Teekay LNG Partners L.P.
Form 6-K
November 20, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2014

Commission file number 1- 32479

TEEKAY LNG PARTNERS L.P.

(Exact name of Registrant as specified in its charter)

4th Floor, Belvedere Building

69 Pitts Bay Road

Hamilton, HM 08 Bermuda

(Address of principal executive office)

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

Form 20-F x Form 40-F ¨

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

Yes ¨ No x

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

Yes ¨ No x

Table of Contents

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

INDEX

Table of Contents

ITEM 1 FINANCIAL STATEMENTS

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(in thousands of U.S. Dollars, except unit and per unit data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	$	$	$	$
Voyage revenues *(note 9a)*	100,776	100,692	303,589	294,418
Voyage expenses	(448)	(373)	(2,948)	(1,988)
Vessel operating expenses *(note 9a)*	(23,538)	(24,655)	(72,114)	(74,785)
Depreciation and amortization	(23,309)	(24,440)	(70,949)	(73,739)
General and administrative *(note 9a)*	(5,579)	(4,793)	(18,241)	(15,006)
Loan loss provision *(note 6a)*		(3,804)		(3,804)
Restructuring charge *(note 14)*	(2,231)		(2,231)	
Income from vessel operations	45,671	42,627	137,106	125,096
Equity income *(note 5)*	38,710	28,831	92,007	94,680
Interest expense *(note 7)*	(14,747)	(13,548)	(44,646)	(39,928)
Interest income	1,530	656	2,750	1,953
Realized and unrealized gain (loss) on derivative instruments *(note 10)*	2,288	(11,143)	(21,568)	(8,762)
Foreign currency exchange gain (loss) *(notes 7 and 10)*	23,477	(16,068)	22,632	(10,644)
Other income	210	306	636	1,182
Net income before income tax expense	97,139	31,661	188,917	163,577
Income tax expense *(note 8)*	(370)	(791)	(1,140)	(2,434)
Net income	96,769	30,870	187,777	161,143
Other comprehensive income (loss):				
Unrealized gain (loss) on qualifying cash flow hedging instrument in equity accounted joint ventures before reclassifications, net of tax *(note 5d)*	160	(1,549)	(1,904)	(1,549)
Realized loss on qualifying cash flow hedging instrument in equity accounted joint ventures reclassified to equity income, net of tax *(note 5d)*	389		1,171	
Other comprehensive income (loss) attributable to General and limited partners	549	(1,549)	(733)	(1,549)

Comprehensive income	97,318	29,321	187,044	159,594
Non-controlling interest in net and comprehensive income	6,182	1,262	15,295	7,429
General Partner s interest in net income	8,469	5,784	23,152	18,027
Limited partners interest in net income	82,118	23,824	149,330	135,687
Limited partners interest in net income per common unit:				
Basic	1.07	0.34	1.99	1.94
Diluted	1.07	0.34	1.99	1.94
Weighted-average number of common units outstanding:				
Basic	76,731,913	70,451,950	75,057,369	69,952,550
Diluted	76,776,175	70,474,732	75,126,727	69,974,711
Cash distributions declared per common unit	0.6918	0.6750	2.0754	2.0250

Related party transactions *(note 9)*

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

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. Dollars)

	As at September 30, 2014 $	As at December 31, 2013 $
ASSETS		
Current		
Cash and cash equivalents	97,455	139,481
Accounts receivable, including non-trade of $18,336 (2013 $18,084) *(note 10)*	20,640	19,844
Prepaid expenses	4,542	5,756
Current portion of derivative assets *(note 10)*	17,117	18,444
Current portion of net investments in direct financing leases *(note 4)*	18,489	16,441
Advances to joint venture partner *(note 6a)*		14,364
Advances to affiliates *(notes 9b and 10)*	21,263	6,634
Total current assets	179,506	220,964
Restricted cash long-term *(note 4)*	497,866	497,298
Vessels and equipment		
At cost, less accumulated depreciation of $460,169 (2013 $413,074)	1,221,367	1,253,763
Vessels under capital leases, at cost, less accumulated depreciation of $158,500 (2013 $152,020)	498,837	571,692
Advances on newbuilding contracts *(notes 9e and 11a)*	139,015	97,207
Total vessels and equipment	1,859,219	1,922,662
Investment in and advances to equity accounted joint ventures *(notes 5, 6b, 6c and 9d)*	877,315	671,789
Net investments in direct financing leases *(note 4)*	671,618	683,254
Other assets *(note 5b)*	47,513	28,284
Derivative assets *(note 10)*	105,440	62,867
Intangible assets net	89,860	96,845
Goodwill liquefied gas segment	35,631	35,631
Total assets	4,363,968	4,219,594
LIABILITIES AND EQUITY		
Current		
Accounts payable	2,905	1,741
Accrued liabilities *(notes 10 and 14)*	43,670	45,796

Unearned revenue	11,919	14,342
Current portion of long-term debt *(note 7)*	145,708	97,114
Current obligations under capital lease *(note 4)*	64,637	31,668
Current portion of in-process contracts *(note 5b)*	3,116	1,113
Current portion of derivative liabilities *(note 10)*	78,018	76,980
Advances from affiliates *(note 9b)*	48,610	19,270
Total current liabilities	398,583	288,024
Long-term debt *(note 7)*	1,601,407	1,680,393
Long-term obligations under capital lease *(note 4)*	473,370	566,661
Long-term unearned revenue	35,315	36,689
Other long-term liabilities *(notes 4 and 5d)*	71,547	69,480
In-process contracts *(note 5b)*	34,375	3,660
Derivative liabilities *(note 10)*	179,869	130,903
Total liabilities	2,794,466	2,775,810
Commitments and contingencies *(notes 4, 5, 7, 10, and 11)*		
Equity		
Limited partners	1,470,415	1,338,133
General Partner	55,505	52,526
Accumulated other comprehensive (loss) income	(602)	131
Partners equity	1,525,318	1,390,790
Non-controlling interest	44,184	52,994
Total equity	1,569,502	1,443,784
Total liabilities and total equity	4,363,968	4,219,594

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

Table of Contents

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of U.S. Dollars)

	Nine Months Ended September 30, 2014 $	**Nine Months Ended September 30, 2013 $**
Cash and cash equivalents provided by (used for)		
OPERATING ACTIVITIES		
Net income	187,777	161,143
Non-cash items:		
Unrealized gain on derivative instruments *(note 10)*	(8,012)	(18,912)
Depreciation and amortization	70,949	73,739
Loan loss provision		3,804
Unrealized foreign currency exchange gain (loss) *(notes 7 and 10)*	(25,895)	10,642
Equity income, net of dividends received of $2,600 (2013 $924)	(89,407)	(93,756)
Amortization of deferred debt issuance costs and other	2,800	2,044
Change in operating assets and liabilities	8,514	(2,303)
Expenditures for dry docking	(11,572)	(18,668)
Net operating cash flow	135,154	117,733
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	312,828	428,471
Scheduled repayments of long-term debt	(71,934)	(62,034)
Prepayments of long-term debt	(230,000)	(45,000)
Debt issuance costs	(1,513)	(2,473)
Scheduled repayments of capital lease obligations	(4,658)	(7,840)
Proceeds from equity offering, net of offering costs	140,484	40,776
Proceeds from units issued out of continuous offering program, net of offering costs		4,926
Advances to joint venture partners and equity accounted joint ventures *(note 6b)*		(16,785)
(Increase) decrease in restricted cash	(1,778)	28,448
Cash distributions paid	(179,164)	(159,014)
Novation of derivative liabilities *(note 9g)*	2,985	
Dividends paid to non-controlling interest *(note 15b)*	(9,741)	(254)
Net financing cash flow	(42,491)	209,221
INVESTING ACTIVITIES		

Purchase of and additional capital contributions in equity accounted investments *(notes 5 and 15c)*	(99,105)	(135,923)
Receipts from direct financing leases	9,588	6,650
Expenditures for vessels and equipment	(45,172)	(194,657)
Other		1,530
Net investing cash flow	(134,689)	(322,400)
(Decrease) increase in cash and cash equivalents	(42,026)	4,554
Cash and cash equivalents, beginning of the period	139,481	113,577
Cash and cash equivalents, end of the period	97,455	118,131

Supplemental cash flow information *(note 15)*

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

Table of Contents

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

(in thousands of U.S. Dollars and units)

	TOTAL EQUITY					
	Partners Equity					
	Limited Partners Number of Common Units	$	General Partner $	Accumulated Other Comprehensive (Loss) Income (Note 5d) $	Non-controlling Interest $	Total $
Balance as at December 31, 2013	74,196	1,338,133	52,526	131	52,994	1,443,784
Net income		149,330	23,152		15,295	187,777
Other comprehensive loss				(733)		(733)
Cash distributions		(156,147)	(23,017)			(179,164)
Dividends paid to non-controlling interest					(24,105)	(24,105)
Equity based compensation *(note 13)*	17	1,430	29			1,459
Proceeds from equity offerings *(note 12)*	3,090	137,669	2,815			140,484
Balance as at September 30, 2014	77,303	1,470,415	55,505	(602)	44,184	1,569,502

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

6

Table of Contents

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. Dollars, except unit and per unit data or unless otherwise indicated)

1. Basis of Presentation

The unaudited interim consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (or *GAAP*). These financial statements include the accounts of Teekay LNG Partners L.P., which is a limited partnership formed under the laws of the Republic of The Marshall Islands, and its wholly owned or controlled subsidiaries (collectively, the *Partnership*). The preparation of 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 could differ from those estimates.

Certain information and footnote disclosures required by GAAP for complete annual financial statements have been omitted and, therefore, these interim financial statements should be read in conjunction with the Partnership s audited consolidated financial statements for the year ended December 31, 2013, which are included in the Partnership s Annual Report on Form 20-F for the year ended December 31, 2013, filed with the SEC on April 29, 2014. In the opinion of management of Teekay GP L.L.C., the general partner of the Partnership (or the *General Partner*), these interim unaudited consolidated financial statements reflect all adjustments consisting solely of a normal recurring nature, necessary to present fairly, in all material respects, the Partnership s consolidated financial position, results of operations, changes in total equity and cash flows for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of those for a full fiscal year. Significant intercompany balances and transactions have been eliminated upon consolidation. In addition, certain of the comparative figures as at December 31, 2013 have been reclassified to conform to the presentation adopted in the current period relating to in-process revenue contracts of $1.1 million and $3.7 million reclassified from unearned revenue and other long-term liabilities, respectively, to current portion of in-process contracts and in-process contracts, respectively, in the Partnership s consolidated balance sheets.

2. Financial Instruments

a) Fair Value Measurements

For a description of how the Partnership estimates fair value and for a description of the fair value hierarchy levels, see Note 2 in the Partnership s audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2013. 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.

	September 30, 2014		December 31, 2013	
	Carrying	**Fair**	**Carrying**	**Fair**

	Fair Value Hierarchy Level	Amount Asset (Liability) $	Value Asset (Liability) $	Amount Asset (Liability) $	Value Asset (Liability) $
Recurring:					
Cash and cash equivalents and restricted cash	Level 1	595,321	595,321	636,779	636,779
Derivative instruments *(note 10)*					
Interest rate swap agreements assets	Level 2	125,706	125,706	81,119	81,119
Interest rate swap agreements liabilities	Level 2	(234,003)	(234,003)	(200,762)	(200,762)
Cross currency swap agreements	Level 2	(32,117)	(32,117)	(18,236)	(18,236)
Other derivative	Level 3	300	300	6,344	6,344
Other:					
Advances to equity accounted joint ventures *(notes 6b and 6c)*	(i)	181,511	(i)	85,135	(i)
Advances to joint venture partner *(note 6a)*	(ii)			14,364	(ii)
Long-term receivable included in other assets	Level 2	16,791	16,791		
Long-term debt public *(note 7)*	Level 1	(248,984)	(263,301)	(263,534)	(274,240)
Long-term debt non-public *(note 7)*	Level 2	(1,498,131)	(1,445,544)	(1,513,973)	(1,409,252)

(i) 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.

(ii) The Partnership owns a 99% interest in Teekay Tangguh Borrower LLC (or *Teekay Tangguh*), which owns a 70% interest in Teekay BLT Corporation (or the *Teekay Tangguh Joint Venture*), essentially giving the Partnership a 69% interest in the Teekay Tangguh Joint Venture. The advances from the Teekay Tangguh Joint Venture to the joint venture partner together with the joint venture partner s equity investment in the Teekay Tangguh Joint Venture form the net aggregate carrying value of the joint venture partner s interest in the Teekay Tangguh Joint Venture in these consolidated financial statements. The fair value of the individual components of such aggregate interest was not determinable as at December 31, 2013.

Table of Contents

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. Dollars, except unit and per unit data or unless otherwise indicated)

Changes in fair value during the nine months ended September 30, 2014 and 2013 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), is as follows:

	Nine Months Ended September 30,	
	2014	**2013**
	$	**$**
Fair value at beginning of period	6,344	1,100
Realized and unrealized (losses) gains included in earnings	(4,724)	3,480
Settlements	(1,320)	23
Fair value at end of period	300	4,603

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 ends in August 2025, although the charterer has the right to terminate the time-charter in July 2018. 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 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 estimated fair value of this other derivative is based in part upon the Partnership s projection of future spot market tanker rates, which has been 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 September 30, 2014 is based upon an average daily tanker rate of $26,171 (September 30, 2013 $21,896) over the remaining duration of the charter contract and a discount rate of 8.5% (September 30, 2013 8.8%). In developing and evaluating this estimate, the Partnership considers the current tanker market fundamentals as well as the short and long-term outlook. 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.

b) Financing Receivables

The following table contains a summary of the Partnership s loan receivables and other financing receivables by type of borrower and the method by which the Partnership monitors the credit quality of its financing receivables on a quarterly basis.

Class of Financing Receivable	Credit Quality Indicator	Grade	September 30, 2014 $	December 31, 2013 $
Direct financing leases	Payment activity	Performing	690,107	699,695
Other receivables:				
Long-term receivable and accrued revenue included in other assets	Payment activity	Performing	28,713	8,095
Advances to equity accounted joint ventures *(notes 6b and 6c)*	Other internal metrics	Performing	181,511	85,135
Advances to joint venture partner *(note 6a)*	Other internal metrics	Settled		14,364
			900,331	807,289

Table of Contents

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. Dollars, except unit and per unit data or unless otherwise indicated)

3. Segment Reporting

The following table includes results for the Partnership s segments for the periods presented in these financial statements.

	Three Months Ended September 30,					
	2014			2013		
	Liquefied Gas Segment $	Conventional Tanker Segment $	Total $	Liquefied Gas Segment $	Conventional Tanker Segment $	Total $
Voyage revenues	76,687	24,089	100,776	72,228	28,464	100,692
Voyage expenses	(240)	(208)	(448)		(373)	(373)
Vessel operating expenses	(14,259)	(9,279)	(23,538)	(13,677)	(10,978)	(24,655)
Depreciation and amortization	(17,737)	(5,572)	(23,309)	(17,950)	(6,490)	(24,440)
General and administrative (i)	(4,142)	(1,437)	(5,579)	(3,232)	(1,561)	(4,793)
Loan loss provision				(3,804)		(3,804)
Restructuring charge		(2,231)	(2,231)			
Income from vessel operations	40,309	5,362	45,671	33,565	9,062	42,627

	Nine Months Ended September 30,					
	2014			2013		
	Liquefied Gas Segment $	Conventional Tanker Segment $	Total $	Liquefied Gas Segment $	Conventional Tanker Segment $	Total $
Voyage revenues	229,253	74,336	303,589	208,528	85,890	294,418
Voyage expenses	(1,768)	(1,180)	(2,948)	(407)	(1,581)	(1,988)
Vessel operating expenses	(43,719)	(28,395)	(72,114)	(41,353)	(33,432)	(74,785)
Depreciation and amortization	(53,738)	(17,211)	(70,949)	(53,569)	(20,170)	(73,739)
General and administrative (i)	(13,350)	(4,891)	(18,241)	(10,149)	(4,857)	(15,006)
Loan loss provision				(3,804)		(3,804)
Restructuring charge		(2,231)	(2,231)			
Income from vessel operations	116,678	20,428	137,106	99,246	25,850	125,096

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

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

	September 30, 2014	**December 31, 2013**
	$	**$**
Total assets of the liquefied gas segment	3,834,699	3,591,693
Total assets of the conventional tanker segment	385,369	456,186
Unallocated:		
Cash and cash equivalents	97,455	139,481
Accounts receivable and prepaid expenses	25,182	25,600
Advances to affiliates	21,263	6,634
Consolidated total assets	4,363,968	4,219,594

Table of Contents

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. Dollars, except unit and per unit data or unless otherwise indicated)

4. Vessel Charters

The minimum estimated charter hire payments for the remainder of the year and the next four fiscal years, as at September 30, 2014, for the Partnership s vessels chartered-in and vessels chartered-out are as follows:

Vessel Charters(i)	Remainder of 2014 $	2015 $	2016 $	2017 $	2018 $
Charters-in capital leases(ii)(iii)(iv)(v)	7,966	31,790	31,672	54,953	51,296
Charters-out operating leases(vi)	76,622	302,252	319,888	337,785	297,373
Charters-out direct financing leases(vii)	18,881	74,908	75,064	204,109	173,701
	95,503	377,160	394,952	541,894	471,074

(i) The Teekay Tangguh Joint Venture is a party to operating leases whereby it is leasing the *Tangguh Hiri* and the *Tangguh Sago* liquefied natural gas (or *LNG*) carriers (or the *Tangguh LNG Carriers*) to a third party, which is in turn leasing the vessels back to the joint venture. The table does not include the Partnership s minimum charter hire payments to be paid and received under these leases, which are described in more detail in Note 4 to the Partnership s audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2013.

(ii) As at September 30, 2014 and December 31, 2013, the Partnership had $475.9 million and $475.6 million, respectively, of cash which, including any interest earned on such amounts, is restricted to being used for charter hire payments of certain vessels chartered-in under capital leases. The Partnership also maintains restricted cash deposits relating to certain loans and to amounts received from charterers to be used only for dry-docking expenditures and emergency repairs, which cash totaled $22.0 million and $21.7 million as at September 30, 2014 and December 31, 2013, respectively.

(iii) As described in Note 4 in the Partnership s audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2013, the Partnership has leasing arrangements relating to five of its LNG carriers (three through Teekay Nakilat Corporation (or the *RasGas II LNG Carriers*) and two through the Teekay Tangguh Joint Venture, in which the Partnership owns 70% and 69% ownership interests, respectively). Under these arrangements, the Partnership is the lessee and the lessors claim tax depreciation on the capital expenditures they incurred to acquire these vessels. As is typical in these leasing arrangements, tax and change of law risks are assumed by the lessee. Lease payments under the lease arrangements are based on certain tax and financial assumptions at the commencement of the leases. If an assumption proves to be incorrect, the lessor is entitled to increase the lease payments to maintain its agreed after-tax margin.

The carrying amount of tax indemnification guarantees of the Partnership relating to these leasing arrangements as at September 30, 2014 was $23.1 million (December 31, 2013 $23.9 million) and is included as part of other long-term liabilities in the Partnership s consolidated balance sheets. The tax indemnification is for the duration of the lease contracts with the third parties plus the years it would take for the lease payments to be statute barred, and ends in 2033 for two vessels and 2041 for three vessels. Although there is no maximum potential amount of future payments, Teekay Nakilat Corporation and the Teekay Tangguh Joint Venture may terminate the lease arrangements on a voluntary basis at any time. If the lease arrangements terminate, Teekay Nakilat Corporation and the Teekay Tangguh Joint Venture will be required to pay termination sums to the lessor sufficient to repay the lessor s investment in the vessels and to compensate it for the tax effect of the terminations, including recapture of any tax depreciation.

(iv) Excludes estimated charter hire payments of $833.1 million for the period from 2019 to 2037.

(v) As at September 30, 2014, the Partnership was a party to capital leases on two Suezmax tankers. Under these capital leases, the owner has the option to require the Partnership to purchase the two vessels. The charterer, who is also the owner, also has the option to cancel the charter contracts. The amounts in the table assume the owner will not exercise its options to require the Partnership to purchase either of the vessels from the owner, but rather it assumes the owner will cancel the charter contracts when the cancellation right is first exercisable, which is the 13th year anniversary of each respective contract in 2017 and 2018.

(vi) Minimum scheduled future operating lease revenues do not include revenue generated from new contracts entered into after September 30, 2014, revenue from unexercised option periods of contracts that existed on September 30, 2014, or variable or contingent revenues. Therefore, the minimum scheduled future operating lease revenues should not be construed to reflect total charter hire revenues that may be recognized for any of the years.

(vii) As described in Note 4 in the Partnership s audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2013, the Tangguh LNG Carriers time-charters are accounted for as direct financing leases. In addition, in September 2013 and November 2013, the Partnership acquired two 155,900-cubic meter LNG carriers (or the *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 (each with a one-year extension option), respectively, with Awilco holding a fixed-price purchase obligation at the end of the charters. The bareboat charters with Awilco are accounted for as direct financing leases.

Table of Contents

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(all tabular amounts stated in thousands of U.S. Dollars, except unit and per unit data or unless otherwise indicated)

5. Equity Method Investments

a) On July 9, 2014, the Partnership, through a new 50/50 joint venture with China LNG (or 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*). The Yamal LNG Project is a joint venture between Russia-based Novatek OAO (60%), France-based Total S.A. (20%) and China-based China National Petroleum Corporation (or *CNPC*) (20%), and will consist of three LNG trains with a total expected capacity of 16.5 million metric tons of LNG per annum and is currently scheduled to start-up in early-2018. The six 172,000-cubic meter ARC7 LNG carrier newbuildings will be constructed by Daewoo Shipbuilding & Marine Engineering Co. (or *DSME*), of South Korea, for a total fully built-up cost of approximately $2.1 billion. The vessels, which will be constructed with maximum 2.1 meter icebreaking capabilities in both the forward and reverse directions, are scheduled to deliver at various times between the first quarter of 2018 and first quarter of 2020. Upon their deliveries, the six LNG carriers will each operate under fixed-rate time-charter contracts with Yamal Trade Pte. Ltd. until December 31, 2045, plus extension options. As of September 30, 2014, the Partnership had advanced $95.3 million to the Yamal LNG Joint Venture to fund newbuilding installments (see Note 6c).

b) On June 27, 2014, the Partnership acquired from BG International Limited (or *BG*) its ownership interests in four 174,000-cubic meter Tri-Fuel Diesel Electric LNG carrier newbuildings, which will be constructed by Hudong-Zhonghua Shipbuilding (Group) Co., Ltd. in China for a total fully built-up cost to the joint venture of approximately $1.0 billion. The vessels upon delivery, which are scheduled between September 2017 and January 2019, will each operate under 20-year fixed-rate time-charter contracts, plus extension options with Methane Services Limited, a wholly-owned subsidiary of BG. As compensation for BG s ownership interest in these four LNG carrier newbuildings, the Partnership assumed BG 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 estimates it will incur approximately $40.4 million of costs to provide these services, of which BG 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 BG was $16.5 million. As at September 30, 2014, the carrying value of the service obligation of $33.6 million is included in both the current portion of in-process contracts and in-process contracts and the carrying value of the receivable from BG of $16.8 million is included in other assets in the Partnership s consolidated balance sheet. Through this transaction, the Partnership has a 30% ownership interest in two LNG carrier newbuildings and a 20% ownership interest in the remaining two LNG carrier newbuildings (collectively the *BG Joint Venture*). The excess of the Partnership s investment in the BG Joint Venture over the Partnership s share of the underlying carrying value of net assets acquired was approximately $16.8 million in accordance with the preliminary purchase price allocation. This basis difference has notionally been allocated to the ship construction support agreements and the time-charter contracts. The Partnership accounts for its investment in the BG Joint Venture using the equity method.

During the three months ended September 30, 2014, to fund its newbuilding installments, the BG Joint Venture drew $52.0 million from its $787 million long-term debt facility and received $15.3 million of capital contributions from its joint venture partners, of which $3.8 million represents the Partnership s proportionate share.

c) In February 2013, the Partnership entered into a 50/50 joint venture agreement with Belgium-based Exmar NV (or *Exmar*) to own and in-charter liquefied petroleum gas (or *LPG*) carriers with a primary focus on the mid-size gas carrier segment. The joint venture entity, called Exmar LPG BVBA, took economic effect as of November 1, 2012 and, as of September 30, 2014, included 20 owned LPG carriers (including 9 newbuilding carriers scheduled for delivery between early-2015 and 2018) and four in-chartered LPG carriers. For its 50% ownership interest in the joint venture, including newbuilding payments made prior to the November 1, 2012 economic effective date of the joint venture, the Partnership invested $133.1 million in exchange for equity and a shareholder loan and assumed approximately $108 million of its pro rata share of existing debt and lease obligations as of the economic effective date. These debt and lease obligations are secured by certain vessels in the Exmar LPG BVBA fleet. The Partnership also paid a $2.7 million acquisition fee to Teekay Corporation that was recorded as part of the investment in Exmar LPG BVBA (see Note 9d). The excess of the book value of net assets acquired over Teekay LNG s investment in Exmar LPG BVBA, which amounted to approximately $6.0 million, has been accounted for as an adjustment to the value of the vessels, charter agreements and lease obligations of Exmar LPG BVBA and recognition of goodwill, in accordance with the final purchase price allocation. Control of Exmar LPG BVBA is shared equally between Exmar and the Partnership. The Partnership accounts for its investment in Exmar LPG BVBA using the equity method.

d) From June to July 2013, the joint venture between the Partnership and Marubeni Corporation (or the *Teekay LNG-Marubeni Joint Venture*) completed the refinancing of its short-term loan facilities by entering into separate long-term debt facilities totaling approximately $963 million. These debt facilities mature between 2017 and 2030. The Partnership agreed to guarantee its 52% share of the secured loan facilities of the Teekay LNG-Marubeni Joint Venture and, as a result, recorded a guarantee liability of $0.7 million. The carrying value of the guarantee liability as at September 30, 2014, was $0.5 million (December 31, 2013 $0.6 million) and is included as part of other long-term liabilities in the Partnership s consolidated balance sheets. In addition, the Teekay LNG-Marubeni Joint Venture entered into an eight-year interest rate swap with a notional amount of $160.0 million, amortizing quarterly over the term of the interest rate swap to $70.4 million at maturity. The interest rate swap exchanges the receipt of LIBOR-based interest for the payment of a fixed rate of interest of 2.20% in the first two years and 2.36% in the last six years. This interest rate swap has been designated as a qualifying cash flow hedging instrument for accounting purposes. The Teekay LNG-Marubeni Jo