Teekay LNG Partners L.P.
Form 6-K/A
December 02, 2008

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

FORM 6-K/A
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, 2008
Commission file number 1- 32479
TEEKAY LNG PARTNERS L.P.
(Exact name of Registrant as specified in its charter)
4th Floor, Belvedere Building
69 Pitts Bay Road
Hamilton, HM 08 Bermuda
(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 þ Form 40-F o
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 o No þ
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).
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Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.
Yes o No þ
If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-__________

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EXPLANATORY NOTE

Teekay LNG Partners L.P. (generally referred to herein as *the Partnership*, *we*, *our* or *us*) is filing this Quarterly Report on Form 6-K/A for the period ended March 31, 2008 (this *Amendment* or this *First Quarter 2008 Form 6-K/A Report*) to amend our Quarterly Report on Form 6-K for the period ended March 31, 2008 (the *Original Filing*) that was filed with the Securities and Exchange Commission (or *SEC*) on May 28, 2008.

a. Derivative Instruments and Hedging Activities

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

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

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

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

b. Vessels Acquired from Teekay Corporation

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

The impact of retroactive Dropdown Predecessor adjustments does not affect our limited partners interest in net income, earnings per unit, or cash distributions to partners. However, the impact of the retroactive Dropdown Predecessor adjustments has resulted in changes in previously reported statement of cash flows for the three months ended March 31, 2007.

c. Gross-up Presentation of RasGas 3 Joint Venture and Other

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

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Through a wholly-owned subsidiary, which is a variable interest entity (or *VIE*) for us, Teekay Corporation owns a 40 percent interest in the four RasGas 3 LNG carriers. The joint venture partner, a wholly-owned subsidiary of Qatar Gas Transport Company, owns the remaining 60 percent interest. Both wholly-owned subsidiaries are joint and several co-borrowers with respect to the RasGas 3 term loan and related interest rate swap agreements. Previously, we recorded 40 percent of the RasGas 3 term loan and interest rate swap obligations in our financial statements. We have made adjustments to our balance sheet to reflect 100 percent of the RasGas 3 term loan (March 31, 2008 $360.6 million; December 31, 2007 $360.6 million) and interest rate swap obligations (March 31, 2008 $21.4 million; December 31, 2007 $9.6 million), as well as offsetting increases in assets, for the fourth quarter of 2006 through the first quarter of 2008. We have also made adjustments to our statements of (loss) income to reflect 100 percent of the interest expense (three months ended March 31: 2008 $4.6 million; 2007 $2.8 million) on the RasGas 3 term loan with an offsetting amount to interest income from our advances to the joint venture. These RasGas 3 adjustments do not result in any increase to our net exposure in this joint venture. We have also restated certain other items primarily related to accounting for the non-controlling interest in our joint venture and VIEs.

As a result of the conclusions described above, we are restating in this First Quarter 2008 Form 6-K/A Report our historical balance sheets as of March 31, 2008 and December 31, 2007; our statements of (loss) income and cash flows for the three months ended March 31, 2008 and 2007; and statement of changes in partners equity for the three months ended March 31, 2008.

Note 16 of the notes to the consolidated financial statements included in this First Quarter 2008 Form 6-K/A Report reflects the changes to our consolidated financial statements as a result of our restatement and provides additional information about the restatement.

To restate results for certain prior fiscal years based on the conclusions of the assessments described above, we have also filed a 2007 Annual Report on Form 20-F/A to amend our Annual Report on Form 20-F for the year ended December 31, 2007 that was filed with the SEC on April 11, 2008. The 2007 Annual Report on Form 20-F/A restates certain financial information, including: historical balance sheets as of December 31, 2007 and 2006; statements of income, cash flows and changes in partners equity for the years ending 2007, 2006, and 2005; and selected financial data as of and for the years ended December 31, 2007, 2006, 2005, 2004 and 2003.

For the convenience of the reader, this First Quarter 2008 Form 6-K/A Report sets forth the Original Filing in its entirety, although we are only restating portions of Part I. Financial Information affected by the amended financial information. The changes we have made are a result of and reflect the restatement described herein; no other information in the Original Filing has been updated.

Except for the amended or restated information described above, this First Quarter 2008 Form 6-K/A Report continues to speak as of the date of the Original Filing. Other events occurring after the filing of the Original Filing or other disclosures necessary to reflect subsequent events have been or will be addressed in other reports filed with the SEC subsequent to the date of the Original Filing.

We do not intend to amend previously-filed Reports on Form 6-K for quarterly periods ending prior to December 31, 2007. As a result, the reader should rely not on our prior filings, but should rely upon the restated financial statements, reports of our independent registered public accounting firm and related financial information for affected periods contained in this First Quarter 2008 Form 6-K/A Report.

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
REPORT ON FORM 6-K/A FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008
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TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES (Note 1)
UNAUDITED CONSOLIDATED STATEMENTS OF (LOSS) INCOME
(in thousands of U.S. dollars, except unit and per unit data)

	Restated Note 16 Three Months Ended March 31, 2008 $	2007 $
VOYAGE REVENUES *(notes 10 and 11)*	63,328	59,702
OPERATING EXPENSES *(note 10)*		
Voyage expenses	295	266
Vessel operating expenses	15,400	13,821
Depreciation and amortization	16,072	15,819
General and administrative	3,960	3,518
Total operating expenses	35,727	33,424
Income from vessel operations	27,601	26,278
OTHER ITEMS		
Interest expense *(notes 4, 7 and 11)*	(102,480)	(24,840)
Interest income *(note 11)*	42,791	9,883
Foreign currency exchange loss *(note 7)*	(33,891)	(4,800)
Other loss net *(note 8)*	(145)	(716)
Total other items	(93,725)	(20,473)
(Loss) Income before non-controlling interest	(66,124)	5,805
Non-controlling interest	23,006	659
Net (loss) income	(43,118)	6,464
General partner s interest in net (loss) income	(862)	129
Limited partners interest: *(note 14)*		
Net (loss) income	(42,256)	6,335
Net (loss) income per:		
Common unit (basic and diluted)	(1.13)	0.31
Subordinated unit (basic and diluted)	(1.13)	
Total unit (basic and diluted)	(1.13)	0.18
Weighted-average number of units outstanding:		
Common units (basic and diluted)	22,540,547	20,240,547
Subordinated units (basic and diluted)	14,734,572	14,734,572
Total units (basic and diluted)	37,275,119	34,975,119

Cash distributions declared per unit	0.53	0.4625

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

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TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES (Note 1)
UNAUDITED CONSOLIDATED BALANCE SHEETS
(in thousands of U.S. dollars)

	As at March 31, 2008 $ (Restated Note 16)	As at December 31, 2007 $
ASSETS		
Current		
Cash and cash equivalents	94,593	91,891
Restricted cash current *(note 4)*	31,235	26,662
Accounts receivable	6,405	10,668
Prepaid expenses	4,814	5,119
Other current assets *(notes 2 and 11)*	12,097	1,294
Advances to joint venture partner *(note 6)*	4,600	
Advances to joint venture *(note 10g)*	11,268	7,512
Total current assets	165,012	143,146
Restricted cash long-term *(note 4)*	663,321	652,567
Vessels and equipment *(note 7)*		
At cost, less accumulated depreciation of $94,340 (2007 $88,351)	655,693	661,673
Vessels under capital lease, at cost, less accumulated depreciation of $82,241 (2007 $74,441) *(note 4)*	926,338	934,058
Advances on newbuilding contracts *(note 12a)*	318,551	240,773
Total vessels and equipment	1,900,582	1,836,504
Investment in and advances to joint venture *(note 10g)*	684,996	685,730
Advances to joint venture partner *(note 6)*	16,848	9,631
Other assets *(notes 2 and 11)*	76,145	71,356
Intangible assets net *(note 5)*	148,652	150,935
Goodwill *(note 5)*	39,279	39,279
Total assets	3,694,835	3,589,148
LIABILITIES AND PARTNERS EQUITY		
Current		
Accounts payable	8,071	8,604
Accrued liabilities *(notes 2 and 11)*	47,216	28,521

Unearned revenue	5,510	5,462
Current portion of long-term debt *(note 7)*	101,051	71,509
Current obligations under capital lease *(note 4)*	154,257	150,791
Advances from joint venture partners (*note 6*)	1,193	615
Advances from affiliates *(note 10k)*	46,352	40,335
Total current liabilities	363,650	305,837
Long-term debt *(note 7)*	1,729,094	1,654,202
Long-term obligations under capital lease *(note 4)*	717,631	706,489
Other long-term liabilities *(notes 2 and 11)*	121,494	73,068
Total liabilities	2,931,869	2,739,596
Commitments and contingencies *(notes 4, 11 and 12)*		
Non-controlling interest	118,374	141,378
Partners equity		
Partners equity	644,592	708,174
Accumulated other comprehensive loss *(note 9)*		
Total partners equity	644,592	708,174
Total liabilities and partners equity	3,694,835	3,589,148

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

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES (Note 1)
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of U.S. dollars)

	Restated	Note 16
	Three Months Ended March 31,	
	2008	2007
	$	$
Cash and cash equivalents provided by (used for)		
OPERATING ACTIVITIES		
Net (loss) income	(43,118)	6,464
Non-cash items:		
Unrealized loss (gain) on derivative instruments *(note 11)*	43,792	(4,645)
Depreciation and amortization	16,072	15,819
Deferred income tax expense	80	649
Foreign currency exchange loss	33,781	4,597
Equity based compensation	88	92
Non-controlling interest	(23,006)	(659)
Accrued interest and other net	1,864	(498)
Change in non-cash working capital items related to operating activities	1,479	(7,849)
Expenditures for drydocking		(164)
Net operating cash flow	31,032	13,806
FINANCING ACTIVITIES		
Proceeds from long-term debt	78,642	326,312
Debt issuance costs	(1,083)	(232)
Excess of purchase price over the contributed basis of Teekay Nakilat Holdings Corporation *(note 10h)*		(2,574)
Distribution to Teekay Corporation for the purchase of Dania Spirit LLC *(note 10i)*		(18,548)
Repayments of long-term debt	(9,154)	(4,422)
Repayments of capital lease obligations	(2,241)	(2,185)
Advances from affiliates	5,708	(415)
Advances from joint venture partners	578	
Repayment of joint venture partner advances		(3,676)
Decrease (increase) in restricted cash	942	(81,966)
Cash distributions paid	(20,552)	(16,506)
Net financing cash flow	52,840	195,788
INVESTING ACTIVITIES		
Advances to joint venture	(3,085)	(151,474)
Purchase of Teekay Nakilat Holdings Corporation *(note 10h)*		(51,152)
Expenditures for vessels and equipment	(78,085)	(849)

Net investing cash flow	(81,170)	(203,475)
Increase in cash and cash equivalents	2,702	6,119
Cash and cash equivalents, beginning of the period	91,891	29,288
Cash and cash equivalents, end of the period	94,593	35,407

Supplemental Cash Flow Information *(note 13)*
The accompanying notes are an integral part of the unaudited consolidated financial statements.

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TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES (Note 1)
UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS EQUITY
(in thousands of U.S. dollars and units)

	Restated Note 16 PARTNERS EQUITY					
	Limited Partners				General	
	Common		Subordinated		Partner	Total
	Units	$	Units	$	$	$
Balance as at December 31, 2007	22,540	454,459	14,735	227,133	26,582	708,174
Net loss		(25,553)		(16,703)	(862)	(43,118)
Cash distributions		(11,947)		(7,809)	(796)	(20,552)
Equity based compensation		52		34	2	88
Balance as at March 31, 2008	22,540	417,011	14,735	202,655	24,926	644,592

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

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TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
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

The unaudited interim consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (or *GAAP*). These financial statements include the accounts of Teekay LNG Partners L.P. (or *Teekay LNG*), which is a limited partnership organized under the laws of the Republic of The Marshall Islands, and its wholly owned or controlled subsidiaries and the Dropdown Predecessor, as described below (collectively, the *Partnership*). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Certain information and footnote disclosures required by GAAP for complete annual financial statements have been omitted and, therefore, these interim financial statements should be read in conjunction with the Partnership s restated audited consolidated financial statements for the year ended December 31, 2007, which are included on Form 20-F/A filed on December 2, 2008. In the opinion of management of Teekay GP L.L.C., the General Partner of Teekay LNG (or the *General Partner*), these interim consolidated financial statements reflect all adjustments, of a normal recurring nature, necessary to present fairly, in all material respects, the Partnership s consolidated financial position, results of operations, and changes in partners equity and cash flows for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of those for a full fiscal year. Significant intercompany balances and transactions have been eliminated upon consolidation.

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.

As required by Statement of Financial Accounting Standards (or *SFAS*) No. 141, the Partnership accounts for the acquisition of interests in vessels from Teekay Corporation as a transfer of a business between entities under common control. The method of accounting prescribed by SFAS No. 141 for such transfers is similar to pooling of interests method of accounting. Under this method, the carrying amount of net assets recognized in the balance sheets of each combining entity are carried forward to the balance sheet of the combined entity, and no other assets or liabilities are recognized as a result of the combination. The excess of the proceeds paid, if any, by the Partnership over Teekay Corporation s historical cost is accounted for as an equity distribution to Teekay Corporation. In addition, transfers of net assets between entities under common control are accounted for as if the transfer occurred from the date that the Partnership and the acquired vessels were both under the common control of Teekay Corporation and had begun operations. As a result, the Partnership s financial statements prior to the date the interests in these vessels were actually acquired are retroactively adjusted to include the results of these vessels during the periods under common control of Teekay Corporation.

In January 2007, the Partnership acquired interests in a 2000-built LPG carrier, the *Dania Spirit*, from Teekay Corporation and the related long-term, fixed-rate time charter. This transaction was deemed to be business acquisition between entities under common control. As a result, the Partnership s statement of cash flows for the three months ended March 31, 2007 reflects this vessel, referred to herein as the *Dropdown Predecessor,* as if the Partnership had acquired it when the vessel began operations under the ownership of Teekay Corporation on April 1, 2003.

The accompanying financial statements have been restated. The nature of the restatement and the effect on the consolidated financial statement line items is discussed in Note 16 of the notes to the consolidated financial statements. In addition, certain disclosures in the following notes have been restated to be consistent with the consolidated financial statements.

2. Fair Value Measurements

Effective January 1, 2008, the Partnership adopted Statement of Financial Accounting Standards (or *SFAS*) No. 157, *Fair Value Measurements* (or *SFAS No. 157*). In accordance with Financial Accounting Standards Board Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, the Partnership will defer the adoption of SFAS No. 157 for its nonfinancial assets and nonfinancial liabilities, except those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until January 1, 2009. The adoption of SFAS No. 157 did not have a material impact on the Partnership s fair value measurements.

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
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)

SFAS No. 157 clarifies the definition of fair value, prescribes methods for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and expands disclosures about the use of fair value measurements. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following tables present the Partnership s assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

	Fair Value at March 31, 2008 Asset / (Liability) $	Level 1 $	Level 2 $	Level 3 $
Interest rate swap agreements assets[(1)]	48,579		48,579	
Interest rate swap agreements liabilities[(1)]	(132,122)		(132,122)	
Other derivatives [(2)]	(18,646)			(18,646)

(1) The fair value of the Partnership s interest rate swap agreements is the estimated amount that the Partnership would receive or pay to terminate the agreements at the reporting date, taking into account current interest rates, and the current credit worthiness of both the Partnership and the swap counterparties. The estimated amount is the

present value of future cash flows.

(2) The Partnership s other derivative agreement is between Teekay Corporation and the Partnership and relates to hire payments under the time-charter contract for the *Toledo Spirit* (see Note 10e). The fair value of this derivative agreement is the estimated amount that the Partnership would receive or pay to terminate the agreement at the reporting date, based on the present value of the Partnership s projection of future spot market rates, which has been derived from current spot market rates and long-term historical average rates.

Changes in fair value during the three months ended March 31, 2008 for assets and liabilities that are measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are as follows:

	Asset/(Liability) $
Fair value at December 31, 2007	(15,952)
Total unrealized losses reflected as a reduction of voyage revenues	(2,694)

Fair value at March 31, 2008	(18,646)

3. Segment Reporting

The Partnership has two reportable segments: its liquefied gas segment and its Suezmax tanker segment. The Partnership s liquefied gas segment consists of liquefied natural gas (or *LNG*) carriers and a liquefied petroleum gas (or *LPG*) carrier subject to long-term, fixed-rate time charters to international energy companies. As at March 31, 2008, the Partnership s liquefied gas segment consisted of seven LNG carriers and one LPG carrier. The Partnership s Suezmax tanker segment consists of Suezmax-class crude oil tankers operating on long-term, fixed-rate time-charter contracts to international energy companies. As at March 31, 2008, the Partnership s crude oil tanker fleet consisted of eight Suezmax tankers. 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 restated audited consolidated financial statements for the year ended December 31, 2007. On April 1, 2008, we acquired two additional LNG carriers. See Note 12c.

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
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 table presents results for these segments for the three months ended March 31, 2008 and 2007:

	Three Months Ended March 31,					
	2008			2007		
	Liquefied Gas Segment $	Suezmax Tanker Segment $ (restated)	Total $ (restated)	Liquefied Gas Segment $	Suezmax Tanker Segment $ (restated)	Total $ (restated)
Voyage revenues	45,849	17,479	63,328	37,476	22,226	59,702
Voyage expenses	37	258	295	5	261	266
Vessel operating expenses	8,762	6,638	15,400	8,167	5,654	13,821
Depreciation and amortization	11,478	4,594	16,072	10,814	5,005	15,819
General and administrative (1)	1,967	1,993	3,960	1,788	1,730	3,518
Income from vessel operations	23,605	3,996	27,601	16,702	9,576	26,278

(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 consolidated balance sheets is as follows:

	March 31, 2008 $ (restated)	December 31, 2007 $
Liquefied gas segment	3,181,502	3,069,427
Suezmax tanker segment	406,201	410,749
Unallocated:		
Cash and cash equivalents	94,593	91,891
Accounts receivable, prepaid expenses and other assets	12,539	17,081

Consolidated total assets	3,694,835	3,589,148

4. Leases and Restricted Cash

Capital Lease Obligations

RasGas II LNG Carriers. As at March 31, 2008, the Partnership owned an indirect 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*) that operate under time-charter contracts 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. All amounts below relating to the RasGas II LNG Carriers capital leases include the Partnership s joint venture partner s 30% share.

Under the terms of the RasGas II 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. Lease payments under the rentals payable under the lease arrangements are based on certain tax and financial assumptions at the commencement of the leases. If an assumption proves to be incorrect, the lessor is entitled to increase the lease payments to maintain its agreed after-tax margin. However, Teekay Nakilat may terminate the lease arrangements on a voluntary basis at any time. If the lease arrangements terminate, Teekay Nakilat will be required to pay termination sums to the lessor sufficient to repay the lessor s investment in the vessels and to compensate it for the tax effect of the terminations, including recapture of any tax depreciation.

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TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
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)

At their inception, the weighted-average interest rate implicit in these leases was 5.2%. These capital leases are variable-rate capital leases. As at March 31, 2008, the commitments under these capital leases approximated $1,091.1 million, including imputed interest of $622.1 million, repayable as follows:

Year	Commitment
2008	$18.0 million
2009	$24.0 million
2010	$24.0 million
2011	$24.0 million
2012	$24.0 million
Thereafter	$977.1 million

Spanish-Flagged LNG Carrier. As at March 31, 2008, the Partnership was a party to a capital lease on one Spanish-flagged LNG carrier (the *Madrid Spirit*) which is structured as a Spanish tax lease . The Partnership was a party to a similar Spanish tax lease for another LNG carrier (the *Catalunya Spirit*) until it purchased the vessel pursuant to the capital lease in December 2006. Under the terms of the Spanish tax lease for the *Madrid Spirit*, which includes the Partnership s contractual right to full operation of the vessel pursuant to a bareboat charter, the Partnership will purchase the vessel at the end of the lease term in 2011. The purchase obligation has been fully funded with restricted cash deposits described below. At its inception, the interest rate implicit in the Spanish tax lease was 5.8%. As at March 31, 2008, the commitments under this capital lease, including the purchase obligation, approximated 141.7 million Euros ($223.4 million), including imputed interest of 20.1 million Euros ($31.7 million), repayable as follows:

Year	Commitment
2008	24.4 million Euros ($38.5 million)
2009	25.6 million Euros ($40.4 million)
2010	26.9 million Euros ($42.4 million)
2011	64.8 million Euros ($102.1 million)

Suezmax Tankers. As at March 31, 2008, 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 after the end of their respective lease terms for a fixed price. At their inception, the weighted-average interest rate implicit in these leases was 7.4%. These capital leases are variable-rate capital leases; however, any change in the 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, 2008, the remaining commitments under these capital leases, including the purchase obligations, approximated $230.6 million, including imputed interest of $19.4 million, repayable as follows:

Year	Commitment
2008	$129.7 million

2009	8.5 million
2010	8.4 million
2011	84.0 million

Restricted Cash

Under the terms of the capital leases for the four LNG carriers described above, 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 obligation to purchase the Spanish-flagged LNG carrier at the end of the lease period. These cash deposits are restricted to being used for capital lease payments and have been fully funded primarily with term loans (see Note 7). The interest rates earned on the deposits approximate the interest rates implicit in the leases.

As at March 31, 2008 and December 31, 2007, the amount of restricted cash on deposit for the three RasGas II LNG Carriers was $489.8 million and $492.2 million, respectively. As at March 31, 2008 and December 31, 2007, the weighted-average interest rates earned on the deposits were 4.3% and 5.3%, respectively.

As at March 31, 2008 and December 31, 2007, the amount of restricted cash on deposit for the Spanish-flagged LNG carrier was 124.4 million Euros ($196.0 million) and 122.8 million Euros ($179.2 million), respectively. As at March 31, 2008 and December 31, 2007, the weighted-average interest rate earned on the deposit was 5.0%.

The Partnership also maintains restricted cash deposits relating to certain term loans, which totaled 5.6 million Euros ($8.8 million) and 5.3 million Euros ($7.8 million) as at March 31, 2008 and December 31, 2007, respectively.

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5. Intangible Assets and Goodwill

As at March 31, 2008 and December 31, 2007, 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, 2008 and December 31, 2007 is as follows:

	March 31, 2008 $	December 31, 2007 $
Gross carrying amount	182,552	182,552
Accumulated amortization	(33,900)	(31,617)
Net carrying amount	148,652	150,935

Amortization expense of intangible assets for each of the three-month periods ended March 31, 2008 and 2007 was $2.3 million.

The carrying amount of goodwill as at March 31, 2008 and December 31, 2007 for the Partnership s reporting segments is as follows:

	Liquefied Gas Segment $	Suezmax Tanker Segment $	Total $
Balance as at March 31, 2008 and December 31, 2007	35,631	3,648	39,279

6. Advances to and from Joint Venture Partners

	March 31, 2008 $ (restated)	December 31, 2007 $
Advances to QGTC Nakilat (1643-6) Holdings Corporation (see Note 10g)	21,448	9,631
Advances from BLT LNG Tangguh Corporation (see Note 10f)	1,179	615
Advances from Qatar Gas Transport Company Ltd. (Nakilat)	14	
Total advances from joint venture partners	1,193	615

Advances to and from joint venture partners are non-interest bearing and unsecured. The Partnership did not incur interest expense from the advances during the three months ended March 31, 2008 and 2007.

7. Long-Term Debt

	March 31, 2008	December 31, 2007

	$ (restated)	$
U.S. Dollar-denominated Revolving Credit Facilities due through 2018	15,000	10,000
U.S. Dollar-denominated Term Loan due through 2019	440,205	446,435
U.S. Dollar-denominated Term Loan due through 2020(1)	881,779	808,138
U.S. Dollar-denominated Unsecured Loan(1)	1,144	1,144
U.S. Dollar-denominated Unsecured Demand Loan	15,624	16,002
Euro-denominated Term Loans due through 2023	476,393	443,992
Total	1,830,145	1,725,711
Less current portion	37,603	36,844
Less current portion(1)	63,448	34,665
Total	1,729,094	1,654,202

(1) As at March 31, 2008, long-term debt related to newbuilding vessels to be delivered was $882.9 million (December 31, 2007 $809.3 million). See Note 12a.

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As at March 31, 2008, the Partnership had two long-term revolving credit facilities (or the *Revolvers*) available, which, as at such date, provided for borrowings of up to $436.4 million, of which $421.4 million was undrawn. Interest payments are based on LIBOR plus margins. The amount available under the Revolvers reduces by $13.6 million (remainder of 2008), $18.8 million (2009), $19.4 million (2010), $20.0 million (2011), $20.7 million (2012) and $343.9 million (thereafter). Both Revolvers may be used by the Partnership to fund 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 Revolvers are collateralized by first-priority mortgages granted on five of the Partnership s vessels, together with other related collateral, and include a guarantee from the Partnership or its subsidiaries of all outstanding amounts.

The Partnership has a U.S. Dollar-denominated term loan outstanding, which as at March 31, 2008, totaled $440.2 million, of which $272.0 million bears interest at a fixed rate of 5.39% and requires quarterly payments. The remaining $168.2 million bears interest based on LIBOR plus a margin and will require bullet repayments of approximately $56 million for three vessels due at maturity in 2018 and 2019. The term loan is collateralized by first-priority mortgages on the vessels, together with certain other related collateral and a guarantee from the Partnership.

Teekay Nakilat (III) Holdings Corporation (or *Teekay Nakilat (III)*) owns a 40% interest in Teekay Nakilat (III) Corporation (or the *RasGas 3 Joint Venture*). The RasGas 3 Joint Venture owns four LNG newbuilding carriers (the *RasGas 3 LNG Carriers*), scheduled for delivery during 2008, and the related 25-year fixed-rate, time-charter contracts. On November 1, 2006, the Partnership agreed to purchase Teekay Corporation s 100% interest in Teekay Nakilat (III), which caused the Partnership to become the primary beneficiary of this variable interest entity (see Note 12). Teekay Nakilat (III) has a U.S. Dollar-denominated term loan outstanding, which, as at March 31, 2008, totaled $601.0 million and represents 100% of the RasGas 3 term loan which was used to fund advances on similar terms and conditions to the joint venture. Interest payments on the term loan are based on LIBOR plus a margin. The term loan requires quarterly payments commencing three months after delivery of each related vessel, with varying maturities through 2020. The term loan is collateralized by first-priority mortgages on the vessels, together with certain other related collateral including an undertaking from Teekay Corporation. Upon transfer to the Partnership of Teekay Corporation s 100% ownership interest in Teekay Nakilat (III) (see Note 12a), the rights and obligations of Teekay Corporation under the undertaking, may, upon the fulfillment of certain conditions, be transferred to the Partnership.

Teekay Tangguh Holdings Corporation (or *Teekay Tangguh*) owns a 70% interest in Teekay BLT Corporation (or the *Teekay Tangguh Joint Venture*). The Teekay Tangguh Joint Venture owns two LNG newbuilding carriers (or the *Tangguh LNG Carriers*), scheduled for delivery November 2008 and January 2009, respectively, and the related 20-year fixed-rate, time-charter contracts. On November 1, 2006, the Partnership agreed to purchase Teekay Corporation s 100% interest in Teekay Tangguh, which caused the Partnership to become the primary beneficiary of this variable interest entity (see Note 12). As at March 31, 2008, Teekay Tangguh Joint Venture had a loan facility, which, as at such date, provided for borrowings of up to $392.0 million, of which $111.2 million was undrawn. Prior to delivery of the vessels, interest payments on the loan are based on LIBOR plus margins. At March 31, 2008, the margins ranged between 0.30% and 0.80%. Following delivery of the vessels, interest payments on one tranche under the loan facility will be based on LIBOR plus 0.30%, while interest payments on the second tranche will be based on LIBOR plus 0.625%. Commencing three months after delivery of each vessel, one tranche (total value of $324.5 million) reduces in quarterly payments while the other tranche (total value of up to $190.0 million) correspondingly is drawn up with a final $95 million bullet payment per vessel at the end of the twelve-year term. This loan facility is collateralized by first-priority mortgages on the vessels to which the loan relates, together with certain other collateral and is guaranteed by Teekay Corporation. Upon transfer of the ownership of Teekay Tangguh Joint Venture from Teekay Corporation to the Partnership, the rights and obligations of Teekay Corporation under the guarantee, may, upon the fulfillment of certain conditions, be transferred to the Partnership.

The Partnership has a U.S. Dollar-denominated demand loan outstanding owing to Teekay Nakilat s joint venture partner, which, as at March 31, 2008, totaled $15.6 million, including accrued interest. Interest payments on this loan, which are based on a fixed interest rate of 4.84%, commenced on February 2008. The loan is repayable on demand no earlier than February 27, 2027.

The Partnership has two Euro-denominated term loans outstanding, which, as at March 31, 2008 totaled 302.4 million Euros ($476.4 million). These loans were used to make restricted cash deposits that fully fund payments under capital leases for the LNG carriers, the *Madrid Spirit* and the *Catalunya Spirit* (see Note 4). Interest payments are based on EURIBOR plus a margin. The term loans have varying maturities through 2023 and monthly payments that reduce over time. The term loans are collateralized by first-priority mortgages on the vessels to which the loans relate, together with certain other related collateral and guarantees from one of the Partnership s subsidiaries.

The weighted-average effective interest rate for the Partnership s long-term debt outstanding at March 31, 2008 and December 31, 2007 were 4.6% and 5.5%, 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 (see Note 11). At March 31, 2008, the margins on the Partnership s long-term debt ranged from 0.3% to 0.9%.

All Euro-denominated term loans are revalued at the end of each period using the then-prevailing Euro/U.S. Dollar exchange rate. Due primarily to this revaluation, the Partnership recognized foreign exchange losses of $33.9 million and $4.8 million, respectively, for the three months ended March 31, 2008 and March 31, 2007.

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Certain loan agreements require that a minimum level of tangible net worth, a minimum level of aggregate liquidity, and a maximum level of leverage be maintained, and require one of the Partnership s subsidiaries to maintain restricted cash deposits. The Partnership s ship-owning subsidiaries may not, in addition to other things, pay dividends or distributions if the Partnership is in default under the term loans or the Revolvers.

8. Other Loss Net

	Three Months Ended March 31, 2008 $ (restated)	2007 $ (restated)
Income tax expense	(80)	(649)
Miscellaneous	(65)	(67)
Other loss net	(145)	(716)

9. Comprehensive (Loss) Income

	Three Months Ended March 31, 2008 $ (restated)	2007 $ (restated)
Net (loss) income and comprehensive (loss) income	(43,118)	6,464

10. Related Party Transactions

a) The Partnership and certain of its operating subsidiaries have entered into services agreements with certain subsidiaries of Teekay Corporation pursuant to which the Teekay Corporation subsidiaries provide the Partnership with administrative, advisory, technical and strategic consulting services. During the three months ended March 31, 2008 and 2007, the Partnership incurred $1.5 million and $1.4 million, respectively, of these costs.

b) 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, 2008 and 2007, the Partnership incurred $0.2 million and $0.1 million, respectively, of these costs.

c) The Partnership is a party to an agreement with Teekay Corporation pursuant to which Teekay Corporation provides the Partnership with off-hire insurance for its LNG carriers. During the three months ended March 31, 2008 and 2007, the Partnership incurred $0.4 million and $0.1 million of these costs, respectively.

d) In connection with the Partnership s IPO in May 2005, the Partnership entered into an omnibus agreement with Teekay Corporation, the General Partner and other related parties governing, among other things, when the Partnership and Teekay Corporation may compete with each other and certain rights of first offer on LNG carriers and Suezmax tankers.

In December 2006, the omnibus agreement was amended in connection with the initial public offering of Teekay Offshore Partners L.P (or *Teekay Offshore*). As amended, the agreement governs, among other things, when the Partnership, Teekay Corporation and Teekay Offshore may compete with each other and certain rights of first offer on LNG carriers, oil tankers, shuttle tankers, floating storage and offtake units and floating production, storage and offloading units.

e) The Partnership s Suezmax tanker, the *Toledo Spirit*, which was delivered in July 2005, operates pursuant to a time-charter contract that increases or decreases the fixed hire 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 remaining term of the time-charter contract is 18 years, although the charterer has the right to terminate the time charter in July 2018. The Partnership has entered into an agreement with Teekay Corporation under which Teekay Corporation pays the Partnership any amounts payable to the charterer as a result of spot rates being below the fixed rate, and the Partnership pays Teekay 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, 2008 and 2007, the Partnership incurred nil and $0.9 million respectively, of amounts owing to Teekay Corporation as a result of this agreement (see Note 11).

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f) On November 1, 2006, the Partnership agreed to acquire from Teekay Corporation its 70% interest in the Teekay Tangguh Joint Venture, which owns the two newbuilding Tangguh LNG Carriers and the related 20-year, fixed-rate time charters to service the Tangguh LNG project in Indonesia. The purchase will occur upon the delivery of the first newbuilding, which is scheduled for November 2008. The estimated purchase price (net of assumed debt) for Teekay Corporation s 70% interest in the Teekay Tangguh Joint Venture is $85.1 million, which will depend upon the total construction cost of the vessels. The customer will be The Tangguh Production Sharing Contractors, a consortium led by BP Berau Ltd., a subsidiary of BP plc. Teekay Corporation has contracted to construct the two double-hull Tangguh LNG Carriers of 155,000 cubic meters each at a total delivered cost of approximately $376.9 million, excluding capitalized interest, of which the Partnership will be responsible for 70%. As at March 31, 2008, payments made towards these commitments by the Teekay Tangguh Joint Venture totaled $303.3 million, excluding $21.8 million of capitalized interest and other miscellaneous construction costs, and long-term financing arrangements existed for all of the remaining $73.6 million unpaid cost of the LNG carriers. As at March 31, 2008, the scheduled timing for these remaining payments were $37.6 million in 2008 and $36.0 million in 2009. The charters will commence upon vessel deliveries, which are scheduled for November 2008 and January 2009. The Partnership will have operational responsibility for the vessels in this project. The remaining 30% interest in the Teekay Tangguh Joint Venture relating to this project is held by BLT LNG Tangguh Corporation, a subsidiary of PT Berlian Laju Tanker Tbk.

g) On November 1, 2006, the Partnership agreed to acquire from Teekay Corporation its 40% interest in the RasGas 3 Joint Venture, which owns the four newbuilding RasGas 3 LNG Carriers and related 25-year, fixed-rate time charters (with options to extend up to an additional 10 years) to service expansion of an LNG project in Qatar. The purchase occurred upon the delivery of the first newbuilding on May 6, 2008. The estimated purchase price (net of assumed debt) for Teekay Corporation s 40% interest in the RasGas 3 Joint Venture is $109.1 million, which depends upon the total construction cost of the vessels. The customer is Ras Laffan Liquefied Natural Gas Co. Limited (3), a joint venture company between Qatar Petroleum and a subsidiary of ExxonMobil Corporation. Teekay Corporation has contracted to construct the four double-hulled RasGas 3 LNG Carriers of 217,000 cubic meters each at a total delivered cost of approximately $1.0 billion, excluding capitalized interest, of which the Partnership will be responsible for 40%. As at March 31, 2008, payments made towards these commitments by the RasGas 3 Joint Venture totaled $801.3 million, excluding capitalized interest and other miscellaneous construction costs (of which Teekay Corporation s 40% contribution was $320.5 million), and long-term financing arrangements existed for all the remaining $200.3 million unpaid cost of the LNG carriers, to be made in 2008. The charters will commence upon vessel deliveries, with the first occurring on May 6, 2008 and the remaining deliveries scheduled between end of the second quarter and third quarter of 2008. The remaining 60% interest in the RasGas 3 Joint Venture is held by QGTC Nakilat (1643-6) Holdings Corporation (or *QGTC 3*). The Partnership will have operational responsibility for the vessels in this project, although the joint venture partner may assume operational responsibility beginning 10 years following delivery of the vessels.

Teekay Nakilat (III) and QGTC 3 are joint and several borrowers with respect to the RasGas 3 term loan and interest rate swap agreements. As a result, the Partnership has reflected on its balance sheet 100 percent of the RasGas 3 term loan and interest rate swap agreements rather than only 40% of such amounts. The loan and the joint venture partner s share of the swap obligations are reflected as advances to joint venture and advances to joint venture partner, respectively.

h) On October 31, 2006, the Partnership acquired Teekay Corporation s 100% ownership interest in Teekay Nakilat Holdings Corporation (or *Teekay Nakilat Holdings*). Teekay Nakilat Holdings owns 70% of Teekay Nakilat, which in turn has a 100% interest as the lessee under capital leases relating to three LNG carriers delivered in late 2006 and early 2007 (the *RasGas II LNG Carriers*). The final purchase price for the 70% interest in Teekay Nakilat was $102.0 million. The Partnership paid $26.9 million of this amount during 2006 and $75.1 million during 2007. This transaction was concluded between two entities under common control and, thus, the assets acquired were recorded at historical book value. The excess of the purchase price over the book value of the assets of $10.5 million was accounted for as an equity distribution to Teekay Corporation. The purchase occurred upon the delivery of the first LNG carrier in October 2006. The remaining two LNG carriers were delivered during the first quarter of 2007.

i) In January 2007, the Partnership acquired a 2000-built LPG carrier, the *Dania Spirit*, from Teekay Corporation and the related long-term, fixed-rate time charter for a purchase price of approximately $18.5 million. This transaction was concluded between two entities under common control and, thus, the vessel acquired was recorded at its historical book value. The excess of the book value over the purchase price of the vessel was accounted for as an equity contribution by Teekay Corporation. The purchase was financed with one of the Partnership s revolving credit facilities. This vessel is chartered to the Norwegian state-owned oil company, Statoil ASA, and has a remaining contract term of eight years.

j) In March 2007, one of our LNG carriers, the *Madrid Spirit*, sustained damage to its engine boilers. The vessel was off-hire for approximately 86 days during 2007. Since Teekay Corporation provides the Partnership with off-hire insurance for its LNG carriers, the Partnership s exposure was limited to fourteen days of off-hire, of which seven days was recoverable from a third-party insurer. In July 2007, Teekay Corporation paid approximately $6.0 million to the Partnership for loss-of-hire for the three months ended March 31, 2008.

k) As at March 31, 2008, non-interest bearing advances from affiliates totaled $46.4 million (December 31, 2007 $40.3 million). These advances are unsecured and have no fixed repayment terms.

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11. Derivative Instruments

The Partnership uses derivative instruments in accordance with its overall risk management policy. The Partnership has not designated these derivative instruments as hedges for accounting purpose.

At March 31, 2008, the fair value of the derivative liability relating to the agreement between the Partnership and Teekay Corporation for the *Toledo Spirit* time charter contract was $18.6 million. Realized and unrealized gains (losses) relating to this agreement have been reflected in voyage revenues. Unrealized mark-to-market gains (losses) included in voyage revenues related to this agreement were $(2.7) million and $1.4 million, respectively, for the three months ended March 31, 2008 and 2007.

The Partnership enters into interest rate swaps which either exchange a receipt of floating interest for a payment of fixed interest or a payment of floating interest for a receipt of fixed interest to reduce the Partnership s exposure to interest rate variability on its outstanding floating-rate debt and floating-rate restricted cash deposits. The Partnership has not designated, for accounting purposes, its interest rate swaps as cash flow hedges of its USD LIBOR denominated borrowings or restricted cash deposits. The net gain or loss on the Partnership s interest rate swaps has been reported in interest expense (economic hedges of USD LIBOR denominated borrowings) and interest income (USD LIBOR denominated restricted cash deposits) in the unaudited consolidated statements of (loss) income. Unrealized gains (losses) related to interest rate swaps included in interest expense were $(67.3) million and $7.3 million, respectively, for the three months ended March 31, 2008 and 2007. Unrealized gains (losses) related to interest rate swaps included in interest income were $26.2 million and $(4.1) million, respectively, for the three months ended March 31, 2008 and 2007. As at March 31, 2008, the Partnership was committed to the following interest rate swap agreements:

	Interest Rate Index	Principal Amount $	Fair Value / Carrying Amount of Asset (Liability) $	Weighted-Average Remaining Term (years)	Fixed Interest Rate (%)[1]
LIBOR-Based Debt:					
U.S. Dollar-denominated interest rate swaps[2]	LIBOR	500,107	(26,029)	28.8	4.9
U.S. Dollar-denominated interest rate swaps	LIBOR	229,630	(40,806)	11.0	6.2
U.S. Dollar-denominated interest rate swaps (restated) [3]	LIBOR	750,000	(65,287)	12.1	5.2
LIBOR-Based Restricted Cash Deposit:					
U.S. Dollar-denominated interest rate swaps[2]	LIBOR	480,073	23,308	28.8	4.8
EURIBOR-Based Debt:					
Euro-denominated interest rate swaps[4]	EURIBOR	476,393	25,271	16.2	3.8

(1) Excludes the margins the Partnership pays

on its floating-rate debt, which, at March 31, 2008, ranged from 0.3% to 0.9% (see Note 7).

(2) Principal amount reduces quarterly upon delivery of each LNG newbuilding.

(3) Interest rate swaps are held in Teekay Tangguh and Teekay Nakilat (III), variable interest entities in which the Partnership is the primary beneficiary. Inception dates of swaps are 2006 ($400.0 million), 2007 ($100.0 million) and 2009 ($250.0 million).

(4) Principal amount reduces monthly to 70.1 million Euros ($110.6 million) by the maturity dates of the swap agreements.

The Partnership is exposed to credit loss in the event of non-performance by the counterparties to the interest rate swap agreement. In order to minimize counterparty risk, the Partnership only enters into derivative transactions with counterparties that are rated A or better by Standard & Poor s or Aa3 by Moody s at the time of the transactions. In addition, to the extent possible and practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

12. Commitments and Contingencies

(a) On November 1, 2006, the Partnership entered into an agreement with Teekay Corporation to purchase (i) its 100% interest in Teekay Tangguh, which owns a 70% interest in the Teekay Tangguh Joint Venture and (ii) its 100% interest in Teekay Nakilat (III), which owns a 40% interest in the RasGas 3 Joint Venture (see Notes 10e and 10f). The Teekay Tangguh Joint Venture owns the two newbuilding Tangguh LNG carriers and the related 20-year time charters. The RasGas 3 Joint Venture owns the four newbuilding RasGas 3 LNG carriers and the related 25-year time charters. The purchases occur upon the delivery of the first newbuildings for the respective projects, which is scheduled for November 2008 for the Tangguh project and which occurred May 6, 2008 for the RasGas 3 project. The Partnership s purchase price for these projects, which depends upon the total construction costs of the vessels, is estimated to be $85.1 million for the 70% interest in the Teekay Tangguh Joint Venture and $109.1 million for the 40% interest in the RasGas 3 Joint Venture.

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Upon delivery of the first RasGas 3 LNG Carrier on May 6, 2008, Teekay Corporation sold its interest in Teekay Nakilat III to the Partnership in exchange for a non-interest bearing and unsecured promissory note. The estimated purchase price of $109.1 million remains subject to refinement upon determination of the final construction costs of all four RasGas 3 LNG Carriers.

In December 2003, the FASB issued FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51* (or *FIN 46(R)*). In general, a variable interest entity (or *VIE*) is a corporation, partnership, limited-liability company, 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(R) requires that this party consolidate the VIE. Prior to its purchase of a controlling interest in Teekay Nakilat in October 2006, the Partnership already included Teekay Nakilat in its consolidated financial statements, as Teekay Nakilat was a VIE and the Partnership was its primary beneficiary. In addition, the Partnership has consolidated Teekay Tangguh and Teekay Nakilat (III) in its consolidated financial statements effective November 1, 2006, as both entities are VIE s and the Partnership became their primary beneficiary on November 1, 2006, upon its agreement to acquire all of Teekay Corporation s interests in these entities. The assets and liabilities of Teekay Tangguh and Teekay Nakilat (III) are reflected in the Partnership s financial statements at historical cost as the Partnership and these two VIE s are under common control.

The following table summarizes the combined balance sheets of Teekay Tangguh and Teekay Nakilat (III) as at March 31, 2008 and December 31, 2007:

	March 31, 2008 $ (restated)	December 31, 2007 $
ASSETS		
Cash and cash equivalents	50,687	54,711
Advances on newbuilding contracts	318,551	240,773
Investment in and advances to joint ventures	696,264	693,242
Advances to joint venture partner	21,448	9,631
Other assets	10,563	9,465
Total assets	1,097,513	1,007,822
LIABILITIES AND SHAREHOLDER S EQUITY		
Accounts payable	49	173
Accrued liabilities	12,436	4,799
Advances from affiliates and joint venture partners	28,758	23,961
Long-term debt relating to newbuilding vessels to be delivered	882,923	809,282
Other long-term liabilities	54,972	28,211
Total liabilities	979,138	866,426
Non-controlling interest	15,880	20,364

Total shareholder s equity	102,495	121,032
Total liabilities and shareholder s equity	1,097,513	1,007,822

The Partnership s maximum exposure to loss at March 31, 2008, as a result of its commitment to purchase Teekay Corporation s interests in Teekay Tangguh and Teekay Nakilat (III), is limited to the respective purchase prices of such interests, which are expected to be $85.1 million and $109.1 million.

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

(c) In December 2007, Teekay Corporation acquired two 1993-built LNG vessels (the *Kenai LNG Carriers*) from a joint venture between Marathon Oil Corporation and ConocoPhillips (or the *Kenai Carriers*) for a total cost of $230.0 million and chartered back the vessels to the seller until April 2009 (with options exercisable by the charterer to extend up to an additional seven years). The specialized ice-strengthened vessels were purpose-built to carry LNG from Alaska s Kenai LNG plant to Japan. In March 2008, the Partnership agreed to acquire these two vessels effective April 1, 2008 from Teekay Corporation for a total cost of $230.0 million and immediately charter the vessels back to Teekay Corporation at a fixed rate for a period of ten years (plus options exercisable by Teekay to extend up to an additional fifteen years). The Partnership has financed the acquisition with borrowings under its undrawn revolving credit facilities.

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13. Supplemental Cash Flow Information

Upon delivery of the last two RasGas II Carriers in the first quarter of 2007, the remaining vessel costs and related lease obligations amounting to $15.3 million were recorded. These transactions were treated as non-cash transactions in the Partnership s consolidated statements of cash flows for the three months ended March 31, 2007.

14. Partners Capital and Net Income (Loss) Per Unit

Partners Capital

At March 31, 2008, of our total units outstanding, 36% were held by the public and the remaining units were held by a subsidiary of Teekay Corporation.

Limited Partners Rights

Significant rights of the limited partners include the following:

- Right to receive distribution of available cash within approximately 45 days after the end of each quarter.

- No limited partner shall have any management power over the Partnership s business and affairs; the General Partner shall conduct, direct and manage our activities.

- The General Partner may be removed if such removal is approved by unitholders holding at least 66 2/3% of the outstanding units voting as a single class, including units held by the partnership s General Partner and its affiliates.

Subordinated Units

All of the Partnership s subordinated units are held by a subsidiary of Teekay Corporation. Under the partnership agreement, during the subordination period applicable to the Partnership s subordinated units, 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. Distribution arrearages do not accrue on the subordinated units. The purpose of the subordinated units is to increase the likelihood that during the subordination period there will be available cash to be distributed on the common units.

For the purposes of the net income (loss) per unit calculation as defined below, during the quarter ended March 31, 2008, the Partnership incurred a net loss and, consequently, the assumed distributions of net loss resulted in equal distributions of net loss between the subordinated unit holders and common unit holders. During the quarter ended March 31, 2007, 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.

Incentive Distribution Rights

The General Partner is entitled to incentive distributions if the amount the partnership distributes to unitholders with respect to any quarter exceeds specified target levels shown below:

Quarterly Distribution Target Amount (per unit)	Unitholders	General Partner
Minimum quarterly distribution of $0.4125	98%	2%
Up to $0.4625	98%	2%
Above $0.4625 up to $0.5375	85%	15%
Above $0.5375 up to $0.65	75%	25%
Above $0.65	50%	50%

During the quarters ended March 31, 2008 and March 31, 2007, 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 for the purposes of the net income (loss) per unit calculation.

Net Income (Loss) Per Unit

Net income per unit is determined by dividing net income (loss), after deducting the amount of net income (loss) attributable to the Dropdown Predecessor and the amount of net income (loss) allocated to the General Partner s interest, by the weighted-average number of units outstanding during the period.

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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 unitholders and subordinated unitholders interests in net income are calculated as if all net income was distributed according to the terms of the Partnership s Partnership Agreement, regardless of whether those earnings would or could be distributed. The partnership agreement does not provide for the distribution of net income; rather, it provides for the distribution of available cash, which is a contractually defined term that generally means all cash on hand at the end of each quarter after establishment of cash reserves. Unlike available cash, net income is affected by non-cash items, such as depreciation and amortization, unrealized gains or losses on non-designated derivative instruments, and foreign currency translation gains (losses).

15. Other Information

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 for a period of 20 years to the Angola LNG Project, which is being developed by subsidiaries of Chevron Corporation, Sociedade Nacional de Combustiveis de Angola EP, BP Plc, Total S.A., and Eni SpA. The vessels, if constructed, will be chartered at fixed rates, with inflation adjustments, commencing in 2011. Mitsui & Co., Ltd. and NYK Bulkship (Europe) have 34% and 33% ownership interests in the consortium, respectively. In accordance with an existing agreement, Teekay Corporation is required to offer to the Partnership its 33% ownership interest in these vessels and related charter contracts not later than 180 days before delivery of the vessels.

16. Restatement of Previously Issued Financial Statements

a. Derivative Instruments and Hedging Activities

In August 2008, the Partnership commenced a review of its application of Statement of Financial Accounting Standards (or *SFAS*) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. Based on its review the Partnership concluded that its derivative instruments did not qualify for hedge accounting treatment under SFAS No. 133 for the three months ended March 31, 2008 and 2007. The Partnership s findings were as follows:

One of the requirements of SFAS No. 133 is that hedge accounting is appropriate only for those hedging relationships that a company expects will be highly effective in achieving offsetting changes in fair value or cash flows attributable to the risk being hedged. To determine whether transactions satisfy this requirement, entities must periodically assess the effectiveness of hedging relationships both prospectively and retrospectively. Based on the Partnership s review, the Partnership concluded that the prospective hedge effectiveness assessment that was conducted for certain of our interest rate swaps on the date of designation was not sufficient to conclude that the interest rate swaps would be highly effective, in accordance with the technical requirements of SFAS No. 133, in achieving offsetting changes in cash flows attributable to the risk being hedged.

To conclude that hedge accounting is appropriate, another requirement of SFAS No. 133 is that hedge documentation should specify the method that will be used to assess, retrospectively and prospectively, the hedging instrument s effectiveness, and the method that will be used to measure hedge ineffectiveness. Documentation for certain of the Partnership s interest rate swaps did not clearly specify the method to be used to measure hedge.

Certain of the Partnership s derivative instruments were designated as hedges when the derivative instruments had a non-zero fair value. However, this designation was not appropriate as the Partnership used certain methods of measuring ineffectiveness that are not allowed in the case of non-zero fair value derivatives.

One of our Suezmax tankers, the *Toledo Spirit* 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 we would have earned had we traded the vessel in the spot tanker market. We have entered into an agreement with Teekay Corporation 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 from the charterer as a result of spot rates being in excess of the fixed rate. Prior to April 2007, this agreement with Teekay Corporation was not accounted for as a derivative agreement subject to the provisions of SFAS No. 133, and after April 2007, the agreement did not qualify for hedge accounting treatment under SFAS No.133.

Accordingly, for accounting purposes the Partnership should have reflected the change in fair value of these derivative instruments as increases or decreases to its net income (loss) on its consolidated statements of (loss) income, instead of being reflected as increases or decreases to accumulated other comprehensive income, a component of partners equity on the consolidated balance sheets and statement of changes in partners equity.

The change in accounting for these transactions does not affect the Partnership s cash flows, liquidity, or cash distribution to partners.

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b. Vessels Acquired from Teekay Corporation

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

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

In January 2007, the Partnership acquired interests in a 2000-built LPG carrier, the *Dania Spirit*, from Teekay Corporation and the related long-term, fixed-rate time charter. This transaction was deemed to be business acquisition between entities under common control. As a result, the Partnership s statement of cash flows for the three months ended March 31, 2007 reflects this vessel as if the Partnership had acquired it when the vessel began operations under the ownership of Teekay Corporation on April 1, 2003.

c. Gross-up Presentation of RasGas 3 Joint Venture and Other

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

Through a wholly-owned subsidiary, which is a VIE of the Partnership, Teekay Corporation owns a 40 percent interest in the four RasGas 3 LNG carriers. The joint venture partner, a wholly-owned subsidiary of Qatar Gas Transport Company, owns the remaining 60 percent interest. Both wholly-owned subsidiaries are joint and several co-borrowers with respect to the RasGas 3 term loan and related interest rate swap agreements. Previously, the Partnership recorded 40 percent of the RasGas 3 term loan and interest rate swap obligations in its financial statements. The Partnership has made adjustments to its balance sheet to reflect 100 percent of the RasGas 3 term loan and interest rate swap obligations, as well as offsetting increases in assets, for the fourth quarter of 2006 through the first quarter of 2008. The Partnership has also made adjustments to its statements of (loss) income to reflect 100 percent of the interest expense on the RasGas 3 term loan with an offsetting amount to interest income from its advances to the joint venture. These RasGas 3 adjustments do not result in any increase to the Partnership s net exposure. The Partnership has also restated certain other items primarily related to accounting for the non-controlling interest in the Partnership s joint venture and VIEs. Certain of the previously reported figures have been reclassified to conform to the presentation adopted for the restatements.

As a result of the conclusions described above in this Note 16, the Partnership is restating herein its historical balance sheets as of March 31, 2008 and December 31, 2007; its statements of (loss) income, cash flows and changes in partners equity for the three months ended March 31, 2008 and 2007.

The following table sets forth a reconciliation of previously reported and restated net income (loss) as of the date and for the periods shown (in thousands of US dollars):

	Net (Loss) Income Three Months Ended March 31,	
	2008	2007
	$	$
As previously reported	(25,000)	1,402
Adjustments:		
Derivative Instruments	(17,785)	5,975
Other	(333)	(913)
As restated	(43,118)	6,464

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The following table presents the effect of the restatement on the Partnership s unaudited consolidated statement of loss for the three months ended March 31, 2008 (in thousands of U.S. dollars, except unit and per unit amounts):

	Three Months Ended March 31, 2008			
		Adjustments		
	As Reported	Derivative Instruments	Gross-up Presentation and Other	As Restated
	$	$	$	$

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