

Teekay LNG Partners L.P.
Form 6-K
May 17, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2006

Commission file number 1- 32479

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

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

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

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1).

Yes No

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7).

Yes No

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

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Yes _____ No X

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

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006

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ITEM 1 - FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the consolidated balance sheet of Teekay LNG Partners L.P. (successor to Teekay Luxembourg S.a.r.l) and subsidiaries (or the *Partnership*) as of March 31, 2006 and the related consolidated statements of income, partners' equity/stockholder deficit and cash flows for the three months ended March 31, 2006 and 2005. These financial statements are the responsibility of the Partnership's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Partnership as of December 31, 2005, the related consolidated statements of income, partners' equity/stockholder deficit and cash flows for the year then ended and in our report dated February 21, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2005, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Vancouver, Canada
May 1, 2006

/s/ ERNST & YOUNG LLP
Chartered Accountants

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES (Note 1)
(Successor to Teekay Luxembourg S.a.r.l.)
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
(in thousands of U.S. dollars, except unit and per unit data)

	Three Months Ended March 31,	
	2006	2005
	\$	\$
VOYAGE REVENUES	44,141	34,764
OPERATING EXPENSES		
Voyage expenses	277	192
Vessel operating expenses (note 10c)	8,961	7,994
Depreciation and amortization	12,659	10,211
General and administrative (notes 10b and 10d)	3,095	1,510
Total operating expenses	24,992	19,907
Income from vessel operations	19,149	14,857
OTHER ITEMS		
Interest expense (notes 4 and 7)	(18,601)	(25,612)
Interest income	7,437	6,269
Foreign currency exchange (loss) gain (note 7)	(7,825)	45,000
Other income (note 8)	608	1,393
Total other items	(18,381)	27,050
Net income	768	41,907
General partner's interest in net income	15	-
Limited partners' interest:		
Net income	753	41,907

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Net income per: <i>(note 13)</i>		
- Common unit (basic and diluted)	0.04	1.79
- Subordinated unit (basic and diluted)	0.00	1.79
- Total unit (basic and diluted)	0.02	1.79

Weighted-average number of units outstanding:		
- Common units (basic and diluted)	20,238,072	8,734,572
- Subordinated units (basic and diluted)	14,734,572	14,734,572
- Total units (basic and diluted)	34,972,644	23,469,144

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

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES (Note 1)
(Successor to Teekay Luxembourg S.a.r.l.)
UNAUDITED CONSOLIDATED BALANCE SHEETS
(in thousands of U.S. dollars)

	As at March 31, 2006 \$	As at December 31, 2005 \$
	-----	-----
ASSETS		
Current		
Cash and cash equivalents	27,401	34,469
Restricted cash - current <i>(note 4)</i>	137,220	139,525
Accounts receivable	4,676	2,977
Prepaid expenses and other assets	5,620	3,972
	-----	-----
Total current assets	174,917	180,943
	-----	-----
Restricted cash - long-term <i>(notes 4 and 12)</i>	567,517	158,798
Vessels and equipment <i>(note 7)</i>		
At cost, less accumulated depreciation of \$21,139 (December 31, 2005 - \$16,235)	503,489	507,825
Vessels under capital leases, at cost, less accumulated depreciation of \$37,218 (December 31, 2005 - \$32,266) <i>(note 4)</i>	673,168	677,686
Advances on newbuilding contracts <i>(note 12)</i>	-	316,875
	-----	-----
Total vessels and equipment	1,176,657	1,502,386
	-----	-----
Other assets <i>(note 11)</i>	65,703	20,215
Intangible assets - net <i>(note 5)</i>	166,911	169,194
Goodwill <i>(note 5)</i>	39,279	39,279
	-----	-----
Total assets	2,190,984	2,070,815
	=====	=====
LIABILITIES AND PARTNERS' EQUITY		
Current		
Accounts payable	5,953	5,885
Accrued liabilities	14,576	13,952
Current portion of long-term debt <i>(note 7)</i>	8,434	8,103
Current obligation under capital leases <i>(note 4)</i>	144,867	137,646
Current portion of long-term debt related to newbuilding vessels to be leased <i>(note 12)</i>	2,076	-
Advances from affiliate <i>(notes 10e and 10f)</i>	4,097	2,222

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Total current liabilities	180,003	167,808
Long-term debt (note 7)	398,467	398,249
Long-term obligation under capital leases (note 4)	383,793	382,343
Long-term debt related to newbuilding vessels to be leased (note 12)	403,407	319,573
Other long-term liabilities (note 11)	50,255	33,703
Total liabilities	1,415,925	1,301,676
Commitments and contingencies (note 12)		
Partners' equity		
Partners' equity	827,520	841,642
Accumulated other comprehensive loss (note 9)	(52,461)	(72,503)
Total partners' equity	775,059	769,139
Total liabilities and partners' equity	2,190,984	2,070,815

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

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES (Note 1)
(Successor to Teekay Luxembourg S.a.r.l.)
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of U.S. dollars)

	Three Months Ended March 31,	
	2006	2005
	\$	\$
Cash and cash equivalents provided by (used for)		
OPERATING ACTIVITIES		
Net income	768	41,907
Non-cash items:		
Depreciation and amortization	12,659	10,211
Deferred income tax recovery	(300)	(1,199)
Foreign currency exchange loss (gain)	8,611	(47,679)
Accrued interest and other - net	(407)	5,501
Change in non-cash working capital items related to operating activities	(3,334)	8,537
Expenditures for drydocking	(1,609)	-
Net operating cash flow	16,388	17,278
FINANCING ACTIVITIES		
Proceeds from long-term debt	91,627	5,817
Capitalized loan costs	(2,512)	-
Scheduled repayments of long-term debt	(2,009)	(3,282)
Scheduled repayments of capital lease obligations	(2,134)	(1,668)
Prepayments of long-term debt	(29,000)	(2,587)
Advances from affiliate	16,523	51
(Increase) decrease in restricted cash (note 4)	(392,506)	2,422
Cash distributions paid	(14,721)	-
Other	(154)	-

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Net financing cash flow	(334,886)	753
INVESTING ACTIVITIES		
Expenditures for vessels and equipment	(1,542)	(43,962)
Proceeds from sale of vessels and equipment <i>(note 4)</i>	312,972	63,026
Net investing cash flow	311,430	19,064
(Decrease) increase in cash and cash equivalents	(7,068)	37,095
Cash and cash equivalents, beginning of the period	34,469	156,410
Cash and cash equivalents, end of the period	27,401	193,505

Please see Note 6 for supplemental cash flow disclosure.

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

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES (Note 1)
(Successor to Teekay Luxembourg S.a.r.l.)
UNAUDITED CONSOLIDATED STATEMENT OF PARTNERS' EQUITY/STOCKHOLDER DEFICIT
(in thousands of U.S. dollars and units)

	PARTNERS' EQUITY							Acc O Comp
	Limited Partners							
	Stockholder Deficit (Predecessor)	Common		Subordinated		General Partner		
	\$	Units	\$	Units	\$	\$		
Balance as at December 31, 2004	(123,002)	-	1	-	-	-	-	
Net income (January 1 - May 9, 2005)	29,215	-	-	-	-	-	-	
Unrealized loss on derivative instruments <i>(note 11)</i>	(22,874)	-	-	-	-	-	-	
Reclassification adjustment for loss on derivative instruments included in net income <i>(note 11)</i>	14,359	-	-	-	-	-	-	
Sale of the <i>Santiago Spirit</i> <i>(note 10g)</i>	(3,115)	-	-	-	-	-	-	
Balance as at May 9, 2005	(105,417)	-	1	-	-	-	-	
Equity contribution by Teekay Shipping Corporation <i>(note 1)</i>	105,417	8,734	211,788	14,735	357,318	11,614	(5)	
Proceeds from initial public offering of limited partnership interests, net of offering costs								

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of \$16,089 (note 2)	-	6,900	135,711	-	-	-
Proceeds from follow-on public offering of limited partnership interests, net of offering costs of \$5,832 (note 2)	-	4,600	120,208	-	-	2,572
Issuance of units to non-employee directors (note 2)	-	4	-	-	-	-
Net income (May 10 - December 31, 2005)	-	-	23,716	-	16,951	9,665
Cash distributions	-	-	(10,137)	-	(9,551)	(402)
Unrealized loss on derivative instruments (note 11)	-	-	-	-	-	-
Reclassification adjustment for loss on derivative instruments included in net income (note 11)	-	-	-	-	-	-
Purchase of three Suezmax tankers from Teekay Shipping Corporation	-	-	(15,773)	-	(11,483)	(556)
Balance as at December 31, 2005	-	20,238	465,514	14,735	353,235	22,893
Net income (January 1 - March 31, 2006)	-	-	753	-	-	15
Cash distributions	-	-	(8,348)	-	(6,078)	(295)
Unrealized gain on derivative instruments (notes 9 and 11)	-	-	-	-	-	-
Reclassification adjustment for loss on derivative instruments included in net income (notes 9 and 11)	-	-	-	-	-	-
Offering costs from follow-on public offering of limited partnership interests (note 2)	-	-	(169)	-	-	-
Balance as at March 31, 2006	-	20,238	457,750	14,735	347,157	22,613

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

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

(Successor to Teekay Luxembourg S.a.r.l.)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

1. Basis of Presentation

On April 30, 2004, Teekay Shipping Corporation through its subsidiary, Teekay Luxembourg S.a.r.l (or *Luxco*), acquired all of the outstanding shares of Naviera F. Tapias S.A. and its subsidiaries (or *Tapias*) and renamed it Teekay Shipping Spain S.L. (or *Teekay Spain*). Teekay Shipping Corporation acquired Teekay Spain for \$298.2 million in cash, plus the assumption of debt and remaining newbuilding commitments.

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On November 3, 2004, Teekay Shipping Corporation formed Teekay LNG Partners L.P., a Marshall Islands limited partnership (or the *Partnership*), to own and operate the liquefied natural gas (or *LNG*) and Suezmax crude oil marine transportation businesses conducted by Luxco and its subsidiaries (collectively, the *Predecessor*). On May 6, 2005, Teekay Shipping Corporation contributed all of the outstanding shares of Luxco, all but \$54.9 million of the notes receivable from Luxco, and all of the equity interests of Granada Spirit L.L.C., which owned the Suezmax tanker, the *Granada Spirit*, to the Partnership in connection with the Partnership's initial public offering on May 10, 2005 of 6.9 million common units, which represent limited partner interests in the Partnership. The Partnership subsequently repaid the \$54.9 million note receivable.

In exchange for these shares, equity interests and assets, Teekay Shipping Corporation received 8,734,572 common units and 14,734,572 subordinated units, which represented a 75.7% limited partner interest in the Partnership. The Partnership's general partner, Teekay GP L.L.C. (or the *General Partner*) received a 2% general partner interest and all of the incentive distribution rights in the Partnership. Teekay GP L.L.C. is a wholly-owned subsidiary of Teekay Shipping Corporation. During November 2005, the Partnership issued in a public offering an additional 4.6 million common units, effectively reducing Teekay Shipping Corporation's limited partnership interest to 65.8% (please see Note 2).

The accompanying unaudited consolidated interim financial statements include the accounts of Luxco and its subsidiaries, which include Teekay Spain, for periods subsequent to April 30, 2004 and prior to May 10, 2005. The results for the periods subsequent to April 30, 2004 reflect the comprehensive revaluation of all assets (including intangible assets and goodwill) and liabilities of Teekay Spain at their fair values on the date of acquisition. For periods subsequent to May 10, 2005, the consolidated financial statements include the accounts of Teekay LNG Partners L.P., its subsidiaries (which include, among others, Luxco and Teekay Spain), and Teekay Nakilat Corporation (or *Teekay Nakilat*), a variable interest entity for which the Partnership is the primary beneficiary (please see Note 12). The transfer to the Partnership of the shares of and notes receivable from Luxco and equity interests of Granada Spirit L.L.C. represented a reorganization of entities under common control and, consequently, was recorded at historical cost. The book value of these assets on their transfer was \$633.9 million.

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States. Certain information and footnote disclosures required by generally accepted accounting principles in the United States for complete annual financial statements have been omitted and, therefore, these interim financial statements should be read in conjunction with the Partnership's audited consolidated financial statements for the year ended December 31, 2005. In the opinion of the General Partner's management, these interim statements reflect all adjustments (consisting only of normal recurring accruals) necessary to present fairly, in all material respects, the Partnership's consolidated financial position, results of operations, changes in partners' equity and cash flows for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of those for a full fiscal year. Significant intercompany balances and transactions have been eliminated upon consolidation.

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES (Successor to Teekay Luxembourg S.a.r.l.)

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

2. Public Offerings

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On May 10, 2005, the Partnership completed its initial public offering (or the *IPO*) of 6.9 million common units at a price of \$22.00 per unit. During November 2005, the Partnership issued in a follow-on public offering an additional 4.6 million common units at a price of \$27.40 per unit (or the *Follow-On Offering*). Concurrent with the Follow-On Offering, the General Partner contributed \$2.6 million to the Partnership to maintain its 2% general partner interest.

The proceeds received by the Partnership from the public offerings and the use of those proceeds are summarized as follows:

	IPO \$	Follow-On Offering \$	T
Proceeds received:			
Sale of 6,900,000 common units at \$22.00 per unit.....	151,800	-	15
Sale of 4,600,000 common units at \$27.40 per unit.....	-	126,040	12
General Partner contribution.....	-	2,572	
	151,800	128,612	28
Use of proceeds from sale of common units:			
Underwriting and structuring fees.....	10,473	5,042	1
Professional fees and other offering expenses to third parties.....	5,616	959	
Repayment of advances from Teekay Shipping Corporation.....	129,400	-	12
Purchase of three Suezmax tankers from Teekay Shipping Corporation.....	-	122,611	12
Working capital.....	6,311	-	
	151,800	128,612	28

Concurrently with the IPO, the Partnership awarded 700 common units as compensation to each of the Partnership's five non-employee directors. These common units reverse vest equally over a three-year period.

3. Segment Reporting

The Partnership has two reportable segments: its LNG carrier segment and its Suezmax tanker segment. The Partnership's LNG carrier segment consists of LNG carriers subject to fixed-rate time charters. The Partnership's Suezmax tanker segment consists of conventional crude oil tankers operating on fixed-rate time-charter contracts. Segment results are evaluated based on income from vessel operations. The accounting policies applied to the reportable segments are the same as those used in the preparation of the Partnership's audited consolidated financial statements for the year ended December 31, 2005.

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
(Successor to Teekay Luxembourg S.a.r.l.)
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)
(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data)

The following tables include results for these segments for the interim periods presented in these financial statements.

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	Three Months Ended March 31,				
	2006			2005	
	LNG Carrier Segment \$	Suezmax Tanker Segment \$	Total \$	LNG Carrier Segment \$	Suezmax Tanker Segment \$
Voyage revenues.....	23,700	20,441	44,141	24,264	10,500
Voyage expenses.....	-	277	277	48	144
Vessel operating expenses.....	3,802	5,159	8,961	4,343	3,651
Depreciation and amortization....	7,678	4,981	12,659	7,522	2,689
General and administrative (1) ..	1,403	1,692	3,095	755	755
Income from vessel operations....	10,817	8,332	19,149	11,596	3,261
Expenditures for vessels and equipment.....	1,542	-	1,542	-	43,962

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

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

	As at March 31, 2006 \$	As at December 31, 2005 \$
Total assets of the LNG carrier segment.....	1,704,489	1,576,990
Total assets of the Suezmax tanker segment.....	445,204	448,525
Cash and cash equivalents.....	27,401	34,469
Accounts receivable and other assets.....	13,890	10,831
Consolidated total assets	2,190,984	2,070,815

4. Capital Lease Obligations and Restricted Cash

Capital Leases

LNG Carriers. As at March 31, 2006, the Partnership was a party to capital leases on two LNG carriers, which are structured as Spanish tax leases. Under the terms of the Spanish tax leases, the Partnership will purchase these vessels at the end of their respective lease terms in 2006 and 2011, both of which purchase obligations have been fully funded with restricted cash deposits described below. As at March 31, 2006 and December 31, 2005, the weighted-average interest rate implicit in the Spanish tax leases was 5.7%. As at March 31, 2006, the commitments under these capital leases, including the purchase obligations, approximated 288.2 million Euros (\$349.3 million), including imputed interest of 40.7 million Euros (\$49.3 million), repayable as follows:

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<u>Year</u>	<u>Commitment</u>
2006.....	123.2 million Euros (\$149.3 million)
2007.....	23.3 million Euros (\$28.2 million)
2008.....	24.4 million Euros (\$29.6 million)
2009.....	25.6 million Euros (\$31.1 million)
2010.....	26.9 million Euros (\$32.6 million)
Thereafter.....	64.8 million Euros (\$78.5 million)

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

(Successor to Teekay Luxembourg S.a.r.l.)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)

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

During January 2006, three subsidiaries of Teekay Nakilat, each of which has contracted to have built one LNG carrier, sold their shipbuilding contracts to SeaSpirit Leasing Limited (or *SeaSpirit*) for proceeds of \$313.0 million. Concurrent with the sale, Teekay Nakilat entered into 30-year leases, commencing upon the completion of vessel construction, for these three LNG carriers (please see Note 12).

Suezmax Tankers. As at March 31, 2006, the Partnership was a party to capital leases on five Suezmax tankers. Under the terms of the lease arrangements, which include the Partnership's contractual right to full operation of the vessels pursuant to bareboat charters, the Partnership is required to purchase these vessels for a fixed price after the end of their respective lease terms, which will occur at various times from 2007 to 2010. The weighted-average interest rate implicit in these capital leases at the inception of the leases was 7.4%. These capital leases are variable-rate capital leases; however, any change in our lease payments resulting from changes in interest rates is offset by a corresponding change in the charter hire payments received by the Partnership. As at March 31, 2006, the remaining commitments under these capital leases, including the purchase obligations, approximated \$269.4 million, including imputed interest of \$40.7 million, repayable as follows:

<u>Year</u>	<u>Commitment</u>
2006.....	\$ 19.1 million
2007.....	145.1 million
2008.....	8.6 million
2009.....	8.5 million
2010.....	88.1 million

Restricted cash

Under the terms of the Spanish tax leases for the two LNG carriers, the Partnership is required to have on deposit with financial institutions an amount of cash that, together with interest earned on the deposit, will equal the remaining amounts owing under the leases, including the obligations to purchase the LNG carriers at the end of the lease periods. This amount was 252.3 million Euros (\$305.7 million) and 249.0 million Euros (\$295.0 million) as at March 31, 2006 and December 31, 2005, respectively. These cash deposits are restricted to being used for capital lease payments and have been fully funded with term loans (please see Note 7) and a Spanish government grant. The interest rates earned on the deposits approximate the interest rates implicit in the Spanish tax leases. As at March 31, 2006 and December 31, 2005, the weighted-average interest rate earned on the deposits was 5.2%.

Under the terms of the leases for the three LNG carriers, Teekay Nakilat is required to have on deposit an amount of cash that, together with interest earned on the deposit, will equal the remaining amounts owing under the leases. This amount was \$395.3 million as at March 31, 2006. These cash deposits are restricted to being used for capital lease payments and have been fully funded with term loans and loans from the joint venture partners (please see Note 12). As at March

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31, 2006, the weighted-average interest rate earned on the deposits was 4.7%.

The Partnership also maintains restricted cash deposits relating to certain term loans, which cash totaled \$3.7 million and \$3.3 million as at March 31, 2006 and December 31, 2005, respectively.

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
(Successor to Teekay Luxembourg S.a.r.l.)
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)
(all tabular amounts stated in thousands of U.S. dollars, except unit and per unit data)

5. Intangible Assets and Goodwill

As at March 31, 2006 and December 31, 2005, intangible assets consisted of time-charter contracts with a weighted-average amortization period of 19.2 years.

The carrying amount of intangible assets as at March 31, 2006 and December 31, 2005 is as follows:

	March 31, 2006 \$	December 31, 2005 \$
Gross carrying amount.....	182,552	182,552
Accumulated amortization.....	(15,641)	(13,358)
Net carrying amount.....	166,911	169,194

All intangible assets were recognized on April 30, 2004, when the Predecessor acquired Teekay Spain. Amortization expense of intangible assets for each of the three month-periods ended March 31, 2006 and 2005 was \$2.3 million.

The carrying amount of goodwill as at March 31, 2006 and December 31, 2005 for the Partnership's reporting segments is as follows:

	Suezmax Tanker Segment \$	LNG Carrier Segment \$	Total \$
Balance as at March 31, 2006 and December 31, 2005.....	3,648	35,631	39,279

6. Cash Flows

Cash interest paid by the Partnership during the three months ended March 31, 2006 and 2005 totaled \$11.6 million and \$16.3 million, respectively.

7. Long-Term Debt

March 31, 2006 December 31, 2005

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	\$	\$
U.S. Dollar-denominated Revolving Credit Facility due through 2015.....	23,000	29,000
Euro-denominated Term Loans due through 2023.....	383,901	377,300
	406,901	406,300
Less current portion.....	8,434	8,100
Total.....	398,467	398,200

In connection with the IPO, one of the Partnership's LNG carrier-owning subsidiaries amended its term loan agreement to provide for a \$100.0 million senior secured revolving credit facility, of which \$100.0 million was undrawn at March 31, 2006. Interest payments are based on LIBOR plus a margin and may be used by the Partnership for general partnership purposes and to fund cash distributions. The Partnership is required to reduce all borrowings used to fund cash distributions to zero for a period of at least 15 consecutive days during any 12-month period. The Partnership's obligations under this facility are secured by a first-priority mortgage on one of its LNG carriers, the *Hispania Spirit*, and a pledge of certain shares of the subsidiary operating the carrier. This facility is available to the Partnership until September 2009.

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
(Successor to Teekay Luxembourg S.a.r.l.)
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)
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During December 2005, the Partnership entered into a \$137.5 million nine-year revolving credit facility, of which \$114.5 million was undrawn at March 31, 2006. This facility bears interest at a rate of LIBOR plus a margin and may be used by the Partnership for general partnership purposes. The Partnership's obligations under this facility are secured by a first-priority mortgage on three of its Suezmax tankers and a pledge of certain shares of the subsidiaries operating the Suezmax tankers. This facility contains covenants that require the maintenance of a minimum free liquidity and minimum tangible net worth and provide a maximum leverage ratio.

The Partnership has term loans outstanding, which, as at March 31, 2006, totaled 316.8 million Euros (\$383.9 million) of Euro-denominated loans. These loans were used to make restricted cash deposits that fully fund payments under capital leases (please see Note 4). Interest payments on the Euro-denominated term loans are based on EURIBOR plus a margin. The term loans reduce in monthly payments with varying maturities through 2023. All term loans of the Partnership are collateralized by first-preferred mortgages on the vessels to which the loans relate, together with certain other collateral and guarantees from Teekay Spain.

At March 31, 2006 and December 31, 2005, the margins on our term loans and revolving credit facilities ranged from 0.5% and 1.3%.

The weighted-average effective interest rate for U.S. Dollar-denominated debt outstanding at March 31, 2006 and December 31, 2005 was 5.5% and 5.6%, respectively. The weighted-average effective interest rate for Euro-denominated debt outstanding at March 31, 2006 and December 31, 2005 was 3.8% and 3.6%, respectively. These rates do not reflect the effect of related interest rate swaps that the Partnership has used to hedge certain of its floating-rate debt (please see Note 11).

All Euro-denominated term loans and Euro-denominated advances from affiliates (prior to the IPO) are revalued at the end of each period using the then prevailing Euro/U.S. Dollar exchange rate. Due substantially to this revaluation, the Partnership recognized foreign exchange losses of \$7.8 million during the three months ended March 31, 2006 and foreign exchange gains of \$45.0 million during the three months ended March 31, 2005.

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The aggregate annual long-term debt principal repayments required for periods subsequent to March 31, 2006 are \$6.3 million (2006), \$8.9 million (2007), \$9.5 million (2008), \$10.2 million (2009), \$11.0 million (2010), and \$361.0 million (thereafter).

All of the Partnership's existing vessel financing is arranged on a vessel-by-vessel basis, and each financing is secured by first-preferred mortgages on the applicable vessel. The Partnership's ship-owning subsidiaries may not, among other things, pay dividends or distributions if the Partnership is in default under the term loans and revolving credit facilities. In addition, the Partnership's term loan for one of its LNG carriers, the *Catalunya Spirit*, contains covenants that require the maintenance of a minimum liquidity of 5.0 million Euros and annual restricted cash deposits of 1.2 million Euros. The Partnership's capital leases do not contain financial or restrictive covenants other than those relating to operation and maintenance of the vessels.

8. Other Income

	Three Months Ended March 31, 2006 \$	2005 \$
	-----	-----
Income tax recovery.....	300	1,356
Miscellaneous.....	308	37
	-----	-----
Other income.....	608	1,393
	=====	=====

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

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9. Comprehensive Income

	Three Months Ended March 31, 2006 \$	2005 \$
	-----	-----
Net income.....	768	41,907
Other comprehensive income:		
Unrealized gain on derivative instruments.....	17,812	2,008
Reclassification adjustment for loss on derivative instruments included in net income.....	2,230	5,113
	-----	-----
Comprehensive income.....	20,810	49,028
	=====	=====

10. Related Party Transactions

- a) The Partnership has entered into an omnibus agreement with Teekay Shipping Corporation, the General Partner and others governing, among other things, when the Partnership and Teekay Shipping Corporation may compete with each other and certain rights of first offer on LNG carriers and Suezmax tankers.

- b) The Partnership and certain of its operating subsidiaries have entered into services agreements with certain subsidiaries of Teekay Shipping Corporation pursuant to which the Teekay Shipping Corporation subsidiaries provide the Partnership with administrative, advisory, technical and

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strategic consulting services. During the three months ended March 31, 2006, the Partnership incurred \$0.9 million of these costs.

- c) The Partnership has entered into an insurance agreement with Teekay Shipping Corporation pursuant to which Teekay Shipping Corporation provides the Partnership with off-hire insurance for its LNG carriers commencing January 1, 2006. During the three months ended March 31, 2006, the Partnership incurred \$0.1 million of this cost.
- d) The Partnership reimburses the General Partner for all expenses necessary or appropriate for the conduct of the Partnership's business. During the three months ended March 31, 2006, the Partnership incurred \$0.1 million of these costs.
- e) The Partnership's Suezmax tanker, the *Toledo Spirit*, which delivered in July 2005, operates pursuant to a time-charter contract that increases or decreases the fixed rate established in the charter, depending on the spot charter rates that the Partnership would have earned had it traded the vessel in the spot tanker market. The Partnership has entered into an agreement with Teekay Shipping Corporation under which Teekay Shipping Corporation pays the Partnership any amounts payable to the charter party as a result of spot rates being below the fixed rate, and the Partnership pays Teekay Shipping Corporation any amounts payable to the Partnership as a result of spot rates being in excess of the fixed rate. During the three months ended March 31, 2006, \$1.8 million was paid or payable by the Partnership to Teekay Shipping Corporation as a result of this agreement.
- f) At March 31, 2006 and December 31, 2005, advances from affiliates totaled \$4.1 million and \$2.2 million, respectively. Advances from affiliates are non-interest bearing and unsecured.
- g) In early 2005, the Partnership completed the sale of the *Santiago Spirit* (a newly constructed, double-hulled Suezmax tanker delivered in March 2005) to a subsidiary of Teekay Shipping Corporation for \$70.0 million. The resulting \$3.1 million loss on sale, net of income taxes, has been accounted for as an equity distribution.

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11. Derivative Instruments and Hedging Activities

The Partnership, including Teekay Nakilat, uses derivatives only for hedging purposes.

As at March 31, 2006, the Partnership was committed to the following interest rate swap agreements related to its LIBOR-based debt, restricted cash deposits and EURIBOR-based debt whereby certain of the Partnership's floating-rate debt and restricted cash deposits were swapped with fixed-rate obligations and fixed-rate deposits:

	Interest Rate Index	Principal Amount \$	Fair Value /Carrying Amount of Asset (Liability) \$	Weighted- Average Remaining Term (years)
LIBOR-Based Debt:				
U.S. Dollar-denominated interest rate swaps (2).....	LIBOR	387,519	29,198	30.8
U.S. Dollar-denominated interest				

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rate swaps (2) (3)	LIBOR	234,000	(15,205)	12.0
LIBOR-Based Restricted				
Cash Deposit:				
U.S. Dollar-denominated interest				
rate swaps (2)	LIBOR	392,137	(35,050)	30.8
EURIBOR-Based Debt:				
Euro-denominated interest rate				
swaps (4)	EURIBOR	383,901	7,867	18.2
	=====	=====	=====	=====

- (1) Excludes the margin the Partnership pays on its floating-rate debt. (Please see Note 7).
- (2) U.S. Dollar-denominated interest rate swaps are held in Teekay Nakilat.
- (3) Inception dates of swaps are December 2006 (\$78.0 million) and March and June of 2007 (\$156.0 million).
- (4) Principal amount reduces monthly to 70.1 million Euros (\$84.9 million) by the maturity dates of the swap agreements.

During April 2005, the Predecessor repaid term loans of \$337.3 million on two LNG carriers and settled related interest rate swaps. The Predecessor recognized a loss of \$7.8 million as a result of these interest rate swap settlements. During April 2005, the Predecessor also settled interest rate swaps associated with 322.8 million Euros (\$390.5 million) of term loans and entered into new swaps of the same amount with a lower fixed interest rate. A loss of 39.2 million Euros (\$50.4 million) relating to these interest rate swap settlements has been deferred in accumulated other comprehensive income and is being recognized over the remaining terms of the term loans. The cost to settle all of these interest rate swaps was \$143.3 million.

Changes in the fair value of the designated interest rate swaps (cash flow hedges) have been recognized in other comprehensive income until the hedged item is recognized in income. The ineffective portion of a derivative's change in fair value is immediately recognized into income and is presented as interest expense. During the three months ended March 31, 2006, the ineffective portion of the Partnership's interest rate swaps was nominal.

The Partnership is exposed to credit loss in the event of non-performance by the counter parties to the interest rate swap agreements; however, counterparties to these agreements are major financial institutions and the Partnership considers the risk of loss due to non-performance to be minimal. The Partnership requires no collateral from these institutions.

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12. Commitments and Contingencies

The Partnership has entered into an agreement with Teekay Shipping Corporation to purchase its 70% interest in Teekay Nakilat and the related 20-year time charters. Teekay Nakilat has a 30-year lease arrangement for three LNG carriers currently under construction. The purchase will occur upon the delivery of the first newbuilding under capital lease, which is scheduled during the fourth quarter of 2006. The estimated purchase price for the 70% interest in Teekay Nakilat is approximately \$93.0 million, before the expected benefits from the lease arrangements, which are described in further detail below.

In January 2003, the Financial Accounting Standards Board (or *FASB*) issued FASB Interpretation 46, *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* (or *FIN 46*). In general, a variable interest entity (or *VIE*) is a corporation, partnership, limited-liability corporation,

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trust, or any other legal structure used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to make significant decisions about its activities, or (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations. If a party with an ownership, contractual or other financial interest in the VIE (a variable interest holder) is obligated to absorb a majority of the risk of loss from the VIE's activities, is entitled to receive a majority of the VIE's residual returns (if no party absorbs a majority of the VIE's losses), or both, then FIN 46 requires that this party consolidate the VIE. The Partnership has consolidated Teekay Nakilat in its consolidated financial statements, as Teekay Nakilat is a VIE and the Partnership is its primary beneficiary. The assets and liabilities of Teekay Nakilat in the Partnership's financial statements are recorded at historical cost as the Partnership and Teekay Nakilat are under common control.

During January 2006, three subsidiaries of Teekay Nakilat, each of which has contracted to have built one LNG carrier sold their shipbuilding contracts to SeaSpirit for proceeds of \$313.0 million, which approximated the accumulated construction costs incurred to that date. Concurrent with the sale, Teekay Nakilat entered into 30-year leases, commencing upon the completion of vessel construction, for these three LNG carriers. The proceeds from the sale were used to partially fund restricted cash deposits, which totaled \$395.3 million as at March 31, 2006. During vessel construction, the amount of restricted cash approximates the accumulated vessel construction costs and is expected to increase by approximately \$137.2 million during the remaining construction period. Teekay Nakilat has long-term financing arrangements in place to fund its remaining funding commitments of these restricted cash deposits. Under the terms of the leases and upon vessel delivery, the Partnership is required to have on deposit an amount of cash that, together with interest earned on the deposit, will equal the remaining amounts owing under the leases. The benefits of these lease arrangements will be received subsequent to the Partnership's purchase of Teekay Shipping Corporation's 70% interest in Teekay Nakilat. Consequently, the Partnership's 70% share of these benefits, which is expected to be \$40 million, will be obtained by a reduction in lease payments for the three LNG carriers instead of a reduction in the purchase price of the 70% interest in Teekay Nakilat.

The following table summarizes the balance sheet of Teekay Nakilat at March 31, 2006 and December 31, 2005.

	March 31, 2006 \$	Dec 2005
	-----	-----
ASSETS		
Prepaid expenses and other current assets.....	1,107	
Restricted cash - long-term.....	395,320	
Advances on newbuilding contracts.....	-	
Other assets.....	40,565	
	-----	-----
Total assets.....	436,992	
	=====	=====

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	March 31, 2006 \$	Dec 2005
	-----	-----
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Accrued liabilities.....	3,338	
Debt related to newbuilding vessels to be leased (please see table		

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below).....	405,483	3
Other long-term liabilities.....	50,255	
Total liabilities	459,076	3
Total shareholders' deficit	(22,084)	(
Total liabilities and shareholders' deficit	436,992	3

Teekay Nakilat's assets have been financed with the following debt financing:

	March 31, 2006 \$	Dec
U.S. Dollar-denominated Term Loans due through 2019.....	274,510	2
Interest-bearing Shareholder Loans of Teekay Nakilat.....	113,017	1
Non-interest bearing Shareholder Loans of Teekay Nakilat.....	17,956	
	405,483	3
Less current portion.....	2,076	
Total.....	403,407	3

Teekay Nakilat has U.S. Dollar-denominated term loans outstanding, which, as at March 31, 2006, totaled \$274.5 million. Interest payments on these term loans are based on LIBOR plus margins. At March 31, 2006 and December 31, 2005, these margins ranged between 0.9% and 1.05%. The term loans reduce in quarterly payments commencing three months after delivery of each LNG newbuilding. Once fully drawn, the loans will have approximately \$56.0 million per vessel in bullet repayments, due at maturity. Upon delivery of the first LNG carrier under capital lease, a portion of the term loans will be drawn to repay the non-interest bearing shareholder loans of Teekay Nakilat. All term loans are collateralized by first-preferred mortgages on the vessels to which the loans relate, together with certain other collateral and guarantees from Teekay Shipping Corporation. The creditors of Teekay Nakilat do not have recourse to the Partnership.

During December 2005, \$111.7 million of Teekay Nakilat's equity owned by Teekay Shipping Corporation (\$78.2 million) and Qatar Gas Transport Company Ltd. (Nakilat) (\$33.5 million) was converted to interest-bearing shareholder loans. Interest payments on these loans are based on a fixed interest rate of 4.84% and are payable commencing one year after the delivery of the third LNG carrier. These loans are unsecured and are repayable on demand.

The aggregate annual long-term debt principal repayments of Teekay Nakilat required for periods subsequent to March 31, 2006 are \$0.0 (2006), \$11.4 million (2007), \$14.6 million (2008), \$14.6 million (2009), \$14.6 million (2010), and \$219.3 million (thereafter).

The Partnership's maximum exposure to loss at March 31, 2006, as a result of its commitment to purchase Teekay Shipping Corporation's interest in Teekay Nakilat, is limited to the purchase price of its 70% interest in Teekay Nakilat.

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Cont d)

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13. Net Income Per Unit

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Net income per unit is determined by dividing net income, after deducting the amount of net income allocated to the General Partner's interest from the issuance date of the units of May 10, 2005, as described below, by the weighted-average number of units outstanding during the period. For periods prior to May 10, 2005, such units are deemed equal to the common and subordinated units received by Teekay Shipping Corporation in exchange for net assets contributed to the Partnership in connection with the IPO, or 23,469,144 units.

As required by Emerging Issues Task Force Issue No. 03-6, *Participating Securities and Two-Class Method under FASB Statement No. 128, Earnings Per Share*, the general partner's, common unit holders' and subordinated unitholders' interests in net income are calculated as if all net income for periods subsequent to May 10, 2005 were distributed according to the terms of the Partnership Agreement, regardless of whether those earnings would or could be distributed. The Partnership Agreement does not provide for the distribution of net income; rather, it provides for the distribution of available cash, which is a contractually defined term that generally means all cash on hand at the end of each quarter after establishment of cash reserves. Unlike available cash, net income is affected by non-cash items. Net income for the three months ended March 31, 2006 was \$0.1 million, which included a \$7.8 million foreign currency translation loss relating primarily to long-term debt denominated in Euros. The limited partners' interest in net income for this period was \$0.1 million. Subsequent to March 31, 2006, cash distributions declared and paid to the limited partners for the three months ended March 31, 2006 totaled \$16.2 million.

Under the Partnership Agreement, the holder of the incentive distribution rights in the Partnership, which is currently the General Partner, has the right to receive an increasing percentage of cash distributions after the minimum quarterly distribution. Assuming there are no cumulative arrearages on common unit distributions, the target distribution levels entitle the General Partner to receive 2% of quarterly cash distributions up to \$0.4625 per unit, 15% of quarterly cash distributions between \$0.4625 and \$0.5375 per unit, 25% of quarterly cash distributions between \$0.5375 and \$0.65 per unit, and 50% of quarterly cash distributions in excess of \$0.65 per unit. During the three months ended March 31, 2006, net income did not exceed \$0.4625 per unit and, consequently, the assumed distributions of net income did not result in the use of the increasing percentages to calculate the General Partner's interest in net income.

Under the Partnership Agreement, during the subordination period the common units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of \$0.4125 per quarter, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. During the three months ended March 31, 2006, net income did not exceed the minimum quarterly distribution of \$0.4125 per unit and, consequently, the assumed distributions of net income resulted in unequal distributions of net income between the subordinated unit holders and common unit holders.

14. Other Information

- a) In July 2005, Teekay Shipping Corporation announced that it had been awarded long-term, fixed-rate contracts to charter two LNG carriers to the Tangguh LNG project in Indonesia. The carriers will be chartered for a period of 20 years to The Tangguh Production Sharing Contractors, a consortium led by BP Berau Ltd., a subsidiary of BP plc. In connection with this award, Teekay Shipping Corporation has exercised shipbuilding options with Hyundai Heavy Industries Co. Ltd. to construct two 155,000 cubic meter LNG carriers at a total delivered cost of approximately \$450 million. The charters will commence upon vessel deliveries, which are scheduled for late 2008 and early 2009. Teekay Shipping Corporation is entering into these transactions with an Indonesian partner that has taken a 30% interest in the vessels and related contracts. In accordance with an existing agreement, Teekay Shipping Corporation is required to offer to the Partnership its 70% ownership interest in these vessels and related charter contracts.

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- b) In August 2005, Teekay Shipping Corporation announced that it had been awarded long-term, fixed-rate contracts to charter four LNG carriers to Ras Laffan Liquefied Natural Gas Co. Limited (3) (or *RasGas 3*), a joint venture company between a subsidiary of ExxonMobil Corporation and Qatar Petroleum. The vessels will be chartered to RasGas 3 at fixed rates, with inflation adjustments, for a period of 25 years (with options exercisable by the customer to extend up to an additional 10 years). In connection with this award, Teekay Shipping Corporation has entered into agreements with Samsung Heavy Industries Co. Ltd. to construct four 217,000 cubic meter LNG carriers at a total delivered cost of approximately \$1.1 billion. The charters will commence upon vessel deliveries, which are scheduled for the first half of 2008. Teekay Shipping Corporation is entering into these transactions with Qatar Gas Transport Company Ltd. (Nakilat), which has taken a 60% interest in the vessels and related contracts. In accordance with an existing agreement, Teekay Shipping Corporation is required to offer to the Partnership its 40% ownership interest in these vessels and related charter contracts.

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
MARCH 31, 2006
PART I FINANCIAL INFORMATION

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

General

Teekay LNG Partners L.P. is an international provider of liquefied natural gas (or *LNG*) and crude oil marine transportation services. Our growth strategy focuses on expanding our fleet of LNG carriers under long-term, fixed-rate time charters. We intend to continue our practice of acquiring LNG 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. We seek to capitalize on opportunities emerging from the global expansion of the LNG sector by selectively targeting long-term, fixed-rate time charters. We may enter into joint ventures and partnerships with companies that may provide increased access to these opportunities or may engage in vessel or business acquisitions. We plan to leverage the expertise, relationships and reputation of Teekay Shipping Corporation and its affiliates to pursue these growth opportunities in the LNG sector and may consider other opportunities to which our competitive strengths are well suited. We view our Suezmax tanker fleet primarily as a source of stable cash flow as we expand our LNG operations.

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

LNG Carrier Segment. We have four LNG carriers, all of which operate under long-term, fixed-rate charters.

In addition, we have entered into an agreement with Teekay Shipping Corporation to purchase its 70% interest in Teekay Nakilat Corporation (or *Teekay Nakilat*) and the related 20-year time charters. Teekay Nakilat has a 30-year lease arrangement on three LNG carriers currently under construction. The purchase will occur upon the delivery of the first newbuilding under capital lease, which is scheduled during the fourth quarter of 2006. The remaining two newbuildings under capital lease are scheduled for delivery in the first half of 2007. Upon their deliveries, these vessels will commence service under existing charters with Ras Laffan Liquefied Natural Gas Co. Limited (II) (or *RasGas II*), a joint venture between Qatar Petroleum and ExxonMobil RasGas Inc., a subsidiary of ExxonMobil Corporation, established for the purpose of expanding LNG production in Qatar. Please read Item 1 Financial Statements: Note 12 Commitments and Contingencies.

During the three months ended March 31, 2006 and 2005, our LNG carrier segment generated 54.0% and 70.0%, respectively, of our total net voyage revenues.

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Suezmax Tanker Segment. We have eight Suezmax class crude oil tankers, including a new tanker, the *Toledo Spirit*, that delivered in July 2005 and three double-hulled Suezmax tankers we acquired from Teekay Shipping Corporation in November 2005. In May 2005, we sold our only single-hulled Suezmax tanker, the *Granada Spirit*. During the three months ended March 31, 2005, we had four Suezmax tankers. Please read Follow-On Offering and Acquisition of Three Suezmax Tankers below. We describe our Suezmax tanker dispositions and deliveries in more detail under Results of Operations below. All of our Suezmax tankers operate under long-term, fixed-rate time charters.

During the three months ended March 31, 2006 and 2005, our Suezmax tanker segment generated 46.0% and 30.0%, respectively, of our total net voyage revenue.

Our original fleet was established by Naviera F. Tapias S.A. (or *Tapias*), a Spanish company founded in 1991. Teekay Shipping Corporation, through its subsidiary Teekay Luxembourg S.a.r.l. (or *Luxco*), acquired Tapias on April 30, 2004 and changed its name to Teekay Shipping Spain S.L. (or *Teekay Spain*).

Our Initial Public Offering

On November 3, 2004, Teekay Shipping Corporation formed us to own and operate the LNG and Suezmax crude oil marine transportation businesses conducted by Luxco and its subsidiaries. On May 6, 2005, Teekay Shipping Corporation contributed to us all of the outstanding shares of Luxco, all but \$54.9 million of notes receivable from Luxco, and all of the equity interests of Granada Spirit L.L.C., which owned the Suezmax tanker, the *Granada Spirit*, in connection with our initial public offering on May 10, 2005. We subsequently repaid the \$54.9 million note receivable.

In exchange for these shares, equity interests and assets, Teekay Shipping Corporation received 8,734,572 common units and 14,734,572 subordinated units, which represented a 75.7% limited partner interest in us. Our general partner, Teekay GP L.L.C., received a 2% general partner interest and all of the incentive distribution rights in us. Teekay GP L.L.C. is a wholly-owned subsidiary of Teekay Shipping Corporation. We sold 6.9 million of our common units, which represent limited partner interests, in our initial public offering at a price of \$22.00 per unit, for net proceeds of \$135.7 million, net of \$16.1 million of underwriting costs and offering expenses. Please read Item 1- Financial Statements: Note 2 Public Offerings.

New Long-Term, Fixed-Rate LNG Contracts Awarded

In July and August 2005, Teekay Shipping Corporation announced that it has been awarded new long-term, fixed-rate time charter contracts to transport LNG and has entered into agreements to construct a total of six LNG carriers in connection with these awards. Two of the LNG carriers will be chartered for a period of 20 years to The Tangguh Production Sharing Contractors, and four will be chartered for a period of 25 years (with options to extend up to an additional 10 years) to Ras Laffan Liquefied Natural Gas Co. Limited (3). Partners in each of these projects will participate in the ownership of the time charters and related vessels, and Teekay Shipping Corporation will offer to us its interest in these charters and vessels. Please read Item 1 Financial Statements: Note 14 Other Information.

Follow-On Offering and Acquisition of Three Suezmax Tankers

In November 2005, we completed our follow-on public offering of 4.6 million common units at a price of \$27.40 per unit. Net proceeds from the offering were \$120.0 million, net of \$6.0 million of underwriting costs and offering expenses. In addition, our general partner contributed \$2.6 million to us to maintain its 2% general partner interest. Please read Item 1 Financial Statements: Note 2 Public Offerings.

Concurrently with the closing of the offering, we acquired from Teekay Shipping Corporation three double-hulled Suezmax oil tankers and related long-term, fixed-rate time charters for an aggregate price of \$180.0 million. These vessels, the *African Spirit*, the *Asian Spirit* and the *European Spirit* (collectively, the *ConocoPhillips Tankers*), are similar in size to our other five crude oil tankers. The ConocoPhillips Tankers have an average age of two years and are chartered to a subsidiary of ConocoPhillips, an international, integrated energy company. Each time charter has a remaining scheduled term of approximately 10 years, subject to termination and vessel sale and purchase rights. In addition, ConocoPhillips has the option to extend the charters for up to an additional six years.

Our Charters

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

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

Voyage charters, which are charters for shorter intervals, usually a single round trip, that are priced on a current, or spot, market rate.

During the three months ended March 31, 2006 and 2005, we derived 100.0% of our revenues from time charters. We do not anticipate earning revenues from voyage charters in the foreseeable future.

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

The time charters for the ConocoPhillips Tankers include a fixed monthly rate for their initial 12-year term, which increases to another fixed amount for any extensions of the initial term. These time charters do not include capital or operating components or adjust for inflation.

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

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

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

When a vessel is off-hire or not available for service generally the customer is not required to pay the hire rate and we are responsible for all costs. Commencing January 1, 2006, Teekay Shipping Corporation began providing off-hire insurance for our LNG carriers. 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.