Tangguh Sago Operating Limited

Directors' report and financial statements

For year ended 31 December 2011

Registered number 06433805

Contents

Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2011.

Principal activity

The principal activity of Tangguh Sago Operating Limited (the "Company") is the transportation of liquefied natural gas (or "LNG").

Business review

On 21 November 2007, the Company was incorporated under the laws of the United Kingdom. In December 2007, the Company entered into a lease agreement as a lessee to lease a LNG carrier, the *Tangguh Sago*, for a period of 20 years commencing from the delivery date in March 2009. In February 2008, the Company acquired a 20-year time-charter agreement from a related company for $59,158,000 in exchange for a non-interest bearing loan. In March 2009, the *Tangguh Sago* was delivered and commenced its time-charter in May 2009 with The Tangguh Production Sharing Contractors. During 2011, the Company repaid $53,158,000 of its non-interest bearing debt by issuing 14,028,769 common shares valued at $23,158,000 and issuing $30,000,000 fixed-rate bonds listed on the Channel Islands Stock Exchange.

Key performance indicators

Management measures the Company's performance by reviewing the Company's operating profit from continuing operations. The results of the Company's operating profit from continuing operations are described below.

Results

The profit for the year was $2,996,877 (2010 – $4,068,232). Income from continuing operations before finance income and expenses increased for the year primarily due to an increase in the charter rate relating to recovery of operating expenses, partially offset with a corresponding increase in vessel operating expenses.

Voyage revenues:

Voyage revenue consists only of revenue from its long-term time-charter to The Tangguh Production Sharing Contractors. Voyage revenues are affected by hire rates and the number of days a vessel is on-hire.

Operating expenses:

Voyage expenses are all expenses unique to a particular voyage, including any bunker fuel expenses and port fees. Voyage expenses are normally the responsibility of the charterer when the vessel is on-hire and the Company when off hire. Vessel operating expenses are the responsibility of the Company and include crewing, repairs and maintenance, insurance, stores, lube oils and communication expenses. Rental expenses relate to the operating lease it has with a third party company. Ship management services were provided by a related company and relate to the management of the vessel.

Finance (expense) income:

The Company incurred interest expense in 2011 relating to the bonds it issued during the year.

Other income consists of the amortization of the Company's guarantee liability.

Future developments

The Company plans to operate its LNG carrier under its time-charter and does not have any other future developments.

Principal risks and uncertainties

The principal risks and uncertainties facing the Company are broadly grouped as – taxation and regulatory risks.

Taxation risks

The Company has a lease agreement with a United Kingdom (UK) lessor for the *Tangguh Sago* and we have provided the UK lessor with an indemnification on taxes. Any changes in tax laws and regulations in the UK may impact the Company's cash flows.

Regulatory risks

The business and the operation of the vessel are significantly affected by international conventions and national, state and local laws and regulations in the jurisdictions in which the vessel operates, as well as in the country or countries of their registration. Because these conventions, laws and regulations change frequently, the Company cannot predict the ultimate cost of compliance or their impact on the resale price or useful life of the vessel. Additional conventions, laws and regulations may be adopted that could limit the ability to do business or increase the cost of doing business and that may materially adversely affect operations.

Financial risk management objectives and policies

The Company's financial liabilities comprise of trade payables, advances from related parties and fixed-rate bonds listed on the Channel Islands Stock Exchange. The main purpose of these financial liabilities is to provide sources of finance for the Company's operations.

Liquidity risk

The Company monitors its risk to a shortage of funds by forecasting future cash flows from operations. The Company's operating structure has been setup such that cash flows should be sufficient to make the required lease and bond payments and to fund its ongoing operations.

Credit risk

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed on the balance sheet.

With respect to concentrations of credit risk, the Company derives all voyage revenues from one customer, and the loss of the customer, time-charter or vessel could result in a significant loss of revenues and cash flows.

Interest rate risk

The Company's exposure to changes in market interest rates relates primarily to the Company's variable-rate operating lease.

Capital management

The Company is a wholly owned subsidiary of Teekay BLT Corporation. The Company's capital management is determined by its parent company's shareholders' agreement. No changes were made in the objectives, policies or processes during the year ended 31 December 2011.

In June 2011, the Company issued 14,028,769 of common shares in the amount of $23,158,000 (£14,028,769) to its parent company, Teekay BLT Corporation. Please read notes 8 and 10d in the Company's notes to the financial statements.

Proposed dividend

The directors do not recommend the payment of a dividend.

Directors and directors' interests

The directors who held office during the year were as follows:

Geir Sekkesaeter
David Penny

None of the directors who held office at the end of the financial year had any disclosable interest in the shares and debentures of the Company.

No directors benefited from qualifying third party indemnity provisions during the financial year and at the date of this report.

Employees

The Company had no employees and related costs in the year.

Political and charitable contributions

The Company made no political or charitable donations or incurred any disclosable political expenditure during the year.

Supplier payment policy and practice

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 2011, the Company had an average of 50 days purchases owed to trade creditors.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Appointment of Auditors

In accordance with Section 485 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

David Penny
Director

20-22 Bedford ROW
London WC1R 4JS
June 26, 2012

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under Company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concerns basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Tangguh Sago Operating Limited

We have audited the financial statements of Tangguh Sago Operating Limited for the year ended 31 December 2011 set out on pages 8 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) and adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Tangguh Sago Operating Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not be received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

B. Marks (Senior Statutory Auditor)
for and behalf of KPMG LLP, Statutory auditor
Chartered Accountants
191 West George Street, Glasgow G2 4LJ
June 26, 2012

INCOME STATEMENT
for the year ended 31 December 2011
(in United States Dollars)

	2011 $	2010 $
Voyage revenues *(note 7b)*	25,005,417	23,697,625
Operating expenses		
Voyage expenses	6,260	41,497
Vessel operating expenses *(note 10a)*	4,697,688	3,808,914
Rental expenses *(note 7a)*	12,168,229	11,871,950
Depreciation and amortization *(note 6)*	2,955,875	2,955,876
Professional fees *(note 2)*	59,020	53,963
Corporate and ship management services *(note 10a)*	352,557	346,894
	20,239,629	19,079,094
Operating income from continuing operations	4,765,788	4,618,531
Finance (expense) income		
Interest expense *(note 10d)*	(1,319,999)	-
Interest income	38,780	34,895
Other income *(note 11)*	231,177	230,128
Foreign exchange gain	193	1,485
	(1,049,849)	266,508
Income before taxation	3,715,939	4,885,039
Taxation expense *(note 13)*	(719,062)	(816,807)
Profit attributable to equity holders	2,996,877	4,068,232

See accompanying notes to the financial statements.

The Company has no comprehensive income other than the profit above, and therefore, no separate Statement of Comprehensive Income has been presented.

STATEMENT OF CHANGES IN EQUITY
for year ended 31 December 2011
(in United States Dollars)

	Number of issued and fully paid Shares	Share Capital $	Accumulated Deficit $	Total Shareholder's Equity (Deficit) $
Balance, 31 December 2009	1	2	(7,162,944)	(7,162,942)
Profit attributable to equity holders	-	-	4,068,232	4,068,232
Balance, 31 December 2010	1	2	(3,094,712)	(3,094,710)
Issuance of common shares *(note 8)*	14,028,769	23,158,000	-	23,158,000
Profit attributable to equity holders	-	-	2,996,877	2,996,877
Balance, 31 December 2011	14,028,770	23,158,002	(97,835)	23,060,167

See accompanying notes to the financial statements.

BALANCE SHEET
at 31 December 2011
(in United States Dollars)

	2011 $	2010 $
ASSETS		
Current assets		
Cash	8,356,630	4,946,733
Accounts receivable	118,452	223,512
Due from related parties *(note 10f)*	7,283,696	6,028,657
Prepaids and advances	127,686	178,733
	15,886,464	11,377,635
Non-current assets		
Restricted cash *(note 7c)*	2,015,544	-
Vessel equipment and modifications *(note 5)*	1,649	-
Intangible asset *(note 6)*	51,488,920	54,444,795
Total assets	69,392,577	65,822,430
LIABILITIES AND SHAREHOLDER'S EQUITY (DEFICIT)		
Current liabilities		
Accounts payable and accrued liabilities *(notes 9 and 10b)*	4,037,206	4,114,160
Due to related parties *(note 10f)*	1,333,441	449,905
Loan payable to related party *(notes 10d and 10f)*	6,000,000	59,158,000
	11,370,647	63,722,065
Non-current liabilities		
Bonds payable to related party *(notes 10d and 10f)*	30,000,000	-
Guarantee liability *(note 11)*	4,961,763	5,195,075
Total liabilities	46,332,410	68,917,140
Shareholder's equity (deficit)		
Share capital *(note 8)*	23,158,002	2
Accumulated deficit	(97,835)	(3,094,712)
	23,060,167	(3,094,710)
Total liabilities and shareholder's equity (deficit)	69,392,577	65,822,430

See accompanying notes to the financial statements.

These financial statements were approved by the board of directors and were signed on its behalf by:

David Penny **Date**
Director

Company number: 06433805

CASH FLOW STATEMENT
for year ended 31 December 2011
(in United States Dollars)

	2011 $	2010 $
Cash provided by (used for):		
Operating activities		
Profit attributable to equity holders	2,996,877	4,068,232
Items not involving cash:		
Depreciation and amortization	2,955,875	2,955,876
Other income *(note 11)*	(233,312)	(233,313)
Taxation expense	719,062	816,807
Income taxes paid	(952,204)	-
Changes in operating assets and liabilities:		
Accounts receivable	105,060	(11,639)
Prepaids and advances	51,047	325,498
Increase in restricted cash	(2,015,544)	-
Accounts payable and accrued liabilities	156,188	(87,081)
Due from and to related parties	(371,503)	(7,482,441)
Net operating cash flow	3,411,546	351,939
Investing activities		
Due from related parties	-	(6,000,000)
Expenditures for vessel equipment and modifications	(1,649)	-
Net investing cash flow	(1,649)	(6,000,000)
Increase in cash	3,409,897	(5,648,061)
Cash, beginning of year	4,946,733	10,594,794
Cash, end of year	8,356,630	4,946,733

Supplemental cash flow information (note 12).

See accompanying notes to the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Tangguh Sago Operating Limited (the "Company") is incorporated in the United Kingdom and a wholly owned subsidiary of Teekay BLT Corporation (the "Parent").

The Company's financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and with the Companies Act 2006.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below in note 1, *Use of estimates and judgements*.

The financial statements have been prepared on a going concern basis, the validity of which is dependent on the continuation of adequate financial support from the parent undertaking. The Parent has provided an undertaking that it will continue to provide adequate financial support to the Company in order that it can meet its liabilities as and when they fall due and has also guaranteed the payment and recoverability of all inter-company balances within the Company. The directors have no reason to believe that this financial support will not continue in the future, and therefore consider it appropriate to adopt a going concern basis.

However, should the parent undertaking fail to provide such support, the going concern basis used in preparing the Company's financial statements would be invalid and adjustments would have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might accrue and to reclassify fixed assets as current assets.

Basis of preparation

The financial statements are prepared on the historical cost basis except financial instruments measured at fair value through the profit or loss. Non-current assets are stated at the lower of previous carrying amount and fair value less costs to sell. Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.

Classification of financial instruments issued by the Company

Financial instruments issued by the Company are treated as equity (i.e. forming part of shareholder's funds) only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Foreign currency

The financial statements are stated in U.S. Dollars and the functional currency of the Company is U.S. Dollars. Transactions involving other currencies during the year are converted into U.S. Dollars using the exchange rates in effect at the time of the transactions. At the balance sheet date, monetary assets and liabilities that are denominated in currencies other than the U.S. Dollar are translated to reflect the year end exchange rates. Resulting gains and losses are reflected separately in the income statement.

Use of estimates and judgments

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years.

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

Cash and cash equivalents

The Company classifies all highly-liquid investments with a maturity date of three months or less when purchased as cash and cash equivalents.

Vessel equipment and modifications

Vessel equipment and modifications are depreciated to their estimated residual value on a straight-line basis over the 35 year life of the related vessel. Vessel equipment and modifications also include dry-docking expenditures. Generally, the Company dry docks its vessel every two and a half to five years. In addition, a shipping society classification intermediate survey is performed on the Company's LNG carrier between the second and third year of the five-year dry-docking period. The Company capitalizes a portion of the costs incurred during dry docking and for the survey and amortizes those costs on a straight-line basis from the completion of a dry docking or intermediate survey over the estimated useful life of the dry dock. The Company expenses costs related to routine repairs and maintenance incurred during dry docking that do not improve or extend the useful lives of the assets. When significant dry-docking expenditures occur prior to the expiration of the original amortization period, the remaining unamortized balance of the original dry-docking cost and any unamortized intermediate survey costs are expensed in the month of the subsequent dry docking. There were no dry-docking expenditures capitalized during the year ended 31 December, 2011.

Leases

Company as a Lessee

Lease payments are recorded as rental expense and are recognized on a straight-line basis over the lease term.

Company as a Lessor

All of the Company's voyage revenues in 2011 and 2010 were generated from a single customer. The lease element of the Company's time-charter contract is accounted for as an operating lease and is recognized by the Company daily over the term of the charter. The Company recognizes revenue from the non-lease element of time-charter contract daily as the services are performed. The Company does not recognize revenue during days that the vessel is off-hire.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. There were no provisions as at 31 December 2011.

Intangible assets

The Company's intangible asset consists of an acquired time-charter contract and will be amortized on a straight-line basis over the term of the time-charter contract.

The time-charter contract was valued using an income based approach methodology. This methodology reflects the net present value of the operating cash flows generated by the existing time-charter contract after taking into account the costs and investment required to realize the revenue and appropriate discount rate to reflect the time value of money.

Income taxes

The income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. During the year, income tax expense of $719,062 was incurred.

Any deferred tax will be recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Any deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. No deferred tax asset has been recognized for the year.

Guarantee liability

The fair value of the Company's guarantee liability is determined and recorded as a liability at the time the guarantee is given. The initial liability is subsequently reduced as the Company is released from exposure under the guarantee. The Company amortizes the guarantee liability over the relevant time year as part of other income on its income statement. When it becomes probable that the Company will have to perform on a guarantee, the Company will accrue a separate liability if it is reasonably estimable, based on the facts and circumstances at that time.

2. AUDITORS' REMUNERATION

	2011 $	2010 $
Audit of these financial statements pursuant to legislation included as part of professional fees	12,225	20,000

Amounts receivable by the Company's auditor in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, Teekay BLT Corporation.

3. STAFF NUMBERS AND COSTS

The Company had no employees and related costs in the year covered by this report.

4. DIRECTORS' EMOLUMENTS

The directors did not receive any emoluments for the year covered by this report and the financial statements. No directors benefited from qualifying third party indemnity provisions.

5. VESSEL EQUIPMENT AND MODIFICATIONS

	Cost $	Accumulated Depreciation $	Net book value $
Balance, 31 December 2010	-	-	-
Additions	1,649	-	1,649
Balance, 31 December 2011	1,649	-	1,649

6. INTANGIBLE ASSET

As at 31 December 2011 and 2010, the intangible asset consists of a time-charter contract with an amortization period of 20 years.

	2011 $	2010 $
Gross carrying amount	59,158,000	59,158,000
Accumulated amortization	(7,669,080)	(4,713,205)
Net carrying amount	51,488,920	54,444,795

Amortization expense of intangible assets for the year ended 31 December 2011 was $2,955,875 (2010 – $2,955,876). Amortization of intangible assets in each of the next five succeeding fiscal years is approximately $2,956,000.

7. OPERATING LEASES AND RESTRICTED CASH

a) Company as a Lessee

The Company is a party to a 20 year variable-rate operating lease ending in March 2029, whereby it is the lessee and is leasing a vessel from a third party company. As at 31 December 2011, the total future expected minimum rental payments to be paid by the Company in each of the next five succeeding fiscal years is approximately $12,557,000 and is approximately $155,838,000 thereafter.

During the year, the Company incurred operating lease expense of $12,168,229 (2010 – $11,871,950) and recorded as rental expenses.

b) Company as a Lessor

The Company leases out the vessel it is leasing referred to in note 7a under a 20-year time-charter contract to The Tangguh Production Sharing Contractors ending in May 2029. This time-charter contract is accounted for as an operating lease and rental income is recorded as voyage revenues. As at 31 December 2011, minimum scheduled future revenues (including the non-lease element of the time-charter contract) to be received by the Company on this time-charter contract in each of the next five succeeding fiscal years is approximately $25,005,000 and is approximately $300,065,040 thereafter. Minimum scheduled future revenues do not include revenue generated from new contracts entered into after 31 December 2011, revenue from unexercised option periods of its time-charter contract that existed on 31 December 2011, or variable or contingent revenues. Therefore, the minimum schedules futures revenues should not be construed to reflect total charter hire revenues for any of the years.

c) Restricted Cash

The Company maintains restricted cash deposits relating to amounts received from The Tangguh Production Sharing Contractors to be used only for dry-docking expenditures and emergency repairs, which cash totalled $2,015,544 as at 31 December 2011.

8. SHARE CAPITAL

	2011 $	2010 $
Authorized		
50,000,000 Common shares, with a par value of 1 pound each		
Issued and outstanding		
14,028,770 Common shares	23,158,002	2

The Company is a wholly owned subsidiary of Teekay BLT Corporation. The Company's capital management is determined by its parent company's shareholders' agreement. No changes were made in the objectives, policies or processes during the year ended 31 December 2011.

The holders of common shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

At inception, the Company issued 1 common share with a par value of £1 each for consideration of $2 (£1). During the year, the Company issued 14,028,769 common shares with a par value of £1 each to repay $23,158,000 of its loan payable to Teekay BLT Corporation (see note 10d).

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2011 $	2010 $
Trade creditors [1]	149,044	315,049
Tax creditor	583,665	816,807
Accruals [1]	3,304,497	2,982,304
	4,037,206	4,114,160

[1] As at 31 December 2011, $322,207 (2010 – $398,486) of accounts payable and accrued liabilities relating to crewing and manning costs is payable to Teekay Corporation (see note 10b).

10. RELATED PARTY TRANSACTIONS

a) The Company has entered into service agreements with Teekay Shipping Ltd. to which Teekay Shipping Ltd. provides the Company with corporate and technical ship management services. In addition, all related crewing and manning services are provided to the Company by Teekay Corporation. These services are measured at the exchange adjustment amount between the parties. For the periods indicated, these related party transactions were as follows:

	2011 $	2010 $
Vessel operating expenses[1]	2,703,707	2,588,647
Ship management services	312,773	308,164
Corporate services	39,784	38,730

[1] Teekay Corporation's crew salaries and training.

b) As at 31 December 2011 and 2010, crewing and manning costs of $322,207 and $398,486 , respectively, were payable to Teekay Corporation and were included as part of accounts payable and accrued liabilities in the Company's balance sheet.

c) From time to time, other payments are made by affiliates on behalf of the Company that are not specific to any agreements described above.

d) During the year, HHI Hull S298 LLC assigned $53,158,000 of its $59,158,000 loan receivable from the Company to Teekay BLT Corporation. The Company then settled $53,158,000 of its debt to Teekay BLT Corporation by issuing 14,028,769 common shares valued at $23,158,000 and issuing $30,000,000 bonds listed on the Channel Islands Stock Exchange. The bonds bear interest at eight percent and mature in June 2029. The Company incurred interest expense relating to the bonds of $1,319,999 (2010 – nil) payable to Teekay BLT Corporation (see note 10f).

e) During the year, Tangguh Hiri Finance Limited and Tangguh Sago Finance Limited transferred $221,088 (2010 – nil) of tax benefit relating to income tax losses to the Company for no consideration.

f) Balances with related parties as at 31 December are as follows:

	2011 $	2010 $
Due from related parties:		
Due from Teekay BLT Corporation	6,000,000	6,009,299
Due from Teekay Corporation	1,235,952	-
Due from other related parties	47,744	19,358
	7,283,696	6,028,657
Due to related parties:		
Due to Teekay BLT Corporation	1,302,327	-
Due to Teekay Corporation	-	393,727
Due to Teekay Chartering Limited	4,100	18,300
Due to Teekay Shipping Limited	-	35,363
Due to other related parties	27,014	2,515
	1,333,441	449,905
Loan payable to related party:		
Due to HSHI Hull S298 LLC	6,000,000	59,158,000
Bonds payable to related party:		
Bond payable to Teekay BLT Corporation – 8% interest, maturing in June 2029	30,000,000	-

As at 31 December 2011, all advances to and from related parties are non-interest bearing, unsecured and have no fixed repayment terms with the exception of the bonds payable to Teekay BLT Corporation.

11. GUARANTEE LIABILITY

Under the Company's operating lease (see Note 7a) it guarantees to make payments to a third party company for any losses suffered by the third party company relating to tax law changes. The tax indemnification would be for 24 years, which is the duration of the lease contract with the third party plus the years it would take for the lease payments to be statute barred (statute barred period changed from six years to four years during 2010). There is no maximum potential amount of future payments; however, the Company may terminate the lease arrangement at any time. The Company's carrying amount of the guarantee liability is $4,961,763 (2010 – $5,195,075). The amortization of the guarantee liability of $233,312 (2010 – $233,313) is included as part of other income in the Company's income statement.

12. SUPPLEMENTAL CASH FLOW INFORMATION

a) Cash collected for interest income was $38,780 and $40,114 for the years ended 31 December 2011 and 2010, respectively.

b) No cash was paid for interest expense for the years ended 31 December 2011 and 2010 respectively.

c) The restructuring of the Company's loan payable through the issuance of common shares and bonds as described in note 10d during the year is treated as non-cash transactions in the Company's statement of cash flow.

13. TAXATION

a) The differences between income taxes computed using the UK standard corporation tax rate and the income tax expense were as follows:

	2011 $	2010 $
Amount computed using the UK standard corporate rate 26.5% (2010 – 28%)	984,724	1,367,811
Increase (reduction) in taxes resulting from:		
Change in valuation allowance	-	(485,676)
Group relief *(note 10e)*	(221,088)	-
Change in tax rate	924	-
Permanent differences	(45,498)	(65,328)
Taxation expense	719,062	816,807

14. FAIR VALUE MEASUREMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and restricted cash – The fair value of the Company's cash and restricted cash approximates its carrying amounts reported in the balance sheet.

Bonds payable to related party – The fair value of the Company's fixed-rate bonds are estimated using discounted cash flow analyses based on the current credit worthiness of the underlying time-charter counterparty and credit worthiness at the issuance of the fixed-rate bonds.

The Company does not have any financial instruments that are recorded at fair value on a recurring basis. The estimated fair value of the Company's financial instruments is as follows:

		2011		2010	
	Fair Value Hierarchy Level	**Carrying Amount Asset (Liability) $**	**Fair Value Asset (Liability) $**	**Carrying Amount Asset (Liability) $**	**Fair Value Asset (Liability) $**
Cash and restricted cash	Level 1	10,372,174	10,372,174	4,946,733	4,946,733
Bonds payable to related party	Level 2	(30,000,000)	(30,000,000)	-	-

No non-financial assets or non-financial liabilities were carried at fair value at December 31, 2011 and 2010.

15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

a) Financial instruments:

Financial instruments are either measured at amortized cost or fair value. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost. Held-for-trading financial assets and liabilities and available-for-sale financial assets are measured on the balance sheet at fair value.

The following table provides the carrying value of each category of financial assets and liabilities and the related balance sheet item:

	2011 $	2010 $
Financial assets:		
Loans and receivables:		
Cash	8,356,630	4,946,733
Accounts receivable	118,452	223,512
Due from related parties	7,283,696	6,028,657
Restricted cash	2,015,544	-
Total financial assets	17,774,322	11,198,902
Financial liabilities:		
Other financial liabilities:		
Accounts payable and accrued liabilities	4,037,206	4,114,160
Due to related parties	1,333,441	449,905
Loan payable to related party	6,000,000	59,158,000
Bonds payable to related party	30,000,000	-
Total financial liabilities	41,370,647	63,722,065

At 31 December 2011, all of the company's financial instruments are recorded on the balance sheet at amortized cost.

b) Financial risk management:

(i) Liquidity risks:

Liquidity risk is the risk that the Company will not have sufficient funds to meet its liabilities. The Company maintains liquidity and makes adjustments to it in light of changes to economic conditions, underlying risks inherent in its operations and capital requirements to maintain and grow its operations. At 31 December 2011, the Company had $8.,356,630 million of cash.

31 December 2011	Carrying Amount $	Contractual cash flows $	1 year or less $	1-3 years $	3-5 years $	More than 5 years $
Accounts payable and accrued liabilities	4,037,206	4,037,206	4,037,206	-	-	-
Due to related parties	1,333,441	1,333,441	1,333,441	-	-	-
Loan payable to related parties	6,000,000	6,000,000	6,000,000	-	-	-
Bonds payable to related party (1)	30,000,000	52,800,000	4,066,666	7,733,334	7,200,000	33,800,000
	41,370,647	64,170,647	19,513,028	7,733,334	7,200,000	33,800,000

(1) Contractual cash flows include expected interest payments of $22,800,000.

(ii) Interest risk:

Interest rate risk is the risk that the Company suffers financial loss due to changes in the value of a financial asset or liability or in the value of future cash flows due to movements in interest rates. As the Company's financial assets and liabilities have fixed interest rates, the Company is not exposed to interest rate risk with respect to these balances. The Company's exposure to changes in market interest rates primarily relate to the Company's variable-rate operating lease.

16. ULTIMATE PARENT COMPANY AND PARENT COMPANY OF LARGER GROUP

The Company is a subsidiary undertaking of Teekay Corporation which is the ultimate parent company incorporated the Republic of the Marshall Islands.

The largest group in which the results of the Company are consolidated is that headed by Teekay Corporation, incorporated in the Republic of the Marshall Islands. The smallest group in which it is consolidated is that headed by Teekay BLT Corporation incorporated in the Republic of the Marshall Islands. The Company is also consolidated into Teekay LNG Partners L.P. The consolidated financial statements of Teekay Corporation and Teekay LNG Partners L.P. are available to the public and may be obtained from their offices located at 4th Floor Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08 Bermuda.

17. RISKS AND UNCERTANTIES

Taxation risks

The Company has a lease agreement with a United Kingdom (UK) lessor for the *Tangguh Sago* and we have provided the UK lessor with an indemnification on taxes. Any changes in tax laws and regulations in the UK may impact the Company's cash flows.

Regulatory risks

The business and the operation of the vessel are significantly affected by international conventions and national, state and local laws and regulations in the jurisdictions in which the vessel operates, as well as in the country or countries of their registration. Because these conventions, laws and regulations change frequently, the Company cannot predict the ultimate cost of compliance or their impact on the resale price or useful life of the vessel. Additional conventions, laws and regulations may be adopted that could limit the ability to do business or increase the cost of doing business and that may materially adversely affect operations.

Credit risk

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed on the balance sheet.

With respect to concentrations of credit risk, the Company derives all voyage revenues from one customer, and the loss of the customer, time-charter or vessel could result in a significant loss of revenues and cash flows.

18. ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

New standards, amendments and interpretations effective from 1 January 2011

The following standards, amendments and interpretations, which became effective 1 January 2011 are relevant to the Company.

a) IAS 24 (Revised) 'Related party disclosures'

The revised standard was issued in November 2009. The revised standard clarifies and simplifies the definition of a related party. The adoption of the revised standard did not have any significant impact on the related party disclosure of the Company.

b) Improvements to IFRSs (2010)

Improvements to IFRS issued in 2010 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. There were no significant changes to the current accounting policies of the Company as a result of these amendments.

New standards, amendments and interpretations that are not yet effective for the year ended 31 December 2011 and not yet adopted

The following standards and interpretations have been issued and are expected to be relevant to the Company in future periods, with the effective dates on or after 1 January 2012.

c) IAS 1 (amendment) - Presentation of items of other comprehensive income

The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 July 2012 with an option of early application. The application of this amendment has no significant impact on the financial statements of the Company.

d) IFRS 9 - Financial Instruments

Standard issued November 2009

IFRS 9 (2009) 'Financial Instruments' is the first standard issued as part of a wider project to replace IAS 39 'Financial instruments: recognition and measurement'. IFRS 9 (2009) retains and simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment and hedge accounting continues to apply. The 2009 standard did not address financial liabilities.

Standard issued October 2010

IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and de-recognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 “reassessment of Embedded Derivatives”.

The Company is considering the implications of the standard, the impact on the Company and timing of its adoption by the Company. While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted.

e) IFRS 13 - Fair value measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The standard is effective for annual periods beginning on or after 1 January 2013 with an option of early adoption.

The Company did not early adopt new or amended standards or interpretations in 2011.