We sold the 7,392-cubic meter LPG vessel, the *Dania Spirit*, in November 2010.

Conventional 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 Conventional 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, primarily 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. As of December 31, 2010, the world tanker fleet included 376 conventional Suezmax tankers, representing approximately 13% of worldwide oil tanker capacity, excluding tankers under 10,000 dwt.

As of December 31, 2010 our Conventional tankers had an average age of approximately six years, compared to the average age of eight years for the world conventional tanker fleet. New Conventional tankers generally are expected to have a lifespan of approximately 25 to 30 years, based on estimated hull fatigue life.

The following table provides additional information about our Conventional oil tankers as of December 31, 2010:

Tanker(1)	**Capacity (dwt)**	**Delivery**	**Our Ownership**	**Charterer**	**Remaining Charter Term**
Operating Conventional tankers:					
Tenerife Spirit	149,999	2000	Capital lease(2)	CEPSA	10 years(3)
Algeciras Spirit	149,999	2000	Capital lease(2)	CEPSA	10 years(3)
Huelva Spirit	149,999	2001	Capital lease(2)	CEPSA	11 years(3)
Teide Spirit	149,999	2004	Capital lease(2)	CEPSA	14 years(3)
Toledo Spirit	159,342	2005	Capital lease(2)	CEPSA	15 years(3)
European Spirit	151,849	2003	100%	ConocoPhillips	5 years(4)
African Spirit	151,736	2003	100%	ConocoPhillips	5 years(4)
Asian Spirit	151,693	2004	100%	ConocoPhillips	5 years(4)
Bermuda Spirit	159,000	2009	100%	Centrofin	10 years(5)
Hamilton Spirit	159,000	2009	100%	Centrofin	10 years(5)
Alexander Spirit	40,083	2007	100%	Caltex Australian Petroleum Pty Ltd.	9 years
Total Capacity:	1,572,699				

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(1) The Conventional tankers listed in the table are all Suezmax tankers, with the exception of the *Alexander Spirit* which is a Handymax tanker.

(2) We are the lessee under a capital lease arrangement and are required to purchase the vessel after the end of their respective lease terms for a fixed price. The purchase of these vessels may occur in late-2011. Please read Item 18 Financial Statements: Note 5 Leases and Restricted Cash.

(3) Compania Espanole de Petroleos, S.A. (or *CEPSA*) has the right to terminate the time-charter 13 years after the original delivery date.

(4) 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.

(5) Centrofin Management Inc. has the option to purchase the two vessels, exercisable after the end of five years and every year after until the end of the charter agreement. The purchase option ranges between $53.8 million after five years to $29.4 million at the end of the charter.

CEPSA accounted for 12%, 13% and 21% of our 2010, 2009 and 2008 Conventional tanker revenues, respectively. No other Conventional tanker 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.

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 are 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 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 Conventional tanker fleet to provide stable cash flows. The remaining terms for our existing long-term Conventional tanker charters are 5 to 15 years. We believe the fixed-rate time-charters for our 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 Conventional tanker fleet while managing residual risk.

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Safety, Management of Ship Operations and Administration

Teekay Corporation, through its subsidiaries, assists us in managing our ship operations. Safety and environmental compliance are our top operational priorities. We operate our vessels in a manner intended to protect the safety and health of the 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, Teekay Corporation 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. In 2008, Teekay Corporation introduced the Quality Assurance and Training Officers (or *QATO*) Program to conduct rigorous internal audits of our processes and provide the seafarers with onboard training. 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 cooperation agreement called the TBW Alliance, which leverages the purchasing power of the combined fleets, mainly in such commodity areas as marine lubricants, coatings and chemicals and gases. 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 crude oil, petroleum products, LNG and LPG 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 collision, 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 some of our LNG carriers, loss of revenues resulting from vessel off-hire time due to a marine casualty. 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 guarantee 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.

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.

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, and the IMO s International Management Code for the Safe Operation of Ships and Pollution Prevention on a fully integrated basis.

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, or American Bureau 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 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 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 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. Our safety management system has also been certified as being compliant with ISO 9001, ISO 14001 and OSHAS 18001 standards. 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.

We believe that the heightened environmental and quality concerns of insurance underwriters, regulators and charterers will generally lead to greater inspection and safety requirements on all vessels in the LNG and LPG carrier and oil tanker markets and will accelerate the scrapping of older vessels throughout these markets.

C. Regulations

General

Our business and the operation of our vessels are significantly affected by international conventions and national, state and local laws and regulations in the jurisdictions in which our vessels operate, as well as in the country or countries of their registration. Because these conventions, laws and regulations change frequently, we cannot predict the ultimate cost of compliance or their impact on the resale price or useful life of our vessels. Additional conventions, laws, and regulations may be adopted that could limit our ability to do business or increase the cost of our doing business and that may materially adversely affect our operations. We are required by various governmental and quasi-governmental agencies to obtain permits, licenses and certificates with respect to our operations. Subject to the discussion below and to the fact that the kinds of permits, licenses and certificates required for the operations of the vessels we own will depend on a number of factors, we believe that we will be able to continue to obtain all permits, licenses and certificates material to the conduct of our operations.

International Maritime Organization (or IMO)

The IMO is the United Nations agency for maritime safety. IMO regulations relating to pollution prevention for oil tankers have been adopted by many of the jurisdictions in which our tanker fleet operates. Under IMO regulations and subject to limited exceptions, a tanker must be of double-hull construction, be of a mid-deck design with double-side construction or be of another approved design ensuring the same level of protection against oil pollution. All of our tankers are double hulled.

Many countries, but not the United States, have ratified and follow the liability regime adopted by the IMO and set out in the International Convention on Civil Liability for Oil Pollution Damage, 1969, as amended (or *CLC*). Under this convention, a vessel s registered owner is strictly liable for pollution damage caused in the territorial waters of a contracting state by discharge of persistent oil (e.g. crude oil, fuel oil, heavy diesel oil or lubricating oil), subject to certain defenses. The right to limit liability to specified amounts that are periodically revised is forfeited under the CLC when the spill is caused by the owner s actual fault or when the spill is caused by the owner s intentional or reckless conduct. Vessels trading to contracting states must provide evidence of insurance covering the limited liability of the owner. In jurisdictions where the CLC has not been adopted, various legislative regimes or common law governs, and liability is imposed either on the basis of fault or in a manner similar to the CLC.

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IMO regulations also include the International Convention for Safety of Life at Sea (or *SOLAS*), including amendments to SOLAS implementing the International Security Code for Ports and Ships (or *ISPS*), the ISM Code, the International Convention on Load Lines of 1966, and, specifically with respect to LNG and LPG carriers, the International Code for Construction and Equipment of Ships Carrying Liquefied Gases in Bulk (the *IGC Code*). SOLAS provides rules for the construction of and equipment required for commercial vessels and includes regulations for safe operation. Flag states which have ratified the convention and the treaty generally employ the classification societies, which have incorporated SOLAS requirements into their class rules, to undertake surveys to confirm compliance.

SOLAS and other IMO regulations concerning safety, including those relating to treaties on training of shipboard personnel, lifesaving appliances, radio equipment and the global maritime distress and safety system, are applicable to our operations. Non-compliance with IMO regulations, including SOLAS, the ISM Code, ISPS and the IGC Code, may subject us to increased liability or penalties, may lead to decreases in available insurance coverage for affected vessels and may result in the denial of access to or detention in some ports. For example, the U.S. Coast Guard and European Union authorities have indicated that vessels not in compliance with the ISM Code will be prohibited from trading in U.S. and European Union ports. The ISM Code requires vessel operators to obtain a safety management certification for each vessel they manage, evidencing the shipowner s development and maintenance of an extensive safety management system. Each of the existing vessels in our fleet is currently ISM Code-certified, and we expect to obtain safety management certificates for each newbuilding vessel upon delivery.

LNG and LPG carriers are also subject to regulation under the IGC Code. Each LNG and LPG carrier must obtain a certificate of compliance evidencing that it meets the requirements of the IGC Code, including requirements relating to its design and construction. Each of our LNG and LPG carriers is currently IGC Code certified, and each of the shipbuilding contracts for our LNG newbuildings, and for the LPG newbuildings that we have agreed to acquire from Skaugen and Teekay Corporation, requires IGC Code compliance prior to delivery.

Annex VI to the IMO s International Convention for the Prevention of Pollution from Ships (or *Annex VI*) became effective on May 19, 2005. Annex VI sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts and prohibits emissions of ozone depleting substances, emissions of volatile compounds from cargo tanks and the incineration of specific substances. Annex VI also includes a world-wide cap on the sulfur content of fuel oil and allows for special areas to be established with more stringent controls on sulfur emissions. Annex VI came into force in the United States on January 8, 2009. We operate our vessels in compliance with Annex VI.

In addition, the IMO has proposed that all tankers of the size we operate that are built starting in 2012 contain ballast water treatment systems, and that all other such tankers install treatment systems by 2016. When this regulation becomes effective, we estimate that the installation of ballast water treatment systems on our tankers may cost between $2 million and $3 million per vessel.

European Union (or EU)

Like the IMO, the EU has adopted regulations phasing out single-hull tankers. All of our tankers are double-hulled.

The EU has also adopted legislation (directive 2009/16/Econ Port State Control) that: bans manifestly sub-standard vessels (defined as vessels that have been detained twice by EU port authorities, in the preceding two years, after July 2003) from European waters; creates obligations on the part of EU member port states to inspect at least 24% of vessels using these ports annually; provides for increased surveillance of vessels posing a high risk to maritime safety or the marine environment; and provides the European Union with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies. The EU is also considering the adoption of criminal sanctions for certain pollution events, including improper cleaning of tanks.

The EU Directive 33/2005 (or the *Directive*) came into force on January 1, 2010. Under this legislation, vessels are required to burn fuel with sulphur content below 0.1% while berthed or anchored in an EU port (also the California Air Resources Board (CARB) will require vessels to burn fuel with 0.1% sulphur content or less within 24 nautical miles of California as of January 1, 2012. As of January 1, 2015, all vessels operating within Emissions Control Areas (ECA) worldwide must comply with 0.1% sulphur requirements). Currently, the only grade of fuel meeting this low sulphur content requirement is low sulphur marine gas oil (or *LSMGO*). From July 1, 2010, the reduction of applical sulphur content limits in the North Sea, the Baltic Sea and the English Channel sulphur control areas will be 0.1%.

Certain modifications were completed on our Suezmax tankers in order to optimize operation on LSMGO of equipment originally designed to operate on Heavy Fuel Oil (or *HFO*), and to ensure our compliance with this Directive. In addition, LSMGO is more expensive than HFO and this will impact the costs of operations. However, for vessels employed on fixed-term business, all fuel costs, including any increases, are borne by the charterer.

United States

The United States has enacted an extensive regulatory and liability regime for the protection and cleanup of the environment from oil spills, including discharges of oil cargoes, bunker fuels or lubricants, primarily through the Oil Pollution Act of 1990 (or *OPA 90*) and the Comprehensive Environmental Response, Compensation and Liability Act (or *CERCLA*). OPA 90 affects all owners, bareboat charterers, and operators whose vessels trade to the United States or its territories or possessions or whose vessels operate in United States waters, which include the U.S. territorial sea and 200-mile exclusive economic zone around the United States. CERCLA applies to the discharge of hazardous substances rather than oil and imposes strict joint and several liability upon the owners, operators or bareboat charterers of vessels for cleanup costs and damages arising from discharges of hazardous substances. We believe that petroleum products and LNG and LPG should not be considered hazardous substances under CERCLA, but additives to oil or lubricants used on LNG or LPG carriers might fall within its scope.

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Under OPA 90, vessel owners, operators and bareboat charters are responsible parties and are jointly, severally and strictly liable (unless the oil spill results solely from the act or omission of a third party, an act of God or an act of war and the responsible party reports the incident and reasonably cooperates with the appropriate authorities) for all containment and cleanup costs and other damages arising from discharges or threatened discharges of oil from their vessels. These other damages are defined broadly to include:

- natural resources damages and the related assessment costs;
- real and personal property damages;
- net loss of taxes, royalties, rents, fees and other lost revenues;
- lost profits or impairment of earning capacity due to property or natural resources damage;
- net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and
- loss of subsistence use of natural resources.

OPA 90 limits the liability of responsible parties in an amount it periodically updates. The liability limits do not apply if the incident was proximately caused by violation of applicable U.S. federal safety, construction or operating regulations, including IMO conventions to which the United States is a signatory, or by the responsible party s gross negligence or willful misconduct, or if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the oil removal activities. Liability under CERCLA is also subject to limits unless the incident is caused by gross negligence, willful misconduct or a violation of certain regulations. We currently maintain for each of our vessel s pollution liability coverage in the maximum coverage amount of $1 billion per incident. A catastrophic spill could exceed the coverage available, which could harm our business, financial condition and results of operations.

Under OPA 90, with limited exceptions, all newly built or converted tankers delivered after January 1, 1994 and operating in U.S. waters must be double-hulled. All of our existing tankers are double-hulled.

OPA 90 also requires owners and operators of vessels to establish and maintain with the United States Coast Guard (or *Coast Guard*) evidence of financial responsibility in an amount at least equal to the relevant limitation amount for such vessels under the statute. The Coast Guard has implemented regulations requiring that an owner or operator of a fleet of vessels must demonstrate evidence of financial responsibility in an amount sufficient to cover the vessel in the fleet having the greatest maximum limited liability under OPA 90 and CERCLA.Evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance, guaranty or an alternate method subject to approval by the Coast Guard. Under the self-insurance provisions, the shipowner or operator must have a net worth and working capital, measured in assets located in the United States against liabilities located anywhere in the world, that exceeds the applicable amount of financial responsibility. We have complied with the Coast Guard regulations by using self-insurance for certain vessels and obtaining financial guaranties from a third party for the remaining vessels. If other vessels in our fleet trade into the United States in the future, we expect to provide guaranties through self-insurance or obtain guaranties from third-party insurers.

OPA 90 and CERCLA permit individual U. S. states to impose their own liability regimes with regard to oil or hazardous substance pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited strict liability for spills. Several coastal states, such as California and Alaska require state-specific evidence of financial responsibility and vessel response plans. We intend to comply with all applicable state regulations in the ports where our vessels call.

Owners or operators of vessels, including tankers operating in U.S. waters are required to file vessel response plans with the Coast Guard, and their tankers are required to operate in compliance with their Coast Guard approved plans. Such response plans must, among other things:

- address a worst case scenario and identify and ensure, through contract or other approved means, the availability of necessary private response resources to respond to a worst case discharge ;
- describe crew training and drills; and
- identify a qualified individual with full authority to implement removal actions.

We have filed vessel response plans with the Coast Guard and have received its approval of such plans. In addition, we conduct regular oil spill response drills in accordance with the guidelines set out in OPA 90. The Coast Guard has announced it intends to propose similar regulations requiring certain vessels to prepare response plans for the release of hazardous substances.

OPA 90 and CERCLA do not preclude claimants from seeking damages resulting from the discharge of oil and hazardous substances under other applicable law, including maritime tort law. Such claims could include attempts to characterize the transportation of LNG or LPG aboard a vessel as an ultra-hazardous activity under a doctrine that would impose strict liability for damages resulting from that activity. The application of this doctrine varies by jurisdiction.

The United States Clean Water Act also 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. The Clean Water Act imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA 90 and CERCLA discussed above.

Our vessels that discharge certain effluents, including ballast water, in U.S. waters must obtain a Clean Water Act permit from the Environmental Protection Agency (or *EPA*) titled the Vessel General Permit and comply with a range of best management practices, reporting, inspections and other requirements. The Vessel General Permit incorporates Coast Guard requirements for ballast water exchange and includes specific technology-based requirements for vessels. Several U.S. states have added specific requirements to the Vessel General Permit and, in some cases, may require vessels to install ballast water treatment technology to meet biological performance standards. We believe that the EPA may add requirements related to ballast water treatment technology to the Vessel General Permit requirements between 2012 and 2016 to correspond with the IMO s adoption of similar requirements as discussed above.

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Since January 2009, several environmental groups and industry associations have filed challenges in U.S. federal courts to the EPA s issuance of the Vessel General Permit; these cases were recently settled, and EPA must issue a new Vessel General Permit by November 2011, with the Final Vessel General Permit issued by November 2012.

Greenhouse Gas Regulation

In February 2005, the Kyoto Protocol to the United Nations Framework Convention on Climate Change (or the *Kyoto Protocol*) entered into force. Pursuant to the Kyoto Protocol, adopting countries are required to implement national programs to reduce emissions of greenhouse gases. In December 2009, more than 27 nations, including the United States, entered into the Copenhagen Accord. The Copenhagen Accord is non-binding, but is intended to pave the way for a comprehensive, international treaty on climate change. The IMO is evaluating various mandatory measures to reduce greenhouse gas emissions from international shipping, which may include market-based instruments or a carbon tax. The European Union also has indicated that it intends to propose an expansion of an existing EU emissions trading regime to include emissions of greenhouse gases from vessels, and individual countries in the EU may impose additional requirements. In the United States, the EPA issued an endangerment finding regarding greenhouse gases under the Clean Air Act. While this finding in itself does not impose any requirements on our industry, it authorizes the EPA to regulate directly greenhouse gas emissions through a rule-making process. In addition, climate change initiatives are being considered in the United States Congress and by individual states. Any passage of new climate control legislation or other regulatory initiatives by the IMO, European Union, the United States or other countries or states where we operate that restrict emissions of greenhouse gases could have a significant financial and operational impact on our business that we cannot predict with certainty at this time.

Vessel Security

The ISPS was adopted by the IMO in December 2002 in the wake of heightened concern over worldwide terrorism and became effective on July 1, 2004. The objective of ISPS is to enhance maritime security by detecting security threats to ships and ports and by requiring the development of security plans and other measures designed to prevent such threats. The United States implemented ISPS with the adoption of the Maritime Transportation Security Act of 2002 (or *MTSA*), which requires vessels entering U.S. waters to obtain certification by the Coast Guard of plans to respond to emergency incidents there, including identification of persons authorized to implement the plans. Each of the existing vessels in our fleet currently complies with the requirements of ISPS and MTSA.

D. Properties

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

E. Organizational Structure

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

The following is a list of our significant subsidiaries as at December 31, 2010:

Name of Significant Subsidiary	Ownership	State or Jurisdiction of Incorporation
Teekay LNG Operating L.L.C.	100%	Marshall Islands
Naviera Teekay Gas, SL	100%	Spain
Naviera Teekay Gas II, SL	100%	Spain
Teekay Shipping Spain SL	100%	Spain
Teekay Spain SL	100%	Spain
Teekay II Iberia SL	100%	Spain
Naviera Teekay Gas IV, SL	100%	Spain
Teekay Luxembourg Sarl	100%	Luxembourg
Teekay Nakilat Holdings Corporation	100%	Marshall Islands
Teekay Nakilat Corporation	70%	Marshall Islands
Teekay Nakilat (II) Limited	70%	United Kingdom
Al Marrouna Inc.	70%	Marshall Islands

Al Daayen Inc.	70%	Marshall Islands
Al Areesh Inc.	70%	Marshall Islands
Teekay Nakilat (III) Holdings Corporation	100%	Marshall Islands
Teekay LNG Holdings L.P.	99%	United States

Item 4A. Unresolved Staff Comments

Not applicable.

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Item 5. Operating and Financial Review and Prospects

Management s Discussion and Analysis of Financial Condition and Results of Operations

General

Teekay LNG Partners L.P. is an international provider of marine transportation services for liquefied natural gas (or *LNG*), liquefied petroleum gas (or *LPG*) and crude oil. We were formed in 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 and LPG carriers under long-term, fixed-rate charters. We intend to continue our practice of acquiring LNG and LPG carriers as needed for approved projects only after the long-term charters for the projects have been awarded to us, rather than ordering vessels on a speculative basis. In executing our growth strategy, we may engage in vessel or business acquisitions or enter into joint ventures and partnerships with companies that may provide increased access to emerging opportunities from global expansion of the LNG and LPG sectors. We seek to leverage the expertise, relationships and reputation of Teekay Corporation and its affiliates to pursue these opportunities in the LNG and LPG sectors and may consider other opportunities to which our competitive strengths are well suited. Although we may acquire additional crude oil tankers from time to time, we view our conventional tanker fleet primarily as a source of stable cash flow as we seek to expand our LNG and LPG operations.

Our primary goal is to increase our quarterly distributions to unitholders. During the year ended December 31, 2010, we increased our quarterly distribution from $0.57 per unit to $0.60 per unit beginning with the quarterly distribution paid in May 2010. We further increased our quarterly distribution to $0.63 per unit beginning with the quarterly distribution paid in February 2011.

SIGNIFICANT DEVELOPMENTS IN 2010

Acquisition of Three Conventional Tankers

On March 17, 2010, we acquired from Teekay Corporation two 2009-built 159,000 deadweight tonne Suezmax tankers, the *Bermuda Spirit* and *Hamilton Spirit*, and a 2007-built 40,083 deadweight tonne Handymax Product tanker, the *Alexander Spirit*, and the associated fixed-rate contracts for a total cost of $160 million. The remaining charter terms for these vessels as of December 31, 2010 are 10 years, 10 years and 9 years, respectively. We financed the acquisition by assuming $126 million of debt, borrowing $24 million under existing revolving credit facilities and using $10 million of cash. In addition, we acquired approximately $15 million of working capital in exchange for a short-term vendor loan from Teekay Corporation. As a result of these acquisitions, we increased our quarterly cash distribution by $0.03 per unit beginning with the quarterly distribution paid in May 2010.

Conversion of Subordinated Units

On April 1, 2010, our remaining 7.4 million subordinated units converted to common units on a one-for-one basis.

Equity Offering

On July 15, 2010, we completed a direct equity placement of approximately 1.7 million common units at a price of $29.18 per unit, for net proceeds of approximately $51 million, including our general partner s 2% proportionate capital contribution. We used the net proceeds from the offering to prepay a portion of one of our revolving credit facilities and for general partnership purposes.

Exmar Joint Ventures

On November 4, 2010, we acquired a 50% interest in one regas LNG carrier (or *Excelsior Joint Venture*) and a 50% interest in one conventional LNG carrier (or *Excalibur Joint Venture*) from Exmar NV for a total purchase price of approximately $72.5 million, net of assumed debt. We financed $37.3 million of the purchase price by issuing to Exmar NV approximately 1.1 million new common units with the balance financed by drawing on one of our revolving credit facilities. As part of the transaction we agreed to guarantee 50% of the $206 million of debt secured by the Excelsior and Excalibur Joint Ventures. Exmar NV retains the other 50% ownership interest in these joint ventures. The two vessels acquired are the 2002-built *Excalibur*, a conventional LNG carrier, and the 2005-built *Excelsior*, a specialized gas carrier that can both transport and regasify LNG onboard. Both vessels are on long-term, fixed-rate charter contracts to Excelerate Energy LP for firm periods until 2022 and 2025, respectively.

Sale of Dania Spirit

On November 5, 2010, we sold one of our LPG carriers, the *Dania Spirit* for proceeds of $21.5 million, resulting in a gain of $4.3 million.

OTHER SIGNIFICANT PROJECTS

Skaugen LPG Project

We have an agreement to acquire upon delivery one LPG carrier from Skaugen for a purchase price of approximately $33 million. The vessel is expected to be delivered in 2011 and upon delivery; the vessel will be chartered at fixed rates for 15 years to Skaugen.

Skaugen Multigas Carriers

In July 2008, Skaugen Multigas Subsidiaries signed contracts for the purchase from Skaugen of two technically advanced 12,000-cubic meter newbuilding Multigas vessels (or the *Skaugen Multigas Carriers*) capable of carrying LNG, LPG or ethylene. We, in turn, agreed to acquire the Skaugen Multigas Subsidiaries from Teekay Corporation upon delivery for a total cost of approximately $106 million. Both vessels are scheduled to be delivered in 2011. Upon delivery, each vessel will commence service under 15-year fixed-rate charters to Skaugen.

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Angola LNG Project

In December 2007, a consortium in which Teekay Corporation has a 33% ownership interest agreed to charter four newbuilding 160,400-cubic meter LNG carriers to the Angola LNG Project. The Angola LNG Project involves the collection and transportation of gas from offshore production facilities to an onshore LNG processing plant at Soyo, located in northwest Angola. The Project is being developed by subsidiaries of Chevron Corporation, Sociedade Nacional de Combustiveis de Angola EP, BP Plc, Total S.A., and Eni SpA. Mitsui & Co., Ltd. and NYK Bulkship (Europe) have 34% and 33% ownership interests in the consortium, respectively.

Teekay Corporation has offered to us, and we have agreed to purchase, its 33% ownership interest in these vessels and related charter contract at a total equity purchase price of approximately $73 million (net of assumed debt) subject to adjustment based on actual costs incurred at the time of delivery. We will acquire the ownership interests and pay a proportionate share of the purchase price as each vessel is delivered. The vessels are scheduled for delivery during the fall of 2011 and in the first quarter of 2012.

Each of the four newbuilding LNG carriers will be chartered at fixed rates, subject to inflation adjustments, to the Angola LNG Project for a period of 20 years upon delivery from the shipyard, with two extension periods for five years each. The charterer has the option to terminate the charter upon 120 days notice and payment of an early termination fee, which would equal approximately 50% of the fully built-up cost of the vessel. The charterer may also terminate the charter under other circumstances typical in our long-term charters, such as excessive off-hire during which we do not provide a replacement vessel, or certain force majeure events.

Important Financial and Operational Terms and Concepts

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

Voyage Revenues. Voyage revenues currently include revenues only from time-charters accounted for under operating and direct financing leases. Voyage revenues are affected by hire rates and the number of calendar-ship-days a vessel operates. Voyage revenues are also affected by the mix of business between time and voyage charters. Hire rates for voyage charters are more volatile, as they are typically tied to prevailing market rates at the time of a voyage.

Voyage Expenses. Voyage expenses are all expenses unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. Voyage expenses are typically paid by the customer under time-charters and by us under voyage charters.

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

Vessel Operating Expenses. We are responsible for vessel operating expenses, which include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. The two largest components of vessel operating expenses are crews and repairs and maintenance.

Income from Vessel Operations. To assist us in evaluating our operations by segment, we sometimes analyze the income we receive from each segment after deducting operating expenses, but prior to the deduction of interest expense, taxes, foreign currency and derivative gains or losses and other income and losses. For more information, please read Item 18 Financial Statements: Note 4 Segment Reporting.

Drydocking. We must periodically drydock each of our vessels for inspection, repairs and maintenance and any modifications required to comply with industry certification or governmental requirements. Generally, we drydock each of our vessels every five years. In addition, a shipping society classification intermediate survey is performed on our LNG and LPG carriers between the second and third year of a five-year drydocking period. We capitalize a portion of the costs incurred during drydocking and for the survey and amortize those costs on a straight-line basis from the completion of a drydocking or intermediate survey over the estimated useful life of the drydock. We expense as incurred costs for routine repairs and maintenance performed during drydocking or intermediate survey that do not improve operating efficiency or extend the useful lives of the assets. The number of drydockings undertaken in a given period and the nature of the work performed determine the level of drydocking expenditures.

Depreciation and Amortization. Our depreciation and amortization expense typically consists of the following three components:

- charges related to the depreciation of the historical cost of our fleet (less an estimated residual value) over the estimated useful lives of our vessels;
- charges related to the amortization of drydocking expenditures over the useful life of the drydock; and
- charges related to the amortization of the fair value of the time-charters acquired in the 2004 Teekay Spain acquisition (over the remaining terms of the charters).

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

Calendar-Ship-Days. Calendar-ship-days are equal to the total number of calendar days that our vessels were in our possession during a period. As a result, we use calendar-ship-days primarily in explaining changes in vessel operating expenses and depreciation and amortization.

Utilization. Utilization is an indicator of the use of our fleet during a given period, and is determined by dividing our revenue days by our calendar-ship-days for the period.

Restricted Cash Deposits. Under capital lease arrangements for four of our LNG carriers, we (a) borrowed under term loans and deposited the proceeds into restricted cash accounts and (b) entered into capital leases, also referred to as bareboat charters, for the vessels. The restricted cash deposits, together with interest earned on the deposits, will equal the remaining amounts we owe under the lease arrangements, including our obligation to purchase the vessels at the end of the lease terms, where applicable. During vessel construction, we borrowed under the term loans and made restricted cash deposits equal to construction installment payments. For more information, please read Item 18 Financial Statements: Note 5 Leases and Restricted Cash.

RESULTS OF OPERATIONS

Items You Should Consider When Evaluating Our Results of Operations

Some factors that have affected our historical financial performance and may affect our future performance are listed below:

Our financial results reflect the results of the interests in vessels acquired from Teekay Corporation for all periods the vessels were under common control. In April 2008, we acquired interests in two LNG carriers, the *Arctic Spirit* and the *Polar Spirit* (collectively, the *Kenai LNG Carriers*), from Teekay Corporation and in March 2010, we acquired interests in two Suezmax vessels, the *Bermuda Spirit* and the *Hamilton Spirit* (collectively, the *Centrofin Suezmaxes*), and a Handymax Product tanker, the *Alexander Spirit*, from Teekay Corporation. 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 common control of Teekay Corporation and had begun operations. As a result, our financial statements reflect these vessels and their results of operations 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 December 13 and 14, 2007 (the two Kenai LNG Carriers), May 27, 2009 (*Bermuda Spirit*), June 24, 2009 (*Hamilton Spirit*) and September 3, 2009 (*Alexander Spirit*).

Our financial results reflect the consolidation of Teekay Tangguh, Teekay Nakilat (III) and the Skaugen Multigas Carriers prior to our purchase of interests in those entities that own those vessels. In November 2006, we entered into an agreement with Teekay Corporation to purchase (a) its 100% interest in Teekay Tangguh Borrower LLC (or *Teekay Tangguh*), which owns a 70% interest in Teekay BLT Corporation (or *Teekay Tangguh Joint Venture*), and (b) its 100% ownership in Teekay Nakilat (III) Holdings Corporation (or *Teekay Nakilat (III)*), which owns a 40% interest in Teekay Nakilat (III) Corporation (or the *RasGas 3 Joint Venture*). We ultimately acquired 99% of Teekay Corporation s interest in Teekay Tangguh, essentially giving us a 69% interest in the Teekay Tangguh Joint Venture. We were required to consolidate Teekay Tangguh in our consolidated financial statements since November 1, 2006, even before we acquired this entity on August 10, 2009, as it was a variable interest entity and we were its primary beneficiary. We likewise consolidated in our financial statements Teekay Nakilat (III) as a variable interest entity of which we were the primary beneficiary from November 1, 2006 until we purchased it on May 6, 2008. Subsequent to May 6, 2008, Teekay Nakilat (III) was no longer a variable interest entity and we are required to consolidate Teekay Nakilat (III) as we have voting control.

On July 28, 2008, the Skaugen Multigas Subsidiairies signed contracts for the purchase of the two Skaugen Multigas Carriers from subsidiaries of Skaugen. As described above, we have agreed to acquire the Skaugen Multigas Subsidiaries that own the Skaugen Multigas Carriers from Teekay Corporation upon delivery of the vessels. Since July 28, 2008, we have consolidated these ship-owning companies in our financial statements as variable interest entities as we are the primary beneficiary. Please read Item 18 Financial Statements: Notes 11(e), 11(f) and 11(i) Related Party Transactions and Note 13(a) Commitments and Contingencies.

Our financial results are affected by fluctuations in the fair value of our derivative instruments. The change in fair value of our derivative instruments is included in our net income (loss) as our derivative instruments are not designated as hedges for accounting purposes. These changes may fluctuate significantly as interest rates and spot tanker rates fluctuate relating to our interest rate swaps and to the agreement we have with Teekay Corporation for the Suezmax tanker *Toledo Spirit* time-charter contract, respectively. Please read Item 18 Financial Statements: Note 11(g) Related Party Transactions and Note 12 Derivative Instruments. The unrealized gains or losses relating to the change in fair value of our derivative instruments do not impact our cash flows.

Our financial results are affected by fluctuations in currency exchange rates. Under GAAP, all foreign currency-denominated monetary assets and liabilities (including cash and cash equivalents, restricted cash, accounts receivable, accounts payable, accrued liabilities, unearned revenue, advances from affiliates, obligations under capital lease and long-term debt) are revalued and reported based on the prevailing exchange rate at the end of the period. These foreign currency translations fluctuate based on the strength of the U.S. dollar relative mainly to the Euro and are included in our results of operations. The translation of all foreign currency-denominated monetary assets and liabilities at each reporting date results in unrealized foreign currency exchange gains or losses but do not impact our cash flows.

The size of our fleet changes. Our historical results of operations reflect changes in the size and composition of our fleet due to certain vessel deliveries. Please read Liquefied Gas Segment below and Other Significant Projects above for further details about certain prior and future vessel deliveries.

Four of our Suezmax tankers earns revenues based partly on spot market rates. The time-charter for four Suezmax tankers, the *Teide Spirit*, *Algeciras Spirit*, *Huelva Spirit and Tenerife Spirit* contain a component providing for additional revenues to us beyond the fixed-hire rate when spot market rates exceed certain threshold amounts. Accordingly, even though declining spot market rates will not result in our receiving less than the fixed-hire rate, our results at the end of each fiscal year may continue to be influenced, in part, by the variable component of the charters.

Vessel operating and other costs are facing industry-wide cost pressures. The oil shipping industry is experiencing a global manpower shortage due to growth in the world fleet. This shortage resulted in significant crew wage increases during 2008, to a lesser degree in 2009 and during the first half of 2010. We expect that going forward, there will be more upward pressure on crew compensation which will result in higher manning costs as we keep pace with market conditions. In addition, factors such as pressure on raw material prices and changes in regulatory requirements could also increase operating expenditures. We continue to take measures to improve operational efficiencies and mitigate the impact of inflation and price escalations; however, we believe that future operational costs will increase.

The amount and timing of drydockings of our vessels can significantly affect our revenues between periods. Our vessels are off-hire at various points of time due to scheduled and unscheduled maintenance. During the year ended December 31, 2010, 2009 and 2008, we had 197, 70 and 123 off-hire days relating to drydocking, respectively. The financial impact from these periods of off-hire, if material, is explained in further detail below. Five vessels are scheduled for drydocking in 2011.

Year Ended December 31, 2010 versus Year Ended December 31, 2009

Liquefied Gas Segment

Our fleet includes 17 LNG carriers (including our 40% interest in four LNG carriers that are accounted for under the equity method (or the *RasGas 3 LNG Carriers*), our 69% interest in the Tangguh Joint Venture, which owns the *Tangguh Hiri* and the *Tangguh Sago* (or the *Tangguh LNG Carriers*), our 70% interest in Teekay Nakilat Corporation (or *Teekay Nakilat*), which is the lessee under 30-year capital lease arrangements relating to three LNG carriers (or the *RasGas II LNG Carriers*), our 99% interest in the *Arctic Spirit* and *Polar Spirit* LNG carriers (or the *Kenai LNG Carriers*), our 50% interest in the Excelsior Joint Venture and our 50% interest in the Excalibur Joint Venture) and two LPG carriers. All of our LNG and LPG carriers operate under long-term, fixed-rate time-charters. We expect our liquefied gas segment to increase due to the following:

- We have agreed to acquire an LPG carrier for approximately $33 million upon its delivery scheduled in 2011. Please read Item 18 Financial Statements: Note 13(b) Commitments and Contingencies.
- We have agreed to acquire the Skaugen Multigas Carriers from Teekay Corporation for a total cost of approximately $106 million upon the vessel deliveries, which are scheduled for 2011. Please read Item 18 Financial Statements: Note 11(i) Related Party Transactions and Note 13(a) Commitments and Contingencies.
- We have agreed to acquire Teekay Corporation s 33% ownership interest in the consortium relating to the Angola LNG Project deliveries of the related four newbuilding LNG carriers, which are scheduled for 2011 and 2012. Please read Item 18 Financial Statements: Note 16(a) Other Information.

The following tables compare our liquefied gas segment s operating results for the years ended December 31, 2010 and 2009, and compare its net voyage revenues (which is a non-GAAP financial measure) for the years ended December 31, 2010 and 2009, to voyage revenues, the most directly comparable GAAP financial measure. The following tables also provide a summary of the changes in calendar-ship-days and revenue days for our liquefied gas segment:

(in thousands of U.S. dollars, except revenue days, calendar-ship-days and percentages)	Year Ended December 31, 2010	2009	% Change
Voyage revenues	264,816	252,854	4.7
Voyage expenses	29	1,018	(97.2)
Net voyage revenues	264,787	251,836	5.1
Vessel operating expenses	46,496	50,919	(8.7)
Depreciation and amortization	60,954	59,088	3.2
General and administrative [(1)]	12,239	11,033	10.9
Gain on sale of vessel	(4,340)		100.0
Restructuring charge		1,381	(100.0)

Income from vessel operations	149,438	129,415	15.5
Operating Data:			
Revenue Days (A)	5,005	4,491	11.4
Calendar-Ship-Days (B)	5,051	4,637	8.9
Utilization (A)/(B)	99.1%	96.9%	

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

Our liquefied gas segment s operating results included 11 LNG (not including the four RasGas 3 LNG Carriers or the two LNG carriers jointly owned with Exmar that are accounted for under the equity method) and 3 LPG carriers (including the *Dania Spirit* that was sold on November 5, 2010) during the year ended December 31, 2010 and 2009, respectively. Our total calendar-ship-days increased by 9% to 5,051 days in the year ended December 31, 2010 from 4,637 days in the year ended December 31, 2009 as a result of the *Tangguh Sago*, *Norgas Pan* and *Norgas Cathinka* deliveries in March, April and November 2009, respectively, partially offset by the sale of the *Dania Spirit* in November 2010.

During the year ended December 31, 2010, three of our gas carriers, the *Arctic Spirit, Dania Spirit* and *Hispania Spirit* were off-hire for approximately 22 days, 22 days and 2 days, respectively, relating to scheduled drydockings and in-water surveys, compared to 71 off-hire days in 2009.

Net Voyage Revenues. Net voyage revenues increased during 2010 compared to 2009, primarily as a result of:

- an increase of $11.0 million due to the commencement of the time-charter for the *Tangguh Sago* in May 2009 and an increase in the time-charter rate for the *Tangguh Hiri* relating to the operating element of the time-charter;
- an increase of $4.1 million due to the commencement of the time-charters for the *Norgas Pan* and the *Norgas Cathinka* in April and November 2009, respectively; and
- an increase of $4.0 million due to the *Galacia Spirit* and *Madrid Spirit* not having any off-hire days in 2010, compared to 53 off-hire days in 2009 relating to scheduled drydockings;

partially offset by

- a decrease of $2.9 million, due to the effect on our Euro-denominated revenues from the weakening of the Euro against the U.S. Dollar compared to the same periods last year;
- a decrease of $1.2 million due to a decrease in the hire rates for the *Arctic Spirit* and *Polar Spirit* as compared to the same periods last year as a result of crewing rate adjustments;
- a decrease of $1.1 million due to the *Arctic Spirit* being off-hire for 22 days in the first quarter of 2010 for a scheduled drydock; and
- a decrease of $0.7 million due to the sale of the *Dania Spirit* on November 5, 2010.

Vessel Operating Expenses. Vessel operating expenses decreased during 2010 compared to 2009, primarily as a result of:

- a decrease of $1.7 million due (a) to the *Arctic Spirit* being without a charter for most of 2010 and as a result, operating with a reduced number of crew on board and with reduced repair and maintenance activities and (b) decreased crew and manning costs upon the change of manning agency services of the Kenai LNG Carriers in October 2009;
- a decrease of $1.8 million due to our electing to cancel our loss-of-hire insurance in 2009 and self insuring and a reduction in manning levels for certain of our LNG carriers;
- a decrease of $1.1 million due to the effect on our Euro-denominated expenses from the weakening of the Euro against the U.S. Dollar compared to the same periods last year; and
- a decrease of $0.7 million due to the sale of the *Dania Spirit* on November 5, 2010;

partially offset by

- an increase of $0.9 million due to additional crew training expenses and crew manning relating to the delivery of the *Tangguh Sago* in March 2009 and commencement of its time-charter contract in May 2009.

Depreciation and Amortization. Depreciation and amortization increased during 2010 compared to 2009, primarily as a result of:

- an increase of $1.9 million relating to depreciation of drydock expenditures incurred during the third and fourth quarters of 2009 and the first quarter of 2010; and
- an increase of $1.1 million from the delivery of the *Norgas Pan* and *Norgas Cathinka* in April and November 2009, respectively;

partially offset by

- a decrease of $1.1 million from the delivery of the *Tangguh Sago* in March 2009, prior to the commencement of the external time-charter contract in May 2009 which is accounted for as a direct financing lease; and
- a decrease of $0.3 million due to the sale of the *Dania Spirit* on November 5, 2010.

Gain on sale of vessel. The $4.3 million gain on sale of vessel in 2010 relates to the sale of the *Dania Spirit* on November 5, 2010 for proceeds of $21.5 million.

Conventional Tanker Segment

Our fleet includes ten Suezmax-class double-hulled conventional crude oil tankers and one Handymax Product tanker. All of our conventional tankers operate under long-term, fixed-rate time-charters.

On March 17, 2010, we purchased from Teekay Corporation the two 2009-built Centrofin Suezmaxes and a 2007-built Handymax Product tanker, the *Alexander Spirit*. These vessels have been included in our results as if they were acquired on May 27, 2009 (*Bermuda Spirit*), June 24, 2009 (*Hamilton Spirit*) and September 3, 2009 (*Alexander Spirit*). As a result of these acquisitions, our total conventional tanker segment calendar ship days increased by 16% to 4,015 days for the year ended December 31, 2010 from 3,448 days for the year ended December 31, 2009.

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The following tables compare our conventional tanker segment s operating results for the year ended December 31, 2010 and 2009, and compare its net voyage revenues (which is a non-GAAP financial measure) for the year ended December 31, 2010 and 2009 to voyage revenues, the most directly comparable GAAP financial measure. The following tables also provide a summary of the changes in calendar-ship-days and revenue days for our conventional tanker segment:

(in thousands of U.S. dollars, except revenue days, calendar-ship-days and percentages)	Year Ended December 31, 2010	2009	% Change
Voyage revenues	109,192	90,194	21.1
Voyage expenses	2,013	1,016	98.1
Net voyage revenues	107,179	89,178	20.2
Vessel operating expenses	38,081	31,455	21.1
Depreciation and amortization	28,393	23,598	20.3
General and administrative (1)	11,008	8,731	26.1
Restructuring charge	175	1,869	(90.6)
Income from vessel operations	29,522	23,525	25.5
Operating Data:			
Revenue Days (A)	3,864	3,426	12.8
Calendar-Ship-Days (B)	4,015	3,448	16.4
Utilization (A)/(B)	96.2%	99.4%	

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

Net Voyage Revenues. Net voyage revenues increased during 2010 compared to 2009, primarily as a result of:

- an increase of $10.2 million due to the commencement of the time-charters for the two Centrofin Suezmaxes in May and June 2009;
- an increase of $9.2 million due to the acquisition of the *Alexander Spirit* in September 2009 by Teekay Corporation;
- an increase of $1.2 million relating to higher revenues earned on four Suezmax tankers (*Teide Spirit*, *Algeciras Spirit*, *Huelva Spirit* and *Tenerife Spirit*) due to market rates exceeding specified amounts under our time charter (the time charter for the four Suezmax vessels contain a component providing for additional revenues to us beyond the fixed hire rate when spot market rates exceed threshold amounts);
- an increase of $1.0 million relating to higher revenues earned by the *Toledo Spirit* relating to the agreement between us and Teekay Corporation for the *Toledo Spirit* time-charter contract (however, we had a corresponding increase in our realized loss on derivatives; therefore this increase and future increases or decreases related to this agreement did not and will not affect our cash flow or net income (loss)); and
- an increase of $0.4 million due to the *Teide Spirit* being off-hire for 16 days during 2009 for a scheduled drydock;

partially offset by

- a decrease of $3.8 million due to the *Tenerife Spirit, Algeciras Spirit* and *Toledo Spirit* being off-hire for 73, 63 and 15 days, respectively, during 2010 for scheduled drydockings; and
- a decrease of $0.2 million due to interest-rate adjustments to the daily charter rates under the time-charter contracts for five Suezmax tankers (however, under the terms of these capital leases, we also had corresponding decreases in our lease payments, which are reflected as decreases to interest

expense).

Vessel Operating Expenses. Vessel operating expenses increased during 2010 compared to 2009, primarily as a result of:

- an increase of $7.2 million for the year ended December 31, 2010, from the delivery of the two Centrofin Suezmaxes in May and June 2009 and the acquisition of the *Alexander Spirit* by Teekay Corporation in September 2009;

partially offset by

- a decrease of $0.6 million due to the change in nationality of some of the seafarers on certain of our vessels during 2010 and 2009 as part of our restructuring plan.

Depreciation and Amortization. Depreciation and amortization increased during 2010 compared to 2009, as a result of the delivery of the two Centrofin Suezmaxes in May and June 2009 and the acquisition of the *Alexander Spirit* by Teekay Corporation in September 2009.

Other Operating Results

General and Administrative Expenses. General and administrative expenses increased 18% to $23.2 million for 2010, from $19.8 million for 2009, primarily as a result of:

- an increase of $2.0 million paid to Teekay Corporation for its support of the successful purchase of the Excalibur and Excelsior Joint Ventures on November 4, 2010;
- an increase of $0.8 million attributable to the operations of the Centrofin Suezmaxes and the *Alexander Spirit* for a full year; which were acquired from Teekay Corporation in early 2010;
- an increase of $0.4 million related to a full year of ship management service fees incurred on our Spanish vessels compared to a partial year in 2009;
- an increase of $0.4 million associated with corporate services provided to us by Teekay Corporation; and
- an increase of $0.2 million related to an increase in corporate services fees for the Tangguh Joint Venture and Teekay Nakilat as agreed to by the respective joint ventures;

partially offset by

- a decrease of $0.5 million due to lower expenses incurred in our Spain office as a result of our 2009 restructuring plan.

Restructuring Charge. During 2009, we restructured certain ship management functions from our office in Spain to a subsidiary of Teekay Corporation and changed the nationality of certain seafarer positions. During the year ended December 31, 2009, we incurred $3.3 million in connection with these restructuring plans compared to a nominal amount for 2010.

Interest Expense. Interest expense decreased to $49.0 million for 2010, from $60.5 million for 2009. Interest expense primarily reflects interest incurred on our capital lease obligations and long-term debt. This decrease was primarily the result of:

- a decrease of $7.8 million from the scheduled loan payments on the LNG carrier *Catalunya Spirit*, and scheduled capital lease repayments on the LNG carrier *Madrid Spirit* (the *Madrid Spirit* is financed pursuant to a Spanish tax lease arrangement, under which we borrowed under a term loan and deposited the proceeds into a restricted cash account and entered into a capital lease for the vessel; as a result, this decrease in interest expense from the capital lease is offset by a corresponding decrease in interest income from restricted cash);
- a decrease of $4.3 million due to principal debt repayments made during 2010 and the third and fourth quarters of 2009 and a decrease of the LIBOR rates relating to our variable-rate debts;
- a decrease of $1.2 million due to the effect on our Euro-denominated debt from the weakening of the Euro against the U.S. Dollar during 2010; and
- a decrease of $0.2 million from declining interest rates on our five Suezmax tanker capital lease obligations (however, as described above, under the terms of the time-charter contracts for these vessels, we also had decreases in charter receipts, which are reflected as decreases to voyage revenues);

partially offset by

- an increase of $0.4 million relating to the interest expense attributable to a full year of operations of the Centrofin Suezmaxes and the *Alexander Spirit* compared to a partial year during 2009;
- an increase of $1.1 million relating to higher amortization of deferred debt issuance costs; and
- an increase of $0.5 million relating to one of our debt facilities which became available in October 2009.

Interest Income. Interest income decreased to $7.2 million for 2010, from $13.9 million for 2009. Interest income primarily reflects interest earned on restricted cash deposits that approximate the present value of the remaining amounts we owe under lease arrangements on four of our LNG carriers. This decrease was primarily as a result of:

- a decrease of $4.8 million due to scheduled capital lease repayments on one of our LNG carriers which was funded from restricted cash;
- a decrease of $1.5 million due to decreases in LIBOR rates relating to the restricted cash in Teekay Nakilat that is used to fund capital lease payments for the *RasGas II LNG Carriers*; and

a decrease of $0.3 million due to the due to the weakening of the Euro against the U.S. Dollar during 2010.

Realized and Unrealized Loss on Derivative Instruments. Net realized and unrealized losses on derivative instruments increased to a loss of $78.7 million for 2010, from a loss of $41.0 million for 2009 as set forth in the table below.

	Year Ended December 31, 2010			**Year Ended December 31, 2009**		
	Realized gains (losses)	Unrealized gains (losses)	Total	Realized gains (losses)	Unrealized gains (losses)	Total
Interest rate swap agreements	(42,495)	(34,906)	(77,401)	(36,222)	(11,143)	(47,365)
Toledo Spirit time-charter derivative	(1,919)	600	(1,319)	(940)	7,355	6,415
	(44,414)	(34,306)	(78,720)	(37,162)	(3,788)	(40,950)

Foreign Currency Exchange Gains (Losses). Foreign currency exchange gains (losses) were $27.5 million and ($10.8) million for the years ended December 31, 2010 and 2009, respectively. These foreign currency exchange gains and losses, substantially all of which were unrealized, are due primarily to the relevant period-end revaluation of our Euro-denominated term loans, capital leases and restricted cash for financial reporting purposes. Gains reflect a strengthening U.S. Dollar against the Euro on the date of revaluation. Losses reflect a weaker U.S. Dollar against the Euro on the date of revaluation.

Equity Income. Equity income was $8.0 million for 2010, compared to $27.6 million for 2009. This change is primarily due to a decrease in RasGas 3 Joint Venture s unrealized gains on derivatives for 2010, as compared to 2009 and combined with an increase in equity income relating to the Excelsior and Excalibur Joint Ventures which were acquired in November 2010. The unrealized (loss) gain on interest rate swaps included in equity income for the years ended December 31, 2010 and 2009 was ($6.5) million and $10.9 million, respectively.

Year Ended December 31, 2009 versus Year Ended December 31, 2008

Liquefied Gas Segment

We operated 18 LNG and LPG carriers (including our 40% interest in four LNG carriers which are accounted for under the equity method following their deliveries between May and July 2008) during 2009 and 15 LNG and LPG carriers in 2008. On April 1, 2008, we purchased from Teekay Corporation the two Kenai LNG Carriers, the *Arctic Spirit* and the *Polar Spirit*; however, as they are included among the vessels constituting the Dropdown Predecessor, they have been included in our results as if they were acquired on December 13 and 14, 2007, respectively, when they began operations under the ownership of Teekay Corporation. The *Tannguh Hiri*, *Tangguh Sago*, *Norgas Pan* and *Norgas Camilla* delivered on November 2008, March 2009, April 2009 and November 2009, respectively. As a result our total calendar ship days increased by 25% to 4,637 days in 2009 from 3,701 days in 2008. In August 2009, we purchased from Teekay Corporation the Tangguh LNG Carriers however, as Teekay Tangguh was a variable interest entity in which we were the primary beneficiary, it has been included in our results since November 2006.

The following tables compare our liquefied gas segment s operating results for the years ended 2009 and 2008, and compare its net voyage revenues (which is a non-GAAP financial measure) for the years ended December 31, 2009 and 2008, to voyage revenues, the most directly comparable GAAP financial measure. The following tables also provide a summary of the changes in calendar-ship-days and revenue days for our liquefied gas segment:

(in thousands of U.S. dollars, except revenue days, calendar-ship-days and percentages)	**Year Ended December 31,**		
	2009	**2008**	**% Change**
Voyage revenues	252,854	222,318	13.7
Voyage expenses	1,018	1,397	(27.1)

Net voyage revenues	251,836	220,921	14.0
Vessel operating expenses	50,919	49,400	3.1
Depreciation and amortization	59,088	57,880	2.1
General and administrative [1]	11,033	11,247	(1.9)
Restructuring charge	1,381		100.0
Income from vessel operations	129,415	102,394	26.4
Operating Data:			
Revenue Days (A)	4,491	3,631	23.7
Calendar-Ship-Days (B)	4,637	3,701	25.3
Utilization (A)/(B)	96.9%	98.1%	

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

During 2008 one of our LNG carriers, the *Catalunya Spirit*, was off-hire for approximately 6 days due to the loss of propulsion and 29 days for a scheduled drydock. The cost of the repairs was $0.7 million and we recovered $0.5 million under a protection and indemnity insurance policy. The vessel was repaired and resumed normal operations.

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Net Voyage Revenues. Net voyage revenues increased during 2009 compared to 2008, primarily as a result of:

- an increase of $32.2 million due to the commencement of the time-charters for the two Tangguh LNG Carriers in January and May 2009, respectively;
- an increase of $3.5 million due to the commencement of the time-charters for the *Norgas Pan* and *Norgas Cathinka* in April and November 2009, respectively;
- an increase of $3.1 million due to the *Catalunya Spirit* being off-hire for 34.3 days during 2008 for repairs;
- an increase of $1.0 million due to the *Polar Spirit* being off-hire for 18.5 days during 2008 for a scheduled drydock; and
- an increase of $0.4 million due to an escalation to the daily charter rates under the time-charter contracts for three LNG carriers;

partially offset by

- a decrease of $3.8 million due to the effect on our Euro-denominated revenues from the weakening of the Euro against the U.S. Dollar compared to the same period last year;
- a decrease of $2.1 million due to the *Madrid Spirit* being off-hire for 25.2 days during the third quarter of 2009 for a scheduled drydock;
- a decrease of $1.9 million due to the *Galicia Spirit* being off-hire for 27.6 days during the third quarter of 2009 for a scheduled drydock; and
- a decrease of $1.6 million due to a provision for crewing rate adjustment related to the time-charter contract for the two Kenai LNG Carriers.

Vessel Operating Expenses. Vessel operating expenses increased during 2009 compared to 2008, primarily as a result of:

- an increase of $6.3 million from the deliveries of the Tangguh LNG Carriers in November 2008 and March 2009, respectively;

partially offset by

- a decrease of $2.7 million relating to lower crew manning, insurance, and repairs and maintenance costs;
- a decrease of $1.3 million relating to service costs associated with the *Dania Spirit* being off-hire for 15.5 days during 2008 for a scheduled drydock; and
- a decrease of $0.8 million due to the effect on our Euro-denominated vessel operating expenses from the weakening of the Euro against the U.S. Dollar compared to the same period last year (a portion of our vessel operating expenses, particularly those relating to manning costs, are paid in Euros due to the nationality of our crew).

Depreciation and Amortization. Depreciation and amortization increased during 2009 compared to 2008, primarily as a result of:

- an increase of $1.3 million from the delivery of the *Tangguh Sago* in March 2009 prior to the commencement of the time-charter contract in May 2009 which is accounted for as a direct financing lease;
- an increase of $1.0 million from the delivery of the *Norgas Pan* and the *Norgas Cathinka* in April and November 2009, respectively;
- an increase of $0.2 million due to the amortization of costs associated with vessel cost expenditures during 2008; and
- an increase of $0.2 million relating to amortization of drydock expenditures incurred during 2009;

partially offset by

- a decrease of $1.0 million due to revised depreciation estimates; and
- a decrease of $0.6 million from the commencement of the time-charter contract for the *Tangguh Hiri* in January 2009 which is accounted for as a direct financing lease.

Conventional Tanker Segment

We included ten Suezmax tankers and one Handymax tanker in 2009 as compared to 8 Suezmax tankers in 2008. On March 17, 2010 we purchased from Teekay Corporation the two 2009-built Centrofin Suezmaxes and a 2007-bulit Handymax Product tanker, the *Alexander Spirit*. These vessels have been included in our results as if they were acquired on May 27, 2009 (*Bermuda Spirit*), June 24, 2009 (*Hamilton Spirit*) and September 3, 2009 (*Alexander Spirit*). As a result of these acquisitions, our total Conventional tanker segment calendar ship days increased by 18% to 3,448 days in 2009 from 2,928 days in 2008. All of our Suezmax tankers operate under long-term, fixed-rate time-charters.

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The following table compares our Conventional tanker segment s operating results for the year ended December 31, 2009 and 2008, and compares its net voyage revenues (which is a non-GAAP financial measure) for the year ended December 31, 2009 and 2008, to voyage revenues, the most directly comparable GAAP financial measure. The following table also provides a summary of the changes in calendar-ship-days and revenue days for our Conventional tanker segment:

(in thousands of U.S. dollars, except revenue days, calendar-ship-days and percentages)	Year Ended December 31, 2009	2008	% Change
Voyage revenues	90,194	92,086	(2.1)
Voyage expenses	1,016	1,856	(45.3)
Net voyage revenues	89,178	90,230	(1.2)
Vessel operating expenses	31,455	27,713	13.5
Depreciation and amortization	23,598	19,000	24.2
General and administrative [(1)]	8,731	8,954	(2.5)
Restructuring charge	1,869		100.0
Goodwill impairment		3,648	(100.0)
Income from vessel operations	23,525	30,915	(23.9)
Operating Data:			
Revenue Days (A)	3,426	2,866	19.5
Calendar-Ship-Days (B)	3,448	2,928	17.8
Utilization (A)/(B)	99.4%	97.9%	

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

Net Voyage Revenues. Net voyage revenues decreased during 2009 compared to 2008, primarily as a result of:

- a decrease of $7.7 million relating to lower revenues earned by the *Toledo Spirit* relating to the agreement between us and Teekay Corporation for the Toledo Spirit time charter contract (however, we had a corresponding decrease in our realized loss on derivatives; therefore this decrease and future increases or decreases related to this agreement did not and will not affect our cash flow or net income);
- a decrease of $6.3 million due to interest-rate adjustments to the daily charter rates under the time-charter contracts for five Suezmax tankers (however, under the terms of these capital leases, we also had decreases in our lease payments, which are reflected as decreases to interest expense);
- a decrease of $6.0 million relating to lower revenues earned by the *Teide Spirit* due to market rates being lower than specified amounts under our time charter (the time charter for the Teide Spirit contains a component providing for additional revenues to us beyond the fixed hire rate when spot market rates exceed threshold amounts); and
- a decrease of $0.4 million due to the *Teide Spirit* being off-hire for 16 days during 2009 for a scheduled drydock;

partially offset by

- an increase of $17.0 million due to the acquisitions of the Centrofin Suezmaxes and the *Alexander Spirit;*
- an increase of $0.6 million relating to lower bunker fuel expense incurred during vessel drydocking;
- an increase of $0.6 million due to the *European Spirit* being off-hire for 24.1 days during 2008 for a scheduled drydock;

- an increase of $0.5 million due to the *African Spirit* being off-hire for 19 days during 2008 for a scheduled drydock; and
- an increase of $0.5 million due to the *Asian Spirit* being off-hire for 19.4 days during 2008 for a scheduled drydock.

Vessel Operating Expenses. Vessel operating expenses increased during 2009 compared to 2008, primarily as a result of:

- an increase of $4.9 million relating to the acquisitions of the Centrofin Suezmaxes and the *Alexander Spirit;*

partially offset by

- a decrease of $0.9 million due to the effect on our Euro-denominated vessel operating expenses from the weakening of the Euro against the U.S. Dollar during such period compared to the same periods last year (a portion of our vessel operating expenses are denominated in Euros, which is primarily due to the nationality of our crew); and
- a decrease of $0.1 million relating to lower crew manning, insurance, and repairs and maintenance costs.

Depreciation and Amortization. Depreciation and amortization increased during 2009 compared to 2008, primarily as a result of:

- an increase of $3.9 million due to the acquisitions of the Centrofin Suezmaxes and the *Alexander Spirit*; and
- an increase of $0.6 million due to the amortization of costs associated with the scheduled drydockings during 2008 relating to the *European Spirit*, the *Asian Spirit* and the *African Spirit*.

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Goodwill Impairment. During 2008, due to the decline in market conditions, we conducted an interim impairment review of our reporting units during 2008. The fair value of the reporting units was estimated using the expected present value of future cash flows. The fair value of the reporting units was then compared to its carrying values and it was determined that the fair value attributable our Conventional tanker segment was less than its carrying value. As a result of our review, a goodwill impairment loss of $3.6 million was recognized in the Conventional tanker reporting unit during 2008. In 2009, we conducted a goodwill impairment review of our liquefied gas segment and concluded that no impairment existed at December 31, 2009.

Other Operating Results

General and Administrative Expenses. General and administrative expenses decreased 2.2% to $19.8 million for 2009 from $20.2 million for 2008. This decrease was primarily the result of:

- a decrease of $2.5 million relating to lower annual long-term incentive plan accruals and the impact of our restructuring plan, which reduced the number of shore-based staff in our Spain office; and
- a decrease of $0.5 million relating to lower corporate and office expenses;

partially offset by

- an increase of $1.6 million due to the acquisitions of the Centrofin Suezmaxes and the *Alexander Spirit*; and
- an increase of $1.1 million associated with corporate services provided to us by subsidiaries of Teekay Corporation.

Restructuring Charge. During 2009, we restructured certain ship management functions from our office in Spain to a subsidiary of Teekay Corporation and the change of the nationality of some of the seafarers. During 2009, we incurred $3.3 million in connection with these restructuring plans.

Interest Expense. Interest expense decreased 56% to $60.5 million for 2009, from $138.3 million for 2008. Interest expense primarily reflects interest incurred on our capital lease obligations and long-term debt. These decreases were primarily the result of:

- a decrease of $35.1 million as the debt relating to Teekay Nakilat (III) was novated to the RasGas 3 Joint Venture on December 31, 2008. Please read Item 18 Financial Statements: Note 11(f) Related Party Transactions (the interest expense on this debt is not reflected in our 2009 consolidated interest expense as the RasGas 3 Joint Venture is accounted for using the equity method);
- a decrease of $20.0 million due to a decrease of LIBOR rates relating to the long-term debt in Teekay Nakilat Corporation (or Teekay Nakilat). Please read Item 18 Financial Statements: Note 9 Long-Term Debt;
- a decrease of $15.4 million from the scheduled loan payments on the *Catalunya Spirit*, and scheduled capital lease repayments on the *Madrid Spirit* (the *Madrid Spirit* is financed pursuant to a Spanish tax lease arrangement, under which we borrowed under a term loan and deposited the proceeds into a restricted cash account and entered into a capital lease for the vessel; as a result, this decrease in interest expense from the capital lease is offset by a corresponding decrease in the interest income from restricted cash);
- a decrease of $4.7 million from declining interest rates on our five Suezmax tanker capital lease obligations (however, as described above, under the terms of the time-charter contracts for these vessels, we also had decreases in charter payments, which are reflected as a decrease to voyage revenues);
- a decrease of $3.0 million relating to the interest expense attributable to the operations of the Kenai LNG Carriers that was incurred by Teekay Corporation and allocated to us as part of the results of the Dropdown Predecessor;
- a decrease of $2.2 million relating to debt used to fund general corporate purposes; and
- a decrease of $1.6 million due to the effect on our Euro-denominated debt from the weakening of the Euro against the U.S. Dollar during such period compared to the same periods last year;

partially offset by

- an increase of $2.5 million relating to debt to finance the purchase of the Tangguh LNG Carriers as the interest on this debt was capitalized in 2008;
- an increase of $1.2 million due to the acquisition of the Centrofin Suezmaxes and the *Alexander Spirit;* and
- an increase of $0.4 million due to amortization of deferred debt issuance costs.

Interest Income Interest income decreased 78% to $13.9 million for 2009, from $64.3 million in 2008. Interest income primarily reflects interest earned on restricted cash deposits that approximate the present value of the remaining amounts we owe under lease arrangements on four of our LNG carriers. These decreases were primarily as a result of:

- a decrease of $33.5 million relating to interest-bearing advances made by us to the RasGas 3 Joint Venture for shipyard construction installment payments repaid on December 31, 2008 when the debt was novated to the RasGas 3 Joint Venture;
- a decrease of $13.4 million due to decreases in LIBOR rates relating to the restricted cash in Teekay Nakilat that is used to fund capital lease payments for the RasGas II LNG Carriers;

a decrease of $1.5 million relating to lower interest rates on our bank accounts compared to the same periods last year;

a decrease of $0.4 million due to the effect on our Euro-denominated deposits from the weakening of the Euro against the U.S. Dollar during such periods compared to the same period last year; and

a decrease of $0.3 million primarily from scheduled capital lease repayments on one of our LNG carriers which was funded from restricted cash deposits.

Realized and Unrealized Loss on Derivative Instruments. Net realized and unrealized losses on derivative instruments decreased 59% to ($41.0) million in 2009 from ($100.0) million in 2008 as detailed in the table below.

	Year Ended December 31, 2009			**Year Ended December 31, 2008**		
	Realized gains (losses)	Unrealized gains (losses)	Total	Realized gains (losses)	Unrealized gains (losses)	Total
Interest rate swap agreements	(36,222)	(11,143)	(47,365)	(6,788)	(82,543)	(89,331)
Toledo Spirit time-charter derivative	(940)	7,355	6,415	(8,620)	(2,003)	(10,623)
	(37,162)	(3,788)	(40,950)	(15,408)	(84,546)	(99,954)

Foreign Currency Exchange (Losses) Gains. Foreign currency exchange (losses) gains were ($10.8) million and $18.2 million for the years ended December 31, 2009 and 2008, respectively. These foreign currency exchange gains and losses, substantially all of which were unrealized, are due primarily to the relevant period-end revaluation of Euro-denominated term loans and restricted cash for financial reporting purposes. Losses reflect a weaker U.S. Dollar against the Euro on the date of revaluation. Gains reflect a stronger U.S. Dollar against the Euro on the date of revaluation.

Equity Income. Equity income was $27.6 million for 2009, compared to a nominal income for 2008. This change is primarily due to the operations of the four RasGas 3 LNG Carriers, which were delivered between May and July 2008, and RasGas 3 Joint Venture s realized and unrealized gain on its interest rate swaps. The unrealized gain on its interest rate swaps included in equity income for the years ended December 31, 2009 and 2008 was $10.9 million and nil, respectively.

Liquidity and Cash Needs

As at December 31, 2010, our cash and cash equivalents were $81.1 million, compared to $108.4 million at December 31, 2009. Our total liquidity which consists of cash, cash equivalents and undrawn medium-term credit facilities, was $459.7 million as at December 31, 2010, compared to $479.8 million as at December 31, 2009. The 2010 cash and liquidity amounts exclude amounts attributable to the Dropdown Predecessor. The decrease in total liquidity is primarily due to borrowings to partially finance the acquisition of Excelsior and Excalibur Joint Ventures from Exmar NV and the acquisition of the Centrofin Suezmaxes and the *Alexander Spirit* from Teekay Corporation in March 2010, repayments of long-term debt, advances and repayments to our joint venture partners and drydocking expenditures, partially offset by the receipt of proceeds from our direct equity placement in July 2010 and proceeds received from the sale of *Dania Spirit* in November 2010.

Our primary short-term liquidity needs are to pay quarterly distributions on our outstanding units and to fund general working capital requirements and drydocking expenditures, while our long-term liquidity needs primarily relate to expansion and maintenance capital expenditures and debt repayment. Expansion capital expenditures primarily represent the purchase or construction of vessels to the extent the expenditures increase the operating capacity or revenue generated by our fleet, while maintenance capital expenditures primarily consist of drydocking expenditures and expenditures to replace vessels in order to maintain the operating capacity or revenue generated by our fleet. We anticipate that our primary sources of funds for our short-term liquidity needs will be cash flows from operations, while our long-term sources of funds will be from cash from operations, long-term bank borrowings and other debt or equity financings, or a combination thereof.

We are required to purchase five of our in-chartered Suezmax tankers, which are accounted for as capital lease arrangements, in 2011. We anticipate that we will purchase these tankers either by assuming the outstanding financing obligations that relate to them or by obtaining separate debt or equity financing to complete the purchases if the lenders do not consent to our assuming the financing obligations. In addition, as of December 31, 2010, we were also committed to acquiring one LPG carrier from Skaugen and the two Skaugen Multigas Carriers. These additional purchase commitments, scheduled to occur in 2011, total approximately $139 million. In March 2011, we also agreed to purchase Teekay Corporation s 33% interest in four LNG carriers expected to serve the Angola LNG Project, for which we anticipate the total equity purchase price to be approximately $73 million (net of assumed debt), payable beginning in the fall of 2011. We intend to finance these purchases with one or more of our existing revolving credit facilities, incremental debt, surplus cash balances, proceeds from the issuance of additional common units, or combinations thereof. Please read Item 18 Financial Statements: Note 13 Commitments and Contingencies.

As described under Item 4 Information on the Company: C. Regulations Other Environmental Initiatives, passage of any climate control legislation or other regulatory initiatives that restrict emissions of greenhouse gases could have a significant financial and operational impact on our business, which we cannot predict with certainty at this time. Such regulatory measures could increase our costs related to operating and maintaining our vessels and require us to install new emission controls, acquire allowances or pay taxes related to our greenhouse gas emissions, or administer and manage a greenhouse gas emissions program. In addition, increased regulation of greenhouse gases may, in the long term, lead to reduced demand for oil and gas and reduced demand for our services.

Cash Flows. The following table summarizes our cash flow for the periods presented:

(in thousands of U.S. dollars)	**Year Ended December 31, 2010**	**2009**
Net cash flow from operating activities	174,970	171,384
Net cash flow used for financing activities	(167,746)	(10,060)
Net cash flow used for investing activities	(34,519)	(170,615)

Operating Cash Flows. Net cash flow from operating activities increased to $175.0 million in 2010 from $171.4 million in 2009, primarily due to the increase in operating cash flows from the *Tangguh Sago* having commenced its charter in May 2009, the deliveries of the *Norgas Pan* and *Norgas Cathinka* in April 2009 and November 2009, respectively, and the acquisitions of the Centrofin Suezmaxes and the *Alexander Spirit*. This increase was partially offset by in the number of off-hire days and drydocking expenses related to scheduled drydockings in 2010, compared to 2009, the timing of lease receipts from the Teekay Tangguh Joint Venture s operating leases and changes in working capital due to the timing of our cash receipts and payments. Net cash flow from operating activities depends upon the timing and amount of drydocking expenditures, repairs and maintenance activity, vessel additions and dispositions, foreign currency rates, changes in interest rates, fluctuations in working capital balances and spot market hire rates (to the extent we have vessels operating in the spot tanker market or our hire rates are partially affected by spot market rates). The number of vessel drydockings tends to vary each period.

Financing Cash Flows. Our investments in vessels and equipment are financed primarily with term loans and capital lease arrangements. Proceeds from long-term debt were $100.9 million and $220.1 million, respectively, for 2010 and 2009. From time to time we refinance our loans and revolving credit facilities. During 2010, we used the proceeds from long-term debt primarily to fund a portion of the acquisition of the Centrofin Suezmaxes, the *Alexander Spirit,* Excelsior Joint Venture and Excalibur Joint Venture.

On July 15, 2010, we completed a direct equity placement of approximately 1.7 million common units at a price of $29.18 per unit, for net proceeds of approximately $50.9 million. Please read item 18 Financial Statements: Note 3 Equity Offerings.

Cash distributions paid during 2010 increased to $135.5 million from $114.5 million for the same period last year. This increase was the result of:

- an increase in the number of units eligible to receive the cash distribution as a result of equity offerings during 2009 and the direct equity placement in 2010 and as a result of the acquisition of the Excalibur and Excelsior Joint Ventures; and
- an increase in our quarterly distribution to $0.60 per unit from $0.57 per unit starting with the May 2010 distribution.

Subsequent to December 31, 2010, a cash distribution totaling $37.7 million was declared with respect to the fourth quarter of 2010, which was paid in February 2011.

Investing Cash Flows During 2010, we incurred $26.7 million in expenditures for vessels and equipment. These expenditures represent construction payments for the two Skaugen Multigas newbuildings and capital modifications for certain of our vessels. During 2010 we received proceeds of $21.6 million from the sale of the *Dania Spirit* and used $35.2 million for the purchase of the Excelsior and Excalibur Joint Ventures.

Credit Facilities

Our revolving credit facilities and term loans are described in Item 18 Financial Statements: Note 9 Long-Term Debt. Our term loans and revolving credit facilities contain covenants and other restrictions typical of debt financing secured by vessels, including, but not limited to, one or more of the following that restrict the ship-owning subsidiaries from:

- incurring or guaranteeing indebtedness;
- changing ownership or structure, including mergers, consolidations, liquidations and dissolutions;
- making dividends or distributions if we are in default;
- making capital expenditures in excess of specified levels;

- making certain negative pledges and granting certain liens;
- selling, transferring, assigning or conveying assets;
- making certain loans and investments; and
- entering into a new line of business.

Certain loan agreements require that minimum levels of tangible net worth and aggregate liquidity be maintained, provide for a maximum level of leverage and require one of our subsidiaries to maintain restricted cash deposits. Our ship-owning subsidiaries may not, among other things, pay dividends or distributions if we are in default under our loan agreements and revolving credit facilities. Our capital leases do not contain financial or restrictive covenants other than those relating to operation and maintenance of the vessels. One of our term loans is guaranteed by Teekay Corporation and contains covenants that require Teekay Corporation to maintain the greater of a minimum liquidity (cash and cash equivalents) of at least $50.0 million and 5.0% of Teekay Corporation s total consolidated debt which has recourse to Teekay Corporation. As at December 31, 2010, we and our affiliates were in compliance with all covenants in our credit facilities and capital leases.

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Contractual Obligations and Contingencies

The following table summarizes our contractual obligations as at December 31, 2010:

	Total	2011	2012 and 2013	2014 and 2015	Beyond 2015
			(in millions of U.S. Dollars)		
U.S. Dollar-Denominated Obligations:					
Long-term debt [1]	1,025.8	63.3	143.2	191.9	627.4
Commitments under capital leases [2]	197.9	197.9			
Commitments under capital leases [3]	1,025.1	24.0	48.0	48.0	905.1
Commitments under operating leases [4]	457.7	25.1	50.1	50.2	332.3
Purchase obligations [5]	139.0	139.0			
Total U.S. Dollar-denominated obligations	2,845.5	449.3	241.3	290.1	1,864.8
Euro-Denominated Obligations: [6]					
Long-term debt [7]	373.3	13.1	213.6	16.3	130.3
Commitments under capital leases [8]	86.8	86.8			
Total Euro-denominated obligations	460.1	99.9	213.6	16.3	130.3
Totals	3,305.6	549.2	454.9	306.4	1,995.1

(1) Excludes expected interest payments of $17.0 million (2011), $29.7 million (2012 and 2013), $23.6 million (2014 and 2015) and $34.8 million (beyond 2015). Expected interest payments are based on the existing interest rates (fixed-rate loans) and LIBOR at December 31, 2010, plus margins on debt that has been drawn that ranged up to 0.70% (variable-rate loans). The expected interest payments do not reflect the effect of related interest rate swaps that we have used as an economic hedge of certain of our variable-rate debt. Existing restricted cash deposits of $12.4 million, together with the interest earned on these deposits, are expected to repay a portion of our existing debt.

(2) Includes, in addition to lease payments, amounts we are required to pay to purchase certain leased vessels at the end of the lease terms. We are obligated to purchase five of our existing Suezmax tankers upon the termination of the related capital leases, which may occur in 2011. The purchase price will be based on the unamortized portion of the vessel construction financing costs for the vessels, which we expect to range from $31.7 million to $39.2 million per vessel. We expect to satisfy the purchase price either by assuming the existing vessel financing or by obtaining separate debt or equity financing to complete the purchases if the lenders do not consent to our assuming the financing obligations. We are also obligated to purchase one of our existing LNG carriers upon the termination of the related capital leases on December 31, 2011. The purchase obligation has been fully funded with restricted cash deposits. Please read Item 18 Financial Statements: Note 5 Leases and Restricted Cash.

(3) Existing restricted cash deposits of $477.2 million, together with the interest earned on these deposits, are expected to be sufficient to repay the remaining amounts we currently owe under the lease arrangements.

(4) We have corresponding leases whereby we are the lessor and expect to receive approximately $419.1 million for these leases from 2011 to 2029.

(5) We have entered into an agreement to acquire the third LPG Carrier from Skaugen, for approximately $33.0 million upon its delivery, scheduled for 2011. In July 2008, the Skaugen Multigas Subsidiaries signed contracts for the purchase of the Skaugen Multigas Carriers and we have agreed to purchase Skaugen Multigas subsidiaries from Teekay Corporation for a total cost of approximately $106 million upon the vessel deliveries. Both vessels are scheduled to be delivered in 2011. Please read Note 13a Commitments and Contingencies.

In March 2011, we entered into an agreement to acquire Teekay Corporation s 33% interest in four Angola LNG carriers expected to serve the Angola LNG Project, for which we anticipate the total equity purchase price to be approximately $73 million (net of assumed debt), payable beginning in the fall of 2011.

(6) Euro-denominated obligations are presented in U.S. Dollars and have been converted using the prevailing exchange rate as of December 31, 2010.

(7) Excludes expected interest payments of $5.3 million (2011), $5.9 million (2012 and 2013), $4.0 million (2014 and 2015) and $10.0 million (beyond 2015). Expected interest payments are based on EURIBOR at December 31, 2010, plus margins that ranged up to 0.66%, as well as the prevailing U.S. Dollar/Euro exchange rate as of December 31, 2010. The expected interest payments do not reflect the effect of related interest rate swaps that we have used as an economic hedge of certain of our variable-rate debt.

(8) Existing restricted cash deposits of $82.6 million, together with the interest earned on these deposits, are expected to equal the remaining amounts we owe under the lease arrangement, including our obligation to purchase the vessel at the end of the lease term.

Off-Balance Sheet Arrangements

As of April 1, 2011, we are committed to acquire from Teekay Corporation the Skaugen Multigas Carriers upon delivery for a total cost of approximately $106 million, and its 33% ownership interest in four LNG carriers and related charter contracts for the Angola LNG Project at a total equity purchase price of approximately $73 million (net of assumed debt), subject to adjustment based on actual costs incurred at the time of delivery. In addition, we are committed to acquire from Skaugen the third Skaugen LPG Carrier upon delivery for a total cost of approximately $33 million. We also have some guaranty obligations as detailed in Item 18 Financial Statements: Note 5 Leases and Restricted Cash and Note 18 Equity Method Investments.

Critical Accounting Estimates

We prepare our consolidated financial statements in accordance with GAAP, which require us to make estimates in the application of our accounting policies based on our best assumptions, judgments and opinions. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material. Accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to an understanding of our financial statements, because they inherently involve significant judgments and uncertainties. For a further description of our material accounting policies, please read Item 18 Financial Statements: Note 1 Summary of Significant Accounting Policies.

Vessel Lives and Impairment

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

Judgments and Uncertainties. Depreciation is calculated using an estimated useful life of 25 years for Conventional tankers, 30 years for LPG Carriers and 35 years for LNG carriers, from the date the vessel was originally delivered from the shipyard. In the shipping industry, the use of a 25-year vessel life for Conventional tankers has become the prevailing standard. In addition, the use of a 30 to 35 year vessel life for LPG carriers and a 30 to 40 year vessel life for LNG carriers is typical. However, the actual life of a vessel may be different, with a shorter life resulting in an increase in the depreciation and potentially resulting in an impairment loss. The estimates and assumptions regarding expected cash flows require considerable judgment and are based upon existing contracts, historical experience, financial forecasts and industry trends and conditions. We are not aware of any indicators of impairments nor any regulatory changes or environmental liabilities that we anticipate will have a material impact on our current or future operations.

Effect if Actual Results Differ from Assumptions. If we consider a vessel or equipment to be impaired, we recognize impairment in an amount equal to the excess of the carrying value of the asset over its fair market value. The new lower cost basis will result in a lower annual depreciation than before the vessel impairment. A one-year reduction in the estimated useful lives of our Conventional tankers, our LPG carriers and our LNG carriers would result in an increase in our current annual depreciation by approximately $3.2 million, assuming this decrease did not also result in an impairment loss.

Drydocking Life

Description. We capitalize a portion of the costs we incur during drydocking and for an intermediate survey and amortize those costs on a straight-line basis over the useful life of the drydock. We expense costs related to routine repairs and maintenance incurred during drydocking that do not improve operating efficiency or extend the useful lives of the assets.

Judgments and Uncertainties. Amortization of capitalized drydock expenditures requires us to estimate the period of the next drydocking and useful life of drydock expenditures. While we typically drydock each vessel every five years and have a shipping society classification intermediate survey performed on our LNG and LPG carriers between the second and third year of the five-year drydocking period, we may drydock the vessels at an earlier date, with a shorter life resulting in an increase in the amortization.

Effect if Actual Results Differ from Assumptions. If we change our estimate of the next drydock date for a vessel, we will adjust our annual amortization of drydocking expenditures. Amortization expense of capitalized drydock expenditures for 2010, 2009 and 2008 were $7.3 million, $4.5 million and $3.6 million. As at December 31, 2010 and 2009, our capitalized drydock expenditures were $12.7 million and $9.7 million, respectively. A one-year reduction in the estimated useful lives of capitalized drydock expenditures would result in an increase in our current annual amortization by approximately $2.5 million

Goodwill and Intangible Assets

Description. We allocate the cost of acquired companies, including acquisitions of equity accounted investments, to the identifiable tangible and intangible assets and liabilities acquired, with the remaining amount being classified as goodwill. Certain intangible assets, such as time-charter contracts, are being amortized over time. Our future operating performance will be affected by the amortization of intangible assets and potential impairment charges related to goodwill. Accordingly, the allocatio