Teekay LNG Partners L.P.
Form 6-K
August 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 June 30, 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	X	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 X

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 X

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 No X

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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TEEKAY LNG PARTNERS L.P. AND SUBISDIARIES

REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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 at June 30, 2006 and the related consolidated statements of income (loss) for the three and six months ended June 30, 2006 and 2005 aggregated as follows:

<u>Three months ended June 30, 2006</u>

· April 1 to June 30, 2006

<u>Three months ended June 30, 2005</u>

· April 1 to May 9, 2005
· May 10 to June 30, 2005

<u>Six months ended June 30, 2006</u>

· January 1 to June 30, 2006

<u>Six months ended June 30, 2005</u>

· January 1 to May 9, 2005
· May 10 to June 30, 2005

We have also reviewed the consolidated statements of partners' equity/stockholder deficit and cash flows for the six months ended June 30, 2006. These financial statements are the responsibility of the Partnership's management.

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 at 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
August 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 (LOSS)
(in thousands of U.S. dollars, except unit and per unit data)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2006	2005		2006	2005	
	April 1 to June 30, 2006 $	April 1 to May 9, 2005 $	May 10 to June 30, 2005 $	January 1 to June 30, 2006 $	January 1 to May 9, 2005 $	May 10 to June 30, 2005 $
VOYAGE REVENUES	42,534	15,365	20,364	86,675	50,129	20,364
OPERATING EXPENSES						
Voyage expenses	650	59	73	927	251	73
Vessel operating expenses *(note 10c)*	9,767	2,777	3,932	18,728	10,771	3,932
Depreciation and amortization	12,743	4,541	5,852	25,402	14,751	5,852
General and administrative *(note 10b and 10d)*	2,998	1,418	1,274	6,093	2,928	1,274
Total operating expenses	26,158	8,795	11,131	51,150	28,701	11,131
Income from vessel operations	16,376	6,570	9,233	35,525	21,428	9,233
OTHER ITEMS						
Interest expense *(notes 4 and 7)*	(21,404)	(10,068)	(8,196)	(40,005)	(35,679)	(8,196)
Interest income	9,443	2,829	3,003	16,880	9,098	3,003
Foreign currency exchange (loss) gain *(note 7)*	(20,328)	7,296	22,993	(28,153)	52,295	22,993
Other income (loss) - net *(note 8)*	387	(19,320)	1,670	995	(17,927)	1,670
Total other items	(31,902)	(19,263)	19,470	(50,283)	7,787	19,470
Net (loss) income	(15,526)	(12,693)	28,703	(14,758)	29,215	28,703
General partner's interest in net (loss) income	(311)	-	9,233	(296)	-	9,233

Limited partners' interest:						
Net (loss) income	(15,215)	(12,693)	19,470	(14,462)	29,215	19,470
Net (loss) income per: *(note 13)*						
- Common unit (basic and diluted)	(0.44)	(0.54)	0.64	(0.40)	1.24	0.64
- Subordinated unit (basic and diluted)	(0.44)	(0.54)	0.64	(0.44)	1.24	0.64
- Total unit (basic and diluted)	(0.44)	(0.54)	0.64	(0.42)	1.24	0.64
Weighted-average number of units outstanding:						
- Common units (basic and diluted)	20,238,072	8,734,572	15,638,072	20,238,072	8,734,572	15,638,072
- Subordinated units (basic and diluted)	14,734,572	14,734,572	14,734,572	14,734,572	14,734,572	14,734,572
- Total units (basic and diluted)	34,972,644	23,469,144	30,372,644	34,972,644	23,469,144	30,372,644
Cash distributions declared per unit	0.4625	-	-	0.8750	-	-

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 June 30, 2006 $	As at December 31, 2005 $
ASSETS		
Current		
Cash and cash equivalents	18,881	34,469
Restricted cash - current *(note 4)*	149,046	139,525
Accounts receivable	12,460	2,977
Prepaid expenses and other assets	7,450	3,972
Total current assets	187,837	180,943
Restricted cash - long-term *(notes 4 and 12)*	615,614	158,798
Vessels and equipment *(note 7)*		
At cost, less accumulated depreciation of $25,409 (December 31, 2005 - $16,235)	499,303	507,825
Vessels under capital leases, at cost, less accumulated depreciation of $43,415 (December 31, 2005 - $32,266) *(note 4)*	668,804	677,686
Advances on newbuilding contracts *(note 12)*	-	316,875
Total vessels and equipment	1,168,107	1,502,386
Other assets *(note 11)*	97,330	20,215
Intangible assets - net *(note 5)*	164,629	169,194
Goodwill *(note 5)*	39,279	39,279
Total assets	2,272,796	2,070,815
LIABILITIES AND PARTNERS' EQUITY		
Current		
Accounts payable	9,581	5,885
Accrued liabilities	12,875	7,789
Unearned revenue	7,034	6,163
Current portion of long-term debt *(note 7)*	9,060	8,103
Current obligation under capital leases *(note 4)*	157,013	137,646
Current portion of long-term debt related to newbuilding vessels to be leased *(note 12)*	6,232	-
Advances from affiliate *(notes 10e and 10f)*	4,541	2,222
Total current liabilities	206,336	167,808
Long-term debt *(note 7)*	411,963	398,249
Long-term obligation under capital leases *(note 4)*	390,674	382,343
Long-term debt related to newbuilding vessels to be leased *(note 12)*	438,447	319,573
Other long-term liabilities *(note 11)*	67,439	33,703
Total liabilities	1,514,859	1,301,676
Commitments and contingencies *(note 4 and 12)*		

Partners' equity		
Partners' equity	795,517	841,642
Accumulated other comprehensive loss *(note 9)*	(37,580)	(72,503)
Total partners' equity	757,937	769,139
Total liabilities and partners' equity	2,272,796	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)

	Six Months Ended June 30,	
	2006	**2005**
	$	**$**
Cash and cash equivalents provided by (used for)		
OPERATING ACTIVITIES		
Net (loss) income	(14,758)	57,918
Non-cash items:		
Depreciation and amortization	25,402	20,603
Gain on sale of assets	-	(186)
Deferred income tax (recovery) expense	(524)	1,500
Foreign currency exchange loss (gain)	30,744	(79,014)
Loss from settlement of interest rate swaps	-	7,820
Write-off of capitalized loan costs	-	7,462
Accrued interest and other - net	524	7,568
Change in non-cash working capital items related to operating activities	(3,677)	1,458
Expenditures for drydocking	(2,655)	(104)
Net operating cash flow	35,056	25,025
FINANCING ACTIVITIES		
Proceeds from long-term debt	129,700	10,900
Capitalized loan costs	(2,512)	-
Scheduled repayments of long-term debt	(4,167)	(5,600)
Scheduled repayments of capital lease obligations	(4,280)	(3,346)
Prepayments of long-term debt	(34,000)	(339,438)
Proceeds from issuance of common units	(141)	141,327
Interest rate swap settlement costs	-	(143,295)
Advances from affiliate	19,706	353,069
Advances to affiliate	(3,759)	(184,302)
(Increase) decrease in restricted cash *(Note 4)*	(431,489)	10,440
Cash distributions paid	(31,226)	-
Net financing cash flow	(362,168)	(160,245)
INVESTING ACTIVITIES		
Expenditures for vessels and equipment	(1,448)	(48,921)
Proceeds from sale of vessels and equipment *(Note 4)*	312,972	83,606
Net investing cash flow	311,524	34,685
Decrease in cash and cash equivalents	(15,588)	(100,535)
Cash and cash equivalents, beginning of the period	34,469	156,410
Cash and cash equivalents, end of the period	18,881	55,875

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						
		Limited Partners						
	Stockholder Deficit (Predecessor)	Common		Subordinated		General Partner	Accumulated Other Comprehensive Loss	Total
	$	Units	$	Units	$	$	$	$
Balance as at December 31, 2004	(123,002)	-	1	-	-	-	-	(123,001)
Net income (January 1 - May 9, 2005)	29,215	-	-	-	-	-	-	29,215
Unrealized loss on derivative instruments *(notes 9 and 11)*	(22,874)	-	-	-	-	-	-	(22,874)
Reclassification adjustment for loss on derivative instruments included in net income *(notes 9 and 11)*	14,359	-	-	-	-	-	-	14,359
Sale of the *Santiago Spirit (note 10g)*	(3,115)	-	-	-	-	-	-	(3,115)
Balance as at May 9, 2005	(105,417)	-	1	-	-	-	-	(105,416)
Equity contribution by Teekay Shipping Corporation *(note 1)*	105,417	8,734	211,788	14,735	357,318	11,614	(52,194)	633,943
Proceeds from initial public offering of limited partnership interests, net of offering costs of $16,089 *(note 2)*	-	6,900	135,711	-	-	-	-	135,711
Proceeds from follow-on public offering of limited partner ship interests, net of offering costs of $5,832 *(note 2)*	-	4,600	120,208	-	-	2,572	-	122,780
Issuance of units to non-employee directors *(note 2)*	-	4	-	-	-	-	-	-
	-	-	23,716	-	16,951	9,665	-	50,332

Net income (May 10 - December 31, 2005)								
Cash distributions	-	-	(10,137)	-	(9,551)	(402)	-	(20,090)
Unrealized loss on derivative instruments *(note 11)*	-	-	-	-	-	-	(26,622)	(26,622)
Reclassification adjustment for loss on derivative instruments included in net income *(note 11)*	-	-	-	-	-	-	6,313	6,313
Purchase of three Suezmax tankers from Teekay Shipping Corporation *(note 10h)*	-	-	(15,773)	-	(11,483)	(556)	-	(27,812)
Balance as at December 31, 2005	-	20,238	465,514	14,735	353,235	22,893	(72,503)	769,139
Net income (January 1 - June 30, 2006)	-	-	(8,051)	-	(6,411)	(296)	-	(14,758)
Cash distributions	-	-	(17,708)	-	(12,893)	(625)	-	(31,226)
Unrealized gain on derivative instruments *(notes 9 and 11)*	-	-	-	-	-	-	30,480	30,480
Reclassification adjustment for loss on derivative instruments included in net income *(notes 9 and 11)*	-	-	-	-	-	-	4,443	4,443
Offering costs from follow-on public offering of limited partnership interests *(note 2)*	-	-	(141)	-	-	-	-	(141)
Balance as at June 30, 2006	-	20,238	439,614	14,735	333,931	21,972	(37,580)	757,937

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.

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 to the Partnership 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*, 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 December 31, 2004 and prior to May 10, 2005. The results for the periods subsequent to December 31, 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 consolidated 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 consolidated interim financial 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. Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current period.

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

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*). Concurrently 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 $	Total $
Proceeds received:			
Sale of 6,900,000 common units at $22.00 per unit	151,800	-	151,800
Sale of 4,600,000 common units at $27.40 per unit	-	126,040	126,040
General Partner contribution	-	2,572	2,572
	151,800	128,612	280,412
Use of proceeds from sale of common units:			
Underwriting and structuring fees	10,473	5,042	15,515
Professional fees and other offering expenses to third parties	5,616	959	6,575
Repayment of advances from Teekay Shipping Corporation	129,400	-	129,400
Purchase of three Suezmax tankers from Teekay Shipping Corporation.*(note 10h)*	-	122,611	122,611
Working capital	6,311	-	6,311
	151,800	128,612	280,412

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-charter contracts. 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.

	Three Months Ended June 30, 2006			Six Months Ended June 30, 2006		
	LNG Carrier Segment $	Suezmax Tanker Segment $	Total $	LNG Carrier Segment $	Suezmax Tanker Segment $	Total $
Voyage revenues	22,519	20,015	42,534	46,219	40,456	86,675
Voyage expenses	400	250	650	400	527	927
Vessel operating expenses	4,915	4,852	9,767	8,717	10,011	18,728
Depreciation and amortization	7,756	4,987	12,743	15,434	9,968	25,402
General and administrative (1)	1,284	1,714	2,998	2,687	3,406	6,093
Income from vessel operations	8,164	8,212	16,376	18,981	16,544	35,525
Expenditures (recovery) for vessels and equipment	(122)	28	(94)	1,420	28	1,448

	Three Months Ended June 30, 2005					
	April 1 to May 9, 2005			May 10 to June 30, 2005		
	LNG Carrier Segment $	Suezmax Tanker Segment $	Total $	LNG Carrier Segment $	Suezmax Tanker Segment $	Total $
Voyage revenues	10,619	4,746	15,365	14,160	6,204	20,364
Voyage expenses	1	58	59	1	72	73
Vessel operating expenses	1,626	1,151	2,777	2,169	1,763	3,932
Depreciation and amortization	3,224	1,317	4,541	4,299	1,553	5,852
General and administrative (1)	709	709	1,418	607	667	1,274
Income from vessel operations	5,059	1,511	6,570	7,084	2,149	9,233
Expenditures for vessels and equipment	-	-	-	-	4,959	4,959

	Six Months Ended June 30, 2005					
	January 1 to May 9, 2005			May 10 to June 30, 2005		
	LNG Carrier Segment $	Suezmax Tanker Segment $	Total $	LNG Carrier Segment $	Suezmax Tanker Segment $	Total $
Voyage revenues	34,883	15,246	50,129	14,160	6,204	20,364
Voyage expenses	49	202	251	1	72	73
Vessel operating expenses	5,971	4,800	10,771	2,169	1,763	3,932
Depreciation and amortization	10,746	4,005	14,751	4,299	1,553	5,852
General and administrative (1)	1,464	1,464	2,928	607	667	1,274
Income from vessel operations	16,653	4,775	21,428	7,084	2,149	9,233
Expenditures for vessels and equipment	-	43,962	43,962	-	4,959	4,959

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

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)

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

	As at June 30, 2006 $	**As at December 31, 2005 $**
Total assets of the LNG carrier segment	1,790,193	1,576,990
Total assets of the Suezmax tanker segment	440,268	448,525
Cash and cash equivalents	18,881	34,469
Accounts receivable and other assets	23,454	10,831
Consolidated total assets	2,272,796	2,070,815

4. Capital Lease Obligations and Restricted Cash

Capital Leases

LNG Carriers. As at June 30, 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 June 30, 2006 and December 31, 2005, the weighted-average interest rate implicit in the Spanish tax leases was 5.7%. As at June 30, 2006, the commitments under these capital leases, including the purchase obligations, approximated 288.2 million Euros ($368.6 million), including imputed interest of 37.2 million Euros ($47.5 million), repayable as follows:

Year	**Commitment**
2006	123.2 million Euros ($157.6 million)
2007	23.3 million Euros ($29.7 million)
2008	24.4 million Euros ($31.2 million)
2009	25.6 million Euros ($32.8 million)
2010	26.9 million Euros ($34.4 million)
Thereafter	64.8 million Euros ($82.9 million)

During January 2006, the 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. Concurrently 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 June 30, 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 June 30, 2006, the remaining commitments under these capital leases, including the purchase obligations, approximated $263.0 million, including imputed interest of $36.4 million, repayable as follows:

Year	Commitment
2006	$ 12.7 million
2007	145.1 million
2008	8.6 million
2009	8.5 million
2010	88.1 million

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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 255.6 million Euros ($326.9 million) and 249.0 million Euros ($295.0 million) as at June 30, 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 June 30, 2006 and December 31, 2005, the weighted-average interest rate earned on the deposits was 5.2%.

Under the terms of the capital leases for the three LNG newbuilding 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 $433.5 million as at June 30, 2006. These cash deposits are restricted to being used for lease payments and have been fully funded with term loans and loans from the joint venture partners (please see Note 12). As at June 30, 2006, the weighted-average interest rate earned on the deposits was 5.1%.

The Partnership also maintains restricted cash deposits relating to certain term loans, which cash totaled $4.3 million and $3.3 million as at June 30, 2006 and December 31, 2005, respectively.

5. Intangible Assets and Goodwill

As at June 30, 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 June 30, 2006 and December 31, 2005 is as follows:

	June 30, 2006 $	December 31, 2005 $
Gross carrying amount	182,552	182,552
Accumulated amortization	(17,923)	(13,358)
Net carrying amount	164,629	169,194

All intangible assets were recognized on April 30, 2004, when the Predecessor acquired Teekay Spain. Amortization expense of intangible assets for the three and six months ended June 30, 2006 and 2005 were $2.3 million, $4.6 million, $2.3 million and $4.6 million, respectively.

The carrying amount of goodwill as at June 30, 2006 and December 31, 2005 for the Partnership's reporting segments is as follows:

	LNG Carrier	Suezmax Tanker

	Segment $	Segment $	Total $
Balance as at June 30, 2006 and December 31, 2005	3,648	35,631	39,279

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6. Cash Flows

Cash interest paid by the Partnership during the six months ended June 30, 2006 and 2005 totaled $26.4 million and $41.1 million, respectively.

Income taxes paid by the Partnership during the six months ended June 30, 2005 totaled $3.2 million. No income taxes were paid by the Partnership during the six months ended June 30, 2006.

7. Long-Term Debt

	June 30, 2006 $	**December 31, 2005 $**
U.S. Dollar-denominated Revolving Credit Facility due through 2015	18,000	29,000
Euro-denominated Term Loans due through 2023	403,023	377,352
	421,023	406,352
Less current portion	9,060	8,103
Total	411,963	398,249

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 June 30, 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 that owns the carrier. This facility is available to the Partnership until September 2009.

During December 2005, the Partnership entered into a $137.5 million nine-year revolving credit facility. The amount available under this facility reduces by $8.9 million per year for each of the years from 2006 to 2014 and by $57.7 million in 2015. At June 30, 2006, the amount available under this facility was $133.1 million, of which $115.1 million was undrawn. 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 that own those 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 Euro-denominated term loans outstanding, which, as at June 30, 2006, totaled 315.1 million Euros ($403.0 million). 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 June 30, 2006 and December 31, 2005, the margins on our term loans and revolving credit facilities ranged from 0.5% to 1.3%.

The weighted-average effective interest rate for U.S. Dollar-denominated debt outstanding at June 30, 2006 and December 31, 2005 was 5.9% and 5.6%, respectively. The weighted-average effective interest rate for Euro-denominated debt outstanding at June 30, 2006 and December 31, 2005 was 4.1% 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).

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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 gains (losses) during the interim periods presented as follows:

Three Months Ended June 30,			Six Months Ended June 30,		
2006	2005		2006	2005	
April 1 to June 30, 2006	April 1 to May 9, 2005	May 10 to June 30, 2005	January 1 to June 30, 2006	January 1 to May 9, 2005	May 10 to June 30, 2005
$	$	$	$	$	$
(20,328)	7,296	22,993	(28,153)	52,295	22,993

The aggregate annual long-term debt principal repayments required for periods subsequent to June 30, 2006 are $4.5 million (2006), $9.4 million (2007), $10.0 million (2008), $10.8 million (2009), $11.6 million (2010), and $374.7 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 (Loss) - Net

	Three Months Ended June 30,			Six Months Ended June 30,		
	2006	2005		2006	2005	
	April 1 to June 30, 2006	April 1 to May 9, 2005	May 10 to June 30, 2005	January 1 to June 30, 2006	January 1 to May 9, 2005	May 10 to June 30, 2005
	$	$	$	$	$	$
Loss on cancellation of interest rate swaps		(7,820)	-	-	(7,820)	-
Gain on sale of assets	-	-	186	-	-	186
Write-off of capitalized loan costs	-	(7,462)	-	-	(7,462)	-

Income tax recovery (expense)	78	(4,004)	1,672	378	(2,648)	1,672
Miscellaneous	309	(34)	(188)	617	3	(188)
Other income (loss) - net	387	(19,320)	1,670	995	(17,927)	1,670

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9. Comprehensive (Loss) Income

	Three Months Ended June 30,			Six Months Ended June 30,		
	2006	2005		2006	2005	
	April 1 to June 30, 2006 $	April 1 to May 9, 2005 $	May 10 to June 30, 2005 $	January 1 to June 30, 2006 $	January 1 to May 9, 2005 $	May 10 to June 30, 2005 $
Net (loss) income	(15,526)	(12,693)	28,703	(14,758)	29,215	28,703
Other comprehensive income (loss):						
Unrealized gain (loss) on derivative instruments	12,668	(24,882)	(11,916)	30,480	(22,874)	(11,916)
Reclassification adjustment for loss on derivative instruments included in net (loss) income	2,213	9,246	1,601	4,443	14,359	1,601
Comprehensive (loss) income	(645)	(28,329)	18,388	20,165	20,700	18,388

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 strategic consulting services. During the three and six months ended June 30, 2006, the Partnership incurred $0.8 million and $1.7 million, respectively, of these costs. During the period from May 10, 2005 to June 30, 2005, the partnership incurred $0.2 million of these costs.

c) The Partnership has entered into an 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 and six months ended June 30, 2006, the Partnership incurred $0.4 million and $0.5 million, respectively, of these costs.

d) The Partnership reimburses the General Partner for all expenses necessary or appropriate for the conduct of the Partnership's business. During the three and six months ended June 30, 2006, the Partnership incurred $0.1 million and $0.2 million, respectively, of these costs. During the period from May 10, 2005 to June 30, 2005, 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 and six months ended June 30, 2006, the Partnership incurred $0.3 million and $2.1 million, respectively, of amounts owing to Teekay Shipping Corporation as a result of this agreement.

f) At June 30, 2006 and December 31, 2005, advances from affiliates totaled $4.5 million and $2.2 million, respectively. Advances from affiliates are non-interest bearing and unsecured.

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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.

h) Concurrently with the closing of the Partnership's Follow-On Offering, the Partnership 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. The resulting $27.8 million loss on sale has been accounted for as an equity distribution. These vessels, the *African Spirit*, the *Asian Spirit* and the *European Spirit*, are chartered to a subsidiary of ConocoPhillips, an international, integrated energy company. The Partnership financed the acquisition with the net proceeds of the public offering, together with the borrowings under its revolving credit facility and cash balances.

11. Derivative Instruments and Hedging Activities

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

As at June 30 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)	Fixed Interest Rate (%)(1)
LIBOR-Based Debt:					
U.S. Dollar-denominated interest rate swaps (2)	LIBOR	424,851	49,584	30.6	4.9
U.S. Dollar-denominated interest rate swaps (3)	LIBOR	234,000	(9,141)	12.0	6.2
LIBOR-Based Restricted Cash Deposit:					
U.S. Dollar-denominated interest rate swaps (2)	LIBOR	429,275	(58,490)	30.6	4.8
EURIBOR-Based Debt:					
Euro-denominated interest rate swaps (4)	EURIBOR	403,023	20,167	18.0	3.8

(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 to hedge its floating-rate lease obligations and floating-rate restricted cash deposits. (Please see Note 12). Principal amount reduces quarterly upon delivery of each LNG newbuilding.

(3) Inception dates of swaps are December 2006 ($78.0 million) and March and June of 2007 (aggregate of $156.0 million).

(4) Principal amount reduces monthly to 70.1 million Euros ($89.7 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 loss 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.

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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 and six months ended June 30, 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.

12. Commitments and Contingencies

The Partnership has entered into an agreement with Teekay Shipping Corporation to purchase its 70% interest in Teekay Nakilat. Teekay Nakilat has a 30-year capital lease arrangement for three LNG carriers currently under construction. Upon delivery of the vessels, the vessels will provide transportation services under 20-year, fixed-rate time charters to Ras Laffan Liquefied Natural Gas Co. Limited (II), a joint venture between Qatar Petroleum and ExxonMobil RasGas Inc., a subsidiary of ExxonMobil Corporation. The purchase will occur upon the delivery of the first newbuilding which is scheduled during the fourth quarter of 2006. The estimated purchase price for the 70% interest in Teekay Nakilat is $92.8 million, before the expected benefits from the lease arrangements, which are described in further detail below.

During January 2006, the three subsidiaries of Teekay Nakilat, each of which had contracted to have built one of the LNG newbuilding carriers sold their shipbuilding contracts to SeaSpirit for aggregate proceeds of $313.0 million, which approximated the accumulated construction costs incurred to that date. Concurrent with the sale, Teekay Nakilat entered into the 30-year capital leases, which will commence upon the completion of vessel construction. The proceeds from the sale were used to partially fund restricted cash deposits, which totaled $433.5 million as at June 30, 2006. During vessel construction, the amount of restricted cash approximates the accumulated vessel construction costs and is expected to increase by approximately $102.9 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, 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. The benefits of these lease arrangements will be realized 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 approximately $40 million, will be obtained by a reduction in the capital lease obligation for the three LNG carriers.

In January 2003, the Financial Accounting Standards Board (or *FASB*) issued FASB Interpretation No. 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 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 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.

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The following table summarizes the balance sheet of Teekay Nakilat at June 30, 2006 and December 31, 2005.

	June 30, 2006 $	**December 31, 2005** **$**
ASSETS		
Prepaid expenses and other current assets	2,757	-
Restricted cash - long-term	433,475	-
Advances on newbuilding contracts	-	316,875
Other assets	60,655	4,175
Total assets	496,887	321,050
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Accrued liabilities	4,856	1,477
Debt related to newbuilding vessels to be leased (please see table below)	444,679	319,573
Other long-term liabilities	67,439	23,565
Total liabilities	516,974	344,615
Total shareholders' deficit	(20,087)	(23,565)
Total liabilities and shareholders' deficit	496,887	321,050

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