

Teekay LNG Partners L.P.  
Form 20-F  
April 05, 2019

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

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FORM 20-F

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(Mark One)

..REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ý ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018

OR

..TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

..SHELL COMPANY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1- 32479

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TEEKAY LNG PARTNERS L.P.

(Exact name of Registrant as specified in its charter)

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Republic of The Marshall Islands

(Jurisdiction of incorporation or organization)

4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda

Telephone: (441) 298-2530

(Address and telephone number of principal executive offices)

Edith Robinson

4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda

Telephone: (441) 298-2530

Fax: (441) 292-3931

(Contact information for company contact person)

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Securities registered, or to be registered, pursuant to Section 12(b) of the Act.

| Title of each class      | Name of each exchange on which registered |
|--------------------------|---|
| Common Units             | New York Stock Exchange                   |
| Series A Preferred Units | New York Stock Exchange                   |
| Series B Preferred Units | New York Stock Exchange                   |

Securities registered, or to be registered, pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each issuer's classes of capital or common stock as of the close of the period covered by the annual report.

79,360,719 Common Units

5,000,000 Series A Preferred Units

6,800,000 Series B Preferred Units

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

Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark if the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if the registrant (1) has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

International Financial Reporting Standards   
U.S. GAAP  as issued by the International Accounting Standards Board  "Other"

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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## PART I

This Annual Report should be read in conjunction with the consolidated financial statements and accompanying notes included in this report.

Unless otherwise indicated, references in this prospectus to “Teekay LNG Partners,” “we,” “us” and “our” and similar terms refer to Teekay LNG Partners L.P. and/or one or more of its subsidiaries, except that those terms, when used in this Annual Report in connection with the common or preferred units described herein, shall mean specifically Teekay LNG Partners L.P. References in this Annual Report to “Teekay Corporation” refer to Teekay Corporation and/or any one or more of its subsidiaries.

In addition to historical information, this Annual Report contains forward-looking statements that involve risks and uncertainties. Such forward-looking statements relate to future events and our operations, objectives, expectations, performance, financial condition and intentions. When used in this Annual Report, the words “expect,” “intend,” “plan,” “believe,” “anticipate,” “estimate” and variations of such words and similar expressions are intended to identify forward-looking statements. Forward-looking statements in this Annual Report include, in particular, statements regarding:

- our distribution policy and our ability to make cash distributions on our units or any increases in quarterly distributions, and the impact of cash distribution reductions on our financial position;
- our future financial condition and results of operations and our future revenues, expenses and capital expenditures, and our expected financial flexibility to pursue capital expenditures, acquisitions and other expansion opportunities, including vessel acquisitions;
- our liquidity needs and meeting our going concern requirements, including our anticipated funds and sources of financing for liquidity and working capital needs and the sufficiency of cash flows, and our estimation that we will have sufficient liquidity for at least a one-year period;
- our ability to obtain financing, including new bank financings, and to refinance existing indebtedness;
- the expected timing, amounts and methods of financing for new projects;
- growth prospects and future trends of the markets in which we operate;
- our expectations regarding demand in the oil and gas industry;
- liquefied natural gas (or LNG), liquefied petroleum gas (or LPG) and tanker market fundamentals, including the balance of supply and demand in the LNG, LPG and tanker markets, estimated growth in size of the world LNG and LPG fleets and spot LNG, LPG and tanker charter rates;
- our expectations as to the useful lives of our vessels;
- our expectations and estimates regarding future charter business, including with respect to minimum charter hire payments, revenues and our vessels’ ability to perform to specifications and maintain their hire rates in the future;
- our expectations regarding the ability of Awilco LNG ASA (or Awilco), and our other customers to make charter payments to us, and the ability of our customers to fulfill purchase obligations at the end of charter contracts, including obligations relating to two of our LNG carriers completing charters with Awilco in 2019;
- our ability to maximize the use of our vessels, including the redeployment or disposition of vessels no longer under long-term charter or whose charter contract is expiring in 2019 and 2020;
- the adequacy of our insurance coverage, less an applicable deductible;
- the future resumption of an LNG plant in Yemen operated by Yemen LNG Company Limited (or YLNG), the expected expiration of the current deferral arrangement with YLNG, the expected further agreement with YLNG to suspend the charter contracts, the expected repayment of deferred hire amounts on our two 52%-owned vessels, the Marib Spirit and Arwa Spirit, on charter to YLNG, and the expected reduction to our equity income in 2019 as a result of the charter payment deferral;
- expected purchases and deliveries of newbuilding vessels, the newbuildings’ commencement of service under charter contracts, and estimated costs for newbuilding vessels;
-

- expected deliveries of the LNG newbuilding vessels in connection with our joint venture with China LNG Shipping (Holdings) Limited;
- expected funding of our proportionate share of the remaining shipyard installment payments for our joint venture with China LNG, CETS Investment Management (HK) Co. Ltd. and BW LNG Investments Pte. Ltd. (or the Pan Union Joint Venture);
- the expected technical and operational capabilities of newbuildings, including the benefits of the M-type, Electronically Controlled, Gas Injection (or MEGI) twin engines in certain LNG carrier newbuildings;
- our ability to continue to derive a significant portion of our revenues and cash flow from a limited number of customers;
- our ability to maintain long-term relationships with major LNG and LPG importers and exporters and major crude oil companies;
- our ability to leverage to our advantage Teekay Corporation's relationships and reputation in the shipping industry;
- our continued ability to enter into long-term, fixed-rate time-charters with our LNG and LPG customers;



- obtaining LNG and LPG projects that we or Teekay Corporation bid on;
- our expectations regarding the schedule and performance of the receiving and regasification terminal in Bahrain, which will be owned and operated by a new joint venture, Bahrain LNG W.L.L., owned by us (30%), National Oil & Gas Authority (or Nogaholding) (30%), Gulf Investment Corporation (or GIC) (24%) and Samsung C&T (or Samsung) (16%) (or the Bahrain LNG Joint Venture), and our expectations regarding the charter of a floating storage unit (or FSU) vessel for the project;
- our ability to obtain all permits, licenses, and certificates with respect to the conduct of our operations;
- the impact and expected cost of, and our ability to comply with, new and existing governmental regulations and maritime self-regulatory organization standards applicable to our business, including the expected cost to install ballast water treatment systems on our vessels and the switch to burning low sulphur fuel in compliance with the International Marine Organization (or IMO) proposals and the effect of IMO 2020, a new regulation for a 0.50% global sulphur cap for marine fuels effective January 1, 2020;
- the expected impact of heightened environmental and quality concerns of insurance underwriters, regulators and charterers;
- the future valuation or impairment of our assets, including goodwill;
- our hedging activities relating to foreign exchange, interest rate and spot market risks, and the effects of fluctuations in foreign exchange, interest rate and spot market rates on our business and results of operations;
- the potential impact of new accounting standards guidance;
  - our and Teekay Corporation's ability to maintain good relationships with the labor unions who work with us;
- anticipated taxation of our partnership and its subsidiaries; and
- our business strategy and other plans and objectives for future operations.

Forward-looking statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially include, but are not limited to, those factors discussed in "Item 3 – Key Information: Risk Factors," and other factors detailed from time to time in other reports we file with or furnish to the U.S. Securities and Exchange Commission (or the SEC).

We do not intend to revise any forward-looking statements in order to reflect any change in our expectations or events or circumstances that may subsequently arise. You should carefully review and consider the various disclosures included in this Annual Report and in our other filings made with the SEC that attempt to advise interested parties of the risks and factors that may affect our business prospects and results of operations.

#### Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

#### Item 2. Offer Statistics and Expected Timetable

Not applicable.

#### Item 3. Key Information

##### Selected Financial Data

Set forth below is selected consolidated financial and other data of Teekay LNG Partners and its subsidiaries for the fiscal years 2014 through 2018, which have been derived from our consolidated financial statements. The following table should be read together with, and is qualified in its entirety by reference to, (a) "Item 5 – Operating and Financial Review and Prospects," included herein, and (b) the historical consolidated financial statements and the accompanying notes and the Report of Independent Registered Public Accounting Firm therein (which are included herein), with respect to the consolidated financial statements for the years ended December 31, 2018, 2017 and 2016.

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

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| (in thousands of U.S. Dollars, except unit, per unit<br>and fleet data) | Year Ended<br>December 31<br>2018 | Year Ended<br>December 31<br>2017 | Year Ended<br>December 31<br>2016 | Year Ended<br>December 31<br>2015 | Year Ended<br>December 31,<br>2014 |
|---|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|------------------------------------|
|   | \$                                | \$                                | \$                                | \$                                | \$                                 |
| <b>Income Statement Data:</b>   |                                   |                                   |                                   |                                   |                                    |
| Voyage revenues   | 510,762                           | 432,676                           | 396,444                           | 397,991                           | 402,928                            |
| Income from vessel operations <sup>(1)</sup>                            | 147,809                           | 148,649                           | 153,181                           | 181,372                           | 183,823                            |
| Equity income <sup>(2)</sup>  | 53,546                            | 9,789                             | 62,307                            | 84,171                            | 115,478                            |

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|   |            |            |            |            |            |
|---|------------|------------|------------|------------|------------|
| Interest expense  | (128,303 ) | (80,937 )  | (58,844 )  | (43,259 )  | (60,414 )  |
| Interest income   | 3,760      | 2,915      | 2,583      | 2,501      | 3,052      |
| Realized and unrealized gain (loss) on non-designated derivative instruments <sup>(3)</sup> | 3,278      | (5,309 )   | (7,161 )   | (20,022 )  | (44,682 )  |
| Foreign currency exchange gain (loss) <sup>(4)</sup>  | 1,371      | (26,933 )  | 5,335      | 13,943     | 28,401     |
| Other (expense) income <sup>(5)</sup>   | (51,373 )  | 1,561      | 1,537      | 1,526      | 836        |
| Income tax expense  | (3,213 )   | (824 )     | (973 )     | (2,722 )   | (7,567 )   |
| Net income  | 26,875     | 48,911     | 157,965    | 217,510    | 218,927    |
| Non-controlling and other interests in net income   | 24,260     | 29,325     | 22,988     | 42,903     | 44,676     |
| Limited partners' interest in net income  | 2,615      | 19,586     | 134,977    | 174,607    | 174,251    |
| Limited partners' interest in net income per:   |            |            |            |            |            |
| Common unit - basic   | 0.03       | 0.25       | 1.70       | 2.21       | 2.30       |
| Common unit - diluted   | 0.03       | 0.25       | 1.69       | 2.21       | 2.30       |
| Cash distributions declared per common unit   | 0.5600     | 0.5600     | 0.5600     | 2.8000     | 2.7672     |
| Balance Sheet Data (at end of period):  |            |            |            |            |            |
| Cash and cash equivalents   | 149,014    | 244,241    | 126,146    | 102,481    | 159,639    |
| Restricted cash   | 73,850     | 95,194     | 117,027    | 111,519    | 45,997     |
| Vessels and equipment <sup>(6)</sup>  | 3,329,523  | 2,905,712  | 2,215,983  | 2,108,160  | 1,989,230  |
| Investment in and advances to equity-accounted joint ventures                               | 1,116,133  | 1,094,596  | 1,037,726  | 883,731    | 891,478    |
| Net investments in direct financing leases <sup>(7)</sup>                                   | 575,163    | 495,990    | 643,008    | 666,658    | 682,495    |
| Total assets  | 5,384,781  | 5,019,299  | 4,315,474  | 4,052,980  | 3,947,275  |
| Total debt and obligations related to capital leases  | 3,268,332  | 2,809,541  | 2,184,065  | 2,058,336  | 1,970,531  |
| Partners' equity  | 1,833,254  | 1,879,038  | 1,738,506  | 1,519,062  | 1,537,752  |
| Total equity  | 1,882,597  | 1,931,423  | 1,777,412  | 1,543,679  | 1,547,371  |
| Common units outstanding  | 79,360,719 | 79,626,819 | 79,571,820 | 79,551,012 | 78,353,354 |
| Preferred units outstanding   | 11,800,000 | 11,800,000 | 5,000,000  | —          | —          |
| Other Financial Data:   |            |            |            |            |            |
| Net voyage revenues <sup>(8)</sup>  | 482,525    | 424,474    | 394,788    | 396,845    | 399,607    |
| EBITDA <sup>(9)</sup>   | 279,009    | 233,302    | 310,741    | 353,243    | 377,983    |
| Adjusted EBITDA <sup>(9)</sup>  | 492,275    | 424,436    | 445,341    | 442,463    | 466,965    |
| Capital expenditures:   |            |            |            |            |            |
| Expenditures for vessels and equipment <sup>(10)</sup>                                      | 686,305    | 714,529    | 344,987    | 191,969    | 194,255    |
| Liquefied Natural Gas Fleet Data:   |            |            |            |            |            |
| Consolidated:   |            |            |            |            |            |
| Calendar-ship-days <sup>(11)</sup>  | 7,570      | 5,912      | 5,244      | 4,745      | 4,745      |
| Average age of our fleet (in years at end of year)  | 7.8        | 8.9        | 9.7        | 10.2       | 9.2        |
| Vessels at end of year <sup>(12)</sup>  | 23         | 18         | 15         | 13         | 13         |
| Equity-Accounted: <sup>(13)</sup>   |            |            |            |            |            |
| Calendar-ship-days <sup>(11)</sup>  | 6,912      | 5,920      | 5,840      | 5,840      | 5,840      |
| Average age of our fleet (in years at end of year)  | 7.0        | 8.0        | 7.5        | 6.5        | 5.5        |
| Vessels at end of year <sup>(12)</sup>  | 20         | 17         | 16         | 16         | 16         |
| Liquefied Petroleum Gas Fleet Data:   |            |            |            |            |            |
| Consolidated:   |            |            |            |            |            |
| Calendar-ship-days <sup>(11)</sup>  | 2,555      | 2,445      | 2,196      | 2,190      | 1,874      |
| Average age of our fleet (in years at end of year)  | 9.9        | 8.9        | 7.0        | 6.0        | 5.0        |
| Vessels at end of year <sup>(12)</sup>  | 7          | 7          | 6          | 6          | 6          |
| Equity-Accounted: <sup>(13)</sup>   |            |            |            |            |            |
| Calendar-ship-days <sup>(11)</sup>  | 7,645      | 7,001      | 6,395      | 5,880      | 5,498      |

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|  |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|
| Average age of our fleet (in years at end of year) | 7.9   | 9.1   | 9.6   | 10.4  | 10.8  |
| Vessels at end of year <sup>(12)</sup>             | 22    | 20    | 19    | 16    | 15    |
| Conventional Fleet Data:                           |       |       |       |       |       |
| Calendar-ship-days <sup>(11)</sup>                 | 1,389 | 1,904 | 2,439 | 2,920 | 3,202 |
| Average age of our fleet (in years at end of year) | 12.0  | 12.6  | 11.7  | 9.5   | 8.5   |
| Vessels at end of year                             | 2     | 5     | 6     | 8     | 8     |

Income from vessel operations includes write-down of goodwill and write-down and loss on sale of vessels of (1)\$54.7 million, \$50.6 million and \$39.0 million for the years ended December 31, 2018, 2017 and 2016, respectively.

- Equity income includes unrealized gains on non-designated derivative instruments, and any ineffectiveness of derivative instruments designated as hedges for accounting purposes of \$9.4 million, \$2.4 million, \$7.3 million, \$10.2 million and \$1.6 million for the years ended December 31, 2018, 2017, 2016, 2015 and 2014, respectively.
- (2) In addition, equity income for the year ended December 31, 2018 includes a gain of \$5.6 million on our sale of our 50% ownership interest in our joint venture with Exmar NV (or Exmar) (or the Excelsior Joint Venture), which owned one LNG carrier, the Excelsior.
- We entered into interest rate swap and swaption agreements to mitigate our interest rate risk from our floating-rate debt. We also have entered into an agreement with Teekay Corporation relating to the Toledo Spirit time-charter contract under which Teekay Corporation paid us any amounts payable to the charterer as a result of spot rates being below the fixed rate, and we paid Teekay Corporation any amounts payable to us as a result of spot rates being in excess of the fixed rate. The Toledo Spirit was sold in early 2019, and as a result, the derivative agreement
- (3) ended at that time. With the exception of the interest rate swaps in our consolidated joint venture, Teekay Nakilat Corporation (or the Teekay Nakilat Joint Venture), and for several interest rate swaps in certain of our equity-accounted joint ventures where we have applied hedge accounting, changes in the fair value of our derivatives are recognized immediately into income and are presented as realized and unrealized gain (loss) on derivative instruments in the consolidated statements of income. Please see "Item 18 – Financial Statements: Note 13 – Derivative Instruments and Hedging Activities."
- Under GAAP, all foreign currency-denominated monetary assets and liabilities, such as cash and cash equivalents, accounts receivable, restricted cash, accounts payable, accrued liabilities, advances from affiliates and long-term debt, are revalued and reported based on the prevailing exchange rate at the end of the period. Foreign exchange gains and losses include realized and unrealized gains and losses on our cross currency swaps. We entered into cross currency swaps concurrently with the issuance of our Norwegian Kroner (or NOK) denominated bonds to economically hedge the foreign currency exposure on the payment of interest and principal of our
- (4) NOK-denominated bonds. Our primary sources of foreign currency exchange gains and losses are our Euro-denominated term loans and NOK-denominated bonds. Euro-denominated term loans totaled, 169.0 million Euros (\$193.8 million) at December 31, 2018, 194.1 million Euros (\$233.0 million) at December 31, 2017, 208.9 million Euros (\$219.7 million) at December 31, 2016, 227.7 million Euros (\$241.8 million) at December 31, 2015 and 235.6 million Euros (\$285.0 million) at December 31, 2014. Our NOK-denominated bonds totaled 3.1 billion NOK (\$353.0 million) at December 31, 2018, 3.1 billion NOK (\$377.9 million) at December 31, 2017, 3.2 billion NOK (\$371.3 million) at December 31, 2016, 2.6 billion NOK (\$294.0 million) at December 31, 2015 and 1.6 billion NOK (\$214.7 million) at December 31, 2014.
- Other (expense) income for the year ended December 31, 2018 includes a \$53.0 million expense relating to the
- (5) Teekay Nakilat Joint Venture recognizing an additional tax indemnification liability. Please see "Item 5 – Operating and Financial Review and Prospects: Significant Developments in 2018 and Early 2019 – Teekay Nakilat Capital Lease."
- (6) Vessels and equipment consist of (a) our vessels, at cost less accumulated depreciation, (b) vessels related to capital leases, at cost less accumulated depreciation and (c) advances on our newbuildings.
- Certain of our external charters have been accounted for as direct financing leases. As a result, the vessels
- (7) associated with the external charters accounted for as direct financing leases are not included as part of vessels and equipment. Please see "Item 18 – Financial Statements: Note 6 – Revenue – Net Investments in Direct Financing Leases."
- (8) Net voyage revenues is a non-GAAP financial measure. Consistent with general practice in the shipping industry, we use net voyage revenues (defined as voyage revenues less voyage expenses) as a measure of equating revenues generated from voyage charters to revenues generated from time-charters, which assists us in making operating decisions about the deployment of our vessels and their performance. Under time-charters the charterer pays the voyage expenses, whereas under voyage charter contracts the ship owner pays these expenses. Some voyage expenses are fixed, and the remainder can be estimated. If we, as the ship owner, pay the voyage expenses, we typically pass the approximate amount of these expenses on to our customers by charging higher rates under the contract or billing the expenses to them. As a result, although voyage revenues from different types of contracts

may vary, the net voyage revenues are comparable across the different types of contracts. We principally use net voyage revenues because it provides more meaningful information to us than voyage revenues, the most directly comparable GAAP financial measure. Net voyage revenues are also widely used by investors and analysts in the shipping industry for comparing financial performance between companies and to industry averages. The following table reconciles net voyage revenues with voyage revenues:

| (in thousands of U.S. Dollars) | Year Ended<br>December 31,<br>2018 | Year Ended<br>December 31,<br>2017 | Year Ended<br>December 31,<br>2016 | Year Ended<br>December 31,<br>2015 | Year Ended<br>December 31,<br>2014 |
|--------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Voyage revenues                | 510,762                            | 432,676                            | 396,444                            | 397,991                            | 402,928                            |
| Voyage expenses                | (28,237 )                          | (8,202 )                           | (1,656 )                           | (1,146 )                           | (3,321 )                           |
| Net voyage revenues            | 482,525                            | 424,474                            | 394,788                            | 396,845                            | 399,607                            |

EBITDA and Adjusted EBITDA are non-GAAP financial measures. EBITDA represents net income before interest, taxes, depreciation and amortization. Adjusted EBITDA represents EBITDA before write-down of goodwill and write-down and loss on sales of vessels, foreign currency exchange (gain) loss, amortization of in-process contracts included in voyage revenues net of offsetting vessel operating expenses, unrealized (gain) loss on non-designated derivative instruments, realized loss on interest rate swaps and Adjustments to Equity-Accounted EBITDA. EBITDA and Adjusted EBITDA are used as a supplemental financial performance measure by management and by external users of our financial statements, such as investors. EBITDA and Adjusted EBITDA assist our management and security holders by increasing the comparability of our fundamental performance from period to period and against the fundamental performance of other companies in our industry that provide EBITDA and Adjusted EBITDA information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest expense, taxes, depreciation or amortization, amortization of in-process revenue contracts and realized and unrealized loss on derivative instruments relating to interest rate swaps, interest rate swaptions, and cross currency swaps, which items are affected by various and possibly changing financing methods, capital structure and historical cost basis and which items may significantly affect net income between periods. We believe that including EBITDA and Adjusted EBITDA benefits investors in (a) selecting between investing in us and other investment alternatives and (b) monitoring our ongoing financial and operational strength and health in assessing whether to continue to hold our equity or debt securities, as applicable.

Neither EBITDA nor adjusted EBITDA should be considered as an alternative to net income, operating income, or any other measure of financial performance presented in accordance with GAAP. EBITDA and Adjusted EBITDA exclude certain items that affect net income and these measures may vary among other companies. Therefore, EBITDA and Adjusted EBITDA as presented in this Annual Report may not be comparable to similarly titled measures of other companies.

The following table reconciles our historical consolidated EBITDA and Adjusted EBITDA to net income.

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| (in thousands of U.S. Dollars)  | Year Ended<br>December 31,<br>2018 | Year Ended<br>December 31,<br>2017 | Year Ended<br>December 31,<br>2016 | Year Ended<br>December 31,<br>2015 | Year Ended<br>December 31,<br>2014 |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Reconciliation of "EBITDA" and "Adjusted EBITDA" to "Net income":   |                                    |                                    |                                    |                                    |                                    |
| Net income  | 26,875                             | 48,911                             | 157,965                            | 217,510                            | 218,927                            |
| Depreciation and amortization   | 124,378                            | 105,545                            | 95,542                             | 92,253                             | 94,127                             |
| Interest expense, net of interest income  | 124,543                            | 78,022                             | 56,261                             | 40,758                             | 57,362                             |
| Income tax expense  | 3,213                              | 824                                | 973                                | 2,722                              | 7,567                              |
| EBITDA  | 279,009                            | 233,302                            | 310,741                            | 353,243                            | 377,983                            |
| Write-down of goodwill and write-down and loss on sale of vessels   | 54,653                             | 50,600                             | 38,976                             | —                                  | —                                  |
| Foreign currency exchange (gain) loss   | (1,371 )                           | 26,933                             | (5,335 )                           | (13,943 )                          | (28,401 )                          |
| Amortization of in-process contracts included in voyage revenues, net of offsetting vessel operating expenses | (326 )                             | (1,113 )                           | (1,113 )                           | (1,113 )                           | (1,113 )                           |
| Unrealized (gain) loss on non-designated derivative instruments   | (30,133 )                          | (13,448 )                          | (19,433 )                          | (12,375 )                          | 2,096                              |
| Realized loss on interest rate swaps and swaptions  | 28,335                             | 19,435                             | 25,940                             | 28,968                             | 41,725                             |
| Adjustments to Equity-Accounted EBITDA <sup>(14)(15)</sup>  | 109,108                            | 108,727                            | 95,565                             | 87,683                             | 74,675                             |
| Other expense <sup>(5)</sup>  | 53,000                             | —                                  | —                                  | —                                  | —                                  |
| Adjusted EBITDA   | 492,275                            | 424,436                            | 445,341                            | 442,463                            | 466,965                            |

(10) Excludes expenditures for vessels and equipment from our equity-accounted joint ventures.

(11) Calendar-ship-days are equal to the aggregate number of calendar days in a period that our vessels were in our possession during that period. In addition, the calendar-ship-days for our consolidated LNG fleet includes 119 days relating to the charter-in contract of the Magellan Spirit from our 52%-owned joint venture with Marubeni Corporation (or the Teekay LNG-Marubeni Joint Venture).

(12) Liquefied Natural Gas

For 2018, 2017, 2016 and 2015, the number of vessels indicated does not include one, six, nine and 11 LNG carrier newbuilding(s), respectively, in our consolidated LNG fleet and five, nine, 10 and 10 LNG carrier newbuildings, respectively, in our equity-accounted LNG fleet.

Liquefied Petroleum Gas

For 2017, 2016 and 2015, the number of vessels indicated does not include three, four and seven LPG carrier newbuildings, respectively, in our equity-accounted LPG fleet.

(13) Equity-accounted vessels in our LNG fleet include (i) six LNG carriers (or the MALT LNG Carriers) relating to the Teekay LNG-Marubeni Joint Venture, (ii) four LNG carriers (or the RasGas 3 LNG Carriers) relating to our joint venture with QGTC Nakilat (1643-6) Holdings Corporation, (iii) four LNG carriers relating to the Angola Project (or the Angola LNG Carriers) in our joint venture with Mitsui & Co. Ltd. and NYK Energy Transport (Atlantic) Ltd., (iv) one LNG carrier at December 31, 2018 and two LNG carriers from 2017 to 2014 (or the Exmar LNG Carriers) relating to our LNG joint venture with Exmar, (v) three and one LNG carrier(s) (or the Pan Union LNG Carriers) relating to the Pan Union Joint Venture from 2018 and 2017, respectively, and (vi) two ARC7 LNG carriers relating to our 50/50 joint venture with China LNG (Holdings) Limited (or the Yamal LNG Joint Venture) in 2018. Equity-accounted vessels in our LPG fleet include 22, 20, 19, 16, and 15 LPG carriers (or the Exmar LPG Carriers) from 2018, 2017, 2016, 2015, and 2014, respectively, relating to our LPG joint venture with Exmar. The figures in the selected financial data for our equity-accounted vessels are at 100% and not based on our ownership percentages.

(14) Adjusted Equity-Accounted EBITDA is a non-GAAP financial measure. Adjusted Equity-Accounted EBITDA represents equity income after Adjustments to Equity Income. Adjustments to Equity Income consist of depreciation and amortization, interest expense net of interest income, income tax (recovery)

expense, amortization of in-process revenue contracts, foreign currency exchange (gain) loss, write-down and loss (gain) on sales of vessels, gain on sale of equity-accounted investment, unrealized gain on non-designated derivative instruments and realized loss on interest rate swaps, in each case related to our equity-accounted entities, on the basis of our ownership percentages of such entities. Neither Adjusted Equity-Accounted EBITDA nor Adjustments to Equity-Accounted EBITDA should be considered as an alternative to equity income or any other measure of financial performance or liquidity presented in accordance with GAAP. Adjustments to Equity-Accounted EBITDA exclude some, but not all, items that affect equity income and these measures may vary among other companies. Therefore, Adjustments to Equity-Accounted EBITDA as presented in this Annual Report may not be comparable to similarly titled measures of the other companies.

(15) Adjustments relating to equity income from our equity-accounted joint ventures are as follows:

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| (in thousands of U.S. Dollars)   | Year Ended<br>December 31,<br>2018 | Year Ended<br>December 31,<br>2017 | Year Ended<br>December 31,<br>2016 | Year Ended<br>December 31,<br>2015 | Year Ended<br>December 31,<br>2014 |   |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|---|
| Reconciliation of “Adjusted Equity-Accounted EBITDA” to “Equity Income”: |                                    |                                    |                                    |                                    |                                    |   |
| Equity income  | 53,546                             | 9,789                              | 62,307                             | 84,171                             | 115,478                            |   |
| Depreciation and amortization  | 52,883                             | 54,453                             | 52,095                             | 48,702                             | 45,885                             |   |
| Interest expense, net of interest income                                 | 69,186                             | 51,442                             | 39,849                             | 37,376                             | 36,916                             |   |
| Income tax (recovery) expense  | (261                               | ) 504                              | 352                                | 315                                | (155                               | ) |
| Amortization of in-process revenue contracts                             | (3,847                             | ) (4,307                           | ) (5,482                           | ) (7,153                           | ) (8,295                           | ) |
| Foreign currency exchange (gain) loss                                    | (391                               | ) 369                              | 125                                | (527                               | ) (441                             | ) |
| Write-down and loss (gain) on sales of vessels                           | 257                                | 5,500                              | 4,861                              | 1,228                              | (16,923                            | ) |
| Gain on sale of equity-accounted investment <sup>(2)</sup>               | (5,563                             | ) —                                | —                                  | —                                  | —                                  | ) |
| Unrealized gain on non-designated derivative instruments                 | (9,076                             | ) (7,491                           | ) (6,963                           | ) (10,945                          | ) (1,563                           | ) |
| Realized loss on interest rate swaps                                     | 5,920                              | 8,257                              | 10,728                             | 18,687                             | 19,251                             |   |
| Adjustments to Equity-Accounted EBITDA                                   | 109,108                            | 108,727                            | 95,565                             | 87,683                             | 74,675                             |   |
| Adjusted Equity-Accounted EBITDA   | 162,654                            | 118,516                            | 157,872                            | 171,854                            | 190,153                            |   |

## RISK FACTORS

Some of the following risks relate principally to the industry in which we operate and to our business in general. Other risks relate principally to the securities market and to ownership of our common or preferred units. The occurrence of any of the events described in this section could materially and adversely affect our business, financial condition, operating results and ability to pay distributions on, and the trading price of, our common and preferred units. We may not have sufficient cash from operations to enable us to pay distributions on our common and preferred units. The amount of cash we can distribute on our common and preferred units principally depends upon the amount of cash we generate from our operations, which may fluctuate based on, among other things:

- the rates we obtain from our charters;
- the expiration of charter contracts;
- the charterers' options to terminate charter contracts or repurchase vessels;
- the level of our operating costs, such as the cost of crews and insurance;
- the continued availability of LNG and LPG production, liquefaction and regasification facilities;
- the number of unscheduled off-hire days for our fleet and the timing of, and number of days required for, scheduled dry docking of our vessels;
- delays in the delivery of newbuildings and the beginning of payments under charters relating to those vessels;
- prevailing global and regional economic and political conditions;
- currency exchange rate fluctuations;
- the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of our business; and
- limitation of obtaining cash distributions from joint venture entities due to similar restrictions within the joint venture entities.

The actual amount of cash we will have available for distribution also will depend on factors such as:

- the level of capital expenditures we make, including for maintaining vessels, building new vessels, acquiring existing vessels and complying with regulations;
- our debt service requirements and restrictions on distributions contained in our debt instruments;
- fluctuations in our working capital needs;
- our ability to make working capital borrowings, including to pay distributions to unitholders; and
- the amount of any cash reserves, including reserves for future capital expenditures, anticipated future credit needs and other matters, established by Teekay GP L.L.C., our general partner (or our General Partner), in its discretion.

The amount of cash we generate from our operations may differ materially from our profit or loss for the period, which will be affected by non-cash items. As a result of this and the other factors mentioned above, we may make cash distributions during periods when we record losses and may not make cash distributions during periods when we record net income.

Our ability to grow may be adversely affected by our cash distribution policy.

Our cash distribution policy, which is consistent with our partnership agreement, requires us to distribute each quarter all of our Available Cash (as defined in our partnership agreement, which takes into account cash reserves for, among other things, future capital expenditures and credit needs). Accordingly, our growth may not be as fast as businesses that reinvest their Available Cash to expand ongoing operations.

In determining the amount of cash available for distribution, the Board of Directors of our General Partner, which makes the determination on our behalf, approves the amount of cash reserves to set aside, including reserves for future maintenance capital expenditures, anticipated future credit needs, working capital and other matters. We also rely upon external financing sources, including commercial borrowings and proceeds from debt and equity offerings, to fund our capital expenditures. Accordingly, to the extent we do not have sufficient cash reserves or are unable to

obtain financing, our cash distribution policy may significantly impair our ability to meet our financial needs or to grow.

Although global crude oil prices have experienced moderate recovery since falling from the highs reached in mid-2014, prices have not returned to those same highs. The decline in oil prices also contributed to depressed natural gas prices. Lower oil prices may negatively affect both the competitiveness of natural gas as a fuel for power generation and the market price of natural gas, to the extent that natural gas prices are benchmarked to the price of crude oil. These declines in energy prices, combined with other factors beyond our control, have adversely affected energy and master limited partnership capital markets and available sources of financing for our capital expenditures and debt repayment obligations. On November 13, 2018, our General Partner announced that quarterly common unit distributions would increase by

36 percent to \$0.19 per unit, commencing with the first quarter of 2019 distribution to be paid in May 2019 as part of a balanced capital allocation strategy, however, our distribution policy is subject to certain restrictions and may be changed by the Board of Directors of our General Partner.

Our ability to repay or refinance our debt obligations and to fund our capital expenditures will depend on certain financial, business and other factors, many of which are beyond our control. To the extent we are unable to finance these obligations and expenditures with cash from operations or by issuing debt or equity securities, our ability to make cash distributions may be diminished or our financial leverage may increase, or our unitholders may be diluted. Our business may be adversely affected if we need to access other sources of funding.

To fund our existing and future debt obligations and capital expenditures, we will be required to use cash from operations, incur borrowings, and/or seek to access other financing sources. Our access to potential funding sources and our future financial and operating performance will be affected by prevailing economic conditions and financial, business, regulatory and other factors, many of which are beyond our control. If we are unable to access additional bank financing and generate sufficient cash flow to meet our debt, capital expenditure and other business requirements, we may be forced to take actions such as:

- restructuring our debt;
- seeking additional debt or equity capital;
- selling assets;
- reducing distributions;
- reducing, delaying or cancelling our business activities, acquisitions, investments or capital expenditures; or
- seeking bankruptcy protection.

Such measures might not be successful, available on acceptable terms or enable us to meet our debt, capital expenditure and other obligations. Some of such measures may adversely affect our business and reputation. In addition, our financing agreements may restrict our ability to implement some of these measures.

Use of cash from operations and possible future sale of certain assets will reduce cash available for distribution to unitholders. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering as well as by adverse market conditions. Even if we are successful in obtaining necessary funds, the terms of such financings could limit our ability to pay cash distributions to unitholders or operate our business as currently conducted. In addition, incurring additional debt may significantly increase our interest expense and financial leverage, and issuing additional equity securities may result in significant unitholder dilution and would increase the aggregate amount of cash required to maintain our quarterly distributions to unitholders.

We make substantial capital expenditures to maintain the operating capacity of our fleet, which reduce our cash available for distribution. In addition, each quarter our General Partner is required to deduct estimated maintenance capital expenditures from operating surplus, which may result in less cash available for distribution to unitholders than if actual maintenance capital expenditures were deducted.

We must make substantial capital expenditures to maintain, over the long term, the operating capacity of our fleet. These maintenance capital expenditures include capital expenditures associated with dry docking a vessel, modifying an existing vessel or acquiring a new vessel to the extent these expenditures are incurred to maintain the operating capacity of our fleet. These expenditures could increase as a result of changes in:

- the cost of labor and materials;
- customer requirements;
- increases in the size of our fleet;
- governmental regulations and maritime self-regulatory organization standards relating to safety, security or the environment; and
- competitive standards.

In addition, our actual maintenance capital expenditures vary significantly from quarter-to-quarter based on, among other things, the number of vessels dry docked during that quarter. Certain repair and maintenance items are more efficient to complete while a vessel is in dry dock. Consequently, maintenance capital expenditures will typically increase in periods when there is an increase in the number of vessels dry docked. Our significant maintenance capital expenditures reduce the amount of cash we have available for distribution to our unitholders.

Our partnership agreement requires our General Partner to deduct estimated, rather than actual, maintenance capital expenditures from operating surplus (as defined in our partnership agreement) each quarter in an effort to reduce fluctuations in operating surplus. The amount of estimated maintenance capital expenditures deducted from operating surplus is subject to review and change by the conflicts committee of our General Partner's Board of Directors at least once a year. In years when estimated maintenance capital expenditures are higher than actual maintenance capital expenditures – as we expect will be the case in the years we are not required to make expenditures for mandatory dry dockings – the amount of cash available for distribution to unitholders will be lower than if actual maintenance capital expenditures were

deducted from operating surplus. If our General Partner underestimates the appropriate level of estimated maintenance capital expenditures, we may have less cash available for distribution in future periods when actual capital expenditures begin to exceed our previous estimates.

We make substantial capital expenditures to expand the size of our fleet or gas business and generally are required to make significant installment payments for acquisitions of newbuilding vessels or for construction of receiving and regasification terminals prior to their delivery or completion and generation of revenue.

We make substantial capital expenditures to increase the size of our fleet or gas business. Please read "Item 5 – Operating and Financial Review and Prospects," for additional information about our newbuilding acquisitions. As at December 31, 2018, we had six LNG carrier newbuildings scheduled for delivery during 2019, and one LNG receiving and regasification terminal under construction scheduled for completion in 2019. The obligations of us and our equity-accounted joint ventures to purchase the newbuilding vessels is not conditional upon our or their ability to obtain financing for such purchases. In January 2019, we had \$636 million of financing in place, including the sale-leaseback financing completed on the Yamal Spirit in January 2019 and our proportionate share of financings in our equity-accounted joint ventures, against \$652 million related to our proportionate share of the estimated remaining cost for our newbuilding vessels and our LNG receiving and regasification terminal under construction as of December 31, 2018. Please read "Item 5 – Contractual Obligations and Contingencies."

Our substantial capital expenditures may reduce our cash available for distribution to our unitholders. Funding of any capital expenditures with debt may significantly increase our interest expense and financial leverage, and funding of capital expenditures by issuing additional equity securities may result in significant unitholder dilution. Our failure to obtain the funds for necessary future capital expenditures could have a material adverse effect on our business, results of operations and financial condition and on our ability to make cash distributions to unitholders.

We and Teekay Corporation regularly evaluate and pursue opportunities to provide the marine transportation requirements for new or expanding LNG and LPG projects. The award process relating to LNG transportation opportunities typically involves various stages and takes several months to complete. Neither we nor Teekay Corporation may be awarded charters relating to any of the projects we or it pursues. If any LNG project charters are awarded to Teekay Corporation, it must offer them to us pursuant to the terms of an omnibus agreement entered into in connection with our initial public offering. If we elect pursuant to the omnibus agreement to obtain Teekay Corporation's interests in any projects Teekay Corporation may be awarded, or if we bid on and are awarded contracts relating to any LNG and LPG project, we will need to incur significant capital expenditures to buy Teekay Corporation's interest in these LNG and LPG projects or to build the LNG and LPG carriers.

To fund the remaining portion of existing or future capital expenditures, we will be required to use cash from operations or incur borrowings or raise capital through the sale of debt or additional equity securities. Use of cash from operations will reduce cash available for distributions to unitholders. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds for future capital expenditures could have a material adverse effect on our business, results of operations and financial condition and on our ability to make cash distributions. Even if we are successful in obtaining necessary funds, the terms of such financings could limit our ability to pay distributions to our unitholders. In addition, incurring additional debt may significantly increase our interest expense and financial leverage, and issuing additional equity securities may result in significant unitholder dilution and would increase the aggregate amount of cash required to maintain our current level of quarterly distributions to unitholders, which could have a material adverse effect on our ability to make cash distributions.

In addition, although delivery of the completed vessel will not occur until much later (approximately two to three years from the time the order is placed), we typically must pay an initial installment up-front upon signing the purchase contract. During the construction period, we generally are required to make installment payments on

newbuildings prior to their delivery, in addition to incurring financing, miscellaneous construction and project management costs, but we do not derive any income from the vessel until after its delivery. If we finance these payments by issuing debt or equity securities, we will increase the aggregate amount of interest or cash required to maintain our current level of quarterly distributions to unitholders prior to generating cash from the operation of the newbuilding.

Our substantial debt levels may limit our flexibility in obtaining additional financing, refinancing credit facilities upon maturity, pursuing other business opportunities and paying distributions.

As at December 31, 2018, our consolidated debt, obligations related to capital leases and advances from affiliates totaled \$3.3 billion and we had the capacity to borrow an additional \$175.6 million under our revolving credit facilities. These facilities may be used by us for general partnership purposes. If we obtain debt financing for existing newbuilding orders or we are awarded contracts for new LNG or LPG projects, our consolidated debt and obligations related to capital leases will increase, perhaps significantly. We will continue to have the ability to incur additional debt, subject to limitations in our credit facilities. Our level of debt could have important consequences to us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired, or such financing may not be available on favorable terms, if at all;
- we will need a substantial portion of our cash flow to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and distributions to unitholders;
- our debt level may make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our industry or the economy generally; and

Our debt level may limit our flexibility in responding to changing business and economic conditions.

Our ability to service our debt and obligations related to capital leases depends upon, among other things, our future financial and operating performance, which is affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond our control. If our operating results are not sufficient to service our current or future indebtedness or obligations related to capital leases, we will be forced to take actions such as further reducing distributions, reducing, canceling or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, seeking to restructure or refinance our debt, seeking additional debt or equity capital or seeking bankruptcy protection. We may not be able to effect any of these remedies on satisfactory terms, or at all.

Financing agreements containing operating and financial restrictions may restrict our business and financing activities. The operating and financial restrictions and covenants in our financing arrangements and any future financing agreements could adversely affect our ability to finance future operations or capital needs or to pursue and expand or pursue our business activities. For example, these financing arrangements may restrict our ability to:

- incur or guarantee indebtedness;
- change ownership or structure, including mergers, consolidations, liquidations and dissolutions;
- make dividends or distributions when in default of the relevant loans;
- make certain negative pledges and grant certain liens;
- sell, transfer, assign or convey assets;
- make certain investments; and
- enter into new lines of business.

Some of our financing arrangements require us to maintain a minimum level of tangible net worth, to maintain certain ratios of vessel values as it relates to the relevant outstanding principal balance, to maintain a minimum level of aggregate liquidity, to maintain leverage below a maximum level and require certain of our subsidiaries to maintain restricted cash deposits. Please read "Item 5 – Operating and Financial Review and Prospects: Credit Facilities." Our ability to comply with covenants and restrictions contained in debt instruments may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, compliance with these covenants may be impaired. If restrictions, covenants, ratios or tests in the financing agreements are breached, a significant portion or all of the obligations may become immediately due and payable, and the lenders' commitment to make further loans may terminate. This could lead to cross-defaults under other financing agreements and result in obligations becoming due and commitments being terminated under such agreements. A default under financing agreements could also result in foreclosure on any of our vessels and other assets securing related loans.

Furthermore, the termination of any of our charter contracts by our customers could result in the repayment of the debt facilities to which the chartered vessels relate.

Restrictions in our debt agreements may prevent us from paying distributions.

The payment of principal and interest on our debt and obligations related to capital leases reduces cash available for distribution on our units. In addition, our financing agreements prohibit the payment of distributions upon the occurrence of the following events, among others:

- failure to pay any principal, interest, fees, expenses or other amounts when due;
- failure to notify the lenders of any material oil spill or discharge of hazardous material, or of any action or claim related thereto;
- breach or lapse of any insurance with respect to vessels securing the facility;



- breach of certain financial covenants;
- failure to observe any other agreement, security instrument, obligation or covenant beyond specified cure periods in certain cases;
- default under other indebtedness;
- bankruptcy or insolvency events;
- failure of any representation or warranty to be materially correct;
- a change of control, as defined in the applicable agreement; or
- a material adverse effect, as defined in the applicable agreement.

We derive a substantial majority of our revenues from a limited number of customers, and the loss of any customer, charter or vessel, or any adjustment to our charter contracts could result in a significant loss of revenues and cash flow.

We have derived, and believe that we will continue to derive, a significant portion of our revenues and cash flow from a limited number of customers. Please read “Item 18 – Financial Statements: Note 4 – Segment Reporting.”

We could lose a customer or the benefits of a time-charter if:

- the customer fails to make charter payments because of its financial inability, disagreements with us or otherwise;
- we agree to reduce the charter payments due to us under a charter because of the customer’s inability to continue making the original payments;
- the customer exercises certain rights to terminate the charter, purchase or cause the sale of the vessel or, under some of our charters, convert the time-charter to a bareboat charter (some of which rights are exercisable at any time);
- the customer terminates the charter because we fail to deliver the vessel within a fixed period of time, the vessel is lost or damaged beyond repair, there are serious deficiencies in the vessel or prolonged periods of off-hire, or we default under the charter; or
- under some of our time-charters, the customer terminates the charter because of the termination of the charterer’s sales agreement or a prolonged force majeure event affecting the customer, including damage to or destruction of relevant facilities, war or political unrest preventing us from performing services for that customer.

In June 2017, we reached an agreement with Awilco to defer a portion of charter hire and extend the two LNG carrier bareboat charter contracts that were originally due to expire in November 2017 and August 2018 to December 2019, which would also include related purchase obligations on both vessels due at that time. However, there is no assurance that Awilco will be able to generate enough operating cash flows or have the ability to raise enough equity to pay for the charter hire deferrals and associated purchase obligations for the two LNG carriers. Further, two of the six MALT LNG Carriers in the Teekay LNG-Marubeni Joint Venture, the Marib Spirit and Arwa Spirit, are currently under long-term charter contracts with YLNG. Due to the political unrest in Yemen, YLNG decided to temporarily close operation of its LNG plant in Yemen in 2015. As a result, commencing January 1, 2016, the Teekay LNG-Marubeni Joint Venture agreed to successive deferral arrangements with YLNG pursuant to which a portion of the charter payments were deferred. Concurrent with the anticipated expiry of the most current deferral arrangement, which is expected to occur within the first half of 2019, the Teekay LNG-Marubeni Joint Venture intends to enter into a further agreement with YLNG pursuant to which the Teekay-LNG Marubeni Joint Venture and YLNG will suspend the two charter contracts for a period of up to three years. Should the LNG plant in Yemen resume operations during such suspended term, it is intended that YLNG will be required to repay the deferred amounts plus interest over a period of installments. However, there is no assurance if or when the LNG plant will resume operations and, accordingly, if YLNG will be able to repay all or any portion of the deferred amounts.

If we lose a key LNG time-charter, we may be unable to redeploy the related vessel on terms as favorable to us due to the long-term nature of most LNG time-charters and the lack of an established LNG spot market. If we are unable to redeploy a LNG carrier, we will not receive any revenues from that vessel, but we may be required to pay expenses necessary to maintain the vessel in proper operating condition. In addition, if a customer exercises its right to purchase a vessel, we would not receive any further revenue from the vessel and may be unable to obtain a substitute vessel and charter. This may cause us to receive decreased revenue and cash flows from having fewer vessels operating in our fleet. Any compensation under our charters for a purchase of the vessels may not adequately compensate us for the loss of the vessel and related time-charter.

If we lose a key conventional tanker customer, we may be unable to obtain other long-term conventional charters and may become subject to the volatile spot market, which is highly competitive and subject to significant price fluctuations. If a customer exercises its right under some charters to purchase or force a sale of the vessel, we may be unable to acquire an adequate replacement vessel or may be forced to construct a new vessel. Any replacement newbuilding would not generate revenues during its construction and we may be unable to charter any replacement vessel on terms as favorable to us as those of the terminated charter.

The loss of certain of our customers, time-charters or vessels, or a decline in payments under our charters, could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions to unitholders.

We depend on Teekay Corporation and certain of our joint venture partners to assist us in operating our business and competing in our markets.

Pursuant to certain services agreements between us and certain of our operating subsidiaries, on the one hand, and certain direct and indirect subsidiaries of Teekay Corporation and certain of our joint venture partners, on the other hand, the Teekay Corporation subsidiaries and certain of our joint venture partners provide to us various services including, in the case of operating subsidiaries, substantially all of their managerial, operational and administrative services (including vessel maintenance, crewing for some of our vessels, purchasing, shipyard supervision, insurance and financial services) and other technical and advisory services, and in the case of Teekay LNG Partners L.P., various administrative services. Our operational success and ability to execute our growth strategy depend significantly upon Teekay Corporation's and certain of our joint venture partners' satisfactory performance of these services. Our business will be harmed if Teekay Corporation or certain of our joint venture partners fail to perform these services satisfactorily or if Teekay Corporation or certain of our joint venture partners stop providing these services to us.

Our ability to compete for the transportation requirements of certain LNG and LPG projects, enter into new charter contracts, secure financings and expand our customer relationships depends in part on our ability to leverage our relationships with Teekay Corporation, our joint venture partners and their respective reputation and relationships in the shipping industry. If Teekay Corporation or certain of our joint venture partners suffer material damage to their reputation or relationships it may harm our ability to:

- renew existing charters upon their expiration;
- obtain new charters;
- successfully interact with shipyards during periods of shipyard construction constraints;
- obtain financing on commercially acceptable terms; or
- maintain satisfactory relationships with our employees and suppliers.

If our ability to do any of the things described above is impaired, it could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions to unitholders.

Our operating subsidiaries may also contract with certain subsidiaries of Teekay Corporation and certain of our joint venture partners to have newbuildings constructed on behalf of our operating subsidiaries and to incur the construction-related financing. Our operating subsidiaries would purchase the vessels on or after delivery based on an agreed-upon price. None of our operating subsidiaries currently has this type of arrangement with Teekay Corporation or any of its affiliates or any joint venture partners.

Significant declines in natural gas and oil prices may adversely affect our growth prospects and results of operations. Although global crude oil and gas prices have experienced moderate recovery since the highs of mid-2014, prices have not returned to those same highs and remain volatile due to global and regional geopolitical, economic and strategic risks and changes. A further decline in oil prices may adversely affect our business, results of operations and financial condition and our ability to make cash distributions, as a result of, among other things:

- a reduction in exploration for or development of new natural gas reserves or projects, or the delay or cancellation of existing projects as energy companies lower their capital expenditures budgets, which may reduce our growth opportunities;
- a reduction in both the competitiveness of natural gas as a fuel for power generation and the market price of natural gas, to the extent that natural gas prices are benchmarked to the price of crude oil;
- lower demand for vessels of the types we own and operate, which may reduce available charter rates and revenue to us upon redeployment of our vessels following expiration or termination of existing contracts or upon the initial chartering of vessels, or which may result in extended periods of our vessels being idle between contracts;
- customers potentially seeking to renegotiate or terminate existing vessel contracts, or failing to extend or renew contracts upon expiration, or seeking to negotiate cancelable contracts;
- the inability or refusal of customers to make charter payments to us or to our joint ventures, due to financial constraints or otherwise; or
- declines in vessel values, which may result in losses to us upon vessel sales or impairment charges against our earnings.

Our growth depends on continued growth in demand for LNG and LPG shipping.

Our growth strategy focuses on expansion in the LNG and LPG shipping sectors. Accordingly, our growth depends on continued growth in world and regional demand for LNG and LPG and marine transportation of LNG and LPG, as well as the supply of LNG and LPG. Demand for LNG and LPG and for the marine transportation of LNG and LPG could be negatively affected by a number of factors, such as:

- increases in the cost of natural gas derived from LNG relative to the cost of natural gas generally;
- increase in the cost of LPG relative to the cost of naphtha and other competing petrochemicals;
  - increases in the production of natural gas in areas linked by pipelines to consuming areas, the extension of existing, or the development of new, pipeline systems in markets we may serve, or the conversion of existing non-natural gas pipelines to natural gas pipelines in those markets;
- decreases in the consumption of natural gas due to increases in its price relative to other energy sources or other factors making consumption of natural gas less attractive;
- additional sources of natural gas, including shale gas;

- availability of alternative energy sources; and
- negative global or regional economic or political conditions, particularly in LNG and LPG consuming regions, which could reduce energy consumption or its growth.

Reduced demand for LNG and LPG shipping would have a material adverse effect on our future growth and could harm our business, results of operations and financial condition.

Changes in the LPG markets could result in decreased demand for our LPG vessels operating in the spot market.

We have several LPG carriers that operate in the LPG spot market and are either owned by us or owned or chartered-in by Exmar LPG BVBA (or the Exmar LPG Joint Venture), a joint venture entity formed pursuant to a joint venture agreement made in February 2013 between us and Belgium-based Exmar to own and charter-in LPG carriers with a primary focus on the mid-size gas carrier segment. The charters in the spot market operate for short durations and are priced on a current, or “spot,” market rate. The LPG spot market is volatile and fluctuates based upon the many conditions and events that affect the price, production and transport of LPG, including competition from alternative energy sources and negative global or regional economic or political conditions. Any adverse changes in the LPG markets may impact our ability to enter into economically beneficial charters when our LPG carriers complete their existing short-term charters in the LPG spot market, which may reduce vessel earnings and impact our operating results.

Future adverse economic conditions, including disruptions in the global credit markets, could adversely affect our business, financial condition, and results of operations.

Economic downturns and financial crises in the global markets could produce illiquidity in the capital markets, market volatility, increased exposure to interest rate and credit risks and reduced access to capital markets. If global financial markets and economic conditions significantly deteriorate in the future, we may face restricted access to the capital markets or bank lending, which may make it more difficult and costly to fund future growth. Decreased access to such resources could have a material adverse effect on our business, financial condition and results of operations.

Future adverse economic conditions or other developments may affect our customers’ ability to charter our vessels and pay for our services and may adversely affect our business and results of operations.

Future adverse economic conditions or other developments relating directly to our customers may lead to a decline in our customers’ operations or ability to pay for our services, which could result in decreased demand for our vessels and services. Our customers’ inability to pay for any reason could also result in their default on our current contracts and charters. The decline in the amount of services requested by our customers or their default on our contracts with them could have a material adverse effect on our business, financial condition and results of operations.

Growth of the LNG market may be limited by infrastructure constraints and community environmental group resistance to new LNG infrastructure over concerns about the environment, safety and terrorism.

A complete LNG project includes production, liquefaction, regasification, storage and distribution facilities and LNG carriers. Existing LNG projects and infrastructure are limited, and new or expanded LNG projects are highly complex and capital-intensive, with new projects often costing several billion dollars. Many factors could negatively affect continued development of LNG infrastructure or disrupt the supply of LNG, including:

- increases in interest rates or other events that may affect the availability of sufficient financing for LNG projects on commercially reasonable terms;

- decreases in the price of LNG, which might decrease the expected returns relating to investments in LNG projects;

- the inability of project owners or operators to obtain governmental approvals to construct or operate LNG facilities;

- local community resistance to proposed or existing LNG facilities based on safety, environmental or security concerns;

- any significant explosion, spill or similar incident involving an LNG facility or LNG carrier;  
and

- labor or political unrest affecting existing or proposed areas of LNG production.

If the LNG supply chain is disrupted or does not continue to grow, or if a significant LNG explosion, spill or similar incident occurs, it could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions to unitholders.

Our growth depends on our ability to expand relationships with existing customers and obtain new customers, for which we will face substantial competition.

One of our principal objectives is to enter into additional long-term, fixed-rate LNG and LPG charters. The process of obtaining new long-term charters is highly competitive and generally involves an intensive screening process and competitive bids, and often extends for several months. Shipping contracts are awarded based upon a variety of factors

relating to the vessel operator, including:

- shipping industry relationships and reputation for customer service and safety;
- shipping experience and quality of ship operations (including cost effectiveness);
- quality and experience of seafaring crew;
- the ability to finance carriers at competitive rates and financial stability generally;
- relationships with shipyards and the ability to get suitable berths;
- construction management experience, including the ability to obtain on-time delivery of new vessels according to customer specifications;

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willingness to accept operational risks pursuant to the charter, such as allowing termination of the charter for force majeure events; and  
• competitiveness of the bid in terms of overall price.

We compete for providing marine transportation services for potential energy projects with a number of experienced companies, including state-sponsored entities and major energy companies affiliated with the energy project requiring energy shipping services. Many of these competitors have significantly greater financial resources than we do or Teekay Corporation does. We anticipate that an increasing number of marine transportation companies – including many with strong reputations and extensive resources and experience – will enter the energy transportation sector. This increased competition may cause greater price competition for time-charters. As a result of these factors, we may be unable to expand our relationships with existing customers or to obtain new customers on a profitable basis, if at all, which would have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions to unitholders.

Delays in deliveries of newbuildings, or in conversions or upgrades of existing vessels, or construction of LNG receiving and regasification terminals could harm our operating results and lead to the termination of related contracts. As at April 1, 2019, we had a total of four newbuilding vessels under construction and an LNG receiving and regasification terminal under construction. The delivery of newbuildings or vessel conversions or upgrades or construction of receiving and regasification terminals we may order or undertake or otherwise acquire, could be delayed, which would delay our receipt of revenues under the contracts for these assets. In addition, under some of our charters if delivery of a vessel to our customer is delayed, we may be required to pay liquidated damages in amounts equal to or, under some charters, almost double, the hire rate during the delay. For prolonged delays, the customer may terminate the time-charter and, in addition to the resulting loss of revenues, we may be responsible for additional, substantial liquidated damages.

Our receipt of newbuildings or of vessel conversions or upgrades, or completion of the construction of LNG receiving and regasification terminals could be delayed because of:

- quality or engineering problems;
- changes in governmental regulations or maritime self-regulatory organization standards;
- work stoppages or other labor disturbances at the shipyard or construction site;
- bankruptcy or other financial crisis of the builder;
- a backlog of orders at the shipyard;
- political or economic disturbances where our vessels or terminals are being or may be built;
- weather interference or catastrophic event, such as a major earthquake or fire;
- our requests for changes to the original vessel specifications;
- shortages of or delays in the receipt of necessary construction materials, such as steel;
- our inability to finance the purchase or construction of the vessels or terminals; or
- our inability to obtain requisite permits or approvals.

If delivery of a vessel or the completion of an LNG receiving and regasification terminal is materially delayed, it could adversely affect our results or operations and financial condition and our ability to make cash distributions to unitholders.

We may be unable to charter or recharter vessels at attractive rates, which may lead to reduced revenues and profitability.

Our ability to charter or recharter our LNG and LPG carriers upon the expiration or termination of their current time charters and the charter rates payable under any renewal or replacement charters depend upon, among other things, the then current states of the LNG and LPG carrier markets. As of December 31, 2018, in our liquefied natural gas and liquified petroleum gas operating fleet, including the Magellan Spirit chartered-in from the Teekay LNG-Marubeni



Joint Venture, we had zero and eight vessels, respectively, that were unchartered or trading in the spot market; we had four and 11 vessels, respectively, with charters scheduled to expire in 2019, excluding extension options; and two and five vessels, respectively, with charters scheduled to expire in 2020, excluding extension options. If charter rates are low when existing time charters expire, we may be required to recharter our vessels at reduced rates or even possibly at a rate whereby we incur a loss, which would harm our results of operations. Alternatively, we may determine to leave such vessels off-charter. The size of the current orderbooks for LNG carriers and LPG carriers is expected to result in the increase in the size of the world LNG and LPG fleets over the next few years. An over-supply of vessel capacity, combined with stability or any decline in the demand for LNG or LPG carriers, may result in a reduction of charter hire rates.

We may have more difficulty entering into long-term, fixed-rate LNG time-charters if the active short-term, medium-term or spot LNG shipping markets continue to develop.

LNG shipping historically has been transacted with long-term, fixed-rate time-charters, usually with terms ranging from 20 to 25 years. One of our principal strategies is to enter into additional long-term, fixed-rate LNG time-charters. In recent years, the amount of LNG traded on a

spot and short-term basis (defined as contracts with a duration of 4 years or less) has been increasing. In 2018, spot and short-term trades accounted for approximately 30% of global LNG trade.

If the active spot, short-term or medium-term markets continue to develop, we may have increased difficulty entering into long-term, fixed-rate time-charters for our LNG carriers and, as a result, our cash flow may decrease and be less stable. In addition, an active short-term, medium-term or spot LNG market may require us to enter into charters based on changing market prices, as opposed to contracts based on a fixed rate, which could result in a decrease in our cash flow in periods when the market price for shipping LNG is depressed.

Over time, the value of our vessels may decline, which could adversely affect our operating results.

Vessel values for LNG and LPG carriers and conventional tankers can fluctuate substantially over time due to a number of different factors, including:

- prevailing economic conditions in natural gas, oil and energy markets;
- a substantial or extended decline in demand for natural gas, LNG, LPG or oil;
- competition from more technologically advanced vessels;
- increases in the supply of vessel capacity; and
- the cost of retrofitting or modifying existing vessels, as a result of technological advances in vessel design or equipment, changes in applicable environmental or other regulation or standards, or otherwise.

Vessel values may decline from existing levels. If the operation of a vessel is not profitable, or if we cannot redeploy a chartered vessel at attractive rates upon charter termination, rather than continue to incur costs to maintain and finance the vessel, we may seek to dispose of it. Our inability to dispose of the vessel at a fair market value or the disposal of the vessel at a fair market value that is lower than its book value could result in a loss on its sale and adversely affect our results of operations and financial condition. Further, if we determine at any time that a vessel's future useful life and earnings require us to impair its value on our financial statements, we may need to recognize a significant charge against our earnings.

We have recognized vessel and goodwill write-downs in the past and we may recognize additional write-downs in the future, which will reduce our earnings and net assets.

If we determine at any time that a vessel's value or goodwill has been impaired, we may need to recognize an impairment charge that will reduce our earnings and net assets. We review our vessels for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, which occurs when an asset's carrying value is greater than the estimated undiscounted future cash flows the asset is expected to generate over its remaining useful life. We review our goodwill for impairment annually and if a reporting unit's goodwill carrying value is greater than the estimated fair value, the goodwill attributable to that reporting unit is impaired.

A reduction in our net assets could result in a breach of certain financial covenants contained in our credit agreements, which could limit our ability to borrow additional funds under our credit facilities or require us to repay outstanding amounts. This could harm our business, results of operations, financial condition, ability to raise capital or ability to pay distributions.

For the write-downs that occurred during 2018, please read "Item 5 – Operating and Financial Review and Prospects: Management's Discussion and Analysis of Financial Condition and Results of Operations – Year Ended December 31, 2018 versus Year Ended December 31, 2017", "Item 18 – Financial Statements: Note 8 – Intangible Assets and Goodwill" and "Note 19 – Write-Down and Loss on Sales of Vessels."

Increased technological innovation in vessel design or equipment could reduce our charter hire rates and the value of our vessels.

The charter hire rates and the value and operational life of a vessel are determined by a number of factors, including the vessel's efficiency, operational flexibility and physical life. Efficiency includes speed, fuel economy and the ability

for LNG or LPG to be loaded and unloaded quickly. More efficient vessel designs, engines or other features may increase overall vessel efficiency. Flexibility includes the ability to access LNG and LPG storage facilities, utilize related docking facilities and pass through canals and straits. Physical life is related to the original design and construction, maintenance and the impact of the stress of operations. If new LNG or LPG carriers are built that are more efficient or flexible or have longer physical lives than our vessels, competition from these more technologically advanced LNG or LPG carriers could reduce recharter rates available to our vessels and the resale value of the vessels. As a result, our business, results of operations and financial condition could be harmed.

Actual results of new technologies or technologies upgrades may differ from expected results and affect our results of operations.

We have invested and are investing in technology upgrades such as MEGI twin engines and other equipment and designs for certain LNG carrier newbuildings, including, among other things, to improve fuel efficiency and vessel performance. These new engine designs and other equipment may not perform to expectations, which may result in performance issues or claims based on failure to achieve specification included in charter party agreements. Actual fuel consumption for our MEGI LNG carriers exceeds specified levels in certain charter party agreements, which may result in reimbursement by us to the charterer for the cost of the excess fuel consumed. The amount of the reimbursements generally will increase to the extent fuel prices increase, including as a result of the IMO 2020 regulations that will take effect

January 1, 2020 and limit Sulphur content in vessel fuel oils. We are considering installing additional equipment to lower fuel consumption on these vessels and taking action against the shipbuilders for failure to deliver vessels that meet anticipated levels of fuel efficiency. Continued reimbursement obligations or unrecovered capital expenditures could harm our results of operations or financial condition.

We or our joint venture partners may be unable to deliver or operate an LNG receiving and regasification terminal. We have contracted the construction of an LNG regasification and receiving terminal in Bahrain in which we will have a 30% ownership interest (please read “Item 18 – Financial Statements: Note 7a(i) – Equity-Accounted Investments”). We or our joint venture partners may be unable to operate a LNG receiving and regasification terminal properly, which could reduce the expected output of this terminal. As a result, our business, results of operations and financial condition could be harmed.

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

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

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

We may be unable to make or realize expected benefits from acquisitions, and implementing our growth strategy through acquisitions may harm our business, financial condition and operating results.

Our growth strategy includes acquiring existing LNG and LPG carriers or LNG and LPG shipping businesses as the opportunities arise. Historically, there have been very few purchases of existing vessels and businesses in the LNG and LPG shipping industries. Factors that may contribute to a limited number of acquisition opportunities in the LNG and LPG shipping industries in the near term include the relatively small number of independent LNG and LPG fleet owners and the limited number of LNG and LPG carriers not subject to existing long-term charter contracts. In addition, competition from other companies could reduce our acquisition opportunities or cause us to pay higher prices.

Any acquisition of a vessel or business may not be profitable to us at or after the time we acquire it and may not generate cash flow sufficient to justify our investment. In addition, our acquisition growth strategy exposes us to risks that may harm our business, financial condition and operating results, including risks that we may:

- fail to realize anticipated benefits, such as new customer relationships, cost-savings or cash flow enhancements;
- be unable to hire, train or retain qualified shore and seafaring personnel to manage and operate our growing business and fleet;
- decrease our liquidity by using a significant portion of our available cash or borrowing capacity to finance acquisitions;
- significantly increase our interest expense or financial leverage if we incur additional debt to finance acquisitions;
- incur or assume unanticipated liabilities, losses or costs associated with the business or vessels acquired; or
- incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges.

Unlike newbuildings, existing vessels typically do not carry warranties as to their condition. While we generally inspect existing vessels prior to purchase, such an inspection would normally not provide us with as much knowledge of a vessel's condition as we would possess if it had been built for us and operated by us during its life. Repairs and maintenance costs for existing vessels are difficult to predict and may be substantially higher than for vessels we have operated since they were built. These costs could decrease our cash flow and reduce our liquidity.

Marine transportation is inherently risky, and an incident involving significant loss of or environmental contamination by any of our vessels could harm our reputation and business.

Our vessels, crew and cargoes are at risk of being damaged, injured or lost because of events such as:

- marine disasters;
- bad weather or natural disasters;
- mechanical failures;
- grounding, fire, explosions and collisions;

piracy (hijacking and kidnapping);  
cyber attack;  
human error; and  
war and terrorism.

An accident involving any of our vessels could result in any of the following:

death or injury to persons, loss of property or environmental damage;  
delays in the delivery of cargo;  
loss of revenues from or termination of charter contracts;  
governmental fines, penalties or restrictions on conducting business;  
higher insurance rates; and  
damage to our reputation and customer relationships generally.

Any of these results could have a material adverse effect on our business, financial condition and operating results. In addition, any damage to, or environmental contamination involving, oil production facilities serviced by our vessels could result in the suspension or curtailment of operations by our customer, which would in turn result in loss of revenues.

Our insurance may be insufficient to cover losses that may occur to our property or result from our operations. The operation of LNG and LPG carriers and oil tankers is inherently risky. Although we carry hull and machinery (marine and war risks) and protection and indemnity insurance, all risks may not be adequately insured against, and any particular claim may not be paid. In addition, only certain of our LNG and LPG carriers carry insurance covering the loss of revenues resulting from vessel off-hire time based on its cost compared to our off-hire experience. Any significant off-hire time of our vessels could harm our business, operating results and financial condition. Any claims covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. Certain of our insurance coverage is maintained through mutual protection and indemnity associations, and as a member of such associations we may be required to make additional payments over and above budgeted premiums if member claims exceed association reserves.

We may be unable to procure adequate insurance coverage at commercially reasonable rates in the future. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in the lack of availability of, insurance against risks of environmental damage or pollution. A catastrophic oil spill, marine disaster or natural disasters could result in losses that exceed our insurance coverage, which could harm our business, financial condition and operating results. Any uninsured or underinsured loss could harm our business and financial condition. In addition, our insurance may be voidable by the insurers as a result of certain of our actions, such as our ships failing to maintain certification with applicable maritime regulatory organizations.

Changes in the insurance markets attributable to terrorist attacks or political change may also make certain types of insurance more difficult for us to obtain. In addition, the insurance that may be available may be significantly more expensive than our existing coverage.

Our and many of our customers' substantial operations outside the United States expose us and them to political, governmental and economic instability, which could harm our operations.

Because our operations, and the operations of certain of our customers, are primarily conducted outside of the United States, they may be affected by economic, political and governmental conditions in the countries where we and they engage in business. Any disruption caused by these factors could harm our business or the business of these customers, including by reducing the levels of oil and gas exploration, development and production activities in these areas. We derive some of our revenues from shipping oil, LNG and LPG from politically and economically unstable regions, such as Angola and Yemen. Hostilities, strikes, or other political or economic instability in regions where we or these customers operate or where we or they may operate could have a material adverse effect on the growth of our business, results of operations and financial condition and ability to make cash distributions, or on the ability of these

customers to make payments or otherwise perform their obligations to us. In addition, tariffs, trade embargoes and other economic sanctions by the United States or other countries against countries in which we operate or to which we trade may harm our business and ability to make cash distributions and a government could requisition one or more of our vessels, which is most likely during war or national emergency. Any such requisition would cause a loss of the vessel and could harm our cash flow and financial results. Please see above relating to our two vessels chartered out to YLNG “Item 3 – Risk Factors: We derive a substantial majority of our revenues from a limited number of customers, and the loss of any customer, charter or vessel, or any adjustment to our charter contracts could result in a significant loss of revenues and cash flow.”

Terrorist attacks, increased hostilities, political change or war could lead to further economic instability, increased costs and disruption of our business.

Terrorist attacks, the current conflicts in the Middle East, South East Asia, West Africa (Nigeria), Libya and elsewhere, and political change, may adversely affect our business, operating results, financial condition, ability to raise capital and future growth. Continuing hostilities in the

Middle East, especially among Qatar, Saudi Arabia, UAE, Yemen and elsewhere may lead to additional armed conflicts or to further acts of terrorism and civil disturbance in the United States, or elsewhere, which may contribute to economic instability and disruption of LNG, LPG and oil production and distribution, which could result in reduced demand for our services or impact on our operations and or our ability to conduct business.

In addition, LNG, LPG and oil facilities, shipyards, vessels, pipelines and oil and gas fields could be targets of future terrorist attacks and warlike operations and our vessels could be targets of hijackers, terrorists or warlike operations. Any such attacks could lead to, among other things, bodily injury or loss of life, vessel or other property damage, increased vessel operational costs, including insurance costs, and the inability to transport LNG, LPG and oil to or from certain locations. Terrorist attacks, war, hijacking or other events beyond our control that adversely affect the distribution, production or transportation of LNG, LPG or oil to be shipped by us could entitle our customers to terminate our charter contracts, which would harm our cash flow and our business.

Terrorist attacks, or the perception that LNG or LPG facilities and carriers are potential terrorist targets, could materially and adversely affect expansion of LNG and LPG infrastructure and the continued supply and export of LNG and LPG involving the United States and other countries. Concern that LNG or LPG facilities may be targeted for attack by terrorists, as well as environmental concerns, has contributed to significant community resistance to the construction of a number of LNG or LPG facilities, primarily in North America. If a terrorist incident involving a LNG or LPG facility or LNG or LPG carrier did occur, in addition to the possible effects identified in the previous paragraph, the incident may adversely affect construction of additional LNG or LPG facilities in the United States and other countries or lead to the temporary or permanent closing of various LNG or LPG facilities currently in operation. Acts of piracy on ocean-going vessels continue to be a risk, which could adversely affect our business.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea, Gulf of Guinea and the Indian Ocean off the coast of Somalia. While there continues to be a significant risk of piracy in the Gulf of Aden and Indian Ocean, recently there have been increases in the frequency and severity of piracy incidents off the coast of West Africa and a resurgent piracy risk in the Straits of Malacca, Sulu and Celebes Sea and surrounding waters. If these piracy attacks result in regions in which our vessels are deployed being named on the Joint War Committee Listed Areas, war risk insurance premiums payable for such coverage may increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including costs which may be incurred to the extent we employ on-board armed security guards and escort vessels, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, hijacking as a result of an act of piracy against our vessels, or an increase in cost or unavailability of insurance for our vessels, could have a material adverse impact on our business, financial condition and results of operations.

A cyber-attack could materially disrupt our business

We rely on information technology systems and networks in our operations and the administration of our business. Cyber-attacks have increased in number and sophistication in recent years. Our operations could be targeted by individuals or groups seeking to sabotage or disrupt our information technology systems and networks, or to steal data. A successful cyber-attack could materially disrupt our operations, including the safety of our operations, or lead to unauthorized release of information or alteration of information on our systems. Any such attack or other breach of our information technology systems could have a material adverse effect on our business and results of operations. Our failure to comply with data privacy laws could damage our customer relationships and expose us to litigation risks and potential fines.

Data privacy is subject to frequently changing rules and regulations, which sometimes conflict among the various jurisdictions and countries in which we provide services and continue to develop in ways which we cannot predict, including with respect to evolving technologies such as cloud computing. The European Union has adopted the General Data Privacy Regulation (or GDPR), a comprehensive legal framework to govern data collection, use and sharing and related consumer privacy rights which took effect in May 2018. The GDPR includes significant penalties for non-compliance. Our failure to adhere to or successfully implement processes in response to changing regulatory



requirements in this area could result in legal liability or impairment to our reputation in the marketplace, which could have a material adverse effect on our business, financial condition and results of operations.

The ARC7 LNG carrier newbuildings for the Yamal LNG Project are customized vessels and our financial condition, results of operations and ability to make distributions on our units could be substantially affected if the Yamal LNG Project is abandoned.

On July 9, 2014, the Yamal LNG Joint Venture ordered six internationally-flagged icebreaker LNG carriers for a project located on the Yamal Peninsula in Northern Russia (or the Yamal LNG Project), two of which newbuilding carriers delivered in 2018. The Yamal LNG Project is a joint venture between Russia-based Novatek OAO (or Novatek) (50.1%), France-based Total S.A. (20%), China-based China National Petroleum Corporation (20%) and Silk Road Fund (9.9%).

The four remaining ARC7 LNG carrier newbuildings ordered by the Yamal LNG Joint Venture, which are scheduled for delivery during the remainder of 2019, are being specifically built for the Arctic requirements of the Yamal LNG Project and will have limited redeployment opportunities to operate as conventional trading LNG carriers if the project is abandoned or cancelled. If the project is abandoned or cancelled after commencement of operations, the Yamal LNG Joint Venture may be unable to reach an agreement with the shipyard allowing for the termination of the shipbuilding contracts (since no such optional termination right exists under these contracts), change the vessel specifications

to reflect those applicable to more conventional LNG carriers and which do not incorporate ice-breaking capabilities, or find suitable alternative employment for the newbuilding vessels on a long-term basis with other LNG projects or otherwise.

The Yamal LNG Project may be abandoned for various reasons, including, among others:

- failure to achieve expected operating results;
- changes in demand for LNG;
- adverse changes in Russian regulations or governmental policy relating to the project or the export of LNG;
- technical challenges of completing and operating the complex project, particularly in extreme Arctic conditions;
- labor disputes; or
- environmental regulations or potential claims.

If the project is abandoned, proceeds if any, received from limited Yamal LNG project sponsor guarantees and potential alternative employment, if any, of the vessels and from potential sales of components and scrapping of the vessels likely would fall substantially short of the cost of the vessels to the Yamal LNG Joint Venture. Any such shortfall could have a material adverse effect on our financial condition, results of operations and ability to make cash distributions to unitholders.

Sanctions against key participants in the Yamal LNG Project could impede completion or performance of the Yamal LNG Project, which could have a material adverse effect on us.

The U.S. Treasury Department's Office of Foreign Assets Control (or OFAC) placed Russia-based Novatek, a 50.1% owner of the Yamal LNG Project, on the Sectoral Sanctions Identifications List. OFAC also previously imposed sanctions on an investor in Novatek and these sanctions also remain in effect. The current restrictions on Novatek prohibit U.S. persons (and their subsidiaries) from participating in debt financing transactions of greater than 60 days maturity with Novatek and, by virtue of Novatek's 50.1% ownership interest, the Yamal LNG Project. The European Union also imposed certain sanctions on Russia. These sanctions require a European Union license or authorization before a party can provide certain technologies or technical assistance, financing, financial assistance, or brokering with regard to these technologies. However, the technologies being currently sanctioned by the EU appear to focus on oil exploration projects, not gas projects. In addition, OFAC and other governments or organizations may impose additional sanctions on Novatek, the Yamal LNG Project or other project participants, which may further hinder the ability of the Yamal LNG Project to receive necessary financing. Although we believe that we are in compliance with all applicable sanctions, laws and regulations, and intend to maintain such compliance, the scope of these sanctions laws may be subject to change. Future sanctions may prohibit the Yamal LNG Joint Venture from performing under its contracts with the Yamal LNG Project, which could have a material adverse effect on our financial condition, results of operations and ability to make cash distributions on our units.

Failure of the Yamal LNG Project to achieve expected results could lead to a default under the time-charter contracts by the charter party.

The charter party under the Yamal LNG Joint Venture's time-charter contracts for the Yamal LNG Project is Yamal Trade Pte. Ltd., a wholly-owned subsidiary of Yamal LNG, the project's sponsor. If the Yamal LNG Project does not achieve expected results, the risk of charter party default may increase. Any such default could adversely affect our results of operations and ability to make cash distributions on our units. If the charter party defaults on the time-charter contracts, we may be unable to redeploy the vessels under other time-charter contracts or may be forced to scrap the vessels.

We assume credit risk by entering into agreements with unrated entities.

Some of our vessels are chartered to unrated entities and some of these unrated entities will use revenue generated from the sale of the shipped gas to pay their shipping and other operating expenses, including the charter fees. The price of the gas may be subject to market fluctuations and the LNG supply may be curtailed by start-up delays and

stoppages. If the revenue generated by the charterer is insufficient to pay the charter fees, we may be unable to realize the expected economic benefit from these charter agreements. In addition, some of our financing related to certain of our LNG carrier newbuildings are with unrated entities. Any inability of these entities to meet their obligations under the financing arrangements, could have an adverse effect on our liquidity and potentially delay the deliveries of certain of our LNG carrier newbuildings.

The marine energy transportation industry is subject to substantial environmental and other regulations, which may significantly limit our operations or increase our expenses.

Our operations are affected by extensive and changing international, national and local environmental protection laws, regulations, treaties and conventions in force in international waters, the jurisdictional waters of the countries in which our vessels operate, as well as the countries of our vessels' registration, including those governing oil spills, discharges to air and water, and the handling and disposal of hazardous substances and wastes. Many of these requirements are designed to reduce the risk of oil spills and other pollution. In addition, we believe that the heightened environmental, quality and security concerns of insurance underwriters, regulators and charterers will lead to additional regulatory requirements, including enhanced risk assessment and security requirements and greater inspection and safety requirements on

vessels. We expect to incur substantial expenses in complying with these laws and regulations, including expenses for vessel modifications and changes in operating procedures.

These requirements can affect the resale value or useful lives of our vessels, require a reduction in cargo capacity, ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for environmental matters or result in the denial of access to certain jurisdictional waters or ports, or detention in certain ports. Under local, national and foreign laws, as well as international treaties and conventions, we could incur material liabilities, including cleanup obligations, in the event that there is a release of petroleum or other hazardous substances from our vessels or otherwise in connection with our operations. We could also become subject to personal injury or property damage claims relating to the release of or exposure to hazardous materials associated with our operations. In addition, failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations, including, in certain instances, seizure or detention of our vessels. For further information about regulations affecting our business and related requirements on us, please read "Item 4 – Information on the Partnership: B. Operations - Regulations."

Exposure to currency exchange rate fluctuations will result in fluctuations in our cash flows and operating results. We are paid in Euros under some of our charters, and certain of our vessel operating expenses and general and administrative expenses currently are denominated in Euros, which is primarily a function of the nationality of our crew and administrative staff. We also make payments under two Euro-denominated term loans. If the amount of our Euro-denominated obligations exceeds our Euro-denominated revenues, we must convert other currencies, primarily the U.S. Dollar, into Euros. An increase in the strength of the Euro relative to the U.S. Dollar would require us to convert more U.S. Dollars to Euros to satisfy those obligations, which would cause us to have less cash available for distribution to unitholders. In addition, if we do not have sufficient U.S. Dollars, we may be required to convert Euros into U.S. Dollars for distributions to unitholders. An increase in the strength of the U.S. Dollar relative to the Euro could cause us to have less cash available for distribution in this circumstance. We have not entered into currency swaps or forward contracts or similar derivatives to mitigate this risk.

Because we report our operating results in U.S. Dollars, changes in the value of the U.S. Dollar relative to the Euro and Norwegian Kroner also result in fluctuations in our reported revenues and earnings. In addition, under U.S. accounting guidelines, all foreign currency-denominated monetary assets and liabilities such as cash and cash equivalents, accounts receivable, restricted cash, accounts payable, accrued liabilities, advances from affiliates and long-term debt, are revalued and reported based on the prevailing exchange rate at the end of the period. This revaluation historically has caused us to report significant unrealized foreign currency exchange gains or losses each period. The primary source for these gains and losses is our Euro-denominated term loans and our Norwegian Kroner-denominated (or NOK) bonds.

Exposure to interest rate fluctuations will result in fluctuations in our cash flows and operating results. We are exposed to the impact of interest rate changes primarily through our borrowings that require us to make interest payments based on LIBOR, EURIBOR or NIBOR. Significant increases in interest rates could adversely affect our operating margins, results of operations and our ability to service our debt. In addition, there is uncertainty as to the continued use of LIBOR in the future. LIBOR is the subject of recent national, international and other regulatory guidance and proposals for reform. These reforms and other pressures may cause LIBOR to be eliminated or to perform differently than in the past. The consequences of these developments cannot be entirely predicted but could include an increase in the cost of our variable rate indebtedness and obligations. In accordance with our risk management policy, we use interest rate swaps to reduce our exposure to market risk from changes in interest rates. The principal objective of these contracts is to minimize the risks and costs associated with our floating-rate debt.

In addition, we are exposed to credit loss in the event of non-performance by the counterparties to the interest rate swap agreements. For further information about our financial instruments at December 31, 2018, that are sensitive to changes in interest rates, please read "Item 11 – Quantitative and Qualitative Disclosures About Market Risk."

Many of our seafaring employees are covered by collective bargaining agreements and the failure to renew those agreements or any future labor agreements may disrupt our operations and adversely affect our cash flows. A significant portion of our seafarers, and the seafarers employed by Teekay Corporation and its other affiliates that crew some of our vessels, are employed under collective bargaining agreements. While some of our labor agreements have recently been renewed, crew compensation levels under future collective bargaining agreements may exceed existing compensation levels, which would adversely affect our results of operations and cash flows. We may be subject to labor disruptions in the future if our relationships deteriorate with our seafarers or the unions that represent them. Our collective bargaining agreements may not prevent labor disruptions, particularly when the agreements are being renegotiated. Any labor disruptions could harm our operations and could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions to unitholders. Teekay Corporation and certain of our joint venture partners may be unable to attract and retain qualified, skilled employees or crew necessary to operate our business, or may have to pay substantially increased costs for its employees and crew.

Our success depends in large part on Teekay Corporation's and certain of our joint venture partners' ability to attract and retain highly skilled and qualified personnel. In crewing our vessels, we require technically skilled employees with specialized training who can perform physically demanding work. The ability to attract and retain qualified crew members under a competitive industry environment continues to put upward pressure on crew manning costs.

If we are not able to increase our charter rates to compensate for any crew cost increases, our financial condition and results of operations may be adversely affected. Any inability we experience in the future to hire, train and retain a sufficient number of qualified employees could impair our ability to manage, maintain and grow our business.

Due to our lack of diversification, adverse developments in our LNG or LPG marine transportation businesses could reduce our ability to make distributions to our unitholders.

We rely exclusively on the cash flow generated from our LNG and LPG carriers that operate in the LNG or LPG transportation businesses. Due to our lack of diversification, an adverse development in the LNG or LPG shipping industry would have a significantly greater impact on our financial condition and results of operations than if we maintained more diverse assets or lines of business.

Teekay Corporation and its affiliates may engage in competition with us.

Teekay Corporation and its affiliates and joint ventures, including its equity-accounted investee, Teekay Offshore Partners L.P. (or Teekay Offshore), may engage in competition with us. Pursuant to an omnibus agreement between Teekay Corporation, Teekay Offshore, us and other related parties, Teekay Corporation, Teekay Offshore and their respective controlled affiliates (other than us and our subsidiaries) generally have agreed not to own, operate or charter LNG carriers without the consent of our General Partner. The omnibus agreement, however, allows Teekay Corporation, Teekay Offshore or any of such controlled affiliates to:

acquire LNG carriers and related time-charters as part of a business if a majority of the value of the total assets or business acquired is not attributable to the LNG carriers and time-charters, as determined in good faith by the Board of Directors of Teekay Corporation or the Board of Directors of Teekay Offshore's general partner; however, if at any time Teekay Corporation or Teekay Offshore completes such an acquisition, it must offer to sell the LNG carriers and related time-charters to us for their fair market value plus any additional tax or other similar costs to Teekay Corporation or Teekay Offshore that would be required to transfer the LNG carriers and time-charters to us separately from the acquired business; or

own, operate and charter LNG carriers that relate to a bid or award for an LNG project that Teekay Corporation or any of its subsidiaries submits or receives; however, at least 180 days prior to the scheduled delivery date of any such LNG carrier, Teekay Corporation must offer to sell the LNG carrier and related time-charter to us, with the vessel valued at its "fully-built-up cost," which represents the aggregate expenditures incurred (or to be incurred prior to delivery to us) by Teekay Corporation to acquire or construct and bring such LNG carrier to the condition and location necessary for our intended use, plus a reasonable allocation of overhead costs related to the development of such a project and other projects that would have been subject to the offer rights set forth in the omnibus agreement but were not completed.

If we decline the offer to purchase the LNG carriers and time-charters described above, Teekay Corporation or Teekay Offshore may own and operate the LNG carriers, but may not expand that portion of its business.

In addition, pursuant to the omnibus agreement, Teekay Corporation, Teekay Offshore or any of their respective controlled affiliates (other than us and our subsidiaries) may:

acquire, operate or charter LNG carriers if our General Partner has previously advised Teekay Corporation or Teekay Offshore that the Board of Directors of our General Partner has elected, with the approval of its conflicts committee, not to cause us or our subsidiaries to acquire or operate the carriers;

acquire up to a 9.9% equity ownership, voting or profit participation interest in any publicly traded company that owns or operates LNG carriers; and

provide ship management services relating to LNG carriers.

During 2018, there was a change in control of Teekay Offshore, which gives Teekay Offshore the right to elect to terminate the omnibus agreement. Termination of the omnibus agreement could have an adverse effect on our business, results of operations and financial condition and our ability to make cash distributions to unitholders. We

have not received any indication from Teekay Offshore that it intends to terminate the omnibus agreement.

Our General Partner and its other affiliates own a controlling interest in us and have conflicts of interest and limited fiduciary duties, which may permit them to favor their own interests to those of unitholders.

Teekay Corporation, which owns and controls our General Partner, indirectly owns our 2% general partner interest and as at December 31, 2018 owned 31.8% of our common units. The directors and officers of our General Partner have a fiduciary duty to manage our General Partner in a manner beneficial to Teekay Corporation. Furthermore, certain directors and officers of our General Partner are directors or officers of affiliates of our General Partner.

Conflicts of interest may arise between Teekay Corporation and its affiliates, including our General Partner, on the one hand, and us and our unitholders, on the other hand. As a result of these conflicts, our General Partner may favor its own interests and the interests of its affiliates over the interests of our unitholders. These conflicts include, among others, the following situations:

neither our partnership agreement nor any other agreement requires our General Partner or Teekay Corporation to pursue a business strategy that favors us or utilizes our assets, and Teekay Corporation's officers and directors have a fiduciary duty to make decisions in the best interests of the shareholders of Teekay Corporation, which may be contrary to our interests;

executive officers of Teekay Gas Group Ltd., our recently formed subsidiary, and three of the directors of our General Partner also currently serve as officers or directors of Teekay Corporation;

our General Partner is allowed to take into account the interests of parties other than us, such as Teekay Corporation, in resolving conflicts of interest, which has the effect of limiting its fiduciary duty to our unitholders;

our General Partner has limited its liability and restricted its fiduciary duties under the laws of the Republic of the Marshall Islands, while also restricting the remedies available to our unitholders, and as a result of purchasing units, unitholders are treated as having agreed to the modified standard of fiduciary duties and to certain actions that may be taken by our General Partner, all as set forth in our partnership agreement;

our General Partner determines the amount and timing of our asset purchases and sales, capital expenditures, borrowings, issuances of additional partnership securities and reserves, each of which can affect the amount of cash that is available for distribution to our unitholders;

in some instances, our General Partner may cause us to borrow funds in order to permit the payment of cash distributions, even if the purpose or effect of the borrowing is to make incentive distributions to affiliates to Teekay Corporation;

our General Partner determines which costs incurred by it and its affiliates are reimbursable by us;

our partnership agreement does not restrict our General Partner from causing us to pay it or its affiliates for any services rendered to us on terms that are fair and reasonable or entering into additional contractual arrangements with any of these entities on our behalf;

our General Partner controls the enforcement of obligations owed to us by it and its affiliates; and

our General Partner decides whether to retain separate counsel, accountants or others to perform services for us.

The fiduciary duties of the officers and directors of our General Partner may conflict with those of the officers and directors of Teekay Corporation.

Our General Partner has limited fiduciary duties to manage our business in a manner beneficial to us and our partners. Our General Partner has a Corporate Secretary but does not have a Chief Executive Officer or a Chief Financial Officer. The Corporate Secretary and the non-independent director of our General Partner also serve as officers or directors of Teekay Corporation and/or other affiliates of Teekay Corporation. Consequently, these officers and directors may encounter situations in which their fiduciary obligations to Teekay Corporation or its other affiliates, on one hand, and us, on the other hand, are in conflict. The resolution of these conflicts may not always be in the best interest of us or our unitholders.

Because we are organized under the laws of the Marshall Islands, it may be difficult to serve us with legal process or enforce judgments against us, our directors or our management.

We are organized under the laws of the Marshall Islands, and all of our assets are located outside of the United States. In addition, certain of our General Partner's directors and officers are non-residents of the United States, and all or a substantial portion of the assets of these non-residents are located outside the United States. As a result, it may be difficult or impossible to bring an action against us or against these individuals in the United States. Even if successful in bringing an action of this kind, the laws of the Marshall Islands and of other jurisdictions may prevent or restrict the enforcement of a judgment against our assets or the assets of our general partner or its directors and officers.

As a Marshall Islands entity with our headquarters in Bermuda, and with a majority of our subsidiaries being Marshall Islands entities and also having subsidiaries in other offshore jurisdictions, our operations may be subject to economic substance requirements of the European Union, which could harm our business.

Finance ministers of the EU rate jurisdictions for tax transparency, governance, real economic activity and corporate tax rate. Countries that do not adequately cooperate with the finance ministers are put on a "grey list" or a "blacklist". Various countries, including the Republic of the Marshall Islands and Bermuda, are currently on the blacklist.

EU member states have agreed upon a set of measures, which they can choose to apply against the listed countries, including increased monitoring and audits, withholding taxes, special documentation requirements and anti-abuse provisions. The European Commission has stated it will continue to support member states' efforts to develop a more coordinated approach to sanctions for the listed countries in 2019. EU legislation prohibits EU funds from being channelled or transited through entities in countries on the blacklist.



We are a Marshall Islands limited partnership with our headquarters in Bermuda. A majority of our subsidiaries are Marshall Islands entities and many of our subsidiaries are either organized or registered in Bermuda. It is difficult to determine how the EU blacklisting of these jurisdictions will affect our business. These jurisdictions have enacted or may enact economic substance laws and regulations with which we may be obligated to comply. We understand that recently-adopted Bermudian legislation requires each Bermudian-registered entity to maintain a substantial economic presence in Bermuda and provides that a registered entity that carries on a relevant activity may comply with the economic substance requirements if (i) it is directed and managed in Bermuda, (ii) its core income-generating activities are undertaken in Bermuda with respect to the relevant activity, (iii) it maintains adequate physical presence in Bermuda, (iv) it has adequate full-time employees in Bermuda with suitable qualifications and (v) it incurs adequate operating expenditures in Bermuda in relation to the relevant activity. We do not know what actions the Marshall Islands may take, if any, to remove itself from the list; whether the EU will remove the Marshall Islands or Bermuda from the list; how quickly the EU would react to any changes in legislation of the Marshall Islands, Bermuda or other applicable

jurisdictions; or how EU banks or other counterparties will react while we or any of our subsidiaries remain as entities organized and existing or registered under the laws of blacklisted countries. The effect of the EU blacklist, and any noncompliance by us with any legislation adopted by applicable countries to achieve removal from the list, could have a material adverse effect on our business, financial condition and operating results.

Our joint venture arrangements impose obligations upon us but limit our control of the joint ventures, which may affect our ability to achieve our joint venture objectives.

For financial or strategic reasons, we conduct a portion of our business through joint ventures. Generally, we are obligated to provide proportionate financial support for the joint ventures although our control of the business entity may be substantially limited. Due to this limited control, we generally have less flexibility to pursue our own objectives through joint ventures or to access available cash of the joint ventures than we would with our own subsidiaries. There is no assurance that our joint venture partners will continue their relationships with us in the future or that we will be able to achieve our financial or strategic objectives relating to the joint ventures and the markets in which they operate. In addition, our joint venture partners may have business objectives that are inconsistent with ours, experience financial and other difficulties that may affect the success of the joint venture or be unable or unwilling to fulfill their obligations under the joint ventures, which may affect our financial condition or results of operations.

#### Tax Risks

In addition to the following risk factors, you should read “Item 10 – Additional Information: Taxation” for a more complete discussion of the expected material U.S. federal and non-U.S. income tax considerations relating to us and the ownership and disposition of our units.

U.S. tax authorities could treat us as a “passive foreign investment company,” which could have adverse U.S. federal income tax consequences to U.S. holders.

A non-U.S. entity treated as a corporation for U.S. federal income tax purposes will be treated as a “passive foreign investment company” (or PFIC), for such purposes in any taxable year for which either (a) at least 75% of its gross income consists of “passive income,” or (b) at least 50% of the average value of the entity’s assets is attributable to assets that produce or are held for the production of “passive income.” For purposes of these tests, “passive income” includes dividends, interest, gains from the sale or exchange of investment property and rents and royalties (other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business). By contrast, income derived from the performance of services does not constitute “passive income.”

There are legal uncertainties involved in determining whether the income derived from our time-chartering activities constitutes rental income or income derived from the performance of services, including the decision in *Tidewater Inc. v. United States*, 565 F.3d 299 (5th Cir. 2009), which held that income derived from certain time-chartering activities should be treated as rental income rather than services income for purposes of a foreign sales corporation provision of the Internal Revenue Code of 1986, as amended (or the Code). However, the Internal Revenue Service (or IRS) stated in an Action on Decision (AOD 2010-01) that it disagrees with, and will not acquiesce to, the way that the rental versus services framework was applied to the facts in the *Tidewater* decision, and in its discussion stated that the time charters at issue in *Tidewater* would be treated as producing services income for PFIC purposes. The IRS’s statement with respect to *Tidewater* cannot be relied upon or otherwise cited as precedent by taxpayers. Consequently, in the absence of any binding legal authority specifically relating to the statutory provisions governing PFICs, there can be no assurance that the IRS or a court would not follow the *Tidewater* decision in interpreting the PFIC provisions of the Code. Nevertheless, based on our and our subsidiaries’ current assets and operations, we intend to take the position that we are not now and have never been a PFIC. No assurance can be given, however, that this position would be sustained by a court if contested by the IRS, or that we would not constitute a PFIC for any future taxable year if there were to be changes in our assets, income or operations.

If the IRS were to determine that we are or have been a PFIC for any taxable year during which a U.S. Holder (as defined below under “Item 10 – Additional Information: Material U.S. Federal Income Tax Considerations”) held units, such U.S. Holder would face adverse tax consequences. For a more comprehensive discussion regarding the tax

consequences to U.S. Holders if we are treated as a PFIC, please read "Item 10 – Additional Information: Material U.S. Federal Income Tax Considerations – United States Federal Income Taxation of U.S. Holders – Consequences of Possible PFIC Classification."

We are subject to taxes, which reduces our cash available for distribution to partners.

We or our subsidiaries are subject to tax in certain jurisdictions in which we or our subsidiaries are organized, own assets or have operations, which reduces the amount of our cash available for distribution. In computing our tax obligations in these jurisdictions, we are required to take various tax accounting and reporting positions on matters that are not entirely free from doubt and for which we have not received rulings from the governing authorities. We cannot assure you that upon review of these positions, the applicable authorities will agree with our positions. A successful challenge by a tax authority could result in additional tax imposed on us or our subsidiaries, further reducing the cash available for distribution. We have established reserves in our financial statements that we believe are adequate to cover our liability for any such additional taxes. We cannot assure you, however, that such reserves will be sufficient to cover any additional tax liability that may be imposed on our subsidiaries. In addition, changes in our operations or ownership could result in additional tax being imposed on us or on our subsidiaries in jurisdictions in which operations are conducted. For example, Teekay Corporation indirectly owns less than 50% of the value of our outstanding units but has voting control of us and therefore we believe that we do not satisfy the requirements of the exemption from U.S. taxation under Section 883 of the Code and our U.S. source income is subject to taxation under Section 887 of the Code. The amount

of such tax will depend upon the amount of income we earn from voyages into or out of the United States, which is not within our complete control.

Unitholders may be subject to income tax in one or more non-U.S. countries, including Canada, as a result of owning our units if, under the laws of any such country, we are considered to be carrying on business there. Such laws may require unitholders to file a tax return with, and pay taxes to, those countries.

Unitholders may be subject to tax in one or more countries, including Canada, as a result of owning our units if, under the laws of any such country, we are considered to be carrying on business there. If unitholders are subject to tax in any such country, unitholders may be required to file a tax return with, and pay taxes to, that country based on their allocable share of our income. We may be required to reduce distributions to unitholders on account of any withholding obligations imposed upon us by that country in respect of such allocation to unitholders. The United States may not allow a tax credit for any foreign income taxes that unitholders directly or indirectly incur.

#### Item 4. Information on the Partnership

##### A. Overview, History and Development

###### Overview and History

Teekay LNG Partners L.P. is an international provider of marine transportation services for LNG, LPG and crude oil. We were formed in 2004 by Teekay Corporation (NYSE: TK), a portfolio manager of marine services to the global oil and natural gas industries, to expand its operations in the LNG shipping sector. Our primary strategy focuses on servicing our customers through our fleet of LNG and LPG carriers under medium to long-term, fixed-rate charters. In executing our strategy, we may engage in vessel or business acquisitions or enter into joint ventures and partnerships with companies that provide increased access to emerging opportunities from global expansion of the LNG and LPG sectors. We seek to leverage the expertise, relationships and reputation of Teekay Corporation and its affiliates to pursue these opportunities in the LNG and LPG sectors and may consider other opportunities to which our competitive strengths are well suited, including entering into the LNG receiving and regasification terminal business.

Please see “Item 5 – Operating and Financial Review and Prospects: Management’s Discussion and Analysis of Financial Condition and Results of Operations – Significant Developments in 2018 and Early 2019.”

As of December 31, 2018, our fleet, excluding newbuildings, consisted of 43 LNG carriers (including the six MALT LNG Carriers, four RasGas 3 LNG Carriers, four Angola LNG Carriers, three Pan Union LNG Carriers, one Exmar LNG Carrier and two ARC7 LNG carriers (or the Yamal LNG Carriers) that are all accounted for under the equity method), 29 LPG and multi-gas carriers (including the 22 Exmar LPG Carriers that are accounted for under the equity method), one Suezmax-class crude oil tanker, and one Handymax product tanker, all of which are double-hulled. Our fleet is relatively young and has an average age of approximately eight years for our LNG carriers, approximately eight years for our LPG and multi-gas carriers and approximately 12 years for our conventional tankers (Suezmax and Handymax), compared to world averages of 10, 15 and 10 years, respectively, as of December 31, 2018. As at December 31, 2018, we had six LNG carrier newbuildings scheduled for delivery in 2019, and one LNG receiving and regasification terminal under construction scheduled for completion in 2019.

Our fleets of LNG and LPG carriers (excluding newbuildings but including equity-accounted vessels) currently have approximately 7.2 million and 0.9 million cubic meters of total capacity, respectively. The aggregate capacity of our conventional tanker fleet is approximately 0.2 million deadweight tonnes (or dwt).

We were formed under the laws of the Republic of The Marshall Islands as a limited partnership, Teekay LNG Partners L.P., on November 3, 2004, and maintain our principal executive offices at 4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda. Our telephone number at such address is (441) 298-2530.

###### B. Operations

###### Our Fleet and Our Charters

We generate revenues by charging customers for the transportation of their LNG, LPG and crude oil using our vessels. The majority of these services are provided through either a time-charter or bareboat charter contract, where vessels are chartered to customers for a fixed period of time at rates that are generally fixed but may contain a variable component based on inflation, interest rates or current market rates.

Our vessels and our regasification terminal under construction in Bahrain primarily operate under fixed-rate contracts with major energy and utility companies. As of December 31, 2018, the average remaining term for these contracts, including assets under construction, was approximately 10 years for our LNG carriers and regasification terminal, approximately two years for our LPG carriers and approximately half a year for our conventional tanker (Handymax), subject, in certain circumstances, to termination or vessel purchase rights.

“Hire” rate refers to the basic payment from the customer for the use of a vessel. Hire is payable monthly, in advance, in U.S. Dollars or Euros, as specified in the charter. The hire rate generally includes two components – a capital cost component and an operating expense component. The capital cost component typically approximates the amount we are required to pay under vessel financing obligations and, for two of our conventional tankers, adjusts for changes in the floating interest rates relating to the underlying vessel financing. The operating expense

component, which adjusts annually for inflation, is intended to compensate us for vessel operating expenses. In addition, we may receive additional revenues beyond the fixed hire rate when current market rates exceed specified amounts under our time-charter contracts for two of our Suezmax tankers.

Hire payments may be reduced or, under some charters, we must pay liquidated damages, if the vessel does not perform to certain of its specifications, such as if the average vessel speed falls below a guaranteed speed or the amount of fuel consumed to power the vessel under normal circumstances exceeds a guaranteed amount.

When a vessel is “off-hire” – or not available for service – the customer generally is not required to pay the hire rate and we are responsible for all costs. Prolonged off-hire may lead to vessel substitution or termination of the time-charter. A vessel will typically be deemed to be off-hire if it is in dry dock unless our contract specifies drydocking is not considered off-hire. We must periodically dry dock each of our vessels for inspection, repairs and maintenance and any modifications to comply with industry certification or governmental requirements. In addition, a vessel generally will be deemed off-hire if there is a loss of time due to, among other things: operational deficiencies; equipment breakdowns; delays due to accidents, crewing strikes, certain vessel detentions or similar problems; or our failure to maintain the vessel in compliance with its specifications and contractual standards or to provide the required crew.

#### Liquefied Natural Gas Segment

##### LNG Carriers

The LNG carriers in our liquefied natural gas segment compete in the LNG market. LNG carriers are usually chartered to carry LNG pursuant to time-charter contracts, where a vessel is hired for a fixed period of time and the charter rate is payable to the owner on a monthly basis. LNG shipping historically has been transacted with long-term, fixed-rate time-charter contracts. LNG projects require significant capital expenditures and typically involve an integrated chain of dedicated facilities and cooperative activities. Accordingly, the overall success of an LNG project depends heavily on long-range planning and coordination of project activities, including marine transportation. Most shipping requirements for new LNG projects continue to be provided on a long-term basis, though the levels of spot voyages (typically consisting of a single voyage), short-term time-charters and medium-term time-charters have grown in the past few years. The amount of LNG traded on a spot and short-term basis (defined as contracts with a duration of 4 years or less) has increased from approximately 10% of total LNG supply in 2010 to approximately 30% in 2018.

In the LNG market, we compete principally with other private and state-controlled energy and utilities companies that generally operate captive fleets, and independent ship owners and operators. Many major energy companies compete directly with independent owners by transporting LNG for third parties in addition to their own LNG. Given the complex, long-term nature of LNG projects, major energy companies historically have transported LNG through their captive fleets. However, independent fleet operators have been obtaining an increasing percentage of charters for new or expanded LNG projects as some major energy companies have continued to divest non-core businesses.

LNG carriers transport LNG internationally between liquefaction facilities and import terminals. After natural gas is transported by pipeline from production fields to a liquefaction facility, it is supercooled to a temperature of approximately negative 260 degrees Fahrenheit. This process reduces its volume to approximately 1/600th of its volume in a gaseous state. The reduced volume facilitates economical storage and transportation by ship over long distances, enabling countries with limited natural gas reserves or limited access to long-distance transmission pipelines to import natural gas. LNG carriers include a sophisticated containment system that holds the LNG and provides insulation to reduce the amount of LNG that boils off naturally. The natural boil off is either used as fuel to power the engines on the ship or it can be reliquefied and put back into the tanks. LNG is transported overseas in specially built tanks in double-hulled ships to a receiving terminal, where it is offloaded and stored in insulated tanks. In regasification facilities at the receiving terminal, the LNG is returned to its gaseous state (or regasified) and then shipped by pipeline for distribution to natural gas customers.

With the exception of the Arctic Spirit and Polar Spirit, which are the only two ships in the world that utilize the Ishikawajima Harima Heavy Industries Self Supporting Prismatic Tank IMO Type B (or IHI SPB) independent tank technology, our fleet uses two of the Gaz Transport and Technigaz (or GTT) membrane containment systems. The GTT membrane systems are used in the majority of LNG tankers now being constructed. New LNG carriers generally have an expected lifespan of approximately 35 to 40 years. Unlike the oil tanker industry, there are currently no regulations that require the phase-out from trading of LNG carriers after they reach a certain age. As at December 31, 2018, our LNG carriers, excluding newbuilding vessels but including equity-accounted vessels, had an average age of approximately eight years, compared to the world LNG carrier fleet average age of approximately 10 years. In addition, as at that date, there were approximately 555 vessels in the world LNG fleet and approximately 136 additional LNG carriers under construction or on order for delivery through 2022.

The following table provides additional information about the LNG carriers in our operating fleet as of December 31, 2018.

| Vessel                  | Capacity<br>(cubic meters) | Delivery | Our<br>Ownership | Contract Type | Charterer | Expiration of<br>Charter <sup>(1)</sup> |
|-------------------------|----------------------------|----------|------------------|---------------|-----------|---|
| Operating LNG carriers: |                            |          |                  |               |           |   |
| Consolidated            |                            |          |                  |               |           |   |

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|                  |         |      |  |              |  |                           |
|------------------|---------|------|--|--------------|--|---------------------------|
| Hispania Spirit  | 137,814 | 2002 | 100%                                   | Time-charter | Shell Spain LNG S.A.U.                           | Sep. 2022 <sup>(2)</sup>  |
| Catalunya Spirit | 135,423 | 2003 | 100%                                   | Time-charter | Gas Natural SDG                                  | Aug. 2023 <sup>(2)</sup>  |
| Galicia Spirit   | 137,814 | 2004 | 100%                                   | Time-charter | Unión Fenosa Gas                                 | Jul. 2029 <sup>(3)</sup>  |
| Madrid Spirit    | 135,423 | 2004 | 100%                                   | Time-charter | Shell Spain LNG S.A.U.                           | Dec. 2024 <sup>(2)</sup>  |
| Al Marrouna      | 149,539 | 2006 | 70%                                    | Time-charter | Ras Laffan Liquefied<br>Natural Gas Company Ltd. | Oct. 2026 <sup>(4)</sup>  |
| Al Areesh        | 148,786 | 2007 | 70%                                    | Time-charter | Ras Laffan Liquefied<br>Natural Gas Company Ltd. | Jan. 2027 <sup>(4)</sup>  |
| Al Daayen        | 148,853 | 2007 | 70%                                    | Time-charter | Ras Laffan Liquefied<br>Natural Gas Company Ltd. | Feb. 2027 <sup>(4)</sup>  |
| Tanggung Hiri    | 151,885 | 2008 | 69%                                    | Time-charter | The Tangguh Production<br>Sharing Contractors    | Jan. 2029                 |
| Tanggung Sago    | 155,000 | 2009 | 69%                                    | Time-charter | The Tangguh Production<br>Sharing Contractors    | May 2029                  |
| Arctic Spirit    | 87,305  | 1993 | 99%                                    | Time-charter | Petrobras LNG Ltd.                               | May 2022                  |
| Polar Spirit     | 87,305  | 1993 | 99%                                    | Time-charter | Petrobras LNG Ltd.                               | Apr. 2019                 |
| Wilforce         | 155,900 | 2013 | 99%                                    | Bareboat     | Awilco LNG ASA                                   | Dec. 2019 <sup>(5)</sup>  |
| Wilpride         | 155,900 | 2013 | 99%                                    | Bareboat     | Awilco LNG ASA                                   | Dec. 2019 <sup>(5)</sup>  |
| Creole Spirit    | 173,000 | 2016 | 100% –<br>Capital lease <sup>(6)</sup> | Time-charter | Cheniere Marketing, LLC                          | Feb. 2021                 |
| Oak Spirit       | 173,000 | 2016 | 100% –<br>Capital lease <sup>(6)</sup> | Time-charter | Cheniere Marketing, LLC                          | Aug. 2021                 |
| Torben Spirit    | 173,400 | 2017 | 100% –<br>Capital lease <sup>(6)</sup> | Time-charter | Gas Natural SDG                                  | Dec. 2021                 |
| Magellan Spirit  | 165,700 | 2009 | 100% –<br>Chartered-in <sup>(13)</sup> | Time-charter | Trafigure Maritime Logistics Pte<br>Ltd.         | Mar. 2019                 |
| Macoma           | 173,000 | 2017 | 99% –<br>Capital lease <sup>(6)</sup>  | Time-charter | Shell Tankers (Singapore) Private<br>Ltd.        | Oct. 2023 <sup>(8)</sup>  |
| Murex            | 173,000 | 2017 | 99% –<br>Capital lease <sup>(6)</sup>  | Time-charter | Shell Tankers (Singapore) Private<br>Ltd.        | Oct. 2024 <sup>(8)</sup>  |
| Magdala          | 173,000 | 2018 | 99% –<br>Capital lease <sup>(6)</sup>  | Time-charter | Shell Tankers (Singapore) Private<br>Ltd.        | Jan. 2026 <sup>(8)</sup>  |
| Myrina           | 173,000 | 2018 | 99% –<br>Capital lease <sup>(6)</sup>  | Time-charter | Shell Tankers (Singapore) Private<br>Ltd.        | May 2024 <sup>(8)</sup>   |
| Megara           | 173,000 | 2018 | 99% –<br>Capital lease <sup>(6)</sup>  | Time-charter | Shell Tankers (Singapore) Private<br>Ltd.        | Jul. 2026 <sup>(8)</sup>  |
| Bahrain Spirit   | 173,000 | 2018 | 100%                                   | Time-charter | Bahrain LNG W.L.L.                               | Jul. 2039                 |
| Sean Spirit      | 174,000 | 2018 | 100%                                   | Time-charter | BP Gas Marketing Limited                         | Dec. 2025 <sup>(15)</sup> |
| Equity-Accounted |         |      |  |              |  |                           |
| Al Huwaila       | 214,176 | 2008 | 40%                                    | Time-charter | Ras Laffan Liquefied<br>Natural Gas Company Ltd. | May 2033 <sup>(2)</sup>   |
| Al Kharsaah      | 214,198 | 2008 | 40%                                    | Time-charter | Ras Laffan Liquefied<br>Natural Gas Company Ltd. | Jun. 2033 <sup>(2)</sup>  |
| Al Shamal        | 213,536 | 2008 | 40%                                    | Time-charter | Ras Laffan Liquefied<br>Natural Gas Company Ltd. | May 2033 <sup>(2)</sup>   |



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|                    |           |      |     |              |   |                           |
|--------------------|-----------|------|-----|--------------|---|---------------------------|
| Al Khuwair         | 213,101   | 2008 | 40% | Time-charter | Ras Laffan Liquefied Natural Gas Company Ltd. | Jul. 2033 <sup>(2)</sup>  |
| Excalibur          | 138,034   | 2002 | 49% | Time-charter | Excelerate Energy LP                          | Mar. 2022                 |
| Soyo               | 160,400   | 2011 | 33% | Time-charter | Angola LNG Supply Services LLC                | Aug. 2031 <sup>(2)</sup>  |
| Malanje            | 160,400   | 2011 | 33% | Time-charter | Angola LNG Supply Services LLC                | Sep. 2031 <sup>(2)</sup>  |
| Lobito             | 160,400   | 2011 | 33% | Time-charter | Angola LNG Supply Services LLC                | Oct. 2031 <sup>(2)</sup>  |
| Cubal              | 160,400   | 2012 | 33% | Time-charter | Angola LNG Supply Services LLC                | Jan. 2032 <sup>(2)</sup>  |
| Meridian Spirit    | 165,700   | 2010 | 52% | Time-charter | Total E&P Norge AS Mansel Limited             | Nov. 2030 <sup>(9)</sup>  |
| Magellan Spirit    | 165,700   | 2009 | 52% | Time-charter | Teekay LNG Partners L.P. <sup>(13)</sup>      | Sep. 2020                 |
| Marib Spirit       | 165,500   | 2008 | 52% | Time-charter | Yemen LNG Company Limited <sup>(10)</sup>     | Mar. 2029 <sup>(9)</sup>  |
| Arwa Spirit        | 165,500   | 2008 | 52% | Time-charter | Yemen LNG Company Limited <sup>(10)</sup>     | Apr. 2029 <sup>(9)</sup>  |
| Methane Spirit     | 165,500   | 2008 | 52% | Time-charter | Osaka Gas                                     | Jul. 2020 <sup>(14)</sup> |
| Woodside Donaldson | 165,500   | 2009 | 52% | Time-charter | Pluto LNG Party Limited                       | Jun. 2026 <sup>(11)</sup> |
| Pan Asia           | 174,000   | 2017 | 30% | Time-charter | Methane Services Limited                      | Oct. 2037 <sup>(12)</sup> |
| Pan Americas       | 174,000   | 2018 | 30% | Time-charter | Methane Services Limited                      | Jan. 2038 <sup>(12)</sup> |
| Pan Europe         | 174,000   | 2018 | 20% | Time-charter | Methane Services Limited                      | Jul. 2038 <sup>(12)</sup> |
| Eduard Toll        | 172,600   | 2018 | 50% | Time-charter | Yamal Trade PTE Ltd.                          | Dec. 2045 <sup>(2)</sup>  |
| Rudolf Samoylovich | 172,600   | 2018 | 50% | Time-charter | Yamal Trade PTE Ltd.                          | Dec. 2045 <sup>(2)</sup>  |
|                    | 7,179,292 |      |     |              |   |                           |

(1) Each of our time-charters are subject to certain termination and purchase provisions.

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

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

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

The charterer has an option to extend or decrease the term for 60 days and to purchase the vessel on any purchase option date. If no purchase option has been exercised by the charterer during the charter period, the charterer has an obligation to purchase each vessel at a fixed price at the end of the charter period.

(6) We are the lessee for these obligations related to capital leases and will be required to purchase the vessel after the end of the lease terms for a fixed price.

(7) The charterer has four options to extend the term for an additional 180 days, 180 days, one year and one year, respectively.

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

(9) The charterer has three options to extend the term for one, five and five additional years, respectively.

Please see "Item 5 – Operating and Financial Review and Prospects: Management's Discussion and Analysis of Financial Condition and Results of Operations – Significant Developments in 2018 and early 2019: Charter Contracts for MALT LNG Carriers" relating to the status of this charter contract.

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

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

(13) The Magellan Spirit is chartered-in from the Teekay LNG-Marubeni Joint Venture, until September 2020.

(14) The charterer has one option to extend the term for an additional one year.

(15) The charterer has the right to terminate the charter contract after seven years.

The following table provides information about our LNG carrier newbuildings as of December 31, 2018. Charters for these vessels typically commence upon delivery of the vessels.

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| Vessel           | Capacity<br>(cubic meters) | Scheduled<br>Delivery Date | Shipyard                    | Our<br>Ownership | Charterer                   | Length of<br>Charter    |
|------------------|----------------------------|----------------------------|-----------------------------|------------------|-----------------------------|-------------------------|
| Consolidated     |                            |                            |                             |                  |                             |                         |
| Yamal Spirit     | 174,000                    | Jan. 2019 <sup>(1)</sup>   | HHI<br>Sambo <sup>(2)</sup> | 100%             | Yamal Trade PTE.<br>Ltd.    | 15 years                |
| Equity-Accounted |                            |                            |                             |                  |                             |                         |
| Pan Africa       | 174,000                    | Jan. 2019 <sup>(1)</sup>   | Hudong <sup>(3)</sup>       | 20%              | Methane Services<br>Limited | 20 years <sup>(5)</sup> |
| Nikolay Yevgenov | 172,600                    | Jun. 2019                  | DSME <sup>(4)</sup>         | 50%              | Yamal Trade PTE<br>Ltd.     | 26 years <sup>(6)</sup> |
| Vladimir Voronin | 172,600                    | Aug. 2019                  | DSME <sup>(4)</sup>         | 50%              | Yamal Trade PTE<br>Ltd.     | 26 years <sup>(6)</sup> |
| Georgiy Ushakov  | 172,600                    | Oct. 2019                  | DSME <sup>(4)</sup>         | 50%              | Yamal Trade PTE<br>Ltd.     | 26 years <sup>(6)</sup> |
| Yakov Gakkel     | 172,600                    | Nov. 2019                  | DSME <sup>(4)</sup>         | 50%              | Yamal Trade PTE<br>Ltd.     | 26 years <sup>(6)</sup> |
|                  | 1,038,400                  |                            |                             |                  |                             |                         |

(1) The Yamal Spirit and the Pan Africa delivered in January 2019.

(2) Hyundai Samho Heavy Industries Co.

(3) Hudong-Zhonghua Shipbuilding (Group) Co. Ltd.

(4) Daewoo Shipbuilding & Marine Engineering Co. Ltd.

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

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

The following table presents the percentage of our consolidated voyage revenues from LNG customers that accounted for more than 10% of our consolidated voyage revenues during 2018, 2017 and 2016.

|   | Year Ended December 31, |       |               |
|---|-------------------------|-------|---------------|
|   | 2018                    | 2017  | 2016          |
| Royal Dutch Shell Plc <sup>(1)</sup>          | 23                      | % 12% | 12%           |
| Ras Laffan Liquefied Natural Gas Company Ltd. | 14                      | % 16% | 18%           |
| Cheniere Marketing International LLP          | 12                      | % 14% | Less than 10% |
| The Tangguh Production Sharing Contractors    | Less than 10%           | 11%   | 11%           |

(1) Includes its subsidiaries Shell Spain LNG S.A.U. and Shell Tankers (Singapore) Private Ltd.

No other LNG customer accounted for 10% or more of our consolidated voyage revenues during any of these periods. The loss of any significant customer or a substantial decline in the amount of services requested by a significant customer could harm our business, financial condition and results of operations.

#### Other Assets

We have a 30% ownership interest in an LNG receiving and regasification terminal under construction in Bahrain. The construction of this terminal is expected to be completed in mid-2019 and will be operated under a 20-year agreement with National Oil & Gas Authority (or Nogaholding).

#### Liquefied Petroleum Gas Segment

##### LPG and Multi-gas Carriers

LPG shipping involves the transportation of three main categories of cargo: liquid petroleum gases, including propane, butane and ethane; petrochemical gases, including ethylene, propylene and butadiene; and ammonia.

In the LPG market, we compete principally with independent ship owners and operators, and other private and state-controlled energy and chemical companies that generally operate captive fleets.

As of December 31, 2018, our LPG and multi-gas carriers (including equity-accounted vessels) had an average age of approximately eight years, compared to the world LPG carrier fleet average age of approximately 15 years. As of that date, the worldwide LPG tanker fleet consisted of approximately 1,451 vessels and approximately 74 additional LPG vessels were on order for delivery through 2022. LPG carriers range in

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size from approximately 100 to approximately 88,000 cubic meters. Approximately 47% of the vessels in the worldwide fleet are less than 5,000 cubic meters in size. New LPG carriers generally have an expected lifespan of approximately 30 to 35 years.

LPG carriers are mainly chartered to carry LPG on time-charters, contracts of affreightment or spot voyage charters. The two largest consumers of LPG are residential users and the petrochemical industry. Residential users, particularly in developing regions where electricity and gas pipelines are not developed, do not have fuel switching alternatives and generally are not LPG price sensitive. The petrochemical industry, however, has the ability to switch between LPG and other feedstock fuels depending on price and availability of alternatives.

The following table provides information about our LPG and multi-gas carriers in our operating fleet as of December 31, 2018.

| Vessel                  | Capacity<br>(cubic meters) | Delivery | Our Ownership          | Contract Type | Charterer                           | Expiration of<br>Charter |
|-------------------------|----------------------------|----------|------------------------|---------------|-------------------------------------|--------------------------|
| Operating LPG carriers: |                            |          |                        |               |                                     |                          |
| Consolidated            |                            |          |                        |               |                                     |                          |
| Pan Spirit              | 10,000                     | 2009     | 99%                    | Spot          | Spot market                         | —                        |
| Cathinka Spirit         | 10,000                     | 2009     | 99%                    | Spot          | Spot market                         | —                        |
| Camilla Spirit          | 10,000                     | 2011     | 99%                    | Spot          | Spot market                         | —                        |
| Unikum Spirit           | 12,000                     | 2011     | 99%                    | Spot          | Spot market                         | —                        |
| Vision Spirit           | 12,000                     | 2011     | 99%                    | Spot          | Spot market                         | —                        |
| Napa Spirit             | 10,200                     | 2003     | 99%                    | Spot          | Spot market                         | —                        |
| Sonoma Spirit           | 8,000                      | 2003     | 99%                    | Spot          | Spot market                         | —                        |
| Equity-Accounted        |                            |          |                        |               |                                     |                          |
| Temse                   | 12,030                     | 1995     | 50% –<br>Capital lease | Time-charter  | An international fertilizer company | Jan. 2020                |
| Libramont               | 38,455                     | 2006     | 50%                    | Time-charter  | An international fertilizer company | May 2026                 |
| Sombeke                 | 38,447                     | 2006     | 50%                    | Time-charter  | An international fertilizer company | Jun. 2027                |
| Touraine                | 39,270                     | 1996     | 50%                    | Time-charter  | An international energy company     | Nov. 2019 <sup>(2)</sup> |
| Bastogne                | 35,229                     | 2002     | 50%                    | Time-charter  | An international energy company     | Jun. 2019                |
| Eupen                   | 38,961                     | 1999     | 50%                    | Spot          | Spot market                         | —                        |
| Brussels                | 35,454                     | 1997     | 50%                    | Time-charter  | An international energy company     | Jul. 2019                |
| Antwerpen               | 35,223                     | 2005     | 50% – Chartered-in     | Time-charter  | An international energy company     | Mar. 2019                |
| BW Tokyo                | 83,270                     | 2009     | 50% – Chartered-in     | Time-charter  | An international trading company    | Mar. 2019                |
| Waregem                 | 38,189                     | 2014     | 50%                    | Time-charter  | An international trading company    | Nov. 2019 <sup>(3)</sup> |
| Warinsart               | 38,213                     | 2014     | 50%                    | Time-charter  | An international energy company     | Feb. 2020 <sup>(3)</sup> |
| Waasmunster             | 38,245                     | 2014     | 50%                    | Time-charter  | An international energy company     | Aug. 2019 <sup>(3)</sup> |

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|           |        |      |                                    |              |                                     |                          |
|-----------|--------|------|------------------------------------|--------------|-------------------------------------|--------------------------|
| Warisoulx | 38,000 | 2015 | 50%                                | Time-charter | An international trading company    | May 2019                 |
| Kaprijke  | 38,000 | 2015 | 50%                                | Time-charter | An international fertilizer company | Dec. 2025                |
| Knokke    | 38,000 | 2016 | 50%                                | Time-charter | An international energy company     | Mar. 2021 <sup>(4)</sup> |
| Kontich   | 38,000 | 2016 | 50%                                | Time-charter | An international energy company     | Jul. 2021 <sup>(4)</sup> |
| Kortrijk  | 38,000 | 2016 | 50%                                | Time-charter | An international trading company    | Dec. 2019                |
| Kallo     | 38,000 | 2017 | 50% – Capital lease <sup>(1)</sup> | Time-charter | An international energy company     | Jan. 2020 <sup>(3)</sup> |

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|          |         |      |                                    |              |                                  |                          |
|----------|---------|------|------------------------------------|--------------|----------------------------------|--------------------------|
| Kruikebe | 38,000  | 2017 | 50% – Capital lease <sup>(1)</sup> | Time-charter | An international trading company | Feb. 2020 <sup>(3)</sup> |
| Kapellen | 38,000  | 2018 | 50% – Capital lease <sup>(1)</sup> | Time-charter | An international energy company  | Sep. 2019 <sup>(2)</sup> |
| Koksijde | 38,000  | 2018 | 50% – Capital lease <sup>(1)</sup> | Time-charter | An international trading company | Jul. 2019                |
| Wepion   | 38,000  | 2018 | 50%                                | Time-charter | An international energy company  | Nov. 2020 <sup>(3)</sup> |
|          | 923,186 |      |                                    |              |                                  |                          |

(1) Exmar LPG BVBA, in which we have a 50% ownership interest, is the lessee for these obligations related to capital leases and will be required to purchase the vessel after the end of the lease terms for a fixed price.

(2) The charterer has one option to extend the term for an additional six months.

(3) The charterer has one option to extend the term for an additional one year.

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

No LPG customer accounted for 10% or more of our consolidated voyage revenues during any of 2018, 2017, or 2016. The loss of any significant customer or a substantial decline in the amount of services requested by a significant customer could harm our business, financial condition and results of operations.

#### Conventional Tanker Segment

As of December 31, 2018, our conventional tankers had an average age of approximately 12 years, compared to the average age for the world conventional tanker fleet of approximately 10 years. New conventional tankers generally have an expected lifespan of approximately 25 to 30 years, based on estimated hull fatigue life.

The following table provides additional information about our conventional oil tankers in our operating fleet as of December 31, 2018.

| Tanker <sup>(1)</sup>           | Capacity | Delivery | Our Ownership                       | Contract Type | Charterer                            | Expiration of Charter    |
|---------------------------------|----------|----------|-------------------------------------|---------------|--------------------------------------|--------------------------|
|                                 | (dwt)    |          |                                     |               |                                      |                          |
| Operating Conventional tankers: |          |          |                                     |               |                                      |                          |
| Toledo Spirit                   | 159,342  | 2005     | 100% – Capital lease <sup>(2)</sup> | Time-charter  | CEPSA                                | Jan. 2019 <sup>(2)</sup> |
| Alexander Spirit                | 40,083   | 2007     | 100%                                | Time-charter  | Caltex Australian Petroleum Pty Ltd. | Sep. 2019                |
|                                 | 199,425  |          |                                     |               |                                      |                          |

(1) The Toledo Spirit is a Suezmax tanker, and the Alexander Spirit is a Handymax tanker.

We were the lessee for this obligation related to capital lease. The charterer, Compania Espanole de Petroleos, S.A. (or CEPSA), who is also the owner, had the right to terminate the time-charter contract 13 years after the original

(2) delivery date without penalty. CEPSA sold the Toledo Spirit in January 2019 and the associated charter contract with CEPSA concurrently terminated. Please read “Item 18 – Financial Statements: Note 5a – Chartered-in Vessels.”

No conventional tanker customer accounted for 10% or more of our consolidated voyage revenues during 2018, 2017, and 2016. The loss of any significant customer or a substantial decline in the amount of services requested by a significant customer could harm our business, financial condition and results of operations.

#### Business Strategies

Our primary long-term business objective is to expand our core businesses globally in order to service our customers' growing gas transportation requirements which we believe will add long-term value for our unitholders. Our operating cash flows remain largely stable and growing, supported by a large and well-diversified portfolio of fee-based contracts with high-quality counterparties.

We intend to achieve our long-term business objective, as stated above, by executing the following strategies:

Provide superior customer service by maintaining high reliability, safety, environmental and quality standards. LNG and LPG project operators seek LNG and LPG transportation partners that have a reputation for high reliability, safety, environmental and quality

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standards. We seek to leverage our own and Teekay Corporation's operational expertise to create a sustainable competitive advantage with consistent delivery of superior customer service.

Expand our LNG and LPG business globally. We seek to capitalize on opportunities emerging from the global expansion of the LNG and LPG sectors by selectively targeting:

- projects that involve medium to long-term, fixed-rate charters;
- cost-effective LNG and LPG newbuilding contracts;
- joint ventures and partnerships with companies that may provide increased access to opportunities in attractive LNG and LPG importing and exporting geographic regions;
- strategic vessel and business acquisitions; and
- specialized projects in adjacent areas of the business, including floating storage units.

#### Safety, Management of Ship Operations and Administration

Teekay Corporation, through its subsidiaries, assists us in managing our ship operations, other than the vessels owned or chartered-in by our joint ventures with Exmar, which are commercially and technically managed by Exmar, and two of the Angola LNG Carriers, which are commercially and technically managed by NYK Energy Transport (Atlantic) Ltd. Safety and environmental compliance are our top operational priorities. We operate our vessels in a manner intended to protect the safety and health of the employees, the general public and the environment. We seek to manage the risks inherent in our business and are committed to eliminating incidents that threaten the safety and integrity of our vessels, such as groundings, fires, collisions and oil spills. In 2007, Teekay Corporation introduced a behavior-based safety program called "Safety in Action" to further enhance the safety culture in our fleet. We are also committed to reducing our emissions and waste generation. In 2008, Teekay Corporation introduced the Quality Assurance and Training Officers (or QATO) program to conduct rigorous internal audits of our processes and provide the seafarers with onboard training. In 2010, Teekay Corporation introduced a safety leadership program for our employees titled "Operational Leadership, The Journey" which sets out Teekay Corporation's operational expectations, the responsibilities of individual employees and our commitment to empowering our employees to work safely and live Teekay Corporation's vision through a positive and responsible attitude.

Key performance indicators facilitate regular monitoring of our operational performance. Targets are set on an annual basis to drive continuous improvement, and indicators are reviewed monthly to determine if remedial action is necessary to reach the targets.

Teekay Corporation has achieved certification under the standards reflected in International Standards Organization's (or ISO) 9001 for Quality Assurance, ISO 14001 for Environment Management Systems, Occupational Health and Safety Advisory Services 18001 for Occupational Health and Safety, and the IMO's International Management Code for the Safe Operation of Ships and Pollution Prevention (or ISM Code) on a fully integrated basis. As part of Teekay Corporation's compliance with the ISM Code, all of our vessels' safety management certificates are maintained through ongoing internal audits performed by our certified internal auditors and intermediate external audits performed by the classification society DNV-GL. Subject to satisfactory completion of these internal and external audits, certification is valid for five years.

In addition to our operational experience, Teekay Corporation's in-house global shore staff performs, through its subsidiaries, the full range of technical, commercial and business development services for our LNG, LPG and conventional operations. The staff also provides administrative support to our operations in finance, accounting and human resources. We believe this arrangement affords a safe, efficient and cost-effective operation. Vessel management services are provided by subsidiaries of Teekay Corporation, located in various offices around the world. These include critical vessel management functions such as:

- vessel maintenance (including repairs and dry docking) and certification;



- rewing by competent seafarers;
- procurement of stores, bunkers and spare parts;
- management of emergencies and incidents;
- supervision of shipyard and projects during construction of newbuildings and conversions;
- insurance; and
- financial management services.

These functions are supported by onboard and onshore systems for maintenance, inventory, purchasing and budget management.

In addition, Teekay Corporation's day-to-day focus on cost control is applied to our operations. In 2003, Teekay Corporation and two other shipping companies established a purchasing cooperation agreement called the TBW Alliance, which leverages the purchasing power of the combined fleets, mainly in such commodity areas as marine lubricants, coatings and chemicals and gases. Through our arrangements with Teekay Corporation, we benefit from this purchasing alliance.

We believe that the generally uniform design of some of our existing and newbuilding vessels and the adoption of common equipment standards provide operational efficiencies, including with respect to crew training and vessel management, equipment operation and repair, and spare parts ordering.

#### Risk of Loss, Insurance and Risk Management

The operation of any ocean-going vessel carries an inherent risk of catastrophic marine disasters, death or injury of persons and property losses caused by adverse weather conditions, mechanical failures, human error, war, terrorism, piracy and other circumstances or events. In addition, the transportation and transfer/lightering of crude oil, petroleum products, LNG and LPG are subject to the risk of spills and to business interruptions due to political circumstances in foreign countries, hostilities, labor strikes, sanctions and boycotts. The occurrence of any of these events may result in loss of revenues or increased costs.

We carry hull and machinery (marine and war risks) and protection and indemnity insurance coverage to protect against most of the accident-related risks involved in the conduct of our business. Hull and machinery insurance covers loss of or damage to a vessel due to marine perils such as collision, grounding and weather. Protection and indemnity insurance indemnifies us against liabilities incurred while operating vessels, including injury to our crew or third parties, cargo loss and pollution. The current maximum amount of our coverage for pollution is \$1 billion per vessel per incident. We also carry insurance policies covering war risks (including piracy and terrorism) and, for some of our LNG carriers, loss of revenues resulting from vessel off-hire time due to a marine casualty.

We believe that our current insurance coverage is adequate to protect against most of the accident-related risks involved in the conduct of our business and that we maintain appropriate levels of environmental damage and pollution insurance coverage. However, we cannot guarantee that all covered risks are adequately insured against, that any particular claim will be paid or that we will be able to procure adequate insurance coverage at commercially reasonable rates in the future. More stringent environmental regulations have resulted in increased costs for, and may result in the lack of availability of, insurance against risks of environmental damage or pollution.

In our operations, we use Teekay Corporation's thorough risk management program that includes, among other things, risk analysis tools, maintenance and assessment programs, a seafarers' competence training program, seafarers' workshops and membership in emergency response organizations. We believe that we benefit from Teekay Corporation's commitment to safety and environmental protection because certain of its subsidiaries assist us in managing our vessel operations.

#### Flag, Classification, Audits and Inspections

Our vessels are registered with reputable flag states, and the hull and machinery of all of our vessels have been "Classed" by one of the major classification societies and members of International Association of Classification Societies Ltd. (or IACS): Bureau Veritas (or BV), Lloyd's Register of Shipping, the American Bureau of Shipping or DNV-GL.

The applicable classification society certifies that the vessel's design and build conforms to the applicable Class rules and meets the requirements of the applicable rules and regulations of the country of registry of the vessel and the international conventions to which that country is a signatory. The classification society also verifies throughout the vessel's life that it continues to be maintained in accordance with those rules. In order to validate this, the vessels are surveyed by the classification society, in accordance to the classification society rules, which in the case of our vessels follows a comprehensive five-year special survey cycle, renewed every fifth year. During each five-year period the vessel undergoes annual and intermediate surveys, the scrutiny and intensity of which is primarily dictated by the age of the vessel. As our vessels are modern and we have enhanced the resiliency of the underwater coatings of each vessel hull and marked the hull to facilitate underwater inspections by divers, their underwater areas are inspected in a dry-dock at five-year intervals. In-water inspection is carried out during the second or third annual inspection (e.g. during an Intermediate Survey).

In addition to class surveys, the vessel's flag state also verifies the condition of the vessel during annual flag state inspections, either independently or by additional authorization to class. Also, port state authorities of a vessel's port of call are authorized under international conventions to undertake regular and spot checks of vessels visiting their jurisdiction.

Processes followed onboard are audited by either the flag state or classification society acting on behalf of the flag state to ensure that they meet the requirements of the ISM Code. We also follow an internal process of internal audits undertaken annually at each office and vessel.

We follow a comprehensive inspections and audit regime supported by our sea staff, shore-based operational and technical specialists and members of our QATO program. We carry out two internal inspections and one internal audit annually, which helps ensure us that:

- our vessels and operations adhere to our operating standards;
- the structural integrity of the vessel is being maintained;
- machinery and equipment is being maintained to give reliable service;
- we are optimizing performance in terms of speed and fuel consumption; and
- our vessel's appearance supports our brand and meets customer expectations.

Our customers also often carry out vetting inspections under the Ship Inspection Report Program, which is a significant safety initiative introduced by the Oil Companies International Marine Forum to specifically address concerns about sub-standard vessels. The inspection results permit charterers to screen a vessel to ensure that it meets their general and specific risk-based shipping requirements.

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

Overall, we believe that our relatively new, well-maintained and high-quality vessels provide us with a competitive advantage in the current environment of increasing regulation and customer emphasis on quality of service.

#### Regulations

##### General

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

##### International Maritime Organization (or IMO)

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

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

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

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

LNG and LPG carriers are also subject to regulation under the IGC Code. Each LNG and LPG carrier must obtain a certificate of compliance evidencing that it meets the requirements of the IGC Code, including requirements relating to its design and construction. Each of our LNG and LPG carriers is currently IGC Code compliant, and each of the shipbuilding contracts for our LNG carrier newbuildings and for the LPG carrier newbuildings requires IGC Code compliance prior to delivery. Amendments to the IGC Code, aligning wheelhouse window fire-rating requirements with those in SOLAS chapter II-2, were adopted in 2016 and are expected to enter into force on January 1, 2020.

In addition, the International Code of Safety for Ships using Gases or other Low-flashpoint Fuels (or the IGF Code), which entered into force on January 1, 2017, is mandatory for ships fueled by gases or other low-flashpoint fuels, and sets out mandatory provisions for the arrangement, installation, control and monitoring of machinery, equipment and systems using low-flashpoint fuel.

Annex VI of the IMO's International Convention for the Prevention of Pollution from Ships (or MARPOL) (or Annex VI) sets limits on sulfur oxide and nitrogen oxide (or NOx) emissions from ship exhausts and prohibits emissions of ozone depleting substances, emissions of volatile compounds from cargo tanks and the incineration of specific substances. Annex VI also includes a world-wide cap on the sulfur content of fuel oil and allows for special "emission control areas" (or ECAs) to be established with more stringent controls on sulfur emissions.

Annex VI provides for a three-tier reduction in NOx emissions from marine diesel engines, with the final tier (or Tier III) to apply to engines installed on vessels constructed on or after January 1, 2016 and which operate in the North American ECA or the U.S. Caribbean Sea ECA as well as ECAs designated in the future by the IMO. In October 2016 the IMO's Marine Environment Protection Committee (or MEPC) approved the designation of the North Sea (including the English Channel) and the Baltic Sea as ECAs for NOx emissions; these ECAs and the related amendments to Annex VI of MARPOL (with some exceptions) entered into effect on January 1, 2019. This requirement will be applicable for new ships constructed on or after January 1, 2021 if they visit the Baltic or North Sea (including the English Channel) and requires the future trading area of a ship to be assessed at the contract stage. There are exemption provisions to allow ships with only Tier II engines, to navigate in a NOx Tier III ECA if the ship is departing from a shipyard where the ship is newly built or visiting a shipyard for conversion/repair/maintenance without loading/unloading cargoes.

Effective January 1, 2020, Annex VI imposes a global limit for sulphur in fuel oil used on board ships of 0.50% m/m (mass by mass), regardless of whether a ship is operating outside a designated ECA. To comply with this new standard, ships may utilize different fuels containing low or zero sulphur (e.g. LNG or biofuels), or utilize exhaust gas cleaning systems, known as "scrubbers." Amendments to the information to be included in bunker delivery notes relating to the supply of marine fuel oil to ships fitted with alternative mechanisms to address sulphur emission requirements (e.g. scrubbers) became effective January 1, 2019. At present, we have not installed any scrubbers on our existing fleet and we intend to switch over to burning low sulphur fuel from January 1, 2020.

As of March 1, 2018, amendments to Annex VI impose new requirements on ships of 5,000 gross tonnage and above to collect fuel oil consumption data for ships, as well as certain other data including proxies for transport work; the amendments also set forth criteria for determining whether cargo residues are harmful to the marine environment and a new Garbage Record Book format

IMO regulations required that, as of January 1, 2015, all vessels operating within ECAs worldwide recognized under MARPOL Annex VI must comply with 0.1% sulfur requirements. In addition, LSMGO is more expensive than HFO and this impacts the costs of operations. Our exposure to increased cost is in our spot trading vessels, although our competitors bear a similar cost increase as this is a regulatory item applicable to all vessels. All required vessels in our fleet trading to and within regulated low sulfur areas are able to comply with fuel requirements. The global cap on the sulfur content of fuel oil is currently 3.5%, to be reduced to 0.5% by January 1, 2020.

The IMO has issued guidance regarding protecting against acts of piracy off the coast of Somalia. We comply with these guidelines.

The IMO's Ballast Water Management Convention entered into force on September 8, 2017. As of December 31, 2018, there were 79 contracting states to the convention. The convention stipulates two standards for discharged ballast water. The D-1 standard covers ballast water exchange while the D-2 standard covers ballast water treatment. The convention requires the implementation of either the D-1 or D-2 standard. There will be a transitional period from the entry into force to the International Oil Pollution Prevention (or IOPP) renewal survey in which ballast water exchange (reg. D-1) can be employed. The IMO's Marine Environment Protection Committee (or MEPC) agreed to a compromise on the implementation dates for the D-2 discharge standard: ships constructed on or after September 8,

2017 must comply with the D-2 standard upon delivery. Existing ships should be D-2 compliant on the first IOPP renewal following entry into force if the survey is completed on or after September 8, 2019, or a renewal IOPP survey is completed on or after September 8, 2014 but prior to September 8, 2017. Ships should be D-2 compliant on the second IOPP renewal survey after September 8, 2017 if the first renewal survey after that date is completed prior to September 8, 2019 and if the previous two conditions are not met. Vessels will be required to meet the discharge standard D-2 by installing an approved Ballast Water Management System (or BWMS). Besides the IMO convention, ships sailing in U.S. waters are required to employ a type-approved BWMS which is compliant with USCG regulations. The USCG has approved a number of BWMS - Alfa Laval (Sweden), Ocean Saver (Norway), Sunrui (China), Optimarin (Norway), Ecochlor (USA), Erma First (Greece), Hyundai Heavy Industries Co. Ltd. (Korea), Qingdao Headway Technology Co. Ltd. (China), and JFE Engineering Corporation (Japan), out of which first two makers are under Teekay's approved list for retrofit. We estimate that the installation of approved BWMS may cost between \$2 million and \$3 million per vessel.

Amendments to MARPOL Annex VI that makes the data collection system for fuel oil consumption of ships mandatory were adopted at the 70th session of the MEPC held in October 2016 and entered into force on March 1, 2018. The amendments require operators to update the vessels Ship Energy Efficiency Management Plan (or SEEMP) to include a part II describing the ship specific methodology that will be used for collecting and measuring data for fuel oil consumption, distance travelled, hours underway, ensuring data quality is maintained and the processes that will be used to report the data to the Administration. This must be verified as compliant on or before December 31, 2018, with the first data collection period being for the 2019 calendar year. A Confirmation of Compliance will be issued by the administration/registered organization, which must be kept on board the ship.

The IMO has also adopted an International Code for Ships Operating in Polar Waters (or Polar Code) which deals with matters regarding the design, construction, equipment, operation, search and rescue and environmental protection in relation to ships operating in waters surrounding the two poles. The Polar Code includes both safety and environmental provisions. The Polar Code and related amendments entered into force in January 2017. The Polar Code is mandatory for new vessels built after January 1, 2017. For existing ships, this code will be applicable from the first intermediate or renewal survey, whichever occurs first, beginning on or after January 1, 2018.

MARPOL Annex I also states that oil residue may be discharged directly from the sludge tank to the shore reception facility through standard discharge connections. They may also be discharged to the incinerator or to an auxiliary boiler suitable for burning the oil by means of

a dedicated discharge pump. Amendments to Annex I expand on the requirements for discharge connections and piping to ensure residues are properly disposed of. Annex I is applicable for existing vessels with a first renewal survey beginning on or after January 1, 2017.

Amendments to MARPOL Annex V were adopted at the 70th session of the MEPC held in October 2016 and entered into force on March 1, 2018. The changes include criteria for determining whether cargo residues are harmful to the marine environment and a new Garbage Record Book (or GRB) format with a new garbage category for e-waste. Solid bulk cargo as per regulation VI/1-1.2 of SOLAS, other than grain, shall now be classified as per the criteria in the new Appendix I of MARPOL Annex V, and the shipper shall then declare whether or not the cargo is harmful to the marine environment. A new form of the GRB has been included in Appendix II to MARPOL Annex V. The GRB is now divided into two parts: Part I - for all garbage other than cargo residues, applicable to all ships. PART II - for cargo residues only applicable to ships carrying solid bulk cargo. These changes are reflected in the vessels latest revised GRB.

MSC 91 adopted amendments to SOLAS Regulation II-2/10 to clarify that a minimum of two-way portable radiotelephone apparatus for each fire party for fire-fighters' communication shall be carried on board. These radio devices shall be of explosion proof type or intrinsically safe type. All existing ships built before July 1, 2014 should comply with this requirement by the first safety equipment survey after July 1, 2018. All new vessels constructed (keel laid) on or after July 1, 2014 must comply with this requirement at the time of delivery. Amendments to SOLAS Regulation II-1/2/-12 on protection against noise. Regulation II-2/1 and II 2/10 on firefighting and new Regulation XI-12-1 on harmonization of survey periods of cargo ships not subject to the ESP code become effective January 1, 2020.

As per MSC. 338(91), requirements have been highlighted for audio and visual indicators for breathing apparatus which will alert the user before the volume of the air in the cylinder has been reduced to no less than 200 liters. This applies to ships constructed on or after July 1, 2014. Ships constructed before July 1, 2014 must comply no later than July 1, 2019.

Cyber-related risks are operational risks that are appropriately assessed and managed in accordance with the safety management requirements of the ISM Code. Cyber risks are required to be appropriately addressed in our safety management system no later than the first annual verification of the company's Document of Compliance after January 1, 2021.

The IMO continues to review and introduce new regulations; as such, it is impossible to predict what additional requirements, if any, may be adopted by the IMO and what effect, if any, such regulations might have on our operations.

#### European Union (or EU)

The EU has adopted legislation that: bans from European waters manifestly sub-standard vessels (defined as vessels that have been detained twice by EU port authorities, in the preceding two years); creates obligations on the part of EU member port states to inspect minimum percentages of vessels using these ports annually; provides for increased surveillance of vessels posing a high risk to maritime safety or the marine environment; and provides the EU with greater authority and control over classification societies, including the ability to seek to suspend or revoke the authority of negligent societies.

Two regulations, that are part of the implementation of the Port State Control Directive, came into force on January 1, 2011 and introduce a ranking system (published on a public website and updated daily) displaying shipping companies operating in the EU with the worst safety records. The ranking is judged upon the results of the technical inspections carried out on the vessels owned by a particular shipping company. Those shipping companies that have



the most positive safety records are rewarded by subjecting them to fewer inspections, while those with the most safety shortcomings or technical failings recorded upon inspection will in turn be subject to a greater frequency of official inspections to their vessels.

The EU has, by way of Directive 2005/35/EC, which has been amended by Directive 2009/123/EC, created a legal framework for imposing criminal penalties in the event of discharges of oil and other noxious substances from ships sailing in its waters, irrespective of their flag. This relates to discharges of oil or other noxious substances from vessels. Minor discharges shall not automatically be considered as offences, except where repetition leads to deterioration in the quality of the water. The persons responsible may be subject to criminal penalties if they have acted with intent, recklessly or with serious negligence and the act of inciting, aiding and abetting a person to discharge a polluting substance may also lead to criminal penalties.

The EU has adopted a Directive requiring the use of low sulfur fuel. Since January 1, 2015, vessels have been required to burn fuel with sulfur content not exceeding 0.1% while within EU member states' territorial seas, exclusive economic zones and pollution control zones that are included in SOX Emission Control Areas. Other jurisdictions have also adopted similar regulations. Since January 1, 2014, the California Air Resources Board has required vessels to burn fuel with 0.1% sulfur content or less within 24 nautical miles of California. China also established emission control areas and continues to establish such areas, restricting the maximum sulfur content of the fuel to be used by vessels within those areas, which limits become progressively stricter over time. Since January 1, 2017, all core ports within the three China ECAs (e.g. Tianjin, Qinhuangdao, Tangshan, Huanghua, Shenzhen, Guangzhou, Zhuhai, Shanghai, Ningbo-Zhoushan, Suzhou and Nantong) have implemented the low sulfur bunker requirements. It is anticipated that commencing January 1, 2018 all ports within the three China ECAs will have implemented the low sulfur bunker requirements.

The EU Ship Recycling Regulation entered into force on December 30, 2013. It aims to prevent, reduce and minimize accidents, injuries and other negative effects on human health and the environment when ships are recycled and the hazardous waste they contain is removed. The legislation applies to all ships flying the flag of an EU country and to vessels with non-EU flags that call at an EU port or anchorage. It sets out responsibilities for ship owners and for recycling facilities both in the EU and in other countries. Each new ship is required to have on board an inventory of the hazardous materials (such as asbestos, lead or mercury) it contains in either its structure or equipment. The use of certain hazardous materials is forbidden. Before a ship is recycled, its owner must provide the company carrying out the work with specific information about the vessel and prepare a ship recycling plan. Recycling may only take place at facilities listed on the EU 'List of facilities'. In 2014, the Council Decision 2014/241/EU authorized EU countries having ships flying their flag or registered

under their flag to ratify or to accede to the Hong Kong International Convention for the Safe and Environmentally Sound Recycling of Ships. The EU Ship Recycling Regulation generally entered into force on December 31, 2018, with certain provisions applicable from December 31, 2020. Compliance timelines are as follows: EU-flagged new-buildings were required to have onboard a verified Inventory of Hazardous Materials (or IHM) with a Statement of Compliance at the latest by December 31, 2018, existing EU-flagged vessels are required to have onboard a verified IHM with a Statement of Compliance at the latest by December 31, 2020, non-EU-flagged vessels calling at EU ports are also required to have onboard a verified IHM with a Statement of Compliance latest by December 31, 2020. The EU Commission adopted a European List of approved ship recycling facilities, as well as four further implementing decisions dealing with certification and other administrative requirements set out in the EU Ship Recycling Regulation.

#### China

China has also established ECAs in the Pearl River Delta, the Yangtze River Delta and the Bohai Sea area with restrictions limiting sulfur content not to exceed 0.5% in such ECAs, with such limit decreasing over time.

All the key ports within the three China ECAs (e.g. Tianjin, Qinhuangdao, Tangshan, Huanghua, Shenzhen, Guangzhou, Zhuhai, Shanghai, Ningbo-Zhoushan, Suzhou and Nantong) have implemented the low sulfur bunker requirements.

Commencing January 1, 2018, ships berthing (excluding one hour after berthing and one hour before departure) at all ports within the China ECAs are required to use fuel with sulphur contents at or below 0.5%. These limitations applied to the entire period vessels are in port within China ECAs effective January 1, 2019.

China will complete an assessment of the effectiveness of the introduced measures by the end of 2019. Based on the results of such assessment possible further enforcement of regulations limiting SO<sub>x</sub> emission in ECA's may be implemented reducing the sulphur content to 0.1% for ships in the ECA, extending the boundaries of the ECAs or introducing new control measures.

#### United States

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

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

- natural resources damages and the related assessment costs;
- real and personal property damages;
- net loss of taxes, royalties, rents, fees and other lost revenues;

Loss of profits or impairment of earning capacity due to property or natural resources damage;  
Net cost of public services necessitated by a spill response, such as protection from fire, safety or health hazards; and  
Loss of subsistence use of natural resources.

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

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

OPA 90 also requires owners and operators of vessels to establish and maintain with the USCG evidence of financial responsibility in an amount at least equal to the relevant limitation amount for such vessels under the statute. The USCG has implemented regulations requiring that an owner or operator of a fleet of vessels must demonstrate evidence of financial responsibility in an amount sufficient to cover the vessel in the fleet having the greatest maximum limited liability under OPA 90 and CERCLA. Evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance, guaranty or an alternate method subject to approval by the USCG. Under the self-insurance provisions, the shipowner or operator must have a net worth and working capital, measured in assets located in the

United States against liabilities located anywhere in the world, that exceeds the applicable amount of financial responsibility. We have complied with the USCG regulations by using self-insurance for certain vessels and obtaining financial guaranties from a third party for the remaining vessels. If other vessels in our fleet trade into the United States in the future, we expect to obtain guaranties from third-party insurers.

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

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

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

All our vessels have USCG approved vessel response plans. In addition, we conduct regular oil spill response drills in accordance with the guidelines set out in OPA 90. The USCG has announced it intends to propose similar regulations requiring certain vessels to prepare response plans for the release of hazardous substances.

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

The U.S. Clean Water Act (or the Clean Water Act) also prohibits the discharge of oil or hazardous substances in U.S. navigable waters and imposes strict liability in the form of penalties for unauthorized discharges. The Clean Water Act imposes substantial liability for the costs of removal, remediation and damages and complements the remedies available under OPA 90 and CERCLA discussed above.

Our vessels that discharge certain effluents, including ballast water, in U.S. waters must obtain a Clean Water Act permit from the Environmental Protection Agency (or EPA) titled the “Vessel General Permit” and comply with a range of effluent limitations, best management practices, reporting, inspections and other requirements. The Vessel General Permit incorporated USCG requirements for ballast water exchange and includes specific technology-based requirements for vessels, and includes an implementation schedule to require vessels to meet the ballast water effluent limitations by the first dry docking after January 1, 2016, depending on the vessel size. The Vessel Incidental Discharge Act (or VIDA) was signed into law on December 4, 2018 and establishes a new framework for the regulation of vessel incidental discharges under the Clean Water Act. VIDA requires the U.S. EPA to develop performance standards for incidental discharges and requires the USCG to develop regulations within two years of the EPA’s promulgation of standards. Under VIDA, all provisions of the Vessel General Permit remain in force and effect as currently written until the USCG regulations are finalized. Vessels that are constructed after December 1, 2013 are subject to the ballast water numeric effluent limitations. Several U.S. states have added specific requirements to the Vessel General Permit and, in some cases, may require vessels to install ballast water treatment technology to meet

biological performance standards.

Various states in the United States, including California, have implemented additional regulations relating to the environment and operation of vessels. California Biofouling Management Plan requirements are as follows: developing and maintaining a Biofouling Management Plan, developing and maintaining a Biofouling Record Book, mandatory biofouling management of the vessel's wetted surfaces, mandatory biofouling management for vessels that undergo an extended residency period (e.g. remain in the same location for 45 or more days). All vessel calling at California water were required to submit the "Annual Marine Invasive Reporting Form" by October 1, 2017 and should have CA-Biofouling management plan after a vessel's first regularly scheduled out-of-water maintenance (e.g. dry dock) after January 1, 2018, or upon delivery on or after January 1, 2018.

New Zealand

New Zealand's Craft Risk Management Standard (or CRMS) requirements are based on the IMO's guidelines for the control and management of ships' biofouling to minimize the transfer of invasive aquatic species.

Marine pests and diseases brought in on vessel hulls (or biofouling) are a threat to New Zealand's marine resources. From May 15, 2018, all vessels arriving in New Zealand will need to have a clean hull. Vessels staying up to 20 days and only visiting designated ports (places of first arrival) will be allowed a slight amount of biofouling. Vessels staying longer and visiting other places will only be allowed a slime layer and goose barnacles.

Greenhouse Gas Regulation

In February 2005, the Kyoto Protocol to the United Nations Framework Convention on Climate Change (or the Kyoto Protocol) took effect. Pursuant to the Kyoto Protocol, adopting countries are required to implement national programs to reduce emissions of greenhouse gases. In December 2009, more than 27 nations, including the United States, entered into the Copenhagen Accord. The Copenhagen Accord is

non-binding but is intended to pave the way for a comprehensive, international treaty on climate change. In December 2015 the Paris Agreement (or the Paris Agreement) was adopted by a large number of countries at the 21st Session of the Conference of Parties (commonly known as COP 21, a conference of the countries which are parties to the United Nations Framework Convention on Climate Change; the COP is the highest decision-making authority of this organization). The Paris Agreement, which entered into force on November 4, 2016, deals with greenhouse gas emission reduction measures and targets from 2020 in order to limit the global temperature increases to well below 2° Celsius above pre-industrial levels. Although shipping was ultimately not included in the Paris Agreement, it is expected that the adoption of the Paris Agreement may lead to regulatory changes in relation to curbing greenhouse gas emissions from shipping.

In July 2011, the IMO adopted regulations imposing technical and operational measures for the reduction of greenhouse gas emissions. These new regulations formed a new chapter in Annex VI and became effective on January 1, 2013. The new technical and operational measures imposed by these new regulations include the “Energy Efficiency Design Index” (or the EEDI), which is mandatory for newbuilding vessels, and the “Ship Energy Efficiency Management Plan,” which is mandatory for all vessels. In October 2016, the IMO’s MEPC adopted updated guidelines for the calculation of the EEDI. In October 2014, the IMO’s MEPC agreed in principle to develop a system of data collection regarding fuel consumption of ships. In October 2016, the IMO adopted a mandatory data collection system under which vessels of 5,000 gross tonnage and above are to collect fuel consumption and other data and to report the aggregated data so collected to their flag state at the end of each calendar year. The new requirements entered into force on March 1, 2018. All vessels are required to submit fuel consumption data to their respective administration/registered organizations for onward submission to the IMO for analysis and to help with decision making on future measures. The amendments require operators to update the vessels SEEMP to include a part II describing the ship specific methodology that will be used for collecting and measuring data for fuel oil consumption, distance travelled, hours underway and processes that will be used to report the data to the Administration, in order to ensure data quality is maintained. The vessels were required to be verified as compliant on or before December 31, 2018, with the first data collection period being for the 2019 calendar year. A Confirmation of Compliance will be issued by the administration/registered organization, which must be kept on board the ship. The IMO also approved a roadmap for the development of a comprehensive IMO strategy on reduction of greenhouse gas emissions from ships with an initial strategy adopted on April 13, 2018 and a revised strategy to be adopted in 2023.

The EU also has indicated that it intends to propose an expansion of an existing EU emissions trading regime to include emissions of greenhouse gases from vessels, and individual countries in the EU may impose additional requirements. The EU has adopted Regulation (EU) 2015/757 on the monitoring, reporting and verification (or MRV) of CO<sub>2</sub> emissions from vessels (or the MRV Regulation), which entered into force on July 1, 2015. The MRV Regulation aims to quantify and reduce CO<sub>2</sub> emissions from shipping. It lists the requirements on the MRV of carbon dioxide emissions and requires ship owners and operators to annually monitor, report and verify CO<sub>2</sub> emissions for vessels larger than 5,000 gross tonnage calling at any EU and EFTA (Norway and Iceland) port (with a few exceptions, such as fish-catching or fish-processing vessels). Data collection takes place on a per voyage basis and started January 1, 2018. The reported CO<sub>2</sub> emissions, together with additional data, such as cargo and energy efficiency parameters, are to be verified by independent verifiers and sent to a central inspection database hosted by the European Maritime Safety Agency (or EMSA) to collate all the data applicable to the EU region. Companies responsible for the operation of large ships using EU ports are required to report their CO<sub>2</sub> emissions. While the EU was considering a proposal for the inclusion of shipping in the EU Emissions Trading System as from 2021 (in the absence of a comparable system operating under the IMO), it appears that the decision to include shipping may be deferred until 2023.

In the United States, the EPA issued an “endangerment finding” regarding greenhouse gases under the U.S. Clean Air Act. While this finding in itself does not impose any requirements on our industry, it authorizes the EPA to regulate directly greenhouse gas emissions through a rule-making process. In addition, climate change initiatives are being considered in the United States Congress and by individual states. Any passage of new climate control legislation or

other regulatory initiatives by the IMO, EU, the United States or other countries or states where we operate that restrict emissions of greenhouse gases could have a significant financial and operational impact on our business that we cannot predict with certainty at this time.

#### Vessel Security

The ISPS was adopted by the IMO in December 2002 in the wake of heightened concern over worldwide terrorism and became effective on July 1, 2004. The objective of ISPS is to enhance maritime security by detecting security threats to ships and ports and by requiring the development of security plans and other measures designed to prevent such threats. Each of the existing vessels in our fleet currently complies with the requirements of ISPS and Maritime Transportation Security Act of 2002 (U.S. specific requirements). Procedures are in place to inform the relevant reporting regimes such as Maritime Security Council Horn of Africa (or MSCHOA), the Maritime Domain Awareness for Trade - Gulf of Guinea (or MDAT-GoG), the Information Fusion Center (or IFC) whenever our vessels are calling in the Indian Ocean Region, or West Coast of Africa (or WAC) or SE Asia high risk areas respectively. In order to mitigate the security risk, security arrangements are required for vessels which travel through these high risk areas.

#### C. Organizational Structure

Our sole General Partner is Teekay GP L.L.C., which is a wholly-owned indirect subsidiary of Teekay Corporation (NYSE: TK). Teekay Corporation also owns 31.8% of our outstanding publicly-traded common units. Teekay Corporation also controls its publicly-listed subsidiary Teekay Tankers Ltd. (NYSE: TNK) and owns 49% of the general partner interest and 13.8% of the outstanding publicly-traded common units of Teekay Offshore Partners L.P. (NYSE: TOO).

Please read Exhibit 8.1 to this Annual Report for a list of our subsidiaries as at December 31, 2018.

#### D. Property, Plant and Equipment

Other than our vessels and our 30% interest, through the Bahrain LNG Joint Venture, in an LNG receiving and regasification terminal under construction, we do not have any material property.

Please see “Item 4 – Information on the Partnership: Our Fleet and Our Charters” for a description of our vessels, and “Item 18 – Financial Statements: Note 5 – Chartered-in Vessels” and “Note 10 – Long-Term Debt” for information about major encumbrances against our vessels.

#### E. Taxation of the Partnership

The expected material U.S. federal income tax considerations applicable to us changed significantly effective as of January 1, 2019, due to our election to be taxed as a corporation, rather than as a partnership, for U.S. federal income tax purposes. The discussion included herein is with regard to the material U.S. federal income tax considerations that may be relevant to us and our unitholders in 2019 and future years. For a discussion on material U.S. federal income tax considerations during 2018 that may have been relevant to us and our unitholders who were individual citizens or residents of the United States, please read “Item 10. Additional Information – Taxation-United States Tax Consequences” in our Annual Report on Form 20-F for the year ended December 31, 2017.

##### United States Taxation

The following is a discussion of the expected material U.S. federal income tax considerations applicable to us effective January 1, 2019. This discussion is based upon the provisions of the Code, legislative history, applicable U.S. Treasury Regulations (or Treasury Regulations), judicial authority and administrative interpretations, all as in effect on the date of this Annual Report, and which are subject to change, possibly with retroactive effect, or are subject to different interpretations. Changes in these authorities may cause the tax consequences to vary substantially from the consequences described below.

**Election to be Taxed as a Corporation.** We have elected to be taxed as a corporation for U.S. federal income tax purposes effective January 1, 2019. As such, we are subject to U.S. federal income tax on our income to the extent it is from U.S. sources or otherwise is effectively connected with the conduct of a trade or business in the United States as discussed below.

**Taxation of Operating Income.** We expect that substantially all of our gross income and the gross income of our corporate subsidiaries will be attributable to the transportation of LNG, LPG, ammonia, crude oil and related products. For this purpose, gross income attributable to transportation (or Transportation Income) includes income derived from, or in connection with, the use (or hiring or leasing for use) of a vessel to transport cargo, or the performance of services directly related to the use of any vessel to transport cargo, and thus includes both time-charter and bareboat charter income.

Fifty percent (50%) of Transportation Income that either begins or ends, but that does not both begin and end, in the United States (or U.S. Source International Transportation Income) is considered to be derived from sources within the United States. Transportation Income that both begins and ends in the United States (or U.S. Source Domestic Transportation Income) is considered to be 100% derived from sources within the United States. Transportation Income exclusively between non-U.S. destinations is considered to be 100% derived from sources outside the United States. Transportation Income derived from sources outside the United States generally is not subject to U.S. federal income tax.

Based on our current operations and the operations of our subsidiaries, we expect most of our Transportation Income to be from sources outside the United States and not subject to U.S. federal income tax. However, we have earned over \$64.5 million of U.S. Source International Transportation Income annually, and we expect that we will continue to earn an increasing amount of such income in future years. Our U.S. Source International Transportation Income or U.S. Source Domestic Transportation Income is subject to U.S. federal income taxation under either the net basis and branch profits taxes or the 4% gross basis tax, each of which is discussed below, unless the exemption from U.S.



taxation under Section 883 of the Code (or the Section 883 Exemption) applies.

The Section 883 Exemption. In general, the Section 883 Exemption provides that if a non-U.S. corporation satisfies the requirements of Section 883 of the Code and the Treasury Regulations thereunder, it will not be subject to the net basis and branch profits taxes or the 4% gross basis tax described below on its U.S. Source International Transportation Income. The Section 883 Exemption does not apply to U.S. Source Domestic Transportation Income.

We do not believe that we will be able to qualify for the Section 883 Exemption and therefore our U.S. Source International Transportation Income will not be exempt from U.S. federal income taxation.

Net Basis Tax and Branch Profits Tax. If the Section 883 Exemption does not apply, our U.S. Source International Transportation Income may be treated as effectively connected with the conduct of a trade or business in the United States (or Effectively Connected Income) if we have a fixed place of business in the United States and substantially all of our U.S. Source International Transportation Income is attributable to regularly scheduled transportation or, in the case of income derived from bareboat charters, is attributable to a fixed place of business in the United States. Based on our current operations, none of our potential U.S. Source International Transportation Income is attributable to regularly scheduled transportation or is derived from bareboat charters attributable to a fixed place of business in the United States. As a result, we do not anticipate that any of our U.S. Source International Transportation Income will be treated as Effectively Connected Income. However, there is no assurance that we will not earn income pursuant to regularly scheduled transportation or bareboat charters attributable to a fixed place of business in the United States in the future, which will result in such income being treated as Effectively Connected Income. U.S. Source Domestic Transportation Income generally will be treated as Effectively Connected Income. However, we do not anticipate that a material amount of our income has been, or will be, U.S. Source Domestic Transportation Income.

Any income we earn that is treated as Effectively Connected Income would be subject to U.S. federal corporate income tax (the statutory rate for 2018 onwards is 21%) and a 30% branch profits tax imposed under Section 884 of the Code. In addition, a branch interest tax could be imposed on certain interest paid or deemed paid by us.

On the sale of a vessel that has produced Effectively Connected Income, we generally would be subject to the net basis and branch profits taxes with respect to our gain recognized up to the amount of certain prior deductions for depreciation that reduced Effectively Connected Income. Otherwise, we would not be subject to U.S. federal income tax with respect to gain realized on sale of a vessel, provided the sale is considered to occur outside of the United States under U.S. federal income tax principles.

**The 4% Gross Basis Tax.** We believe we were not subject to the 4% Gross Basis Tax in 2018 because we were treated as a partnership for U.S. tax purposes in 2018. If the Section 883 Exemption does not apply in 2019 and future years when we are treated as a corporation for U.S. tax purposes and we are not subject to the net basis and branch profits taxes described above, we will be subject to a 4% U.S. federal income tax on our gross U.S. Source International Transportation Income, without benefit of deductions. If we had been treated as a corporation in 2018, we estimate that, in this event, we would have been subject to less than \$1.4 million of U.S. federal income tax based on the amount of U.S. Source International Transportation Income we earned for 2018. We expect the amount of our liability for U.S. federal income tax on our U.S. Source International Transportation Income to increase in 2019 and subsequent years, based on our expected U.S. Source International Transportation Income. The amount of such tax for which we are liable in any year will depend upon the amount of income we earn from voyages into or out of the United States in such year, however, which is not within our complete control.

#### Marshall Islands Taxation

Because we and our controlled affiliates do not, and we do not expect that we and our controlled affiliates will, conduct business, operations, or transactions in the Republic of the Marshall Islands, neither we nor our controlled affiliates are subject to income, capital gains, profits or other taxation under current Marshall Islands law, other than taxes, fines, or fees due to (i) the incorporation, dissolution, continued existence, merger, domestication (or similar concepts) of legal entities registered in the Republic of the Marshall Islands, (ii) filing certificates (such as certificates of incumbency, merger, or redomiciliation) with the Marshall Islands registrar, (iii) obtaining certificates of good standing from, or certified copies of documents filed with, the Marshall Islands registrar, (iv) compliance with Marshall Islands law concerning vessel ownership, such as tonnage tax, or (v) non-compliance with requests made by the Marshall Islands registrar of corporations relating to our books and records and the books and records of our subsidiaries. As a result, distributions by controlled affiliates to us are not subject to Marshall Islands taxation.

#### Other Taxation

We and our subsidiaries are subject to taxation in certain non-U.S. jurisdictions because we or our subsidiaries are either organized, or conduct business or operations, in such jurisdictions, but we do not expect any such tax to be material. However, we cannot assure this result as tax laws in these or other jurisdictions may change, or we may enter into new business transactions relating to such jurisdictions, which could affect our tax liability. Please read “Item 18 – Financial Statements: Note 11 – Income Tax.”

#### Item 4A. Unresolved Staff Comments

Not applicable.

#### Item 5. Operating and Financial Review and Prospects

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

##### Overview

Teekay LNG Partners L.P. is an international provider of marine transportation services focusing on LNG and LPG. Our primary strategy focuses on servicing customers through our fleet of LNG and LPG carriers under medium to

long-term, fixed-rate charters. In executing our strategy, we may engage in vessel or business acquisitions or enter into joint ventures and partnerships with companies that provide increased access to emerging opportunities from global expansion of the LNG and LPG sectors. We seek to leverage the expertise, relationships and reputation of Teekay Corporation and its affiliates to pursue these opportunities in the LNG and LPG sectors and may consider other opportunities to which our competitive strengths are well suited. As of December 31, 2018, we had a fleet of 49 LNG carriers (including six LNG carrier newbuildings), 29 LPG/multi-gas carriers and two conventional tankers. Our ownership interests in these vessels range from 20% to 100%. In addition to our fleet, we have a 30% ownership interest in an LNG receiving and regasification terminal in Bahrain, which is currently under construction.

**SIGNIFICANT DEVELOPMENTS IN 2018 AND EARLY 2019**

Quarterly Distributions

We intend to increase our quarterly cash distributions on our common units by 36% in 2019, commencing with the distribution for the quarter ended March 31, 2019, as part of a balanced capital allocation strategy. Any increase in the level of quarterly distributions is subject to approval by the board of directors of our general partner (or Board of Directors).

#### Common Unit Repurchase Program

In December 2018, we announced that our Board of Directors had authorized a common unit repurchase program of up to \$100 million of our common units. Common units may be repurchased in the open market or privately-negotiated transactions or otherwise at times and prices considered appropriate by us. The timing of any purchases and the exact number of common units to be purchased under the common unit repurchase program will be dependent on market conditions and other factors.

During December 2018 and January 2019, we repurchased 0.3 million and 0.8 million of our common units for \$3.7 million and \$9.3 million, respectively.

#### Change in Tax Structure

During the special meeting of common unitholders held on December 18, 2018, the proposal to allow us to elect to be treated as a corporation, instead of a partnership, for U.S. federal income tax purposes, and other proposals included in the related proxy statement, were approved by unitholders. As a result, effective January 1, 2019, the Partnership will be treated as a corporation for U.S. federal income tax purposes and commencing in 2019, common and preferred unitholders will receive Form 1099s instead of Schedule K-1s relating to distributions taxable as dividends. The Partnership will remain a master limited partnership, all other provisions of the Partnership's limited partnership agreement remain in effect.

This change to our status for U.S. federal income tax purposes should not result in the Partnership recognizing a tax related gain or loss. While some investors may incur a tax gain on conversion, any gain recognized for U.S. tax purposes is expected to result in tax benefits to investors that are expected to reduce the taxable portion of cash distributions paid by us in the future.

#### LNG Carrier Newbuildings

##### Consolidated Fleet

Six of our LNG carrier newbuildings, the Magdala, Myrina, Megara, Bahrain Spirit FSU, Sean Spirit and Yamal Spirit delivered in February 2018, May 2018, July 2018, August 2018, December 2018 and January 2019, respectively. Upon delivery, the Magdala, Myrina and Megara were sold to third parties and leased back under 10-year bareboat charter contracts with purchase obligations for each respective vessel and concurrently commenced their six, eight and eight-year charter contracts with Royal Dutch Shell Plc (or Shell), respectively. The Bahrain Spirit FSU commenced its 21-year charter contract with the Bahrain LNG Joint Venture in September 2018 and the Sean Spirit commenced its 13-year charter contract (which the charterer has a cancellation option after seven years) with BP Plc in December 2018. In January 2019, the Yamal Spirit LNG carrier newbuilding was delivered and concurrently commenced its 15-year charter time-contract with Yamal Trade Pte. Ltd. Upon delivery of the vessel, the Partnership sold and leased back the vessel under a sale-leaseback financing transaction, which the Partnership secured on January 18, 2019.

#### Pan Union Joint Venture

In January 2018, July 2018 and January 2019, the Pan Union Joint Venture took delivery of its second, third and fourth LNG carrier newbuildings, the Pan Americas, Pan Europe and Pan Africa, respectively. Upon delivery, the vessels commenced their 20-year charter contracts with Shell. We have ownership interest in these vessels ranging from 20% to 30% through the Pan Union Joint Venture.

#### Yamal LNG Joint Venture

In January 2018, the Yamal LNG Joint Venture took delivery of its first ARC7 LNG carrier newbuilding, the Eduard Toll. In September 2018, the Yamal LNG Joint Venture took delivery of its second ARC7 LNG carrier newbuilding, Rudolf Samoylovich, earlier than the scheduled November 2018 delivery date to service the project's second LNG train. Upon delivery, the vessels commenced their 28-year and 27-year charter contracts with Yamal Trade Pte, respectively. Ltd. The Yamal LNG Joint Venture currently has four remaining ARC7 LNG carrier newbuildings that are scheduled for delivery in 2019. The Yamal LNG Joint Venture has secured financing in place for its four remaining ARC7 LNG carrier newbuildings.

#### Excelsior Joint Venture

In January 2018, we sold our 50% ownership interest in the Excelsior Joint Venture to a third party for gross proceeds of approximately \$54 million. We recognized a gain on the sale of our ownership interest of \$5.6 million, which was recorded in equity income for the year ended December 31, 2018.

#### Re-chartering Activities

In March 2018, upon its scheduled redelivery to us from Teekay Corporation, we re-chartered the Polar Spirit LNG carrier to an Asian-based energy company for a period of approximately three months and then subsequently secured employment for the vessel beginning in July 2018 for nine months with a subsidiary of Petroliam Nasional Berhad (or Petronas). In addition, we secured a four-year charter contract for the Arctic Spirit LNG carrier, also with a subsidiary of Petronas, which commenced immediately upon its scheduled redelivery from Teekay Corporation to us in May 2018. In May 2018, we agreed to a six-month charter extension of the Torben Spirit LNG carrier to December 2018

with a major energy company, which was further extended for an additional three years from the six-month extension that ended in December 2018.

#### Teekay Nakilat Capital Lease

We own a 70% interest in the Teekay Nakilat Joint Venture, which wholly owns a subsidiary that was the lessee under three separate 30-year capital lease arrangements with a third party for three LNG carriers (or the RasGas II LNG Carriers). Under the terms of the leases, the lessor claimed tax depreciation on the capital expenditures it incurred to acquire these vessels and paid the Teekay Nakilat Joint Venture as lessee an upfront benefit of \$60.9 million at the lease inception. As is typical in these leasing arrangements, tax and change of law risks were assumed by the lessee. As described in "Item 18 - Financial Statements: Note 14b - Commitments and Contingencies," during the year ended December 31, 2018, the lessor made a determination that additional rentals were due under the leases following a challenge by the UK taxing authority and the Teekay Nakilat Joint Venture paid \$63 million to the lessor, at foreign exchange rates at the dates of payment, to satisfy this tax indemnification liability in full. Of this amount, \$53 million was expensed in other expense in our consolidated statements of income for the year ended December 31, 2018, which was in addition to the \$12.7 million tax indemnification guarantee recorded as at December 31, 2017, with the remaining difference relating to foreign currency exchange gain.

#### LPG Carrier Newbuildings

In March, May and July 2018 our 50%-owned Exmar LPG Joint Venture, took delivery of its seventh, eighth and ninth LPG carrier newbuildings in the past four years, the Kapellen, Koksijde and Wepion, respectively. The Kapellen, Koksijde and Wepion are on short-term charter contracts. The Kapellen and Koksijde were financed through sale-leaseback financing transactions and in July 2018 the Exmar LPG Joint Venture completed a three-year, \$35 million debt financing for the Wepion.

#### Conventional Tankers

In February 2018 and January 2019, CEPSA, the charterer and owner of our capital leased vessels, the Teide Spirit and Toledo Spirit, sold these vessels to third parties. As a result of these sales, we returned the vessels to CEPSA and the full amount of the associated obligations related to the capital lease were concurrently extinguished. In addition, we incurred associated seafarer severance payments in 2018 of approximately \$1.8 million upon the sale of the Teide Spirit and approximately \$1.8 million in 2019 for the sale of the Toledo Spirit.

On October 9, 2018, we sold the African Spirit Suezmax tanker for net proceeds of \$12.8 million. On December 5, 2018, we sold the European Spirit Suezmax tanker for net proceeds of \$15.7 million. During 2018, prior to the sale of these vessels, we recorded further aggregate write-downs on these two Suezmax tankers totaling \$7.9 million (December 31, 2017 – \$25.1 million).

#### Bond Issuance and Refinancings

In July 2018, we refinanced our 106.8 million Euro-denominated debt facility maturing in 2018 with a new EUR 100 million debt facility maturing in 2024, which is collateralized by a first-priority mortgage on one of our LNG carriers, the Madrid Spirit. In August 2018, we issued, in the Norwegian bond market, NOK 850 million in senior unsecured bonds that mature in August 2023. The aggregate principal amount of the bonds was equivalent to \$102.0 million and all interest and principal payments have been swapped into U.S. Dollars at a fixed interest rate of 7.89%. We used the net proceeds from the bond offering to repay NOK 900 million in senior unsecured bonds that matured in September 2018 and for general corporate purposes. In November 2018, we refinanced our \$190 million revolving credit facility, which was scheduled to mature in November 2018, with a new \$225 million revolving credit facility maturing in November 2020 at an interest rate of LIBOR plus 1.40%. In December 2018, we refinanced our \$100 million facility relating to the Bahrain Spirit FSU by completing a \$109 million guaranteed private placement bond maturing in August 2030 at a fixed interest rate of 4.41%. In January 2019, we refinanced our \$106 million debt facility relating to the Sean Spirit by issuing a \$106 million bond maturing in December 2030 at a fixed interest rate of 4.71%.

#### Equity-Accounted Joint Venture's Financings and Refinancings

In September 2018, the Teekay LNG-Marubeni Joint Venture completed the refinancing of its existing \$306.5 million U.S. Dollar-denominated term loan which was scheduled to mature in September 2019 with a new \$306.5 million U.S. Dollar-denominated loan agreement maturing in December 2023 at an interest rate of LIBOR plus margins ranging from 1.00% to 2.25%. The loan is collateralized by first-priority statutory mortgages over the Marib Spirit, Arwa Spirit, Methane Spirit and Magellan Spirit LNG carriers, first priority pledges or charges of all the issued shares of the respective vessel owning subsidiaries and is guaranteed by us and Marubeni Corporation on a several basis. In March 2019, the Excalibur Joint Venture amended its \$60 million debt facility which extended the loan maturity from November 2019 to December 2021 and lowered the cost of financing.

#### Charter Contracts for MALT LNG Carriers

Two of the six MALT LNG Carriers in our 52%-owned Teekay LNG-Marubeni Joint Venture, the Marib Spirit and Arwa Spirit, are under long-term charters with YLNG. Due to the political unrest in Yemen, YLNG decided to temporarily close operation of its LNG plant in Yemen in 2015. As a result, commencing January 1, 2016, the Teekay LNG-Marubeni Joint Venture agreed to successive deferral arrangements with YLNG pursuant to which a portion of the charter payments were deferred. Concurrent with the anticipated expiry of the most current deferral arrangement, which is expected to occur within the first half of 2019, the Teekay LNG-Marubeni Joint Venture intends to enter into a further agreement with YLNG pursuant to which the Teekay LNG-Marubeni Joint Venture and YLNG will suspend the two charter contracts for a period of up to three years. Should the LNG plant in Yemen resumes operations during such suspended term, it is intended that YLNG will be required to repay the applicable deferred amounts plus interest over a period of installments. However, we make no assurance whether or when the LNG plant will resume operations and, accordingly, if YLNG will be able to repay all or any portion of the deferred amounts. Our proportionate share of the estimated impact of the charter payment deferral for 2019 compared to the original charter rates earned prior to

January 1, 2016 is estimated to be a reduction to equity income ranging from \$7 million to \$8 million per quarter, which we expect will be partially offset by sub-chartering employment for the Marib Spirit and Arwa Spirit in 2019.

In September 2018, the Teekay LNG-Marubeni Joint Venture agreed to charter its LNG carrier, the Magellan Spirit, to us for two years at a fixed rate. In turn, we will charter the Magellan Spirit in the spot market or secure a short-term charter for this vessel. The Magellan Spirit was employed on a charter contract until March 21, 2019 at a charter rate that was significantly higher than the charter-in rate. As of the completion of the Magellan Spirit's charter contract in March 21, 2019, we have been in discussions on securing a new charter contract for this vessel.

#### Commercial Management Agreement for Multi-gas Vessels

On February 25, 2019, we entered into a commercial management agreement (or CMA) with a third-party commercial manager (or the Manager) whereby the Manager agreed to commercially manage and employ our seven multi-gas vessels, with such transition to occur over a period between February 2019 and April 2019. We have the ability to withdraw our vessels from the Manager at any time subject to the requirements provided in the CMA.

#### IMPORTANT FINANCIAL AND OPERATIONAL TERMS AND CONCEPTS

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

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

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

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

**Vessel Operating Expenses.** Under all types of charters and contracts for our vessels, except for bareboat charters, we are responsible for vessel operating expenses, which include crewing, ship management services, repairs and maintenance, insurance, stores, lube oils and communication expenses. The two largest components of our vessel operating expenses are crew costs and repairs and maintenance. We expect these expenses to increase as our fleet matures and to the extent that it expands.

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

**Dry docking.** We must periodically dry dock each of our vessels for inspection, repairs and maintenance and any modifications required to comply with industry certification or governmental requirements. Generally, we dry dock



each of our vessels every two and a half to five years, depending upon the type of vessel and its age. We capitalize certain costs incurred during dry docking and amortize those costs on a straight-line basis from the completion of a dry docking to the estimated completion of the next dry docking. We include in capitalized dry docking those costs incurred as part of the dry docking to meet classification and regulatory requirements. We expense costs related to routine repairs and maintenance performed during dry docking. The number of dry dockings undertaken in a given period and the nature of the work performed determine the level of dry-docking expenditures.

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

- charges related to the depreciation of the historical cost of our fleet (less an estimated residual value) over the estimated useful lives of our vessels;
- charges related to the amortization of dry-docking expenditures over the useful life of the dry dock; and
- charges related to the amortization of the fair value of the time-charters acquired in a 2004 acquisition of four LNG carriers (over the expected remaining terms of the charters).

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

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

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

## RESULTS OF OPERATIONS

### Items You Should Consider When Evaluating Our Results of Operations

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

The amount and timing of dry docking of our vessels can affect our revenues between periods. Our vessels are off-hire at various times due to scheduled and unscheduled maintenance. During 2018, 2017 and 2016, we had 156, 63 and zero scheduled off-hire days, respectively, relating to the dry docking of our vessels which are consolidated for accounting purposes. In addition, certain of our consolidated vessels had unplanned off-hire of 178 days in 2018, 57 days in 2017, and 39 days in 2016 relating to repairs. The financial impact from these periods of off-hire, if material, is explained in further detail below.

The size of our fleet changes. Our historical results of operations reflect changes in the size and composition of our fleet due to certain vessel deliveries and sales. Please read “Liquefied Natural Gas Segment”, “Liquefied Petroleum Gas Segment” and “Conventional Tanker Segment” below and “Significant Developments in 2018 and Early 2019” above for further details about certain prior and future vessel deliveries and sales.

Vessel operating and other costs are facing industry-wide cost pressures. The shipping industry continues to forecast a shortfall in qualified personnel, although weak shipping markets and slowing growth may ease officer shortages. We will continue to focus on our manning and training strategies to meet future needs. In addition, factors such as customer demands for enhanced training and physical equipment, pressure on commodity and raw material prices, as well as changes in regulatory requirements could also contribute to operating expenditure increases. We continue to take action aimed at improving operational efficiencies, and to temper the effect of inflationary and other price escalations; however, increases to operational costs may well occur in the future.

Our financial results are affected by fluctuations in the fair value of our derivative instruments. The change in fair value of our derivative instruments is included in our net income as the majority of our derivative instruments are not designated as hedges for accounting purposes. These changes may fluctuate significantly as interest rates, foreign exchange rates and spot tanker rates fluctuate relating to our interest rate swaps, interest rate swaptions, cross currency swaps and to the agreement we had with Teekay Corporation relating to the time charter contract for the Toledo Spirit Suezmax tanker prior to its sale in 2019. Please read “Item 18 – Financial Statements: Note 12d – Related Party Transactions” and “Note 13 – Derivative Instruments and Hedging Activities.” The unrealized gains or losses relating to changes in fair value of our derivative instruments do not impact our cash flows.

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

Certain of our consolidated and equity-accounted vessels earned revenues based partly on spot market rates. Our previously owned conventional tankers, the European Spirit and African Spirit, our seven wholly-owned multi-gas carriers, four of our 52%-owned LNG carriers in the Teekay LNG-Marubeni Joint Venture, and certain of our LPG carriers in our 50%-owned Exmar LPG Joint Venture were either trading or are currently trading in the spot market. Volatility of spot rates will affect our results from period to period.

¶ We increased our operating and reporting segments from two to three segments. Prior to 2018, we reported our financial results on the basis of two business segments: a liquefied gas segment and a conventional tanker segment. During 2018, our Teekay Multi-Gas Pool commenced operations. As part of this initiative, we completed an internal reorganization and revised our reportable segments, as such changes resulted in management viewing the gas fleet and

its components differently. As a result, our LPG and multi-gas carriers are now reported in a separate segment apart from our LNG carriers. Effective as of the fourth quarter of 2018, we manage our business and analyze and report our results from operations on the basis of three business segments: the liquefied natural gas segment, the liquefied petroleum gas segment and the conventional tanker segment. All segment information for comparative periods has been retroactively adjusted to conform with the change in segment presentation adopted in 2018. Details of the changes to our results from operations for the year ended December 31, 2018 compared to the year ended December 31, 2017 for each of our segments are provided below.

Year Ended December 31, 2018 versus Year Ended December 31, 2017

#### Summary

Our consolidated income from vessel operations was \$147.8 million for the year ended December 31, 2018, compared to \$148.6 million for the year ended December 31, 2017. The primary reasons for this decrease, which are reflected in the table below and described following the table, are as follows:

lower income from vessel operations from our seven multi-gas carriers and two conventional tankers trading in the spot market in 2018 and the Polar Spirit earning a lower time-charter rate upon redeployment; higher general and administrative expenses in 2018 primarily due to an increase in operational staff relating to new vessel deliveries, higher levels of business development activities and increased professional fees; and write-downs of goodwill on three conventional vessels and four multi-gas carriers in 2018 and restructuring charges related to the sale of the Teide Spirit in February 2018, net of the initial write-downs of four conventional vessels in 2017;

partially offset by:

deliveries to us of the Torben Spirit, Macoma, Murex, Magdala, Myrina, Megara, Bahrain Spirit and Sean Spirit LNG carrier newbuildings between February 2017 and December 2018.

#### Liquefied Natural Gas Segment

As at December 31, 2018, our liquefied natural gas segment fleet, including newbuildings, included 49 LNG carriers, in which our interests ranged from 20% to 100%. However, the table of operating results below only includes the 23 LNG carriers that are accounted for under the consolidation method of accounting and the Magellan Spirit, a vessel chartered-in from the Teekay LNG-Marubeni Joint Venture and excludes one LNG carrier newbuilding under construction as of December 31, 2018, as well as the vessels and other assets accounted for under the equity method in the following table. The comparison of the results from vessels and assets accounted for under the equity method is described below under Equity Income.

| Assets accounted for under the equity method of accounting | Ownership Percentage | As at December 31, 2018 |   |
|--|----------------------|-------------------------|---|
|  |                      | # of Delivered Vessels  | Newbuildings/LNG Terminals Under Construction |
| Angola Joint Venture                                       | 33%                  | 4                       | —   |
| Bahrain LNG Joint Venture                                  | 30%                  | —                       | 1   |
| Exmar LNG Joint Venture                                    | 50%                  | 1                       | —   |
| Pan Union Joint Venture                                    | 20%-30%              | 3                       | 1   |
| RasGas 3 Joint Venture                                     | 40%                  | 4                       | —   |
| Teekay LNG-Marubeni Joint Venture                          | 52%                  | 6                       | —   |
| Yamal LNG Joint Venture                                    | 50%                  | 2                       | 4   |
|  |                      | 20                      | 6   |

The following table of operating results compares our liquefied natural gas segment's operating results for 2018 and 2017 and compares its net voyage revenues (which is a non-GAAP financial measure) for 2018 and 2017 to voyage revenues, the most directly comparable GAAP financial measure. The following table of operating results also provides a summary of the changes in calendar-ship-days and revenue days for our liquefied natural gas segment:

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| (in thousands of U.S. Dollars, except revenue days, calendar-ship-days and percentages) | Year Ended        |                   | % Change |
|---|-------------------|-------------------|----------|
|   | December 31, 2018 | December 31, 2017 |          |
| Voyage revenues   | 454,517           | 365,914           | 24.2     |
| Voyage expenses   | (2,750 )          | (1,802 )          | 52.6     |
| Net voyage revenues   | 451,767           | 364,112           | 24.1     |
| Vessel operating expenses <sup>(2)</sup>  | (82,952 )         | (80,245 )         | 3.4      |
| Time-charter hire expense   | (7,670 )          | —                 | 100.0    |
| Depreciation and amortization   | (111,360)         | (86,592 )         | 28.6     |
| General and administrative expenses <sup>(1)(2)</sup>                                   | (23,270 )         | (13,223 )         | 76.0     |
| Income from vessel operations   | 226,515           | 184,052           | 23.1     |
| Equity income   | 60,228            | 17,652            | 241.2    |
| Operating Data:   |                   |                   |          |
| Revenue Days (A)  | 7,425             | 5,793             | 28.2     |
| Calendar-Ship-Days (B)  | 7,570             | 5,912             | 28.0     |
| Utilization (A)/(B)   | 98.1              | % 98.0            | %        |

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

An adjustment has been made during 2018 to reclassify a ship management cost recovery from general and administrative expenses to vessel operating expenses. The 2017 results have also been reclassified to conform to the presentation adopted in 2018.

Our liquefied natural gas segment's total calendar-ship-days increased by 28.0% to 7,570 days in 2018 from 5,912 days in 2017, as a result of the deliveries of the Torben Spirit, Murex, Macoma, Magdala, Myrina, Megara, Bahrain Spirit and Sean Spirit LNG carrier newbuildings between February 2017 and December 2018 and the Magellan Spirit chartered-in from the Teekay LNG-Marubeni Joint Venture commencing in September 2018. During 2018, vessels in this segment were off-hire for scheduled dry dockings of 30 days, unscheduled off-hire for repairs of 49 days and idle for 66 days for repositioning to other charters, compared to vessels in this segment being off-hire for scheduled dry dockings of 63 days, unscheduled off-hire for repairs of 53 days and idle for three days in the same period of the prior year. As a result, our utilization increased slightly to 98.1% for 2018, compared to 98.0% in 2017.

Net Voyage Revenues. Net voyage revenues increased during 2018 compared to 2017, primarily as a result of:

- an increase of \$15.0 million due to the delivery of the Magdala and charter contract commencing in February 2018;
- an increase of \$13.5 million due to the delivery of the Murex and charter contract commencing in November 2017;
- an increase of \$12.8 million due to the Magellan Spirit chartered-in from Teekay LNG-Marubeni Joint Venture in September 2018 and commencing its charter-out employment in October 2018;
- an increase of \$12.6 million due to the delivery of the Macoma and charter contract commencing in October 2017;
- an increase of \$11.0 million due to the delivery of the Myrina and charter contract commencing in May 2018;
- an increase of \$9.7 million due to the delivery of the Torben Spirit and charter contract commencing in March 2017 and earning an increased charter rate during 2018 upon the charterer extending its original contract in 2017;
- an increase of \$8.6 million due to the delivery of the Bahrain Spirit in August 2018 and commencement of its charter contract in September 2018;
- an increase of \$7.8 million due to the delivery of the Megara and charter commencing in July 2018;
- an increase of \$3.8 million due to the impact of the appreciation of the Euro compared to the U.S. Dollar on our Euro-denominated revenue;
- an increase of \$2.4 million relating to 35 days of unscheduled off-hire in the second quarter of 2017 due to repairs required for one of our LNG carriers;

an increase of \$2.0 million due to the Hispania Spirit being off-hire for 31 days in the first quarter of 2017 for a scheduled dry docking; and  
an increase of \$1.6 million due to mobilization service fees earned commencing in October 2018 relating to our 30%-owned LNG receiving and regasification terminal under construction in Bahrain (however, we had a corresponding increase in vessel operating expenses);

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partially offset by:

a decrease of \$5.6 million due to the Polar Spirit earning a lower charter rate upon redeployment after its original charter contract ended during the first quarter of 2018 and 35 days of unscheduled off-hire and idle days during 2018 primarily due to an incident investigation involving a collision with a small vessel and repositioning to other charters; a decrease of \$3.7 million primarily related to additional revenue recognized during the first quarter of 2017 relating to the accelerated dry docking of two LNG carriers in 2017, the costs of which will be recoverable from the charterer; a decrease of \$1.9 million due to the Catalunya Spirit being off-hire for 30 days in 2018 for a scheduled dry docking; a decrease of \$1.7 million relating to amortization of in-process contracts recognized into revenue with respect to our shipbuilding and site supervision contract associated with the four LNG newbuilding carriers in the Pan Union Joint Venture due to the deliveries of the Pan Asia, Pan Americas and Pan Europe LNG carrier newbuildings between October 2017 and July 2018 (however, we had a corresponding decrease in vessel operating expenses); and a decrease of \$1.4 million relating to 20 days of unscheduled off-hire in the fourth quarter of 2018 for the Madrid Spirit due to repairs.

**Vessel Operating Expenses.** Vessel operating expenses increased during 2018 compared to 2017, primarily as a result of:

- an increase of \$2.4 million due to deliveries of the Bahrain Spirit, Sean Spirit and Torben Spirit;
- an increase of \$1.8 million due to the reactivation of the Arctic Spirit from lay-up during the third quarter of 2017; and
- an increase of \$1.6 million due to mobilization expenses incurred commencing in October 2018 relating to our 30%-owned LNG receiving and regasification terminal under construction in Bahrain (however, we had a corresponding increase in net voyage revenues);

partially offset by:

- a decrease of \$2.4 million due to higher ship management cost recovery in 2018 as a result of the vessels delivered during the year; and
- a decrease of \$1.7 million due to lower shipbuilding supervision costs upon the deliveries of Pan Asia, Pan Americas and Pan Europe LNG carrier newbuildings (however, we had a corresponding decrease in net voyage revenues).

**Time-charter Hire Expense.** Time-charter hire expense increased by \$7.7 million as the Magellan Spirit LNG carrier was chartered-in from the Teekay LNG-Marubeni Joint Venture commencing in September 2018.

**Depreciation and Amortization.** Depreciation and amortization increased by \$24.8 million in 2018 compared to 2017 primarily due to the deliveries of the Torben Spirit, Murex, Macoma, Magdala, Myrina, Megara and Sean Spirit.

**Equity Income.** Equity income increased by \$42.6 million in 2018 compared to 2017 as explained below.

(in thousands of U.S. Dollars) Year Ended December 31,

|            | Angola LNG Carriers | Exmar LNG Carriers | MALT LNG Carriers | RasGas LNG Carriers | Pan Union LNG Carriers | Yamal LNG Carriers | Bahrain LNG Joint Venture | Total Equity Income |
|------------|---------------------|--------------------|-------------------|---------------------|------------------------|--------------------|---------------------------|---------------------|
| 2018       | 17,337              | 9,233              | (1,005)           | 14,730              | 6,819                  | 9,607              | 3,507                     | 60,228              |
| 2017       | 16,755              | 7,397              | (16,547)          | 16,324              | 496                    | (1,761)            | (5,012)                   | 17,652              |
| Difference | 582                 | 1,836              | 15,542            | (1,594)             | 6,323                  | 11,368             | 8,519                     | 42,576              |

The \$0.6 million increase in our 33%-owned investment in the four Angola LNG Carriers was primarily due to mark-to-market changes on non-designated derivative instruments. The mark-to-market changes resulted from increases in long-term LIBOR benchmark interest rates for interest rate swaps compared to 2017.

The \$1.8 million increase in our 50% investment in the Exmar LNG Carriers was primarily due to a gain of \$5.6 million upon the sale of our 50% ownership interest in the Excelsior Joint Venture recorded in equity income, partially offset by lower earnings due to the sale of the Excelsior Joint Venture.

The \$15.5 million increase in equity income from our 52% investment in the MALT LNG Carriers was primarily due to higher fleet utilization and higher rates earned as a result of certain vessels that operated in the spot market during 2017 being on short-term charter contracts in 2018.





The \$1.6 million decrease in equity income from our 40% investment in the RasGas 3 LNG Carriers was primarily due to higher interest expense due to increase in LIBOR, partially offset by unrealized gains recognized in 2018 relating to its non-designated interest rate swaps compared to unrealized losses in 2017.

The \$6.3 million increase in equity income from our investment in the Pan Union LNG Carriers was primarily due to the deliveries of the Pan Union Joint Venture's three LNG carrier newbuildings, the Pan Asia, Pan Americas and Pan Europe, in October 2017, January 2018 and July 2018, respectively, in which we have ownership interests ranging from 20% to 30%.

The \$11.4 million increase in equity income from our 50% investment in the Yamal LNG Carriers was primarily due to the deliveries of the Yamal LNG Joint Venture's first two ARC7 LNG carrier newbuildings, the Eduard Toll and Rudolf Samoylovich, in January 2018 and September 2018, respectively, partially offset by ineffectiveness recognized on hedged-accounted interest rate swaps.

The \$8.5 million increase in our 30%-owned investment in the Bahrain LNG Joint Venture was primarily due to unrealized gains on designated and non-designated derivative instruments recorded in earnings in 2018 compared to losses recorded in earnings in 2017 due to mark-to-market changes and the sub-charter income earned in 2018 on the Bahrain Spirit.

#### Liquefied Petroleum Gas Segment

As at December 31, 2018, our liquefied petroleum gas segment fleet included 29 LPG and multi-gas carriers, in which our interests ranged from 50% to 99%. However, the table of operating results below only includes the seven multi-gas carriers that are accounted for under the consolidation method of accounting and excludes 22 vessels in the Exmar LPG Joint Venture accounted for under the equity method. The comparison of the results from vessels and assets accounted for under the equity method are described below under Equity Loss.

The following table of operating results compares our liquefied petroleum gas segment's operating results for 2018 and 2017 and compares its net voyage revenues (which is a non-GAAP financial measure) for 2018 and 2017 to voyage revenues, the most directly comparable GAAP financial measure. The following table of operating results also provides a summary of the changes in calendar-ship-days and revenue days for our liquefied petroleum gas segment:

| (in thousands of U.S. Dollars, except revenue days, calendar-ship-days and percentages) | Year Ended        |          | % Change   |
|---|-------------------|----------|------------|
|   | December 31, 2018 | 2017     |            |
| Voyage revenues   | 23,922            | 19,769   | 21.0       |
| Voyage expenses   | (15,907)          | (1,218)  | 1,206.0    |
| Net voyage revenues   | 8,015             | 18,551   | (56.8 )    |
| Vessel operating expenses   | (20,932)          | (3,083)  | 578.9      |
| Depreciation and amortization   | (7,748 )          | (8,433 ) | (8.1 )     |
| General and administrative expenses <sup>(1)</sup>                                      | (2,932 )          | (2,411 ) | 21.6       |
| Write-down of goodwill and vessels  | (33,790)          | —        | 100.0      |
| (Loss) income from vessel operations  | (57,387)          | 4,624    | (1,341.1 ) |
| Equity loss   | (6,682 )          | (7,863 ) | (15.0 )    |
| Operating Data:   |                   |          |            |
| Revenue Days (A)  | 2,249             | 2,445    | (8.0 )     |
| Calendar-Ship-Days (B)  | 2,555             | 2,445    | 4.5        |
| Utilization (A)/(B)   | 88.0              | % 100.0  | %          |

(1)

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

Our liquefied petroleum gas segment's total calendar-ship-days increased by 4.5% to 2,555 days in 2018 from 2,445 days in 2017, as a result of the acquisition of the Sonoma Spirit in April 2017. During 2018, vessels in this segment were off-hire for scheduled dry dockings of 97 days, unscheduled off-hire for repairs of 97 days and idle for 112 days for repositioning to other charters, compared to vessels in this segment not being off-hire or idle in the same period of the prior year. As a result, our utilization decreased to 88.0% for 2018, compared to 100.0% in 2017.

Net Voyage Revenues. Net voyage revenues decreased by \$10.5 million during 2018 compared to 2017, primarily related to recognition of previous upfront payments received from I.M. Skaugen SE (or Skaugen) during the fourth quarter of 2017 upon termination of charterer contracts with Skaugen.

Vessel Operating Expenses. Vessel operating expenses increased by \$17.8 million during 2018 compared to 2017, primarily due to six multi-gas carriers, which were previously on bareboat charter contracts, incurring operating expenses following their redelivery to us from Skaugen during 2017.

Write-down of Goodwill and Vessels. Write-down of vessels of \$33.0 million in 2018 were due to the write-downs of the Camilla Spirit, Cathinka Spirit, Napa Spirit and Pan Spirit multi-gas carriers as a result of our evaluation of alternative strategies for these assets, the charter rate environment at the time and the outlook for charter rates for these vessels. In 2018, we conducted our annual goodwill impairment review and concluded that our liquefied petroleum gas segment was impaired and recorded an impairment charge of \$0.8 million for the year ended December 31, 2018.

Equity Loss. The \$1.2 million improvement in equity loss from our 50% ownership interest in Exmar LPG BVBA (or the Exmar LPG Joint Venture) was primarily due to the impairment losses recorded on the Courcheville and Temse during 2017, partially offset by lower spot rates earned during 2018 compared to 2017 for certain vessels and the sale of the Courcheville in January 2018.

#### Conventional Tanker Segment

As at December 31, 2018, our conventional tanker fleet included one Suezmax-class double-hulled conventional crude oil tanker, which we lease under capital lease and one Handymax Product tanker, which we own. Two of our conventional tankers, the African Spirit and European Spirit, have been trading in the spot market since the termination of their respective fixed-rate charters in November 2017 and August 2017, respectively. The African Spirit, European Spirit and Toledo Spirit were sold in October 2018, December 2018, and January 2019, respectively. The following table of operating results compares our conventional tanker segment's operating results for 2018 and 2017, and compares its net voyage revenues (which is a non-GAAP financial measure) for 2018 and 2017 to voyage revenues, the most directly comparable GAAP financial measure. The following table of operating results also provides a summary of the changes in calendar-ship-days and revenue days for our conventional tanker segment:

| (in thousands of U.S. Dollars, except revenue days, calendar-ship-days and percentages) | Year Ended        |          | % Change |
|---|-------------------|----------|----------|
|   | December 31, 2018 | 2017     |          |
| Voyage revenues   | 32,323            | 46,993   | (31.2 )  |
| Voyage expenses   | (9,580 )          | (5,182 ) | 84.9     |
| Net voyage revenues   | 22,743            | 41,811   | (45.6 )  |
| Vessel operating expenses   | (13,774)          | (18,211) | (24.4 )  |
| Depreciation and amortization   | (5,270 )          | (10,520) | (49.9 )  |
| General and administrative expenses <sup>(1)</sup>                                      | (2,310 )          | (2,507 ) | (7.9 )   |
| Write-down of vessels   | (20,863)          | (50,600) | (58.8 )  |
| Restructuring charges   | (1,845 )          | —        | 100.0    |
| Loss from vessel operations   | (21,319)          | (40,027) | (46.7 )  |
| Operating Data:   |                   |          |          |
| Revenue Days (A)  | 1,328             | 1,868    | (28.9 )  |
| Calendar-Ship-Days (B)  | 1,389             | 1,904    | (27.0 )  |
| Utilization (A)/(B)   | 95.6              | %98.1    | %        |

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

Our conventional tanker segment's total calendar ship days decreased by 27.0% to 1,389 days in 2018 from 1,904 days in 2017 primarily as a result of the sales of the Asian Spirit, Teide Spirit, European Spirit and African Spirit in March 2017, February 2018, October 2018 and December 2018, respectively. During 2018, the European Spirit was off-hire for 29 days for a scheduled dry docking and 17 days for repairs and the African Spirit and Alexander Spirit had a total of 15 days of unscheduled off-hire due to repairs, compared to 34 idle days for the Asian Spirit after its firm charter contract ended in January 2017 and two unscheduled off-hire days for the African Spirit for repairs during the same period in 2017. As a result, our utilization decreased to 95.6% in 2018 compared to 98.1% in 2017.

Net Voyage Revenues. Net voyage revenues decreased during 2018 compared to 2017, primarily as a result of:

a decrease of \$9.5 million due to the sales of the Asian Spirit and Teide Spirit; and a decrease of \$8.4 million as the fixed-rate charter contracts for the European Spirit and African Spirit expired in August and November 2017, respectively, and the vessels earned lower spot rates until they were sold in October and December of 2018, respectively.

Vessel Operating Expenses. Vessel operating expenses decreased during 2018 compared to 2017 by \$4.4 million primarily as a result of the sales of the Asian Spirit, Teide Spirit, European Spirit and African Spirit.

Depreciation and Amortization. Depreciation and amortization decreased during 2018 compared to 2017 by \$5.3 million primarily as a result of the sales of the Asian Spirit and Teide Spirit, and the reclassification of the European Spirit and African Spirit to vessels held for sale during 2017.

Write-down of vessels. During 2018, we recorded write-downs of \$20.9 million. We recorded a write-down of \$13.0 million on the Alexander Spirit conventional tanker to its estimated fair value, using an appraised value, as a result of changes in our expectations

of the vessel's future opportunities once its current contract ends in 2019. We also recorded write-downs of \$7.9 million on a combined basis on the European Spirit and African Spirit Suezmax tankers as a result of declines in the estimated fair market values of these vessels held for sale. During 2017, we recorded write-downs of \$50.6 million. We recorded a write-down of \$25.5 million on a combined basis in respect of the Teide Spirit and Toledo Spirit upon the charterer of the Teide Spirit, which is the same charterer of the Toledo Spirit, giving formal notification to us of its intention to terminate its charter contract. In addition, we recorded write-downs of \$25.1 million on a combined basis in respect of the European Spirit and African Spirit upon their original contracts ending in 2017 and the vessels being marketed for sale.

**Restructuring Charges.** The restructuring charges of \$1.8 million incurred in 2018 relate to seafarer severance costs upon CEPSA's sale of the Teide Spirit, our vessel related to capital lease.

#### Other Operating Results

**General and Administrative Expenses.** General and administrative expenses increased to \$28.5 million for 2018, from \$18.1 million for 2017, primarily due to an increase in operational staff relating to new vessel deliveries, higher levels of business development activities, an increase in professional fees primarily due to the lease dispute for our RasGas II LNG Carriers as described above in "Significant Developments in 2018 and Early 2019 – Teekay Nakilat Capital Lease" and due to claims against Skaugen for damages and losses for our multi-gas carriers previously on charter to them.

**Interest Expense.** Interest expense increased to \$128.3 million for 2018, from \$80.9 million for 2017. Interest expense primarily reflects interest incurred on our long-term debt and obligations related to capital leases. This increase was primarily the result of:

- an increase of \$37.1 million primarily due to deliveries of the Torben Spirit, Murex, Macoma, Magdala, Myrina, Megara, Bahrain Spirit and Sean Spirit during 2018 and 2017;
- an increase of \$7.6 million as a result of higher LIBOR rates, net of principal debt repayments, as compared to the same periods of the prior year; and
- an increase of \$3.7 million due to decreases in capitalized interest as a result of vessels delivered during 2018 and 2017.

**Realized and Unrealized Gain (Loss) on Non-Designated Derivative Instruments.** Net realized and unrealized gains (losses) on non-designated derivative instruments increased to \$3.3 million for 2018, from \$(5.3) million for 2017 as set forth in the table below.

| (in thousands of U.S. Dollars)                         | Year Ended December 31, |                           |          |                         |                           |         |
|--|-------------------------|---------------------------|----------|-------------------------|---------------------------|---------|
|  | 2018                    |                           |          | 2017                    |                           |         |
|  | Realized gains (losses) | Unrealized gains (losses) | Total    | Realized gains (losses) | Unrealized gains (losses) | Total   |
| Interest rate swap agreements                          | (14,654)                | 31,061                    | 16,407   | (18,825)                | 12,393                    | (6,432) |
| Interest rate swaption agreements                      | —                       | 2                         | 2        | —                       | 945                       | 945     |
| Interest rate swap and swaption agreements termination | (13,681)                | —                         | (13,681) | (610)                   | —                         | (610)   |
| Toledo Spirit time-charter derivative                  | 1,480                   | (930)                     | 550      | 678                     | 110                       | 788     |
|  | (26,855)                | 30,133                    | 3,278    | (18,757)                | 13,448                    | (5,309) |

As at December 31, 2018 and 2017, we had interest rate swap agreements, excluding our swap agreements with future commencement dates, with aggregate average net outstanding notional amounts of approximately \$919 million and \$837 million, respectively, with average fixed rates of 3.3% and 3.5%, respectively. The increases in realized losses relating to our interest rate swaps from 2018 to 2017 were primarily due to an interest rate swap termination in 2018, partially offset by decreases in our settlement payments as a result of the expiration of certain interest rate swaps, which were not renewed, and an increase in LIBOR compared to 2017.

During 2018, we also recognized unrealized gains on our interest rate swap agreements associated with our U.S. Dollar-denominated long-term debt. This resulted from \$4.1 million of unrealized gains relating to increases in long-term forward LIBOR benchmark interest rates relative to the beginning of 2018 and reclassification of \$8.8 million of previously recognized unrealized losses to realized losses related to actual cash settlements of our interest rate swaps.

During 2018, we recognized unrealized gains on our interest rate swap agreements associated with our Euro-denominated long-term debt. This resulted from reclassification of \$19.5 million of previously recognized unrealized losses to realized losses related to actual cash settlements of our interest rate swaps, of which \$13.7 million was due to the termination of one of our interest rate swap agreements related to the refinancing of one of our debt facilities, partially offset by \$1.3 million of unrealized losses relating to decreases in long-term forward EURIBOR benchmark interest rates relative to the beginning of 2018.

The Toledo Spirit time-charter derivative is the agreement with Teekay Corporation under which Teekay Corporation paid us any amounts payable to the charterer of the Toledo Spirit as a result of spot rates being below the fixed rate, and we paid Teekay Corporation any amounts payable to us by the charterer of the Toledo Spirit as a result of spot rates being in excess of the fixed rate. Please read "Item 18 – Financial Statements: Note 12d – Related Party Transactions." The realized gain of \$1.5 million for 2018 relates to lower earnings on our profit-loss-sharing agreement for the Toledo Spirit (we had corresponding decrease in net voyage

revenues). During 2018, we recognized unrealized losses on our Toledo Spirit time-charter derivative contract of \$0.9 million. This resulted from a reclassification of previously recognized unrealized gains to realized gains of \$1.5 million, partially offset by \$0.6 million of unrealized gains relating to decreases in the projected forward tanker rates in the tanker market, relative to the beginning of 2018. The Toledo Spirit was sold in early 2019, and as a result, the derivative agreement ended at that time.

During 2017, we recognized unrealized gains on our interest rate swap and swaption agreements associated with our U.S. Dollar-denominated long-term debt. This resulted from reclassification of \$10.9 million of previously recognized unrealized losses to realized losses related to actual cash settlements of our interest rate swaps, partially offset by \$2.6 million of unrealized losses relating to decreases in long-term forward LIBOR benchmark interest rates, relative to the beginning of 2017.

During 2017, we also recognized unrealized gains on our interest rate swap agreements associated with our Euro-denominated long-term debt. This resulted from reclassification of \$7.9 million of previously recognized unrealized losses to realized losses related to actual cash settlements of our interest rate swaps, partially offset by \$2.8 million of unrealized losses relating to decreases in long-term forward EURIBOR benchmark interest rates, relative to the beginning of 2017.

The projected forward average tanker rates in the tanker market decreased slightly at December 31, 2017 compared to the beginning of 2017, which resulted in \$0.1 million of unrealized gains on our Toledo Spirit time-charter derivative.

Please see “Item 5 – Operating and Financial Review and Prospects: Critical Accounting Estimates – Valuation of Derivative Instruments,” which explains how our derivative instruments are valued, including the significant factors and uncertainties in determining the estimated fair value and why changes in these factors result in material variances in realized and unrealized gain (loss) on non-designated derivative instruments.

Foreign Currency Exchange Gains (Losses). Foreign currency exchange gains (losses) were \$1.4 million and \$(26.9) million for 2018 and 2017, respectively. These foreign currency exchange gains (losses) are due primarily to the relevant period-end revaluation of our NOK-denominated debt and our Euro-denominated term loans for financial reporting purposes into U.S. Dollars, net of the realized and unrealized gains and losses on our cross currency swaps. Gains on NOK-denominated and Euro-denominated monetary liabilities reflect a stronger U.S. Dollar against the NOK and Euro on the date of revaluation or settlement compared to the rate in effect at the beginning of the period. Losses on NOK-denominated and Euro-denominated monetary liabilities reflect a weaker U.S. Dollar against the NOK and Euro on the date of revaluation or settlement compared to the rate in effect at the beginning of the period.

For 2018, foreign currency exchange gains (losses) included realized gains of \$42.3 million upon maturity of our NOK bonds in 2018, \$42.3 million unrealized gains from the transfer of previously recognized unrealized losses to realized losses related to our cross currency swaps associated with the NOK bond which matured in 2018, unrealized gains on the revaluation of our NOK-denominated debt of \$19.2 million and unrealized gains on the revaluation of our Euro denominated, non-U.S. Dollar-denominated cash, restricted cash, working capital and debt of \$9.8 million. These gains were partially offset by \$(42.3) million of realized losses related to the maturity of our cross currency swaps associated with the NOK bonds which matured in 2018, \$(42.3) million of unrealized losses from the transfer of previously recognized unrealized gains to realized gains related to the maturity of the NOK bonds in 2018, unrealized losses on our cross currency swaps of (\$21.1) million relating to depreciation of long-term NOK forward exchange rates and decreases in long-term forward NIBOR benchmark interest rates relative to the beginning of 2018 and (\$6.5) million of realized losses on our cross currency swaps.

For 2017, foreign currency exchange (losses) gains included \$(25.7) million of realized losses related to the maturity of our cross currency swaps associated with the NOK bonds which matured in 2017, \$(25.7) million of unrealized losses from the transfer of previously recognized unrealized gains to realized gains related to the maturity of the NOK

bonds in 2017, realized losses of \$(9.3) million on our cross currency swaps, the unrealized losses on the revaluation of our NOK-denominated debt of \$(17.6) million, and unrealized losses on the revaluation of our Euro-denominated cash, restricted cash and debt of \$(23.3) million. These losses were partially offset by realized gains of \$25.7 million upon the maturity of our NOK bonds in 2017, \$25.7 million unrealized gains from the transfer of previously recognized unrealized losses to realized losses related to our cross currency swaps associated with the NOK bond which matured in 2017, unrealized gains of \$23.3 million on our cross currency swaps primarily due to appreciation of long-term NOK forward exchange rates and increases in long-term forward NIBOR benchmark interest rates relative to the beginning of 2017.

Other Comprehensive (Loss) Income (or OCI). OCI was \$(1.1) million in 2018 compared to \$4.0 million in 2017, due to changes in the valuation of interest rate swaps accounted for using hedge accounting within the Teekay Nakilat Joint Venture, in which we own a 70% interest, and certain of our equity-accounted joint ventures.

Year Ended December 31, 2017 versus Year Ended December 31, 2016

#### Liquefied Natural Gas Segment

As at December 31, 2017, our liquefied natural gas segment fleet, including newbuildings, consisted of 50 LNG carriers, in which our interests ranged from 20% to 100%. However, the table of operating results below only includes the 18 LNG carriers that were accounted for under the consolidation method of accounting and excludes six LNG carrier newbuildings under construction as of December 31, 2017 and the following vessels and other assets accounted for under the equity method in the following table. The comparison of the results from vessels and assets accounted for under the equity method is described below under Equity Income.



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| Assets accounted for under the equity method of accounting | Ownership Percentage | As at December 31, 2017 |   |
|--|----------------------|-------------------------|---|
|  |                      | # of Delivered Vessels  | Newbuildings/LNG Terminals Under Construction |
| Angola Joint Venture                                       | 33%                  | 4                       | —   |
| Bahrain LNG Joint Venture                                  | 30%                  | —                       | 1   |
| Exmar LNG Joint Venture                                    | 50%                  | 2                       | —   |
| Pan Union Joint Venture                                    | 20%-30%              | 1                       | 3   |
| RasGas 3 Joint Venture                                     | 40%                  | 4                       | —   |
| Teekay LNG-Marubeni Joint Venture                          | 52%                  | 6                       | —   |
| Yamal LNG Joint Venture                                    | 50%                  | —                       | 6   |
|  |                      | 17                      | 10  |

The following table of operating results compares our liquefied natural gas segment's operating results for 2017 and 2016, and compares its net voyage revenues (which is a non-GAAP financial measure) for 2017 and 2016 to voyage revenues, the most directly comparable GAAP financial measure. The following table of operating results also provides a summary of the changes in calendar-ship-days and revenue days for our liquefied natural gas segment:

| (in thousands of U.S. Dollars, except revenue days, calendar-ship-days and percentages) | Year Ended        |                   | % Change |
|---|-------------------|-------------------|----------|
|   | December 31, 2017 | December 31, 2016 |          |
| Voyage revenues   | 365,914           | 314,591           | 16.3     |
| Voyage expenses   | (1,802 )          | (449 )            | 301.3    |
| Net voyage revenues   | 364,112           | 314,142           | 15.9     |
| Vessel operating expenses   | (80,245 )         | (65,371 )         | 22.8     |
| Depreciation and amortization   | (86,592 )         | (72,190 )         | 20.0     |
| General and administrative expenses <sup>(1)</sup>                                      | (13,223 )         | (13,955 )         | (5.2 )   |
| Income from vessel operations   | 184,052           | 162,626           | 13.2     |
| Equity Income   | 17,652            | 48,633            | (63.7 )  |
| Operating Data:   |                   |                   |          |
| Revenue Days (A)  | 5,793             | 5,178             | 11.9     |
| Calendar-Ship-Days (B)  | 5,912             | 5,244             | 12.7     |
| Utilization (A)/(B)   | 98.0              | %98.7             | %        |

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

Our liquefied natural gas segment's total calendar-ship-days increased by 12.7% to 5,912 days in 2017 from 5,244 days in 2016, as a result of the deliveries of the Creole Spirit and Oak Spirit during 2016 and the deliveries of the Torben Spirit, Macoma, and Murex during 2017. During 2017, three of our consolidated vessels in this segment had 53 unscheduled off-hire days for repairs, two vessels were off-hire for scheduled dry dockings of 63 days, and the Torben Spirit was idle for three days prior to its charter contract commencement, compared to three consolidated vessels in this segment having 39 unscheduled off-hire days for repairs, and the Creole Spirit and Oak Spirit being idle for 12 days and 15 days, respectively, prior to their charter contract commencements in 2016. As a result, our utilization decreased to 98.0% for 2017, compared to 98.7% in 2016.

Net Voyage Revenues. Net voyage revenues increased during 2017 compared to 2016, primarily as a result of:

- an increase of \$16.6 million due to the Oak Spirit charter contract commencing in August 2016;
- an increase of \$13.5 million due to the Torben Spirit charter contract commencing in March 2017;

- an increase of \$8.4 million due to the Creole Spirit charter contract commencing in February 2016;
- an increase of \$6.9 million primarily related to additional revenue recognized relating to the accelerated dry docking of two LNG carriers, the costs of which will be recoverable from the charterer, and higher pass-through operating expenses due to timing of main engine maintenance (however, we had corresponding increases in vessel operating expenses relating to the engine maintenance);
- an increase of \$3.5 million due to the Macoma charter contract commencing in October 2017;

an increase of \$3.0 million relating to amortization of in-process contracts recognized as revenue with respect to our shipbuilding and site supervision contract associated with the four LNG newbuilding carriers in the Pan Union Joint Venture (however, we had corresponding increases in vessel operating expenses); and

- an increase of \$2.4 million due to the Murex charter contract commencing in November 2017; partially offset by:

- a decrease of \$2.4 million relating to 35 days of unscheduled off-hire in the second quarter of 2017 due to repairs required for one of our LNG carriers; and

- a net decrease of \$0.5 million due to the Hispania Spirit being off-hire for 31 days in the first quarter of 2017 for a scheduled dry docking, partially offset by a reduction in a performance claim recorded in 2016.

Vessel Operating Expenses. Vessel operating expenses increased during 2017 compared to 2016, primarily as a result of:

- an increase of \$6.0 million due to the deliveries of the Creole Spirit, Oak Spirit and Torben Spirit;
- an increase of \$3.0 million in relation to our agreement to provide shipbuilding and site supervision costs associated with the four LNG newbuilding carriers in the Pan Union Joint Venture (however, we had corresponding increases in net voyage revenues);
- an increase of \$3.0 million for two of our LNG carriers as a result of the timing of main engine maintenance (however, we had corresponding increases in net voyage revenues); and
- an increase of \$2.0 million for certain of our LNG carriers due to the timing of repairs and maintenance.

Depreciation and Amortization. Depreciation and amortization increased by \$14.4 million in 2017 compared to 2016 primarily due to the deliveries of the Creole Spirit, Oak Spirit, Torben Spirit, Macoma, and Murex, and higher dry-dock amortization due to dry dockings of our LNG carriers.

Equity Income. Equity income decreased by \$31.0 million in 2017 compared to 2016 as explained below. (in thousands of U.S. Dollars) Year Ended December 31,

|            | Angola LNG Carriers | Exmar LNG Carriers | MALT LNG Carriers | RasGas LNG Carriers | 3 Pan Union LNG Carriers | Other   | Total Equity Income |
|------------|---------------------|--------------------|-------------------|---------------------|--------------------------|---------|---------------------|
| 2017       | 16,755              | 7,397              | (16,547)          | 16,324              | 496                      | (6,773) | 17,652              |
| 2016       | 15,713              | 9,038              | 4,503             | 19,817              | (104)                    | (334)   | 48,633              |
| Difference | 1,042               | (1,641)            | (21,050)          | (3,493)             | 600                      | (6,439) | (30,981)            |

The \$1.0 million increase in our 33% investment in the four Angola LNG Carriers was primarily due to an increase in unrealized gains on non-designated derivative instruments due to mark-to-market changes. The mark-to-market changes resulted from changes in long-term LIBOR benchmark interest rates for interest rate swaps compared to 2016.

The \$1.6 million decrease in our 50% investment in the Exmar LNG Carriers was primarily due to the Excalibur being off-hire in 2017 for a scheduled dry docking.

The \$21.1 million decrease in equity income from our 52% investment in the MALT LNG Carriers was primarily due to a settlement payment awarded to the joint venture in 2016 for the disputed contract termination relating to the Magellan Spirit, of which our proportionate share was \$20.3 million; and a further deferral effective August 2016 of a portion of the charter payments for the Marib Spirit and Arwa Spirit that are chartered to service the YLNG plant in Yemen, which has been closed since 2015. These decreases were partially offset by higher fleet utilization in the second half of 2017 due to commencements of short-term charter contracts for certain vessels which were previously trading in the spot market.

The \$3.5 million decrease in equity income from our 40% investment in the RasGas 3 LNG Carriers was primarily due to higher interest expense resulting from the completion of debt refinancing in December 2016.

The \$0.6 million increase in equity income from our investment in the Pan Union LNG Carriers was primarily due to the delivery of the Pan Union Joint Venture's first LNG carrier newbuilding, the Pan Asia, in October 2017.

The \$6.4 million decrease in our other equity-accounted investments was primarily due to unrealized losses on interest rate swaps relating to our 30% ownership interest in the Bahrain LNG Joint Venture in 2017, and higher crew training expenses for the Yamal LNG Joint Venture in preparation for its vessel deliveries which commenced in 2018.

#### Liquefied Petroleum Gas Segment

As at December 31, 2017, our liquefied petroleum gas segment fleet, including newbuildings, consisted of 30 LPG/multi-gas carriers, in which our interests ranged from 50% to 99%. However, the table of operating results below only includes the seven multi-gas carriers that are accounted for under the consolidation method of accounting and excludes 20 delivered vessels and three newbuildings in the Exmar

LPG Joint Venture accounted for under the equity method. The comparison of the results from vessels and assets accounted for under the equity method are described below under Equity (Loss) Income.

The following table of operating results compares our liquefied petroleum gas segment's operating results for 2017 and 2016 and compares its net voyage revenues (which is a non-GAAP financial measure) for 2017 and 2016, to voyage revenues, the most directly comparable GAAP financial measure. The following table of operating results also provides a summary of the changes in calendar-ship-days and revenue days for our liquefied petroleum gas segment:

| (in thousands of U.S. Dollars, except revenue days, calendar-ship-days and percentages) | Year Ended        |                   | % Change |
|---|-------------------|-------------------|----------|
|   | December 31, 2017 | December 31, 2016 |          |
| Voyage revenues   | 19,769            | 21,939            | (9.9 )   |
| Voyage expenses   | (1,218 )          | —                 | 100.0    |
| Net voyage revenues   | 18,551            | 21,939            | (15.4 )  |
| Vessel operating expenses   | (3,083 )          | (16 )             | 19,168.8 |
| Depreciation and amortization   | (8,433 )          | (7,894 )          | 6.8      |
| General and administrative expenses <sup>(1)</sup>                                      | (2,411 )          | (2,055 )          | 17.3     |
| Income from vessel operations   | 4,624             | 11,974            | (61.4 )  |
| Equity (loss) income  | (7,863 )          | 13,674            | (157.5 ) |
| Operating Data:   |                   |                   |          |
| Revenue Days (A)  | 2,445             | 2,196             | 11.3     |
| Calendar-Ship-Days (B)  | 2,445             | 2,196             | 11.3     |
| Utilization (A)/(B)   | 100.0             | % 100.0           | %        |

Our liquefied petroleum gas segment's total calendar-ship-days increased by 11.3% to days 2,445 days in 2017 from days 2,196 days in 2016 as a result of our acquisition of the Sonoma Spirit in 2017.

Net Voyage Revenues. Net voyage revenues decreased during 2017 compared to 2016, primarily as a result of:

- a decrease of \$15.1 million due to uncertainty of collection for outstanding hire receivable relating to our six LPG carriers on charter to Skaugen in 2017; partially offset by:

- an increase of \$10.3 million due to the prepaid lease payments received from Skaugen in prior periods, which were previously deferred and then recognized in 2017 upon the termination of the charter contracts for five of our LPG carriers that were on charter with Skaugen; and

- an increase of \$1.4 million due to the acquisition of the Sonoma Spirit in April 2017.

Vessel Operating Expenses. Vessel operating expenses increased during 2017 compared to 2016 by \$3.1 million primarily due to six LPG carriers, which were previously on bareboat charter contracts, incurring operating expenses following their redelivery to us from Skaugen during 2017, and the acquisition of the Sonoma Spirit.

Equity (Loss) Income. The \$21.5 million decrease in equity income from our 50% ownership interest in the Exmar LPG Joint Venture was primarily due to more vessels trading in the spot market at lower rates during 2017 compared to higher fixed rates earned in 2016. Other factors that caused the decrease included the scheduled dry dockings of the Eupen and Brussels in the second and third quarters of 2017, respectively, vessel write-downs of the Courcheville and Temse recorded in 2017, and the sale of the Brugge Venture in January 2017. These decreases were partially offset by revenues earned from five LPG carrier newbuildings that delivered to the Exmar LPG Joint Venture between February 2016 and July 2017, and a write-down of the Brugge Venture recorded in 2016.

Conventional Tanker Segment

As at December 31, 2017, our conventional tanker fleet included four Suezmax-class double-hulled conventional crude oil tankers and one Handymax Product tanker, three of which we own (including the European Spirit and African Spirit which were classified as held for sale) and two of which we lease under capital leases. Three of our five conventional tankers operate under fixed-rate charters, the European Spirit and African Spirit were trading in the spot market in August and November 2017, respectively, as we continued to market those vessels for sale.

The following table of operating results compares our conventional tanker segment's operating results for 2017 and 2016 and compares its net voyage revenues (which is a non-GAAP financial measure) for 2017 and 2016 to voyage revenues, the most directly comparable GAAP financial measure. The following table of operating results also provides a summary of the changes in calendar-ship-days and revenue days for our conventional tanker segment:

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| (in thousands of U.S. Dollars, except revenue days, calendar-ship-days and percentages) | Year Ended        |          | % Change |
|---|-------------------|----------|----------|
|   | December 31, 2017 | 2016     |          |
| Voyage revenues   | 46,993            | 59,914   | (21.6 )  |
| Voyage expenses   | (5,182 )          | (1,207 ) | 329.3    |
| Net voyage revenues   | 41,811            | 58,707   | (28.8 )  |
| Vessel operating expenses <sup>(2)</sup>  | (18,211)          | (22,503) | (19.1 )  |
| Depreciation and amortization   | (10,520)          | (15,458) | (31.9 )  |
| General and administrative expenses <sup>(1)(2)</sup>                                   | (2,507 )          | (3,189 ) | (21.4 )  |
| Write-down and loss on sale of vessels  | (50,600)          | (38,976) | 29.8     |
| (Loss) income from vessel operations  | (40,027)          | (21,419) | 86.9     |
| Operating Data:   |                   |          |          |
| Revenue Days (A)  | 1,868             | 2,439    | (23.4 )  |
| Calendar-Ship-Days (B)  | 1,904             | 2,439    | (21.9 )  |
| Utilization (A)/(B)   | 98.1              | % 100.0  | %        |

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

An adjustment was made during 2018 to reclassify a ship management cost allocation recovery from general and administrative expenses to vessel operating expenses. The 2017 and 2016 results have also been reclassified to conform to the presentation adopted in 2018.

Our conventional tanker segment's total calendar ship days decreased by 21.9% to 1,904 days in 2017 from 2,439 days in 2016 primarily as a result of the sales of the Bermuda Spirit, Hamilton Spirit and Asian Spirit in April 2016, May 2016 and March 2017, respectively. During 2017, the Asian Spirit was idle for 34 days between the time its firm charter contract ended in January 2017 and the time the vessel was sold and the European Spirit was off-hire for two days for vessel maintenance, compared to no off-hire days during 2016. As a result, our utilization decreased to 98.1% in 2017 compared to 100.0% in 2016

Net Voyage Revenues. Net voyage revenues decreased during 2017 compared to 2016, primarily as a result of:

- a decrease of \$14.0 million primarily due to the sales of the Bermuda Spirit, Hamilton Spirit, and Asian Spirit;
- a decrease of \$2.1 million as the fixed-rate charter contracts for the European Spirit and African Spirit expired in August and November 2017, respectively, and the vessels earned lower spot rates during the periods after their respective contracts expired; and
- a decrease of \$1.3 million due to lower revenues earned by the Toledo Spirit in 2017 relating to the profit-sharing agreement between us and CEPSA (however, we had a corresponding decrease in our realized loss on our associated derivative contract with Teekay Corporation; therefore, this decrease and future increases or decreases related to this agreement did not and will not affect our cash flow or net income).

Vessel Operating Expenses. Vessel operating expenses decreased during 2017 compared to 2016 primarily as a result of the sales of the Bermuda Spirit, Hamilton Spirit and Asian Spirit.

Depreciation and Amortization. Depreciation and amortization decreased during 2017 compared to 2016 primarily as a result of the sales of the Bermuda Spirit, Hamilton Spirit and Asian Spirit, the reclassification of the European Spirit to held for sale in the second quarter of 2017, and the vessel write-down of the African Spirit recorded in the third quarter of 2017.

Write-down of vessels. During 2017, we recorded write-downs of \$50.6 million. During the second quarter of 2017, we recorded a write-down of the European Spirit of \$12.6 million to its estimated fair value as we commenced marketing the vessel for sale upon the charterer notifying us it was redelivering the vessel to us upon completion of its

charter contract in August 2017. During the third quarter of 2017, we recorded a write-down of the African Spirit of \$12.5 million to its estimated fair value as we received notification from the charterer in August 2017 that it would redeliver the vessel to us upon completion of its charter contract in November 2017. In August 2017, the charterer of the Teide Spirit gave formal notification to us of its intention to terminate its charter contract subject to certain conditions being met and third-party approvals being received. Based on our prior experience with the charterer, we expected in 2017 that the charterer would cancel the charter contract for the Toledo Spirit. We recorded a \$25.5 million write-down on a combined basis in respect of the Teide Spirit and Toledo Spirit in 2017. During 2016, we incurred losses on the sales of the Bermuda Spirit and Hamilton Spirit of \$27.4 million, and recorded a write-down of \$11.5 million to its estimated fair value for the Asian Spirit upon completion of its charter contract and marketing the vessel for sale.

#### Other Operating Results

**General and Administrative Expenses.** General and administrative expenses decreased to \$18.1 million for 2017, from \$19.2 million for 2016, primarily due to lower levels of business development activities in 2017 compared to 2016, which was partially offset by reimbursement from the Bahrain LNG Joint Venture in 2016 of our proportionate share of certain costs we paid, including pre-operation, engineering and financing-related expenses, upon the joint venture securing debt financing in the fourth quarter of 2016.



Interest Expense. Interest expense increased to \$80.9 million for 2017, from \$58.8 million for 2016. Interest expense primarily reflects interest incurred on our long-term debt and obligations related to capital leases. This increase was primarily the result of:

- an increase of \$16.3 million primarily relating to interest incurred on the obligations related to capital leases for the Creole Spirit, Oak Spirit, Torben Spirit, Murex, and Macoma commencing upon their deliveries in 2016 and 2017;
- an increase of \$4.6 million as a result of our issuances of NOK bonds in October 2016 and January 2017, net of our NOK bond repurchases in October 2016 and the maturity of certain of the NOK bonds in May 2017; and
- an increase of \$4.1 million as a result of interest expense accretion on the Pan Union Joint Venture crew training and site supervision obligation, and higher LIBOR rates net of debt principal repayments;

partially offset by:

- a decrease of \$4.1 million due to increases in capitalized interest relating to additional advances and capital contributions to the Yamal LNG Joint Venture and Bahrain LNG Joint Venture for newbuilding installments and construction costs.

Realized and Unrealized Loss on Non-Designated Derivative Instruments. Net realized and unrealized losses on non-designated derivative instruments decreased to \$5.3 million for 2017, from \$7.2 million for 2016 as set forth in the table below.

| (in thousands of U.S. Dollars)                | Year Ended December 31, |                           |         |                         |                           |          |
|---|-------------------------|---------------------------|---------|-------------------------|---------------------------|----------|
|   | 2017                    |                           |         | 2016                    |                           |          |
|   | Realized gains (losses) | Unrealized gains (losses) | Total   | Realized gains (losses) | Unrealized gains (losses) | Total    |
| Interest rate swap agreements                 | (18,825)                | 12,393                    | (6,432) | (25,940)                | 15,627                    | (10,313) |
| Interest rate swaption agreements             | —                       | 945                       | 945     | —                       | (164)                     | (164)    |
| Interest rate swaption agreements termination | (610)                   | —                         | (610)   | —                       | —                         | —        |
| Toledo Spirit time-charter derivative         | 678                     | 110                       | 788     | (654)                   | 3,970                     | 3,316    |
|   | (18,757)                | 13,448                    | (5,309) | (26,594)                | 19,433                    | (7,161)  |

As at December 31, 2017 and 2016, we had interest rate swap agreements, excluding our swap agreements with future commencement

dates, with aggregate average net outstanding notional amounts of approximately \$837 million and \$755 million, respectively, with average fixed rates of 3.5% and 3.8%, respectively. The decreases in realized losses relating to our interest rate swaps from 2016 to 2017 was primarily due to an increase in LIBOR compared to the prior year, which decreased our settlement payments, and the expiration of certain interest rate swaps, which were not renewed.

During 2017, we recognized unrealized gains on our interest rate swap and swaption agreements associated with our U.S. Dollar-denominated long-term debt. This resulted from reclassification of \$10.9 million of previously recognized unrealized losses to realized losses related to actual cash settlements of our interest rate swaps, partially offset by \$2.6 million of unrealized losses relating to decreases in long-term forward LIBOR benchmark interest rates, relative to the beginning of 2017.

During 2017, we also recognized unrealized gains on our interest rate swap agreements associated with our Euro-denominated long-term debt. This resulted from reclassification of \$7.9 million of previously recognized unrealized losses to realized losses related to actual cash settlements of our interest rate swaps, partially offset by \$2.8 million of unrealized losses relating to decreases in long-term forward EURIBOR benchmark interest rates, relative to the beginning of 2017.

The projected forward average tanker rates in the tanker market decreased slightly at December 31, 2017 compared to the beginning of 2017, which resulted in \$0.1 million of unrealized gains on our Toledo Spirit time-charter derivative.

The Toledo Spirit time-charter derivative is the agreement with Teekay Corporation under which Teekay Corporation paid us any amounts payable to the charterer of the Toledo Spirit as a result of spot rates being below the fixed rate, and we paid Teekay Corporation any amounts payable to us by the charterer of the Toledo Spirit as a result of spot rates being in excess of the fixed rate. The Toledo Spirit was sold in early 2019 and as a result, the derivative agreement ended at that time.

During 2016, we recognized unrealized gains on our interest rate swap and swaption agreements associated with our U.S. Dollar-denominated long-term debt. This resulted from transfers of \$17.9 million of previously recognized unrealized losses to realized losses related to actual cash settlements of our interest rate swaps, partially offset by \$3.7 million of unrealized losses relating to decreases in long-term forward LIBOR benchmark interest rates relative to the beginning of 2016.

During 2016, we also recognized unrealized gains on our interest rate swap agreements associated with our Euro-denominated long-term debt. This resulted from transfers of \$8.1 million of previously recognized unrealized losses to realized losses related to actual cash settlements of our interest rate swaps, partially offset by \$6.7 million of unrealized losses relating to decreases in long-term forward EURIBOR benchmark interest rates, relative to the beginning of 2016.

The projected forward average tanker rates in the tanker market decreased at December 31, 2016 compared to the beginning of 2016, which resulted in \$4.0 million of unrealized gains on our Toledo Spirit time-charter derivative.

Please see “Item 5 – Operating and Financial Review and Prospects: Critical Accounting Estimates – Valuation of Derivative Instruments,” which explains how our derivative instruments are valued, including the significant factors and uncertainties in determining the estimated fair value and why changes in these factors result in material variances in realized and unrealized gain (loss) on non-designated derivative instruments.

**Foreign Currency Exchange Gains.** Foreign currency exchange (losses) gains were \$(26.9) million and \$5.3 million for 2017 and 2016, respectively. These foreign currency exchange gains were due primarily to the relevant period-end revaluation of our NOK-denominated debt and our Euro-denominated term loans for financial reporting purposes into U.S. Dollars, net of the realized and unrealized gains and losses on our cross currency swaps. Gains on NOK-denominated and Euro-denominated monetary liabilities reflect a stronger U.S. Dollar against the NOK and Euro on the date of revaluation or settlement compared to the rate in effect at the beginning of the period. Losses on NOK-denominated and Euro-denominated monetary liabilities reflect a weaker U.S. Dollar against the NOK and Euro on the date of revaluation or settlement compared to the rate in effect at the beginning of the period.

For 2017, foreign currency exchange (losses) gains included \$(25.7) million of realized losses related to the maturity of our cross currency swaps associated with the NOK bonds which matured in 2017, \$(25.7) million of unrealized losses from the transfer of previously recognized unrealized gains to realized gains related to the maturity of the NOK bonds in 2017, realized losses of \$(9.3) million on our cross currency swaps, the unrealized losses on the revaluation of our NOK-denominated debt of \$(17.6) million, and unrealized losses on the revaluation of our Euro-denominated cash, restricted cash and debt of \$(23.3) million. These losses were partially offset by realized gains of \$25.7 million upon the maturity of our NOK bonds in 2017, \$25.7 million unrealized gains from the transfer of previously recognized unrealized losses to realized losses related to our cross currency swaps associated with the NOK bond which matured in 2017, unrealized gains of \$23.3 million on our cross currency swaps primarily due to appreciation of long-term NOK forward exchange rates and increases in long-term forward NIBOR benchmark interest rates relative to the beginning of 2017.

For 2016, foreign currency exchange gains (losses) included realized gains of \$16.8 million on the repurchase of a portion of our NOK bonds maturing in 2017, the transfer of \$17.7 million of previously recognized unrealized losses to realized losses related to our cross currency swaps associated with the NOK bond repurchase, unrealized gains of \$11.2 million on our cross currency swaps primarily due to appreciation of long-term NOK forward exchange rates and increases in long-term forward NIBOR benchmark interest rates relative to the beginning of 2016, and \$5.4 million on the revaluation of our Euro-denominated cash, restricted cash and debt. These gains were partially offset by transfers of \$(16.8) million of previously recognized unrealized gains to realized gains related to the repurchase of the NOK bonds in October 2016, \$(17.7) million of realized losses related to the termination of our cross currency swaps associated with the NOK bond repurchase, \$(9.1) million realized losses on settlements of our cross currency swaps and a \$(2.2) million loss on the revaluation of our NOK-denominated debt.

**Other Comprehensive Income (or OCI).** OCI was \$4.0 million in 2017 compared to \$2.8 million in 2016, due to changes in the valuation of interest rate swaps accounted for using hedge accounting within the Teekay Nakilat Joint Venture, in which we own a 70% interest, and certain of our equity-accounted joint ventures.

#### Liquidity and Cash Needs

Our business model is to employ the majority of our vessels on fixed-rate contracts primarily with large energy companies and their transportation subsidiaries. Our primary liquidity needs for 2019 through 2020 include payment of our quarterly distributions, including payments of distributions on our common units and Series A and Series B Preferred Units, funding any common unit repurchases we may undertake, operating expenses, dry-docking expenditures, debt service costs, scheduled repayments of long-term debt, bank debt maturities and the funding of general working capital requirements. We anticipate that our primary sources of funds for our short-term liquidity needs will be cash flows from operations, proceeds from debt and capital lease financings and dividends we expect to receive from our equity-accounted joint ventures. For 2019 through 2020, we expect that our existing liquidity, combined with the cash flow we expect to generate from our operations and receive as dividends from our

equity-accounted joint ventures, will be sufficient to finance the majority of our liquidity needs, including the equity portion of our committed capital expenditures. Our remaining liquidity needs include the requirement to refinance our loan facilities maturing in 2020. We already have committed debt financing in place for all of our existing growth projects, including: our wholly-owned LNG carrier newbuilding to be chartered on a 15-year charter contract to Yamal Trade Pte. Ltd. (which was delivered in January 2019); one LNG carrier under construction in the Pan Union Joint Venture (which was delivered in January 2019); all four ARC7 LNG carriers under construction for the Yamal LNG Joint Venture; and the assets of the Bahrain LNG Joint Venture formed for the development of an LNG receiving and regasification terminal in Bahrain.

Our ability to continue to expand the size of our fleet over the long term is dependent upon our ability to generate operating cash flow, obtain long-term bank borrowings, sale-leaseback financing and other debt, as well as our ability to raise debt or equity financing through public or private offerings.

Our revolving credit facilities, term loans and obligations related to capital leases are described in the "Credit Facilities and Capital Leases" section below and in "Item 18 – Financial Statements: Note 5 – Chartered-in Vessels and Note 10 – Long-Term Debt."

As at December 31, 2018, our consolidated cash and cash equivalents were \$149.0 million, compared to \$244.2 million at December 31, 2017. Our total liquidity, which consists of cash, cash equivalents and undrawn credit facilities, was \$324.6 million as at December 31, 2018, compared to \$433.6 million as at December 31, 2017. The decrease in total consolidated liquidity was primarily due to funding of our committed projects, including capital contributions into the Pan Union Joint Venture and Teekay LNG-Marubeni Joint Venture, and payment of the tax indemnification liability in our consolidated Teekay Nakilat Joint Venture during 2018. The decrease in total consolidated liquidity was partially offset by cash generated from operations, proceeds from our sale-leaseback transactions completed during 2018, proceeds from the sales of the European Spirit and African Spirit and proceeds from the sale of our 50% ownership interest in the Excelsior Joint Venture.

As at December 31, 2018, we had a working capital deficit of \$32.8 million, which includes \$24.0 million of current obligations related to capital leases relating to the Toledo Spirit, which was sold by the owner in January 2019 to a third party, resulting in the extinguishment of the remaining lease obligation without any cash flow impact directly relating to such extinguishment. We expect to manage our working capital deficit primarily with net operating cash flow and dividends from our equity-accounted joint ventures, debt refinancings, and, to a lesser extent, existing undrawn revolving credit facilities. As at December 31, 2018, we had undrawn revolving credit facilities of \$175.6 million. Please read “Item 18 - Financial Statements: Note 14a - Commitments and Contingencies” for information about required funding over the next 12 months.

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

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

| (in thousands of U.S. Dollars)              | Year Ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2018                    | 2017      | 2016      |
| Net cash flow from operating activities     | 131,198                 | 218,750   | 194,362   |
| Net cash flow from financing activities     | 385,085                 | 643,951   | 178,019   |
| Net cash flow used for investing activities | (632,854)               | (766,439) | (343,208) |

Operating Cash Flows. Net cash flow from operating activities decreased to \$131.2 million in 2018 from \$218.8 million in 2017, primarily due to the payment of the tax indemnification liability in our consolidated Teekay Nakilat Joint Venture; decrease in cash flows from our seven multi-gas carriers; decrease in cash flows from our two conventional tankers trading in the spot market and then sold in 2018; the Polar Spirit earning a lower time-charter rate upon redeployment; the sales of the Asian Spirit and Teide Spirit conventional tankers in March 2017 and February 2018, respectively; and decrease in dividends received from our equity-accounted joint ventures. These decreases were partially offset by an increase in cash flows generated by the deliveries to us of the Torben Spirit, Macoma, Murex, Magdala, Myrina, Megara, Bahrain Spirit and Sean Spirit LNG carriers between February 2017 and December 2018 and the Magellan Spirit chartered-in from the Teekay LNG-Marubeni Joint Venture commencing its charter-out employment in October 2018.

Net cash flow from operating activities increased to \$218.8 million in 2017 from \$194.4 million in 2016, primarily due to the deliveries of our LNG carrier newbuildings and commencement of their charter contracts during 2016 and 2017; an increase in the amount of dividends received from our equity-accounted joint ventures; six days of scheduled off-hire during the first quarter of 2016 due to an in-water survey for the Catalunya Spirit; and the timing of settlement of advances to and from affiliates. These increases were partially offset by the sales of the Bermuda Spirit, Hamilton Spirit and Asian Spirit in April 2016, May 2016 and March 2017, respectively; reduced revenues in 2017 for uncollected hire invoices relating to our six LPG carriers on charter to Skaugen; 35 days of unscheduled off-hire in the second quarter of 2017 due to repairs required for one of our LNG carriers; the Hispania Spirit being off-hire for 31 days in the first quarter of 2017 for a scheduled dry docking; lower spot rates earned by the European Spirit and African Spirit after their fixed-rate charter contracts expired in August and November 2017, respectively; an increased amount of dry-docking expenditures in 2017; and one additional calendar day in the first quarter of 2016.

Net cash flow from operating activities depends upon the timing and amount of dry-docking expenditures, repair and maintenance activity, the impact of vessel additions and dispositions on operating cash flows, foreign currency rates,

changes in interest rates, timing and amounts of dividends received from equity-accounted investments, fluctuations in working capital balances and spot market hire rates (to the extent we have vessels operating in the spot tanker market or our hire rates are partially affected by spot market rates). The number of vessel dry dockings tends to vary each period depending on the vessels' maintenance schedule.

Our equity-accounted joint ventures are generally required to distribute all available cash to their owners. However, the timing and amount of dividends from each of our equity-accounted joint ventures may not necessarily coincide with the operating cash flow generated from each respective equity-accounted joint venture. The timing and amount of dividends distributed by our equity-accounted joint ventures are affected by the timing and amounts of debt repayments in the joint ventures, capital requirements of the joint ventures, as well as any cash reserves maintained in the joint ventures for operations, capital expenditures and/or as required under financing agreements.

Financing Cash Flows. Net cash flow from financing activities decreased to \$385.1 million in 2018 from \$644.0 million in 2017 primarily due to an increase in debt prepayments and repayments including settlement of related swaps of \$540.8 million primarily in relation to completion of refinancings during 2018; \$370.1 million of net proceeds we received from the sale-leaseback financing transactions for the deliveries of the Magdala, Myrina and Megara during 2018, compared to \$656.9 million in 2017; \$164.4 million increase in net proceeds from equity offerings due to the issuance of our Series B Preferred Units in October 2017; increase in repayments of obligations related to capital leases of \$17.7 million due to sale-leaseback financing transactions completed during 2018 and 2017; a \$13.7 million increase in cash distributions paid as a result of the issuance of our Series B Preferred Units in October 2017; and \$3.8 million used to repurchase common units during 2018. These decreases in cash flows from financing activities were partially offset by a \$769.2 million increase in net proceeds from the issuance of long-term debt for refinancings completed in 2018 and the timing of drawdowns on certain of our existing debt facilities.

Net cash flow from financing activities increased to \$644.0 million in 2017 from \$178.0 million in 2016 primarily as a result of: a total of \$366.9 million in lower debt prepayments and repayments as the term loans associated with the sales of the Bermuda Spirit and Hamilton Spirit were prepaid in 2016; an increase of \$301.6 million in proceeds from the sale-leaseback financing transactions completed on our LNG carrier newbuildings during 2017; and \$43.7 million higher net proceeds from equity offerings due to the issuance of our Series B Preferred Units in October 2017. These increases in cash flows from financing activities were partially offset by: a \$215.9 million decrease in net proceeds from the issuance of long-term debt, primarily due to the timing of drawdowns on certain of our existing debt facilities; a \$20.4 million increase in capital lease repayments during 2017 due to the sale-leaseback financing transactions completed in 2016 and 2017; and a \$11.2 million increase in cash distributions paid as a result of the issuance of our Series A Preferred Units in October 2016.

**Investing Cash Flows.** Net cash flow used for investing activities decreased to \$632.9 million in 2018 compared to \$766.4 million in 2017 primarily due to \$686.1 million cash expenditures for vessels and equipment, primarily for newbuilding installment payments and shipbuilding supervision costs for our LNG carrier newbuildings during 2018, compared to \$708.6 million during 2017; our contribution of \$40.5 million to our equity-accounted joint ventures during 2018, compared to \$183.9 million during 2017, primarily to fund project expenditures in the Yamal LNG Joint Venture, the Bahrain LNG Joint Venture, and the Pan Union Joint Venture, and for working capital requirements for the Teekay LNG-Marubeni Joint Venture; and net proceeds received from the sale of our 50% ownership interest in the Excelsior Joint Venture in March 2018 of \$54.4 million and proceeds from the sales of the African Spirit and European Spirit in October 2018 and December 2018, respectively, of \$28.5 million compared to \$20.6 million of proceeds from the sale of the Asian Spirit in March 2017. These decreases in cash used for investing activities were partially offset by \$92.3 million return of capital we received in 2017 from the RasGas 3 Joint Venture and the Yamal LNG Joint Venture upon completion of their debt refinancings.

Net cash flow used for investing activities increased to \$766.4 million in 2017 compared to \$343.2 million in 2016. During 2017, we used \$708.6 million in cash, primarily for scheduled newbuilding installment payments and shipbuilding supervision costs for our LNG carrier newbuildings compared to \$345.8 million during 2016; in March 2017, we received \$20.6 million in proceeds from the sale of the Asian Spirit, compared to \$94.3 million from the sales of the Bermuda Spirit and Hamilton Spirit in April 2016 and May 2016, respectively; we contributed \$183.9 million to our equity-accounted joint ventures in 2017 compared to \$120.9 million during 2016, primarily to fund newbuilding installments in the Yamal LNG Joint Venture and project expenditures for the Bahrain LNG project; and during 2017, our receipts from direct financing leases were decreased by \$10.5 million, primarily due to our lease payment deferral agreement with Awilco. These increases in cash used for investing activities were partially offset by \$40.3 million and \$52.0 million returns of capital we received in 2017 from the RasGas 3 Joint Venture and the Yamal LNG Joint Venture, respectively, upon completion of their debt refinancings, compared to \$5.5 million of distributions we received during 2016 as a repayment of a shareholder loan from the Exmar LPG Joint Venture.

#### Credit Facilities and Capital Leases

Our revolving credit facilities, term loans and obligations related to capital leases are described in "Item 18 – Financial Statements: Note 5 – Chartered-in Vessels and Note 10 – Long-Term Debt." Our term loans, revolving credit facilities and obligations related to capital leases contain covenants and other restrictions typical of debt financing secured by vessels, including, among others, one or more of the following that restrict the ship-owning subsidiaries from:

- incurring or guaranteeing indebtedness;
- changing ownership or structure, including mergers, consolidations, liquidations and dissolutions;
- making dividends or distributions if we are in default;
- making capital expenditures in excess of specified levels;
- making certain negative pledges and granting certain liens;
- selling, transferring, assigning or conveying assets;
- making certain loans and investments; and

entering into a new line of business.

Certain loan agreements require (a) that minimum levels of tangible net worth and aggregate liquidity be maintained, (b) that we maintain certain ratios of vessel values as it relates to the relevant outstanding loan principal balance, (c) that we do not exceed a maximum amount of leverage and (d) certain of our subsidiaries to maintain restricted cash deposits. As at December 31, 2018, we had three facilities with an aggregate outstanding loan balance of \$442.2 million that require us to maintain minimum vessel-value-to-outstanding-loan-principal-balance ratios ranging from 115% to 135%, which as at December 31, 2018 ranged from 132% to 198%. The vessel values used in calculating these ratios are the appraised values provided by third parties where available or prepared by us based on second-hand sale and purchase market data. Since vessel values can be volatile, our estimate of market value may not be indicative of either the current or future price that could be obtained if the related vessel was actually sold. Our ship-owning subsidiaries may not, among other things, pay dividends or distributions if they are in default under their term loans or revolving credit facilities and one of the term loans in the Teekay Nakilat Joint Venture requires it to satisfy a minimum vessel value to outstanding loan principal balance ratio to pay dividends. In addition, we guarantee certain obligations related to capital leases, which require us to maintain minimum levels of tangible net worth and aggregate liquidity, and not to exceed a maximum amount of leverage. As at December 31, 2018, we and our affiliates were in compliance with all covenants relating to our credit facilities and capital leases.

Contractual Obligations and Contingencies



The following table summarizes our contractual obligations as at December 31, 2018:

|  | Total                         | 2019  | 2020  | 2021  | 2022  | 2023  | Beyond<br>2023 |
|--|-------------------------------|-------|-------|-------|-------|-------|----------------|
|  | (in millions of U.S. Dollars) |       |       |       |       |       |                |
| U.S. Dollar-Denominated Obligations:                             |                               |       |       |       |       |       |                |
| Long-term debt: <sup>(1)</sup>                                   |                               |       |       |       |       |       |                |
| Scheduled repayments   | 610.6                         | 108.6 | 102.7 | 71.3  | 58.9  | 55.3  | 213.8          |
| Repayments at maturity   | 830.2                         | 3.3   | 368.8 | 166.9 | 5.0   | —     | 286.2          |
| Commitments related to capital leases <sup>(2)</sup>             | 1,734.2                       | 143.7 | 118.7 | 117.8 | 117.0 | 116.3 | 1,120.7        |
| Commitments related to operating leases <sup>(3)</sup>           | 284.7                         | 47.6  | 39.9  | 23.9  | 23.9  | 23.9  | 125.5          |
| Newbuilding installments/shipbuilding supervision <sup>(4)</sup> | 652.2                         | 652.2 | —     | —     | —     | —     | —              |
| Total U.S. Dollar-denominated obligations                        | 4,111.9                       | 955.4 | 630.1 | 379.9 | 204.8 | 195.5 | 1,746.2        |
| Euro-Denominated Obligations: <sup>(5)</sup>                     |                               |       |       |       |       |       |                |
| Long-term debt <sup>(6)</sup>                                    | 193.8                         | 24.7  | 25.8  | 27.0  | 28.2  | 59.6  | 28.5           |
| Total Euro-denominated obligations                               | 193.8                         | 24.7  | 25.8  | 27.0  | 28.2  | 59.6  | 28.5           |
| Norwegian Kroner-Denominated Obligations: <sup>(5)</sup>         |                               |       |       |       |       |       |                |
| Long-term debt <sup>(7)</sup>                                    | 353.0                         | —     | 115.7 | 138.9 | —     | 98.4  | —              |
| Total Norwegian Kroner-Denominated obligations                   | 353.0                         | —     | 115.7 | 138.9 | —     | 98.4  | —              |
| Totals   | 4,658.7                       | 980.1 | 771.6 | 545.8 | 233.0 | 353.5 | 1,774.7        |

Excludes expected interest payments of \$62.5 million (2019), \$49.9 million (2020), \$34.9 million (2021), \$28.9 million (2022), \$26.1 million (2023) and \$71.4 million (beyond 2023). Expected interest payments are based on the existing interest rates (fixed-rate loans) and LIBOR at December 31, 2018, plus margins on debt that has been drawn that range up to 3.25% (variable-rate loans). The expected interest payments do not reflect the effect of related interest rate swaps that we have used as an economic hedge for certain of our variable-rate debt. In addition, the above table does not reflect scheduled debt repayments in our equity-accounted joint ventures.

Includes, in addition to lease payments, amounts we may be or are required to pay to purchase the leased vessels at the end of their respective lease terms. For one of our nine obligations related to capital leases, the vessel was sold by the owner in January 2019 and the full amount of the associated lease obligation of \$24.0 million was extinguished when we returned the vessel to the owner. Please read “Item 18 - Financial Statements: Note 5d - Chartered in Vessels and Note 20b - Subsequent Events”.

We have corresponding leases whereby we are the lessor and expect to receive approximately \$217.8 million under these leases from 2019 to 2029.

As of December 31, 2018, we have an agreement for the construction of one wholly-owned LNG carrier newbuilding, for which the estimated remaining cost for this newbuilding totaled \$120.4 million, including estimated interest and construction supervision fees. We have secured \$159 million of financing related to the commitments for the LNG carrier newbuilding included in the table above.

As part of the acquisition of an ownership interest in the Pan Union Joint Venture, we agreed to assume Shell’s obligation to provide shipbuilding supervision and crew training services for the four LNG carrier newbuildings and to fund our proportionate share of the remaining newbuilding installments. The estimated remaining costs for the shipbuilding supervision and crew training services and our proportionate share of newbuilding installments totaled \$29.2 million as of December 31, 2018. However, as part of this agreement with Shell, we recovered \$0.2 million of the shipbuilding supervision and crew training costs from Shell in 2019. The Pan Union Joint Venture has secured undrawn financing of \$24 million based on our proportionate share of the remaining newbuilding installments included in the table above.

In July 2014, the Yamal LNG Joint Venture, in which we have a 50% ownership interest, entered into agreements for the construction of six ARC7 LNG carrier newbuildings, of which two delivered in 2018. As at December 31, 2018, our 50% share of the estimated remaining costs for the four remaining newbuildings totaled \$436.1 million, of which the Yamal LNG Joint Venture has secured undrawn financing of \$395 million based on our proportionate share of the

remaining newbuilding installments included in the table above.

The Bahrain LNG Joint Venture, in which we have a 30% ownership interest, is developing an LNG receiving and regasification terminal in Bahrain. The project will be owned and operated under a 20-year agreement commencing in mid-2019 with an estimated fully-built up cost of approximately \$903.1 million. As at December 31, 2018, our 30% share of the estimated remaining costs included in the table above is \$66.5 million, of which the Bahrain LNG Joint Venture has secured undrawn debt financing of \$58 million related to our proportionate share.

(5) Euro-denominated and NOK-denominated obligations are presented in U.S. Dollars and have been converted using the prevailing exchange rate as of December 31, 2018.

Excludes expected interest payments of \$2.2 million (2019) \$1.9 million (2020), \$1.5 million (2021), \$1.2 million (2022) \$0.8 million (2023) and \$0.3 million (beyond 2023). Expected interest payments are based on EURIBOR at (6) December 31, 2018, plus margins that range up to 1.95%, as well as the prevailing U.S. Dollar/Euro exchange rate as of December 31, 2018. The expected interest payments do not reflect the effect of related interest rate swaps that we have used as an economic hedge of certain of our variable-rate debt.

Excludes expected interest payments of \$21.2 million (2019), \$18.4 million (2020), \$10.6 million (2021) \$5.7 (7) million (2022) and \$2.9 million (2023). Expected interest payments are based on NIBOR at December 31, 2018, plus margins that range up to 6.0%, as well as the prevailing U.S. Dollar/NOK exchange

rate as of December 31, 2018. The expected interest payments do not reflect the effect of the related cross currency swaps that we have used as an economic hedge of our foreign exchange and interest rate exposure associated with our NOK-denominated long-term debt.

#### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have, a current or future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. The details of our equity-accounted investments are shown in "Item 18 – Financial Statements: Note 7 – Equity-Accounted Investments."

#### Critical Accounting Estimates

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

#### Vessel Lives and Impairment

**Description.** The carrying value of each of our vessels represents its original cost at the time of delivery or purchase less depreciation and impairment charges. We depreciate the original cost, less an estimated residual value, of our vessels on a straight-line basis over each vessel's estimated useful life. The carrying values of our vessels may not represent their market value at any point in time because the market prices of second-hand vessels tend to fluctuate with changes in charter rates and the cost of newbuildings. Both charter rates and newbuilding costs tend to be cyclical in nature.

We review vessels and equipment for impairment whenever events or circumstances indicate the carrying value of an asset, including the carrying value of the charter contract, if any, under which the vessel is employed, may not be recoverable. This occurs when the asset's carrying value is greater than the future undiscounted cash flows the asset is expected to generate over its remaining useful life. For a vessel under charter, the discounted cash flows from that vessel may exceed its market value, as market values may assume the vessel is not employed on an existing charter. If the estimated future undiscounted cash flows of an asset exceed the asset's carrying value, no impairment is recognized even though the fair value of the asset may be lower than its carrying value. If the estimated future undiscounted cash flows of an asset are less than the asset's carrying value and the fair value of the asset is less than its carrying value, the asset is written down to its fair value. Fair value is calculated as the net present value of estimated future cash flows, which, in certain circumstances, will approximate the estimated market value of the vessel.

Our business model is to employ our vessels on fixed-rate contracts primarily with large energy companies and their transportation subsidiaries. These contracts generally have original terms between five to 25 years in length. Consequently, while the market value of a vessel may decline below its carrying value, the carrying value of a vessel may still be recoverable based on the future undiscounted cash flows the vessel is expected to obtain from servicing its existing contract and future contracts.

The following table presents by segment the aggregate market values and carrying values of certain of our vessels that we have determined have a market value that is less than their carrying value as of December 31, 2018. Specifically, the following table reflects all such vessels, except those operating on contracts where the remaining term is significant and the estimated future undiscounted cash flows relating to such contracts are sufficiently greater than the carrying value of the vessels such that we consider it unlikely an impairment would be recognized in the following year. Consequently, the vessels included in the following table generally include those vessels near the end of existing

charters or other operational contracts. While the market values of these vessels are below their carrying values, no impairment has been recognized on any of these vessels as the estimated future undiscounted cash flows relating to such vessels are greater than their carrying values.

We would consider the vessels reflected in the following table to be at a higher risk of future impairment. The estimated future undiscounted cash flows of the vessels reflected in the following table are significantly greater than their respective carrying values. Consequently, in these cases, the following table would not necessarily represent vessels that would likely be impaired in the next 12 months, and the recognition of an impairment in the future for any of those vessels may primarily depend upon our deciding to dispose of a vessel instead of continuing to operate it. In deciding whether to dispose of a vessel, we determine whether it is economically preferable to sell a vessel or continue to operate it. This assessment includes an estimate of the net proceeds expected to be received if a vessel is sold in its existing condition compared to the present value of the vessel's estimated future revenue, net of operating costs. Such estimates are based on the terms of its existing charter, charter market outlook and estimated operating costs, given a vessel's type, condition and age. In addition, we typically do not dispose of a vessel that is servicing an existing customer contract.

| (in thousands of U.S. Dollars, except number of vessels)<br>Reportable Segment _____ | Number of Vessels | Market Values <sup>(1)</sup><br>\$ | Carrying Values<br>\$ |
|--|-------------------|------------------------------------|-----------------------|
| Liquefied Natural Gas Segment <sup>(2)</sup>   | 1                 | 31,000                             | 64,593                |
| Liquefied Petroleum Gas Segment <sup>(2)</sup>                                       | 2                 | 69,250                             | 81,823                |
| Total  | 3                 | 100,250                            | 146,416               |

Market values are determined using reference to second-hand market comparable values as at December 31, 2018.

(1) Since vessel values can be volatile, our estimates of market value may not be indicative of either the current or future prices we could obtain if we sold any of the vessels.

(2) Undiscounted cash flows are greater than the carrying values.

**Judgments and Uncertainties.** Depreciation is calculated using an estimated useful life of 25 years for conventional tankers, 30 years for LPG Carriers and 35 years for LNG carriers, commencing at the date the vessel was originally delivered from the shipyard. However, the actual life of a vessel may be different than the estimated useful life, with a shorter actual useful life resulting in an increase in the quarterly depreciation and potentially resulting in an impairment loss. The estimated useful life of our vessels takes into account design life, commercial considerations and regulatory restrictions. Our estimates of future cash flows involve assumptions about future charter rates, vessel utilization, operating expenses, dry-docking expenditures, vessel residual values and the remaining estimated life of our vessels. Our estimated charter rates are based on rates under existing vessel contracts and market rates at which we expect we can re-charter our vessels. Our estimates of vessel utilization, including estimated off-hire time, are based on historical experience. Our estimates of operating expenses and dry-docking expenditures are based on historical operating and dry-docking costs and our expectations of future inflation and operating requirements. Vessel residual values are a product of a vessel's lightweight tonnage and an estimated scrap rate. The remaining estimated lives of our vessels used in our estimates of future cash flows are consistent with those used in the calculation of depreciation.

Certain assumptions relating to our estimates of future cash flows are more predictable by their nature in our historical experience, including estimated revenue under existing contract terms, on-going operating costs and remaining vessel life. Certain assumptions relating to our estimates of future cash flows require more discretion and are inherently less predictable, such as future charter rates beyond the firm period of existing contracts and vessel residual values, due to factors such as the volatility in vessel charter rates and vessel values. We believe that the assumptions used to estimate future cash flows of our vessels are reasonable at the time they are made. We can make no assurances, however, as to whether our estimates of future cash flows, particularly future vessel charter rates or vessel values, will be accurate.

**Effect if Actual Results Differ from Assumptions.** If we conclude that a vessel or equipment is impaired, we recognize a loss in an amount equal to the excess of the carrying value of the asset over its fair value at the date of impairment. The written-down amount becomes the new lower cost basis and will result in a lower annual depreciation expense in periods subsequent to the vessel impairment. Consequently, any changes in our estimates of future undiscounted cash flows may result in a different impairment amount, including no impairment, and a different future annual depreciation expense.

#### Dry-docking Life

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

**Judgments and Uncertainties.** Amortization of capitalized dry-dock expenditures requires us to estimate the period of the next dry docking and useful life of dry-dock expenditures. While we generally dry dock each vessel every two and a half to five years, we may dry dock the vessels at an earlier date, with a shorter life resulting in an increase in amortization expense.

**Effect if Actual Results Differ from Assumptions.** If we change our estimate of the next dry-dock date for a vessel, we will adjust our annual amortization of dry-docking expenditures. Amortization expense of capitalized dry-dock

expenditures for 2018, 2017, and 2016 were \$11.6 million, \$13.9 million, and \$11.5 million, respectively. For the years ended December 31, 2018, 2017, and 2016, our capitalized dry-dock expenditures were \$15.3 million, \$22.3 million, and \$13.9 million, respectively. A one-year reduction in the estimated useful lives of capitalized dry-dock expenditures would result in an increase in our current annual amortization by approximately \$3.4 million.

#### Goodwill and Intangible Assets

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

Goodwill is not amortized but is reviewed for impairment at the reporting unit level on an annual basis or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit to below its carrying value. When goodwill is reviewed for impairment, we may elect to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, we may bypass this step and use a fair value approach to identify potential goodwill impairment and, when necessary, measure the amount of impairment. The Partnership uses a discounted cash flow model to determine the fair value of reporting units, unless there is a readily determinable fair market value. Intangible assets are assessed

for impairment when and if impairment indicators exist. An impairment loss is recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its fair value.

**Judgments and Uncertainties.** The allocation of the purchase price of acquired companies to intangible assets and goodwill requires management to make significant estimates and assumptions, including estimates of future cash flows expected to be generated by the acquired assets and the appropriate discount rate to value these cash flows. In addition, the process of evaluating the potential impairment of goodwill and intangible assets is highly subjective and requires significant judgment at many points during the analysis. The fair value of our reporting units was estimated based on discounted expected future cash flows using a weighted-average cost of capital rate. The estimates and assumptions regarding expected cash flows and the discount rate require considerable judgment and are based upon existing contracts, historical experience, financial forecasts and industry trends and conditions.

At December 31, 2018, we had two reporting units with goodwill attributable to them, and we recorded an impairment charge of \$0.8 million during the year relating to a portion of the goodwill attributed to our liquefied petroleum gas segment. Certain factors that impact these assessments are inherently difficult to forecast and as such we cannot provide any assurances that an impairment will or will not occur in the future. An assessment for impairment involves a number of assumptions and estimates that are based on factors that are beyond our control. These are discussed in more detail in Part I – Forward-Looking Statements.

Amortization expense of intangible assets for each of the years 2018, 2017, and 2016 was \$8.9 million per year. If actual results are not consistent with our estimates used to value our intangible assets, we may be exposed to an impairment charge and a decrease in the annual amortization expense of our intangible assets.

#### Valuation of Derivative Instruments

**Description.** Our risk management policies permit the use of derivative financial instruments to manage interest rate risk, foreign exchange risk and spot tanker market risk. Changes in fair value of derivative financial instruments that are not designated as cash flow hedges for accounting purposes are recognized in earnings.

**Judgments and Uncertainties.** A substantial majority of the fair value of our derivative instruments and the change in fair value of our derivative instruments from period to period result from our use of interest rate swap agreements. The fair value of our derivative instruments is the estimated amount that we would receive or pay to terminate the agreements at the reporting date, taking into account current interest rates and the current credit worthiness of both us and the swap counterparties. The estimated amount is the present value of estimated future cash flows, being equal to the difference between the benchmark interest rate and the fixed rate in the interest rate swap agreement, multiplied by the notional principal amount of the interest rate swap agreement at each interest reset date.

The fair value of our interest and cross currency swap agreements at the end of each period is most significantly affected by the interest rate implied by the benchmark interest yield curve, including its relative steepness, and forward foreign exchange rates. Interest rates and foreign exchange rates have experienced significant volatility in recent years in both the short and long term. While the fair value of our interest and cross currency swap agreements is typically more sensitive to changes in short-term rates, significant changes in the long-term benchmark interest and foreign exchange rates also materially impact our interest and cross currency swap agreements.

The fair value of our interest and cross currency swap agreements is also affected by changes in our specific credit risk included in the discount factor. We discount our interest rate swap agreements with reference to the credit default swap spreads of similarly rated global industrial companies and by considering any underlying collateral. The process of determining credit worthiness requires significant judgment in determining which source of credit risk information most closely matches our risk profile.

The benchmark interest rate yield curve and our specific credit risk are expected to vary over the life of the interest rate swap agreements. The larger the notional amount of the interest rate swap agreements outstanding and the longer

the remaining duration of the interest rate swap agreements, the larger the impact of any variability in these factors will be on the fair value of our interest rate swaps. We economically hedge the interest rate exposure on a significant amount of our long-term debt and for long durations. As such, we have historically experienced, and we expect to continue to experience, material variations in the period-to-period fair value of our derivative instruments.

The fair value of our derivative instrument relating to the agreement between us and Teekay Corporation for the Toledo Spirit time-charter contract is the estimated amount that we would receive or pay to terminate the agreement at the reporting date. This amount is estimated using the present value of our projected future spot market tanker rates, which has been derived from current spot market rates and long-term historical average rates.

Effect if Actual Results Differ from Assumptions. Although we measure the fair value of our derivative instruments utilizing the inputs and assumptions described above, if we were to terminate the agreements at the reporting date, the amount we would pay or receive to terminate the derivative instruments may differ from our estimate of fair value. If the estimated fair value differs from the actual termination amount, an adjustment to the carrying amount of the applicable derivative asset or liability would be recognized in earnings for the current period. Such adjustments could be material. See “Item 18 – Financial Statements: Note 13 – Derivative Instruments and Hedging Activities” for the effects on the change in fair value of our derivative instruments on our consolidated statements of income and statements of comprehensive income.

#### Taxes

Description. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized.



**Judgments and Uncertainties.** The future realization of deferred tax assets depends on the existence of sufficient taxable income of the appropriate character in either the carryback or carryforward period. This analysis requires, among other things, the use of estimates and projections in determining future reversals of temporary differences, forecasts of future profitability and evaluating potential tax-planning strategies.

**Effect if Actual Results Differ from Assumptions.** If we determined that we were able to realize a net deferred tax asset in the future, in excess of the net recorded amount, an adjustment to the deferred tax assets would typically increase our net income in the period such determination was made. Likewise, if we determined that we were not able to realize all or a part of our deferred tax asset in the future, an adjustment to the deferred tax assets would typically decrease our net income in the period such determination was made. As at December 31, 2018, we had recorded valuation allowances of \$52.6 million (December 31, 2017 – \$38.6 million).

**Item 6. Directors, Senior Management and Employees**

**Management of Teekay LNG Partners L.P.**

Teekay GP L.L.C., our General Partner, manages our operations and activities. Unitholders are not entitled to elect the directors of our General Partner or directly or indirectly participate in our management or operation.

Our General Partner has limited fiduciary duties to manage our business in a manner beneficial to us and our partners. Our General Partner is liable, as general partner, for all of our debts (to the extent not paid from our assets), except for indebtedness or other obligations that are expressly nonrecourse to it. Whenever possible, our General Partner intends to cause us to incur indebtedness or other obligations that are nonrecourse to it, of which all of our debts are nonrecourse to our General Partner.

The directors of our General Partner oversee our operations. Our General Partner has a Corporate Secretary but does not have any other officers. In February 2017, the Partnership and our wholly-owned subsidiary, Teekay LNG Operating L.L.C. (or Opco), entered into a services agreement with Teekay Gas Group Ltd. (or the Service Provider), a subsidiary of Opco. The Service Provider provides services using persons employed by various subsidiaries of Teekay Corporation, including the services of Mark Kremin, the President and CEO of the Service Provider, and Scott Gayton, the CFO of the Service Provider. Employees of certain subsidiaries of Teekay Corporation provide, pursuant to other services agreements, various services to us, including in the case of our operating subsidiaries, substantially all of their managerial, operational and administrative services and other technical and advisory services, and in the case of the Partnership, various administrative services. Please read “Item 7 – Major Common Unitholders and Related Party Transactions.”

Those individuals providing services to us or our subsidiaries may face a conflict regarding the allocation of their time between our business and the other business interests of Teekay Corporation or its affiliates. The various services agreements require the service providers to provide the services diligently and in a commercially reasonable manner.

**Directors of Teekay GP L.L.C.**

The following table provides information about the Board of Directors (or the Board) of our General Partner, Teekay GP L.L.C., as at the date of this Annual Report. Directors are appointed to serve until their successors are appointed or until they resign or are removed. The business address of each of our directors listed below is c/o 4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda. Ages of the individuals are as of December 31, 2018.

| Name                | Age | Position                      |
|---------------------|-----|-------------------------------|
| Ida Jane Hinkley    | 68  | Chairperson <sup>(1)(2)</sup> |
| Kenneth Hvid        | 50  | Director <sup>(3)</sup>       |
| Beverlee F. Park    | 56  | Director <sup>(1)(2)</sup>    |
| C. Sean Day         | 69  | Director <sup>(1)</sup>       |
| Joseph E. McKechnie | 60  | Director <sup>(1)(2)</sup>    |
| Bill Utt            | 61  | Director <sup>(3)</sup>       |

- (1) Member of Corporate Governance Committee.
- (2) Member of Audit Committee and Conflicts Committee
- (3) Appointed on September 10, 2018.

Director Bill Utt will resign from the Board and from Teekay Corporation's Board of Directors in June 2019. Director C. Sean Day will also retire from Teekay Corporation's Board of Directors in June 2019; however, Mr. Day will continue to serve on the Board of our General Partner.

Certain biographical information about each of these individuals included in the table above is set forth below:

Ida Jane Hinkley serves as Chair of Teekay GP L.L.C. and has served as director since 2005. From 1998 to 2001, she served as Managing Director of Navion Shipping AS, a shipping company at that time affiliated with the Norwegian state-owned oil company Statoil ASA (and

subsequently acquired by Teekay Corporation in 2003). From 1980 to 1997, Ms. Hinkley was employed by Gotaas-Larsen Shipping Corporation, an international provider of marine transportation services for crude oil and gas (including LNG), serving as its Chief Financial Officer from 1988 to 1992 and its Managing Director from 1993 to 1997. She currently serves as a non-executive director on the Board of Premier Oil plc, a London Stock Exchange listed oil exploration and production company, and as a non-executive director of Vesuvius plc, a London Stock Exchange listed engineering company. From 2007 to 2008 she served as a non-executive director on the Board of Revus Energy ASA, a Norwegian listed oil company.

Kenneth Hvid was appointed director of Teekay GP L.L.C. on September 10, 2018. Kenneth Hvid was appointed President and Chief Executive Officer of Teekay Corporation in February 2017 and has been elected as a Teekay Corporation director effective as of its 2019 annual meeting of its shareholders. Mr. Hvid served as a director of Teekay Offshore GP L.L.C. since 2011 and director of Teekay Tankers Ltd since February 2017. He joined Teekay Corporation in 2000 and was responsible for leading its global procurement activities until he was promoted in 2004 to Senior Vice President, Teekay Gas Services. During that time, Mr. Hvid was involved in leading Teekay Corporation through its entry and growth in the liquefied natural gas business. He held that position until the beginning of 2006, when he was appointed President of the Teekay Navion Shuttle Tankers and Offshore division. In that role, he was responsible for Teekay Corporation's global shuttle tanker business as well as initiatives in the floating, storage and offtake business and related offshore activities. Mr. Hvid served as Teekay Corporation's Chief Strategy Officer and Executive Vice President from 2011 to 2015, as a director of Teekay GP L.L.C. from 2011 to 2015 and as President and Chief Executive Officer of Teekay Offshore Group Ltd., from 2015 to 2016. Mr. Hvid has 30 years of global shipping experience, 12 of which were spent with A.P. Moller in Copenhagen, San Francisco and Hong Kong. In 2007, Mr. Hvid joined the Board of Gard P. & I. (Bermuda) Ltd.

Beverlee F. Park joined the Board of Teekay GP L.L.C. in 2014. From 2000 to 2013, Ms. Park served as COO, Interim CEO, and EVP/CFO at TimberWest, the largest private forest land owner in Western Canada. During this time, Ms. Park also served as President and COO, Couverdon Real Estate, a division of TimberWest. From 2003 to 2010, Ms. Park served as Board Member, Audit Committee Chair of BC Transmission Corp., the entity responsible for the operation and maintenance of 18,000km of electrical transmission in British Columbia and 300 substations. Previously, Ms. Park was employed by BC Hydro, British Columbia's electricity, transmission and distribution utility company, in a range of senior financial roles and by KPMG. Ms. Park is currently a Board member of TransAlta Corporation, serving as a member of the Audit and Risk Committee and the Human Resources Committee, InTransit BC and of Silver Standard Resources Inc., serving as a member of the company's Audit Committee and Safety and Sustainability Committee. She was appointed to the University of British Columbia's Board of Governors in 2016.

C. Sean Day has served as director of Teekay GP L.L.C. since it was formed in 2004, and he served as Chair from 2004 until 2015. Mr. Day has served as a director of Teekay Corporation since 1999, served as Chair from 1999 to June, 2017, and was appointed Chair Emeritus in December, 2017. Mr. Day served as director and Chair of Teekay Offshore GP L.L.C., the general partner of Teekay Offshore Partners L.P., since it was formed in 2006, retiring as Chair in June 2017 and retiring as director in September 2017. He served as a Chair of Teekay Tankers Ltd. from 2007 until 2013. From 1989 to 1999, he was President and Chief Executive Officer of Navios Corporation, a large bulk shipping company based in Stamford, Connecticut. Prior to this, Mr. Day held a number of senior management positions in the shipping and finance industry. He is currently serving as a director of Kirby Corporation and Chair of Compass Diversified Holdings. Mr. Day is engaged as a consultant to Kattegat Limited, the parent company of Teekay's largest shareholder, Resolute Investments, Ltd. to oversee its investments, including that in the Teekay group of companies.

Joseph E. McKechnie joined the Board of Teekay GP L.L.C. in 2013. Mr. McKechnie is a retired United States Coast Guard Officer, having served for more than 23 years, many of which focused on marine safety and security with an emphasis on LNG. In 2000 he joined Tractebel LNG North America (formerly Cabot LNG) in Boston, Massachusetts

as the Vice President of Shipping, where he oversaw the LNG shipping operations for the Port of Boston. From 2006 to 2011, Mr. McKechnie was transferred to London and then Paris to continue his work with SUEZ, (Parent company of Tractebel) and ultimately GDF-SUEZ, as the Senior Vice President of Shipping, and Deputy Head of the Shipping Department. He is a former member of the Board of Directors of Society of International Gas Tankers and Terminal Operators, and Gaz-Ocean, the GDF-SUEZ Owned LNG vessel operating company. In 2011, he left GDF-SUEZ following the successful merger of GDF and SUEZ, and ultimately formed J.E. McKechnie L.L.C. in 2011.

Bill Utt was appointed a director of Teekay GP L.L.C. on September 10, 2018. Mr. Utt has served as a Teekay Corporation director since 2015 and was appointed Chair in June 2017. He was also appointed Chair and director of Teekay Offshore GP L.L.C., the general partner of Teekay Offshore Partners L.P., since June 2017. Mr. Utt brings over 33 years of engineering and energy industry experience to the Board. From 2006 until his retirement in 2014, he served as Chair, President and Chief Executive Officer of KBR Inc., a global engineering, construction and services company. From 1995 to 2006, Mr. Utt served as the President and CEO of SUEZ Energy North America and President and Chief Executive Officer of Tractebel's North American energy businesses. Prior to 1995, he held senior management positions with CRSS, Inc., which was a developer and operator of independent power and industrial energy facilities prior to its merger with Tractebel in 1995. Mr. Utt also currently serves as a member of the Board of Directors for Brand Industrial Holdings Inc., a Clayton, Dubilier & Rice, LLC portfolio company.

#### Our Management

Our General Partner has a Corporate Secretary but does not have any other officers. In February 2017, we and our wholly-owned subsidiary, Opco, entered into a service agreement with the Service Provider, Teekay Gas Group Ltd., a subsidiary of Opco. The Service Provider provides services using persons employed by various subsidiaries of Teekay Corporation, including the services of Mark Kremin, the President and CEO of Service Provider, and Scott Gayton, the CFO of Service Provider. The following table provides certain information about the senior management team that is principally responsible for our operations and their positions in the Service Provider as at the date of this Annual Report. The business address of each of the executive officers of the Service Provider and the Corporate Secretary of our General Partner listed below is c/o 4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda.

| Name           | Age | Position  |
|----------------|-----|---|
| Mark Kremin    | 48  | President and Chief Executive Officer, Teekay Gas Group Ltd.                      |
| Scott Gayton   | 44  | Chief Financial Officer, Teekay Gas Group Ltd. <sup>(1)</sup>                     |
| Edith Robinson | 54  | Corporate Secretary, Teekay GP L.L.C.; Corporate Secretary, Teekay Gas Group Ltd. |

(1) Appointed on June 29, 2018.

Mark Kremin was appointed President and CEO of Teekay Gas Group Ltd., a company that provides services to Teekay LNG Partners L.P. and its subsidiaries, in 2017. He was appointed President of Teekay Gas Services in 2015, having acted as its Vice President since 2006. In 2000, Mr. Kremin joined Teekay Corporation as in-house counsel and subsequently held commercial roles within Teekay Gas. He represents Teekay Gas on boards of joint ventures with partners in Asia, Europe and the Middle East. Mr. Kremin has over 20 years of experience in shipping. Prior to joining Teekay, he was an attorney in an admiralty law firm in Manhattan. Prior to attending law school in New York City, he worked for a leading owner and operator of container ships.

Scott Gayton was appointed Chief Financial Officer of Teekay Gas Group Ltd., a company that provides services to Teekay LNG Partners L.P. and its subsidiaries in June 2018. Mr. Gayton has over 20 years of finance and accounting experience, including most recently serving as CFO of Tanker Investments Ltd. from the time of its initial public offering in 2014 until its merger with Teekay Tankers Ltd. (NYSE:TNK) in 2017. Mr. Gayton joined Teekay Corporation in 2001 and has worked in progressively more senior roles in Finance. In 2013, he was promoted to Vice President, Finance, where he continues to play an instrumental role in supporting Teekay's strategy and capital market transactions. Prior to joining Teekay Corporation, he worked as a Chartered Accountant in the Vancouver, Canada office of Ernst & Young LLP.

Edith Robinson was appointed as the Secretary of Teekay GP L.L.C., the general partner of Teekay LNG Partners L.P., in 2014 and was appointed Secretary of Teekay Gas Group Ltd. in 2017. Ms. Robinson joined Teekay Corporation in 2014 and currently serves as an Associate General Counsel. Prior to joining Teekay Corporation, Ms. Robinson served as the General Counsel for a utility group in Bermuda. She has over 20 years of legal experience and is qualified to practice law in Bermuda, Ontario Canada, and England. Ms. Robinson has an MBA from Cornell University in addition to her legal qualifications.

#### Annual Executive Compensation

During 2018, the aggregate amount for which we reimbursed Teekay Corporation for compensation expenses of the Chief Executive Officer and Chief Financial Officer of the Service Provider, excluding any long-term incentive plan awards issued directly by the Partnership as described below, was \$1.4 million. The amounts were paid in U.S.

Dollars. Teekay Corporation's annual bonus plan, in which the CEO and CFO of the Service Provider participated, considers both company performance and team performance.

#### Compensation of Directors

Officers of our Service Provider or Teekay Corporation who also serve as directors of our General Partner do not receive additional compensation for their service as directors. During 2018, each non-management director received compensation for attending meetings of the Board of Directors, as well as committee meetings. Each non-management director receives a director fee of \$60,000 and common units with a value of approximately \$75,000 for the 2018 year. The Chair received an annual fee of \$107,500 and common units with a value of approximately \$107,500. In addition, members of the audit, conflicts and corporate governance committees each received a committee fee of \$7,500, \$7,500 and \$5,000, respectively, for the 2018 year, and the chairs of the audit, conflicts and corporate governance committees each received an additional fee of \$17,000, \$12,500 and \$10,000, respectively, for serving in that role. Each director is fully indemnified by us for actions associated with being a director to the extent permitted under Marshall Islands law.

During 2018, the five non-management directors received, in the aggregate, \$472,000 in cash fees for their services as directors, plus reimbursement of their out-of-pocket expenses. In March 2018, the Board granted to the five

non-management directors an aggregate of 17,498 common units.

#### 2005 Long-Term Incentive Plan

Our General Partner adopted the Teekay LNG Partners L.P. 2005 Long-Term Incentive Plan for employees and directors of and consultants to our General Partner and employees and directors of and consultants to its affiliates, who perform services for us. The plan provides for the award of restricted units, phantom units, unit options, unit appreciation rights and other unit or cash-based awards. In 2018, the General Partner awarded 62,283 restricted units to the Teekay Corporation employees who provide services to our business. The restricted units vest evenly over a three-year period from the grant date.

#### Board Practices

Teekay GP L.L.C., our General Partner, is responsible for the management of our operations and activities.

Unitholders are not entitled to elect the directors of our General Partner or directly or indirectly participate in our management or operation.

Our General Partner's Board currently consists of six members. Directors are appointed to serve until their successors are appointed or until they resign or are removed.

There are no service contracts between us and any of our directors providing for benefits upon termination of their employment or service.

The Board has the following three committees: Audit Committee, Conflicts Committee, and Corporate Governance Committee. The membership of these committees and the function of each of the committees are described below. Each of the committees is currently comprised of independent members and operates under a written charter adopted by the Board. The committee charters for the Audit Committee, the Conflicts Committee and the Corporate Governance Committee are available under "Investors – Teekay LNG Partners L.P. - Governance" from the home page of our web site at [www.teekay.com](http://www.teekay.com). During 2018, the Board held seven meetings. Each director attended all Board meetings, with the exception of one director who was absent from one Board meeting. The members of the Audit Committee, Conflicts Committee and Corporate Governance Committee attended all meetings, except for one director who was absent from one Conflicts Committee meeting and one director who was absent from one Corporate Governance Committee meeting.

**Audit Committee.** The Audit Committee of our General Partner is composed of at least three directors, each of whom must meet the independence standards of the New York Stock Exchange (or NYSE) and the SEC. This committee is currently comprised of directors Beverlee F. Park (Chair), Ida Jane Hinkley, and Joseph E. McKechnie. All members of the committee are financially-literate and the Board has determined that Ms. Park qualifies as the audit committee financial expert.

The Audit Committee assists the Board in fulfilling its responsibilities for general oversight of:

- the integrity of our consolidated financial statements;
- our compliance with legal and regulatory requirements;
- the independent auditors' qualifications and independence; and
- the performance of our internal audit function and independent auditors.

**Conflicts Committee.** The Conflicts Committee of our General Partner is composed of at least two directors and is currently comprised of Beverlee F. Park (Chair), Joseph E. McKechnie and Ida Jane Hinkley. The members of the Conflicts Committee may not be officers or employees of our General Partner or directors, officers or employees of its affiliates, and must meet the heightened NYSE and SEC director independence standards applicable to audit committee membership and certain other requirements.

The Conflicts Committee:

- reviews specific matters that the Board believes may involve conflicts of interest; and
- determines if the resolution of the conflict of interest is fair and reasonable to us.

Any matters approved by the Conflicts Committee will be conclusively deemed to be fair and reasonable to us, approved by all of our partners, and not a breach by our General Partner of any duties it may owe us or our unitholders. The Board is not obligated to seek approval of the Conflicts Committee on any matter and may determine the resolution of any conflict of interest itself.

Corporate Governance Committee. The Corporate Governance Committee of our General Partner is composed of at least two directors, a majority of whom must meet the director independence standards established by the NYSE. This committee is currently comprised of directors Joseph E. McKechnie (Chair), C. Sean Day, Ida Jane Hinkley, and Beverlee F. Park.

The Corporate Governance Committee:

- oversees the operation and effectiveness of the Board and its corporate governance;
- develops and recommends to the Board corporate governance principles and policies applicable to us and our General Partner and monitors compliance with these principles and policies; and
- oversees director compensation and the long-term incentive plan described above.

#### Crewing and Staff

As of December 31, 2018, approximately 1,900 seagoing staff served on our consolidated and equity-accounted for vessels that were managed by subsidiaries of Teekay Corporation and nine staff served on-shore in technical, commercial and administrative roles in various countries, compared to approximately 1,800 seagoing staff and nine on-shore staff as of December 31, 2017 and approximately 1,700 seagoing staff and nine on-shore staff as of December 31, 2016. Certain subsidiaries of Teekay Corporation employ the crews, who serve on the vessels pursuant to agreements with the subsidiaries, and Teekay Corporation subsidiaries also provide on-shore advisory, operational and administrative support to our operating subsidiaries pursuant to service agreements. Please read “Item 7 – Major Common Unitholders and Related Party Transactions.”



We regard attracting and retaining motivated seagoing personnel as a top priority. Like Teekay Corporation, we offer our seafarers competitive employment packages and comprehensive benefits and opportunities for personal and career development, which relates to a philosophy of promoting internally.

Teekay Corporation has entered into a Collective Bargaining Agreement with the Philippine Seafarers' Union, an affiliate of the International Transport Workers' Federation (or ITF), and a Special Agreement with ITF London, which cover substantially all of the officers and seafarers that operate our Bahamian-flagged vessels. Our Spanish officers and seafarers for our Spanish-flagged vessels are covered by two different collective bargaining agreements (one for Suezmax tankers and one for LNG carriers) with Spain's Union General de Trabajadores and Comisiones Obreras, and the Filipino crewmembers employed on our Spanish-flagged LNG and Suezmax tankers are covered by the Collective Bargaining Agreement with the Philippine Seafarer's Union. We believe Teekay Corporation's and our relationships with these labor unions are good.

Our commitment to training is fundamental to the development of the highest caliber of seafarers for our marine operations. Teekay Corporation has agreed to allow our personnel to participate in its training programs. Teekay Corporation's cadet training approach is designed to balance academic learning with hands-on training at sea. Teekay Corporation has relationships with training institutions in Canada, Croatia, India, Latvia, Norway, Philippines, Turkey and the United Kingdom. After receiving formal instruction at one of these institutions, our cadets' training continues on-board one of our vessels. Teekay Corporation also has a career development plan that we follow, which was designed to ensure a continuous flow of qualified officers who are trained on its vessels and familiarized with its operational standards, systems and policies. We believe that high-quality crewing and training policies will play an increasingly important role in distinguishing larger independent shipping companies that have in-house or affiliate capabilities from smaller companies that must rely on outside ship managers and crewing agents on the basis of customer service and safety. As such, we have an LNG training facility in Glasgow that serves this purpose.

#### Common Unit Ownership

The following table sets forth certain information regarding beneficial ownership, as of December 31, 2018, of our common units by all directors and officers of our General Partner and Service Provider. The information is not necessarily indicative of beneficial ownership for any other purpose. Under SEC rules, a person or entity beneficially owns any units that the person has the right to acquire as of March 1, 2019 (60 days after December 31, 2018) through the exercise of any unit option or other right. Unless otherwise indicated, each person has sole voting and investment power (or shares such powers with his or her spouse) with respect to the common units set forth in the following table. Information for all persons listed below is based on information delivered to us.

| Identity of Person or Group  | Common Units Owned | Percentage of Common Units Owned <sup>(3)</sup> |
|--|--------------------|---|
| All directors and officers of Teekay GP L.L.C. and Teekay Gas Group Ltd. as a group (9 persons) <sup>(1) (2)</sup> | 129,272            | 0.16 %  |

Excludes units owned by Teekay Corporation which controls us and on the Board of which serves the director of (1) our General Partner, C. Sean Day. Please read "Item 7 – Major Common Unitholders and Related Party Transactions" for more detail.

Each director, executive officer and key employee beneficially owns less than 1% of the outstanding common (2) units. Under SEC rules, a person beneficially owns any units as to which the person has or shares voting or investment power.

(3) Based on 79,360,719 of common units outstanding as of December 31, 2018. Excludes the 2% general partner interest held by our General Partner, a wholly-owned subsidiary of Teekay Corporation.

#### Item 7. Major Common Unitholders and Related Party Transactions

##### Major Common Unitholders

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The following table sets forth information regarding beneficial ownership, as of December 31, 2018, of our common units by each person we know to beneficially own more than 5% of the outstanding common units. The number of units beneficially owned by each person is determined under SEC rules and the information is not necessarily indicative of beneficial ownership for any other purpose. Under SEC rules a person beneficially owns any units as to which the person has or shares voting or investment power. In addition, a person beneficially owns any units that the person or entity has the right to acquire as of March 1, 2019 (60 days after December 31, 2018) through the exercise of any unit option or other right. Unless otherwise indicated, each unitholder listed below has sole voting and investment power with respect to the units set forth in the following table.

| Identity of Person or Group                      | Common Units Owned | Percentage of Common Units Owned <sup>(1)</sup> |   |
|--|--------------------|---|---|
| Teekay Corporation <sup>(1)</sup>                | 25,208,274         | 31.8  | % |
| FMR LLC <sup>(2)</sup>                           | 7,970,000          | 10.0  | % |
| Cobas Asset Management, SGIIC, SA <sup>(3)</sup> | 6,656,159          | 8.4   | % |

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- (1) Based on 79,360,719 of common units outstanding as of December 31, 2018. Excludes the 2% general partner interest held by our General Partner, a wholly-owned subsidiary of Teekay Corporation.  
FMR LLC has the sole dispositive power as to 7,970,000 common units and has sole voting power as to 18,400 of
- (2) these common units. This information is based on the Schedule 13G/A filed by this group with the SEC on February 13, 2019.
- (3) Cobas Asset Management, SGIIC, SA has sole and shared voting power as to 6,656,159 common units. This information is based on the Schedule 13G/A filed by this group with the SEC on February 13, 2019.

Teekay Corporation has the same voting rights with respect to common units it owns as our other common unitholders. We are controlled by Teekay Corporation. We are not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of us.

#### Related Party Transactions

We have entered into an amended and restated omnibus agreement with Teekay Corporation, our General Partner, a) Opco, Teekay Offshore and related parties. The following discussion describes certain provisions of the omnibus agreement, as it has been amended.

**Noncompetition.** Under the omnibus agreement, Teekay Corporation and Teekay Offshore have agreed, and have caused their controlled affiliates (other than us) to agree, not to own, operate or charter LNG carriers. This restriction does not prevent Teekay Corporation, Teekay Offshore or any of their controlled affiliates (other than us) from, among other things, acquiring, operating or chartering LNG carriers if our General Partner has previously advised Teekay Corporation or Teekay Offshore that the Board of Directors of our General Partner has elected, with the approval of its conflicts committee, not to cause us or our subsidiaries to acquire or operate the carriers.

In addition, under the omnibus agreement we have agreed not to own, operate or charter crude oil tankers or certain “offshore vessels” (including dynamically-positioned shuttle tankers, floating storage and off-take units or floating production, storage and off-loading units), if they are subject to contracts with a remaining duration of at least three years, excluding extension options. This restriction does not prevent us from, among other things, acquiring, operating or chartering oil tankers or offshore vessels if Teekay Corporation or Teekay Offshore, as applicable, has previously advised our General Partner that it has elected not to acquire or operate those vessels.

**Rights of First Offer on Suezmax Tankers, LNG Carriers and Offshore Vessels.** Under the omnibus agreement, we have granted to Teekay Corporation and Teekay Offshore a 30-day right of first offer on any proposed (a) sale, transfer or other disposition of any of our conventional tankers, in the case of Teekay Corporation, or certain offshore vessels in the case of Teekay Offshore, or (b) re-chartering of any of our conventional tankers or offshore vessels pursuant to a time-charter or contract of affreightment with a term of at least three years if the existing charter expires or is terminated early. Likewise, each of Teekay Corporation and Teekay Offshore has granted a similar right of first offer to us for any LNG carriers it might own. These rights of first offer do not apply to certain transactions.

**Termination.** If Teekay Corporation or its affiliates no longer control our General Partner or the general partner of Teekay Offshore or if there is a change of control of Teekay Corporation, our General Partner, the general partner of Teekay Offshore or Teekay Corporation, then any of those entities, as applicable, may terminate relevant noncompetition and rights of first offer provisions of the omnibus agreement. During 2018, Brookfield Business Partners L.P. and its institutional investors acquired a 51% ownership interest in the general partner of Teekay Offshore and have the right to appoint a majority of the directors of Teekay Offshore's general partner's Board of Directors. This transaction constituted a change of control, giving Teekay Offshore the right to elect to terminate the omnibus agreement, though we have not received any indication from Teekay Offshore that it intends to do so.

b) Bill Utt, Kenneth Hvid and C. Sean Day are members of the Board. Mr. Utt also is the Chair of Teekay Corporation and a member of the Board of Directors of the general partner of Teekay Offshore. Mr. Hvid is also the President

and Chief Executive Officer of Teekay Corporation, and a director of Teekay Tankers Ltd., a publicly-traded subsidiary of Teekay Corporation, and a member of the Board of Directors of the general partner of Teekay Offshore. Mr. Day is a member of the Board of Directors of Teekay Corporation and a consultant to Kattogat Ltd., which controls Teekay Corporation's largest shareholder. Mr. Utt will resign from the Board and from Teekay Corporation's Board of Directors in June 2019. Mr. Day will retire from Teekay Corporation's Board of Directors in June 2019, but will continue to serve on the Board of our General Partner.

On February 1, 2017, we and our wholly-owned subsidiary, Opco, entered into a service agreement with the Service Provider, a management services company that is a subsidiary of Opco. The Service Provider provides services to us using persons employed by various subsidiaries of Teekay Corporation, including the services of Mark Kremin, the President and Chief Executive Officer of Service Provider, and Scott Gayton, the Chief Financial Officer of the Service Provider. In addition, we have entered into various service agreements with certain Teekay Corporation subsidiaries pursuant to which those subsidiaries provide to us various services including, in the case of our operating subsidiaries, substantially all of their managerial, operational and administrative services (including vessel maintenance, crewing, crew training, purchasing, shipyard supervision, insurance and financial services) and other technical and advisory services, and in the case of Teekay LNG Partners L.P., various administrative services. Because Messrs. Kremin and Gayton and the other persons providing services to us and our subsidiaries are employees of various subsidiaries of Teekay Corporation, their compensation (other than any awards under our long-term incentive plan) is set and paid by the Teekay Corporation subsidiary that employs them. Pursuant to our agreements with Teekay Corporation and its subsidiaries, we have agreed to reimburse Teekay Corporation for time spent by such persons on providing services to us and our subsidiaries.

d) Please read "Item 18 – Financial Statements: Note 12 – Related Party Transactions" for additional information about these and various other related-party transactions.

## Item 8. Financial Information

### A. Consolidated Financial Statements and Other Financial Information

#### Consolidated Financial Statements and Notes

Please see "Item 18 – Financial Statements" for additional information required to be disclosed under this Item.

#### Legal Proceedings

From time to time we have been, and expect to continue to be, subject to legal proceedings and claims in the ordinary course of our business, principally personal injury and property casualty claims. These claims, even if lacking merit, could result in the expenditure of significant financial and managerial resources. We are not aware of any legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on us, other than those set forth in "Item 18 – Financial Statements: Note 14 – Commitments and Contingencies."

#### Cash Distribution Policy for Common Unitholders

##### Rationale for Our Cash Distribution Policy

Our general cash distribution policy reflects a basic judgment that our common unitholders are better served by allocating capital in a balanced manner, including our intention to increase our quarterly common unit distributions by 36 percent to \$0.19 per unit, commencing with the first quarter of 2019 distribution to be paid in May 2019. This level of common unit distributions allows us to establish cash reserves for the purpose of funding committed growth projects and to reduce debt levels and is consistent with our cash distribution policy and the terms of our partnership agreement, which require that we distribute all of our Available Cash (as defined in our partnership agreement) within approximately 45 days after the end of each quarter. Available Cash is determined after payment of distributions on our preferred units.

##### Limitations on Cash Distributions; Our Ability to Change Our Cash Distribution Policy

There is no guarantee that common unitholders will receive quarterly distributions from us. Our distribution policy may be changed at any time and is subject to certain restrictions, including:

Our common unitholders have no contractual or other legal right to receive distributions other than the obligation under our partnership agreement to distribute Available Cash on a quarterly basis, which is subject to our General Partner's broad discretion to establish reserves (including, among others, reserves for future capital expenditures and our anticipated future credit needs).

While our partnership agreement requires us to distribute all of our Available Cash, our partnership agreement, including provisions requiring us to make cash distributions contained therein, may be amended with the approval of a majority of the outstanding common units.

Even if our cash distribution policy is not modified or revoked, the amount of distributions we pay under our cash distribution policy and the decision to make any distribution is determined by the Board of Directors of our General Partner, taking into consideration the terms of our partnership agreement.

Under Section 51 of The Marshall Islands Limited Partnership Act, we may not make a distribution to unitholders to the extent that at the time of the distribution, after giving effect to the distribution, all of our liabilities, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specified property of ours, exceed the fair value of our assets, except that the fair value of property that is subject to a liability for which the recourse of creditors is limited shall be included in our assets only to the extent that the fair value of that property exceeds that liability.

We may lack sufficient cash to pay distributions to our unitholders due to decreases in net revenues or increases in our operating expenses, principal and interest payments on outstanding debt, tax expenses, working capital requirements, maintenance capital expenditures or anticipated cash needs.

Our distribution policy may be affected by restrictions on distributions under our credit facility agreements, which contain material financial tests and covenants that must be satisfied and complied with. If we are unable to satisfy these restrictions included in our credit agreements or if we are otherwise in default under our credit agreements, we would be prohibited from making cash distributions, which would materially hinder our ability to make cash distributions to unitholders, notwithstanding our stated cash distribution policy.

If we make distributions out of capital surplus, as opposed to operating surplus (as such terms are defined in our partnership agreement), those distributions will constitute a return of capital and will result in a reduction in the minimum quarterly distribution and the target distribution levels under our partnership agreement. We do not anticipate that we will make any distributions from capital surplus.

Incentive Distribution Rights

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Incentive distribution rights represent the right to receive an increasing percentage of quarterly distributions of Available Cash from operating surplus (as defined in our partnership agreement) after the minimum quarterly distribution to our common unitholders and the target distribution levels have been achieved. Our General Partner currently holds the incentive distribution rights but may transfer these rights separately from its general partner interest, without unitholder approval. Any transfer by our general partner of the incentive distribution rights would not change the percentage allocations of quarterly distributions with respect to such rights.

Our General Partner is entitled to incentive distributions if the amount we distribute to common unitholders with respect to any quarter exceeds specified target levels shown below. The amounts set forth under “Marginal Percentage Interest” are the percentage interests of the common unitholders and our General Partner in any Available Cash from operating surplus we distribute up to and including the corresponding amount in the column “Quarterly Distribution Target Amount (per unit),” until Available Cash from operating surplus we distribute reaches the next target distribution level, if any. The percentage interests shown for the common unitholders and our General Partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. The percentage interests shown for our General Partner include its 2.0% general partner interest and assume the General Partner has contributed any capital necessary to maintain its 2.0% general partner interest and has not transferred the incentive distribution rights.

|                                | Quarterly Distribution Target Amount (per unit) | Marginal Percentage Interest |                 |
|--------------------------------|---|------------------------------|-----------------|
|                                |   | Unitholders                  | General Partner |
| Minimum Quarterly Distribution | \$0.4125  | 98%                          | 2%              |
| First Target Distribution      | Up to \$0.4625                                  | 98%                          | 2%              |
| Second Target Distribution     | Above \$0.4625 up to \$0.5375                   | 85%                          | 15%             |
| Third Target Distribution      | Above \$0.5375 up to \$0.6500                   | 75%                          | 25%             |
| Thereafter                     | Above \$0.6500                                  | 50%                          | 50%             |

During 2018, all quarterly cash distributions were below \$0.4625 per common unit.

In the event of a liquidation, all property and cash in excess of that required to discharge all liabilities and liquidation amounts on the Series A and Series B preferred units will be distributed to the common unitholders and the General Partner in proportion to their capital account balances, as adjusted to reflect any gain or loss upon the sale or other disposition of our assets in liquidation in accordance with the partnership agreement.

#### B. Significant Changes

Please read “Item 5 – Operating and Financial Review and Prospects: Management’s Discussion and Analysis of Financial Condition and Results of Operations – Significant Developments in 2018 and early 2019” and “Item 18 – Financial Statements: Note 20 – Subsequent Events” for descriptions of significant changes that have occurred since December 31, 2018.

#### Item 9. The Offer and Listing

Our common units are listed on the NYSE under the symbol “TGP”. Our Series A Preferred Units are listed on the NYSE under the symbol “TGPPA”. Our Series B Preferred Units are listed on the NYSE under the symbol “TGPPB”.

#### Item 10. Additional Information

##### Memorandum and Articles of Association

The information required to be disclosed under Item 10B is incorporated by reference to our Registration Statement on Form 8-A/A filed with the SEC on April 13, 2018.

##### Material Contracts

The following is a summary of each material contract, other than material contracts entered into in the ordinary course of business, to which we or any of our subsidiaries is a party, for the two years immediately preceding the date of this Annual Report, each of which is included in the list of exhibits in Item 19:

Amended and Restated Omnibus agreement with Teekay Corporation, Teekay Offshore, our General Partner and (a) related parties. Please read “Item 7 – Major Common Unitholders and Related Party Transactions” for a summary of certain contract terms.

We and certain of our operating subsidiaries have entered into services agreements with certain subsidiaries of Teekay Corporation pursuant to which the Teekay Corporation subsidiaries provide administrative services to the Partnership and administrative, advisory, technical, strategic consulting services, business development and ship (b) management services to operating subsidiaries for a reasonable fee that includes reimbursement of these direct and indirect expenses incurred in providing these services. Please read “Item 7 – Major Common Unitholders and Related Party Transactions” for a summary of certain contract terms.



- Syndicated Loan Agreement between Naviera Teekay Gas III, S.L. (formerly Naviera F. Tapias Gas III, S.A.) and Caixa de Aforros de Vigo Ourense e Pontevedra, as Agent, dated as of October 2, 2000, as amended. This facility (c) was used to make restricted cash deposits that fully fund payments under a capital lease for one of our LNG carriers, the Catalunya Spirit. Interest payments are based on EURIBOR plus a margin. The term loan matures in 2023 with monthly payments that reduce over time.
- (d) Amended Teekay LNG Partners L.P. 2005 Long-Term Incentive Plan. Please read “Item 6 – Directors, Senior Management and Employees” for a summary of certain plan terms.
- Deed of Amendment and Restatement dated October 10, 2008, relating to a Loan Agreement for a U.S. \$92,400,000 Buyer Credit and a U.S. \$117,600,000 Commercial Loan between MiNT LNG I, Ltd., BNP Paribas S.A., and various other banks. The Buyer Credit bears interest at LIBOR plus a margin of 0.78% and the (e) Commercial Loan bears interest at LIBOR plus a margin of 1.30%. In addition, a commitment fee will be charged at the rate of 0.25% and 0.45% on undrawn and uncanceled amounts of the Buyer Credit and Commercial Loan, respectively. The amount available under the facilities reduces quarterly by amounts ranging from \$1.2 million to \$2.5 million. The Commercial Loan is due by one installment on maturity in 2023.
- Deed of Amendment and Restatement dated October 10, 2008, relating to a Loan Agreement for a U.S. \$92,400,000 Buyer Credit and a U.S. \$117,600,000 Commercial Loan between MiNT LNG II, Ltd., BNP Paribas S.A., and various other banks. The Buyer Credit bears interest at LIBOR plus a margin of 0.78% and the (f) Commercial Loan bears interest at LIBOR plus a margin of 1.30%. In addition, a commitment fee will be charged at the rate of 0.25% and 0.45% on undrawn and uncanceled amounts of the Buyer Credit and Commercial Loan, respectively. The amount available under the facilities reduces quarterly by amounts ranging from \$1.2 million to \$2.5 million. The Commercial Loan is due by one installment on maturity in 2023.
- Deed of Amendment and Restatement dated October 10, 2008, relating to a Loan Agreement for a U.S. \$92,400,000 Buyer Credit and a U.S. \$117,600,000 Commercial Loan between MiNT LNG III, Ltd., BNP Paribas S.A., and various other banks. The Buyer Credit bears interest at LIBOR plus a margin of 0.78% and the (g) Commercial Loan bears interest at LIBOR plus a margin of 1.30%. In addition, a commitment fee will be charged at the rate of 0.25% and 0.45% on undrawn and uncanceled amounts of the Buyer Credit and Commercial Loan, respectively. The amount available under the facilities reduces quarterly by amounts ranging from \$1.2 million to \$2.5 million. The Commercial Loan is due by one installment on maturity in 2023.
- Deed of Amendment and Restatement dated October 10, 2008, relating to a Loan Agreement for a U.S. \$92,400,000 Buyer Credit and a U.S. \$117,600,000 Commercial Loan between MiNT LNG IV, Ltd., BNP Paribas S.A., and various other banks. The Buyer Credit bears interest at LIBOR plus a margin of 0.78% and the (h) Commercial Loan bears interest at LIBOR plus a margin of 1.30%. In addition, a commitment fee will be charged at the rate of 0.25% and 0.45% on undrawn and uncanceled amounts of the Buyer Credit and Commercial Loan, respectively. The amount available under the facilities reduces quarterly by amounts ranging from \$1.2 million to \$2.5 million. The Commercial Loan is due by one installment on maturity in 2024.
- (i) Agreement dated February 12, 2013; Teekay Luxembourg S.a.r.l. entered into a share purchase agreement with Exmar and Exmar Marine NV to purchase 50% of the shares in Exmar LPG BVBA.
- Agreement dated June 27, 2013, for U.S. \$195,000,000 Senior Secured Notes between Meridian Spirit ApS and (j) Wells Fargo Bank Northwest N.A. The loan bears interest at fixed rate of 4.11%. The facility requires quarterly repayments through 2030.
- Agreement dated June 28, 2013, for a U.S. \$160,000,000 Loan Facility between Malt Singapore Pte. Ltd. and (k) Commonwealth Bank of Australia. The loan bears interest at LIBOR plus a margin of 2.60%. The facility requires quarterly repayments, with a bullet payment on maturity in 2021.
- (l) Agreement dated July 7, 2014; Teekay LNG Operating L.L.C. entered into a shareholder agreement with China LNG Shipping (Holdings) Limited to form TC LNG Shipping L.L.C. in connection with the Yamal LNG Project.
- Agreement dated December 17, 2014, for a U.S. \$450,000,000 Secured Loan Facility between Nakilat Holdco (m) L.L.C. and Qatar National Bank SAQ. The loan bears interest at LIBOR plus a margin of 1.85%. The facility requires quarterly repayments, with a bullet payment in 2026.
- (n)

Agreement dated May 18, 2015, for NOK 1,000,000,000, Senior Unsecured Bonds due May 2020 between Teekay LNG Partners L.P. and Nordic Trustee ASA.

(o) Amending and Restating Agreement dated June 5, 2015, for a U.S. \$460,000,000 Secured Loan Facility between Exmar LPG BVBA, Nordea Bank Norge ASA and various other banks. The loan bears interest at LIBOR plus a margin of 1.90%. The facility requires quarterly repayments with a balloon payment in 2021. The loan facility is guaranteed by us and Exmar based on our proportionate ownership percentages in Exmar LPG BVBA.

(p) Agreement dated November 15, 2016, for a U.S. \$730,000,000 Secured Loan Facility between Bahrain LNG W.L.L. and Standard Chartered Bank and various other banks. The loan bears interest at LIBOR plus a margin ranging from 1.50% to 3.60% over the agreement duration. The facility requires semi-annual repayments 12 months after the estimated scheduled commercial start date in February 2019, with a balloon payment in 2036.

(q) Agreement dated December 21, 2016, for a U.S. \$723,200,000 Secured Loan Facility between Teekay Nakilat (III) Corporation and Qatar National Bank SAQ. The loan bears interest at LIBOR plus a margin of 2.25% for the first 12 months and 2.50% thereafter. The facility requires quarterly repayments, with a balloon payment in 2026.

(r) Agreement dated December 8, 2017, for a U.S. \$1,632,000,000 Secured Loan Agreement between DSME Hull No. 2423 L.L.C., DSME Hull No. 2425 L.L.C., DSME Hull No. 2430 L.L.C., DSME Hull No. 2431 L.L.C., DSME Hull No. 2433 L.L.C. and DSME Hull No. 2434

L.L.C. (as borrowers) and China Development Bank. The loan bears interest at LIBOR plus 3.1% and requires semi-annual payments, with balloon payments upon maturity through 2031.

#### Exchange Controls and Other Limitations Affecting Unitholders

We are not aware of any governmental laws, decrees or regulations, including foreign exchange controls, in the Republic of the Marshall Islands that restrict the export or import of capital, or that affect the remittance of dividends, interest or other payments to holders of our securities that are non-resident and not citizens.

We are not aware of any limitations on the right of non-resident or foreign owners to hold or vote our securities imposed by the laws of the Republic of the Marshall Islands or our partnership agreement.

#### Material United States Federal Income Tax Considerations

The following is a discussion of certain material U.S. federal income tax considerations that may be relevant to unitholders. This discussion is based upon provisions of the Internal Revenue Code of 1986, as amended (or the Code), legislative history, applicable U.S. Treasury Regulations (or Treasury Regulations), judicial authority and administrative interpretations, all as in effect on the date of this Annual Report, and which are subject to change, possibly with retroactive effect, or are subject to different interpretations. Changes in these authorities may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to “we,” “our” or “us” are references to Teekay LNG Partners L.P.

This discussion is limited to unitholders who hold their units as capital assets for tax purposes. This discussion does not address all tax considerations that may be important to a particular unitholder in light of the unitholder’s circumstances, or to certain categories of unitholders that may be subject to special tax rules, such as:

- dealers in securities or currencies;
- traders in securities that have elected the mark-to-market method of accounting for their securities;
- persons whose functional currency is not the U.S. Dollar;
- persons holding our units as part of a hedge, straddle, conversion or other “synthetic security” or integrated transaction;
- certain U.S. expatriates;
- financial institutions;
- insurance companies;
- persons subject to the alternative minimum tax;
- persons that actually or under applicable constructive ownership rules own 10% or more of our units (by vote or value); and
- entities that are tax-exempt for U.S. federal income tax purposes.

If a partnership (including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds our units, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. Partners in partnerships holding our units should consult their tax advisors to determine the appropriate tax treatment of the partnership’s ownership of our units.

This discussion does not address any U.S. estate tax considerations or tax considerations arising under the laws of any state, local or non-U.S. jurisdiction. Each unitholder is urged to consult its tax advisor regarding the U.S. federal, state, local and other tax consequences of the ownership or disposition of our units.

#### United States Federal Income Taxation of U.S. Holders

As used herein, the term U.S. Holder means a beneficial owner of our units that is for U.S. federal income tax purposes: (i) a U.S. citizen or U.S. resident alien (or a U.S. Individual Holder), (ii) a corporation or other entity taxable as a corporation, that was created or organized under the laws of the United States, any state thereof or the

District of Columbia, (iii) an estate whose income is subject to U.S. federal income taxation regardless of its source, or (iv) a trust that either is subject to the supervision of a court within the United States and has one or more U.S. persons with authority to control all of its substantial decisions or has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

#### Distributions

We have elected to be taxed as a corporation for U.S. federal income tax purposes effective January 1, 2019.

Subject to the discussion of passive foreign investment companies (or PFICs) below, any distributions made by us with respect to our units to a U.S. Holder generally will constitute dividends, which may be taxable as ordinary income or “qualified dividend income” as described in more detail below, to the extent of our current and accumulated earnings and profits allocated to the U.S. Holder’s units, as determined under U.S. federal income tax principles. Distributions in excess of our current and accumulated earnings and profits will be treated first as a nontaxable return of capital to the extent of the U.S. Holder’s tax basis in our units and thereafter as capital gain, which will be either long-term or short-term capital gain depending upon whether the U.S. Holder has held the units for more than one year. U.S. Holders that are corporations for U.S. federal income tax purposes generally will not be entitled to claim a dividends received deduction with respect to any distributions they receive from us. For purposes of computing allowable foreign tax credits for U.S. federal income tax purposes, dividends received with respect to our units will be treated as foreign source income and generally will be treated as “passive category income.”

Subject to holding period requirements and certain other limitations, dividends received with respect to our units by a U.S. Holder who is an individual, trust or estate (or a Non-Corporate U.S. Holder) will be treated as “qualified dividend income” that is taxable to such Non-Corporate U.S. Holder at preferential capital gain tax rates provided that we are not classified as a PFIC for the taxable year during which the dividend is paid or the immediately preceding taxable year (we intend to take the position that we are not now and have never been classified as a PFIC, as discussed below). Any dividends received with respect to our units not eligible for these preferential rates will be taxed as ordinary income to a Non-Corporate U.S. Holder.

Special rules may apply to any “extraordinary dividend” paid by us. Generally, an extraordinary dividend is a dividend with respect to a share of stock if the amount of the dividend is equal to or in excess of 10% of a common stockholder’s, or 5% of a preferred stockholder’s, adjusted tax basis (or fair market value in certain circumstances) in such stock. In addition, extraordinary dividends include dividends received within a one-year period that, in the aggregate, equal or exceed 20% of a stockholder’s adjusted tax basis (or fair market value in certain circumstances). If we pay an “extraordinary dividend” on our units that is treated as “qualified dividend income,” then any loss recognized by a Non-Corporate U.S. Holder from the sale or exchange of such units will be treated as long-term capital loss to the extent of the amount of such dividend.

Certain Non-Corporate U.S. Holders are subject to a 3.8% tax on certain investment income, including dividends. Non-Corporate U.S. Holders should consult their tax advisors regarding the effect, if any, of this tax on their ownership of our units.

#### Sale, Exchange or Other Disposition of Units

Subject to the discussion of PFICs below, a U.S. Holder generally will recognize capital gain or loss upon a sale, exchange or other disposition of our units in an amount equal to the difference between the amount realized by the U.S. Holder from such sale, exchange or other disposition and the U.S. Holder’s tax basis in such units. Subject to the discussion of extraordinary dividends above, such gain or loss generally will be treated as (a) long-term capital gain or loss if the U.S. Holder’s holding period is greater than one year at the time of the sale, exchange or other disposition, or short term capital gain or loss otherwise and (b) U.S. source gain or loss, as applicable, for foreign tax credit purposes. Non-Corporate U.S. Holders may be eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. A U.S. Holder’s ability to deduct capital losses is subject to certain limitations.

Certain Non-Corporate U.S. Holders are subject to a 3.8% tax on certain investment income, including capital gains from the sale or other disposition of units. Non-Corporate U.S. Holders should consult their tax advisors regarding the effect, if any, of this tax on their disposition of our units.

#### Consequences of Possible PFIC Classification

A non-U.S. entity treated as a corporation for U.S. federal income tax purposes will be treated as a PFIC in any taxable year in which, after taking into account the income and assets of the corporation and certain subsidiaries pursuant to a “look through” rule, either: (a) at least 75% of its gross income is “passive” income, or (b) at least 50% of the average value of its assets is attributable to assets that produce or are held for the production of passive income. For purposes of these tests, “passive income” includes dividends, interest, gains from the sale or exchange of investment property and rents and royalties (other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business). By contrast, income derived from the performance of services does not constitute “passive income.”

There are legal uncertainties involved in determining whether the income derived from our time-chartering activities constitutes rental income or income derived from the performance of services, including legal uncertainties arising from the decision in *Tidewater Inc. v. United States*, 565 F.3d 299 (5th Cir. 2009), which held that income derived from certain time-chartering activities should be treated as rental income rather than services income for purposes of a

foreign sales corporation provision of the Code. However, the IRS stated in an Action on Decision (AOD 2010-01) that it disagrees with, and will not acquiesce to, the way that the rental versus services framework was applied to the facts in the Tidewater decision, and in its discussion stated that the time charters at issue in Tidewater would be treated as producing services income for PFIC purposes. The IRS's statement with respect to Tidewater cannot be relied upon or otherwise cited as precedent by taxpayers. Consequently, in the absence of any binding legal authority specifically relating to the statutory provisions governing PFICs, there can be no assurance that the IRS or a court would not follow the Tidewater decision in interpreting the PFIC provisions of the Code. Moreover, the market value of our units may be treated as reflecting the value of our assets at any given time. Therefore, a decline in the market value of our units, which is not within our control, may impact the determination of whether we are a PFIC. Nevertheless, based on our and our subsidiaries' current assets and operations, we intend to take the position that we are not now and have never been a PFIC.

No assurance can be given, however, that the IRS, or a court of law, will accept our position or that we would not constitute a PFIC for any future taxable year if there were to be changes in our or our subsidiaries' assets, income or operations.

As discussed more fully below, if we were to be treated as a PFIC for any taxable year, a U.S. Holder generally would be subject to different taxation rules depending on whether the U.S. Holder makes a timely and effective election to treat us as a "Qualified Electing Fund" (or a QEF election). As an alternative to making a QEF election, a U.S. Holder should be able to make a "mark-to-market" election with respect to our units, as discussed below.

#### Taxation of U.S. Holders Making a Timely QEF Election

A U.S. Holder who makes a timely QEF election (or an Electing Holder) must report the Electing Holder's pro rata share of our ordinary earnings and net capital gain, if any, for each taxable year for which we are a PFIC that ends with or within the Electing Holder's taxable year,

regardless of whether or not the Electing Holder received distributions from us in that year. Such income inclusions would not be eligible for the preferential tax rates applicable to qualified dividend income. The Electing Holder's adjusted tax basis in our units will be increased to reflect taxed but undistributed earnings and profits. Distributions of earnings and profits that were previously taxed will result in a corresponding reduction in the Electing Holder's adjusted tax basis in our units and will not be taxed again once distributed. An Electing Holder generally will recognize capital gain or loss on the sale, exchange or other disposition of our units. A U.S. Holder makes a QEF election with respect to any year that we are a PFIC by filing IRS Form 8621 with the U.S. Holder's timely filed U.S. federal income tax return (including extensions).

If a U.S. Holder has not made a timely QEF election with respect to the first year in the U.S. Holder's holding period of our units during which we qualified as a PFIC, the U.S. Holder may be treated as having made a timely QEF election by filing a QEF election with the U.S. Holder's timely filed U.S. federal income tax return (including extensions) and, under the rules of Section 1291 of the Code, a "deemed sale election" to include in income as an "excess distribution" (described below) the amount of any gain that the U.S. Holder would otherwise recognize if the U.S. Holder sold the U.S. Holder's units on the "qualification date." The qualification date is the first day of our taxable year in which we qualified as a "qualified electing fund" with respect to such U.S. Holder. In addition to the above rules, under very limited circumstances, a U.S. Holder may make a retroactive QEF election if the U.S. Holder failed to file the QEF election documents in a timely manner. If a U.S. Holder makes a timely QEF election for one of our taxable years, but did not make such election with respect to the first year in the U.S. Holder's holding period of our units during which we qualified as a PFIC and the U.S. Holder did not make the deemed sale election described above, the U.S. Holder also will be subject to the more adverse rules described below.

A U.S. Holder's QEF election will not be effective unless we annually provide the U.S. Holder with certain information concerning our income and gain, calculated in accordance with the Code, to be included with the U.S. Holder's U.S. federal income tax return. We do not intend to provide such information in the current taxable year. Accordingly, U.S. Holders will not be able to make an effective QEF election at this time. If, contrary to our expectations, we determine that we are or will be a PFIC for any taxable year, we will provide U.S. Holders with the information necessary to make an effective QEF election with respect to our units.

#### Taxation of U.S. Holders Making a "Mark-to-Market" Election

If we were to be treated as a PFIC for any taxable year and, as we anticipate, our units were treated as "marketable stock," then, as an alternative to making a QEF election, a U.S. Holder would be allowed to make a "mark-to-market" election with respect to our units, provided the U.S. Holder completes and files IRS Form 8621 in accordance with the relevant instructions and related Treasury Regulations. If that election is made for the first year a U.S. Holder holds or is deemed to hold our units and for which we are a PFIC, the U.S. Holder generally would include as ordinary income in each taxable year that we are a PFIC the excess, if any, of the fair market value of the U.S. Holder's units at the end of the taxable year over the U.S. Holder's adjusted tax basis in the units. The U.S. Holder also would be permitted an ordinary loss in respect of the excess, if any, of the U.S. Holder's adjusted tax basis in the units over the fair market value thereof at the end of the taxable year that we are a PFIC, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder's tax basis in our units would be adjusted to reflect any such income or loss recognized. Gain recognized on the sale, exchange or other disposition of our units in taxable years that we are a PFIC would be treated as ordinary income, and any loss recognized on the sale, exchange or other disposition of our units in taxable years that we are a PFIC would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included in income by the U.S. Holder. Because the mark-to-market election only applies to marketable stock, however, it would not apply to a U.S. Holder's indirect interest in any of our subsidiaries that were also determined to be PFICs.

If a U.S. Holder makes a mark-to-market election for one of our taxable years and we were a PFIC for a prior taxable year during which such U.S. Holder held our units and for which (a) we were not a QEF with respect to such U.S.

Holder and (b) such U.S. Holder did not make a timely mark-to-market election, such U.S. Holder would also be subject to the more adverse rules described below in the first taxable year for which the mark-to-market election is in effect and also to the extent the fair market value of the U.S. Holder's units exceeds the U.S. Holder's adjusted tax basis in the units at the end of the first taxable year for which the mark-to-market election is in effect.

#### Taxation of U.S. Holders Not Making a Timely QEF or Mark-to-Market Election

If we were to be treated as a PFIC for any taxable year, a U.S. Holder who does not make either a QEF election or a "mark-to-market" election for that year (a Non-Electing Holder ) would be subject to special rules resulting in increased tax liability with respect to (a) any "excess distribution" (e.g. the portion of any distributions received by the Non-Electing Holder on our units in a taxable year in excess of 125% of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if shorter, the Non-Electing Holder's holding period for our units), and (b) any gain realized on the sale, exchange or other disposition of our units. Under these special rules:

- the excess distribution or gain would be allocated ratably over the Non-Electing Holder's aggregate holding period for our units;
- the amount allocated to the current taxable year and any taxable year prior to the taxable year we were first treated as a PFIC with respect to the Non-Electing Holder would be taxed as ordinary income in the current taxable year;
- the amount allocated to each of the other taxable years would be subject to U.S. federal income tax at the highest rate of tax in effect for the applicable class of taxpayer for that year; and
- an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

Additionally, for each year during which a U.S. Holder holds our units, we are a PFIC, and the total value of all PFIC units that such U.S. Holder directly or indirectly holds exceeds certain thresholds, such U.S. Holder will be required to file IRS Form 8621 with its annual U.S.



federal income tax return to report its ownership of our units. In addition, if a Non-Electing Holder, who is an individual, dies while owning our units, such Non-Electing Holder's successor generally would not receive a step-up in tax basis with respect to such units.

U.S. Holders are urged to consult their tax advisors regarding the PFIC rules, including the PFIC annual reporting requirements, as well as the applicability, availability and advisability of, and procedure for, making QEF, Mark-to-Market and other available elections with respect to us, and the U.S. federal income tax consequences of making such elections.

#### U.S. Return Disclosure Requirements for U.S. Individual Holders

U.S. Individual Holders who hold certain specified foreign financial assets, including stock in a foreign corporation that is not held in an account maintained by a financial institution, with an aggregate value in excess of \$50,000 on the last day of a taxable year, or \$75,000 at any time during that taxable year, may be required to report such assets on IRS Form 8938 with their U.S. federal income tax return for that taxable year. This reporting requirement does not apply to U.S. Individual Holders who report their ownership of our units under the PFIC annual reporting rules described above. Penalties apply for failure to properly complete and file IRS Form 8938. U.S. Individual Holders are encouraged to consult with their tax advisors regarding the possible application of this disclosure requirement to their investment in our units.

#### United States Federal Income Taxation of Non-U.S. Holders

A beneficial owner of our units (other than a partnership, including any entity or arrangement treated as a partnership for U.S. federal income tax purposes) that is not a U.S. Holder is a Non-U.S. Holder.

#### Distributions

In general, a Non-U.S. Holder will not be subject to U.S. federal income tax on distributions received from us with respect to our units unless the distributions are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment that the Non-U.S. Holder maintains in the United States). If a Non-U.S. Holder is engaged in a trade or business within the United States and the distributions are deemed to be effectively connected to that trade or business, the Non-U.S. Holder generally will be subject to U.S. federal income tax on those distributions in the same manner as if it were a U.S. Holder.

#### Sale, Exchange or Other Disposition of Units

In general, a non-U.S. Holder is not subject to U.S. federal income tax on any gain resulting from the disposition of our units unless (a) such gain is effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment that the Non-U.S. Holder maintains in the United States) or (b) the Non-U.S. Holder is an individual who is present in the United States for 183 days or more during the taxable year in which such disposition occurs and meets certain other requirements. If a Non-U.S. Holder is engaged in a trade or business within the United States and the disposition of our units is deemed to be effectively connected to that trade or business, the Non-U.S. Holder generally will be subject to U.S. federal income tax on the resulting gain in the same manner as if it were a U.S. Holder.

#### Information Reporting and Backup Withholding

In general, distributions taxable as dividends with respect to, or the proceeds from a sale, redemption or other taxable disposition of, our units held by a Non-Corporate U.S. Holder will be subject to information reporting requirements, unless such distribution taxable as a dividend is paid and received outside the United States by a non-U.S. payor or non-U.S. middleman (within the meaning of U.S. Treasury Regulations), or such proceeds are effected through an office outside the U.S. of a broker that is considered a non-U.S. payor or non-U.S. middleman (within the meaning of U.S. Treasury Regulations). These amounts also generally will be subject to backup withholding if the Non-Corporate U.S. Holder:

- fails to timely provide an accurate taxpayer identification number;
- is notified by the IRS that it has failed to report all interest or distributions required to be shown on its U.S. federal income tax returns; or
- in certain circumstances, fails to comply with applicable certification requirements.

Information reporting and backup withholding generally will not apply to distributions taxable as dividends on our units to a Non-U.S. Holder if such dividend is paid and received outside the United States by a non-U.S. payor or non-U.S. middleman (within the meaning of U.S. Treasury Regulations) or the Non-U.S. Holder properly certifies under penalties of perjury as to its non-U.S. status (generally on IRS Form W-8BEN, W-8BEN-E, W-8ECI, W-8EXP or W-8IMY, as applicable) and certain other conditions are met or the Non-U.S. Holder otherwise establishes an exemption.

Payment of proceeds to a Non-U.S. Holder from a sale, redemption or other taxable disposition of our units to or through the U.S. office of a broker, or through a broker that is considered a U.S. payor or U.S. middleman (within the meaning of U.S. Treasury Regulations), generally will be subject to information reporting and backup withholding, unless the Non-U.S. Holder properly certifies under penalties of perjury as to its non-U.S. status (generally on IRS Form W-8BEN, W-8BEN-E, W-8ECI, W-8EXP or W-8IMY, as applicable) and certain other conditions are met or the Non-U.S. Holder otherwise establishes an exemption.

Backup withholding is not an additional tax. Rather, a Non-Corporate U.S. Holder or Non-U.S. Holder generally may obtain a credit for any amount withheld against its liability for U.S. federal income tax (and obtain a refund of any amounts withheld in excess of such liability) by accurately completing and timely filing a U.S. federal income tax return with the IRS.

## Non-United States Tax Considerations

### Marshall Islands Taxation

Because we and our controlled affiliates do not, and we do not expect that we and our controlled affiliates will, conduct business, operations, or transactions in the Republic of the Marshall Islands, neither we nor our controlled affiliates are subject to income, capital gains, profits or other taxation under current Marshall Islands law, other than taxes, fines, or fees due to (i) the incorporation, dissolution, continued existence, merger, domestication (or similar concepts) of legal entities registered in the Republic of the Marshall Islands, (ii) filing certificates (such as certificates of incumbency, merger, or redomiciliation) with the Marshall Islands registrar, (iii) obtaining certificates of good standing from, or certified copies of documents filed with, the Marshall Islands registrar, (iv) compliance with Marshall Islands law concerning vessel ownership, such as tonnage tax, or (v) non-compliance with requests made by the Marshall Islands registrar of corporations relating to our books and records and the books and records of our subsidiaries. As a result, distributions by controlled affiliates to us are not subject to Marshall Islands taxation.

### Other Taxation

We and our subsidiaries are subject to taxation in certain non-U.S. jurisdictions because we or our subsidiaries are either organized, or conduct business or operations, in such jurisdictions, but we do not expect any such tax to be material. However, we cannot assure this result as tax laws in these or other jurisdictions may change or we may enter into new business transactions relating to such jurisdictions, which could affect our tax liability. Please read “Item 18 – Financial Statements: Note 11 – Income Tax.”

## Canadian Federal Income Tax Considerations

The following discussion is a summary of the material Canadian federal income tax considerations under the Income Tax Act (Canada) (or the Canada Tax Act) that we believe are relevant to holders of units who, for the purposes of the Canada Tax Act and the Canada-United States Tax Convention 1980 (or the Canada-U.S. Treaty), are at all relevant times resident in the United States and entitled to all of the benefits of the Canada - U.S. Treaty and who deal at arm’s length with us and Teekay Corporation (or U.S. Resident Holders). This discussion takes into account all proposed amendments to the Canada Tax Act and the regulations thereunder that have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and assumes that such proposed amendments will be enacted substantially as proposed. However, no assurance can be given that such proposed amendments will be enacted in the form proposed or at all.

Teekay LNG Partners L.P. is considered to be a partnership under Canadian federal income tax law and therefore not a taxable entity for Canadian income tax purposes. A U.S. Resident Holder will not be liable to tax under the Canada Tax Act on any income or gains allocated by Teekay LNG Partners L.P. to the U.S. Resident Holder in respect of such U.S. Resident Holder in respect of such U.S. Resident Holder’s units, provided that (a) Teekay LNG Partners L.P. does not carry on business in Canada for the purposes of the Canada Tax Act and (b) such U.S. Resident Holder does not hold such units in connection with a business carried on by such U.S. Resident Holder through a permanent establishment in Canada for purposes of the Canada-U.S. Treaty.

A U.S. Resident Holder will not be liable to tax under the Canada Tax Act on any income or gain from the sale, redemption or other disposition of such U.S. Resident Holder’s units, provided that, for purposes of the Canada-U.S. Treaty, such units do not, and did not at any time in the twelve-month period preceding the date of disposition, form part of the business property of a permanent establishment in Canada of such U.S. Resident Holder.

We believe that the activities and affairs of Teekay LNG Partners L.P. are conducted in such a manner that Teekay LNG Partners L.P. is not carrying on business in Canada and that U.S. Resident Holders should not be considered to be carrying on business in Canada for purposes of the Canada Tax Act or the Canada-U.S. Treaty solely by reason of

the acquisition, holding, disposition or redemption of our units. We intend that this is and continues to be the case, notwithstanding that Teekay Shipping Limited (a subsidiary of Teekay Corporation that is a non-resident of Canada) and Service Provider (an indirect subsidiary of Teekay LNG Partners L.P. that is a non-resident of Canada) provide certain services to Teekay LNG Partners L.P. and obtain some or all such services under subcontracts with Canadian service providers. If the arrangements we have entered into result in Teekay LNG Partners L.P. being considered to carry on business in Canada for purposes of the Canada Tax Act, U.S. Resident Holders would be considered to be carrying on business in Canada and may be required to file Canadian tax returns, subject to any relief provided under the Canada-U.S. Treaty, would be subject to taxation in Canada on any income that is considered to be attributable to the business carried on by Teekay LNG Partners L.P. in Canada. The Canada-U.S. Treaty contains a treaty benefit denial rule which may have the effect of denying relief thereunder from Canadian taxation to U.S. Resident Holders in respect of any income attributable to business carried on by us in Canada.

Although we do not intend to do so, there can be no assurance that the manner in which we carry on our activities will not change from time to time as circumstances dictate or warrant in a manner that may cause U.S. Resident Holders to be carrying on business in Canada for purposes of the Canada Tax Act. Further, the relevant Canadian federal income tax law may change by legislation or judicial interpretation and the Canadian taxing authorities may take a different view than we have of the current law.

It is the responsibility of each unitholder to investigate the legal and tax consequences, under the laws of pertinent jurisdictions, including Canada, of an investment in us. Accordingly, each unitholder is urged to consult, and depend upon, such unitholder's tax counsel or other advisor with regard to those matters. Further, it is the responsibility of each unitholder to file all state, local and non-U.S., as well as U.S. federal tax returns, that may be required of such unitholder.

Documents on Display

Documents concerning us that are referred to herein may be accessed on our website under “Investors - Teekay LNG Partners L.P. - Financials & Presentations” from the home page of our web site at [www.teekay.com](http://www.teekay.com) or may be inspected at our principal executive offices at 4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda. Those documents electronically filed via the SEC’s Electronic Data Gathering, Analysis, and Retrieval (or EDGAR) system may also be obtained from the SEC’s website at [www.sec.gov](http://www.sec.gov), free of charge.

#### Item 11. Quantitative and Qualitative Disclosures About Market Risk

##### Interest Rate Risk

We are exposed to the impact of interest rate changes primarily through our borrowings that require us to make interest payments based on LIBOR, EURIBOR or NIBOR. Significant increases in interest rates could adversely affect our operating margins, results of operations and our ability to service our debt. From time to time, we use interest rate swaps to reduce our exposure to market risk from changes in interest rates. The principal objective of these contracts is to minimize the risks and costs associated with our floating-rate debt.

We are exposed to credit loss in the event of non-performance by the counterparties to the interest rate swap agreements. In order to minimize counterparty risk, we only enter into derivative transactions with counterparties that are rated A- or better by Standard & Poor’s or A3 or better by Moody’s at the time of the transactions. In addition, to the extent practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

The table below provides information about our financial instruments at December 31, 2018, that are sensitive to changes in interest rates, including our long-term debt, obligations related to capital leases and interest rate swaps, but excluding any amounts related to our equity-accounted investments. For long-term debt and obligations related to capital leases, the table presents principal payments and related weighted-average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and weighted-average interest rates by expected contractual maturity dates. The expected contractual maturity dates do not reflect potential prepayments of long-term debt and obligations related to capital leases as well as the potential exercise of early termination options for certain of our interest rate swaps.

##### Expected Maturity Date

|   | 2019  | 2020  | 2021  | 2022  | 2023  | There-<br>after | Total   | Fair<br>Value<br>Liability | Rate <sup>(1)</sup> |
|---|-------|-------|-------|-------|-------|-----------------|---------|----------------------------|---------------------|
| (in millions of U.S. Dollars, except percentages) |       |       |       |       |       |                 |         |                            |                     |
| <b>Long-Term Debt:</b>                            |       |       |       |       |       |                 |         |                            |                     |
| Fixed Rate (\$U.S.)                               | 9.3   | 9.3   | 9.3   | 9.3   | 9.3   | 62.8            | 109.3   | 106.8                      | 4.4 %               |
| Variable-Rate (\$U.S.) <sup>(2)</sup>             | 102.6 | 462.2 | 228.9 | 54.6  | 46.0  | 437.2           | 1,331.5 | 1,307.4                    | 4.5 %               |
| Variable-Rate (Euro) <sup>(3) (4)</sup>           | 24.7  | 25.8  | 27.0  | 28.2  | 59.6  | 28.5            | 193.8   | 189.9                      | 1.2 %               |
| Variable-Rate (NOK) <sup>(4) (5)</sup>            | —     | 115.7 | 138.9 | —     | 98.4  | —               | 353.0   | 361.1                      | 6.0 %               |
| <b>Obligations Related to Capital Leases:</b>     |       |       |       |       |       |                 |         |                            |                     |
| Variable-Rate (\$U.S.) <sup>(6)</sup>             | 42.5  | 18.5  | 18.5  | 18.6  | 18.6  | 234.9           | 351.6   | 350.7                      | 4.5 %               |
| Fixed-Rate (\$U.S.) <sup>(6)</sup>                | 38.8  | 40.7  | 42.8  | 45.1  | 47.6  | 732.0           | 947.0   | 924.0                      | 5.4 %               |
| Average Interest Rate <sup>(7)</sup>              | 5.4 % | 5.4 % | 5.4 % | 5.4 % | 5.4 % | 5.4 %           | 5.4 %   |                            |                     |
| <b>Interest Rate Swaps:</b>                       |       |       |       |       |       |                 |         |                            |                     |
| Contract Amount (\$U.S.) <sup>(8)</sup>           | 174.9 | 197.6 | 190.8 | 25.9  | 26.6  | 188.9           | 804.7   | (26,525)                   | 3.3 %               |
| Average Fixed-Pay Rate <sup>(2)</sup>             | 2.8 % | 3.3 % | 3.5 % | 3.7 % | 3.6 % | 3.3 %           | 3.3 %   |                            |                     |
| Contract Amount (Euro) <sup>(4) (9)</sup>         | 9.7   | 10.4  | 11.2  | 12.1  | 43.1  | —               | 86.5    | (11,092)                   | 3.8 %               |
| Average Fixed-Pay Rate <sup>(3)</sup>             | 3.7 % | 3.7 % | 3.7 % | 3.7 % | 3.9 % | —               | 3.8 %   |                            |                     |

(1) Rate refers to the weighted-average effective interest rate for our long-term debt and obligations related to capital leases, including the margin we pay on our floating-rate debt and the average fixed pay rate for our interest rate swap agreements. The average interest rate for our obligations related to capital leases is the weighted-average interest rate implicit in our lease obligations at the inception of the leases. The average fixed pay rate for our

interest rate swaps excludes the margin we pay on our drawn floating-rate debt, which as of December 31, 2018 ranged from 0.30% to 3.25%. Please read “Item 18 – Financial Statements: Note 10 – Long-Term Debt.”

- (2) Interest payments on U.S. Dollar-denominated debt and interest rate swaps are based on LIBOR.
- (3) Interest payments on Euro-denominated debt and interest rate swaps are based on EURIBOR.
- (4) Euro-denominated and NOK-denominated amounts have been converted to U.S. Dollars using the prevailing exchange rate as of December 31, 2018.
- (5) Interest payments on our NOK-denominated debt and on our cross currency swaps are based on NIBOR. Our NOK-denominated bonds have been economically hedged with cross currency swaps, to swap all interest and principal payments into U.S. Dollars, with the respective interest payments fixed

at a rate ranging from 5.92% to 7.89%, and the transfer of principal locked in at \$382.5 million upon maturities. Please see "Foreign Currency Fluctuations" below and read "Item 18 – Financial Statements: Note 13 – Derivative Instruments and Hedging Activities."

- (6) The amount of obligations related to capital leases represents the present value of minimum lease payments together with our purchase obligation, as applicable.
- (7) The average interest rate is the weighted-average interest rate implicit in the obligations related to our fixed-rate capital leases at the inception of the leases.
- (8) The average variable receive rate for our U.S. Dollar-denominated interest rate swaps is set at 3-month or 6-month LIBOR.
- (9) The average variable receive rate for our Euro-denominated interest rate swaps is set at 1-month EURIBOR or 6-month EURIBOR.

#### Spot Market Rate Risk

Our seven multi-gas vessels and certain of our LNG and LPG carriers in our equity-accounted joint ventures are trading in the spot market. The cyclical nature of the spot market may cause significant increases or decreases in the revenues we earn from these vessels trading in the spot market.

#### Foreign Currency Fluctuations

Our functional currency is U.S. Dollars because nearly all of our revenues and most of our operating costs are in U.S. Dollars. Our results of operations are affected by fluctuations in currency exchange rates. The volatility in our financial results due to currency exchange rate fluctuations is attributed primarily to foreign currency revenues and expenses, our Euro-denominated loans and restricted cash deposits and our NOK-denominated bonds. A portion of our voyage revenues are denominated in Euros. A portion of our vessel operating expenses and general and administrative expenses are denominated in Euros, which is primarily a function of the nationality of our crew and administrative staff. We have Euro-denominated interest expense and Euro-denominated interest income related to our Euro-denominated loans of 169.0 million Euros (\$193.8 million) and Euro-denominated restricted cash deposits of 21.6 million Euros (\$24.8 million), respectively, as at December 31, 2018. We also incur NOK-denominated interest expense on our NOK-denominated bonds; however, we entered into cross currency swaps and pursuant to these swaps we receive the principal amount in NOK on the maturity date of the swap, in exchange for payment of a fixed U.S. Dollar amount. In addition, the cross currency swaps exchange a receipt of floating interest in NOK based on NIBOR plus a margin for a payment of U.S. Dollar fixed interest. The purpose of the cross currency swaps is to economically hedge the foreign currency exposure on the payment of interest and principal of our NOK bonds due in 2020 through 2023, and to economically hedge the interest rate exposure. We have not designated, for accounting purposes, these cross currency swaps as cash flow hedges of the NOK-denominated bonds due in 2018 through 2021. Please read "Item 18 – Financial Statements: Note 13 – Derivative Instruments and Hedging Activities." At December 31, 2018, the fair value of the cross currency swaps derivative liabilities was \$29.1 million and the change from December 2017 to the reporting period has been reported in foreign currency exchange gain (loss) in the consolidated statements of income. As a result, fluctuations in the Euro and NOK relative to the U.S. Dollar have caused, and are likely to continue to cause, fluctuations in our reported voyage revenues, vessel operating expenses, general and administrative expenses, interest expense, interest income, realized and unrealized loss on non-designated derivative instruments and foreign currency exchange gain (loss).

#### Item 12. Description of Securities Other than Equity Securities

Not applicable.

#### PART II

#### Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

#### Item 14. Material Modifications to the Rights of Unitholders and Use of Proceeds

Not applicable.

#### Item 15. Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (or the Exchange Act)) that are designed to ensure that (i) information required to be disclosed in our reports that are filed or submitted under the Exchange Act, are recorded, processed, summarized,

and reported within the time periods specified in the SEC's rules and forms, and (ii) information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including the principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We conducted an evaluation of our disclosure controls and procedures under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer of the Service Provider. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer of the Service Provider concluded that our disclosure controls and procedures are effective as of December 31, 2018.



The Chief Executive Officer and Chief Financial Officer of the Service Provider do not expect that our disclosure controls or internal controls will prevent all errors and all fraud. Although our disclosure controls and procedures were designed to provide reasonable assurance of achieving their objectives, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within us have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

#### Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining for us adequate internal control over financial reporting.

Our internal controls are designed to provide reasonable assurance as to the reliability of our financial reporting and the preparation and presentation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Our internal control over financial reporting includes those policies and procedures that: 1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; 2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made in accordance with authorizations of management and the directors; and 3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements.

We conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements even when determined to be effective and can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate. Based on the evaluation, management has determined that the internal control over financial reporting was effective as of December 31, 2018.

Our independent auditors, KPMG LLP, an independent registered public accounting firm, have audited the accompanying consolidated financial statements and the effectiveness of our internal control over financial reporting as of December 31, 2018. Their attestation report on the effectiveness of our internal control over financial reporting can be found on page F-2 of this Annual Report.

There were no changes in our internal controls that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rule 13a – 15 (f) under the Exchange Act) that occurred during the year ended December 31, 2018.

Item 16A. Audit Committee Financial Expert

The Board of Directors of our General Partner has determined that director and Chair of the Audit Committee Ms. Beverlee F. Park qualifies as an audit committee financial expert and is independent under applicable NYSE and SEC standards.

Item 16B. Code of Ethics

We have adopted a Standards of Business Conduct that applies to all our employees and the employees and directors of our General Partner. This document is available under “Investors – Teekay LNG Partners L.P. - Governance” from the home page of our web site ([www.teekay.com](http://www.teekay.com)). We intend to disclose, under “Investors – Teekay LNG Partners L.P. - Governance” in the Investors section of our web site, any waivers to or amendments of our Standards of Business Conduct that benefit any directors and executive officers of our General Partner.

Item 16C. Principal Accountant Fees and Services

Our principal accountant for 2018 and 2017 was KPMG LLP, Chartered Professional Accountants. The following table shows the fees we paid or accrued for audit and audit-related services provided by KPMG LLP for 2018 and 2017.

|                                     |      |      |
|-------------------------------------|------|------|
| Fees (in thousands of U.S. Dollars) | 2018 | 2017 |
| Audit Fees <sup>(1)</sup>           | 859  | 930  |
| Audit-Related Fees <sup>(2)</sup>   | 5    | 11   |
| Total                               | 864  | 941  |

Audit fees represent fees for professional services provided in connection with the audits of our consolidated financial statements and effectiveness of internal control over financial reporting, review of our quarterly consolidated financial statements, audit services provided in connection with other statutory audits and professional services in connection with the review of our regulatory filings for our equity offerings.

(1) consolidated financial statements, audit services provided in connection with other statutory audits and professional services in connection with the review of our regulatory filings for our equity offerings.

(2) Audit-related fees relate to other accounting consultations.

No fees for tax services were provided to the Partnership by the auditor during the term of their appointments in 2018 and 2017.

The Audit Committee of our General Partner's Board of Directors has the authority to pre-approve permissible audit, audit-related and non-audit services not prohibited by law to be performed by our independent auditors and associated fees. Engagements for proposed services either may be separately pre-approved by the Audit Committee or entered into pursuant to detailed pre-approval policies and procedures established by the Audit Committee, as long as the Audit Committee is informed on a timely basis of any engagement entered into on that basis. The Audit Committee pre-approved all engagements and fees paid to our principal accountant in 2018 and in 2017.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Units by the Issuer and Affiliated Purchasers

During 2018, we announced that our Board of Directors had authorized a common unit repurchase program of up to \$100 million of our common units. Common units may be repurchased in the open market or privately-negotiated transactions or otherwise at times and prices considered appropriate by us. The timing of any purchases and the exact number of common units to be purchased under the common unit repurchase program will be dependent on market conditions and other factors.

During 2018, we repurchased common units during the month of December, as indicated in the table below.

| (in thousands of U.S. Dollars, except unit data) | Number of common units | Repurchase amount |
|--|------------------------|-------------------|
| December 2018                                    | 326,780                | 3,710             |

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

As a foreign private issuer, we are not required to obtain unitholder approval prior to the adoption of equity compensation plans or certain equity issuances, including, among others, issuing 20% or more of our outstanding common units or voting power in a transaction.

There are no other significant ways in which our corporate governance practices differ from those followed by domestic limited partnerships under the listing requirements of the New York Stock Exchange.

Item 16H. Mine Safety Disclosure

Not applicable.

PART III

Item 17. Financial Statements

Not applicable.

Item 18. Financial Statements



The following financial statements, together with the related reports of KPMG LLP, Independent Registered Public Accounting Firm are filed as part of this Annual Report:

|   | Page    |
|---|---------|
| <u>Reports of Independent Registered Public Accounting Firm</u> | F - 1,2 |
| Consolidated Financial Statements                               |         |
| <u>Consolidated Statements of Income</u>                        | F - 3   |
| <u>Consolidated Statements of Comprehensive Income</u>          | F - 4   |
| <u>Consolidated Balance Sheets</u>                              | F - 5   |
| <u>Consolidated Statements of Cash Flows</u>                    | F - 6   |
| <u>Consolidated Statements of Changes in Total Equity</u>       | F - 7   |
| <u>Notes to the Consolidated Financial Statements</u>           | F - 8   |

All schedules for which provision is made in the applicable accounting regulations of the SEC are not required, are inapplicable or have been disclosed in the Notes to the Consolidated Financial Statements and therefore have been omitted.

Item 19. Exhibits

The following exhibits are filed as part of this Annual Report:

- 1.1 Certificate of Limited Partnership of Teekay LNG Partners L.P. <sup>(1)</sup>
- 1.2 Fourth Amended and Restated Agreement of Limited Partnership of Teekay LNG Partners L.P. <sup>(2)</sup>
- 1.3 Certificate of Formation of Teekay GP L.L.C. <sup>(1)</sup>
- 1.4 Second Amended and Restated Limited Liability Company Agreement of Teekay GP L.L.C., dated March 2005, as amended by Amendment No. 1, dated February 25, 2008, and Amendment No.2, dated February 29, 2008. <sup>(3)</sup>
- 2.1 Agreement, dated May 18, 2015, for NOK 1,000,000,000, Senior Unsecured Bonds due May 2020, between Teekay LNG Partners L.P. and Nordic Trustee ASA. <sup>(4)</sup>
- 4.1 Amended Teekay LNG Partners L.P. 2005 Long-Term Incentive Plan. <sup>(3)</sup>
- 4.2 Amended and Restated Omnibus Agreement with Teekay Corporation, Teekay Offshore, our General Partner and related parties. <sup>(5)</sup>
- 4.3 Administrative Services Agreement with Teekay Shipping Limited. <sup>(3)</sup>
- 4.4 Advisory, Technical and Administrative Services Agreement between Teekay Shipping Spain S.L. and Teekay Shipping Limited. <sup>(3)</sup>
- 4.5 LNG Strategic Consulting and Advisory Services Agreement between Teekay LNG Partners L.P. and Teekay Shipping Limited. <sup>(3)</sup>
- 4.6 Syndicated Loan Agreement between Naviera Teekay Gas III, S.L. (formerly Naviera F. Tapias Gas III, S.A.) and Caixa de Aforros de Vigo Ourense e Pontevedra, as Agent, dated as of October 2, 2000, as amended. <sup>(3)</sup>
- 4.7 Deed of Amendment and Restatement dated October 10, 2008, relating to a Loan Agreement for a U.S. \$92,400,000 Buyer Credit and a U.S. \$117,600,000 Commercial Loan between MiNT LNG I, Ltd., BNP Paribas S.A., and other banks. <sup>(6)</sup>
- 4.8 Deed of Amendment and Restatement dated October 10, 2008, relating to a Loan Agreement for a U.S. \$92,400,000 Buyer Credit and a U.S. \$117,600,000 Commercial Loan between MiNT LNG II, Ltd., BNP Paribas S.A., and other banks. <sup>(6)</sup>
- 4.9 Deed of Amendment and Restatement dated October 10, 2008, relating to a Loan Agreement for a U.S. \$92,400,000 Buyer Credit and a U.S. \$117,600,000 Commercial Loan between MiNT LNG III, Ltd., BNP Paribas S.A., and other banks. <sup>(6)</sup>
- 4.10 Deed of Amendment and Restatement dated November 10, 2008, relating to a Loan Agreement for a U.S. \$92,400,000 Buyer Credit and a U.S. \$117,600,000 Commercial Loan between MiNT LNG IV, Ltd., BNP Paribas S.A., and other banks. <sup>(6)</sup>

- 4.11 Agreement dated January 1, 2012, for business development services between Teekay LNG Operating L.L.C. and Teekay Shipping Limited. <sup>(7)</sup>
- 4.12 Agreement dated June 27, 2013, for U.S. \$195,000,000 senior secured notes between Meridian Spirit ApS and Wells Fargo Bank Northwest N.A. <sup>(8)</sup>
- 4.13 Agreement dated June 28, 2013, for U.S. \$160,000,000 loan facility between Malt Singapore Pte. Ltd. and Commonwealth Bank of Australia. <sup>(8)</sup>

- 4.14 Agreement dated February 12, 2013; Teekay Luxembourg S.a.r.l. entered into a share purchase agreement with Exmar NV and Exmar Marine NV to purchase 50% of the shares in Exmar LPG BVBA. <sup>(9)</sup>
- 4.15 Agreement dated July 7, 2014; Teekay LNG Operating L.L.C. entered into a shareholder agreement with China LNG Shipping (Holdings) Limited to form TC LNG Shipping L.L.C. in connection with the Yamal LNG Project. <sup>(10)</sup>
- 4.16 Agreement dated December 17, 2014, for U.S. \$450,000,000 loan facility between Nakilat Holdco L.L.C. and Qatar National Bank SAQ. <sup>(10)</sup>
- 4.17 Amending and Restating Agreement dated June 5, 2015, for a U.S. \$460,000,000 secured loan facility between Exmar LPG BVBA and Nordea Bank Norge ASA and other banks. <sup>(4)</sup>
- 4.18 Agreement dated November 15, 2016, for a U.S. \$730,000,000 Secured Loan Facility between Bahrain LNG W.L.L. and Standard Chartered Bank and other banks. <sup>(11)</sup>
- 4.19 Agreement dated December 21, 2016, for a U.S. \$723,200,000 Secured Loan Facility between Teekay Nakilat (III) Corporation and Qatar National Bank SAQ. <sup>(11)</sup>
- 4.20 Agreement dated December 8, 2017, for a U.S. \$1,632,000,000 Secured Loan Agreement between DSME Hull No. 2423 L.L.C., DSME Hull No. 2425 L.L.C., DSME Hull No. 2430 L.L.C., DSME Hull No. 2431 L.L.C., DSME Hull No. 2433 L.L.C. and DSME Hull No. 2434 L.L.C. (as borrowers) and China Development Bank.
- 8.1 List of Subsidiaries of Teekay LNG Partners L.P.
- 12.1 Rule 13a-15(e)/15d-15(e) Certification of Mark Kremin, President and Chief Executive Officer of Teekay Gas Group Ltd.
- 12.2 Rule 13a-15(e)/15d-15(e) Certification of Scott Gayton, Chief Financial Officer of Teekay Gas Group Ltd.
- 13.1 Certification of Mark Kremin, President and Chief Executive Officer of Teekay Gas Group Ltd., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2 Certification of Scott Gayton, Chief Financial Officer of Teekay Gas Group Ltd., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 15.1 Consent of KPMG LLP, as independent registered public accounting firm, for Teekay LNG Partners L.P.
- 101.INS XBRL Instance Document.
- 101.SCJ XBRL Taxonomy Extension Schema.
- 101.CALXBRL Taxonomy Extension Calculation Linkbase.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase.
- 101.LABXBRL Taxonomy Extension Label Linkbase.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase.

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Previously filed as exhibits 3.1 and 3.5 to the Partnership's Registration Statement on Form F-1 (File No. (1)333-120727), filed with the SEC on November 24, 2004, and hereby incorporated by reference to such Annual Report.

(2) Previously filed as exhibit 4.1 to the Partnership's Report on Form 6-K filed with the SEC on January 4, 2019, and hereby incorporated by reference to such Report.

Previously filed as exhibits 3.4, 10.3, 10.5, 10.6, 10.7 and 10.11 to the Partnership's Amendment No. 3 to (3)Registration Statement on Form F-1 (File No. 333-120727), filed with the SEC on April 11, 2005, and hereby incorporated by reference to such Registration Statement.

(4) Previously filed as exhibit 2.3 and 4.34 to the Partnership's Annual Report on Form 20-F (File No. 1-32479), filed with the SEC on April 27, 2016 and hereby incorporated by reference to such report.

(5) Previously filed as exhibit 4.17 to the Partnership's Annual Report on Form 20-F (File No. 1-32479), filed with the SEC on April 19, 2007 and hereby incorporated by reference to such report.

(6) Previously filed as exhibits 4.19, 4.20, 4.21 and 4.22 to the Partnership's Report on Form 20-F (File No. 1-32479), filed with the SEC on April 11, 2012 and hereby incorporated by reference to such report.

(7) Previously filed as exhibit 4.26 to the Partnership's Annual Report on Form 20-F (File No. 1-32479), filed with the SEC on April 16, 2013 and hereby incorporated by reference to such report.

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- (8) Previously filed as exhibits 4.1 and 4.2 to the Partnership's Report on Form 6-K (File No. 1-32479), filed with the SEC on November 27, 2013 and hereby incorporated by reference to such report.
- (9) Previously filed as exhibit 4.31 to the Partnership's Annual Report on Form 20-F (File No. 1-32479), filed with the SEC on April 29, 2014 and hereby incorporated by reference to such report.
- (10) Previously filed as exhibits 4.29 and 4.30 to the Partnership's Annual Report on Form 20-F (File No. 1-32479), filed with the SEC on April 23, 2015 and hereby incorporated by reference to such report.
- (11) Previously filed as exhibits 4.37 and 4.39 to the Partnership's Annual Report on Form 20-F (File No. 1-32479), filed with the SEC on April 26, 2017 and hereby incorporated by reference to such report.



SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEEKAY LNG PARTNERS L.P.

By: Teekay GP L.L.C., its General Partner

Date: April 5, 2019 By: /s/ Edith Robinson

Edith Robinson

Corporate Secretary

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Unitholders of Teekay LNG Partners L.P.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Teekay LNG Partners L.P. and subsidiaries (the Partnership) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, cash flows, and changes in total equity for each of the years in the three year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Partnership's internal control over financial reporting as of December 31, 2018, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated April 5, 2019 expressed an unqualified opinion on the effectiveness of the Partnership's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Partnership has changed its accounting policies for revenue recognition as of January 1, 2018 due to the adoption of ASU 2014-09 - Revenue from Contracts with Customers, and the classification of restricted cash and final settlements on cross currency swap agreements on the consolidated statements of cash flows for 2018 and comparative periods due to the adoption of ASU 2016-18 - Statement of Cash Flows: Restricted Cash and ASU 2016-15 - Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, respectively.

Basis for Opinion

These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Partnership's auditor since 2011.

/s/ KPMG LLP

Chartered Professional Accountants

Vancouver, Canada

April 5, 2019



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Unitholders of Teekay LNG Partners L.P.

Opinion on Internal Control Over Financial Reporting

We have audited Teekay LNG Partners L.P. and subsidiaries' (the Partnership) internal control over financial reporting as of December 31, 2018, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Partnership maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Partnership as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, cash flows, and changes in total equity for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements), and our report dated April 5, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Partnership's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Partnership's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may

deteriorate.

/s/ KPMG LLP  
Chartered Professional Accountants  
Vancouver, Canada  
April 5, 2019

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TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME (notes 1 and 2)  
(in thousands of U.S. Dollars, except unit and per unit data)

|  | Year Ended<br>December 31,<br>2018 | Year Ended<br>December 31,<br>2017 | Year Ended<br>December 31,<br>2016 |
|--|------------------------------------|------------------------------------|------------------------------------|
|  | \$                                 | \$                                 | \$                                 |
| Voyage revenues (notes 6 and 12a)  | 510,762                            | 432,676                            | 396,444                            |
| Voyage expenses  | (28,237 )                          | (8,202 )                           | (1,656 )                           |
| Vessel operating expenses (note 12a)   | (117,658 )                         | (101,539 )                         | (87,890 )                          |
| Time-charter hire expense (note 12a)   | (7,670 )                           | —                                  | —                                  |
| Depreciation and amortization  | (124,378 )                         | (105,545 )                         | (95,542 )                          |
| General and administrative expenses (notes 12a and 17)                                 | (28,512 )                          | (18,141 )                          | (19,199 )                          |
| Write-down of goodwill and write-down and loss on sales of vessels (notes 8 and 19)    | (54,653 )                          | (50,600 )                          | (38,976 )                          |
| Restructuring charges (note 18)  | (1,845 )                           | —                                  | —                                  |
| Income from vessel operations  | 147,809                            | 148,649                            | 153,181                            |
| Equity income (notes 7 and 14d)  | 53,546                             | 9,789                              | 62,307                             |
| Interest expense   | (128,303 )                         | (80,937 )                          | (58,844 )                          |
| Interest income  | 3,760                              | 2,915                              | 2,583                              |
| Realized and unrealized gain (loss) on non-designated derivative instruments (note 13) | 3,278                              | (5,309 )                           | (7,161 )                           |
| Foreign currency exchange gain (loss) (notes 10 and 13)                                | 1,371                              | (26,933 )                          | 5,335                              |
| Other (expense) income (note 14b)  | (51,373 )                          | 1,561                              | 1,537                              |
| Net income before income tax expense   | 30,088                             | 49,735                             | 158,938                            |
| Income tax expense (notes 11 and 14c)  | (3,213 )                           | (824 )                             | (973 )                             |
| Net income   | 26,875                             | 48,911                             | 157,965                            |
| Non-controlling interest in net income   | (1,494 )                           | 14,946                             | 17,514                             |
| Preferred unitholders' interest in net income  | 25,701                             | 13,979                             | 2,719                              |
| General Partner's interest in net income   | 53                                 | 400                                | 2,755                              |
| Limited partners' interest in net income   | 2,615                              | 19,586                             | 134,977                            |
| Limited partners' interest in net income per common unit (note 16):                    |                                    |                                    |                                    |
| • Basic  | 0.03                               | 0.25                               | 1.70                               |
| • Diluted  | 0.03                               | 0.25                               | 1.69                               |
| Weighted-average number of common units outstanding (note 16):                         |                                    |                                    |                                    |
| • Basic  | 79,672,435                         | 79,617,778                         | 79,568,352                         |
| • Diluted  | 79,842,328                         | 79,791,041                         | 79,671,858                         |
| Cash distributions declared per common unit  | 0.56                               | 0.56                               | 0.56                               |

Related party transactions (note 12)

Subsequent events (note 20)

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

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (notes 1 and 2)  
(in thousands of U.S. Dollars)

|   | Year Ended<br>December 31,<br>2018 | Year Ended<br>December 31,<br>2017 | Year Ended<br>December 31,<br>2016 |
|---|------------------------------------|------------------------------------|------------------------------------|
|   | \$                                 | \$                                 | \$                                 |
| Net income  | 26,875                             | 48,911                             | 157,965                            |
| Other comprehensive (loss) income:  |                                    |                                    |                                    |
| Other comprehensive (loss) income before reclassifications                                  |                                    |                                    |                                    |
| Unrealized (loss) gain on qualifying cash flow hedging instruments,<br>net of tax (note 13) | (893                               | ) 1,140                            | (486                               |
| Amounts reclassified from accumulated other comprehensive<br>income, net of tax             |                                    |                                    |                                    |
| To equity income:   |                                    |                                    |                                    |
| Realized (gain) loss on qualifying cash flow hedging instruments                            | (383                               | ) 2,465                            | 3,289                              |
| To interest expense:  |                                    |                                    |                                    |
| Realized loss on qualifying cash flow hedging instruments (note 13)                         | 152                                | 427                                | —                                  |
| Other comprehensive (loss) income   | (1,124                             | ) 4,032                            | 2,803                              |
| Comprehensive income  | 25,751                             | 52,943                             | 160,768                            |
| Non-controlling interest in comprehensive (loss) income                                     | (856                               | ) 15,074                           | 17,691                             |
| Preferred unitholders' interest in comprehensive income                                     | 25,701                             | 13,979                             | 2,719                              |
| General and limited partners' interest in comprehensive income                              | 906                                | 23,890                             | 140,358                            |

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

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS (notes 1 and 2)  
(in thousands of U.S. Dollars)

|   | As at<br>December 31,<br>2018<br>\$ | As at<br>December 31,<br>2017<br>\$ |
|---|-------------------------------------|-------------------------------------|
| <b>ASSETS</b>   |                                     |                                     |
| <b>Current</b>  |                                     |                                     |
| Cash and cash equivalents   | 149,014                             | 244,241                             |
| Restricted cash – current (note 15a)  | 38,329                              | 22,326                              |
| Accounts receivable, including non-trade of \$6,461 (2017 – \$13,203) (note 7a iii)                               | 20,795                              | 24,054                              |
| Prepaid expenses  | 8,076                               | 6,539                               |
| Vessels held for sale (note 19c and 19d)  | —                                   | 33,671                              |
| Current portion of derivative assets (note 13)  | 835                                 | 1,078                               |
| Current portion of net investments in direct financing leases (note 6)  | 12,635                              | 9,884                               |
| Current portion of advances to equity-accounted joint ventures (note 7)   | 79,108                              | —                                   |
| Advances to affiliates (notes 12c and 13)   | 8,229                               | 7,300                               |
| Other current assets (note 2)   | 2,306                               | —                                   |
| Total current assets  | 319,327                             | 349,093                             |
| Restricted cash – long-term (note 15a)  | 35,521                              | 72,868                              |
| <b>Vessels and equipment</b>  |                                     |                                     |
| At cost, less accumulated depreciation of \$665,206 (2017 – \$681,991)  | 1,657,338                           | 1,416,381                           |
| Vessels related to capital leases, at cost, less accumulated depreciation of \$66,878 (2017 – \$25,883) (note 5a) | 1,585,243                           | 1,044,838                           |
| Advances on newbuilding contracts (notes 12b and 14a)   | 86,942                              | 444,493                             |
| Total vessels and equipment   | 3,329,523                           | 2,905,712                           |
| Investment in and advances to equity-accounted joint ventures (note 7)  | 1,037,025                           | 1,094,596                           |
| Net investments in direct financing leases (note 6)   | 562,528                             | 486,106                             |
| Other assets (notes 6 and 11)   | 11,432                              | 8,043                               |
| Derivative assets (note 13)   | 2,362                               | 6,172                               |
| Intangible assets – net (note 8)  | 52,222                              | 61,078                              |
| Goodwill (note 8)   | 34,841                              | 35,631                              |
| Total assets  | 5,384,781                           | 5,019,299                           |
| <b>LIABILITIES AND EQUITY</b>   |                                     |                                     |
| <b>Current</b>  |                                     |                                     |
| Accounts payable  | 3,830                               | 3,509                               |
| Accrued liabilities (notes 9 and 13)  | 74,753                              | 45,757                              |
| Unearned revenue (notes 5c and 6)   | 30,108                              | 25,873                              |
| Current portion of long-term debt (note 10)   | 135,901                             | 552,404                             |
| Current obligations related to capital leases (note 5a)   | 81,219                              | 106,946                             |
| In-process contracts (note 7a iii)  | —                                   | 7,946                               |
| Current portion of derivative liabilities (note 13)   | 11,604                              | 79,139                              |
| Advances from affiliates (note 12c)   | 14,731                              | 12,140                              |
| Total current liabilities   | 352,146                             | 833,714                             |
| Long-term debt (note 10)  | 1,833,875                           | 1,245,588                           |
| Long-term obligations related to capital leases (note 5a)   | 1,217,337                           | 904,603                             |
| Other long-term liabilities (notes 5c and 7a)   | 43,788                              | 58,174                              |



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|  |           |           |
|--|-----------|-----------|
| Derivative liabilities (note 13)   | 55,038    | 45,797    |
| Total liabilities  | 3,502,184 | 3,087,876 |
| Commitments and contingencies (notes 5, 7, 10, 13 and 14)  |           |           |
| Equity   |           |           |
| Limited Partners - common units (79.4 million units and 79.6 million units issued and outstanding at December 31, 2018 and 2017, respectively) (note 16) | 1,496,107 | 1,539,248 |
| Limited Partners - preferred units (11.8 million units issued and outstanding at December 31, 2018 and 2017) (note 16)                                   | 285,159   | 285,159   |
| General Partner  | 49,271    | 50,152    |
| Accumulated other comprehensive income   | 2,717     | 4,479     |
| Partners' equity   | 1,833,254 | 1,879,038 |
| Non-controlling interest   | 49,343    | 52,385    |
| Total equity   | 1,882,597 | 1,931,423 |
| Total liabilities and total equity   | 5,384,781 | 5,019,299 |

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

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TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (notes 1 and 2)  
(in thousands of U.S. Dollars)

|  | Year Ended<br>December 31,<br>2018 | Year Ended<br>December 31,<br>2017 | Year Ended<br>December 31,<br>2016 |
|--|------------------------------------|------------------------------------|------------------------------------|
|  | \$                                 | \$                                 | \$                                 |
| Cash, cash equivalents and restricted cash provided by (used for)  |                                    |                                    |                                    |
| <b>OPERATING ACTIVITIES</b>  |                                    |                                    |                                    |
| Net income   | 26,875                             | 48,911                             | 157,965                            |
| Non-cash and non-operating items:  |                                    |                                    |                                    |
| Unrealized gain on non-designated derivative instruments (note 13)   | (30,133 )                          | (13,448 )                          | (19,433 )                          |
| Depreciation and amortization  | 124,378                            | 105,545                            | 95,542                             |
| Write-down of goodwill and write-down and loss on sales of vessels   | 54,653                             | 50,600                             | 38,976                             |
| Unrealized foreign currency exchange (gain) loss including the effect of the termination of cross currency swaps (note 13) | (7,525 )                           | 23,153                             | (15,345 )                          |
| Equity income, net of dividends received of \$14,421 (2017 – \$42,692 and 2016 – \$31,113)                                 | (39,125 )                          | 32,903                             | (31,194 )                          |
| Ineffective portion of qualifying hedge-accounted interest rate swaps included in interest expense                         | (740 )                             | 740                                | —                                  |
| Other non-cash items   | (1,035 )                           | (5,616 )                           | (9,602 )                           |
| Change in non-cash operating assets and liabilities (note 15b)   | 19,218                             | (2,396 )                           | (9,861 )                           |
| Expenditures for dry docking   | (15,368 )                          | (21,642 )                          | (12,686 )                          |
| Net operating cash flow  | 131,198                            | 218,750                            | 194,362                            |
| <b>FINANCING ACTIVITIES</b>  |                                    |                                    |                                    |
| Proceeds from issuance of long-term debt   | 1,135,304                          | 362,527                            | 573,514                            |
| Scheduled repayments of long-term debt and settlement of related swaps   | (506,437 )                         | (194,237 )                         | (316,450 )                         |
| Prepayments of long-term debt and settlement of related swaps  | (465,122 )                         | (236,474 )                         | (481,133 )                         |
| Financing issuance costs   | (11,932 )                          | (8,361 )                           | (3,462 )                           |
| Proceeds from financing related to sales and leaseback of vessels  | 370,050                            | 656,935                            | 355,306                            |
| Scheduled repayments of obligations related to capital leases  | (59,722 )                          | (42,000 )                          | (21,594 )                          |
| Proceeds from issuance of preferred units net of offering costs (note 16)  | —                                  | 164,411                            | 120,707                            |
| Repurchase of common units (note 16)   | (3,786 )                           | —                                  | —                                  |
| Cash distributions paid  | (70,345 )                          | (56,650 )                          | (45,467 )                          |
| Dividends paid to non-controlling interest   | (2,925 )                           | (1,595 )                           | (3,402 )                           |
| Other  | —                                  | (605 )                             | —                                  |
| Net financing cash flow  | 385,085                            | 643,951                            | 178,019                            |
| <b>INVESTING ACTIVITIES</b>  |                                    |                                    |                                    |
| Expenditures for vessels and equipment   | (686,148 )                         | (708,608 )                         | (345,790 )                         |
| Capital contributions and advances to equity-accounted joint ventures  | (40,544 )                          | (183,874 )                         | (120,879 )                         |
| Return of capital and repayment of advances from equity-accounted joint ventures   | —                                  | 92,320                             | 5,500                              |
| Proceeds from sale of equity-accounted joint venture   | 54,438                             | —                                  | —                                  |
| Receipts from direct financing leases  | 10,882                             | 13,143                             | 23,650                             |
| Proceeds from sales of vessels (note 19a)  | 28,518                             | 20,580                             | 94,311                             |
| Net investing cash flow  | (632,854 )                         | (766,439 )                         | (343,208 )                         |
| (Decrease) increase in cash, cash equivalents and restricted cash  | (116,571 )                         | 96,262                             | 29,173                             |

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|   |         |         |         |
|---|---------|---------|---------|
| Cash, cash equivalents and restricted cash, beginning of the year | 339,435 | 243,173 | 214,000 |
| Cash, cash equivalents and restricted cash, end of the year       | 222,864 | 339,435 | 243,173 |
| Supplemental cash flow information (note 15)                      |         |         |         |

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

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TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY (notes 1 and 2)  
(in thousands of U.S. Dollars and units)

|  | TOTAL EQUITY     |              |                 |                 |                 |   |                          |           |
|--|------------------|--------------|-----------------|-----------------|-----------------|---|--------------------------|-----------|
|  | Partners' Equity |              |                 |                 | General Partner | Accumulated Other Comprehensive Income (Loss) | Non-controlling Interest | Total     |
|  | Common Units     | Common Units | Preferred Units | Preferred Units |                 |   |                          |           |
| #  | \$               | #            | \$              | \$              | \$              | \$  | \$                       |           |
| Balance as at December 31, 2015                                    | 79,551           | 1,472,327    | —               | —               | 48,786          | (2,051)                                       | 24,617                   | 1,543,679 |
| Net income   | —                | 134,977      | —               | 2,719           | 2,755           | —   | 17,514                   | 157,965   |
| Other comprehensive income   | —                | —            | —               | —               | —               | 2,626   | 177                      | 2,803     |
| Distributions declared   | —                | (44,557)     | —               | —               | (910)           | —   | —                        | (45,467)  |
| Dividends paid to non-controlling interest                         | —                | —            | —               | —               | —               | —   | (3,402)                  | (3,402)   |
| Equity based compensation, net of withholding tax of \$0.2 million | 21               | 1,105        | —               | —               | 22              | —   | —                        | 1,127     |
| Proceeds from equity offerings (note 16)                           | —                | —            | 5,000           | 120,707         | —               | —   | —                        | 120,707   |
| Balance as at December 31, 2016                                    | 79,572           | 1,563,852    | 5,000           | 123,426         | 50,653          | 575   | 38,906                   | 1,777,412 |
| Net income   | —                | 19,586       | —               | 13,979          | 400             | —   | 14,946                   | 48,911    |
| Other comprehensive income   | —                | —            | —               | —               | —               | 3,904   | 128                      | 4,032     |
| Distributions declared   | —                | (44,584)     | —               | (16,657)        | (909)           | —   | —                        | (62,150)  |
| Dividends paid to non-controlling interest                         | —                | —            | —               | —               | —               | —   | (1,595)                  | (1,595)   |
| Equity based compensation, net of withholding tax of \$0.6 million | 55               | 394          | —               | —               | 8               | —   | —                        | 402       |
| Proceeds from equity offerings (note 16)                           | —                | —            | 6,800           | 164,411         | —               | —   | —                        | 164,411   |
| Balance as at December 31, 2017                                    | 79,627           | 1,539,248    | 11,800          | 285,159         | 50,152          | 4,479   | 52,385                   | 1,931,423 |
| Net income (loss)  | —                | 2,615        | —               | 25,701          | 53              | —   | (1,494)                  | 26,875    |
| Other comprehensive (loss) income                                  | —                | —            | —               | —               | —               | (1,762)                                       | 638                      | (1,124)   |
| Distributions declared   | —                | (44,617)     | —               | (25,701)        | (911)           | —   | —                        | (71,229)  |
| Dividends paid to non-controlling interest                         | —                | —            | —               | —               | —               | —   | (2,925)                  | (2,925)   |
| Change in accounting policy (note 2)                               | —                | 1,959        | —               | —               | 41              | —   | 739                      | 2,739     |
| Equity based compensation, net of withholding tax of \$0.7 million | 61               | 612          | —               | —               | 12              | —   | —                        | 624       |

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|   |        |           |        |         |        |       |        |           |
|---|--------|-----------|--------|---------|--------|-------|--------|-----------|
| Repurchase of common units<br>(note 16) | (327 ) | (3,710 )  | —      | —       | (76 )  | —     | —      | (3,786 )  |
| Balance as at December 31,<br>2018      | 79,361 | 1,496,107 | 11,800 | 285,159 | 49,271 | 2,717 | 49,343 | 1,882,597 |

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

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## 1. Summary of Significant Accounting Policies

### Basis of presentation

These consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (or GAAP). They include the accounts of Teekay LNG Partners L.P., which is a limited partnership organized under the laws of the Republic of The Marshall Islands, its wholly-owned or controlled subsidiaries and any variable interest entities (or VIEs) of which it is the primary beneficiary (collectively, the Partnership).

The preparation of these consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates. Significant intercompany balances and transactions have been eliminated upon consolidation.

In addition, certain comparative figures have been reclassified to conform to the presentation adopted in the current period relating to a change in the Partnership's reportable segments (see Note 4) and to reclassifications of certain related party transactions between vessel operating expenses and general and administrative expenses in the Partnership's consolidated statements of income that resulted in a decrease in vessel operating expenses and an offsetting increase in general and administrative expenses of \$1.6 million and \$0.7 million for the years ended December 31, 2017 and December 31, 2016, respectively.

### Foreign currency

The consolidated financial statements are stated in U.S. Dollars and the functional currency of the Partnership is the U.S. Dollar. 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 or losses are reflected in foreign currency exchange gain (loss) in the accompanying consolidated statements of income.

### Revenues

#### Time charters

Revenues from time-charters accounted for as operating leases are recognized by the Partnership on a straight-line basis daily over the term of the charter. Upon commencement of a time charter accounted for as a direct financing lease, the carrying value of the vessel is derecognized and the net investment in the lease is recognized. The lease element of time-charter hire receipts is allocated to the lease receivable and voyage revenues over the term of the lease using the effective interest rate method. The non-lease element of time-charter hire receipts is recognized by the Partnership on a straight-line basis daily over the term of the charter. For time-charter contracts where the charterer is responsible for the operation of the vessel, the Partnership offsets any vessel operating expenses it incurs against reimbursements from the charterer. The Partnership does not recognize revenues during days that the vessel is off-hire or if collectability of receipts of charter payments from charterers is not reasonably assured. When the time charter contains a profit-sharing agreement, the Partnership recognizes the profit-sharing or contingent revenues when the contingency is resolved.

#### Voyage charters

Revenues from voyage charters are recognized on a proportionate performance method. The Partnership uses a discharge-to-discharge basis in determining proportionate performance for all spot voyages that contain a lease and a

load-to-discharge basis in determining proportionate performance for all spot voyages that do not contain a lease. The Partnership does not begin recognizing revenue until a charter has been agreed to by the customer, even if the vessel has discharged its cargo and is sailing to the anticipated load port on its next voyage. The consolidated balance sheets reflect, in other current assets, the accrued portion of revenues for those voyages that commence prior to balance sheet date and complete after the balance sheet date.

#### Bareboat charters

Revenues from bareboat charters accounted for as operating leases are recognized by the Partnership on a straight-line basis daily over the term of the charter. Upon commencement of a bareboat charter accounted for as a direct financing lease, the carrying value of the vessel is derecognized and the net investment in the lease is recognized. Bareboat hire receipts are allocated to the lease receivable and voyage revenues over the term of the lease using the effective interest rate method. The Partnership does not recognize revenues if collectability of charter hire payments is not reasonably assured.

#### Operating expenses

Voyage expenses include all expenses unique to a particular voyage, including fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. The Partnership, as shipowner, pays voyage expenses under voyage charters. The Partnership's customers pay voyage expenses under time charters, except when the vessel is off-hire during the term of a time-charter, in which case the Partnership pays voyage expenses.

Vessel operating expenses include crewing, ship management services, repairs and maintenance, insurance, stores, lube oils and communication expenses.

Voyage expenses and vessel operating expenses are recognized when incurred except when the Partnership incurs pre-operational costs related to the repositioning of a vessel (i) that relates directly to a specific customer contract, (ii) that generates or enhances resources of the Partnership that will be used in satisfying performance obligations in the future; and (iii) where such costs are expected to be recovered via the customer contract. In this case, such costs are deferred and amortized over the duration of the customer contract.

The Partnership recognizes the expense from vessels accounted for as operating leases, which is included in time-charter hire expense, on a straight-line basis over the firm period of the charters.

#### Cash and cash equivalents

The Partnership classifies all highly liquid investments with an original maturity date of three months or less as cash and cash equivalents.

#### Restricted cash

The Partnership maintains restricted cash deposits relating to certain term loans, collateral for derivatives, project tenders, leasing arrangements, amounts received from charterers to be used only for dry-docking expenditures and emergency repairs and other obligations.

#### Accounts receivable and allowance for doubtful accounts

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Partnership's best estimate of the amount of probable credit losses in existing accounts receivable. The Partnership determines the allowance based on historical write-off experience and customer economic data. The Partnership reviews the allowance for doubtful accounts regularly and past due balances are reviewed for collectability. Account balances are charged against the allowance when the Partnership believes that the receivable will not be recovered. The consolidated balance sheets reflect amounts where the right to consideration is conditioned upon the passage of time as "accounts receivable," and reflect accrued revenue where the right to consideration is conditioned upon something other than the passage of time as "other current assets."

#### Other loan receivables

The Partnership's advances to equity-accounted joint ventures and any other investments in loan receivables are recorded at cost. The Partnership analyzes its loans for collectability during each reporting period. A loan loss provision is recognized, based on current information and events, if it is probable that the Partnership will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors the Partnership considers in determining if a loan loss provision is required include, among other things, an assessment of the financial condition of the debtor, payment history of the debtor, general economic conditions, the credit rating of the debtor (when available), any information provided by the debtor regarding its ability to repay the loan, and the fair value of the underlying collateral. When a loan loss provision is recognized, the Partnership measures the amount of the loss provision based on the present value of expected future cash flows discounted at the loan's effective interest rate and recognizes the resulting loss in the consolidated statements of income. The carrying value of the loan is adjusted each subsequent period to reflect any changes in the present value of the expected future cash flows, which may result in increases or decreases to the loan loss provision.



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The following table contains a summary of the carrying value of the Partnership's financing receivables by type of borrower, the method by which the Partnership monitors the credit quality of its financing receivables on a quarterly basis and the grade as at December 31, 2018.

| Class of Financing Receivable   | Credit Quality Indicator | Grade      | December | December |
|---|--------------------------|------------|----------|----------|
|   |                          |            | 31, 2018 | 31, 2017 |
|   |                          |            | \$       | \$       |
| Direct financing leases   | Payment activity         | Performing | 575,163  | 495,990  |
| Other receivables:  |                          |            |          |          |
| Long-term receivable and accrued revenue included in accounts receivable and other assets | Payment activity         | Performing | 5,694    | 5,476    |
| Advances to equity-accounted joint ventures (note 7)                                      | Other internal metrics   | Performing | 131,386  | 131,685  |
|   |                          |            | 712,243  | 633,151  |

#### Vessels and equipment

All pre-delivery costs incurred during the construction of newbuildings, including interest and supervision and technical costs, are capitalized. The acquisition cost and all costs incurred to restore used vessels purchased by the Partnership to the standards required to properly service the Partnership's customers are capitalized.

Interest costs capitalized to vessels and equipment for the years ended December 31, 2018, 2017 and 2016 aggregated \$14.8 million, \$13.9 million and \$9.9 million, respectively.

Vessel capital modifications include the addition of new equipment or certain modifications to the vessel which are aimed at improving or increasing the operational efficiency and functionality of the asset. This type of expenditure is capitalized and depreciated over the estimated useful life of the modification. Expenditures covering recurring routine repairs and maintenance are expensed as incurred.

Depreciation is calculated on a straight-line basis over a vessel's estimated useful life, less an estimated residual value. Depreciation is calculated using an estimated useful life of 25 years for conventional tankers, 30 years for liquefied petroleum gas (or LPG) carriers and 35 years for liquefied natural gas (or LNG) carriers, from the date the vessel is delivered from the shipyard, or a shorter period if regulations prevent the Partnership from operating the vessels for 25 years, 30 years, or 35 years, respectively. Depreciation of vessels and equipment, excluding amortization of dry-docking expenditures, for the years ended December 31, 2018, 2017 and 2016 aggregated \$115.5 million, \$96.7 million and \$86.6 million, respectively. Depreciation and amortization includes depreciation on all owned vessels and amortization of vessels accounted for as capital leases.

Generally, the Partnership dry docks each of its vessels every two and a half to five years. The Partnership capitalizes certain costs incurred during dry docking and amortizes those costs on a straight-line basis from the completion of a dry docking to the estimated completion of the next dry docking. The Partnership includes in capitalized dry docking those costs incurred as part of the dry docking to meet classification and regulatory requirements. The Partnership expenses costs related to routine repairs and maintenance performed during dry docking.

The following table summarizes the change in the Partnership's capitalized dry docking costs, from January 1, 2016 to December 31, 2018:

|                                  | Year<br>Ended<br>December<br>31,<br>2018<br>\$ | Year<br>Ended<br>December<br>31,<br>2017<br>\$ | Year<br>Ended<br>December<br>31,<br>2016<br>\$ |
|----------------------------------|--|--|--|
| Balance at January 1,            | 39,144   | 33,538   | 33,916   |
| Cost incurred for dry docking    | 15,259   | 22,283   | 13,944   |
| Write-downs and sales of vessels | (2,448 )                                       | (2,782 )                                       | (2,886 )                                       |
| Dry-dock amortization            | (11,590 )                                      | (13,895 )                                      | (11,436 )                                      |
| Balance at December 31,          | 40,365   | 39,144   | 33,538   |

Vessels and equipment that are intended to be held and used in the Partnership's business are assessed for impairment when events or circumstances indicate the carrying amount of the asset may not be recoverable. If the asset's net carrying value exceeds the net undiscounted cash flows expected to be generated over its remaining useful life, the carrying amount of the asset is reduced to its estimated fair value. The estimated fair value for the Partnership's impaired vessels is determined using discounted cash flows or appraised values. In cases where an active second-hand sale and purchase market does not exist, the Partnership uses a discounted cash flow approach to estimate the fair value of an impaired vessel. In cases where an active second-hand sale and purchase market exists, an appraised value is used to estimate the fair value of an impaired vessel. An appraised value is generally the amount the Partnership would expect to receive if it were to sell the vessel. Such appraisal is normally completed by the Partnership and is based on second-hand sale and purchase data.

Vessels and equipment that are "held for sale" are measured at the lower of their carrying amount or fair value less costs to sell and are not depreciated while classified as held for sale. Interest and other expenses and related liabilities attributable to vessels and equipment classified as held for sale continue to be recognized as incurred.

Gains on vessels sold and leased back under capital leases are deferred and amortized over the remaining term of the capital lease. Losses on vessels sold and leased back under capital leases are recognized immediately when the fair value of the vessel at the time of a sale-leaseback transaction is less than its book value. In such case, the Partnership would recognize a loss in the amount by which book value exceeds fair value.

#### Equity-accounted investments

The Partnership's investments in certain joint ventures, in which the Partnership has the ability to exercise significant influence over the operating and financial policies of the entity, are accounted for using the equity method of accounting. Under the equity method of accounting, investments are stated at initial cost and are adjusted for subsequent additional investments and the Partnership's proportionate share of earnings or losses and distributions. The Partnership evaluates its equity-accounted investments for impairment when events or circumstances indicate that the carrying value of such investments may have experienced an other-than-temporary decline in value below its carrying value. If an equity-accounted investment is impaired and if the estimated fair value is less than its carrying value, the carrying value is written down to its estimated fair value and the resulting impairment is recorded in the Partnership's consolidated statements of income. The Partnership's maximum exposure to loss is the amount it has invested in its equity-accounted for investments.

#### Debt issuance costs

Debt issuance costs related to a recognized debt liability, including fees, commissions and legal expenses, are deferred and presented as a direct reduction from the carrying amount of that debt liability and amortized on an effective interest rate method over the term of the relevant loan. Debt issuance costs that are not attributable to a specific debt liability or where the debt issuance costs exceed the carrying value of the related debt liability (primarily undrawn revolving credit facilities) are deferred and presented as other non-current assets in the Partnership's

consolidated balance sheets. Amortization of debt issuance costs is included in interest expense in the Partnership's consolidated statements of income.

Fees paid to substantially amend a non-revolving credit facility are associated with the extinguishment of the old debt instrument and included in determining the debt extinguishment gain or loss to be recognized. In addition, any unamortized debt issuance costs are written off. If the amendment is considered not to be a substantial amendment, then the fees would be associated with the replacement or modified debt instrument and, along with any existing unamortized premium, discount and unamortized debt issuance costs, would be amortized as an adjustment of interest expense over the remaining term of the replacement or modified debt instrument using the effective interest method. Other related costs incurred with third parties directly related to the modification, other than the loan amendment fee, are expensed as incurred.

Fees paid to amend a revolving credit facility are deferred and amortized over the term of the modified revolving credit facility. If the borrowing capacity of the revolving credit facility increases as a result of the amendment, unamortized debt issuance costs of the original revolving credit facility are amortized over the remaining term of the modified revolving credit facility. If the borrowing capacity of the revolving credit facility decreases as a result of the amendment, a proportionate amount, based on the reduction in borrowing capacity, of the unamortized debt issuance costs of the original revolving credit facility are written off and the remaining amount is amortized over the remaining term of the modified revolving credit facility.

#### Goodwill and intangible assets

Goodwill is not amortized but is reviewed for impairment at the reporting unit level on an annual basis or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. A reporting unit is a component of the Partnership that constitutes a business for which discrete financial information is available and regularly reviewed by management. When goodwill is reviewed for impairment, the Partnership may elect to assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. Alternatively, the Partnership may bypass this step and use a fair value approach to identify potential goodwill impairment and, when necessary, measure the amount of impairment. The Partnership uses a discounted cash flow model to determine the fair value of reporting units, unless there is a readily determinable fair market value. The Partnership adopted ASU 2017-04, Simplifying the Test for Goodwill Impairment, effective October 1, 2018. Consequently, goodwill impairment is measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill.

Customer-related intangible assets are amortized over the expected life of a customer contract. The amount amortized each year is weighted based on the projected revenue to be earned under the contracts. Intangible assets are assessed for impairment when and if impairment indicators exist. An impairment loss is recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its fair value.

#### Derivative instruments

All derivative instruments are initially recorded at fair value as either assets or liabilities in the accompanying consolidated balance sheets and subsequently remeasured to fair value each period end, regardless of the purpose or intent for holding the derivative. The method of recognizing the resulting gain or loss is dependent on whether the derivative contract is designed to hedge a specific risk and whether the contract qualifies for hedge accounting.

When a derivative is designated as a cash flow hedge, the Partnership formally documents the relationship between the derivative and the hedged item. This documentation includes the strategy and risk management objective for undertaking the hedge and the method that will be used to assess the effectiveness of the hedge. Any hedge

ineffectiveness is recognized immediately in earnings, as are any gains and losses on the derivative that are excluded from the assessment of hedge effectiveness. The Partnership does not apply hedge accounting if it is determined that the hedge was not effective or will no longer be effective, the derivative was sold or exercised, or the hedged item was sold, repaid or no longer probable of occurring.

For derivative financial instruments designated and qualifying as cash flow hedges, changes in the fair value of the effective portion of the derivative financial instruments are initially recorded as a component of accumulated other comprehensive income in total equity. In the periods when the hedged items affect earnings, the associated fair value changes on the hedging derivatives are transferred from total equity to the corresponding earnings line item (e.g. interest expense) in the Partnership's consolidated statements of income. The ineffective portion of the change in fair value of the derivative financial instruments is immediately recognized in the corresponding earnings line item in the Partnership's consolidated statements of income. If a cash flow hedge is terminated and the originally hedged item is still considered probable of occurring, the gains and losses initially recognized in total equity remain there until the hedged item impacts earnings, at which point they are transferred to the corresponding earnings line item in the Partnership's consolidated statements of income. If the hedged items are no longer probable of occurring, amounts recognized in total equity are immediately transferred to the earnings item in the Partnership's consolidated statements of income.

For derivative financial instruments that are not designated or that do not qualify as hedges under Financial Accounting Standards Board (or FASB) Accounting Standards Codification (or ASC) 815, Derivatives and Hedging, the changes in the fair value of the derivative financial instruments are recognized in earnings. Gains and losses from the Partnership's non-designated interest rate swaps, non-designated interest rate swaptions, and the Partnership's agreement with Teekay Corporation for the Suezmax tanker the Toledo Spirit (see Note 12d) are recorded in realized and unrealized loss on non-designated derivative instruments in the Partnership's consolidated statements of income. Gains and

losses from the Partnership's cross currency swaps are recorded in foreign currency exchange gain (loss) in the Partnership's consolidated statements of income.

#### Unit-based compensation

The Partnership grants restricted unit awards as incentive-based compensation under the Teekay LNG Partners L.P. 2005 Long-Term Incentive Plan to certain of the Partnership's employees and to certain employees of Teekay Corporation's subsidiaries that provide services to the Partnership and its subsidiaries. The Partnership measures the cost of such awards using the grant date fair value of the award and recognizes that cost, net of estimated forfeitures, over the requisite service period. The requisite service period consists of the period from the grant date of the award to the earlier of the date of vesting or the date the recipient becomes eligible for retirement. For unit-based compensation awards subject to graded vesting, the Partnership calculates the value of the award as if it was one single award with one expected life and amortizes the calculated expense for the entire award on a straight-line basis over the requisite service period. The compensation cost of the Partnership's unit-based compensation awards is reflected in general and administrative expenses in the Partnership's consolidated statements of income.

#### Income taxes

The Partnership accounts for income taxes using the liability method. Under the liability method, deferred tax assets and liabilities are recognized for the anticipated future tax effects of temporary differences between the consolidated financial statement basis and the tax basis of the Partnership's assets and liabilities using the applicable jurisdictional tax rates. A valuation allowance for deferred tax assets is recorded when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. Three of the five Partnership's Spanish-flagged vessels are subject to the Spanish Tonnage Tax Regime (or TTR). Under this regime, the applicable tax is based on the weight (measured as net tonnage) of the vessel and the number of days during the taxable period that the vessel is at the Partnership's disposal, excluding time required for repairs. The income the Partnership receives with respect to the remaining two Spanish-flagged vessels is taxed in Spain at a rate of 25%. However, these two vessels are registered in the Canary Islands Special Ship Registry. Consequently, the Partnership is allowed a credit, equal to 90% of the tax payable on income from the commercial operation of these vessels, against the tax otherwise payable. This effectively results in an income tax rate of approximately 2.5% on income from the operation of these two Spanish-flagged vessels.

The Partnership recognizes the tax benefits of uncertain tax positions only if it is more-likely-than-not that a tax position taken or expected to be taken in a tax return will be sustained upon examination by the taxing authorities, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefits recognized in the Partnership's consolidated financial statements from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Partnership recognizes interest and penalties related to uncertain tax positions in income tax expense in the Partnership's consolidated statements of income.

#### Guarantees

Guarantees issued by the Partnership, excluding those that are guaranteeing its own performance, are recognized at fair value at the time the guarantees are issued and are presented in the Partnership's consolidated balance sheets as other long-term liabilities. The liability recognized on issuance is amortized to other income on the Partnership's consolidated statements of income over the term of the guarantee. If it becomes probable that the Partnership will have to perform under a guarantee, the Partnership will recognize an additional liability if the amount of the loss can be reasonably estimated.

#### 2. Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers, (or ASU 2014-09). ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue as each performance obligation is satisfied. ASU 2014-09 became effective for the Partnership as of January 1, 2018, and may be applied, at the Partnership's option, retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Partnership adopted ASU 2014-09 as a cumulative-effect adjustment as of such date. The Partnership has elected to apply ASC 2014-09 only to those contracts that were not completed as of January 1, 2018. The Partnership has identified the following differences on adoption of ASU 2014-09:

In certain cases, the Partnership incurs pre-operational costs relating directly to a specific customer contract, that generate or enhance resources of the Partnership that will be used in satisfying performance obligations in the future, whereby such costs are expected to be recovered via the customer contract. Such costs are deferred and amortized over the duration of the customer contract. The Partnership previously expensed such costs as incurred unless the costs were directly reimbursable by the contract. This change increased net income by \$1.1 million for the year ended December 31, 2018, and increased other assets by \$3.5 million, investments in equity-accounted joint ventures by \$0.3 million, and total equity by \$3.8 million as at December 31, 2018. The cumulative increase to opening equity as at January 1, 2018 was \$2.7 million.

The Partnership previously presented all accrued revenue as a component of accounts receivable. The Partnership has determined that if the right to such consideration is conditional upon something other than the passage of time, such accrued revenue should be presented

apart from accounts receivable. This had the impact of increasing other current assets and decreasing accounts receivable by \$2.3 million at December 31, 2018. There was no cumulative impact to opening equity as at January 1, 2018.

In February 2016, FASB issued Accounting Standards Update 2016-02, Leases (or ASU 2016-02). ASU 2016-02 establishes a right-of-use model that requires a lessee to record a right of use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. For lessees, leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 requires lessors to classify leases as a sales-type, direct financing, or operating lease. A lease is a sales-type lease if any one of five criteria are met, each of which indicate that the lease, in effect, transfers control of the underlying asset to the lessee. If none of those five criteria are met, but two additional criteria are both met, indicating that the lessor has transferred substantially all of the risks and benefits of the underlying asset to the lessee and a third party, the lease is a direct financing lease. All leases that are not sales-type leases or direct financing leases are operating leases. ASU 2016-02 is effective January 1, 2019, with early adoption permitted. FASB issued an additional accounting standards update in July 2018 that made further amendments to accounting for leases, including allowing the use of a transition approach whereby a cumulative effect adjustment is made as of the effective date, with no retrospective effect. The Partnership will adopt ASU 2016-02 on January 1, 2019. To determine the cumulative effect adjustment, the Partnership will not reassess lease classification, initial direct costs for any existing leases and whether any expired or existing contracts are or contain leases. The Partnership identified the following differences:

The adoption of ASU 2016-02 will result in a change in the accounting method for the lease portion of the daily charter hire accounted for as operating leases with firm periods of greater than one year for certain of the chartered-in vessels of the Partnership and the Partnership's equity-accounted joint ventures. Under ASU 2016-02, one of the Partnership's in-charter contracts currently accounted for as an operating lease will be treated as a right-of-use asset and a lease liability, which will result in an increase of the Partnership's assets and liabilities. The right-of-use asset and lease liability to be recognized on January 1, 2019 is \$22.7 million. In addition, certain equity-accounted joint ventures will recognize a right-of-use asset and a lease liability on the balance sheet for these charters based on the present value of future minimum lease payments, whereas currently no right-of-use asset or lease liability is recognized. This will have the result of increasing the equity-accounted joint venture's assets and liabilities. The pattern of expense recognition of chartered-in vessels is expected to remain substantially unchanged, unless the right-of-use asset becomes impaired.

The adoption of ASU 2016-02 will result in the Partnership's lease classification assessment being determined when a lease commences instead of when the lease is entered into. The Partnership has entered into charters in prior periods for certain of its vessels currently under construction and which are expected to deliver in 2019. Historically, for charters that were negotiated concurrently with the construction of the related vessels, the fair value of the constructed asset was presumed to be its newbuilding cost and no gain or loss was recognized on commencement of the charter if such charters were classified as direct finance leases. Subsequent to the adoption of ASU 2016-02, the fair value of the vessel will be determined based on information available at the lease commencement date and any difference in the fair value of the ship upon commencement of the charter and its carrying value is recognized as a gain or loss upon commencement of the charter.

The adoption of ASU 2016-02 will result in the recognition of revenue from the reimbursement of scheduled dry-dock expenditures, where such charter contract is accounted for as an operating lease, occurring upon completion of the scheduled dry-dock, instead of ratably over the period between the previous scheduled dry-dock and the next scheduled dry-dock. The cumulative decrease to opening equity as at January 1, 2019 was \$3.0 million.

In addition, direct financing lease payments received will be presented as an operating cash inflow instead of an investing cash inflow in the consolidated statements of cash flows.

In August 2016, the FASB issued Accounting Standards Update 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (or ASU 2016-15), which, among other things, provides guidance on two acceptable approaches of classifying distributions received from equity-method investees in the statements of cash flows and application of



the predominance principle on the cash flow statement classification of cash receipts and payments that have aspects of more than one class of cash flows. ASU 2016-15 became effective for the Partnership as of January 1, 2018, with a retrospective approach required on adoption. The Partnership has elected to classify distributions received from equity method investees in the consolidated statements of cash flows based on the nature of the distribution. In addition, the adoption of ASU 2016-15 resulted in \$25.7 million and \$17.7 million of cross currency swap payments that were related to the principal repayment of long-term debt for the years ended December 31, 2017 and December 31, 2016, respectively, being reclassified from unrealized foreign currency exchange (gain) loss including the effect of the termination of cross currency swaps in net operating cash flow, to scheduled repayments of long-term debt and settlement of related swaps in net financing cash flow for the year ended December 31, 2017 and to prepayments of long-term debt and settlement of related swaps for the year ended December 31, 2016 as the amounts related to the termination of final settlement of the cross currency swaps.

In November 2016, the FASB issued Accounting Standards Update 2016-18, Statement of Cash Flows: Restricted Cash (or ASU 2016-18).

ASU 2016-18 requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities are also required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. ASU 2016-18 became effective for the Partnership as of January 1, 2018. Adoption of ASU 2016-18 resulted in the Partnership including in the consolidated statement of cash flows changes in cash, cash equivalents and restricted cash.

In August 2017, the FASB issued Accounting Standards Update 2017-12, Derivatives and Hedging - Targeted Improvements to Accounting

for Hedging Activities (or ASU 2017-12). ASU 2017-12 eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires, for qualifying hedges, the entire change in the fair value of a hedging instrument to be presented in the same income

statement line as the hedged item. The guidance also modifies the accounting for components excluded from the assessment of hedge effectiveness, eases documentation and assessment requirements and modifies certain disclosure requirements. ASU 2017-12 became effective for the Partnership as of January 1, 2019. The Partnership is currently evaluating the effect of adopting this new guidance.

In June 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses

on Financial Instruments (or ASU 2016-13). ASU 2016-13 replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This update is effective for the Partnership January 1, 2020, with a modified-retrospective approach required on adoption. The Partnership is currently evaluating the effect of adopting this new guidance.

In October 2017, the FASB issued Accounting Standards Update 2017-04, Simplifying the Test for Goodwill Impairment (or ASU 2017-04). Pursuant to this update, goodwill impairment is now measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying value of goodwill. This update eliminates previous guidance that required an entity to determine goodwill impairment by calculating the implied fair value of goodwill by hypothetically assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. ASU 2017-04 requires a prospective adoption approach and is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. ASU 2017-04 was adopted by the Partnership on October 1, 2018, and such adoption did not have a material impact on the Partnership's consolidated financial statements and related disclosures.

In August 2018, the FASB issued Accounting Standards Update 2018-15, Intangibles-Goodwill and Other-Internal Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract, (or ASU 2018-15). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. The Partnership elected to adopt ASU 2018-15 on October 1, 2018, and such adoption did not have a material impact on the Partnership's consolidated financial statements and related disclosures.

### 3. Financial Instruments

#### Fair Value Measurements

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

Cash and cash equivalents and restricted cash – The fair value of the Partnership's cash and cash equivalents and restricted cash approximates its carrying amounts reported in the consolidated balance sheets.

Interest rate swap/swaption and cross currency swap agreements – The fair value of these derivative instruments of the Partnership is the estimated amount that the Partnership would receive or pay to terminate the agreements at the reporting date, taking into account current interest rates, foreign exchange rates and the current credit worthiness of both the Partnership and the derivative counterparties. The estimated amount is the present value of future cash flows. The Partnership transacts all of these derivative instruments through investment-grade rated financial institutions at the time of the transaction. The Partnership's interest rate swap agreements do not require the Partnership to provide cash collateral to these institutions; however, cash collateral may be required by certain institutions on some of the Partnership's cross currency swap agreements and as at December 31, 2018, the Partnership had pledged \$6.8 million cash as collateral (December 31, 2017 – \$22.3 million), which has been recorded as restricted cash – current and long-term on the Partnership's consolidated balance sheets. Given the current volatility in the credit markets, it is reasonably possible that the amount recorded as a derivative asset or liability could vary by a material amount in the

near term.

Other derivative – The Partnership’s other derivative agreement is between Teekay Corporation and the Partnership and relates to hire payments under the time-charter contract for the Suezmax tanker Toledo Spirit (see Note 12d). The fair value of this derivative agreement is the estimated amount that the Partnership would receive or pay to terminate the agreement at the reporting date, based on the present value of the Partnership’s projection of future spot market tanker rates, which have been derived from current spot market tanker rates and long-term historical average rates. As projections of future spot rates are specific to the Partnership, these are considered Level 3 inputs for the purposes of estimating the fair value.

Long-term receivable included in accounts receivable and other assets – The fair value of the Partnership’s long-term loan receivable is estimated using discounted cash flow analysis based on rates currently available for debt with similar terms and remaining maturities and the current credit worthiness of the counterparty.

Long-term debt – The fair values of the Partnership’s fixed-rate and variable-rate long-term debt are either based on quoted market prices or estimated using discounted cash flow analyses based on rates currently available for debt with similar terms and remaining maturities and the current credit worthiness of the Partnership.

Long-term obligations related to capital leases – The fair values of the Partnership’s long-term obligations related to capital leases are estimated using discounted cash flow analyses, based on rates currently available for debt with similar terms and remaining maturities.

The Partnership categorizes the fair value estimates by a fair value hierarchy based on the inputs used to measure fair value. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value as follows:

- Level 1. Observable inputs such as quoted prices in active markets;  
 Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and  
 Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The following table includes the estimated fair value and carrying value of those assets and liabilities that are measured at fair value on a recurring and non-recurring basis, as well as the estimated fair value of the Partnership's financial instruments that are not accounted for at a fair value on a recurring basis.

|   | Fair Value Hierarchy Level | December 31, 2018                    |                                 | December 31, 2017                    |                                 |
|---|----------------------------|--------------------------------------|---------------------------------|--------------------------------------|---------------------------------|
|   |                            | Carrying Amount Asset (Liability) \$ | Fair Value Asset (Liability) \$ | Carrying Amount Asset (Liability) \$ | Fair Value Asset (Liability) \$ |
| <b>Recurring:</b>   |                            |                                      |                                 |                                      |                                 |
| Cash and cash equivalents and restricted cash                               | Level 1                    | 222,864                              | 222,864                         | 339,435                              | 339,435                         |
| Derivative instruments (note 13)  |                            |                                      |                                 |                                      |                                 |
| Interest rate swap agreements – assets                                      | Level 2                    | 3,341                                | 3,341                           | 878                                  | 878                             |
| Interest rate swap agreements – liabilities                                 | Level 2                    | (40,958)                             | (40,958)                        | (73,984)                             | (73,984)                        |
| Cross currency swap agreements – assets                                     | Level 2                    | —                                    | —                               | 3,758                                | 3,758                           |
| Cross currency swap agreements – liabilities                                | Level 2                    | (29,122)                             | (29,122)                        | (54,217)                             | (54,217)                        |
| Other derivative  | Level 3                    | 1,061                                | 1,061                           | 1,648                                | 1,648                           |
| <b>Non-recurring:</b>   |                            |                                      |                                 |                                      |                                 |
| Vessels held for sale (notes 19c and 19d)                                   | Level 2                    | —                                    | —                               | 16,671                               | 16,671                          |
| <b>Other:</b>   |                            |                                      |                                 |                                      |                                 |
| Advances to equity-accounted joint ventures, current and long-term (note 7) | (i)                        | 131,386                              | (i)                             | 131,685                              | (i)                             |
| Long-term receivable included in accounts receivable and other assets (ii)  | Level 3                    | 175                                  | 174                             | 3,476                                | 3,459                           |
| Long-term debt – public (note 10)   | Level 1                    | (350,813)                            | (361,095)                       | (376,581)                            | (384,820)                       |
| Long-term debt – non-public (note 10)                                       | Level 2                    | (1,618,963)                          | (1,604,106)                     | (1,421,411)                          | (1,391,524)                     |
| Obligations related to capital leases (note 5)                              | Level 2                    | (1,298,556)                          | (1,274,693)                     | (1,011,549)                          | (1,001,588)                     |

The advances to equity-accounted joint ventures together with the Partnership's equity investments in the joint ventures form the net aggregate carrying value of the Partnership's interests in the joint ventures in these consolidated financial statements. The fair values of the individual components of such aggregate interests are not determinable.

(i) As at December 31, 2018, the estimated fair value of the non-interest bearing receivable is based on the remaining future fixed payments of \$0.2 million, to be received from Royal Dutch Shell Plc (or Shell) (formerly BG International Limited) as part of the ship construction support agreement, and using an estimated discount rate of 8.0%. As there is no market rate for the equivalent of an unsecured non-interest bearing receivable from Shell, the discount rate is based on unsecured debt instruments of similar maturity held, adjusted for a liquidity premium. A higher or lower discount rate would result in a lower or higher fair value asset.

Changes in fair value during the years ended December 31, 2018 and 2017 for the Partnership's other derivative asset, the Toledo Spirit time-charter derivative, which is described below and is measured at fair value on a recurring basis using significant unobservable inputs (Level 3), are as follows:

| Year Ended December 31, | Year Ended December 31, |
|-------------------------|-------------------------|
|-------------------------|-------------------------|

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|  | 2018     | 2017     |
|--|----------|----------|
|  | \$       | \$       |
| Fair value at beginning of year                    | 1,648    | 2,134    |
| Realized and unrealized gains included in earnings | 550      | 788      |
| Settlements  | (1,137 ) | (1,274 ) |
| Fair value at end of year                          | 1,061    | 1,648    |

The Partnership's Suezmax tanker the Toledo Spirit operates pursuant to a time-charter contract that increases or decreases the otherwise fixed-hire rate established in the charter depending on the spot charter rates that the Partnership would have earned had it traded the vessel in the spot tanker market. The time-charter contract ended in January 2019 upon the charterer, which was also the owner, selling the vessel (see Note 20a). In order to reduce the variability of its revenue under the Toledo Spirit time-charter, the Partnership entered into an agreement with Teekay Corporation under which Teekay Corporation paid the Partnership any amounts payable to the charterer of the Toledo Spirit as a result of spot rates being below the fixed rate, and the Partnership paid Teekay Corporation any amounts payable to the Partnership by the

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charterer of the Toledo Spirit as a result of spot rates being in excess of the fixed rate. The estimated fair value of this other derivative was based in part upon the Partnership's projection of future spot market tanker rates, which was derived from current spot market tanker rates and long-term historical average rates as well as an estimated discount rate. The estimated fair value of this other derivative as of December 31, 2018 was based upon an average daily tanker rate of \$24,000 (December 31, 2017 – \$17,500) over the remaining duration of the charter contract, which ended January 2019, and a discount rate of 9.5% (December 31, 2017 – 8.7%). In developing and evaluating this estimate, the Partnership considered the current tanker market fundamentals as well as the short and long-term outlook at that time. A higher or lower average daily tanker rate would result in a higher or lower fair value liability or a lower or higher fair value asset. A higher or lower discount rate would result in a lower or higher fair value asset or liability.

#### 4. Segment Reporting

Prior to 2018, the Partnership reported its financial results on the basis of two business segments: a liquefied gas segment and a conventional tanker segment. During 2018, the Partnership's Teekay Multi-Gas Pool commenced operations. As part of this initiative, the Partnership completed an internal reorganization and revised its reportable segments, as such changes resulted in management viewing the gas fleet and its components differently. As a result, the Partnership's LPG and multi-gas carriers are reported in a separate segment apart from its LNG carriers. All segment information for comparative periods has been retroactively adjusted to conform with the change in segment presentation adopted in 2018.

The Partnership has three reportable segments, its LNG segment, LPG segment and its conventional tanker segment. The Partnership's LNG segment consists of LNG carriers which generally operate under long-term, fixed-rate charters to international energy companies. The Partnership's LPG segment consists of LPG and multi-gas carriers which generally operate under voyage charters or time-charters. As at December 31, 2018, the Partnership's LNG segment consisted of 49 LNG carriers and LNG carrier newbuildings (including 25 LNG carriers and LNG carrier newbuildings included in joint ventures that are accounted for under the equity method). As at December 31, 2018, the Partnership's LPG segment consisted of 29 LPG/multi-gas carriers and LPG carrier newbuildings (including 22 LPG carriers included in a joint venture that is accounted for under the equity method). As at December 31, 2018, the Partnership's conventional tanker segment consisted of one Suezmax-class crude oil tankers and one Handymax product tanker. 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 consolidated financial statements.

The following table presents voyage revenues and percentage of consolidated voyage revenues for the Partnership's customers who accounted for 10% or more of the Partnership's consolidated voyage revenues during any of the periods presented.

| (U.S. Dollars in millions)                                   | Year Ended<br>December 31, 2018 | Year Ended<br>December 31, 2017 | Year Ended<br>December 31, 2016 |
|--|---------------------------------|---------------------------------|---------------------------------|
| Royal Dutch Shell Plc. <sup>(i) (ii)</sup>                   | \$115.4 or 23%                  | \$53.8 or 12%                   | \$48.2 or 12%                   |
| Ras Laffan Liquefied Natural Gas Company Ltd. <sup>(i)</sup> | \$70.6 or 14%                   | \$70.3 or 16%                   | \$70.3 or 18%                   |
| Cheniere Marketing International <sup>(i)</sup>              | \$60.1 or 12%                   | \$60.2 or 14%                   | Less than 10%                   |
| The Tangguh Production Sharing Contractors <sup>(i)</sup>    | Less than 10%                   | \$49.7 or 11%                   | \$44.4 or 11%                   |

(i) LNG segment.

(ii) Includes its subsidiaries Shell Spain LNG S.A.U. and Shell Tankers (Singapore) Private Ltd.

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The following tables include results for these segments for the years presented in these consolidated financial statements.

|   | Year Ended December 31, 2018        |                                       |                                   |             |
|---|-------------------------------------|---------------------------------------|-----------------------------------|-------------|
|   | Liquefied Natural Gas Segment<br>\$ | Liquefied Petroleum Gas Segment<br>\$ | Conventional Tanker Segment<br>\$ | Total<br>\$ |
| Voyage revenues   | 454,517                             | 23,922                                | 32,323                            | 510,762     |
| Voyage expenses   | (2,750 )                            | (15,907 )                             | (9,580 )                          | (28,237 )   |
| Vessel operating expenses                                     | (82,952 )                           | (20,932 )                             | (13,774 )                         | (117,658 )  |
| Time-charter hire expense                                     | (7,670 )                            | —                                     | —                                 | (7,670 )    |
| Depreciation and amortization                                 | (111,360 )                          | (7,748 )                              | (5,270 )                          | (124,378 )  |
| General and administrative expenses <sup>(i)</sup>            | (23,270 )                           | (2,932 )                              | (2,310 )                          | (28,512 )   |
| Write-down of goodwill and vessels                            | —                                   | (33,790 )                             | (20,863 )                         | (54,653 )   |
| Restructuring charges   | —                                   | —                                     | (1,845 )                          | (1,845 )    |
| Income (loss) from vessel operations                          | 226,515                             | (57,387 )                             | (21,319 )                         | 147,809     |
| Equity income (loss)  | 60,228                              | (6,682 )                              | —                                 | 53,546      |
| Investment in and advances to equity-accounted joint ventures | 962,236                             | 153,897                               | —                                 | 1,116,133   |
| Total assets at December 31, 2018                             | 4,861,977                           | 326,111                               | 39,450                            | 5,227,538   |
| Expenditures for vessels and equipment                        | (684,951 )                          | (1,230 )                              | (124 )                            | (686,305 )  |
| Expenditures for dry docking                                  | (7,505 )                            | (5,059 )                              | (15 )                             | (12,579 )   |
|   | Year Ended December 31, 2017        |                                       |                                   |             |
|   | Liquefied Natural Gas Segment<br>\$ | Liquefied Petroleum Gas Segment<br>\$ | Conventional Tanker Segment<br>\$ | Total<br>\$ |
| Voyage revenues   | 365,914                             | 19,769                                | 46,993                            | 432,676     |
| Voyage expenses   | (1,802 )                            | (1,218 )                              | (5,182 )                          | (8,202 )    |
| Vessel operating expenses                                     | (80,245 )                           | (3,083 )                              | (18,211 )                         | (101,539 )  |
| Depreciation and amortization                                 | (86,592 )                           | (8,433 )                              | (10,520 )                         | (105,545 )  |
| General and administrative expenses <sup>(i)</sup>            | (13,223 )                           | (2,411 )                              | (2,507 )                          | (18,141 )   |
| Write-down of vessels   | —                                   | —                                     | (50,600 )                         | (50,600 )   |
| Income (loss) from vessel operations                          | 184,052                             | 4,624                                 | (40,027 )                         | 148,649     |
| Equity income (loss)  | 17,652                              | (7,863 )                              | —                                 | 9,789       |
| Investment in and advances to equity-accounted joint ventures | 933,970                             | 160,626                               | —                                 | 1,094,596   |
| Total assets at December 31, 2017                             | 4,284,767                           | 364,164                               | 118,827                           | 4,767,758   |
| Expenditures for vessels and equipment                        | (701,116 )                          | (13,412 )                             | —                                 | (714,529 )  |
| Expenditures for dry docking                                  | (20,047 )                           | (107 )                                | (2,130 )                          | (22,283 )   |

|  | Year Ended December 31, 2016                 |  |   |             |
|--|--|--|---|-------------|
|  | Liquefied<br>Natural<br>Gas<br>Segment<br>\$ | Liquefied<br>Petroleum<br>Gas<br>Segment<br>\$ | Conventional<br>Tanker<br>Segment<br>\$ | Total<br>\$ |
| Voyage revenues                                    | 314,591                                      | 21,939   | 59,914                                  | 396,444     |
| Voyage expenses                                    | (449 )                                       | —  | (1,207 )                                | (1,656 )    |
| Vessel operating expenses                          | (65,371 )                                    | (16 )  | (22,503 )                               | (87,890 )   |
| Depreciation and amortization                      | (72,190 )                                    | (7,894 )                                       | (15,458 )                               | (95,542 )   |
| General and administrative expenses <sup>(i)</sup> | (13,955 )                                    | (2,055 )                                       | (3,189 )                                | (19,199 )   |
| Write-down and loss on sales of vessels            | —  | —  | (38,976 )                               | (38,976 )   |
| Income (loss) from vessel operations               | 162,626                                      | 11,974   | (21,419 )                               | 153,181     |
| Equity income                                      | 48,633                                       | 13,674   | —                                       | 62,307      |
| Expenditures for vessels and equipment             | (344,924 )                                   | —  | (63 )                                   | (344,987 )  |
| Expenditures for dry docking                       | (13,944 )                                    | —  | —                                       | (13,944 )   |

(i) Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to each segment based on estimated use of corporate resources (Note 12a)).

A reconciliation of total segment assets presented in the consolidated balance sheets is as follows:

|   | December<br>31,<br>2018<br>\$ | December<br>31,<br>2017<br>\$ |
|---|-------------------------------|-------------------------------|
| Total assets of the liquefied natural gas segment   | 4,861,977                     | 4,284,767                     |
| Total assets of the liquefied petroleum gas segment | 326,111                       | 364,164                       |
| Total assets of the conventional tanker segment     | 39,450                        | 118,827                       |
| Unallocated:  |                               |                               |
| Cash and cash equivalents                           | 149,014                       | 244,241                       |
| Advances to affiliates                              | 8,229                         | 7,300                         |
| Consolidated total assets                           | 5,384,781                     | 5,019,299                     |

#### 5. Chartered-in Vessels

##### a) Capital Leases

|   | December<br>31,<br>2018<br>\$ | December<br>31,<br>2017<br>\$ |
|---|-------------------------------|-------------------------------|
| LNG Carriers                                    | 1,274,569                     | 961,711                       |
| Suezmax Tanker                                  | 23,987                        | 49,838                        |
| Total obligations related to capital leases     | 1,298,556                     | 1,011,549                     |
| Less current portion                            | (81,219 )                     | (106,946 )                    |
| Long-term obligations related to capital leases | 1,217,337                     | 904,603                       |

LNG Carriers. As at December 31, 2018, the Partnership was a party to capital leases on eight LNG carriers, the Creole Spirit, the Oak Spirit, the Torben Spirit, the Macoma, the Murex, the Magdala, the Myrina and the Megara. Upon delivery of these eight LNG carriers between February 2016 and July 2018, the Partnership sold these vessels to third parties (or Lessors) and leased them back under 10-year bareboat charter contracts ending in 2026 through to 2028. At inception of these leases, the weighted-average interest rate implicit in these leases was 5.1%. The bareboat



charter contracts are accounted for as obligations related to capital leases and have purchase obligations at the end of the lease terms.

The Partnership understands that these vessels and lease operations are the only assets and operations of the Lessors. The Partnership operates the vessels during the lease term and as a result, is considered to be, under GAAP, the Lessor's primary beneficiary; therefore, the Partnership consolidates the Lessors for financial reporting purposes as VIEs.

The liabilities of the Lessors are loans and are non-recourse to the Partnership. The amounts funded to the Lessors in order to purchase the vessels materially match the funding to be paid by the Partnership's subsidiaries under the sale-leaseback transaction. As a result, the amounts

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due by the Partnership's subsidiaries to the Lessors have been included in obligations related to capital leases as representing the Lessors' loans.

The obligations of the Partnership under the bareboat charter contracts are guaranteed by the Partnership. In addition, the guarantee agreements require the Partnership to maintain minimum levels of tangible net worth and aggregate liquidity, and not to exceed a maximum amount of leverage. As at December 31, 2018, the Partnership was in compliance with all covenants in respect of the obligations related to its capital leases.

As at December 31, 2018, the remaining commitments related to the eight capital leases for the Partnership's LNG carriers, including the related purchase obligations, approximated \$1.7 billion, including imputed interest of \$435.3 million, repayable from 2019 through 2028, as indicated below:

| Year       | Commitment   |
|------------|--------------|
| 2019       | \$ 119,517   |
| 2020       | \$ 118,685   |
| 2021       | \$ 117,772   |
| 2022       | \$ 116,978   |
| 2023       | \$ 116,338   |
| Thereafter | \$ 1,120,670 |

Suezmax Tanker. As at December 31, 2018, the Partnership was a party, as lessee, to a capital lease on one Suezmax tanker, the Toledo Spirit. Under this capital lease, the owner had the option to require the Partnership to purchase the vessel. The charterer, who is also the owner, also had the option to cancel the charter contract and the cancellation option was first exercisable in August 2018. In January 2019, the charterer of the Toledo Spirit sold the vessel and the capital lease was terminated.

As at December 31, 2018, the remaining commitments related to the one capital lease for the Suezmax tanker, including the related purchase obligations, approximated \$24.2 million including imputed interest of \$0.2 million, repayable in 2019. Upon sale of the vessel in January 2019, the Partnership returned the vessel to the owner and the full amount of the associated obligation related to the capital lease was concurrently extinguished.

The Partnership's capital lease relating to its Suezmax tanker does not contain financial or restrictive covenants other than those relating to operation and maintenance of the vessels.

#### b) Operating Leases

The minimum estimated charter hire payments for the following two fiscal years, as at December 31, 2018, for the Partnership's chartered-in vessel accounted for as an operating lease were as follows:

|   | 2019   | 2020   |
|---|--------|--------|
| Vessel Charters                               | \$     | \$     |
| Charters-in – operating leases <sup>(i)</sup> | 23,725 | 16,055 |

(i) As at December 31, 2018, the Partnership was chartering in a vessel at a fixed-rate from its 52%-owned joint venture with Marubeni Corporation (or the Teekay LNG-Marubeni Joint Venture) for a period of two years until September 2020. The Partnership recognizes the expense from this charter on a straight-line basis over the firm period of the charter and is presented as time-charter hire expense in the Partnership's consolidated statements of income.

#### c) Teekay Tangguh Joint Venture Operating Leases

As at December 31, 2018, the Teekay BLT Corporation (or the Teekay Tangguh Joint Venture), of which the Partnership has a 69% ownership interest and consolidates, was a party to operating leases (or Head Leases) whereby it leases its two LNG carriers (or the Tangguh LNG Carriers) to a third-party company. The Teekay Tangguh Joint Venture then leases back the LNG carriers from the same third-party company (or the Subleases). Under the terms of

these leases, the third-party company claims tax depreciation on the capital expenditures it incurred to lease the vessels. As is typical in these leasing arrangements, tax and change of law risks are assumed by the Teekay Tangguh Joint Venture. Lease payments under the Subleases are based on certain tax and financial assumptions at the commencement of the leases. If an assumption proves to be incorrect, the lease payments are increased or decreased under the Sublease to maintain the agreed after-tax margin. The Teekay Tangguh Joint Venture's carrying amounts of this estimated tax indemnification guarantee as at December 31, 2018 and 2017 were \$6.6 million and \$7.1 million, respectively, and are included as part of other long-term liabilities in the consolidated balance sheets of the Partnership. The tax indemnification is for the duration of the lease contract with the third party plus the years it would take for the lease payments to be statute barred and ends in 2033. Although there is no maximum potential amount of future payments, the Teekay Tangguh Joint Venture may terminate the lease arrangements on a voluntary basis at any time. If the lease arrangements terminate, the Teekay Tangguh Joint Venture will be required to make termination payments to the third-party company sufficient to repay the third-party company's investment

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in the vessels and to compensate it for the tax effect of the terminations, including recapture of any tax depreciation. The Head Leases and the Subleases have 20-year terms and are classified as operating leases. The Head Leases and the Subleases for the two Tangguh LNG Carriers commenced in November 2008 and March 2009.

As at December 31, 2018, the total estimated future minimum rental payments to be received and paid by the Teekay Tangguh Joint Venture related to the lease contracts are as follows:

| Year       | Head Lease Receipts (i) | Sublease Payments (i) (ii) |
|------------|-------------------------|----------------------------|
| 2019       | \$21,242                | \$23,875                   |
| 2020       | \$21,242                | \$23,875                   |
| 2021       | \$21,242                | \$23,875                   |
| 2022       | \$21,242                | \$23,875                   |
| 2023       | \$21,242                | \$23,875                   |
| Thereafter | \$111,611               | \$125,485                  |
| Total      | \$217,821               | \$244,860                  |

The Head Leases are fixed-rate operating leases while the Subleases have a variable-rate component. As at December 31, 2018, the Partnership had received \$292.6 million of aggregate Head Lease receipts and had paid \$236.3 million of aggregate Sublease payments. The portion of the Head Lease receipts that has not been (i) recognized into earnings is deferred and amortized on a straight-line basis over the lease terms and, as at December 31, 2018, \$3.7 million (December 31, 2017 – \$3.7 million) and \$29.3 million (December 31, 2017 – \$33.0 million) of Head Lease receipts had been deferred and included in unearned revenue and other long-term liabilities, respectively, in the Partnership's consolidated balance sheets.

(ii) The amount of payments related to the Subleases are updated annually to reflect any changes in the lease payments due to changes in tax law.

## 6. Revenue

The Partnership's primary source of revenue is chartering its vessels to customers. The Partnership utilizes three primary forms of contracts, consisting of time-charter contracts, voyage charter contracts and bareboat charter contracts. The Partnership also generates revenue from construction supervision and crew-training for the vessels under construction in its joint venture with China LNG Shipping (Holdings) Limited (or China LNG), CETS Investment Management (HK) Co. Ltd. and BW Investments Pte. Ltd (or the Pan Union Joint Venture), in which the Partnership's ownership interests range from 20% to 30%, and from the start-up of an LNG receiving and regasification terminal under construction related to its 30%-owned joint venture with National Oil and Gas Authority 30%), Gulf Investment Corporation (24%), and Samsung C&T (16%) (or the Bahrain LNG Joint Venture). Such services may include the procurement of third party goods and services for the asset's owner.

### Time Charters

Pursuant to a time-charter contract, the Partnership charters a vessel to a customer for a fixed period of time, generally one year or more. The performance obligations of a time-charter contract, which include the lease of the vessel to the charterer as well as the operation of the vessel, are satisfied as services are rendered over the duration of such contract, as measured using the time that has elapsed from commencement of performance. In addition, any expenses unique to a particular voyage, including any fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions, are the responsibility of the customer, as long as the vessel is not off-hire. Hire is based on a fixed daily hire amount and is typically invoiced monthly in advance for time-charter contracts. However, certain sources of variability exist, including penalties, such as those that relate to periods the vessels are off-hire and where

minimum speed and performance metrics are not met. In addition, certain time-charter contracts contain provisions allowing the Partnership to be compensated for increases in the Partnership's costs during the term of the charter. Such provisions may be in the form of annual hire rate adjustments for changes in inflation indices or interest rates or in the form of cost reimbursements for vessel operating expenditures or dry-docking expenditures. Finally, in a small number of charters, the Partnership may earn a profit share consideration, which occurs when actual spot tanker rates earned by the vessel exceed certain thresholds for a period of time. Variable consideration of the Partnership's contracts is typically recognized in the period in which the changes in facts and circumstances on which the variable lease payments are based occur as either such revenue is allocated and accounted for under lease accounting requirements or alternatively such consideration is allocated to distinct periods within a contract that such variable consideration was incurred in. The Partnership does not engage in any specific tactics to minimize residual value risk.

As at December 31, 2018, a substantial majority of the Partnership's consolidated vessels operated under time-charter contracts with the Partnership's customers. Such contracts are scheduled to expire between 2019 and 2038. The time-charter contracts for many of the Partnership's LNG carriers have options whereby the charterer can extend the contract for periods up to a total extension between three and 15 years. In addition, each of the Partnership's time-charter contracts are subject to certain termination and purchase provisions. As at December 31, 2018, the Partnership had \$26.4 million of advanced payments recognized as contract liabilities included in unearned revenue (December 31, 2017 – \$22.2 million) which are expected to be recognized as voyage revenues in 2019 and are included in unearned revenue on the Partnership's consolidated balance sheets. During the year ended December 31, 2018, the Partnership recognized \$22.2 million of revenue that was included in the contract liability balance on transition.

## Voyage Charters

Voyage charters are charters for a specific voyage that are usually priced on a current or “spot” market rate. The performance obligations of a voyage charter contract, which typically include the lease of the vessel to the charterer as well as the operation of the vessel, are satisfied as services are rendered over the duration of the voyage, as measured using the time that has elapsed from commencement of performance. In addition, any expenses that are unique to a particular voyage, including any fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions, are the responsibility of the vessel owner. The Partnership’s voyage charters will normally contain a lease; however, judgment is necessary to determine this based upon the decision-making rights of the charterer under the contract. Consideration for such contracts is generally fixed, although certain sources of variability exist - for example, delays caused by the charterer result in additional consideration. Payment for the voyage is not due until the voyage is completed. The duration of a single voyage is typically less than three months. The Partnership does not engage in any specific tactics to minimize residual value risk due to the short-term nature of the contracts.

## Bareboat Charters

Pursuant to a bareboat charter, the Partnership charters a vessel to a customer for a fixed period of time, generally one year or more, at rates that are generally fixed. However, the customer is responsible for operation and maintenance of the vessel with its own crew as well as any expenses that are unique to a particular voyage, including any fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. If the vessel goes off-hire due to a mechanical issue or any other reason, the monthly hire received by the Partnership is normally not impacted. The performance obligations of a bareboat charter, which include the lease of the vessel to the charterer, are satisfied over the duration of such contract, as measured using the time elapsed from commencement of the lease. Hire is typically invoiced monthly in advance for bareboat charters, based on a fixed daily hire amount.

## Revenue Table

The following tables contain the Partnership's revenue for the year ended December 31, 2018, 2017 and 2016, by contract type and by segment.

|                                  | Year Ended December 31, 2018                 |  |   |             |
|----------------------------------|--|--|---|-------------|
|                                  | Liquefied<br>Natural<br>Gas<br>Segment<br>\$ | Liquefied<br>Petroleum<br>Gas<br>Segment<br>\$ | Conventional<br>Tanker<br>Segment<br>\$ | Total<br>\$ |
| Time charters                    | 420,262                                      | —  | 17,405                                  | 437,667     |
| Voyage charters                  | —  | 23,922   | 14,591                                  | 38,513      |
| Bareboat charters                | 23,820                                       | —  | —                                       | 23,820      |
| Management fees and other income | 10,435                                       | —  | 327                                     | 10,762      |
|                                  | 454,517                                      | 23,922   | 32,323                                  | 510,762     |
|                                  | Year Ended December 31, 2017                 |  |   |             |
|                                  | Liquefied<br>Natural<br>Gas<br>Segment<br>\$ | Liquefied<br>Petroleum<br>Gas<br>Segment<br>\$ | Conventional<br>Tanker<br>Segment<br>\$ | Total<br>\$ |
| Time charters                    | 332,751                                      | —  | 39,171                                  | 371,922     |
| Voyage charters                  | —  | 2,285  | 6,709                                   | 8,994       |
| Bareboat charters                | 22,574                                       | 17,484   | —                                       | 40,058      |
| Management fees and other income | 10,589                                       | —  | 1,113                                   | 11,702      |
|                                  | 365,914                                      | 19,769   | 46,993                                  | 432,676     |



|                                  | Year Ended December 31, 2016                 |  |   | Total<br>\$ |
|----------------------------------|--|--|---|-------------|
|                                  | Liquefied<br>Natural<br>Gas<br>Segment<br>\$ | Liquefied<br>Petroleum<br>Gas<br>Segment<br>\$ | Conventional<br>Tanker<br>Segment<br>\$ |             |
| Time charters                    | 283,159                                      | —  | 58,802                                  | 341,961     |
| Bareboat charters                | 23,824                                       | 21,939   | —                                       | 45,763      |
| Management fees and other income | 7,608  | —  | 1,112                                   | 8,720       |
|                                  | 314,591                                      | 21,939   | 59,914                                  | 396,444     |

The following table contains the Partnership's revenue from contracts that do not contain a lease element and the non-lease element of time-charter contracts accounted for as direct financing leases for the years ended December 31, 2018, 2017 and 2016.

|  | December<br>31,<br>2018<br>\$ | December<br>31,<br>2017<br>\$ | December<br>31,<br>2016<br>\$ |
|--|-------------------------------|-------------------------------|-------------------------------|
| Non-lease revenue - related to sales type or direct financing leases | 18,554                        | 21,228                        | 13,855                        |
| Management fees and other income                                     | 10,762                        | 11,702                        | 8,720                         |
| Total  | 29,316                        | 32,930                        | 22,575                        |

Net Investments in Direct Financing Leases

The Tangguh LNG Carriers commenced their time-charters with their charterers in 2009. Both time-charter contracts are accounted for as direct financing leases with 20-year terms. In 2013, the Partnership acquired two 155,900-cubic meter LNG carriers (or Awilco LNG Carriers) from Norway-based Awilco LNG ASA (or Awilco) and chartered them back to Awilco on five- and four-year fixed-rate bareboat charter contracts (plus a one-year extension option), respectively, with Awilco holding fixed-price purchase obligations at the end of the charter. The bareboat charters with Awilco were accounted for as direct financing leases. In June 2017, the Partnership agreed to amend the charter contracts with Awilco to defer a portion of charter hire and extend the bareboat charter contracts and related purchase obligations on both vessels to December 2019. The amendments have the effect of deferring charter hire of between \$10,600 per day and \$20,600 per day per vessel from July 1, 2017 until December 2019, with such deferred amounts added to the purchase obligation amounts. As a result of the contract amendments, both of the charter contracts with Awilco were reclassified as operating leases upon the expiry of its original contract terms in November 2017 and August 2018. In addition, the 21-year charter contract for the Bahrain Spirit floating storage unit (or FSU) commenced in September 2018 and is accounted for as a direct finance lease. The following table lists the components of the net investments in direct financing leases:

|  | December<br>31,<br>2018<br>\$ | December<br>31,<br>2017<br>\$ |
|--|-------------------------------|-------------------------------|
| Total minimum lease payments to be received                | 897,130                       | 568,710                       |
| Estimated unguaranteed residual value of leased properties | 291,098                       | 194,965                       |
| Initial direct costs                                       | 328                           | 361                           |
| Less unearned revenue                                      | (613,394)                     | (268,046)                     |
| Total net investments in direct financing leases           | 575,163                       | 495,990                       |
| Less current portion                                       | (12,635)                      | (9,884)                       |
| Net investments in direct financing leases                 | 562,528                       | 486,106                       |



As at December 31, 2018, estimated minimum lease payments to be received by the Partnership related to its direct financing leases in each of the next five succeeding fiscal years are approximately \$64.2 million (2019), \$64.3 million (2020), \$64.2 million (2021), \$64.2 million (2022), \$64.0 million (2023) and an aggregate of \$576.2 million thereafter. The leases are scheduled to end between 2029 and 2039.

#### Operating Leases

As at December 31, 2018, the minimum scheduled future rentals to be received by the Partnership in each of the next five years for the lease and non-lease elements related to charters that were accounted for as operating leases are approximately \$482.7 million (2019), \$438.2 million (2020), \$398.3 million (2021), \$321.9 million (2022), and \$278.1 million (2023). Minimum scheduled future rentals on operating lease contracts do not include rentals generated from new contracts entered into after December 31, 2018, rentals from vessels in the Partnership's equity-accounted investments, rentals from unexercised option periods of contracts that existed on December 31, 2018, variable or contingent rentals, or rentals from contracts which commenced after December 31, 2018. Therefore, the minimum scheduled future rentals on operating leases should not be construed to reflect total charter hire revenues for any of these five years.

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The carrying amount of the Partnership's vessels which are employed on these charter contracts as at December 31, 2018, was \$3.1 billion (December 31, 2017 – \$2.2 billion). The cost and accumulated depreciation of these vessels employed on these charter contracts as at December 31, 2018 were \$3.8 billion (December 31, 2017 – \$2.9 billion) and \$698.5 million (December 31, 2017 – \$646.2 million), respectively.

#### Contract Costs

In certain cases, the Partnership incurs pre-operational costs that relate directly to a specific customer contract, that generate or enhance resources of the Partnership that will be used in satisfying performance obligations in the future, whereby such costs are expected to be recovered via the customer contract. Those costs include costs incurred to reposition a vessel to a location where a charterer will take delivery of the vessel. In certain cases, the Partnership must make judgments about whether costs relate directly to a specific customer contract or whether costs were factored into the pricing of a customer contract and thus expected to be recovered. Such deferred costs are amortized on a straight-line basis over the duration of the customer contract. Amortization of such costs for the year ended December 31, 2018 was \$0.2 million (\$nil during 2017 and 2016). As at December 31, 2018, repositioning costs of \$3.5 million (December 31, 2017 – \$nil) were included as part of other assets in the Partnership's consolidated balance sheets.

#### 7. Equity-Accounted Investments

a) A summary of the Partnership's investments in and advances to equity-accounted joint ventures are as follows:

| Name  | Ownership Percentage | As at December 31, 2018 |                       | As at December 31, |           |
|---|----------------------|-------------------------|-----------------------|--------------------|-----------|
|   |                      | # of Delivered Vessels  | Newbuildings on order | 2018               | 2017      |
|   |                      |                         |                       | \$                 | \$        |
| Bahrain LNG Joint Venture <sup>(i)</sup>                      | 30%                  | -                       | 1                     | 81,353             | 77,706    |
| Yamal LNG Joint Venture <sup>(ii)</sup>                       | 50%                  | 2                       | 4                     | 205,839            | 193,774   |
| Pan Union Joint Venture <sup>(iii)</sup>                      | 20%-30%              | 3                       | 1                     | 73,545             | 43,538    |
| Exmar LPG Joint Venture <sup>(iv)</sup>                       | 50%                  | 22                      | -                     | 153,808            | 160,626   |
| Teekay LNG-Marubeni Joint Venture <sup>(v)</sup>              | 52%                  | 6                       | -                     | 351,529            | 341,712   |
| Excalibur Joint Venture <sup>(vi)</sup>                       | 49%                  | 1                       | -                     | 32,402             | 79,915    |
| Angola Joint Venture <sup>(vii)</sup>                         | 33%                  | 4                       | -                     | 85,469             | 74,775    |
| RasGas 3 Joint Venture <sup>(viii)</sup>                      | 40%                  | 4                       | -                     | 132,188            | 122,550   |
|   |                      | 42                      | 6                     | 1,116,133          | 1,094,596 |
| Less current portion  |                      |                         |                       | (79,108)           | —         |
| Investment in and advances to equity-accounted joint ventures |                      |                         |                       | 1,037,025          | 1,094,596 |

#### (i) Bahrain LNG Joint Venture

On December 2, 2015, the Partnership (30%) entered into a joint venture agreement with National Oil & Gas Authority (or Nogaholding) (30%), Gulf Investment Corporation (or GIC) (24%) and Samsung C&T (or Samsung) (16%) to form a joint venture, Bahrain LNG W.L.L. (or the Bahrain LNG Joint Venture), for the development of an LNG receiving and regasification terminal in Bahrain. The project is expected to include an offshore LNG receiving jetty and breakwater, an adjacent regasification platform, subsea gas pipelines from the platform to shore, an onshore gas receiving facility, and an onshore nitrogen production facility with a total LNG terminal capacity of 800 million standard cubic feet per day and will be owned and operated under a 20-year agreement, which is expected to commence in mid-2019. In addition, the Partnership has supplied an FSU in connection with this project commencing in September 2018 through a 21-year time-charter contract with the Bahrain LNG Joint Venture.

As at December 31, 2018, the Partnership had advanced \$79.1 million (December 31, 2017 – \$79.1 million) to the Bahrain LNG Joint Venture. These advances bear interest at LIBOR plus 1.25% and as at December 31, 2018, the interest receivable on these advances was \$nil (December 31, 2017 – \$0.1 million). These amounts are included in the table above.

#### (ii) Yamal LNG Joint Venture

The Partnership has a 50/50 joint venture agreement with China LNG Shipping (Holdings) Limited (or the Yamal LNG Joint Venture) and the joint venture had ordered six internationally-flagged icebreaker LNG carriers for a project located on the Yamal Peninsula in Northern Russia (or the Yamal LNG Project) of which two LNG carrier newbuildings were delivered during 2018.

In December 2017, the Yamal LNG Joint Venture secured a \$1.6 billion long-term debt facility to finance all six of its ARC7 LNG carrier newbuildings. As part of the completed financing, the Yamal LNG Joint Venture returned a total of \$104 million of capital back to the joint venture partners in December 2017, of which the Partnership's share was \$52 million. The Partnership has guaranteed its 50% share of a secured loan facility in the Yamal LNG Joint Venture and, as a result, has recorded a guarantee liability. The carrying value of the guarantee liability as at December 31, 2018 was \$0.6 million (December 31, 2017 – \$0.6 million) and is included as part of other long-term liabilities in the Partnership's consolidated balance sheets.

(iii) Pan Union Joint Venture

In June 2014, the Partnership acquired from Shell its ownership interests in four LNG carrier newbuildings. As compensation for Shell's ownership interests in these four LNG carrier newbuildings, the Partnership assumed Shell's obligation to provide the shipbuilding supervision and crew training services for the four LNG carrier newbuildings up to their delivery date pursuant to a ship construction support agreement. The Partnership initially estimated it would incur approximately \$36.9 million of costs to provide these services, of which Shell has agreed to pay a fixed amount of \$20.3 million. The Partnership estimated that the fair value of the service obligation was \$33.3 million and the fair value of the amount due from Shell was \$16.5 million. As at December 31,

2018, the carrying value of the service obligation of \$nil (December 31, 2017 – \$8.2 million) is included in in-process contracts and the carrying value of the receivable from Shell of \$0.2 million (December 31, 2017 – \$3.5 million) is included in accounts receivable in the Partnership's consolidated balance sheets.

As at December 31, 2018, the Partnership has a 30% ownership interest in two LNG carriers, the Pan Asia and the Pan Americas, and a 20% ownership interest in one LNG carrier, the Pan Europe, and one LNG carrier newbuilding (or collectively, the Pan Union Joint Venture). The Pan Africa was delivered on January 8, 2019 and concurrently commenced its 20-year charter contract with Shell.

On initial acquisition, the basis difference between the Partnership's investment and the carrying value of the Pan Union Joint Venture's net assets was substantially attributed to ship construction support agreements and the time-charter contracts. At December 31, 2018, the unamortized amount of the basis difference was \$11.0 million (December 31, 2017 - \$11.4 million).

(iv) Exmar LPG Joint Venture

The Partnership has a 50/50 LPG-related joint venture agreement with Exmar NV (or Exmar) (or the Exmar LPG Joint Venture). The Partnership has guaranteed its 50% share of a secured loan facility and four capital leases in the Exmar LPG Joint Venture and, as a result, has recorded a guarantee liability. The carrying value of the guarantee liability as at December 31, 2018 was \$1.3 million (December 31, 2017 – \$1.6 million) and is included as part of other long-term liabilities in the Partnership's consolidated balance sheets.

As at December 31, 2018, the Partnership had advanced \$52.3 million (December 31, 2017 – \$52.3 million) to the Exmar LPG Joint Venture, which bears interest at LIBOR plus 0.50% and has no fixed repayment terms. As at December 31, 2018, the interest receivable on these advances was \$nil (December 31, 2017 – \$0.2 million). These amounts are included in the table above.

On initial acquisition, the basis difference between the Partnership's investment and the carrying value of the Exmar LPG Joint Venture's net assets was substantially attributed to the value of the vessels and charter agreements of the Exmar LPG Joint Venture and goodwill in accordance with the finalized purchase price allocation. At December 31, 2018, the unamortized amount of the basis difference was \$24.9 million (December 31, 2017 – \$25.5 million).

(v) Teekay LNG-Marubeni Joint Venture

The Partnership has a joint venture agreement with Marubeni Corporation (or the Teekay LNG-Marubeni Joint Venture). Since control of the Teekay LNG-Marubeni Joint Venture is shared jointly between Marubeni and the Partnership, the Partnership accounts for its investment in the Teekay LNG-Marubeni Joint Venture using the equity method. In September 2018, the Teekay LNG-Marubeni Joint Venture completed the refinancing of one of its debt facilities maturing in 2019 by entering into a new \$306.5 million U.S. Dollar-denominated term loan maturing in December 2023. The Partnership has guaranteed its 52% share of the secured loan facilities of the Teekay LNG-Marubeni Joint Venture and, as a result, has recorded a guarantee liability. The carrying value of the guarantee liability as at December 31, 2018 was \$0.4 million (December 31, 2017 – \$0.5 million) and is included as part of other long-term liabilities in the Partnership's consolidated balance sheets.

(vi) Excalibur and Excelsior Joint Ventures

The Partnership has a 50/50 LNG-related joint venture with Exmar (or the Excalibur Joint Venture). On January 31, 2018, the Partnership sold its other 50/50 joint venture with Exmar relating to the Excelsior LNG carrier (or the Excelsior Joint Venture) for gross proceeds of approximately \$54 million. As a result of the sale, the Partnership recorded a gain of \$5.6 million for the year ended December 31, 2018, which is included in equity income in the Partnership's consolidated statements of income. The Partnership has guaranteed its ownership share of the secured loan facility of the Excalibur Joint Venture and, as a result, has recorded a guarantee liability. The carrying value of the guarantee liability as of December 31, 2018 was nominal (December 31, 2017 – \$0.2 million) and is included as part of other long-term liabilities in the Partnership's consolidated balance sheets.

On initial acquisition, the basis difference between the Partnership's investment and the carrying value of the Excalibur Joint Venture's net assets was substantially attributed to an increase to the carrying value of the vessel of the Excalibur Joint Venture in accordance with the finalized purchase price allocation. At December 31, 2018, the unamortized amount of the basis difference was \$13.0 million (December 31, 2017 – \$13.4 million).

(vii) Angola Joint Venture

The Partnership has a 33% ownership interest in a joint venture (or the Angola Joint Venture) that owns four 160,400-cubic meter LNG carriers (or the Angola LNG Carriers). The other partners of the Angola Joint Venture are NYK Energy Transport (or NYK) (33%) and Mitsui & Co. Ltd. (34%).

The Partnership has guaranteed its 33% share of the secured loan facilities and interest rate swaps of the Angola Joint Venture and, as a result, has recorded a guarantee liability. The carrying value of the guarantee liability as at December 31, 2018 was \$0.6 million (December 31, 2017 – \$0.7 million) and is included as part of other long-term liabilities in the Partnership's consolidated balance sheets.

(viii) RasGas 3 Joint Venture

The Partnership has a 40% ownership interest in Teekay Nakilat (III) Corporation (or the RasGas 3 Joint Venture), and the remaining 60% is held by Qatar Gas Transport Company Ltd. (Nakilat).

The RasGas 3 Joint Venture, the Angola Joint Venture, the Yamal LNG Joint Venture, and the Bahrain LNG Joint Venture are considered variable interest entities; however, the Partnership is not the primary beneficiary and therefore, the Partnership has not consolidated these entities. The Partnership's exposure to loss as a result of its investment in the RasGas 3 Joint Venture, the Angola LNG Joint Venture, the Yamal LNG Joint Venture, and the Bahrain LNG Joint Venture is the amount it has invested in and advanced to these joint ventures, which are \$132.2 million, \$85.5 million, \$205.8 million and \$81.4 million, respectively, as at December 31, 2018. In addition, the Partnership guarantees its portion of certain debt and swaps in the Angola Joint Venture and the Yamal LNG Joint Venture totaling \$622.0 million (December 31, 2017 – \$304.1 million). In addition, the Partnership provides an owner's guarantee in respect of the charters for the RasGas 3 Joint Venture, the Angola Joint Venture, the Yamal LNG Joint Venture and the Bahrain LNG Joint Venture.

The following table presents aggregated summarized financial information reflecting a 100% ownership interest in the Partnership's equity method investments and excluding the impact from purchase price adjustments arising from the acquisition of Exmar LPG BVBA, the Excalibur Joint Venture and the Pan Union Joint Venture. The results include the Excalibur Joint Venture, the Excelsior Joint Venture up to January 2018, the RasGas 3 Joint Venture, the Angola Joint Venture, the Exmar LPG Joint Venture, the Teekay LNG-Marubeni Joint Venture, the Pan Union Joint Venture, the Yamal LNG Joint Venture, and the Bahrain LNG Joint Venture.

|   | December<br>31,<br>2018<br>\$ | December<br>31,<br>2017<br>\$ |
|---|-------------------------------|-------------------------------|
| Cash and restricted cash – current  | 333,566                       | 281,468                       |
| Other assets – current  | 152,506                       | 97,832                        |
| Vessels and equipment, including vessels related to capital leases, right of use assets and advances on newbuilding contracts | 2,262,666                     | 3,284,441                     |
| Net investments in direct financing leases – non-current  | 3,000,927                     | 1,961,299                     |
| Other assets – non-current  | 1,406,815                     | 68,728                        |
| Current portion of long-term debt and obligations related to capital leases   | 547,098                       | 168,715                       |
| Other liabilities – current   | 139,194                       | 119,627                       |
| Long-term debt and obligations related to capital leases  | 4,307,278                     | 3,386,800                     |
| Other liabilities – non-current   | 126,905                       | 145,870                       |

|  | Year<br>Ended<br>December<br>31,<br>2018<br>\$ | Year<br>Ended<br>December<br>31,<br>2017<br>\$ | Year<br>Ended<br>December<br>31,<br>2016<br>\$ |
|--|--|--|--|
| Voyage revenues  | 612,471  | 477,495  | 549,646  |
| Income from vessel operations  | 289,477  | 178,763  | 268,049  |
| Realized and unrealized gain (loss) on non-designated derivative instruments | 8,825  | (2,067 )                                       | (12,277 )                                      |
| Net income   | 142,252  | 54,418   | 167,052  |

#### 8. Intangible Assets and Goodwill

As at December 31, 2018 and 2017, intangible assets consisted of acquired time-charter contracts with a weighted-average amortization period of 20.7 years from the date of acquisition. The carrying amount of intangible assets for the Partnership's liquefied natural gas segment is as follows:

|                          | December<br>31,<br>2018<br>\$ | December<br>31,<br>2017<br>\$ |
|--------------------------|-------------------------------|-------------------------------|
| Gross carrying amount    | 179,813                       | 179,813                       |
| Accumulated amortization | (127,591)                     | (118,735)                     |
| Net carrying amount      | 52,222                        | 61,078                        |

Amortization expense associated with intangible assets was \$8.9 million per year for each of the years ended December 31, 2018, 2017 and 2016. Amortization expense associated with intangible assets is expected to be approximately \$8.9 million per year in each of the next five years.

The Partnership's carrying amount of goodwill as at December 31, 2018 and 2017 is as follows:

|                               | December<br>31,<br>2018<br>\$ | December<br>31,<br>2017<br>\$ |
|-------------------------------|-------------------------------|-------------------------------|
| Liquefied natural gas segment | 31,921                        | 31,921                        |

|                                 |        |        |
|---------------------------------|--------|--------|
| Liquefied petroleum gas segment | 2,920  | 3,710  |
| Total                           | 34,841 | 35,631 |

In 2018, the Partnership conducted its annual impairment review and concluded that its liquefied petroleum gas segment was impaired and recorded an impairment charge of \$0.8 million for the year ended December 31, 2018. No impairment charges were recognized in either segment prior to this. The amount of the impairment charge was determined using a discounted cash flow valuation approach. The impairment charge is included in write-down of goodwill and write-down and loss on sales of vessels in the Partnership's consolidated statements of income. The impairment charge followed a change in the Partnership's reporting structure, as discussed in Note 4, combined with a reduction in the near-term hire rate outlook for its multi-gas vessels.

## 9. Accrued Liabilities

|  | December<br>31,<br>2018<br>\$ | December<br>31,<br>2017<br>\$ |
|--|-------------------------------|-------------------------------|
| Interest including interest rate swaps   | 23,083                        | 19,186                        |
| Voyage and vessel expenses               | 34,889                        | 12,476                        |
| Payroll and benefits                     | 5,950                         | 3,900                         |
| Other general expenses                   | 2,542                         | 3,360                         |
| Income and other tax payable             | 1,864                         | 1,335                         |
| Distributions payable on preferred units | 6,425                         | 5,500                         |
| Total                                    | 74,753                        | 45,757                        |

## 10. Long-Term Debt

|   | December<br>31, 2018<br>\$ | December<br>31, 2017<br>\$ |
|---|----------------------------|----------------------------|
| U.S. Dollar-denominated Revolving Credit Facilities due from 2020 to 2022 | 225,000                    | 254,275                    |
| U.S. Dollar-denominated Term Loans due from 2020 to 2030                  | 1,212,504                  | 935,286                    |
| Norwegian Kroner-denominated Bonds due from 2020 to 2023                  | 352,973                    | 377,856                    |
| Euro-denominated Term Loans due from 2023 to 2024                         | 193,781                    | 232,957                    |
| Other U.S. Dollar-denominated Loans                                       | 3,300                      | 10,000                     |
| Total principal   | 1,987,558                  | 1,810,374                  |
| Unamortized discount and debt issuance costs                              | (17,782 )                  | (12,382 )                  |
| Total debt  | 1,969,776                  | 1,797,992                  |
| Less current portion  | (135,901 )                 | (552,404 )                 |
| Long-term debt  | 1,833,875                  | 1,245,588                  |

As at December 31, 2018, the Partnership had two revolving credit facilities available, both of which credit facilities were long-term. The two credit facilities, as at such date, provided for borrowings of up to \$400.6 million (December 31, 2017 – \$443.7 million), of which \$175.6 million (December 31, 2017 – \$189.4 million) was undrawn. Interest payments are based on LIBOR plus margins, which ranged from 1.40% to 2.25%. The amount available under the two revolving credit facilities will be reduced by \$22.4 million in 2019, \$248.4 million in 2020, \$24.4 million in 2021 and \$105.4 million in 2022. The revolving credit facilities may be used by the Partnership to fund general partnership purposes. One of the revolving credit facilities is unsecured, while the other revolving credit facility is collateralized by first-priority mortgages granted on two of the Partnership's vessels, together with other related security, and include a guarantee from two of the Partnership's subsidiaries.

As at December 31, 2018, the Partnership had seven combined U.S. Dollar-denominated term loans and bonds outstanding which totaled \$1.2 billion (December 31, 2017 – \$935.3 million) in aggregate principal amount. Interest payments on the term loans are based on LIBOR plus a margin, which margins ranged from 0.30% to 3.25% and interest payments on the bonds are fixed at 4.41%. The seven combined term loans and bonds require quarterly interest and principal payments and six have balloon or bullet repayments due at maturity. The term loans and bonds are collateralized by first-priority mortgages on 18 of the Partnership's vessels to which the loans relate, together with certain other related security. In addition, at December 31, 2018, all of the outstanding term loans and bonds were guaranteed by either the Partnership or subsidiaries of Teekay Nakilat Corporation (or the Teekay Nakilat Joint Venture), of which the Partnership has a 70% ownership interest.

The Partnership has Norwegian Kroner (or NOK) 3.1 billion of senior unsecured bonds issued in the Norwegian bond market that mature through 2023. As at December 31, 2018, the total amount of the bonds, which are listed on the



Oslo Stock Exchange, was \$353.0 million (December 31, 2017 – \$377.9 million). The interest payments on the bonds are based on NIBOR plus a margin, which margins ranged from 3.70% to 6.00%. The Partnership entered into cross currency swaps, to swap all interest and principal payments of the bonds into U.S. Dollars, with the interest payments fixed at rates ranging from 5.92% to 7.89% and the transfer of principal fixed at \$382.5 million upon maturity in exchange for NOK 3.1 billion (see Note 13).

The Partnership has two Euro-denominated term loans outstanding, which as at December 31, 2018, totaled 169.0 million Euros (\$193.8 million) (December 31, 2017 – 194.1 million Euros (\$233.0 million)). Interest payments are based on EURIBOR plus margins, which margins ranged from 0.60% to 1.95% as at December 31, 2018, and the loans require monthly and semi-annual interest and principal payments. The term loans have varying maturities through 2024. The term loans are collateralized by first-priority mortgages on two of the Partnership's vessels to which the loans relate, together with certain other related security and are guaranteed by the Partnership and one of its subsidiaries.

As at December 31, 2018, the Teekay Nakilat Joint Venture, which the Partnership has a 70% ownership interest, has a \$3.3 million loan payable to its 30% non-controlling interest owner. The interest is based on LIBOR plus 1.0% and is payable on demand.

The weighted-average effective interest rate for the Partnership's long-term debt outstanding at December 31, 2018 and December 31, 2017 were 4.44% and 3.34%, respectively. These rates do not reflect the effect of related interest rate swaps that the Partnership has used to economically hedge certain of its floating-rate debt (see Note 13). At December 31, 2018, the margins on the Partnership's outstanding revolving credit facilities and term loans ranged from 0.30% to 3.25%.

All Euro-denominated term loans and NOK-denominated bonds are revalued at the end of each period using the then-prevailing U.S. Dollar exchange rate. Due primarily to the revaluation of the Partnership's NOK-denominated bonds, the Partnership's Euro-denominated term loans and restricted cash, the repayment of the Partnership's NOK-denominated bonds and the termination of the associated cross currency swaps, and the change in the valuation of the Partnership's cross currency swaps, the Partnership incurred foreign exchange gains (losses) of \$1.4 million, \$(26.9) million, and \$5.3 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The aggregate annual long-term debt principal repayments required subsequent to December 31, 2018 are \$136.6 million (2019), \$613.0 million (2020), \$404.1 million (2021), \$92.1 million (2022), \$213.3 million (2023) and \$528.5 million (thereafter).

Certain loan agreements require that (a) the Partnership maintains minimum levels of tangible net worth and aggregate liquidity, (b) the Partnership maintain certain ratios of vessel values related to the relevant outstanding loan principal balance, (c) the Partnership not exceed a maximum amount of leverage, and (d) certain of the Partnership's subsidiaries maintain restricted cash deposits. As at December 31, 2018, the Partnership has three facilities with an aggregate outstanding loan balance of \$442.2 million that require it to maintain minimum vessel-value-to-outstanding-loan-principal-balance ratios ranging from 115% to 135%, which as at December 31, 2018 ranged from 132% to 198% which exceeded the required ratios for the three facilities. The vessel values used in calculating these ratios are the appraised values provided by third parties where available or prepared by the Partnership based on second-hand sale and purchase market data. Since vessel values can be volatile, the Partnership's estimates of market value may not be indicative of either the current or future prices that could be obtained if the Partnership sold any of the vessels. The Partnership's ship-owning subsidiaries may not, among other things, pay dividends or distributions if the Partnership's subsidiaries are in default under their term loans or revolving credit facilities and, in addition, one of the term loans in the Teekay Nakilat Joint Venture requires it to satisfy a minimum vessel value to outstanding loan principal balance ratio to pay dividends. As at December 31, 2018, the Partnership was in compliance with all covenants relating to the Partnership's credit facilities and other long-term debt.

#### 11. Income Tax

The components of the provision for income taxes were as follows:

|                    | Year Ended<br>December 31,<br>2018 | Year Ended<br>December 31,<br>2017 | Year Ended<br>December 31,<br>2016 |
|--------------------|------------------------------------|------------------------------------|------------------------------------|
|                    | \$                                 | \$                                 | \$                                 |
| Current            | (2,361 )                           | (3,557 )                           | (962 )                             |
| Deferred           | (852 )                             | 2,733                              | (11 )                              |
| Income tax expense | (3,213 )                           | (824 )                             | (973 )                             |

The Partnership operates in countries that have differing tax laws and rates. Consequently, a consolidated weighted average tax rate will vary from year to year according to the source of earnings or losses by country and the change in applicable tax rates. Reconciliations of the tax charge related to the relevant year at the applicable statutory income tax

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rates and the actual tax charge related to the relevant year are as follows:

|  | Year Ended<br>December 31,<br>2018 | Year Ended<br>December 31,<br>2017 | Year Ended<br>December 31,<br>2016 |
|--|------------------------------------|------------------------------------|------------------------------------|
|  | \$                                 | \$                                 | \$                                 |
| Net income before income tax expenses                          | 30,088                             | 49,735                             | 158,938                            |
| Net income not subject to taxes                                | (68,675 )                          | (94,106 )                          | (138,542 )                         |
| Net (loss) income subject to taxes                             | (38,587 )                          | (44,371 )                          | 20,396                             |
| At applicable statutory tax rates                              |                                    |                                    |                                    |
| Amount computed using the standard rate of corporate tax       | 6,833                              | 13,874                             | (3,338 )                           |
| Adjustments to valuation allowance and uncertain tax positions | (14,733 )                          | 324                                | 11,802                             |
| Permanent and currency differences                             | 3,257                              | (12,507 )                          | (9,125 )                           |
| Change in tax rates  | 1,430                              | (2,515 )                           | (312 )                             |
| Tax expense related to the current year                        | (3,213 )                           | (824 )                             | (973 )                             |

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The significant components of the Partnership's deferred tax assets (liabilities) were as follows:

|  | December 31, 2018 | December 31, 2017 |
|--|-------------------|-------------------|
|  | \$                | \$                |
| Derivative instruments                                   | 2,793             | 3,823             |
| Taxation loss carryforwards and disallowed finance costs | 49,298            | 35,326            |
| Vessels and equipment                                    | 4,045             | 3,936             |
| Capitalized interest                                     | (1,853 )          | (1,927 )          |
|  | 54,283            | 41,158            |
| Valuation allowance                                      | (52,570 )         | (38,594 )         |
| Net deferred tax assets included in other assets         | 1,713             | 2,564             |

The Partnership had tax losses in the United Kingdom (or UK) of \$15.9 million as at December 31, 2018 (December 31, 2017 – \$7.9 million) that are available indefinitely for offset against future taxable income in the UK. The Partnership had tax losses and disallowed finance costs in Spain of 110.3 million Euros or approximately \$126.3 million (December 31, 2017 – 110.3 million Euros or approximately \$132.5 million) and 20.7 million Euros or approximately \$23.6 million (December 31, 2017 – 25.2 million Euros or approximately \$30.2 million), respectively, at December 31, 2018 of which the tax losses are available indefinitely and the disallowed finance costs are available for 18 years from the year the costs are incurred for offset against future taxable income in Spain. The Partnership also had tax losses in Luxembourg of 109.9 million Euros or approximately \$125.7 million as at December 31, 2018 (December 31, 2017 – 91.5 million Euros or approximately \$109.9 million) that are available for offset against taxable future income in Luxembourg, either indefinitely for losses arising prior to 2017, or for 17 years for losses arising subsequent to 2016.

The Partnership recognizes interest and penalties related to uncertain tax positions in income tax expense. The tax years 2008 through 2018 currently remain open to examination by the major tax jurisdictions to which the Partnership is subject.

## 12. Related Party Transactions

a) The following table and related footnotes provide information about certain of the Partnership's related party transactions for the periods indicated:

|   | Year Ended December 31, 2018 | Year Ended December 31, 2017 | Year Ended December 31, 2016 |
|---|------------------------------|------------------------------|------------------------------|
|   | \$                           | \$                           | \$                           |
| Voyage revenues <sup>(i)(vi)</sup>  | 11,018                       | 36,358                       | 37,336                       |
| Vessel operating expenses <sup>(ii)(vi)</sup>                               | (17,666 )                    | (23,564 )                    | (19,738 )                    |
| Time-charter hire expense <sup>(iii)</sup>                                  | (7,671 )                     | —                            | —                            |
| General and administrative expenses <sup>(iv)</sup>                         | (15,967 )                    | (9,434 )                     | (12,590 )                    |
| General and administrative expenses deferred and capitalized <sup>(v)</sup> | (822 )                       | (859 )                       | (571 )                       |

Commencing in 2008, the Arctic Spirit and Polar Spirit LNG carriers were time-chartered to Teekay Corporation at (i) fixed-rates for periods of 10 years. The contract periods for the Polar Spirit and for the Arctic Spirit expired in March 2018 and April 2018, respectively.

(ii) The Partnership and certain of its operating subsidiaries have entered into service agreements with certain subsidiaries of Teekay Corporation pursuant to which the Teekay Corporation subsidiaries provide to the Partnership and its subsidiaries crew training and technical management services. In addition, as part of the

Partnership's acquisition of its ownership interest in the Pan Union Joint Venture in 2014, the Partnership entered into an agreement with a subsidiary of Teekay Corporation whereby Teekay Corporation's subsidiary agreed to provide, on behalf of the Partnership, shipbuilding supervision and crew training services for four LNG carrier newbuildings in the Pan Union Joint Venture, up to their delivery dates from 2017 to 2019. All costs incurred by these Teekay Corporation subsidiaries related to these services are charged to the Partnership and recorded as part of vessel operating expenses.

In September 2018, the Partnership entered into an agreement with its 52%-owned joint venture, the Teekay (iii) LNG-Marubeni Joint Venture, to charter in one of Teekay LNG-Marubeni Joint Venture's LNG carriers, the Magellan Spirit, for a period of two years at a fixed-rate.

Includes administrative, advisory, business development, commercial and strategic consulting services charged by (iv) Teekay Corporation's subsidiaries and reimbursements to the Partnership's General Partner for costs incurred on the Partnership's behalf for the conduct of the Partnership's business.

Includes the Partnership's costs associated with the Bahrain LNG Joint Venture including pre-operation, engineering and financing-related expenses, of which \$1.1 million was reimbursed by the Bahrain LNG Joint (v) Venture during 2018 (December 31, 2017 – \$1.1 million; December 31, 2016 – \$0.4 million). The net costs are recorded as part of investments in and advances to equity-accounted joint ventures in the Partnership's consolidated balance sheets.

The Partnership entered into an operation and maintenance contract with the Bahrain LNG Joint Venture and an operating and maintenance subcontract with Teekay Marine Solutions (Bermuda) Ltd. (or TMS), an entity wholly-owned by Teekay Tankers Ltd., which is controlled by Teekay Corporation, relating to the LNG (vi) regasification terminal in Bahrain. The Partnership, as the contractor, and TMS, as the subcontractor, agreed to provide pre-mobilization services up to August 2018, and mobilization services and other general operational and maintenance services of the facility thereafter. The subcontractor fees from TMS of \$1.6 million during 2018 (\$nil during 2017 and 2016) are included in vessel operating expenses in the Partnership's consolidated statements

of income. Cost recoveries from the Bahrain LNG Joint Venture of \$1.6 million during 2018 (\$nil during 2017 and 2016) are included in voyage revenues in the Partnership's consolidated statements of income.

The Partnership entered into services agreements with certain subsidiaries of Teekay Corporation pursuant to which the Teekay Corporation subsidiaries provide the Partnership with shipbuilding and site supervision services related to certain LNG carrier newbuildings the Partnership has ordered. These costs are capitalized and included as part of advances on newbuilding contracts in the Partnership's consolidated balance sheets. During the years ended 2018, 2017 and 2016, the Partnership incurred shipbuilding and site supervision costs with Teekay Corporation subsidiaries of \$15.3 million, \$13.2 million and \$8.5 million, respectively.

As at December 31, 2018 and 2017, non-interest bearing advances to affiliates totaled \$8.2 million and \$7.3 million, respectively, and non-interest bearing advances from affiliates totaled \$14.7 million and \$12.1 million, respectively.

These advances are unsecured and have no fixed repayment terms. Affiliates are entities that are under the same common control.

The Partnership's Suezmax tanker the Toledo Spirit operates pursuant to a time-charter contract that increases or decreases the otherwise fixed-hire rate established in the charter depending on the spot charter rates that the Partnership would have earned had it traded the vessel in the spot tanker market. The time-charter contract was terminated in January 2019 upon which the charterer, which is also the owner, sold the vessel to a third party. The Partnership has entered into an agreement with Teekay Corporation under which Teekay Corporation paid the Partnership any amounts payable to the charterer as a result of spot rates being below the fixed rate, and the Partnership paid Teekay Corporation any amounts payable to the Partnership as a result of spot rates being in excess of the fixed rate. The amounts receivable or payable to Teekay Corporation are settled annually (see Notes 3 and 13).

### 13. Derivative Instruments and Hedging Activities

The Partnership uses derivative instruments in accordance with its overall risk management policy.

#### Foreign Exchange Risk

The Partnership entered into cross currency swaps concurrently with the issuance of its NOK-denominated senior unsecured bonds (see Note 10), and pursuant to these swaps, the Partnership receives the principal amount in NOK on maturity dates of the swaps in exchange for payments of a fixed U.S. Dollar amount. In addition, the cross currency swaps exchange a receipt of floating interest in NOK based on NIBOR plus a margin for a payment of U.S. Dollar fixed interest. The purpose of the cross currency swaps is to economically hedge the foreign currency exposure on the payment of interest and principal of the Partnership's NOK-denominated bonds due in 2020, 2021 and 2023, and to economically hedge the interest rate exposure. The following table reflects information relating to the cross currency swaps as at December 31, 2018.

| Principal Amount NOK | Principal Amount \$ | Floating Rate Receivable Reference Rate | Margin | Fixed Rate Payable | Fair Value / Carrying Amount of Asset (Liability) | Weighted-Average Remaining Term (Years) |
|----------------------|---------------------|---|--------|--------------------|---|---|
| 1,000,000            | 134,000             | NIBOR                                   | 3.70 % | 5.92 %             | (18,315 )   | 1.4                                     |
| 1,200,000            | 146,500             | NIBOR                                   | 6.00 % | 7.72 %             | (4,727 )  | 2.8                                     |
| 850,000              | 102,000             | NIBOR                                   | 4.60 % | 7.89 %             | (6,080 )  | 4.7                                     |
|                      |                     |   |        |                    | (29,122 )   |   |

Interest Rate Risk

The Partnership enters into interest rate swaps which exchange a receipt of floating interest for a payment of fixed interest to reduce the Partnership's exposure to interest rate variability on certain of its outstanding floating-rate debt. As at December 31, 2018, the Partnership was committed to the following interest rate swap agreements:

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|  | Interest Rate Index | Principal Amount \$ | Fair Value / Carrying Amount of Assets (Liability) \$ | Weighted-Average Remaining Term (years) | Fixed Interest Rate <sup>(i)</sup> |
|--|---------------------|---------------------|---|---|------------------------------------|
| <b>LIBOR-Based Debt:</b>   |                     |                     |   |   |                                    |
| U.S. Dollar-denominated interest rate swaps                      | LIBOR               | 30,000              | (519 )  | 0.5                                     | 4.9 %                              |
| U.S. Dollar-denominated interest rate swaps <sup>(ii)</sup>      | LIBOR               | 131,250             | (16,494 )   | 10.0                                    | 5.2 %                              |
| U.S. Dollar-denominated interest rate swaps <sup>(ii)</sup>      | LIBOR               | 32,134              | (66 )   | 2.6                                     | 2.8 %                              |
| U.S. Dollar-denominated interest rate swaps <sup>(iii)(iv)</sup> | LIBOR               | 336,316             | (12,787 )   | 2.0                                     | 3.4 %                              |
| U.S. Dollar-denominated interest rate swaps <sup>(iv)</sup>      | LIBOR               | 91,000              | 174   | 0.0                                     | 1.7 %                              |
| U.S. Dollar-denominated interest rate swaps <sup>(iv)</sup>      | LIBOR               | 184,005             | 3,167   | 8.0                                     | 2.3 %                              |
| <b>EURIBOR-Based Debt:</b>                                       |                     |                     |   |   |                                    |
| Euro-denominated interest rate swaps                             | EURIBOR             | 86,477              | (11,092 )<br>(37,617 )                                | 4.7                                     | 3.8 %                              |

(i) Excludes the margins the Partnership pays on its floating-rate term loans, which, at December 31, 2018, ranged from 0.30% to 3.25%.

(ii) Principal amount reduces semi-annually.

(iii) These interest rate swaps are subject to mandatory early termination in 2020 and 2021, whereby the swaps will be settled based on their fair value at that time.

(iv) Principal amount reduces quarterly.

As at December 31, 2018, the Partnership had multiple interest rate swaps and cross currency swaps with the same counterparty that are subject to the same master agreement. Each of these master agreements provide for the net settlement of all swaps subject to that master agreement through a single payment in the event of default or termination of any one swap. The fair value of these derivative instruments is presented on a gross basis in the Partnership's consolidated balance sheets. As at December 31, 2018, these interest rate swaps and cross currency swaps had an aggregate fair value asset of \$3.2 million (December 31, 2017 – \$4.5 million) and an aggregate fair value liability of \$53.6 million (December 31, 2017 – \$81.5 million). As at December 31, 2018, the Partnership had \$6.8 million (December 31, 2017 – \$22.3 million) on deposit as security for swap liabilities under certain master agreements. The deposit is presented in restricted cash – current and long-term on the Partnership's consolidated balance sheets.

#### Credit Risk

The Partnership is exposed to credit loss in the event of non-performance by the counterparties to the interest rate swap agreements. In order to minimize counterparty risk, the Partnership only enters into derivative transactions with counterparties that are rated A- or better by Standard & Poor's or A3 or better by Moody's at the time of the transactions. In addition, to the extent practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

#### Other Derivatives

In order to reduce the variability of its revenue, the Partnership has entered into an agreement with Teekay Corporation under which Teekay Corporation pays the Partnership any amounts payable to the charterer of the Toledo Spirit as a result of spot rates being below the fixed rate, and the Partnership pays Teekay Corporation any amounts payable to the Partnership by the charterer of the Toledo Spirit as a result of spot rates being in excess of the fixed rate. The fair value of the derivative asset at December 31, 2018 was \$1.1 million (December 31, 2017 – an asset of \$1.6 million).



The following table presents the location and fair value amounts of derivative instruments, segregated by type of contract, on the Partnership's consolidated balance sheets.

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|                                       | Accounts receivable/Advances to affiliates \$ | Current portion of derivative assets \$ | Derivative assets \$ | Accrued liabilities \$ | Current portion of derivative liabilities \$ | Derivative liabilities \$ |
|---------------------------------------|---|---|----------------------|------------------------|--|---------------------------|
| As at December 31, 2018               |   |   |                      |                        |  |                           |
| Interest rate swap agreements         | 188   | 795                                     | 2,362                | (2,729 )               | (6,875 )                                     | (31,358 )                 |
| Cross currency swap agreements        | —   | —                                       | —                    | (713 )                 | (4,729 )                                     | (23,680 )                 |
| Toledo Spirit time-charter derivative | 1,021   | 40                                      | —                    | —                      | —  | —                         |
|                                       | 1,209   | 835                                     | 2,362                | (3,442 )               | (11,604 )                                    | (55,038 )                 |
| As at December 31, 2017               |   |   |                      |                        |  |                           |
| Interest rate swap agreements         | —   | 108                                     | 1,130                | (4,101 )               | (34,614 )                                    | (35,629 )                 |
| Interest rate swaption agreements     | —   | —                                       | —                    | —                      | (2 )   | —                         |
| Cross currency swap agreements        | —   | —                                       | 5,042                | (810 )                 | (44,523 )                                    | (10,168 )                 |
| Toledo Spirit time-charter derivative | 678   | 970                                     | —                    | —                      | —  | —                         |
|                                       | 678   | 1,078                                   | 6,172                | (4,911 )               | (79,139 )                                    | (45,797 )                 |

Realized and unrealized gains (losses) relating to non-designated interest rate swap agreements, interest rate swaption agreements, and the Toledo Spirit time-charter derivative are recognized in earnings and reported in realized and unrealized gain (loss) on non-designated derivative instruments in the Partnership's consolidated statements of income. The effect of the gain (loss) on these derivatives on the Partnership's consolidated statements of income is as follows:

|  | Year Ended December 31, |                           |          |                         |                           |         |                         |                           |          |
|--|-------------------------|---------------------------|----------|-------------------------|---------------------------|---------|-------------------------|---------------------------|----------|
|  | 2018                    |                           |          | 2017                    |                           |         | 2016                    |                           |          |
|  | Realized gains (losses) | Unrealized gains (losses) | Total    | Realized gains (losses) | Unrealized gains (losses) | Total   | Realized gains (losses) | Unrealized gains (losses) | Total    |
| Interest rate swap agreements                          | (14,654)                | 31,061                    | 16,407   | (18,825)                | 12,393                    | (6,432) | (25,940)                | 15,627                    | (10,313) |
| Interest rate swaption agreements                      | —                       | 2                         | 2        | —                       | 945                       | 945     | —                       | (164 )                    | (164 )   |
| Interest rate swap and swaption agreements termination | (13,681)                | —                         | (13,681) | (610 )                  | —                         | (610 )  | —                       | —                         | —        |
| Toledo Spirit time-charter derivative                  | 1,480                   | (930 )                    | 550      | 678                     | 110                       | 788     | (654 )                  | 3,970                     | 3,316    |
|  | (26,855)                | 30,133                    | 3,278    | (18,757)                | 13,448                    | (5,309) | (26,594)                | 19,433                    | (7,161 ) |

Unrealized and realized gains (losses) relating to cross currency swap agreements are recognized in earnings and reported in foreign currency exchange gain (loss) in the Partnership's consolidated statements of income. The effect of the gain (loss) on these derivatives on the Partnership's consolidated statements of income is as follows:

|  | Year Ended December 31,<br>2018 |                           |          | 2017                    |                           |          | 2016                    |                           |          |
|--|---------------------------------|---------------------------|----------|-------------------------|---------------------------|----------|-------------------------|---------------------------|----------|
|  | Realized gains (losses)         | Unrealized gains (losses) | Total    | Realized gains (losses) | Unrealized gains (losses) | Total    | Realized gains (losses) | Unrealized gains (losses) | Total    |
| Cross currency swap agreements             | (6,533 )                        | 21,240                    | 14,707   | (9,344 )                | 49,047                    | 39,703   | (9,063 )                | 28,905                    | 19,842   |
| Cross currency swap agreements termination | (42,271)                        | —                         | (42,271) | (25,733)                | —                         | (25,733) | (17,711)                | —                         | (17,711) |
|  | (48,804)                        | 21,240                    | (27,564) | (35,077)                | 49,047                    | 13,970   | (26,774)                | 28,905                    | 2,131    |

For the years ended December 31, 2018, 2017 and 2016, the following tables present the effective and ineffective portion of losses on interest rate swap agreements designated and qualifying as cash flow hedges. The following tables exclude any interest rate swap agreements designated and qualifying as cash flow hedges in the Partnership's equity-accounted joint ventures.

Year Ended December 31, 2018

| Effective Portion Recognized in AOCI (i) | Effective Portion Reclassified from AOCI (ii) | Ineffective Portion (iii) |                  |
|--|---|---------------------------|------------------|
| \$                                       | \$  | \$                        |                  |
| 2,128                                    | (152)   | 740                       | Interest expense |
| 2,128                                    | (152)   | 740                       |                  |

Year Ended December 31, 2017

| Effective Portion Recognized in AOCI (i) | Effective Portion Reclassified from AOCI (ii) | Ineffective Portion (iii) |                  |
|--|---|---------------------------|------------------|
| \$                                       | \$  | \$                        |                  |
| 429                                      | (427)   | (740)                     | Interest expense |
| 429                                      | (427)   | (740)                     |                  |

Year Ended December 31, 2016

| Effective Portion Recognized in AOCI (i) | Effective Portion Reclassified from AOCI (ii) | Ineffective Portion (iii) |                  |
|--|---|---------------------------|------------------|
| \$                                       | \$  | \$                        |                  |
| 590                                      | —   | —                         | Interest expense |
| 590                                      | —   | —                         |                  |

(i) Effective portion of designated and qualifying cash flow hedges recognized in other comprehensive (loss) income.

(ii) Effective portion of designated and qualifying cash flow hedges recorded in accumulated other comprehensive income (or AOCI) during the term of the hedging relationship and reclassified to earnings.

(iii) Ineffective portion of designated and qualifying cash flow hedges.



## 14. Commitments and Contingencies

The Partnership's share of commitments to fund newbuilding and other construction contract costs as at a) December 31, 2018 is as follows:

|  | 2019    |
|--|---------|
|  | \$      |
| Hyundai Samho Heavy Industries Co. (i) | 120,413 |
| Yamal LNG Joint Venture (ii)           | 436,100 |
| Pan Union Joint Venture (iii)          | 29,200  |
| Bahrain LNG Joint Venture (iv)         | 66,509  |
|  | 652,222 |

As at December 31, 2018, the Partnership had one remaining 100%-owned LNG carrier newbuilding on order with Hyundai Samho Heavy Industries Co. (or HHI). The vessel delivered on January 31, 2019. As at December 31, (i) 2018, costs incurred under this newbuilding contract totaled \$86.9 million. In January 2019, the Partnership secured \$159 million of financing through a sale-leaseback agreement for this remaining HHI LNG carrier newbuilding.

The Partnership, through the Yamal LNG Joint Venture, has a 50% ownership interest in four 172,000-cubic meter ARC7 LNG carrier newbuildings that have an estimated total fully built-up cost of approximately \$1.4 billion. As (ii) at December 31, 2018, the Partnership's proportionate costs incurred under these newbuilding contracts totaled \$255.8 million. The Yamal LNG Joint Venture has secured debt financing of \$1.1 billion for the four LNG carrier newbuildings, of which \$395 million was undrawn at December 31, 2018, related to the Partnership's proportionate share of the commitments included in the table above.

Through the Pan Union Joint Venture, the Partnership has a 20% ownership interest in one LNG carrier (iii) newbuilding which delivered on January 8, 2019 (see Note 20a). The Pan Union Joint Venture has secured financing of \$24 million related to the Partnership's proportionate share of the commitments included in the table above and the Partnership received \$0.2 million of reimbursement directly from Shell in 2019 (see Note 7a iii).

The Partnership has a 30% ownership interest in the Bahrain LNG Joint Venture for the development of an LNG (iv) receiving and regasification terminal in Bahrain. The project will include an FSU, which will be modified from one of the Partnership's existing MEGI LNG carrier newbuildings, an offshore gas receiving facility, and an onshore nitrogen production facility. The terminal will have a capacity of 800 million standard cubic feet per day and will be owned and operated under a 20-year agreement commencing mid-2019. The receiving and regasification terminal is expected to have a fully-built up cost of approximately \$903 million. The Bahrain LNG Joint Venture has secured undrawn debt financing of \$195 million, of which \$58 million relates to the Partnership's proportionate share of the commitments included in the table above.

Following the termination of the capital lease arrangements for the three LNG carriers in the Teekay Nakilat Joint Venture in 2014, the lessor made a determination that additional rentals were due under the leases following a challenge by the UK taxing authority. As a result, in 2018 the Teekay Nakilat Joint Venture recognized an (b) additional liability of \$53.0 million, which was included as part of other (expense) income in the Partnership's consolidated statements of income, and paid this liability by releasing a \$7.0 million cash deposit it had made with the lessor and making a \$56.0 million cash payment for the balance, which was based on the GBP/USD foreign currency exchange rates at the time the payments were made.

The Teekay Tangguh Joint Venture is currently undergoing a tax audit related to its tax returns filed for the 2010 and subsequent fiscal years. The UK taxing authority has challenged the deductibility of certain transactions not (c) directly related to the long funding lease and the Teekay Tangguh Joint Venture has recorded a provision of \$1.6 million (of which the Partnership's 69% share is \$1.1 million) in December 2017 which is included in income tax expense in the Partnership's consolidated statements of income for the year ended December 31, 2017.

In May 2016, the Teekay LNG-Marubeni Joint Venture reached a settlement agreement with a charterer relating to a disputed charter contract termination for one of its LNG carriers that occurred in 2015. The charterer paid \$39.0 million to the Teekay LNG-Marubeni Joint Venture in June 2016 for lost revenues, of which the Partnership's share

of \$20.3 million was recorded in equity income for the year ended December 31, 2016.

Management is required to assess whether the Partnership will have sufficient liquidity to continue as a going concern for the one-year period following the issuance of its financial statements. The Partnership completed a number of financings and re-financings over the past 12 months, including the Partnership's refinancing and up-sizing of its \$190 million revolving credit facility with a new \$225 million revolving credit facility in early-November 2018 and the Partnership securing \$159 million financing on its one remaining LNG carrier newbuilding in our consolidated fleet in January 2019. Based on the Partnership's liquidity at the date these consolidated financial statements were issued and the liquidity it expects to generate from operations over the following year, the Partnership estimates that it will have sufficient liquidity to continue as a going concern for at least the one-year period following the issuance of these consolidated financial statements.

#### 15. Supplemental Cash Flow Information

a) The following is a tabular reconciliation of the Partnership's cash, cash equivalents and restricted cash balances for the periods presented in the Partnership's consolidated statements of cash flows:

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|                             | December<br>31, 2018 | December<br>31, 2017 | December<br>31, 2016 | December<br>31, 2015 |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|
|                             | \$                   | \$                   | \$                   | \$                   |
| Cash and cash equivalents   | 149,014              | 244,241              | 126,146              | 102,481              |
| Restricted cash - current   | 38,329               | 22,326               | 10,145               | 6,600                |
| Restricted cash - long-term | 35,521               | 72,868               | 106,882              | 104,919              |
| Total                       | 222,864              | 339,435              | 243,173              | 214,000              |

The Partnership maintains restricted cash deposits relating to certain term loans, collateral for cross currency swaps, project tenders and amounts received from charterers to be used only for dry-docking expenditures and emergency repairs.

b) The changes in operating assets and liabilities for years ended December 31, 2018, 2017 and 2016 are as follows:

|   | Year Ended<br>December 31,<br>2018 | Year Ended<br>December 31,<br>2017 | Year Ended<br>December 31,<br>2016 |
|---|------------------------------------|------------------------------------|------------------------------------|
|   | \$                                 | \$                                 | \$                                 |
| Accounts receivable                                 | 3,542                              | 1,620                              | 5,494                              |
| Prepaid expenses and other current assets           | (3,843)                            | (2,815)                            | 745                                |
| Accounts payable                                    | 274                                | (2,053)                            | 2,791                              |
| Accrued liabilities and other long-term liabilities | 13,958                             | 2,449                              | (1,572)                            |
| Unearned revenue and long-term unearned revenue     | 4,234                              | (1,456)                            | (3,218)                            |
| Advances to and from affiliates                     | 2,183                              | (913)                              | (9,699)                            |
| Other operating assets and liabilities              | (1,130)                            | 772                                | (4,402)                            |
| Total   | 19,218                             | (2,396)                            | (9,861)                            |

c) Cash interest paid (including realized losses on interest rate swaps) on long-term debt, advances from affiliates and obligations related to capital leases, net of amounts capitalized, during the years ended December 31, 2018, 2017 and 2016 totaled \$167.8 million, \$122.7 million and \$100.9 million, respectively.

d) During the years ended December 31, 2018, 2017 and 2016, cash paid for corporate income taxes was \$6.0 million, \$2.9 million and \$4.9 million, respectively.

e) During the year ended December 31, 2017, the Partnership acquired a 100% ownership interest in Skaugen Gulf Petchem Carriers B.S.C.(c) (or the Skaugen LPG Joint Venture), which owned the LPG carrier Norgas Sonoma, from I.M. Skaugen SE (or Skaugen) (35%), The Oil & Gas Holding Company B.S.C.(c) (35%) and Suffun Bahrain W.L.L. (30%) for \$13.2 million. The Partnership applied \$4.6 million of the outstanding hire owed by Skaugen to the Partnership as a portion of the purchase price to acquire the Skaugen LPG Joint Venture, which was treated as a non-cash transaction in the Partnership's consolidated statements of cash flows.

#### 16. Total Capital and Net Income Per Common Unit

As at December 31, 2018, a total of 68.2% of the Partnership's common units outstanding were held by the public. The remaining common units, as well as the 2% general partner interest, were held by subsidiaries of Teekay Corporation. All of the Partnership's outstanding Series A Cumulative Redeemable Perpetual Preferred Units (or the Series A Preferred Units) and Series B Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units (or the Series B Preferred Units) are held by the public.

#### Limited Partners' Rights

Significant rights of the Partnership's limited partners include the following:

Right of common unitholders to receive distribution of Available Cash (as defined in the partnership agreement and which takes into account cash reserves for, among other things, future capital expenditures and future credit needs of

the Partnership) within approximately 45 days after the end of each quarter.

No limited partner shall have any management power over the Partnership's business and affairs; the General Partner is responsible for the conduct, directions and management of the Partnership's activities.

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

Incentive Distribution Rights

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

| Quarterly Distribution Target Amount (per unit) | Unitholders |   | General Partner |   |
|---|-------------|---|-----------------|---|
| Minimum quarterly distribution of \$0.4125      | 98          | % | 2               | % |
| Up to \$0.4625                                  | 98          | % | 2               | % |
| Above \$0.4625 up to \$0.5375                   | 85          | % | 15              | % |
| Above \$0.5375 up to \$0.6500                   | 75          | % | 25              | % |
| Above \$0.6500                                  | 50          | % | 50              | % |

During 2018, 2017, and 2016, the quarterly cash distributions were below \$0.4625 per common unit and, consequently, the assumed distribution of net income was based on the limited partners' and General Partner's ownership percentage for the purposes of the net income per common unit calculation.

In the event of a liquidation, all property and cash in excess of that required to discharge all liabilities and liquidation amounts on the Series A Preferred Units and Series B Preferred Units will be distributed to the common unitholders and the General Partner in proportion to their capital account balances, as adjusted to reflect any gain or loss upon the sale or other disposition of the Partnership's assets in liquidation in accordance with the partnership agreement.

#### Net Income Per Common Unit

Limited partners' interest in net income per common unit is determined by dividing net income, after deducting the amount of net income attributable to the non-controlling interests, the General Partner's interest and the distributions on the Series A and Series B Preferred Units by the weighted-average number of common units outstanding during the period. The distributions payable on the Series A and Series B Preferred Units for the year ended December 31, 2018 were \$25.7 million (December 31, 2017 – \$14.0 million, December 31, 2016 – \$2.7 million).

|   | Year Ended December 31, 2018 | Year Ended December 31, 2017 | Year Ended December 31, 2016 |
|---|------------------------------|------------------------------|------------------------------|
| Limited partners' interest in net income for basic net income per common unit | \$ 2,615                     | \$ 19,586                    | \$ 134,977                   |
| Weighted average number of common units                                       | 79,672,435                   | 79,617,778                   | 79,568,352                   |
| Dilutive effect of unit-based compensation                                    | 169,893                      | 173,263                      | 103,506                      |
| Common units and common unit equivalents                                      | 79,842,328                   | 79,791,041                   | 79,671,858                   |
| Limited partner's interest in net income per common unit:                     |                              |                              |                              |
| Basic   | 0.03                         | 0.25                         | 1.70                         |
| Diluted   | 0.03                         | 0.25                         | 1.69                         |

The General Partner's and common unitholders' interests in net income are calculated as if all net income was distributed according to the terms of the Partnership's partnership agreement, regardless of whether those earnings would or could be distributed. The partnership agreement does not provide for the distribution of net income; rather, it provides for the distribution of available cash, which is a contractually defined term that generally means all cash on hand at the end of each quarter after establishment of cash reserves determined by the Partnership's Board of Directors to provide for the proper conduct of the Partnership's business, including reserves for maintenance and replacement capital expenditure and anticipated credit needs. In addition, the General Partner is entitled to incentive distributions if the amount the Partnership distributes to common unitholders with respect to any quarter exceeds specified target levels. Unlike available cash, net income is affected by non-cash items, such as depreciation and amortization, unrealized gains or losses on non-designated derivative instruments and foreign currency translation gains (losses).

Pursuant to the Partnership agreement, allocations to partners are made on a quarterly basis.

Equity Offerings

The following table summarizes the issuances of common and preferred units over the three years ended December 31, 2018:

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| Date   | Units Issued | Type of Units | Offering Price per Unit | Gross Proceeds <sup>(i)</sup> \$ | Net Proceeds \$ | Teekay Corporation's Ownership After the Offering <sup>(ii)</sup> | Use of Proceeds  |
|--|--------------|---------------|-------------------------|----------------------------------|-----------------|---|--|
| October 2016 Public Offering 2016 <sup>(iii)</sup> | 5,000,000    | Preferred     | \$ 25.00                | 125,000                          | 120,707         | 33.02 %   | General partnership purposes, including debt repayments and funding newbuilding installments |
| October 2017 Public Offering <sup>(iv)</sup>       | 6,800,000    | Preferred     | \$ 25.00                | 170,000                          | 164,411         | 33.02 %   | General partnership purposes, including debt repayments and funding newbuilding installments |

(i) Including the General Partner's proportionate capital contribution.

(ii) Including Teekay Corporation's indirect general partner interest relating to common unit offerings.

(iii) On October 5, 2016, the Partnership issued Series A Preferred Units having a distribution rate of 9.0% per annum of the stated liquidation preference of \$25.00 per unit. At any time on or after October 5, 2021, the Partnership may redeem the Series A Preferred Units, in whole or in part, at a redemption price of \$25.00 per unit plus all accumulated and unpaid distributions to the date of redemption, whether or not declared.

(iv) On October 23, 2017, the Partnership issued Series B Preferred Units having a distribution rate of 8.5% per annum of the stated liquidation preference of \$25.00 per unit up to October 15, 2027, at which point the rate moves to a floating rate equal to three-month LIBOR plus a margin of 6.241%. At any time on or after October 15, 2027, the Partnership may redeem the Series B Preferred Units, in whole or in part, at a redemption price of \$25.00 per unit plus all accumulated and unpaid distributions thereon to the date of redemption, whether or not declared.

#### Common Unit Repurchases

In December 2018, the Partnership announced that its Board of Directors had authorized a common unit repurchase program for the repurchase of up to \$100 million of the Partnership's common units. As at December 31, 2018, the Partnership had repurchased approximately 0.3 million units for \$3.7 million (see Note 20d).

#### 17. Unit-Based Compensation

In March 2018, a total of 17,498 common units, with an aggregate value of \$0.3 million, were granted to the non-management directors of the General Partner as part of their annual compensation for 2018. These common units were fully vested upon grant. During 2017 and 2016, the Partnership awarded 17,345 and 32,723 common units, respectively, as compensation to non-management directors. The awards were fully vested in March 2017 and March 2016, respectively. The compensation to the non-management directors is included in general and administrative expenses on the Partnership's consolidated statements of income.

During March 2018, 2017 and 2016, the Partnership granted 62,283, 60,809 and 132,582 restricted units, respectively, with grant date fair values of \$1.2 million, \$1.0 million and \$1.5 million, respectively, to certain of the Partnership's employees and to certain employees of Teekay Corporation's subsidiaries who provide services to the Partnership, based on the Partnership's closing common unit price on the grant date. Each restricted unit is equal in value to one of the Partnership's common units plus reinvested distributions from the grant date to the vesting date. The restricted units vest equally over three years from the grant date. Any portion of a restricted unit award that is not vested on the date of a recipient's termination of service is canceled, unless their termination arises as a result of the recipient's retirement, and in this case, the restricted unit award will continue to vest in accordance with the vesting schedule. Upon vesting, the value of the restricted unit awards is paid to each recipient in the form of common units, net of withholding tax. During the years ended December 31, 2018, 2017 and 2016, the Partnership recorded an expense of \$1.3 million, \$1.0 million, and \$1.3 million, respectively, related to the restricted units and common units.

#### 18. Restructuring Charges

During 2018, as a result of the sale of the Teide Spirit (see Note 19e), the Partnership incurred seafarer severance payments for the year ended December 31, 2018 of \$1.8 million and presented as restructuring charges in the

Partnership's consolidated statements of income. As at December 31, 2018, the remaining balance of unpaid restructuring charges of \$0.5 million is included in accrued liabilities in the Partnership's consolidated balance sheets.

19. Write-Down and Loss on Sales of Vessels

During February and March 2016, Centrofin Management Inc. (or Centrofin), the charterer for both the Bermuda Spirit and Hamilton Spirit Suezmax tankers, exercised its option under the charter contracts to purchase both a) vessels. As a result of Centrofin's acquisition of the vessels, the Partnership recorded a \$27.4 million loss on the sale of the vessels and associated charter contracts in the year ended December 31, 2016 in the Partnership's consolidated statements of income. The Bermuda Spirit was sold on April 15, 2016 and the

Hamilton Spirit was sold on May 17, 2016. The Partnership used the total proceeds of \$94.3 million from the sales primarily to repay existing term loans associated with these vessels.

In November 2016, the Partnership reached an agreement to sell the Asian Spirit Suezmax tanker for net proceeds of \$20.6 million and as a result, recorded an \$11.5 million impairment charge on the write-down of the vessel for b) the year ended December 31, 2016 in the Partnership's consolidated statements of income. The vessel delivered to the new owner on March 21, 2017. The Partnership used the net proceeds from the sale primarily to repay its existing term loan associated with the vessel.

In June 2017, the charterer for the European Spirit Suezmax tanker gave formal notice to the Partnership that it would not exercise its one-year extension option under the charter contract and the charterer redelivered the vessel to the Partnership in August 2017. Upon receiving this notification, the Partnership commenced marketing the vessel for sale. As a result, the Partnership wrote-down the vessel to its estimated resale value, based on second-hand market comparable values and recorded a \$12.6 million write-down of the vessel for the year ended c) December 31, 2017 in the Partnership's consolidated statements of income. The vessel was presented as held for sale in the Partnership's consolidated balance sheets as of December 31, 2017. The Partnership recorded a further write-down on this vessel of \$4.0 million for the year ended December 31, 2018 in the Partnership's consolidated statements of income. On December 6, 2018 the European Spirit Suezmax tanker was sold for net proceeds of \$15.7 million. The Partnership used the net proceeds from the sale primarily to repay its existing term loan associated with the vessel.

In August 2017, the charterer for the African Spirit Suezmax tanker gave formal notice to the Partnership that it will not exercise its one-year extension option under the charter contract and the charterer redelivered the vessel to the Partnership in November 2017. As a result, the Partnership wrote-down the vessel to its estimated resale value, based on second-hand market comparable values, and recorded a \$12.5 million write-down of the vessel for the year ended December 31, 2017 in the Partnership's consolidated statements of income. The vessel was presented as held d) for sale in the Partnership's consolidated balance sheets as of December 31, 2017. The Partnership recorded a further write-down on this vessel of \$3.9 million for the year ended December 31, 2018 in the Partnership's consolidated statements of income. On October 9, 2018 the African Spirit Suezmax tanker was sold for net proceeds of \$12.8 million. The Partnership used the net proceeds from the sale primarily to repay its existing term loan associated with the vessel.

Under the Partnership's charter contracts for the Teide Spirit and Toledo Spirit Suezmax tankers, the charterer, who is also the owner of the vessels, has the option to cancel the charter contracts 13 years following commencement of the respective charter contracts. In August 2017, the charterer of the Teide Spirit gave formal notification to the Partnership of its intention to terminate its charter contract subject to certain conditions being met and third-party approvals being received. In February 2018, the charterer, sold the Teide Spirit to a third party. On May 20, 2018, e) the charterer of the Toledo Spirit gave formal notification to the Partnership of its intention to terminate its charter contract subject to certain conditions being met and the receipt of certain third-party approvals. On November 20, 2018, the owner and charterer of the Toledo Spirit, reached an agreement to sell the vessel and delivered the vessel to the buyer in January 2019 (see Note 20b). The Partnership wrote-down the vessels to their estimated fair values based on their expected future discounted cash flows and recorded an aggregated write-down of \$25.5 million for the year ended December 31, 2017 in the Partnership's consolidated statements of income.

In March 2018, the carrying value of the Alexander Spirit conventional tanker was written down to its estimated fair value, using an appraised value, as a result of changes in the Partnership's expectations of the vessel's future f) opportunities once its current charter contract ends in 2019. The impairment charge of \$13.0 million is included in write-down of goodwill and write-down and loss on sales of vessels for the year ended December 31, 2018 in the Partnership's consolidated statements of income.

In June 2018, the carrying values for four of the Partnership's seven wholly-owned multi-gas carriers (the Napa Spirit, Pan Spirit, Camilla Spirit and Cathinka Spirit), were written down to their estimated fair values, taking into consideration vessel appraised values, as a result of the Partnership's evaluation of alternative strategies for these assets, the current charter rate environment and the outlook for charter rates for these vessels at that time. The total impairment charge of \$33.0 million is included in write-down of goodwill and write-down and loss on sales of vessels for the year ended December 31, 2018 in the Partnership's consolidated statements of income.

20. Subsequent Events

On January 8, 2019, the Pan Union Joint Venture took delivery of its fourth LNG carrier newbuilding, the Pan Africa, in which the Partnership has a 20% ownership interest. The vessel concurrently commenced its 20-year charter contract with Shell.

On January 23, 2019, the Toledo Spirit Suezmax tanker was delivered to the owner of the vessel. Upon delivery, the charterer, who is also the owner of the vessel, terminated its time-charter contract with the Partnership and sold the vessel to a third-party.

On January 31, 2019, the Yamal Spirit LNG carrier newbuilding was delivered and concurrently commenced its 15-year charter time-contract with Yamal Trade Pte. Ltd. Upon delivery of the vessel, the Partnership sold and leased back the vessel under a sale-leaseback financing transaction, which the Partnership secured on January 18, 2019 prior to the delivery of the Yamal Spirit.

During January 2019, the Partnership repurchased 0.8 million of its common units for \$9.3 million.

On February 25, 2019, the Partnership entered into a commercial management agreement (or CMA) with a third-party commercial manager (or the Manager) whereby the Manager agreed to commercially manage and employ the Partnership's seven multi-gas vessels, with such transition to occur over a period between February 2019 and April 2019. The Partnership has the ability to withdraw its vessels from the Manager at any time subject to the requirements provided in the CMA.