Hoegh LNG Partners LP
Form 20-F
April 10, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

x 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 __________

Commission File Number 001-36588

Höegh LNG Partners LP

(Exact name of Registrant as specified in its charter)

Republic of the Marshall Islands

(Jurisdiction of incorporation or organization)

Wessex House, 5th Floor

45 Reid Street

Hamilton, HM 12 Bermuda

(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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 representing limited partner interests	New York Stock Exchange
Series A cumulative redeemable preferred units representing limited partner interests	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 of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

20,046,139 common units representing limited partner interests

13,156,060 subordinated units representing limited partner interests

6,129,070 Series A cumulative redeemable preferred units representing limited partner interests

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes x 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 x No

Indicate by check mark whether 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. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted 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). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer or an emerging growth company. See definition of “large accelerated filer”, “accelerated filer” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Emerging Growth Company x

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. x

+ 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:

U.S. GAAP x	International Financial Reporting Standards 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 x No

HÖEGH LNG PARTNERS LP

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PRESENTATION OF INFORMATION IN THIS REPORT

This annual report on Form 20-F for the year ended December 31, 2018 (this “Annual Report”) should be read in conjunction with the consolidated financial statements and accompanying notes included in this Annual Report. Unless we otherwise specify, references in this Annual Report to “Höegh LNG Partners,” “we,” “our,” “us” and “the Partnership” refer to Höegh LNG Partners LP or any one or more of its subsidiaries, or to all such entities unless the context otherwise indicates. References in this Annual Report to “our general partner” refer to Höegh LNG GP LLC, the general partner of Höegh LNG Partners. References in this Annual Report to “our operating company” refer to Höegh LNG Partners Operating LLC, a wholly owned subsidiary of the Partnership. References in this Annual Report to “Höegh UK” refer to Hoegh LNG Services Ltd, a wholly owned subsidiary of our operating company. References in this Annual Report to “Höegh Lampung” refer to Hoegh LNG Lampung Pte Ltd., a wholly owned subsidiary of our operating company. References in this Annual Report to “Höegh FSRU III” refer to Höegh LNG FSRU III Ltd., a wholly owned subsidiary of our operating company. References in this Annual Report to “PT Höegh” refer to PT Hoegh LNG Lampung, the owner of the *PGN FSRU Lampung*. References in this Annual Report to “Höegh Cyprus” refer to Hoegh LNG Cyprus Limited including its wholly owned branch, Hoegh LNG Cyprus Limited Egypt Branch (“Egypt Branch”), a wholly owned subsidiary of Höegh FSRU III and the owner of the *Höegh Gallant*. References in this Annual Report to “Höegh Colombia Holding” refer to Höegh LNG Colombia Holding Ltd., a wholly owned subsidiary of our operating company. References in this Annual Report to “Höegh FSRU IV” refer to Höegh LNG FSRU IV Ltd., a wholly owned subsidiary of Höegh Colombia Holding and the owner of the *Höegh Grace*. References in this Annual Report to “Höegh Colombia” refer to Höegh LNG Colombia S.A.S., a wholly owned subsidiary of Höegh Colombia Holding. References in this Annual Report to our or the “joint ventures” refer to SRV Joint Gas Ltd. and/or SRV Joint Gas Two Ltd., the joint ventures that own two of the vessels in our fleet, the *Neptune* and the *Cape Ann*, respectively. References in this Annual Report to “Global LNG Supply” refer to Global LNG Supply SA, a subsidiary of Total S.A. (“Total”). References in this Annual Report to “PGN LNG” refer to PT PGN LNG Indonesia, a subsidiary of PT Perusahaan Gas Negara (Persero) Tbk (“PGN”). References in this Annual Report to “SPEC” refer to Sociedad Portuaria El Cayao S.A. E.S.P.

References in this Annual Report to “Höegh LNG” refer, depending on the context, to Höegh LNG Holdings Ltd. and to any one or more of its direct and indirect subsidiaries, other than us. References in this Annual Report to “EgyptCo” refer to Höegh LNG Egypt LLC, a wholly owned subsidiary of Höegh LNG. References in this Annual Report to “Höegh LNG Management” refer to Höegh LNG Fleet Management AS, a wholly owned subsidiary of Höegh LNG. References in this Annual Report to “Höegh Maritime Management” refer to Höegh LNG Maritime Management Pte. Ltd., a wholly owned subsidiary of Höegh LNG. References in this Annual Report to “Höegh Norway” refer to Höegh LNG AS, a wholly owned subsidiary of Höegh LNG. References in this Annual Report to “Höegh Asia” refer to Höegh LNG Asia Pte. Ltd., a wholly owned subsidiary of Höegh LNG. References in this Annual Report to “Höegh Shipping” refer to Höegh LNG Shipping Services Pte Ltd, a wholly owned subsidiary of Höegh LNG. References in this Annual Report to “Leif Höegh UK” refer to Leif Höegh (U.K.) Limited, a wholly owned subsidiary of Höegh LNG.

FORWARD-LOOKING STATEMENTS

This Annual Report contains certain forward-looking statements concerning future events and our operations, performance and financial condition. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain the words “believe,” “anticipate,” “expect,” “estimate,” “future,” “project,” “will be,” “will continue,” “will likely result,” “plan,” “intend” or words similar meanings. These 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:

- market conditions and trends for floating storage and regasification units (“FSRUs”) and liquefied natural gas (“LNG”) carriers, including hire rates, vessel valuations, technological advancements, market preferences and factors affecting supply and demand of LNG, LNG carriers, and FSRUs;

- our distribution policy and ability to make cash distributions on our units or any increases in the quarterly distributions on our common units;

- restrictions in our debt agreements and pursuant to local laws on our joint ventures' and our subsidiaries' ability to make distributions;

- our ability to settle or resolve the boil-off claim for the joint ventures, including the estimated amount thereof;

- the ability of Höegh LNG to satisfy its indemnification obligations to the Partnership, including in relation to the boil-off claim;

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- the entry by us into any amendment to the lease and maintenance agreement ("LMA") for the *Höegh Gallant*;
- our ability to compete successfully for future chartering opportunities;
- demand in the FSRU sector or the LNG shipping sector; including demand for our vessels;
- our ability to purchase additional vessels from Höegh LNG in the future;
- our ability to integrate and realize the anticipated benefits from acquisitions;
- our anticipated growth strategies; including the acquisition of vessels;
- our anticipated receipt of dividends and repayment of indebtedness from subsidiaries and joint ventures;
- effects of volatility in global prices for crude oil and natural gas;
- the effect of the worldwide economic environment;
- turmoil in the global financial markets;
- fluctuations in currencies and interest rates;
- general market conditions, including fluctuations in hire rates and vessel values;
- changes in our operating expenses, including drydocking, on-water class surveys, insurance costs and bunker costs;
- our ability to comply with financing agreements and the expected effect of restrictions and covenants in such agreements;
- the financial condition liquidity and creditworthiness of our existing or future customers and their ability to satisfy their obligations under our contracts;

- our ability to replace existing borrowings, make additional borrowings and to access public equity and debt capital markets;
- planned capital expenditures and availability of capital resources to fund capital expenditures;
- the exercise of purchase options by our customers;
- our ability to perform under our contracts and maintain long-term relationships with our customers;
- our ability to leverage Höegh LNG's relationships and reputation in the shipping industry;
- our continued ability to enter into long-term, fixed-rate charters and the hire rate thereof;
- the operating performance of our vessels and any related claims by Total S.A. or other customers;
- our ability to maximize the use of our vessels, including the redeployment or disposition of vessels no longer under long-term charters;
- our ability to compete successfully for future chartering and newbuilding opportunities;
- timely acceptance of our vessels by their charterers;
- termination dates and extensions of charters;
- the cost of, and our ability to comply with, governmental regulations and maritime self-regulatory organization standards, as well as standard regulations imposed by our charterers applicable to our business;

- economic substance laws and regulations adopted or considered by various jurisdictions of formation or incorporation of us and certain of our subsidiaries;
- availability and cost of skilled labor, vessel crews and management;
- the ability of Höegh LNG to meet its financial obligations to us, including its indemnity, guarantee and option obligations;
- the number of offhire days and drydocking requirements, including our ability to complete scheduled drydocking on time and within budget;
- our incremental general and administrative expenses as a publicly traded limited partnership and our fees and expenses payable under our ship management agreements, the technical information and services agreement and the administrative services agreements;
- the anticipated taxation of the Partnership, its subsidiaries and affiliates and distributions to its unitholders;
- estimated future maintenance and replacement capital expenditures;
- our ability to retain key employees;
- customers' increasing emphasis on environmental and safety concerns;
- potential liability from any pending or future litigation;
- risks inherent in the operation of our vessels including potential disruptions due to accidents, political events, piracy or acts by terrorists;
- future sales of our common units and Series A preferred units in the public market;
- our business strategy and other plans and objectives for future operations; and
- our ability to maintain effective internal control over financial reporting and effective disclosure controls and procedures.

Forward-looking statements in this Annual Report are made based upon management's current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and therefore involve a number of risks and uncertainties, including those risks discussed in "Item 3.D. Risk Factors." The risks, uncertainties and assumptions involve known and unknown risks and are inherently subject to significant uncertainties and contingencies, many of which are beyond our control.

We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements. We undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict all of these factors. Further, we cannot assess the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to be materially different from those contained in any forward-looking statement. We make no prediction or statement about the performance of our common units. The various disclosures included in this Annual Report and in our other filings made with the Securities and Exchange Commission (the "SEC") that attempt to advise interested parties of the risks and factors that may affect our business, prospects and results of operations should be carefully reviewed and considered.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following table presents, in each case for the years and as of the dates indicated, our selected consolidated financial and operating data, which includes, for periods prior to the closing of our initial public offering ("IPO") on August 12, 2014, selected combined carve-out financial and operating data of the Partnership and its subsidiaries that had interests in the *PGN FSRU Lampung* and the joint ventures that own the *Neptune* and the *Cape Ann*. The transfer of these equity interests and related loans and promissory notes by Höegh LNG to the Partnership in connection with the IPO was recorded at Höegh LNG's consolidated book values, as adjusted to US GAAP.

Pursuant to our partnership agreement, our general partner has irrevocably delegated to our board of directors the power to oversee and direct the operations of, manage and determine the strategies and policies of the Partnership. Four of the seven board members were elected by the common unitholders at our first annual meeting of unitholders. As a result, Höegh LNG, as the owner of our general partner, does not have the power to control our board of directors or the Partnership, and we are not considered to be under the control of Höegh LNG for accounting purposes. As a consequence, we have accounted for acquisitions that are business combinations from Höegh LNG under the purchase method of accounting. Such historical acquisitions are included in our consolidated financial statements from the date of the acquisition and there has been no retroactive restatement of our financial statements to reflect the historical results of the entity acquired.

On October 1, 2015, the Partnership closed the acquisition of 100% of the shares of Höegh FSRU III, the entity that indirectly owns the *Höegh Gallant* (the "*Höegh Gallant* entities"). The results of operations of the *Höegh Gallant* are included in our results from the acquisition date.

On January 3, 2017, the Partnership closed the acquisition of a 51% ownership interest in the Höegh Colombia Holding, the owner of the entities that own and operate the *Höegh Grace* (the "*Höegh Grace* entities"). The results of operations of the *Höegh Grace* are included in our earnings for the full year of 2017. The interest not owned by the Partnership was reflected as non-controlling interest in net income and non-controlling interest in total equity.

On December 1, 2017, the Partnership closed the acquisition of the remaining 49% ownership interest in the *Höegh Grace* entities.

Two of the vessels in our fleet (the *Neptune* and the *Cape Ann*) are owned by our joint ventures, each of which is owned 50% by us. Under applicable accounting rules, we do not consolidate the financial results of these two joint ventures into our financial results. We account for our 50% equity interests in these two joint ventures as equity method investments in our consolidated financial statements. We derived cash flows from the operations of these two joint ventures from principal and interest payments on our shareholder loans to our joint ventures.

We have two segments, which are the “Majority held FSRUs” and the “Joint venture FSRUs.” As of December 31, 2018 and 2017, Majority held FSRUs included the *PGN FSRU Lampung*, the *Höegh Gallant* and the *Höegh Grace*. As of December 31, 2016 and 2015, Majority held FSRUs included the *PGN FSRU Lampung* and the *Höegh Gallant.* As of December 31, 2014, Majority held FSRUs included the *PGN FSRU Lampung* and construction contract revenue and expenses of the mooring related to *PGN FSRU Lampung* (“the Mooring”) under construction. The Mooring project was completed in the fourth quarter of 2014. As of December 31, 2018, 2017, 2016, 2015 and, Joint venture FSRUs included two 50%-owned FSRUs, the *Neptune* and the *Cape Ann*.

We measure our segment profit based on segment EBITDA. Segment EBITDA is reconciled to net income for each segment in the segment table below. The accounting policies applied to the segments are the same as those applied in the consolidated financial statements, except that i) Joint venture FSRUs are presented under the proportional consolidation method for the segment note in the consolidated financial statements and under equity accounting for the consolidated financial statements, ii) internal interest income and interest expense between the Partnership's subsidiaries that eliminate in consolidation are not included in the segment columns for the other financial income (expense), net line and iii) non-controlling interest in Segment EBITDA is subtracted in the segment note to reflect the Partnership’s interest in Segment EBITDA as the Partnership’s segment profit measure, Segment EBITDA. Under the proportional consolidation method, 50% of the Joint venture FSRUs’ revenues, expenses and assets are reflected in the segment reporting. Management monitors the results of operations of our joint ventures under the proportional consolidation method and not the equity method. On January 1, 2017, the Partnership began consolidating its acquired 51% interest in the *Höegh Grace* entities. Since the Partnership obtained control of the *Höegh Grace* entities, it consolidates 100% of the revenues, expenses, assets and liabilities of the *Höegh Grace* entities and the interest not owned by the Partnership was reflected as non-controlling interest in net income and non-controlling interest in total equity. Management monitored the results of operations of the *Höegh Grace* entities based on the Partnership’s 51% interest in the Segment EBITDA of such entities and, therefore, subtracted the non-controlling interest in Segment EBITDA to present Segment EBITDA. The adjustment to non-controlling interest in Segment EBITDA is reversed to reconcile to operating income and net income in the segment presentation. On December 1, 2017, the Partnership acquired the remaining 49% ownership interest in the *Höegh Grace* entities and, as of that date, there is no longer a non-controlling interest in the *Höegh Grace* entities.

You should read the following selected financial and operating data in conjunction with “Item 5. Operating and Financial Review and Prospects” and our consolidated financial statements and the combined financial statements of the two joint ventures that own the *Neptune* and the *Cape Ann* and the related notes thereto included elsewhere in this Annual Report.

Our financial position, results of operations and cash flows could differ from those that would have resulted if we operated autonomously or as an entity independent of Höegh LNG in the period prior to our IPO for which historical financial and operating data are presented below, and such data may not be indicative of our future operating results or financial performance.

(in thousands of U.S. dollars, except per unit information and fleet data)	Year Ended December 31, 2018	2017	2016	2015	**2014** (3)
Statement of Income Data:					
Time charter revenues	$144,952	$143,531	$91,107	$57,465	$22,227
Construction contract revenues	—	—	—	—	51,868
Other revenue	1,609	—	—	—	474
Total revenues	146,561	143,531	91,107	57,465	74,569
Voyage expenses	—	—	—	—	(1,139)
Vessel operating expenses	(24,195)	(23,791)	(16,080)	(9,679)	(6,197)
Construction contract expenses	—	(151)	(315)	—	(38,570)
Administrative expenses	(8,916)	(9,910)	(9,718)	(8,733)	(12,566)
Depreciation and amortization	(21,146)	(21,054)	(10,552)	(2,653)	(1,317)
Total operating expenses	(54,257)	(54,906)	(36,665)	(21,065)	(59,789)
Equity in earnings of joint ventures	17,938	5,139	16,622	17,123	(5,330)
Operating income (loss)	110,242	93,764	71,064	53,523	9,450
Interest income	725	500	857	7,568	4,959
Interest expense	(26,814)	(30,085)	(25,178)	(17,770)	(9,665)
Gain (loss) on derivative instruments	4,681	2,463	1,839	949	(161)
Other items, net	(2,907)	(3,574)	(3,333)	(2,678)	(2,788)
Income (loss) before tax	85,927	63,068	45,249	41,592	1,795
Income tax expense	(8,305)	(3,878)	(3,872)	(313)	(481)
Net income (loss)	$77,622	$59,190	$41,377	$41,279	$1,314
Non-controlling interest in net income	—	10,408	—	—	—
Preferred unitholders' interest in net income	12,303	2,480	—	—	—
Limited partners' interest in net income (loss)	$65,319	$46,302	$41,377	$41,279	$1,314
Earnings per unit					
Common unit public (Basic and diluted)	$1.93	$1.37	$1.58	$1.56	$0.50
Common unit Höegh LNG (Basic and diluted)	$2.03	$1.44	$1.52	$1.57	$0.50
Subordinated unit (Basic and diluted)	$2.03	$1.45	$1.52	$1.57	$0.50
Cash distributions declared per unit	$1.76	$1.72	$1.65	$1.43	$0.52
Balance Sheet Data (at end of period):					
Assets:					
Cash and cash equivalents	$26,326	$22,679	$18,915	$32,868	$30,477
Restricted cash	19,128	20,602	22,209	25,828	37,119
Demand note due from owner	—	—	—	—	143,241
Current portion of advances to joint ventures	—	—	6,275	7,130	6,665
Long term advances to joint ventures	3,536	3,263	943	6,861	12,287
Net investment in direct financing lease	283,073	286,626	290,111	293,303	295,363
Total assets	1,023,040	1,058,959	810,467	763,743	549,418
Liabilities and equity:					
Accumulated losses of joint ventures	2,808	20,746	25,886	42,507	59,630
Amount, loans and promissory notes due to owners and affiliates	2,301	1,417	1,374	10,891	6,486
Long term debt	390,087	434,845	300,440	330,635	179,141
Revolving credit and seller's credit due to owners and affiliates	39,292	51,832	43,005	47,000	—

Total Partners' capital (excluding other comprehensive income (loss))	525,774	477,407	370,526	257,039	244,553
Total liabilities and equity	$1,023,040	$1,058,959	$810,467	$763,743	$549,418
Cash Flow Data:					
Net cash provided by (used in) operating activities(4)	$91,681	$79,947	$36,599	$32,778	$50,156
Net cash provided by (used in) investing(4) activities	3,067	(38,450)	(83,084)	15,455	(292,199)
Net cash provided by (used in) financing activities(4)	(92,478)	(39,340)	29,059	(56,234)	309,776
Fleet data					
Number of vessels	5	5	4	4	3
Average age (in years)	5.9	4.9	4.8	3.8	3.5
Average charter length remaining excluding options (in years)	10.5	11.5	13.1	14.1	16.7
Average charter length remaining including options (in years)	17.5	18.5	19.4	20.4	24.9
Other Financial Data:					
Segment EBITDA(1)	$145,687	$112,156	$99,159	$72,258	$48,931
Capital expenditures					
Expenditures for vessels and equipment	$747	$21	$537	$955	$172,324
Selected Segment Data:					
Joint venture FSRUs (proportionate consolidation)(2)					
Segment Statement of Income Data:					
Time charter revenues	$43,169	$42,165	$43,272	$42,698	$41,319
Segment EBITDA(1)	32,237	21,687	34,165	33,205	32,834
Operating income	$22,512	$11,872	$24,640	$23,978	$23,686
Segment Balance Sheet Data (at end of year):					
Vessels, net of accumulated depreciation	$261,614	$265,642	$274,932	$283,539	$279,670
Total assets	$286,283	$287,562	$298,712	$303,390	$300,327
Segment Capital expenditures:					
Expenditures for vessels and equipment	$5,795	$524	$783	$13,095	$2,358

(1) Please read “—Non-GAAP Financial Measures” below.

(2) Please read “Item 5. Operating and Financial Review and Prospects” below and note 5 of our consolidated financial statements for information on the basis of presentation for the Joint venture FSRUs segment.

(3) Prior to the closing of our IPO on August 12, 2014, our selected financial data is based on our combined carve-out financial statements.

(4) In November 2016, the Financial Accounting Standard Board ("FASB") issued revised guidance for *Statement of Cash Flows: Restricted Cash*. We implemented the revised guidance on January 1, 2018 using a retrospective transition method to all prior periods presented.

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Non-GAAP Financial Measures

Segment EBITDA. EBITDA is defined as earnings before interest, depreciation and amortization and taxes. Segment EBITDA is defined as earnings before interest, depreciation and amortization, taxes and other financial items less non-controlling interest in Segment EBITDA. Other financial items consist of gains and losses on derivative instruments and other items, net (including foreign exchange gains and losses and withholding tax on interest expenses). Segment EBITDA is used as a supplemental financial measure by management and external users of financial statements, such as the Partnership's lenders, to assess its financial and operating performance. The Partnership believes that Segment EBITDA assists its management and investors by increasing the comparability of its performance from period to period and against the performance of other companies in the industry that provide Segment EBITDA information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest, other financial items, depreciation and amortization and taxes, 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. The Partnership believes that including Segment EBITDA as a financial and operating measure benefits investors in (a) selecting between investing in it and other investment alternatives and (b) monitoring its ongoing financial and operational strength in assessing whether to continue to hold common units. Segment EBITDA is a non-GAAP financial measure and should not be considered an alternative to net income, operating income or any other measure of financial performance presented in accordance with US GAAP. Segment EBITDA excludes some, but not all, items that affect net income, and these measures may vary among other companies. Therefore, Segment EBITDA as presented below may not be comparable to similarly titled measures of other companies. The following tables reconcile Segment EBITDA for each of the segments and the Partnership as a whole to net income (loss), the comparable US GAAP financial measure, for the periods presented:

	Year ended December 31, 2018							
(in thousands of U.S. dollars)	Majority held FSRUs	Joint venture FSRUs (proportional consolidation)	Other	Total Segment reporting	Eliminations(1)		Consolidated reporting	
Reconciliation to net income (loss)								
Net income (loss)	$68,168	17,938	(8,484)	77,622			$ 77,622	(3)
Interest income	(305)	(234)	(420)	(959)	234	(4)	(725)	
Interest expense	23,875	13,270	2,939	40,084	(13,270)	(4)	26,814	
Depreciation and amortization	21,146	9,725	—	30,871	(9,725)	(5)	21,146	
Other financial items (2)	(1,870)	(8,462)	96	(10,236)	8,462	(6)	(1,774)	
Income tax (benefit) expense	8,253	—	52	8,305			8,305	
Equity in earnings of JVs: Interest (income) expense, net	—	—	—	—	13,036	(4)	13,036	
Equity in earnings of JVs: Depreciation and amortization	—	—	—	—	9,725	(5)	9,725	
Equity in earnings of JVs: Other financial items(2)	—	—	—	—	(8,462)	(6)	(8,462)	
Segment EBITDA	$119,267	32,237	(5,817)	145,687			$ 145,687	

(in thousands of U.S. dollars)	Year ended December 31, 2017 Majority held FSRUs	Joint venture FSRUs (proportional consolidation)	Other	Total Segment reporting	Eliminations(1)		Consolidated reporting	
Reconciliation to net income (loss)								
Net income (loss)	$63,628	5,139	(9,577)	59,190			$ 59,190	(3)
Interest income	(18)	(76)	(482)	(576)	76	(4)	(500)	
Interest expense	26,151	13,983	3,934	44,068	(13,983)	(4)	30,085	
Depreciation and amortization	21,054	9,815	—	30,869	(9,815)	(5)	21,054	
Other financial items (2)	1,060	(7,174)	51	(6,063)	7,174	(6)	1,111	
Income tax (benefit) expense	3,893	—	(15)	3,878			3,878	
Equity in earnings of JVs: Interest (income) expense, net	—	—	—	—	13,907	(4)	13,907	
Equity in earnings of JVs: Depreciation and amortization	—	—	—	—	9,815	(5)	9,815	
Equity in earnings of JVs: Other financial items(2)	—	—	—	—	(7,174)	(6)	(7,174)	
Non-controlling interest in Segment EBITDA	(19,210)	—	—	(19,210)			(19,210)	
Segment EBITDA	$96,558	21,687	(6,089)	112,156			$ 112,156	

(in thousands of U.S. dollars)	Year ended December 31, 2016 Majority held FSRUs	Joint venture FSRUs (proportional consolidation)	Other	Total Segment reporting	Eliminations(1)		Consolidated reporting	
Reconciliation to net income (loss)								
Net income (loss)	$35,803	16,622	(11,048)	41,377			$ 41,377	(3)
Interest income	—	(2)	(857)	(859)	2	(4)	(857)	
Interest expense	20,107	15,094	5,071	40,272	(15,094)	(4)	25,178	
Depreciation and amortization	10,552	9,525	—	20,077	(9,525)	(5)	10,552	
Other financial items(2)	1,435	(7,074)	59	(5,580)	7,074	(6)	1,494	
Income tax (benefit) expense	3,852	—	20	3,872			3,872	
Equity in earnings of JVs: Interest (income) expense, net	—	—	—	—	15,092	(4)	15,092	
Equity in earnings of JVs: Depreciation and amortization	—	—	—	—	9,525	(5)	9,525	
Equity in earnings of JVs: Other financial items(2)	—	—	—	—	(7,074)	(6)	(7,074)	
Segment EBITDA	$71,749	34,165	(6,755)	99,159			$ 99,159	

	Year ended December 31, 2015					
(in thousands of U.S. dollars)	Majority held FSRUs	Joint venture FSRUs (proportional consolidation)	Other	Total Segment reporting	Eliminations(1)	Consolidated reporting
Reconciliation to net income (loss)						
Net income (loss)	$24,807	17,123	(651)	41,279		$ 41,279 (3)
Interest income	—	—	(7,568)	(7,568)	— (4)	(7,568)
Interest expense	15,617	16,113	2,153	33,883	(16,113)(4)	17,770
Depreciation and amortization	2,653	9,227	—	11,880	(9,227)(5)	2,653
Other financial items(2)	1,709	(9,257)	20	(7,528)	9,257 (6)	1,729
Income tax (benefit) expense	333	—	(20)	313		313
Equity in earnings of JVs: Interest (income) expense, net	—	—	—	—	16,113 (4)	16,113
Equity in earnings of JVs: Depreciation and amortization	—	—	—	—	9,227 (5)	9,227
Equity in earnings of JVs: Other financial items(2)	—	—	—	—	(9,257)(6)	(9,257)
Segment EBITDA	$45,119	33,205	(6,066)	72,258		$ 72,258

	Year ended December 31, 2014					
(in thousands of U.S. dollars)	Majority held FSRUs	Joint venture FSRUs (proportional consolidation)	Other	Total Segment reporting	Eliminations(1)	Consolidated and combined reporting
Reconciliation to net income (loss)						
Net income (loss)	$8,375	(5,330)	(1,731)	1,314		$ 1,314 (3)
Interest income	—	—	(4,959)	(4,959)	— (4)	(4,959)
Interest expense	9,198	17,121	467	26,786	(17,121)(4)	9,665
Depreciation and amortization	1,317	9,148	—	10,465	(9,148)(5)	1,317
Other financial items(2)	2,915	11,895	34	14,844	(11,895)(6)	2,949
Income tax (benefit) expense	505	—	(24)	481		481
Equity in earnings of JVs: Interest (income) expense, net	—	—	—	—	17,121 (4)	17,121
Equity in earnings of JVs: Depreciation and amortization	—	—	—	—	9,148 (5)	9,148
Equity in earnings of JVs: Other financial items(2)	—	—	—	—	11,895 (6)	11,895
Segment EBITDA	$22,310	32,834	(6,213)	48,931		$ 48,931

(1) Eliminations reverse each of the income statement line items of the proportional amounts for Joint venture FSRUs and record the Partnership's share of the Joint venture FSRUs net income (loss) to Equity in earnings (loss) of joint ventures.

(2) Other financial items consist of gains and losses on derivative instruments and other items, net including foreign exchange gains or losses and withholding tax on interest expense.

(3) There is no adjustment between net income for Total Segment reporting and the Consolidated reporting because the net income under the proportional consolidation and equity method of accounting is the same.

(4) Interest income and interest expense for the Joint venture FSRUs is eliminated from the Total Segment reporting to agree to the interest income and interest expense in the Consolidated reporting and reflected as a separate adjustment to the equity accounting on the line *Equity in earnings of JVs*: Interest (income) expense for the Consolidated reporting.

(5) Depreciation and amortization for the Joint venture FSRUs is eliminated from the Total Segment reporting to agree to the depreciation and amortization in the Consolidated reporting and reflected as a separate adjustment to the equity accounting on the line *Equity in earnings of JVs*: Depreciation and amortization for the Consolidated reporting.

(6) Other financial items for the Joint venture FSRUs is eliminated from the Segment reporting to agree to the Other financial items in the Consolidated reporting and reflected as a separate adjustment to the equity accounting on the line *Equity in earnings of JVs*: Other financial items for the Consolidated reporting.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. 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 units. The occurrence of any of the events described in this section could significantly and negatively affect our business, financial condition, operating results or cash available for distribution or the trading price of our preferred and common units.

Risks Inherent in Our Business

Our fleet consists of five vessels as of March 31, 2019. Any limitation on the availability or operation of those vessels could have a material adverse effect on our business, financial condition and results of operations and could significantly reduce our ability to make distributions to our unitholders.

Our fleet consists of five vessels. If any of these vessels is unable to generate revenues as a result of off-hire time, early termination of the applicable time charter, purchase of the vessel by the charterer or otherwise, our financial condition and ability to make distributions to unitholders could be materially and adversely affected.

The charters relating to our vessels permit the charterer to terminate the charter in the event that the vessel is off-hire for any extended period. The charters also allow the charterer to terminate the charter upon the occurrence of specified defaults by us or in certain other cases, including termination without cause, due to force majeure or disruptions caused by war. Furthermore, PGN LNG was granted an option to purchase the *PGN FSRU Lampung* at specified prices commencing in June 2018 and SPEC has the option to purchase the *Höegh Grac*e in year 10, year 15 and year 20 of its charter. The termination of any of our charters could have a material adverse effect on our business, financial condition and results of operations and could significantly reduce our ability to make cash distributions to our unitholders. For further details regarding termination of our charters, please read “Item 4.B. Business Overview—Vessel Time Charters— *Neptune* Time Charter—Termination,” “— *PGN FSRU Lampung* Time Charter—Termination and —Purchas Option,” “—*Höegh Gallant* Time Charter—Termination,” “— *Höegh Grace* Charter—Term and Termination and —Purchase We may be unable to charter the applicable vessel, or replacement vessel, on terms as favorable to us as those of the terminated charter.

We are dependent on Global LNG Supply, PGN LNG, EgyptCo and SPEC as the sole customers for our vessels. A deterioration of the financial viability of Global LNG Supply, PGN LNG, EgyptCo or SPEC or our relationship with Global LNG Supply, PGN LNG, EgyptCo or SPEC or the loss of Global LNG Supply, PGN LNG, EgyptCo or SPEC as a customer, would have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

For the years ended December 31, 2018 and 2017, PGN LNG, EgyptCo and SPEC accounted for all of the revenues in our consolidated income statement. For the years ended December 31, 2016, PGN LNG and EgyptCo accounted for all of the revenues in our consolidated income statements. For each of the years ended December 31, 2018, 2017 and 2016, Global LNG Supply accounted for all of the revenues of our joint ventures from which we derived all of our equity in earnings of joint ventures. A deterioration in the financial viability of Global LNG Supply, PGN LNG, EgyptCo or SPEC or the loss of Global LNG Supply, PGN LNG, EgyptCo or SPEC as a customer, or a decline in payments under any of the related charters, would have a greater adverse effect on us than for a company with a more diverse customer base, and could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

We or our joint ventures could lose a customer or the benefits of a charter as a result of a breach by the customer of a charter or other unanticipated developments, such as:

- the customer failing to make charter payments or reducing charter payments because of its financial inability, disagreements with us or our joint venture partners or otherwise;

- the insolvency, bankruptcy or liquidation of a customer or termination of the charter as a result thereof;

- the customer exercising its right to terminate the charter in certain circumstances, such as: (i) defaults of our or our joint ventures' obligations under the applicable charter, including breaches of performance standards or prolonged periods of off-hire; (ii) with respect to the *Neptune*, the *Cape Ann* and the *Höegh Gallant*, in the event of war that would materially interrupt the performance of the time charter; or (iii) with respect to the *PGN FSRU Lampung*, in the event of specified types of force majeure;

- the charter terminating automatically if the vessel is lost or deemed a constructive loss;

- with respect to the *Höegh Gallant*, the inability of Höegh LNG (i) to make payments pursuant to its guarantee of EgyptCo's obligations under the *Höegh Gallant* time charter under certain circumstances or (ii) to perform under the option agreement to charter the *Höegh Gallant* in the event of the expiration or early termination of the *Höegh Gallant* time charter; see "Item 7.B. Related Party Transactions—Acquisition of the *Höegh Gallant* ";

- with respect to the *PGN FSRU Lampung* or the *Höegh Grace*, the charterer exercising its option to purchase the vessel; or

- a prolonged force majeure event that materially interrupts the performance of the time charter.

If any charter is terminated, we or our joint ventures, as applicable, may be unable to re-deploy the related vessel on terms as favorable as the current charters or at all. In addition, any termination fee payable to us may not adequately compensate us for the loss of the charter. Furthermore, if there was a premature termination of our joint venture charters that does not result in termination fees, it would result in mandatory repayments of the outstanding balances under the loan facilities for the *Neptune* and the *Cape Ann*.

In September 2017, the charterer of the *Neptune* and the *Cape Ann* made a performance claim to the joint ventures that own the vessels. This claim could reduce charter payments to such joint ventures. As a precaution, such joint ventures have suspended payments under the shareholder loans. Our ability to make cash distributions to our unitholders depends on the performance of our joint ventures, subsidiaries and other investments. If we do not receive cash distributions or repayments under loan agreements from our joint ventures or if they are not sufficient, we will not be able to make cash distributions to unitholders unless we obtain funds from other sources. We may not be able to obtain the necessary funds from other sources on terms acceptable to us. Please read "—Any settlement of Global LNG Supply's performance claims may materially adversely affect our joint ventures' financial condition and results of operations."

Any event, whether in our industry or otherwise, that adversely affects a customer's financial condition, leverage, results of operations, cash flows or demand for our services may adversely affect our ability to sustain or increase cash distributions to our unitholders. Accordingly, we are indirectly subject to the business risks of our customers, including their level of indebtedness and the economic conditions and government policies in their areas of operation.

Further, not all of our charters have parent company guarantees. For example, Global LNG Supply's obligations under the *Neptune* and the *Cape Ann* charters are not guaranteed by its parent, Total.

The ability of each of our customers to perform its obligations under its applicable charter depends on its future financial condition and economic performance, which, in turn, will depend on prevailing economic conditions and financial, business and other factors, many of which are beyond its control.

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 charters for FSRUs, LNG carriers and other LNG infrastructure assets. The process of obtaining long-term charters for FSRUs, LNG carriers and other LNG infrastructure assets is competitive and generally involves an intensive screening process and competitive bids, and then often extends for several months. We believe FSRU and LNG carriers time charters are awarded based upon a variety of factors relating to the vessel operator, including:

- FSRU or LNG carrier experience and quality of ship operations;
- quality of vessels;
- cost effectiveness;
- shipping industry relationships and reputation for customer service and safety;
- technical ability and reputation for operation of highly specialized vessels;

- quality and experience of seafaring crew;

- safety record;

- the ability to finance vessels 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 FSRUs, LNG carriers and other LNG infrastructure assets according to customer specifications;

- 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 face substantial competition for providing floating storage and regasification services and marine transportation services for potential LNG projects from a number of experienced companies, including state-sponsored entities and major energy companies. As the FSRU market continues to grow and mature there are new competitors entering the market. Many of these competitors have significantly greater financial resources and larger fleets than we do or Höegh LNG. In particular, expectations of rapid growth in the FSRU market has given owners the confidence to place orders for FSRUs before securing charters. This has led to more competition for mid- and long-term FSRU charters. We anticipate that an increasing number of marine transportation companies—including many with strong reputations and extensive resources and experience—will enter the FSRU or LNG carrier markets. This increased competition has already and may in the future 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 financial condition, results of operations and ability to make cash distributions to our unitholders.

We may not be able to redeploy our FSRUs on terms as favorable as our or our joint venture's current FSRU time charters or at all.

Due to increased competition and the limitations on demand for FSRUs, in the event that any of the time charters on our vessels are terminated, we may be unable to recharter such vessel as an FSRU. While we may be able to employ such vessel as a traditional LNG carrier, the hire rates and/or other charter terms may not be as favorable to us as those in the existing time charter. If we acquire additional FSRUs and they are not, as a result of time charter termination or otherwise, subject to a long-term, profitable time charter, we may be required to bid for projects at unattractive rates in order to reduce our losses relating to the vessels.

Requirements for some new LNG projects continue to be provided on a long-term basis, though the use of medium term charters of up to five years has increased in recent years. More frequent changes to vessel sizes and propulsion technology together with an increasing desire by charterers to access modern vessels could also reduce the appetite of charterers to commit to long-term charters that match their full requirement period, or to exercise options to extend their current charters. As a result, the duration of long-term charters could also decrease over time. We may also face increased difficulty entering into long-term time charters upon the expiration or early termination of our existing charters or of charters for any vessels that we acquire in the future. If as a result we contract our vessels on shorter term contracts, our earnings from these vessels are likely to become more volatile.

Hire rates for FSRUs may fluctuate substantially. If rates are lower when we are seeking a new charter, our earnings and ability to make distributions to our unitholders may decline.

Hire rates for FSRUs fluctuate over time as a result of changes in the supply-demand balance relating to current and future vessel supply. This supply-demand relationship largely depends on a number of factors outside our control. For example, driven in part by an increase in LNG production capacity, the market supply of FSRUs has been increasing as a result of the construction of new vessels before FSRU projects have matured to the point of entering FSRU contracts. The increase in supply has resulted in increased competition for FSRU contracts resulting in lower FSRU prices for recent contracts awarded. As of December 31, 2018, the FSRU order book totalled 9 vessels and the delivered FSRU fleet stood at 33 vessels. We believe any future expansion of the FSRU fleet may have a negative impact on charter hire rates, vessel utilization and vessel values, which impact could be amplified if the expansion of LNG production capacity or the approval of FSRU projects does not keep pace with the growth of the global fleet. The LNG market is also closely connected to world natural gas prices and energy markets, which we cannot predict. An extended decline in natural gas prices that leads to reduced investment in new liquefaction facilities could adversely affect our ability to re-charter our vessels at acceptable rates or to acquire and profitably operate new FSRUs. Accordingly, this could have a material adverse effect on our earnings and our ability to make distributions to our unitholders.

PGN LNG and SPEC have options to purchase the PGN FSRU Lampung and Höegh Grace, respectively. If either charterer exercises its option, it could have a material adverse effect on our operating cash flows and our ability to make cash distributions to our unitholders.

PGN LNG currently has the option to purchase the *PGN FSRU Lampung* on June 1st of each year, at a price specified in the time charter. SPEC also has the option to purchase the *Höegh Grace* at a price specified in the *Höegh Grace* charter in year 10, year 15 and year 20 of such charter. Any compensation we receive for the purchase of the *PGN FSRU Lampung* or the *Höegh Grace* may not adequately compensate us for both the loss of the applicable vessel and related time charter. If either charterer exercises its option, it would significantly reduce the size of our fleet, and we may be unable to identify or acquire suitable replacement vessel(s) with the proceeds of the option exercise because, among other things that are beyond our control, there may be no replacement vessel(s) that are readily available for purchase at a price that is equal to or less than the proceeds from the option exercise and on terms acceptable to us. Even if we find suitable replacement vessel(s), the hire rate(s) of such vessel(s) may be significantly lower than the hire rate under the current time charters. Our inability to find suitable replacement vessel(s) or the chartering of replacement vessel(s) at lower hire rate(s) would have a material adverse effect on our results of operations, cash flows and ability to make cash distributions to our unitholders. Please read “Item 4.B. Business Overview—Vessel Time Charters— *PGN FSRU Lampung* Time Charter—Purchase Option” and “—Vessel Time Charters— *Höegh Grace* Charter—Purchase Option.”

We are exposed to tax risks associated with doing business in different countries, including in emerging market countries.

We conduct all of our operations outside of the United States and expect to continue to do so for the foreseeable future. Some of the countries in which we are engaged in business or where our vessels are registered, for example, Indonesia, Egypt and Colombia, have historically less developed and less stable tax regimes than the United States. We are affected by tax regulations in those countries with respect to withholding taxes, value added taxes, payroll taxes, taxes on certain financial transactions and corporate income taxes. Tax regulations, guidance and interpretation in these countries may not always be clear and may not contemplate floating infrastructure activities, such as FSRUs. In addition, such regulations may be subject to alternative interpretations or changes in interpretations over time, including as a result of audits by the local tax authorities. In this regard, our Indonesian subsidiary is subject to examination by the Indonesian tax authorities for up to five years following the completion of a fiscal year, and our subsidiaries in Singapore and Colombia are subject to examination by tax authorities for up to four years and three years, following the completion of a fiscal year or from the date of the tax return, respectively. As a result of a tax audit in Indonesia for the fiscal years ended December 31, 2013 and 2014, certain additional withholding tax amounts were paid by our Indonesian subsidiary and downward adjustments were made to the amount of our Indonesian subsidiary’s tax loss carryforwards. To the extent that future adjustments result in material additional tax liabilities being imposed on our subsidiaries, this would adversely impact our ability to make cash distributions to our unitholders.

Due to our lack of diversification, adverse developments in our LNG transportation, storage and regasification businesses could reduce our ability to make cash distributions to our unitholders.

We rely exclusively on the cash flows generated from our FSRUs. Due to our lack of diversification, an adverse development in the LNG transportation, storage and regasification industry could have a significantly greater impact on our financial condition and results of operations than if we maintained more diverse assets or lines of business.

We may not have sufficient cash from operations following the establishment of cash reserves and payment of fees and expenses to enable us to pay quarterly distribution on our Series A preferred units or the minimum quarterly distribution on our common units.

We may not have sufficient cash from operations to pay the quarterly distributions on our Series A preferred units or the minimum quarterly distribution of $0.3375 per unit on our common units. The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from our operations. We generate cash from our operations and through distributions from our joint ventures, and as such our cash from operations is dependent on our operations and the cash distributions and operations of our joint ventures, each of which may fluctuate based on the risks described herein, including, among other things:

- the hire rates we and our joint ventures obtain from charters;
- the level of operating costs and other expenses, such as the cost of crews, insurance, performance guarantees and liquidated damages;
- demand for LNG;
- supply and capacities of FSRUs and LNG carriers;

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- prevailing global and regional economic and political conditions;
- currency exchange rate fluctuations;
- interest rate fluctuations; and
- the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of our business.

In addition, the actual amount of cash we will have available for distribution on our units will depend on other factors, including:

- the level of capital expenditures we and our joint ventures make, including for maintaining or replacing vessels, building new vessels, acquiring existing vessels and complying with regulations;
- the number of off-hire or reduced-hire days for our fleet and the timing of, and number of days required for, scheduled drydocking of our vessels;
- our and our joint ventures' debt service requirements, minimum free liquid asset requirements under debt covenants, and restrictions on distributions contained in our and our joint ventures' current and future debt instruments;
- fluctuations in interest rates;
- fluctuations in working capital needs;
- variable corporate income tax rates, payroll taxes, value added taxes and withholding taxes and to the extent applicable, the ability to recover under charters;
- our ability to make, and the level of, working capital borrowings; and
- the amount of any cash reserves established by our board of directors.

In addition, each quarter we are required by our partnership agreement to deduct estimated maintenance and replacement capital expenditures from operating surplus, which may result in less cash available to unitholders than if actual maintenance and replacement capital expenditures were deducted. Our ability to pay distributions will also be limited to the extent that we have sufficient cash after establishment of cash reserves.

The amount of cash we generate from our operations and the cash distributions received from our joint ventures may differ materially from our or their 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.

At present, we only have two sources of available working capital borrowings that can be used to fund our general partnership purposes, including working capital and distributions: the $63 million revolving credit facility under our $385 million facility and the $85 million revolving credit facility with Höegh LNG. Höegh LNG's ability to make loans under the revolving credit facility may be affected by events beyond its and our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, our and their ability to comply with the terms of the revolving credit facility may be impaired. If we request a borrowing under the revolving credit facility, Höegh LNG may not have, or be able to obtain, sufficient funds to make loans under the revolving credit facility. In the event that Höegh LNG is unable to make loans to us pursuant to the revolving credit facility, or a default or other circumstance prohibits us from borrowing loans thereunder our financial condition, results of operations and ability to make cash distributions to our unitholders could be materially adversely affected.

Our ability to grow and to meet our financial needs may be adversely affected by our cash distribution policy.

Our cash distribution policy, which is consistent with our partnership agreement, requires us to pay the distribution on our Series A preferred units, which rank senior to our common units and subordinated units, and then distribute all of our available cash (as defined in our partnership agreement) to our common and subordinated units each quarter. 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, our board of directors approves the amount of cash reserves to set aside, including reserves for future maintenance and replacement capital expenditures, working capital and other matters. We may also rely upon external financing sources, including commercial borrowings, 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.

Any settlement of Global LNG Supply's performance claims may materially adversely affect our joint ventures' financial condition and results of operations.

Pursuant to their charters with Global LNG Supply, the joint ventures undertake to ensure that the *Neptune* and the *Cape Ann* meet certain performance standards. The performance standards under each charter require that the vessel not exceed a maximum average daily boil-off of LNG, subject to certain contractual exclusions. Pursuant to the charters, the hire rate is subject to reduction by charterer in the event of failure to satisfy the performance standards. The charterer requested that the joint ventures calculate and present the boil-off since the beginning of the time charters, compared with the maximum average daily boil-off allowed under the charters. On September 8, 2017, the charterer notified the joint ventures that it was formally making a claim for compensation in accordance with the provisions of the charters for a stated quantity of LNG exceeding the maximum average daily boil-off since the beginning of the charters. The charters for the *Neptune* and *Cape Ann* started in 2009 and 2010, respectively.

As of September 30, 2017, the joint ventures determined the liability associated with the boil-off claim was probable and could be reasonably estimated resulting in a total accrual of $23.7 million, which was recorded as a reduction of time charter revenues. The Partnership's 50% share of the accrual as of September 30, 2017 was approximately $11.9 million. As of December 31, 2017, the accrual was unchanged. The charterer and the joint ventures referred the claim to arbitration. The charterer's claim as submitted in the arbitration request was a gross amount of $52 million, covering the time period for the first performance period as defined in the time charters, and interest and expenses. Subsequently, the charterer and the joint ventures asked the arbitration tribunal for a partial determination on certain key contractual interpretations and the proceedings commenced in November 2018. In March 2019, the tribunal’s determination was received. The determination did not cover all the questions of contractual interpretation on which there is disagreement between the parties. On the questions that the tribunal was asked to determine, certain issues were determined in favor of the charterer and one issue was determined in favor of the joint ventures. With the exception of one issue, the tribunal’s conclusions on the contractual interpretations were unambiguous. For the remaining issue related to the calculation of a deduction from the gross claim, the tribunal did not specify how the deduction should be determined. As a result, there remains significant uncertainty in the evaluation of the potential outcome of the boil-off claim. Depending on interpretations of the tribunal's determination for the deduction to the gross claim and the other disputed contractual provisions, the joint ventures estimate that their aggregate liability associated with the boil-off claim is in the millions of dollars and could range between the mid-to-upper teens to the mid-$30's, of which the Partnership's share would be 50%. The updated estimates cover the period from the start of the time charters to December 31, 2018. Accordingly, the range of estimates is not directly comparable to the gross claim raised by the charterer through the end of the defined performance periods. Based upon the additional information from the tribunal’s determination and updated estimates of the potential range of liability, the joint ventures’ concluded the existing accrual of $23.7 million continues to represent their best estimate of the probable liability as of December 31, 2018. Accordingly, the accrual was unchanged as of December 31, 2018. The Partnership's 50% share of the accrual remains approximately $11.9 million as of December 31, 2018.

The joint ventures will continue to monitor this issue and adjust accruals, as might be required, based upon additional information and further developments. Höegh LNG and the other major owner guarantee the performance and payment obligations of the joint ventures under the time charters. The guarantees are joint and several for the performance obligations and several for the payment obligations. Depending on the amount and timing of the potential settlement and whether such settlement is funded by the performance guarantees by Höegh LNG and the other major owner or by the joint ventures, a settlement of the claim for boil-off with Global LNG Supply could have a material adverse effect on the joint ventures' financial condition and results of operations. As a precaution, the joint ventures have suspended payments on the shareholder loans pending the outcome of the boil-off claim.

Further, although we are indemnified by Höegh LNG for the cash impact of our share of any losses and expenses related to or arising from the failure of either of the *Neptune* or the *Cape Ann* to meet the performance standards related to the daily boil-off of LNG under their respective time charters, any settlement with Global LNG Supply could materially adversely affect the joint ventures' financial condition and results of operations. The ultimate outcome of the boil-off claim, on an isolated basis, is not expected to have a material adverse effect on our financial position. However, other concessions by the joint ventures to Global LNG Supply, if any, would not be expected to be indemnified. In addition, the suspension of the payments of the shareholder loans reduces cash flows available to us. In addition, the increase in the accruals for or the resolution of the excess boil-off claim may have a material adverse effect on our results of operations for that period. Also, Höegh LNG's ability to make payments to us with respect to such indemnification obligations may be affected by events beyond our and its control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, Höegh LNG's ability to meet its indemnification obligations to us may be impaired. If Höegh LNG is unable to meet its indemnification obligations to us or if either of the time charters is terminated by Global LNG Supply, our financial condition, results of operations and ability to make cash distributions to our unitholders could be materially adversely affected.

We are a holding entity that has historically derived a significant amount of our income from equity interests in our joint ventures. Neither we nor our joint venture partners exercise affirmative control over our joint ventures. Accordingly, we cannot require our joint ventures to act in our best interests. Furthermore, our joint venture partners may prevent our joint ventures from taking action that may otherwise be beneficial to us, including making cash distributions to us. A deadlock between us and our joint venture partners could result in our exchanging equity interests in one of our joint ventures for the equity interests in our other joint venture held by our joint venture counterparties or in us or our joint venture partner selling shares in a joint venture to a third party.

We are a holding entity and conduct our operations and businesses through subsidiaries. We have historically derived a significant amount of our income from our 50% equity interests in our joint ventures that own the *Neptune* and the *Cape Ann*. Please read "Item 4.B. Business Overview—Shareholder Agreements" for a description of the shareholders' agreement governing our joint ventures. Our ability to make cash distributions to our unitholders will depend on the performance of our joint ventures, subsidiaries and other investments. If our joint venture partners do not approve cash distributions or if they are not sufficient, we will not be able to make cash distributions unless we obtain funds from other sources. We may not be able to obtain the necessary funds from other sources on terms acceptable to us. The approval of a majority of the members of the board of directors is required to consent to any proposed action by such joint ventures and, as a result, we will be unable to cause our joint venture to act in our best interests over the objection of our joint venture partners or make cash distributions to us. Our inability to require our joint ventures to act in our best interests may cause us to fail to realize expected benefits from our equity interests and could adversely affect our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Our joint venture partners for our joint ventures that own the *Neptune* and the *Cape Ann* are Mitsui O.S.K. Lines, Ltd ("MOL") and Tokyo LNG Tanker Co., Ltd ("TLT"), whom we refer to in this Annual Report as our joint venture partners. These entities together exercise one half of the voting power on the board of directors of each joint venture. As such, our joint venture partners may prevent our joint ventures from making cash distributions to us or may act in a manner that would otherwise not be in our best interests.

If the directors nominated by us and our joint venture partner are unable to reach agreement on any decision or action, then the issue will be resolved in accordance with the procedures set forth in the shareholders' agreement. After the board of directors has met a second time to consider the decision or action, if the deadlock persists, one or more of our senior executives will meet with their counterpart(s) from our joint venture partners. Should, after no more than 60 days, these efforts be unsuccessful and we and our joint venture partners, on a combined basis, each own 50% of the shares in each joint venture or, when the shareholdings in each joint venture are aggregated by party, we and our joint venture partners, on a combined basis, each own 50% of the aggregate shares, we and our joint venture partners will attempt to agree within 30 days that our shareholdings be exchanged so that we own 100% of one joint venture and our joint venture partners own 100% of the other joint venture. If, however, the shareholdings are not as described in the previous sentence or we and our joint venture partners cannot agree within the specified time, we or our joint venture partners may sell our shares, including to a third party, in accordance with the procedures set forth in the shareholders' agreement. If any of these forms of resolution were to occur, the diversity of our fleet would be reduced, and our business, financial condition, results of operations and ability to make cash distributions to our unitholders may be adversely affected.

We must make substantial capital expenditures to maintain and replace the operating capacity of our fleet, which will reduce our cash available for distribution. In addition, each quarter we will be required, pursuant to our partnership agreement, to deduct estimated maintenance and replacement capital expenditures from operating surplus, which may result in less cash available for distribution to unitholders than if actual maintenance and replacement capital expenditures were deducted.

We must make substantial capital expenditures to maintain and replace, over the long-term, the operating capacity of our fleet. Maintenance and replacement capital expenditures include capital expenditures associated with drydocking a vessel, including costs for inspection, maintenance and repair, modifying an existing vessel, acquiring a new vessel or otherwise replacing current vessels at the end of their useful lives to the extent these expenditures are incurred to maintain or replace the operating capacity of our fleet. These expenditures could vary significantly from quarter to quarter and could increase as a result of changes in:

- the cost of labor and materials;
- customer requirements;
- fleet size;
- length of charters;
- vessel useful life;
- the cost of replacement vessels;

- re-investment rate of return;
- resale or scrap value of existing vessels;
- governmental regulations and maritime self-regulatory organization standards relating to safety, security or the environment; and
- competitive standards.

Our partnership agreement requires our board of directors to deduct estimated maintenance and replacement capital expenditures, instead of actual maintenance and replacement capital expenditures, from operating surplus each quarter in an effort to reduce fluctuations in operating surplus as a result of significant variations in actual maintenance and replacement capital expenditures each quarter. The amount of estimated maintenance and replacement capital expenditures deducted from operating surplus is subject to review and change by our board of directors at least once a year (with the approval of the conflicts committee of our board of directors). In years when estimated maintenance and replacement capital expenditures are higher than actual maintenance and replacement capital expenditures, the amount of cash available for distribution to unitholders will be lower than if actual maintenance and replacement capital expenditures were deducted from operating surplus. If our board of directors underestimates the appropriate level of estimated maintenance and replacement capital expenditures, we may have less cash available for distribution in periods when actual capital expenditures exceed our previous estimates. Refer to "Item 8.A. Consolidated Statements and Other Financial Information—The Partnership's Cash Distribution Policy—Estimated Maintenance and Replacement Capital Expenditures" for a description of our estimated annual maintenance and replacement capital expenditures.

The required drydocking or on-water surveys of our vessels could be more expensive and time consuming than we anticipate, which could adversely affect our cash available for distribution.

The drydocking or on-water survey of our vessels could become longer and more costly than we expect, and in the case of the *Neptune* and the *Cape Ann* could be drydocked for longer than the allowable period under the time charters. Although the *Neptune* and *Cape Ann* time charters, require the charterer to pay the hire rate for up to a specified number of days of scheduled drydocking and reimburse us for anticipated drydocking costs, any significant increase in the number of days of drydocking beyond the specified number of days during which the hire rate remains payable could have a material adverse effect on our ability to make cash distributions to our unitholders. Furthermore, under the *PGN FSRU Lampung* time charter, the vessel will be deemed to be off-hire if drydocking exceeds designated allowances, and under the *Höegh Grace* and the *Höegh Gallant* time charters, the vessels will be deemed to be off-hire during drydocking. There are no pass through provisions for drydocking or on-water expenses for the *PGN FSRU Lampung*, the *Höegh Grace* or the *Höegh Gallant.* A significant increase in the cost of repairs during drydocking could also adversely affect our cash available for distribution. We may underestimate the time required to drydock or perform on-water surveys of any of our vessels or unanticipated problems may arise. If more than one of our vessels is required to be out of service at the same time, if a vessel is drydocked longer than the permitted duration or if the cost of repairs during drydocking is greater than budgeted, our cash available for distribution could be adversely affected.

We may experience operational problems with vessels that could reduce revenue, increase costs or lead to termination of our time charters.

FSRUs are complex and their operations are technically challenging. The operations of our vessels may be subject to mechanical risks. Operational problems may lead to loss of revenue or higher than anticipated operating expenses or require additional capital expenditures. Moreover, pursuant to each time charter, the vessels in our fleet must maintain certain specified performance standards, which may include a guaranteed speed or delivery rate of regasified natural gas, consumption of no more than a specified amount of fuel, not exceed a maximum average daily boil-off or energy balance, loss of earnings and certain liquidated damages payable under the charterer's charter and other performance failures. In addition, we have received the performance claims related to the *Neptune* and the *Cape Ann* described above. Please read “Item 4.B. Business Overview—Vessel Time Charters.” If we fail to maintain these standards, we may be liable to our customers for reduced hire, damages, loss of earnings and certain liquidated damages payable. Under the charterer’s charter and, in certain circumstances, our customers may terminate their respective time charters. Any of these results could harm our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

If capital expenditures are financed through cash from operations or by issuing debt or equity securities, our ability to make cash distributions may be diminished, our financial leverage could increase, or our unitholders may be diluted.

Use of cash from operations to expand our fleet will reduce cash available for distribution to unitholders. Our ability to obtain bank financing or to access the capital markets 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, changes in the LNG industry 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, financial condition, results of operations and ability to make cash distributions to our unitholders. Even if we are successful in obtaining necessary funds, the terms of any debt financings could limit our ability to pay cash distributions to 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 pay distributions to our unitholders.

We may be unable to make or realize expected benefits from acquisitions, which could have an adverse effect on our expected plans for growth.

Our growth strategy includes selectively acquiring FSRUs, LNG carriers and other LNG infrastructure assets that are operating under long-term charters with stable cash flows. Any acquisition of a vessel or business may not be profitable to us at or after the time we acquire such vessel or business and may not generate cash flows sufficient to justify our investment. In addition, our acquisition growth strategy exposes us to risks that may harm our business, financial condition and results of operations, including risks that we may:

- fail to realize anticipated benefits, such as new customer relationships, or cash flows enhancements;
- be unable to hire, train or retain qualified onshore 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.

Fluctuations in overall LNG supply and demand growth could adversely affect our ability to secure future long-term charters.

Demand for LNG depends on a number of factors, including economic growth, the cost effectiveness of LNG compared to alternative fuels, environmental policy and the perceived need to diversify fuel mix for energy security reasons. The cost effectiveness of LNG compared to alternative fuels is also dependent on supply. A change in any of the factors influencing LNG demand, or an imbalance between supply and demand, could adversely affect the need for LNG infrastructure and our ability to secure additional long-term charters.

Our future performance and growth depend on continued growth in demand for the services we provide.

Our growth strategy focuses on expansion in the floating storage and regasification sector and the maritime transportation sector, each within the LNG transportation, storage and regasification industry. The rate of LNG growth has fluctuated due to several reasons, including the global economic crisis, natural gas production from unconventional sources in certain regions, the relative competitiveness of alternative fossil fuels such as oil and coal, improvements in the competitiveness of renewable energy sources and the highly complex and capital intensive nature of new or expanded LNG projects. Accordingly, our growth depends on continued growth in world and regional demand for LNG, FSRUs, LNG carriers and other LNG infrastructure assets, which could be negatively affected by a number of factors, including:

- increases in the cost of LNG;
- increases in interest rates or other events that may affect the availability of sufficient financing for LNG projects on commercially reasonable terms;
- increases in the production levels of low-cost natural gas in domestic, natural gas-consuming markets, which could further depress prices for natural gas in those markets and make LNG uneconomical;
- decreases in the cost, or increases in the demand for, conventional land-based regasification systems, which could occur if providers or users of regasification services seek greater economies of scale than FSRUs can provide or if the economic, regulatory or political challenges associated with land-based activities improve;
- decreases in the cost of alternative technologies or development of alternative technologies for vessel-based LNG regasification;
- 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, regulation or other factors making consumption of natural gas less attractive;

- availability of new, alternative energy sources, including compressed natural gas and renewables; and

- negative global or regional economic or political conditions, particularly in LNG consuming regions, which could reduce energy consumption or its growth.

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

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

A complete LNG project includes production, liquefaction, regasification, storage and distribution facilities and FSRUs or 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 and related alternatives, including floating storage and regasification, or disrupt the supply of LNG, including:

- the availability of sufficient financing for LNG projects on commercially reasonable terms;

- the availability long-term contracts that can support such financing;

- 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 vessel involved in the LNG transportation, storage and regasification industry, including an FSRU or LNG carrier; and

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

We expect that, in the event any of the factors discussed above negatively affect us, some of the proposals to expand existing or develop new LNG liquefaction and regasification facilities may be abandoned or significantly delayed. If the LNG supply chain is disrupted or does not continue to grow, or if a significant explosion, spill or similar incident occurs within the LNG transportation, storage and regasification industry, it could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Demand for FSRUs or LNG shipping could be significantly affected by volatile natural gas prices and the overall demand for natural gas.

LNG prices are volatile and affected by numerous factors beyond our control, including, but not limited to, the following:

· worldwide demand for natural gas and LNG;

· the cost of exploration, development, production, transportation and distribution of natural gas;

· expectations regarding future energy prices for both natural gas and other sources of energy;

· the level of worldwide LNG production and exports;

· government laws and regulations, including but not limited to environmental protection laws and regulations;

· local and international political, economic and weather conditions;

· political and military conflicts; and

· the availability and cost of alternative energy sources, including alternate sources of natural gas.

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Weakness in the LNG market may adversely affect our future business, results of operations and financial condition and our ability to make cash distributions, as a result of, among other things:

- lower demand for LNG carriers, reducing available charter rates and revenue to us from short term redeployment of our vessels between FSRU projects or following expiration or termination of existing contracts;
- customers potentially seeking to renegotiate or terminate existing vessel contracts, or failing to extend or renew contracts upon expiration; or
- the inability or refusal of customers to make charter payments to us due to financial constraints or otherwise.

Weakness in demand for FSRUs or LNG carriers could come about because of excess capacity in the market, newly built vessels entering the market and existing vessels coming off contract.

In general, reduced demand for LNG, FSRUs or LNG carriers would have a material adverse effect on our future growth and could harm our business, results of operations and financial condition.

The debt levels of us and our joint ventures may limit our and their flexibility in obtaining additional financing, refinancing credit facilities upon maturity or pursuing other business opportunities or our paying distributions to you.

As of December 31, 2018, we had outstanding principal on long-term bank debt of $440.2 million, and revolving credit due to owners and affiliates of $39.3 million and our joint ventures had outstanding principal on long-term debt of $430.8 million, of which 50% is our share.

On January 29, 2019, we entered into a loan agreement with a syndicate of banks to refinance the outstanding balances of the credit facility secured by the *Höegh Gallant* and the *Höegh Grace*. The new facility is structured as a term loan with commercial and export credit tranches for each vessel to refinance outstanding amounts under the existing credit facility secured by the *Höegh Gallant* and the *Höegh Grace* and a revolving credit facility for the Partnership with a drawing capacity of $63 million (the "$385 million facility"). On January 31, 2019, we drew $320 million under the commercial term loans and the export credit tranches on the new facility to settle $303.2 million and $1.6 million of the outstanding balance and accrued interest, respectively, of the credit facility secured by the *Höegh Gallant* and the *Höegh Grace* and $5.5 million to pay arrangement fees under the new facility. Refer to “Item 5. B. Liquidity and Capital Resources—Borrowing Activities—Long-term Debt—$385 million facility”

As of March 31, 2019, we had outstanding principal on long-term bank debt of $451.3 million and revolving credit due to owners and affiliates of $39.3 million and our joint ventures had outstanding principal on long-term debt of $424.3 million. In addition, we have the ability to incur additional debt, and as of March 31, 2019 we had the ability to borrow an additional $45.7 million under our revolving credit facility with Höegh LNG and $63.0 million on the bank revolving credit facility, subject to certain limitations. If we acquire additional vessels or businesses, our consolidated debt may significantly increase. We may incur additional debt under these or future credit facilities. Our joint ventures' credit facilities will mature in 2022 and require an aggregate principal repayment of approximately $330 million, of which 50% is our share. A portion of the credit facility secured by the *PGN FSRU Lampung* will mature in 2021 and requires that an aggregate principal amount of $16.5 million be refinanced. If such principal repayment is not refinanced, the export credit tranche of the *PGN FSRU Lampung* financing that will have an outstanding balance of $68.2 million at this time may be accelerated together with the attendant hedges. A portion of the new credit facility secured by the *Höegh Gallant* and the *Höegh Grace* will mature in 2026, respectively, and requires that an aggregate principal amount of $136.1 million be refinanced. If the principal repayment is not refinanced, the export credit tranche secured by the *Höegh Gallant* and the *Höegh Grace* financing, that will have an outstanding balance of $9.5 million may be accelerated. Please read "Item 5.B. Liquidity and Capital Resources—Borrowing Activities—Long-term Debt—Lampung Facility" and "—$385 million Facility."

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 limited or such financing may not be available on favorable terms;
- we will need a substantial portion of our cash flows 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 will make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our business or the economy generally;
- our debt level may limit our flexibility in responding to changing business and economic conditions; and
- if we are unable to satisfy the restrictions included in any of our financing arrangements or are otherwise in default under any of those arrangements, as a result of our debt levels or otherwise, we will not be able to make cash distributions to you, notwithstanding our stated cash distribution policy.

Our ability to service or refinance our debt will depend on, among other things, our future financial and operating performance, which will be 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 or refinance our current or future indebtedness, we will be forced to take actions such as reducing distributions, reducing or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, restructuring our debt, or seeking additional equity capital or bankruptcy protection. We may not be able to effect any of these remedies on satisfactory terms, or at all.

The financing arrangements of us and our joint ventures are secured by our vessels and contain operating and financial restrictions and other covenants that may restrict our business and financing activities as well as our ability to make cash distributions to our unitholders.

The operating and financial restrictions and covenants in the financing arrangements of us and our joint ventures, including lease agreements and any future financing agreements, could adversely affect our and their ability to finance future operations or capital needs or to engage, expand or pursue our business activities. For example, the financing agreements may restrict the ability of us and our subsidiaries to:

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

In addition, our financing agreements require us and Höegh LNG to comply with certain financial ratios and tests, including maintaining a minimum liquidity and a minimum book equity ratio and require that our current assets exceed current liabilities, as defined by the financing agreements, and that our subsidiaries maintain minimum EBITDA to debt service ratios. Please read “Item 5.B. Liquidity and Capital Resources—Borrowing Activities—Long-term Debt—Lampung Facility” and “—$385 million Facility.”

Our joint ventures,’ Höegh LNG’s and our ability to comply with covenants and restrictions contained in financing arrangements may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, our and their ability to comply with these covenants may be impaired. If restrictions, covenants, ratios or tests in debt instruments are breached, a significant portion of the obligations may become immediately due and payable, and the lenders’ commitment to make further loans may terminate. We and/or our joint ventures or Höegh LNG may not have, or be able to obtain, sufficient funds to make these accelerated payments. In addition, obligations under our and our joint ventures’ financing arrangements are secured by our vessels and, in some cases, guaranteed by us or Höegh LNG, and if we or they, as applicable, are unable to repay debt under our financing arrangements, the lenders could seek to foreclose on those assets. Please read “Item 5.B. Liquidity and Capital Resources.”

Restrictions in our debt agreements and local laws may prevent us from paying distributions to our unitholders.

The payment of principal and interest on our debt will reduce our cash available for distribution. Our and our joint ventures’ financing arrangements prohibit the payment of distributions upon the occurrence of certain events, including, but not limited to:

- failure to pay any principal, interest, fees, expenses or other amounts when due;
- certain material environmental incidents;
- breach or lapse of insurance with respect to vessels securing the facilities;
- 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 (including certain hedging arrangements or other material agreements);
- bankruptcy or insolvency events;
- inaccuracy of any representation or warranty;

· a change of ownership of the vessel-owning subsidiary, as defined in the applicable agreement; and

· a material adverse change, as defined in the applicable agreement.

Furthermore, our financing arrangements require that we maintain minimum amounts of free liquid assets and our subsidiaries and joint ventures to hold cash reserves that are, in certain cases, held for specifically designated uses, including working capital, operations and maintenance and debt service reserves, and are generally subject to “waterfall” provisions that allocate project revenues to specified priorities of use (such as operating expenses, scheduled debt service, targeted debt service reserves and any other reserves) and the remaining cash is distributable to us only on certain dates and subject to satisfaction of certain conditions, including meeting a 1.20 historical and in some cases, projected, debt service coverage ratio. In addition, the laws governing our joint ventures and subsidiaries may prevent us from making dividend distributions. Our joint ventures are subject to restrictions under the laws of the Cayman Islands and may only pay distributions out of profits or capital reserves if the joint venture entity is solvent after the distribution, Höegh Lampung is subject to Singapore laws and may make dividend distributions only out of profits. Dividends may only be paid by PT Höegh if its retained earnings are positive under Indonesian law and requirements are fulfilled under the Lampung facility. In addition, PT Höegh as an Indonesian incorporated company is required to establish a statutory reserve equal to 20% of its paid up capital. The dividend can only be distributed if PT Höegh’s retained earnings are positive after deducting the statutory reserve. PT Höegh has not established the required statutory reserves as of December 31, 2018 and therefore cannot make dividend payments to us under Indonesia law. However, subject to meeting a debt service ratio of 1.20 to 1.00, PT Höegh can distribute cash from its cash flow from operations to us as payment of intercompany accrued interest and / or intercompany debt, after quarterly payments of the Lampung facility and fulfilment of the “waterfall” provisions to meet operating requirements as defined by the Lampung facility. Under Cayman Islands law, Höegh FSRU III, Höegh FSRU IV and Höegh Colombia Holding may only pay distributions out of profits or capital reserves if the entity is solvent after the distribution. Dividends from Höegh Cyprus may only be distributed out of profits and not from the share capital of the company. Dividends and other distributions from Höegh Cyprus, Höegh Colombia and Höegh FSRU IV may only be distributed if after the dividend payment, the Partnership would remain in compliance with the financial covenants under the $385 million facility. Please read “Item 8.A. Consolidated Statements and Other Financial Information—The Partnership’s Cash Distribution Policy—Limitations on Cash Distributions and Our Ability to Change Our Cash Distribution Policy.”

Höegh LNG's failure to comply with certain obligations under the Lampung facility, and certain other events occurring at Höegh LNG, could result in defaults under the Lampung credit facility, and the failure by EgyptCo, a wholly owned subsidiary of Höegh LNG, to comply with certain obligations under the $385 million facility could result in default under the $385 million facility, any of which could have a material adverse effect on us.

Höegh LNG guarantees the obligations of PT Höegh, the owner of the *PGN FSRU Lampung*, under the Lampung facility. (as described in "Item 5.B. Liquidity and Capital Resources—Borrowing Activities—Long-term Debt"). Pursuant to the terms of the Lampung facility, Höegh LNG must, among other things, maintain minimum book equity and comply with certain minimum liquidity financial covenants. Failure by Höegh LNG to satisfy any of the covenants applicable to Höegh LNG would result in a default under the Lampung facility. The lenders of the Lampung facility may foreclose upon any collateral securing that debt, including arrest and seizure of the *PGN FSRU Lampung*, even if Höegh LNG were to subsequently cure its default in the event of such acceleration and foreclosure, PT Höegh and the Partnership, as the case may be, might not have sufficient funds or other assets to satisfy all of their obligations under the related credit facility, which would have a material adverse effect on our business, results of operations and financial condition and would significantly reduce our ability, or make us unable, to make cash distributions to our unitholders for so long as such default is continuing. Please read "Item 5.B. Liquidity and Capital Resources—Borrowing Activities—Long-term Debt—Lampung Facility." EgyptCo is a guarantor under the $385 million facility. Failure by EgyptCo to comply with its obligations under the $385 million facility or the ancillary security documents would result in a default under the $385 million facility. The lenders of the $385 million facility may accelerate all amounts outstanding and accrued and take other actions under the related security documents.

An increase in the global supply or aggregate capacities of FSRUs or LNG carriers, including conversion of existing tonnage, without a commensurate increase in demand may have an adverse effect on hire rates and the values of our vessels, which could have a material adverse effect on our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

The supply of FSRUs, LNG carriers and other LNG infrastructure assets in the industry is affected by, among other things, assessments of the demand for these vessels by charterers. Any over-estimation of demand for vessels may result in an excess supply of new vessels. This may, in the long term when existing contracts expire, result in lower hire rates and depress the values of our vessels. If hire rates are lower when we are seeking new time charters upon expiration or early termination of our current time charters, or for any new vessels we acquire, our business, financial condition, results of operations and ability to make cash distributions to our unitholders may be adversely affected.

During periods of high utilization and high hire rates, industry participants may increase the supply of FSRUs and/or LNG carriers by ordering the construction of new vessels. This may result in an over-supply and may cause a subsequent decline in utilization and hire rates when the vessels enter the market. Lower utilization and hire rates could adversely affect revenues and profitability. Prolonged periods of low utilization and hire rates could also result in the recognition of impairment charges on our vessels if future cash flow estimates, based upon information available at the time, indicate that the carrying value of these vessels may not be recoverable. Such impairment charges may cause lenders to accelerate loan payments under our or our joint ventures' financing agreements, which could adversely affect our business, financial condition, results of operations and ability to make cash distributions to our unitholders.

Vessel values may fluctuate substantially, and a decline in vessel values may result in impairment charges, the breach of our financial covenants or, if these values are lower at a time when we are attempting to dispose of vessels, a loss on the sale.

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

- prevailing economic conditions in the natural gas and energy markets;
- a substantial or extended decline in demand for LNG;
- increases in the supply of vessel capacity;
- the size and age of a vessel;
- the remaining term on existing time charters; 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 regulations or standards, customer requirements or otherwise.

As our vessels age, the expenses associated with maintaining and operating them are expected to increase, which could have an adverse effect on our business and operations if we do not maintain sufficient cash reserves for maintenance and replacement capital expenditures. Moreover, the cost of a replacement vessel would be significant.

If a charter terminates, we may be unable to re-deploy the affected vessel at attractive rates and, rather than continue to incur costs to maintain and finance the vessel, we may seek to dispose of the vessel. Our inability to dispose of a vessel at a reasonable value could result in a loss on the sale and adversely affect our ability to purchase a replacement vessel, financial condition, results of operations and ability to make cash distributions to our unitholders. A decline in the value of our vessels may also result in impairment charges or the breach of certain of the ratios and financial covenants we are required to comply with in our credit facilities.

We depend on Höegh LNG and its affiliates for the management of our fleet and to assist us in operating and expanding our business.

Our ability to enter into new charters and expand our customer relationships will depend largely on our ability to leverage our relationship with Höegh LNG and its reputation and relationships in the shipping industry. If Höegh LNG suffers material damage to its reputation or relationships, it may harm our ability to:

· renew existing charters upon their expiration;

· obtain new charters;

· successfully interact with shipyards;

· obtain financing on commercially acceptable terms;

· maintain access to capital under the revolving credit facility; or

· maintain satisfactory relationships with suppliers and other third parties.

In addition, all our vessels are subject to management and services agreements with affiliates of Höegh LNG. Moreover, pursuant to an administrative services agreement among us, our operating company and Höegh UK and an administrative services agreement between our operating company and Leif Höegh UK, Höegh UK and Leif Höegh UK provide us and our operating company with certain administrative, financial and other support services. Höegh UK subcontracts some of these services to Höegh Norway and Leif Höegh UK pursuant to separate administrative services agreements. Our operational success and ability to execute our growth strategy will depend significantly upon the satisfactory performance of these services. Our business will be harmed if our service providers fail to perform these services satisfactorily, if they cancel their agreements with us or if they stop providing these services to us. Please read “Item 7.B. Related Party Transactions.”

The operation of FSRUs, LNG carriers and other LNG infrastructure assets is inherently risky, and an incident involving significant loss of life or property or environmental consequences involving any of our vessels could harm our reputation, business and financial condition.

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

- marine disasters;
- piracy;
- environmental accidents;
- bad weather;
- mechanical failures;
- grounding, fire, explosions and collisions;
- 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 damage to the environment, natural resources or protected species, and associated costs;
- delays in taking delivery of cargo or discharging LNG or regasified LNG, as applicable;
- loss of revenues from or termination of time charters;

- 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 results of operations.

If our vessels suffer damage, they may need to be repaired. The costs of vessel repairs are unpredictable and can be substantial. We may have to pay repair costs that our insurance policies do not cover, for example, due to insufficient coverage amounts or the refusal by our insurance provider to pay a claim. The loss of earnings while these vessels are being repaired, as well as the actual cost of these repairs not otherwise covered by insurance, would decrease our results of operations. If any of our vessels are involved in an accident with the potential risk of environmental consequences, the resulting media coverage could have a material adverse effect on our business, our results of operations and cash flows, weaken our financial condition and negatively affect our ability to make cash distributions to our unitholders.

Our insurance may be insufficient to cover losses that may occur to our property or result from our operations.

The operating of FSRUs, LNG carriers and other LNG infrastructure assets is inherently risky. Although we carry protection and indemnity insurance consistent with industry standards, all of the risks associated with operating FSRUs, LNG carriers and other LNG infrastructure assets may not be adequately insured against, and any particular claim may not be paid. 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 marine disaster could exceed our insurance coverage, which could harm our business, financial condition, results of operations, cash flows and ability to make cash distributions to our unitholders. 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 self-regulatory organizations.

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

An increase in operating expenses could adversely affect our financial performance.

Our operating expenses, on water survey costs and drydock capital expenditures depend on a variety of factors including crew costs, provisions, deck and engine stores and spares, lubricating oil, insurance, maintenance and repairs and shipyard costs, many of which are beyond our control and affect the entire shipping industry. While many of these costs are borne by the charterers under our time charters, there are some circumstance where this is not the case. For example, we bear the cost of fuel (bunkers) for the *Höegh Gallant* and *Höegh Grace* time charters, and fuel is a significant expense in our operations when our vessels are, for example, moving to or from drydock or when off-hire. The price and supply of fuel is unpredictable and fluctuates based on events outside our control, including geopolitical developments, supply and demand for oil and gas, actions by the Organization of the Petroleum Exporting Countries and other oil and gas producers, war and unrest in oil-producing countries and regions, regional production patterns and environmental concerns. These may increase vessel operating costs further. If costs continue to rise, they could materially and adversely affect our results of operations.

A shortage of qualified officers and crew could have an adverse effect on our business and financial condition.

FSRUs and LNG carriers require a technically skilled officer staff with specialized training. As the global FSRU fleet and LNG carrier fleet continues to grow, the demand for technically skilled officers and crew has been increasing, which has led to a more competitive recruiting market. Increases in our historical vessel operating expenses have been attributable primarily to the rising costs of recruiting and retaining officers for our fleet. Furthermore, each key officer crewing an FSRU or LNG carrier must receive specialized training related to the operation and maintenance of the regasification equipment. If Höegh LNG Management and Höegh Maritime Management are unable to recruit and employ technically skilled staff and crew, they will not be able to adequately staff our vessels. A material decrease in the supply of technically skilled officers or an inability of Höegh LNG Management or Höegh Maritime Management to attract and retain such qualified officers could impair our ability to operate or increase the cost of crewing our vessels, which would materially adversely affect our business, financial condition and results of operations and significantly reduce our ability to make cash distributions to our unitholders.

We may be unable to attract and retain key management personnel, which may negatively impact our growth, the effectiveness of our management and our results of operations.

Our success depends to a significant extent upon the abilities and the efforts of our senior executives. While we believe that we have an experienced management team, the loss or unavailability of one or more of our senior executives for any extended period of time could have an adverse effect on our growth, business and results of operations.

Exposure to currency exchange rate fluctuations could result in fluctuations in our cash flows and operating results.

Currency exchange rate fluctuations and currency devaluations could have an adverse effect on our results of operations from quarter to quarter. Historically, the substantial majority of our revenue has been generated in U.S. Dollars, but we incur a minority of our operating expenses in other currencies. All of our long-term debt is U.S. dollar denominated, but we incur a minority of short term liabilities in other currencies. Please read “Item 5.B. Liquidity and Capital Resources—Critical Accounting Estimates—Use of Exchange Rates” and “Item 11. Quantitative and Qualitative Disclosures About Market Risk—Foreign Currency Risk.”

Acts of piracy on any of our vessels or on oceangoing vessels could adversely affect our business, financial condition and results of operations.

Acts of piracy have historically affected oceangoing vessels trading in regions of the world such as the South China Sea, the Gulf of Aden off the coast of Somalia and the Gulf of Guinea. If such 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 insurance coverage could increase significantly and such insurance coverage might become more difficult to obtain. In addition, crew costs, including costs that may be incurred to the extent we employ onboard security guards, 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.

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

Terrorist attacks may adversely affect our business, financial condition, results of operations, ability to raise capital and future growth. Continuing hostilities in the Middle East may lead to additional armed conflicts or to further acts of terrorism and civil disturbance in the United States or elsewhere, which may contribute further to economic instability and disruption of production and distribution of LNG, which could result in reduced demand for our services.

Terrorist attacks on vessels may in the future adversely affect our business, financial condition and results of operation. In addition, LNG facilities, shipyards, vessels, pipelines and natural gas fields could be targets of future terrorist attacks. 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 to or from certain locations. Terrorist attacks, piracy, war or other events beyond our control that adversely affect the distribution, production or transportation of LNG to be shipped by us could entitle customers to terminate our charters, which would harm our cash flows and business. Terrorist attacks, or the perception that LNG facilities, FSRUs and LNG carriers are potential terrorist targets, could materially and adversely affect expansion of LNG infrastructure and the continued supply of LNG. Concern that LNG facilities may be targeted for attack by terrorists has contributed to a community and environmental resistance to the construction of a number of LNG facilities. In addition, the loss of a vessel as a result of terrorism or piracy would have a material adverse effect on our business, financial condition and results of operations.

We are exposed to political, regulatory, and economic risks associated with doing business in different countries, including in emerging market countries.

We conduct all of our operations outside of the United States and expect to continue to do so for the foreseeable future. Some of the countries in which we are engaged in business or where our vessels are registered, for example, Indonesia, Egypt and Colombia, are historically less developed and stable than the United States. We are affected by economic, political, and governmental conditions in the countries where we are engaged in business or where our vessels are registered. We are also affected by policies related to labor and the crewing of FSRUs. Any disruption caused by these factors could harm our business. Further, we derive a substantial portion of our revenues from shipping and regasifying LNG from politically unstable regions. Future hostilities or other political instability where we operate or may operate could have a material adverse effect on the growth of our business, financial condition, results of operations and ability to make cash distributions to our unitholders. In addition, tariffs, trade embargoes and other economic sanctions by the United States or other countries against countries in the Middle East, Southeast Asia, South America or elsewhere as a result of terrorist attacks, hostilities or otherwise may limit trading activities with those countries, which could harm our business and ability to make cash distributions to our unitholders.

Our vessels operating in international waters, now or in the future, will be subject to various international conventions and flag state laws and regulations relating to protection of the environment.

Our vessels traveling in international waters are subject to various existing regulations published by the International Maritime Organization (the “IMO”), as well as marine pollution and prevention requirements imposed by the IMO International Convention for the Prevention of Pollution from Ships of 1975, as from time to time has been or may be amended (the “MARPOL Convention”). In addition, our FSRUs may become subject to the International Convention on Liability and Compensation for Damage in Connection with the Carriage of Hazardous and Noxious Substances by Sea, as amended by the April 2010 Protocol to the HNS Convention (the “2010 HNS Convention”), if it is entered into force. The 2010 HNS Convention is intended to put in place a comprehensive regime to address the risks of fire and explosion and to cover pollution damage from hazardous and noxious substances carried by ships, including loss of life, personal injury, and property loss of damage. If the 2010 HNS Convention were to enter into force, we cannot estimate with any certainty at this time the costs that may be needed to comply with any such requirements that may be adopted. Please read “Item 4.B. Business Overview — Environmental and Other Regulation” for a more detailed discussion on these topics.

Our operations are subject to substantial environmental and other regulations, which may significantly increase our expenses.

Our operations are materially affected by extensive and changing international, national and local environmental protection laws, regulations, treaties, conventions and standards 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 relating to equipping and operating FSRUs and LNG carriers, providing security and minimizing the potential for adverse impacts to the environment, natural resources and protected species from their operations. These include regulations of the IMO, including the International Convention on Civil Liability for Oil Pollution Damage of 1969, as from time to time amended, the MARPOL Convention, the International Convention for the Prevention of Marine Pollution of 1973, the IMO International Convention for the Safety of Life at Sea of 1974, as from time to time amended (“SOLAS”), the IMO International Convention on Load Lines of 1966, as from time to time amended, and the International Management Code for the Safe Operation of Ships and for Pollution Prevention (the “ISM Code”) and national laws such as the U.S. Oil Pollution Act of 1990 (“OPA 90”), the U.S. Comprehensive Environmental Response, Compensation, and Liability Act (“CERCLA”), the U.S. Clean Water Act (the “CWA”), and the U.S. Maritime Transportation Security Act of 2002 and any counterpart laws in other jurisdictions with laws governing our operations. We may become subject to additional laws and regulations if we enter new markets or trades.

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

The design, construction and operation of FSRUs and interconnecting pipelines and the transportation of LNG are also subject to governmental approvals and permits. The permitting rules, and the interpretations of those rules, are complex, change frequently and are often subject to discretionary interpretations by regulators, all of which may make compliance more difficult or impractical and may increase the time it takes to secure needed approvals. The length of time it takes to receive regulatory approval for offshore LNG operations is one factor that has affected our industry, including through increased expenses.

Environmental and other regulatory requirements can affect the resale value or useful lives of our vessels, require 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 and national 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 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.

Please read “Item 4.B. Business Overview—Environmental and Other Regulation.”

Further changes to existing environmental laws applicable to international and national maritime trade may have an adverse effect on our business.

We believe that the heightened environmental, quality and security concerns of insurance underwriters, regulators and charterers will generally lead to additional regulatory requirements, including enhanced risk assessment and security requirements and greater inspection and safety requirements on all vessels in the marine LNG transportation markets and offshore LNG terminals. These requirements are likely to add incremental costs to our operations and the failure to comply with these requirements may affect the ability of our vessels to obtain and, possibly, collect on insurance or to obtain the required certificates for entry into the different ports where we operate.

Further legislation, or amendments to existing legislation, applicable to international and national maritime trade are expected over the coming years in areas such as ship recycling, sewage systems, emission control (including emissions of greenhouse gases) and ballast treatment and handling. Such legislation or regulations may require additional capital expenditures or operating expenses (such as increased costs for low-sulfur fuel) for us to maintain our vessels' compliance with international and/or national regulations.

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 and the IMO have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emission from vessel emissions. These regulatory measures may include, among others, adoption of cap and trade regimes, carbon taxes, increased efficiency standards and incentives or mandates for renewable energy. Although the emissions of greenhouse gases from international shipping currently are not subject to the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the "Kyoto Protocol") or the more recently announced Paris Agreement, a new treaty or IMO regulations may be adopted in the future that includes restrictions on shipping emissions. In 2016, the IMO reaffirmed its strong commitment to continue to work to address greenhouse gas emissions from ships engaged in international trade. The IMO adopted an initial GHG reduction strategy in 2018. The EU has indicated it intends to implement regulations to limit emissions of greenhouse gases from vessels if such emissions are not regulated through the IMO. Compliance with changes in laws and regulations relating to climate change could increase our costs of operating and maintaining our vessels and could require us to make significant financial expenditures that we cannot predict with certainty at this time.

Adverse effects upon the oil and gas industry relating to climate change, including growing public concern about the environmental and other impacts of climate change, may also have an effect on demand for our services. For example, increased regulation of greenhouse gases or other concerns relating to climate change may reduce the demand for oil and gas in the future or 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.

Please read “Item 4.B. Business Overview—Environmental and Other Regulation—Regulation of Greenhouse Gas Emissions” below for a more detailed discussion.

Maritime claimants could arrest our vessels, which could interrupt our cash flows.

Crew members, suppliers of goods and services to our vessels, owners of cargo or other parties may be entitled to a maritime lien against one or more of our vessels for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lien holder may enforce its lien by arresting a vessel through foreclosure proceedings. In a few jurisdictions, claimants could try to assert “sister ship” liability against one vessel in our fleet for claims relating to another of our vessels. The arrest or attachment of one or more of our vessels could interrupt our cash flows and require us to pay to have the arrest lifted.

Governments could requisition our vessels during a period of war or emergency, resulting in loss of earnings.

The government of a jurisdiction where one or more of our vessels are registered could requisition for title or seize our vessels. Requisition for title or seizure occurs when a government takes control of a vessel and becomes her owner. Also, a government could requisition our vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes the charterer at dictated hire rates. Generally, requisitions occur during a period of war or emergency, although governments may elect to requisition vessels in other circumstances. Although we would expect to be entitled to government compensation in the event of a requisition of one or more of our vessels, the amount and timing of payments, if any, would be uncertain. A government requisition of one or more of our vessels would result in off-hire days under our time charters and may cause us to breach covenants in certain of our credit facilities. Furthermore, a requisition for title of either the *Neptune* or the *Cape Ann* constitutes a total loss under the terms of the related facility agreements, in which case we would have to repay all loans. If a government requisition of one or more of our vessels were to occur, it could have a material adverse effect on our business, financial condition, results of operations and cash flows, including cash available for distribution to our unitholders.

Compliance with safety and other vessel requirements imposed by classification societies may be very costly and may adversely affect our business.

The hull and machinery of every large, oceangoing commercial vessel must be classed by a classification society authorized by her country of registry. The classification society certifies that a vessel is safe and seaworthy in accordance with the applicable rules and regulations of the country of registry of the vessel and SOLAS. Each of our vessels is certified by Det Norske Veritas GL, compliant with the ISM Code and "in class." In order to maintain valid certificates from the classification society, a vessel must undergo annual surveys, intermediate surveys and renewal surveys. A vessel's machinery may be on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Each of the vessels in our fleet has implemented a certified planned maintenance system. The classification society attends onboard once every year to verify that the maintenance of the equipment onboard is done correctly. For each of the *Neptune* and the *Cape Ann*, a renewal survey is conducted every five years and an intermediate survey is conducted within 30 months after a renewal survey. During the first 15 years of operation, the vessels have an extended drydock interval which allow them to be drydocked every 7.5 years, while intermediate surveys and certain renewal surveys occur while they are afloat, using an approved diving company in the presence of a surveyor from the classification society. After these vessels are 15 years old, they are expected to be drydocked every five years or, if required by the charterers, every 30 months. We do not anticipate drydocking of the *PGN FSRU Lampung* for the first 20 years as all the required surveys can be done afloat. In 2019, the *PGN FSRU Lampung* will have an on-water survey done. In the first 15 years after its delivery from the shipyard, we expect the *Höegh Gallant* to have a renewal survey every five years and to be drydocked every 7.5 years. The *Höegh Gallant* is scheduled to be drydocked in 2019. The *Höegh Grace* is also designed to carry out renewal surveys afloat and is not expected to go into drydocking for the duration of its current charter. If any vessel does not maintain her class or fails any annual survey, renewal survey, intermediate survey or special survey, the vessel will be unable to trade between ports and will be unemployable. We would lose revenue while the vessel was off-hire and incur costs of compliance. This would negatively impact our revenues and reduce our cash available for distribution to unitholders.

Failure to comply with the U.S. Foreign Corrupt Practices Act, the UK Bribery Act, the anti-corruption provisions in the Norwegian Criminal Code and other anti-bribery legislation in other jurisdictions could result in fines, criminal penalties, contract termination and an adverse effect on our business.

We may operate in a number of countries throughout the world, including countries known to have a reputation for corruption. We are committed to doing business in accordance with applicable anti-corruption laws and have adopted a code of business conduct and ethics which is consistent and in full compliance with the U.S. Foreign Corrupt Practices Act of 1977 (the "FCPA"), the Bribery Act 2010 of the Parliament of the United Kingdom (the "UK Bribery Act") and the anti-corruption provisions of the Norwegian Criminal Code of 1902 (the "Norwegian Criminal Code"), respectively. We are subject, however, to the risk that we, our affiliated entities or our or their respective officers, directors, employees and agents may take actions determined to be in violation of such anti-corruption laws, including the FCPA, the UK Bribery Act and the Norwegian Criminal Code. Any such violation could result in substantial fines, sanctions, civil and/or criminal penalties, curtailment of operations in certain jurisdictions, and might adversely affect our business, results of operations or financial condition. In addition, actual or alleged violations could damage our reputation and ability to do business. Furthermore, detecting, investigating, and resolving actual or alleged violations is expensive and can consume significant time and attention of our senior management.

If in the future our business activities involve countries, entities and individuals that are subject to restrictions imposed by the U.S. or other governments, we could be subject to enforcement action and our reputation and the market for our preferred and common units could be adversely affected.

The tightening of U.S. sanctions in recent years has affected non-U.S. companies. In particular, sanctions against Iran have been significantly expanded. In 2012, for example, the U.S. signed into law the Iran Threat Reduction and Syria Human Rights Act of 2012 ("TRA"), which placed further restrictions on the ability of non-U.S. companies to do business or trade with Iran and Syria. A major provision in the TRA is that issuers of securities must disclose to the SEC in their annual and quarterly reports filed after February 6, 2013 if the issuer or ''any affiliate'' has ''knowingly'' engaged in certain activities involving Iran during the timeframe covered by the report. This disclosure obligation is broad in scope in that it requires the reporting of activity that would not be considered a violation of U.S. sanctions as well as violative conduct, and is not subject to a materiality threshold. The SEC publishes these disclosures on its website and the President of the United States must initiate an investigation in response to all disclosures.

In addition to the sanctions against Iran, the U.S. also has sanctions that target other countries, entities and individuals. These sanctions have certain extraterritorial effects that need to be considered by non-U.S. companies. It should also be noted that other governments have implemented versions of U.S. sanctions. We believe that we are in compliance with all applicable sanctions and embargo laws and regulations imposed by the U.S., the United Nations or European Union (the "EU") countries and intend to maintain such compliance. However, there can be no assurance that we will be in compliance in the future, particularly as the scope of certain laws may be unclear and may be subject to changing interpretations. Any such violation could result in fines or other penalties and could result in some investors deciding, or being required, to divest their interest, or not to invest, in our units. Additionally, some investors may decide to divest their interest, or not to invest, in our units simply because we may do business with companies that do business in sanctioned countries. Investor perception of the value of our units may also be adversely affected by the consequences of war, the effects of terrorism, civil unrest and governmental actions in these and surrounding countries.

Although we have remediated the material weaknesses in our internal control over financial reporting identified as of December 31, 2017, there may from time to time exist deficiencies in our control systems that could materially and adversely affect us.

We are required to establish and periodically assess the design and operating effectiveness of our internal control over financial reporting. As discussed in “Item 15. Controls and Procedures,” in connection with our assessment of the internal control over financial reporting for the year ended December 31, 2017, we disclosed in our Annual Report on Form 20-F for the year ended December 31, 2017 a material weakness relating to operating effectiveness of information technology (“IT”) general controls related to controls over user access controls related to financial applications and a material weakness related to controls over the accounting for procurement of goods and services. With respect to the material weakness related to our controls over user access controls related to financial applications, we implemented the following remedial measures in 2018: (i) formalized the operation and documentation of controls performed for discontinuing user access for terminated employees and consultants; (ii) reassessed all user access rights, evaluated appropriate segregation of duties and revised user access rights, as required; (iii) hired additional qualified personnel to monitor and perform controls over user access; and (iv) monitored the performance of our internal controls and procedures related to user access and took remediating actions when controls were not being appropriately performed or documented. With respect to the material weakness related to our controls over the accounting for procurement of goods and services related to vessel operating expenses, we implemented the following remedial measures in 2018: (i) reassessed and improved the design, operation and documentation of controls related to (a) input data to the three-way match of the purchase order, delivery confirmation and invoice to detect errors in supplier invoicing, and (b) accruals for delivered goods and services not yet invoiced, related to vessel operating expenses; (ii) trained those performing the controls on the procedures and documentation required; and (iii) monitored the performance of our internal controls and procedures related to procurement of goods and services related to vessel operating expenses. Although we believe these weaknesses have been remediated as of December 31, 2018, we cannot assure you that there will not be additional material weaknesses in our internal control over financial reporting in the future. Any such additional material weaknesses could materially and adversely affect our financial condition and results of operations and our ability to accurately report our financial condition and results of operations in a reliable and timely manner.

A cyber-attack could materially disrupt our business.

We rely on information technology systems and networks, which are provided by Höegh LNG, in our operations and the administration of our business. 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.

Changing laws and evolving reporting requirements could have an adverse effect on our business.

We are subject to laws, directives, and regulations relating to the collection, use, retention, disclosure, security and transfer of personal data. These laws, directives, and regulations, and their interpretation and enforcement continue to evolve and may be inconsistent from jurisdiction to jurisdiction. For example, the General Data Protection Regulation ("GDPR"), which regulates the use of personally identifiable information, went into effect in the EU on May 25, 2018 and applies globally to all of our activities conducted from an establishment in the EU, to related products and services that we offer to EU customers and to non-EU customers which offer services in the EU. GDPR broadens the scope of personal privacy laws to protect the rights of EU citizens and requires organizations to report on data breaches within 72 hours and be bound by more stringent rules for obtaining the consent of individuals on how their data can be used. Complying with GDPR and similar emerging and changing privacy and data protection requirements may cause us to incur substantial costs or require us to change our business practices. Noncompliance with our legal obligations relating to privacy and data protection could result in penalties, fines, legal proceedings by governmental entities or others, loss of reputation, legal claims by individuals and customers and significant legal and financial exposure and could affect our ability to retain and attract customers, which could have an adverse effect on our business, financial conditions, results of operations, cash flows and ability to pay distributions.

The results of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets as well as our business, operating results and financial condition.

The 2016 United Kingdom referendum on its membership in the EU resulted in a majority of United Kingdom voters voting to exit the EU ("Brexit"), and in March 2017, the United Kingdom formally initiated the Brexit process. The referendum was advisory, and any terms of the withdrawal are subject to a negotiation period that lasts at least two years after the March 2017 initiation. Though the United Kingdom withdrawal from the EU was originally scheduled to occur in March 2019, there is currently no agreement in place regarding the withdrawal, creating significant uncertainty about the future relationship between the United Kingdom and the EU, including with respect to the laws and regulations that will apply as the United Kingdom determines which EU-derived laws and regulations to replace or replicate in the event of a withdrawal. Additionally, it remains possible that the United Kingdom's membership in the EU ends without any agreement between the United Kingdom and the EU on the terms of their relationship going forward. The referendum has also given rise to calls for the governments of other EU member states to consider withdrawal. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Any of these factors could depress economic activity and restrict our access to capital, which could adversely affect our business, financial condition and operating results. As a result of the uncertainty and the potential consequences that may follow Brexit, we face risks with respect to volatility in exchange rates and interest rates due to potential effects on global economic conditions. Any of these effects of Brexit, and others we cannot anticipate, could adversely affect our business, operating results and financial condition.

As a Marshall Islands partnership with principal executive offices in Bermuda, and also having subsidiaries in the Marshall Islands and other offshore jurisdictions, our operations may be subject to economic substance requirements of the European Union, which could harm our business.

On December 5, 2017, following an assessment of the tax policies of various countries by the Code of Conduct Group for Business Taxation of the European Union (the "COCG"), the Council of the European Union (the "Council") approved and published Council conclusions containing a list of "non-cooperative jurisdictions" for tax purposes (the "2017 Conclusions"). On March 12, 2019, the Council adopted a revised list of non-cooperative jurisdictions (the "2019 Conclusions"). In the 2019 Conclusions, Bermuda and the Republic of the Marshall Islands, among others, were placed by the E.U. on its list of non-cooperative jurisdictions for tax purposes for failing to implement certain commitments previously made to the E.U. by the agreed deadline. Also, although not considered a non-cooperative jurisdiction in the 2017 Conclusions, the Cayman Islands were listed as having a "tax regime that facilitates offshore structures which attract profits without real economic activity." E.U. 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. E.U. legislation prohibits E.U. funds from being channeled or transited through entities in non-cooperative jurisdictions.

We are a Marshall Islands partnership with principal executive offices in Bermuda. Our operating company is also a Marshall Islands entity and several of our subsidiaries are organized in the Cayman Islands. At present, the impact of being included on the list of non-cooperative jurisdictions for tax purposes is unclear. These jurisdictions have enacted or may enact economic substance laws and regulations with which we may be obligated to comply. For example, on December 17, 2018, the House of Assembly of Bermuda passed the Economic Substance Act 2018 of Bermuda (the "Economic Substance Act"), which became operative on December 31, 2018, along with the Economic Substance Regulations 2018 of Bermuda. The Economic Substance Act requires each registered entity to maintain a substantial economic presence in Bermuda and provides that a registered entity that carries on a relevant activity complies with economic substance requirements if (i) it is directed and managed in Bermuda, (ii) its core income-generating activities (as may be further prescribed) 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 expenditure in Bermuda in relation to the relevant activity. Additionally, new legislation adopted in the Cayman Islands (which came into force on January 1, 2019) requires certain entities that carry out particular activities to comply with an economic substance test whereby the entity must show that it (i) carries out activities that are of central importance to the entity from the Cayman Islands, (ii) has held an adequate number of its board meetings in the Cayman Islands when judged against the level of decision-making required and (iii) has an adequate (a) amount of operating expenditures in the Cayman Islands, (b) physical presence in the Cayman Islands and (c) number of full-time employees in the Cayman Islands. Both the recent Bermuda and Cayman Islands legislation provide for a six-month transition period for entities already in those jurisdictions as of December 31, 2018 to come into compliance. If we fail to comply with our obligations under this legislation or any similar law applicable to us in any other jurisdictions, we could be subject to financial penalties and spontaneous disclosure of information to foreign tax officials, or could be struck from the register of companies, in related jurisdictions.

We do not know; if the E.U. will remove Bermuda or the Marshall Islands from, or add the Cayman Islands to, the list of non-cooperative jurisdictions; what actions the Marshall Islands may take, if any, to remove itself from the list; how quickly the E.U. would react to any changes in legislation of the Marshall Islands or Bermuda; or how E.U. banks or other counterparties will react while we or any of our subsidiaries remain as entities organized and existing under the laws of listed countries. The effect of the E.U. list of non-cooperative jurisdictions, 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 conditions and operating results.

Risks Inherent in an Investment in Us

Höegh LNG and its affiliates may compete with us.

Pursuant to the omnibus agreement that we and Höegh LNG entered into in connection with the closing of the IPO, Höegh LNG and its controlled affiliates (other than us, our general partner and our subsidiaries) generally have agreed not to acquire, own, operate or charter certain FSRUs and LNG carriers operating under charters of five or more years. The omnibus agreement, however, contains significant exceptions that may allow Höegh LNG or any of its controlled affiliates to compete with us, which could harm our business. Additionally, the omnibus agreement contains no restrictions on Höegh LNG's ability to own, operate or charter FSRUs and LNG carriers operating under charters of less than five years. Thus, Höegh LNG's newbuildings may compete with our vessels for rechartering for charters of less than five years. Also, pursuant to the omnibus agreement, we have agreed not to acquire, own, operate or charter FSRUs and LNG carriers operating under charters of less than five years. Please read "Item 7.B. Related Party Transactions—Omnibus Agreement—Noncompetition."

Unitholders have limited voting rights, and our partnership agreement restricts the voting rights of the unitholders owning more than 4.9% of our common units.

Unlike the holders of common stock in a corporation, holders of common units have only limited voting rights on matters affecting our business. We will hold a meeting of the limited partners every year to elect one or more members of our board of directors and to vote on any other matters that are properly brought before the meeting. Common unitholders are entitled to elect only four of the seven members of our board of directors. The elected directors are elected on a staggered basis and will serve for staggered terms. Our general partner in its sole discretion appoints the remaining three directors and set the terms for which those directors will serve. Our partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders' ability to influence the manner or direction of management. Unitholders will have no right to elect our general partner, and our general partner may not be removed except by a vote of the holders of at least 75% of the outstanding common and subordinated units, including any units owned by our general partner and its affiliates, voting together as a single class.

Our partnership agreement further restricts unitholders' voting rights by providing that if any person or group owns beneficially more than 4.9% of any class of units then outstanding, any such units owned by that person or group in excess of 4.9% may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes (except for purposes of nominating a person for election to our board of directors), determining the presence of a quorum or for other similar purposes, unless required by law. The voting rights of any such unitholders in excess of 4.9% will effectively be redistributed pro rata among the other common unitholders holding less than 4.9% of the voting power of all classes of units entitled to vote. Our general partner, its affiliates and persons who acquired common units with the prior approval of our board of directors will not be subject to this 4.9% limitation except with respect to voting their common units in the election of the elected directors. Holders of the Series A preferred units generally have no voting rights. However, in the event that six quarterly dividends, whether consecutive or not, payable on Series A preferred units or any other class or series of limited partner interests or other equity securities established after the original issue date of the Series A preferred units that is not expressly subordinated or senior to the Series A preferred units as to the payment of distributions and amounts payable upon liquidation, dissolution or winding up, whether voluntary or involuntary ("Parity Securities") are in arrears, the holders of Series A preferred units will have the right, voting together as a class with all other classes or series of Parity Securities upon which like voting rights have been conferred and are exercisable, to replace one of the members of our board of directors appointed by our general partner with a person nominated by such holders (unless the holders of Series A preferred units and Parity Securities upon which like voting rights have been conferred, voting as a class, have previously elected a member of our board of directors, and such director continues then to serve on the board of directors). The right of such holders of Series A preferred units to elect a member of our board of directors will continue until such time as all accumulated and unpaid dividends on the Series A preferred units have been paid in full.

Our general partner and its other affiliates own a significant interest in us and have conflicts of interest and limited fiduciary and contractual duties, which may permit them to favor their own interests to your detriment.

As of March 31, 2019, Höegh LNG owns approximately 10.5% of our common units and all of our subordinated units, which represent an aggregate approximate 46.0% limited partner interest in us. Certain of our directors will also serve as directors of Höegh LNG or its affiliates and, as such, they will have fiduciary duties to Höegh LNG that may cause them to pursue business strategies that disproportionately benefit Höegh LNG or its affiliates or which otherwise are not in the best interests of us or our unitholders.

Conflicts of interest may arise between Höegh LNG 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 and its affiliates may favor their own interests 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 Höegh LNG or its affiliates to pursue a business strategy that favors us or utilizes our assets, and Höegh LNG's officers and directors have a fiduciary duty to make decisions in the best interests of the shareholders of Höegh LNG, which may be contrary to our interests;

- our partnership agreement permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. Specifically, our general partner will be considered to be acting in its individual capacity if it exercises its call right, pre-emptive rights or registration rights, consents or withholds consent to any merger or consolidation of the Partnership, appoints any directors or votes for the election of any director, votes or refrains from voting on amendments to our partnership agreement that require a vote of the outstanding units, voluntarily withdraws from the Partnership, transfers (to the extent permitted under our partnership agreement) or refrains from transferring its units or general partner interest or votes upon the dissolution of the Partnership;

- our general partner and our directors have limited their liabilities and restricted their fiduciary duties under the laws of the Marshall Islands, while also restricting the remedies available to our unitholders, and, as a result of purchasing common 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 and our directors, all as set forth in our partnership agreement;

- our general partner is entitled to reimbursement of all reasonable costs incurred by it and its affiliates for our benefit;

- our partnership agreement does not restrict us from paying our general partner 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 may exercise its right to call and purchase our common units if it and its affiliates own more than 80% of our common units; and

- our general partner is not obligated to obtain a fairness opinion regarding the value of the common units to be repurchased by it upon the exercise of its limited call right.

Although a majority of our directors will over time be elected by common unitholders, our general partner will likely have substantial influence on decisions made by our board of directors.

Our officers may face conflicts in the allocation of their time to our business.

Our sole existing officer and any future officers may face conflicts in the allocation of their time to our business. The affiliates of our general partner, including Höegh LNG, conduct substantial businesses and activities of their own in which we have no economic interest. As a result, there could be material competition for the time and effort of our officers who also provide services to our general partner's affiliates, which could have a material adverse effect on our business, financial condition and results of operations. Additionally, while our Chief Executive Officer and Chief Financial Officer is expected to devote the substantial majority of his time to our business, he may, from time to time, participate in activities for Höegh LNG that are linked to opportunities or challenges for us.

Our partnership agreement limits our general partner's and our directors' fiduciary duties to our unitholders and restricts the remedies available to unitholders for actions taken by our general partner or our directors.

Our partnership agreement provides that our general partner has irrevocably delegated to our board of directors the authority to oversee and direct our operations, management and policies on an exclusive basis, and such delegation will be binding on any successor general partner of the Partnership. Our partnership agreement also contains provisions that reduce the standards to which our general partner and directors may otherwise be held by Marshall Islands law. For example, our partnership agreement:

- provides that our general partner may make determinations or take or decline to take actions without regard to our or our unitholders' interests. Our general partner may consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting us, our affiliates or our unitholders. Decisions made by our general partner will be made by its sole owner. Specifically, our general partner may decide to exercise its right to make a determination to receive common units in exchange for resetting the target distribution levels related to the incentive distribution rights, call right, pre-emptive rights or registration rights, consent or withhold consent to any merger or consolidation of the Partnership, appoint any directors or vote for the election of any director, vote or refrain from voting on amendments to our partnership agreement that require a vote of the outstanding units, voluntarily withdraw from the Partnership, transfer (to the extent permitted under our partnership agreement) or refrain from transferring its units, the general partner interest or incentive distribution rights or vote upon the dissolution of the Partnership;

- provides that our general partner and our directors are entitled to make other decisions in "good faith" if they believe that the decision is in our best interests;

- generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the conflicts committee of our board of directors and not involving a vote of unitholders must be on terms no less favorable to us than those generally being provided to or available from unrelated third parties or be "fair and reasonable" to us and that, in determining whether a transaction or resolution is "fair and reasonable," our board of directors may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us; and

- provides that neither our general partner nor our officers or our directors will be liable for monetary damages to us, our limited partners or assignees for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that our general partner or directors or its officers or directors or those other persons engaged in actual fraud or willful misconduct.

By purchasing a common unit, a common unitholder is deemed to have agreed to become bound by the provisions of our partnership agreement, including the provisions discussed above.

Fees and expenses, which Höegh LNG determines for services provided to us and our joint ventures, are substantial, are payable regardless of our profitability and will reduce our cash available for distribution to you.

Pursuant to the ship management agreements and related agreements, we and our joint ventures pay fees for services provided directly or indirectly by Höegh LNG Management, and we and our joint ventures reimburse Höegh LNG Management for all expenses incurred on our behalf. These fees and expenses include all costs and expenses incurred in providing certain crewing and technical management services to the *Neptune*, the *Cape Ann,* the *Höegh Gallant* and the *Höegh Grace*. In addition, pursuant to a technical information and services agreement for the *PGN FSRU Lampung*, we reimburse Höegh Norway for expenses Höegh Norway incurs pursuant to the sub-technical support agreement that it is party to with Höegh LNG Management.

Moreover, pursuant to an administrative services agreement among us, our operating company and Höegh UK and an administrative services agreement between our operating company and Leif Höegh UK, Höegh UK and Leif Höegh UK provide us and our operating company with certain administrative, financial and other support services. We reimburse Höegh UK and Leif Höegh UK for their reasonable costs and expenses incurred in connection with the provision of these services. In addition, under our administrative services agreement with Höegh UK, we pay Höegh UK a service fee equal to 5.0% of its costs and expenses incurred in connection with providing services to us.

Pursuant to the above-mentioned administrative services agreement with Höegh UK, Höegh UK subcontracts to Höegh Norway and Leif Höegh UK certain administrative services provided to us pursuant to administrative services agreements with Höegh Norway and Leif Höegh UK. Höegh UK reimburses Höegh Norway and Leif Höegh UK for reasonable costs and expenses incurred in connection with the provision of these services. In addition, Höegh UK (i) pays to Höegh Norway a service fee equal to 3.0% of the costs and expenses incurred in connection with providing services and (ii) pays to Leif Höegh UK a service fee equal to 5.0% of the costs and expenses of certain secretarial services with all other services of Leif Höegh UK reimbursed at cost.

For a description of the ship management agreements, the technical information and services agreement and the administrative services agreements, please read "Item 7.B. Related Party Transactions." The fees and expenses payable pursuant to the ship management agreements, the technical information and services agreement and the administrative services agreements are payable without regard to our financial condition or results of operations. The payment of fees to and the reimbursement of expenses of Höegh LNG Management, Höegh UK, Leif Höegh UK and Höegh Norway could adversely affect our ability to pay cash distributions to you.

Our partnership agreement contains provisions that may have the effect of discouraging a person or group from attempting to remove our current management or our general partner, and even if public unitholders are dissatisfied, they will be unable to remove our general partner without Höegh LNG's consent, unless Höegh LNG's ownership interest in us is decreased, all of which could diminish the trading price of our common units.

Our partnership agreement contains provisions that may have the effect of discouraging a person or group from attempting to remove our current management or our general partner.

- The unitholders are unable to remove our general partner without its consent because our general partner and its affiliates own sufficient units to be able to prevent its removal. The vote of the holders of at least 75% of all outstanding common and subordinated units voting together as a single class is required to remove the general partner. Höegh LNG owns approximately 46.0% of the outstanding common and subordinated units. Additionally, during the term of the SRV Joint Gas shareholders' agreement, Höegh LNG has agreed to continue to own common units and subordinated units representing a greater than 25% limited partner interest in us in the aggregate.

- If our general partner is removed without "cause" during the subordination period and units held by our general partner and its affiliates are not voted in favor of that removal, all remaining subordinated units will automatically convert into common units, any existing arrearages on the common units will be extinguished, and Höegh LNG will have the right to convert its incentive distribution rights into common units or to receive cash in exchange for those interests based on the fair market value of those interests at the time. A removal of our general partner under these circumstances would adversely affect the common units by prematurely eliminating their distribution and liquidation preference over the subordinated units, which would otherwise have continued until we had met certain distribution and performance tests. Any conversion of the incentive distribution rights would be dilutive to existing unitholders. Furthermore, any cash payment in lieu of such conversion could be prohibitively expensive. "Cause" is narrowly defined to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding our general partner liable for actual fraud or willful misconduct in its capacity as our general partner. Cause does not include most cases of charges of poor business decisions, such as charges of poor management of our business by the directors appointed by our general partner, so the removal of our general partner because of the unitholders' dissatisfaction with the general partner's decisions in this regard would most likely result in the termination of the subordination period.

- Common unitholders are entitled to elect only four of the seven members of our board of directors. Our general partner in its sole discretion appoints the remaining three directors.

- Election of the four directors elected by unitholders is staggered, meaning that the members of only one of four classes of our elected directors will be selected each year. In addition, the directors appointed by our general partner will serve for terms determined by our general partner.

- Our partnership agreement contains provisions limiting the ability of unitholders to call meetings of unitholders, to nominate directors and to acquire information about our operations as well as other provisions limiting the unitholders' ability to influence the manner or direction of management.

- Unitholders' voting rights are further restricted by our partnership agreement provision providing that if any person or group owns beneficially more than 4.9% of any class of units then outstanding, any such units owned by that person or group in excess of 4.9% may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes (except for purposes of nominating a person for election to our board of directors), determining the presence of a quorum or for other similar purposes, unless required by law. The voting rights of any such unitholders in excess of 4.9% will effectively be redistributed pro rata among the other common unitholders holding less than 4.9% of the voting power of all classes of units entitled to vote. Our general partner, its affiliates (including Höegh LNG) and persons who acquired common units with the prior approval of our board of directors will not be subject to this 4.9% limitation except with respect to voting their common units in the election of the elected directors.

- There are no restrictions in our partnership agreement on our ability to issue equity securities, including securities senior to the common units.

The effect of these provisions may be to diminish the price at which the common units will trade.

The control of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its non-economic general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. In addition, our partnership agreement does not restrict the ability of the members of our general partner from transferring their respective membership interests in our general partner to a third party.

Substantial future sales of our common units in the public market could cause the price of our common units to fall.

We have granted registration rights to Höegh LNG and certain of its affiliates. These unitholders have the right, subject to some conditions, to require us to file registration statements covering any of our common, subordinated or other equity securities owned by them or to include those securities in registration statements that we may file for ourselves or other unitholders. As of March 31, 2019, Höegh LNG owns 2,101,438 common units and 13,156,060 subordinated units and all of the incentive distribution rights. Following their registration and sale under the applicable registration statement, those securities will become freely tradable. By exercising their registration rights and selling a large number of common units or other securities, these unitholders could cause the price of our common units to decline.

We are subject to Marshall Islands law, which lacks a bankruptcy statute or general statutory mechanism for insolvency proceedings.

We are a Marshall Islands limited partnership, and we have limited operations in the United States and maintain limited assets in the United States. Consequently, in the event of any bankruptcy, insolvency, liquidation, dissolution, reorganization or similar proceeding involving us, bankruptcy laws other than those of the United States could apply. The Republic of the Marshall Islands does not have a bankruptcy statute or general statutory mechanism for insolvency proceedings. If we become a debtor under U.S. bankruptcy law, bankruptcy courts in the United States may seek to assert jurisdiction over all of our assets, wherever located, including property situated in other countries. There can be no assurance, however, that we would become a debtor in the United States, or that a U.S. bankruptcy court would be entitled to, or accept, jurisdiction over such a bankruptcy case, or that courts in other countries that have jurisdiction over us and our operations would recognize a U.S. bankruptcy court's jurisdiction, if any other bankruptcy court would determine it had jurisdiction. These factors may delay or prevent us from entering bankruptcy in the United States and may affect the ability of our unitholders to receive any recovery following our bankruptcy.

We have been organized as a limited partnership under the laws of the Republic of the Marshall Islands, which does not have a well-developed body of partnership law.

The Partnership's affairs are governed by our partnership agreement and by the Marshall Island Limited Partnership Act (the "Marshall Islands Act"). The provisions of the Marshall Islands Act resemble provisions of the limited partnership laws of a number of states in the United States, most notably Delaware. The Marshall Islands Act also provides that it is to be applied and construed to make the laws of the Marshall Islands, with respect to the subject matter of the Marshall Islands Act, uniform with the laws of the State of Delaware and, so long as it does not conflict with the Marshall Islands Act or decisions of the High and Supreme Courts of the Marshall Islands, the non-statutory law ("case law") of the State of Delaware is adopted as the law of the Marshall Islands, with respect to non-resident limited partnerships like us. There have been, however, few, if any, court cases in the Marshall Islands interpreting the Marshall Islands Act, in contrast to Delaware, which has a fairly well-developed body of case law interpreting its limited partnership statute. Accordingly, we cannot predict whether Marshall Islands courts would reach the same conclusions as the courts in Delaware. For example, the rights of our unitholders and the fiduciary responsibilities of our general partner under Marshall Islands law are not as clearly established as under judicial precedent in existence in Delaware. As a result, unitholders may have more difficulty in protecting their interests in the face of actions by our general partner and its officers and directors than would unitholders of a similarly organized limited partnership in the United States.

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 substantially all of our assets are located outside of the United States. In addition, our general partner is a Marshall Islands limited liability company, and a majority of our directors and officers generally are or will be 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 for you to bring an action against us or against these individuals in the United States if you believe that your rights have been infringed under securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Marshall Islands and of other jurisdictions may prevent or restrict you from enforcing a judgment against our assets or the assets of our general partner or our directors or officers.

Höegh LNG, as the initial holder of all of the incentive distribution rights, may elect to cause us to issue additional common units to it in connection with a resetting of the target distribution levels related to the incentive distribution rights without the approval of the conflicts committee of our board of directors or holders of our common units and subordinated units. This may result in lower distributions to holders of our common units in certain situations.

Höegh LNG, as the initial holder of all of the incentive distribution rights, has the right, at a time when there are no subordinated units outstanding and Höegh LNG has received incentive distributions at the highest level to which it is entitled (50.0%) for each of the prior four consecutive fiscal quarters (and the amount of each such total distribution did not exceed adjusted operating surplus for each such quarter), to reset the initial cash target distribution levels at higher levels based on the distribution at the time of the exercise of the reset election. Following a reset election, the minimum quarterly distribution amount will be reset to the reset minimum quarterly distribution amount, and the target distribution levels will be reset to correspondingly higher levels based on the same percentage increases above the reset minimum quarterly distribution amount.

In connection with resetting these target distribution levels, Höegh LNG will be entitled to receive a number of common units equal to that number of common units whose aggregate quarterly cash distributions equaled the average of the distributions to Höegh LNG on the incentive distribution rights in the prior fiscal quarter. We anticipate that Höegh LNG would exercise this reset right in order to facilitate acquisitions or internal growth projects that would not be sufficiently accretive to cash distribution per common unit without such conversion; however, it is possible that Höegh LNG could exercise this reset election at a time when it is experiencing, or may be expected to experience, declines in the cash distributions it receives related to its incentive distribution rights and may therefore desire to be issued our common units, rather than retain the right to receive incentive distributions based on the initial target distribution levels. As a result, a reset election may cause our common unitholders to experience dilution in the amount of cash distributions that they would have otherwise received had we not issued additional common units to Höegh LNG in connection with resetting the target distribution levels related to its incentive distribution rights.

We may issue additional equity securities, including securities senior to the common units with respect to distributions, liquidation and voting which would dilute the ownership interests of common unitholders.

We may, without the approval of our common unitholders, issue an unlimited number of additional units or other equity securities. In addition, we may issue units that are senior to the common units in right of distribution, liquidation and voting. For example, in October 2017, we issued 4,600,000 8.75% Series A preferred units. The Series A preferred units rank senior to the Partnership's common units and subordinated units as to the payment of distributions and amounts payable upon liquidation, dissolution or winding up but junior to all of the Partnership's debt and other liabilities. In addition, on January 26, 2018, we entered into a sales agreement with B. Riley Inc. (the "Agent"). Under the terms of the sales agreement, we may offer and sell up to $120 million aggregate offering amount of common and Series A preferred units (the "ATM program"), from time to time, through the Agent. As of March 31, 2019, we had issued an aggregate of 253,106 common units and 1,529,070 Series A preferred units under the ATM program since its inception. The issuance by us of additional common units or other equity securities of equal or senior rank will have the following effects:

- our unitholders' proportionate ownership interest in us will decrease;

- the amount of cash available for distribution on each unit may decrease;

- we will not be able to pay our distributions to common unitholders if we have failed to pay the distributions on our Series A preferred units;

- because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by our common unitholders will increase;

- because the amount payable to holders of incentive distribution rights is based on a percentage of total available cash, the distributions to holders of incentive distribution rights will increase even if the per unit distribution on the common units remains the same;

- the relative voting strength of each previously outstanding unit may be diminished; and

- the market price of the common units may decline.

Upon the expiration of the subordination period, the subordinated units will convert into common units and will then participate pro rata with other common units in distributions of available cash.

During the subordination period, the common units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of $0.3375 per unit, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. Distribution arrearages do not accrue on the subordinated units. The purpose of the subordinated units is to increase the likelihood that during the subordination period there will be available cash from operating surplus to be distributed on the common units. Upon the expiration of the subordination period, the subordinated units will convert into common units and will then participate pro rata with other common units in distributions of available cash. The subordination period generally will end if we have earned and paid at least $0.3375 on each outstanding common and subordinated unit for any three consecutive four-quarter periods ending on or after June 30, 2019. We currently anticipate that the subordination period will end when we make our quarterly distribution for the quarter ended June 30, 2019.

In establishing cash reserves, our board of directors may reduce the amount of cash available for distribution to unitholders.

Our partnership agreement requires our general partner to deduct from operating surplus cash reserves that it determines are necessary to fund our future operating expenditures. These reserves also will affect the amount of cash available for distribution to our unitholders. Our board of directors may establish reserves for distributions on the subordinated units, but only if those reserves will not prevent us from distributing the full minimum quarterly distribution, plus any arrearages, on the common units for the following four quarters. As described above in "—Risks Inherent in Our Business—We must make substantial capital expenditures to maintain and replace the operating capacity of our fleet, which will reduce our cash available for distribution. In addition, each quarter we will be required, pursuant to our partnership agreement, to deduct estimated maintenance and replacement capital expenditures from operating surplus, which may result in less cash available to unitholders than if actual maintenance and replacement capital expenditures were deducted," our partnership agreement requires our board of directors each quarter to deduct from operating surplus estimated maintenance and replacement capital expenditures, as opposed to actual maintenance and replacement capital expenditures, which could reduce the amount of available cash for distribution. The amount of estimated maintenance and replacement capital expenditures deducted from operating surplus is subject to review and change by our board of directors at least once a year, with the approval of the conflicts committee of our board of directors.

Our general partner has a limited call right that may require unitholders to sell common units at an undesirable time or price.

If at any time our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, which it may assign to any of its affiliates or to us, but not the obligation, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than the then-current market price of our common units. Our general partner is not obligated to obtain a fairness opinion regarding the value of the common units to be repurchased by it upon the exercise of this limited call right. As a result, unitholders may be required to sell common units at an undesirable time or price and may not receive any return on their investment. Unitholders may also incur a tax liability upon a sale of their units.

As of March 31, 2019, Höegh LNG, which owns and controls of our general partner, owns approximately 10.5% of our common units. At the end of the subordination period, assuming no additional issuances of common units, and the conversion of our subordinated units into common units, Höegh LNG will own approximately 46.0% of our common units.

Unitholders may not have limited liability if a court finds that unitholder action constitutes control of our business.

As a limited partner in a limited partnership organized under the laws of the Marshall Islands, you could be held liable for our obligations to the same extent as a general partner if you participate in the “control” of our business. Our general partner generally has unlimited liability for the obligations of the Partnership, such as its debts and environmental liabilities. In addition, the limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some jurisdictions in which we do business.

We can borrow money to make cash distributions, which would reduce the amount of credit available to operate our business.

Our partnership agreement allows us to make working capital borrowings to make cash distributions. Accordingly, if we have available borrowing capacity, we can make cash distributions on all our units even though cash generated by our operations may not be sufficient to pay such distributions. Any working capital borrowings by us to make cash distributions will reduce the amount of working capital borrowings we can make for operating our business.

Increases in interest rates may cause the market price of our units to decline.

An increase in interest rates may cause a corresponding decline in demand for equity investments in general and in particular for yield based equity investments such as our units. Any such increase in interest rates or reduction in demand for our units resulting from other relatively more attractive investment opportunities may cause the trading price of our units to decline.

Reforms, including the potential phasing out of LIBOR after 2021, may adversely affect us.

We have floating rate debt, the interest rate of which is determined based on the London Interbank Offered Rate (‘‘LIBOR’’). LIBOR and other “benchmark” rates are subject to ongoing national and international regulatory scrutiny and reform. For example, on July 27, 2017, the United Kingdom Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR rates after 2021 (the “FCA Announcement”). We are unable to predict the effect of the FCA Announcement or other reforms, whether currently enacted or enacted in the future. They may result in the phasing out of LIBOR as a reference rate. The outcome of reforms may result in increased interest expense to us, may affect our ability to incur debt on terms acceptable to us and may result in increased costs related to amending our existing debt instruments, which could adversely affect our business, results of operations and financial condition.

Unitholders may have liability to repay distributions.

Under some circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under the Marshall Islands Act, we may not make a distribution to unitholders if, after giving effect to the distribution, our liabilities, other than liabilities to partners on account of their partnership interest 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 will be included in our assets only to the extent that the fair value of that property exceeds that liability. Marshall Islands law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Marshall Islands law will be liable to the limited partnership for the distribution amount. Assignees who become substituted limited partners are liable for the obligations of the assignor to make contributions to the limited partnership that are known to the assignee at the time it became a limited partner and for unknown obligations if the liabilities could be determined from our partnership agreement.

The Series A preferred units represent perpetual equity interests.

The Series A preferred units represent perpetual equity interests in us and, unlike our indebtedness, we will not give rise to a claim for payment of a principal amount at a particular date. As a result, holders of the Series A preferred units may be required to bear the financial risks of an investment in the Series A preferred units for an indefinite period of time. In addition, the Series A preferred units rank junior to all our indebtedness and other liabilities, and any senior securities we may issue in future with respect to assets available to satisfy claims against us.

The Series A preferred units have not been rated.

We did not obtain a rating for the Series A preferred units, and they may never be rated. It is possible, however, that one or more rating agencies might independently determine to assign a rating to the Series A preferred units or that we may elect to obtain a rating of our Series A preferred units in the future. In addition, we may elect to issue other securities for which we may seek to obtain a rating. If any ratings are assigned to the Series A preferred units in the future or if we issue other securities with a rating, such ratings, if they are lower than market expectations or are subsequently lowered or withdrawn, could adversely affect the market for or the market value of the Series A preferred units. Ratings only reflect the views of the issuing rating agency or agencies and such ratings could at any time be revised downward or withdrawn entirely at the discretion of the issuing rating agency. A rating is not a recommendation to purchase, sell or hold any particular security, including the Series A preferred units. Ratings do not reflect market prices or suitability of a security for a particular investor and any future rating of the Series A preferred units may not reflect all risks related to us and our business, or the structure or market value of the Series A preferred units.

We distribute all of our available cash to our limited partners and are not required to accumulate cash for the purpose of making distributions on units.

Subject to the limitations in our partnership agreement, we distribute all of our available cash each quarter to our limited partners. “Available cash” is defined in our partnership agreement, and it generally means, for each fiscal quarter, all cash on hand at the end of the quarter (including our proportionate share of cash on hand of certain subsidiaries we do not wholly own):

· less the amount of cash reserves established by our board of directors to:

·

provide for the proper conduct of our business (including reserves for future capital expenditures and for our anticipated credit needs);

- comply with applicable law, any debt instruments, or other agreements;
- provide funds for payments to holders of Series A preferred units; or
- provide funds for distributions to our limited partners and to our general partner for any one or more of the next four quarters; and
- plus all cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter. Working capital borrowings are generally borrowings that are made under our credit agreements and in all cases used solely for working capital purposes or to pay distributions to unitholders.

As a result, we do not expect to accumulate significant amount of cash. Depending on the timing and amount of our cash distributions, these distributions could significantly reduce the cash available to us in subsequent periods to make payments on our units.

Our Series A preferred units are subordinated to our debt obligations, and the interests of holders of Series A preferred units could be diluted by the issuance of additional limited partner interests, including additional Series A preferred units, and by other transactions.

Our Series A preferred units are subordinated to all of our existing and future indebtedness. As of December 31, 2018, our total outstanding principal amount of debt was $479.5 million and we had the ability to borrow an additional $45.7 million under our revolving credit facilities, subject to limitations in the credit facilities. We may incur additional debt under these or future credit facilities. The payment of principal and interest on our debt reduces cash available for distribution to us and on our limited partner interests, including the Series A preferred units.

The issuance of additional limited partner interests on a parity with or senior to our Series A preferred units would dilute the interests of the holders of our Series A preferred units, and any issuance of Senior Securities (as defined) or Parity Securities or additional indebtedness could affect our ability to pay distributions on, redeem or pay the liquidation preference on our Series A preferred units. No provisions relating to our Series A preferred units protect the holders of our Series A preferred units in the event of a highly leveraged or other transaction, including a merger or the sale, lease or conveyance of all or substantially all our assets or business, which might adversely affect the holders of our Series A preferred units.

The Series A preferred units rank junior to any Senior Securities and pari passu with any Parity Securities.

Our Series A preferred units will rank junior to any class or series of limited partner interests or other equity securities expressly made senior to the Series A preferred units as to the payment of distributions and amounts payable upon liquidation, dissolution, or winding up, whether voluntary or involuntary ("Senior Securities") and *pari passu* Parity Securities. If less than all distributions payable with respect to the Series A preferred units and any Parity Securities are paid, any partial payment shall be made pro rata with respect to Series A preferred units and any Parity Securities entitled to a distribution payment at such time in proportion to the aggregate amounts remaining due in respect of such units at such time.

The Series A preferred units do not have an established trading market, which may negatively affect their market value and ability of holders to transfer or sell Series A preferred units. In addition, the lack of a fixed redemption date for the Series A preferred units will increase unitholder reliance on the secondary market for liquidity purposes.

The Series A preferred units do not have a well-established trading market. In addition, since the Series A preferred units have no stated maturity date, investors seeking liquidity will be limited to selling their units in the secondary market absent redemption by us. The trading market for the Series A preferred units on the NYSE may not be active, in which case the trading price of the Series A preferred units could be adversely affected and the ability of holders to transfer such units will be limited. If an active trading market does develop on the NYSE, our Series A preferred units may trade at prices lower than the offering price. The trading price of the Series A preferred units depends on many factors, including:

- prevailing interest rates;
- the market for similar securities;
- general economic and financial conditions;
- our issuance of debt or preferred equity securities; and
- our financial condition, results of operations and prospects.

Market interest rates may adversely affect the value of our Series A preferred units.

One of the factors that will influence the price of our Series A preferred units will be the distribution yield on the Series A preferred units (as a percentage of the price of our Series A preferred units) relative to market interest rates. An increase in market interest rates, may lead prospective purchasers of our Series A preferred units to expect a higher distribution yield, and higher interest rates would likely increase our borrowing costs and potentially decrease funds available for distribution. Accordingly, higher market interest rates could cause the market price of our Series A preferred units to decrease.

The Series A preferred units are redeemable at our option.

We may, at our option, redeem all or, from time to time, part of the Series A preferred units on or after October 5, 2022. If we redeem Series A preferred units, holders will be entitled to receive a redemption price equal to $25.00 per unit plus accumulated and unpaid distributions to the date of redemption. It is likely that we would choose to exercise our optional redemption right only when prevailing interest rates have declined, which would adversely affect the ability of holders to reinvest their proceeds from the redemption in a comparable investment with an equal or greater yield to the yield on the Series A preferred units had such units not been redeemed. We may elect to exercise our partial redemption right on multiple occasions.

We are an "emerging growth company" and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common units less attractive to investors.

We are an "emerging growth company," as defined in the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies." These provisions include an exemption from the auditor attestation requirement in the assessment of the emerging growth company's internal control over financial reporting and an exemption from compliance with any new requirements adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotation or a supplement to our auditor's report in which the auditor would be required to provide additional information about the audit and our financial statements. For as long as we take advantage of the reduced reporting obligations, the information that we provide unitholders may be different than information provided by other public companies. We cannot predict if investors will find our common units less attractive because we may rely on these exemptions. If some investors find our common units less attractive as a result, there may be a less active trading market for our common units and our unit price may be more volatile. Furthermore, while we believe we have remediated the material weaknesses in our internal control over financial reporting as described in "Item 15. Controls and Procedures," we cannot assure you that there will not be material weaknesses in our internal control over financial reporting in the future. Our failure to maintain effective internal control over financial reporting could materially and adversely affect our ability to accurately report our financial condition and results of operations in a reliable and timely manner or prevent fraud, which could cause investors to lose confidence in our reported financial information, leading to a decline in the trading price of our common units. Please read "—Risks Related to Our Business— Although we have remediated the material weaknesses in our internal control over financial reporting identified as of December 31, 2017, there may from time to time exist deficiencies in our control systems that could materially and adversely affect us."

Tax Risks

In addition to the following risk factors, you should read “Item 4.B. Business Overview—Taxation of Partnership” and “Item 10.E. 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 common units.

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

Some of our subsidiaries will be subject to tax in the jurisdictions in which they are organized or operate, reducing the amount of cash available for distribution. In computing our tax obligation 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 our subsidiaries, further reducing the cash available for distribution. In addition, changes in our operations could result in additional tax being imposed on us, our operating company or our or its subsidiaries in jurisdictions in which operations are conducted. Moreover, tax regulation and reporting requirements for value added taxes, withholding taxes and corporate income taxes are complex in Indonesia, Colombia and many of the countries where we operate. Tax regulations, guidance and interpretation in emerging markets may not always be clear and may be subject to alternative interpretations or changes in interpretation over time. In particular, Indonesia and Colombia have complex tax regulations and reporting requirements, which if not properly applied, could result in penalties that could be significant, which could also harm our business and ability to make cash distributions to our unitholders. Please read “Item 4.B. Business Overview—Taxation of the Partnership.”

A change in tax laws in any country in which we operate could adversely affect us.

Tax laws and regulations are highly complex and subject to interpretation. Consequently, we and our subsidiaries are subject to changing tax laws, treaties and regulations in and between countries in which we operate. Our tax expense is based on our interpretation of the tax laws in effect at the time the expense was incurred. A change in tax laws, treaties or regulations, or in the interpretation thereof, could result in a materially higher tax expense or a higher effective tax rate on our earnings. Such changes may include measures enacted in response to the ongoing initiatives in relation to fiscal legislation at an international level, such as the Action Plan on Base Erosion and Profit Shifting of the Organization for Economic Co-operation and Development.

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

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” (“PFIC”) for U.S. federal income tax purposes for any taxable year in which at least 75.0% of its gross income consists of “passive income” or at least 50.0% of the average value of its assets (based on the average of the values at the end of each quarter) 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. For purposes of these tests, income derived from the performance of services does not constitute “passive income.” U.S. shareholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, certain distributions they receive from the PFIC, and the gain, if any, they derive from the sale or other disposition of their interests in the PFIC.

Based on our current and projected method of operation, we believe that we were not a PFIC for any prior taxable year, and we expect that we will not be treated as a PFIC for the current or any future taxable year. We believe that more than 25.0% of our gross income for each taxable year was or will be nonpassive income, and more than 50.0% of the average value of our assets for each such year was or will be held for the production of such nonpassive income. This belief is based on certain valuations and projections regarding our assets, income and charters, and its validity is conditioned on the accuracy of such valuations and projections. While we believe these valuations and projections to be accurate, the shipping market is volatile and no assurance can be given that they will continue to be accurate at any time in the future.

Moreover, there are legal uncertainties involved in determining whether the income derived from time-chartering activities constitutes rental income or income derived from the performance of services. In Tidewater Inc. v. United States, 565 F.3d 299 (5th Cir. 2009), the United States Court of Appeals for the Fifth Circuit (the “Fifth Circuit”) held that income derived from certain time-chartering activities should be treated as rental income rather than services income for purposes of a provision of the Internal Revenue Code of 1986, as amended (the "Code") relating to foreign sales corporations. In that case, the Fifth Circuit did not address the definition of passive income or the PFIC rules; however, the reasoning of the case could have implications as to how the income from a time charter would be classified under such rules. If the reasoning of this case were extended to the PFIC context, the gross income we derive or are deemed to derive from our time-chartering activities may be treated as rental income, and we would likely be treated as a PFIC. In published guidance, the Internal Revenue Service (“IRS”), stated that it disagreed with the holding in Tidewater, and specified that time charters similar to those at issue in the case should be treated as service contracts. We have not sought, and we do not expect to seek, an IRS ruling on the treatment of income generated from our time-chartering activities. As a result, the IRS or a court could disagree with our position. No assurance can be given that this result will not occur.

In addition, although we intend to conduct our affairs in a manner to avoid, to the extent possible, being classified as a PFIC with respect to any taxable year, we cannot assure you that the nature of our operations will not change in the future and that we will not become a PFIC in the future. If the IRS were to find that we are or have been a PFIC for any taxable year (and regardless of whether we remain a PFIC for subsequent taxable years), our U.S. unitholders would face adverse U.S. federal income tax consequences. Please read “Item 10.E Taxation—U.S. Federal Income Taxation of U.S. Holders—PFIC Status and Significant Tax Consequences” for a more detailed discussion of the U.S. federal income tax consequences to U.S. unitholders if we are treated as a PFIC.

We may have to pay tax on U.S. source income, which would reduce our cash flow.

Under the Code, U.S. source gross transportation income generally is subject to a 4.0% U.S. federal income tax without allowance for deduction of expenses unless an exemption from tax applies under Section 883 of the Code and the existing final and temporary regulations promulgated thereunder (“Treasury Regulations”). U.S. source gross transportation consists of 50.0% of the gross shipping income that a non-U.S. vessel-owning or chartering corporation, such as ourselves, derives (either directly or through one or more subsidiaries that are classified as partnerships or disregarded as entities separate from such corporation for U.S. federal income tax purposes) and that is attributable to transportation that either begins or ends, but that does not both begin and end, in the United States.

We believe that we and our vessel-owning subsidiaries currently qualify and we expect that we will continue to qualify for the foreseeable future, for an exemption from U.S. tax on any U.S. source gross transportation income under Section 883 of the Code, and we expect to take this position for U.S. federal income tax reporting purposes. Please read “Item 4.B— Business Overview—Taxation of the Partnership.” However, there are factual circumstances, including some that may be beyond our control, which could cause us to lose the benefit of this tax exemption. In addition, our position that we qualify for this exemption is based upon legal authorities that do not expressly contemplate an organizational structure such as ours; specifically, although we have elected to be treated as a corporation for U.S. federal income tax purposes, we are organized as a limited partnership under Marshall Islands law. Therefore, we can give no assurance that the IRS will not take a different position regarding our qualification for this tax exemption.

If we or our subsidiaries are not entitled to this exemption under Section 883 of the Code for any taxable year, we generally would be subject to a 4.0% U.S. federal gross income tax on our U.S. source gross transportation income for such year. Our failure to qualify for the exemption under Section 883 of the Code could have a negative effect on our business and would result in decreased earnings available for distribution to our unitholders.

The vessels in our fleet do not currently engage, and we do not expect that they will in the future engage, in transportation that begins and ends in the United States or in the provision of regasification or storage services in the United States. If, notwithstanding this expectation, our subsidiaries earn income in the future from transportation that begins and ends in the United States, or from regasification or storage activities in the United States, that income would not be exempt from U.S. federal income tax under Section 883 of the Code and would be subject to a 21% net income tax in the United States (and the after-tax earnings attributable to such income may be subject to an additional 30% branch profits tax). Please read “Item 4.B Business Overview—Taxation of the Partnership—United States Taxation—The Section 883 Exemption” for a more detailed discussion of the rules relating to qualification for the exemption under Section 883 of the Code and the consequences for failing to qualify for such an exemption.

You may be subject to income tax in one or more non-U.S. jurisdictions, including the United Kingdom and Norway, as a result of owning our common units if, under the laws of any such jurisdiction, we are considered to be carrying on business there. Such laws may require you to file a tax return with, and pay taxes to, those jurisdictions.

We conduct our affairs and cause or influence each of our subsidiaries to operate its business in a manner that minimizes income taxes imposed upon us and our subsidiaries and that may be imposed upon you as a result of owning our units. However, because we are organized as a limited partnership, there is a risk in some jurisdictions, including the United Kingdom and Norway, that our activities or the activities of our subsidiaries may be attributed to our unitholders for tax purposes if, under the laws of such jurisdiction, we are considered to be carrying on business there. If you are subject to tax in any such jurisdiction, you may be required to file a tax return with, and to pay tax in, that jurisdiction based on your allocable share of our income. We may be required to reduce distributions to you on account of any tax withholding obligations imposed upon us by that jurisdiction in respect of such allocation to you. The United States generally will not allow a tax credit for any foreign income taxes that you directly or indirectly incur by virtue of an investment in us.

We believe we can conduct our affairs in a manner that does not result in our unitholders being considered to be carrying on business in the United Kingdom or Norway solely as a consequence of the acquisition, ownership, disposition or redemption of our common units. However, the question of whether either we or any of our subsidiaries will be treated as carrying on business in any jurisdiction, including the United Kingdom and Norway, will be largely a question of fact to be determined through an analysis of the decisions made and powers exercised by our board of directors, the limitation of the CEO/CFO’s decision making to day-to-day management for the purpose of implementing the decisions made by our board of directors, contractual arrangements, including the ship management agreements that our joint ventures and subsidiaries have entered into with Höegh LNG Management, the sub-technical support agreement that Höegh Norway has entered into with Höegh LNG Management, the administrative service agreement we have entered into with our operating company and Höegh UK, the administrative service agreement our operating company has entered into with Leif Höegh UK and the administrative service agreements Höegh UK has entered into with Höegh Norway and with Leif Höegh UK, as well as through an analysis of the manner in which we conduct business or operations, all of which may change over time. Furthermore, the laws of the United Kingdom, Norway or any other jurisdiction may also change, which could cause that jurisdiction’s taxing authorities to determine that we are carrying on business in such jurisdiction and that we or our unitholders are subject to its taxation laws. In addition to the potential for taxation of our unitholders, any additional taxes imposed on us or any of our subsidiaries will reduce our cash available for distribution.

Item 4. Information on the Partnership

A. History and Development of the Partnership

Höegh LNG Partners LP is a publicly-traded limited partnership formed initially by Höegh LNG Holdings Ltd. (Oslo Børs symbol: HLNG), a leading floating LNG service provider, to own, operate and acquire floating storage and regasification units ("FSRUs"), LNG carriers and other LNG infrastructure assets under long-term charters, which we define as charters of five or more years.

At the closing of our initial public offering ("IPO") in August 2014, Höegh LNG contributed interests in our initial fleet of three modern FSRUs to us.

On October 1, 2015, we acquired 100% of the shares of Höegh FSRU III, the entity that indirectly owned the FSRU *Höegh Gallant*. On January 3, 2017, we closed the acquisition of a 51% ownership interest in the *Höegh Grace* entities. On December 1, 2017, we closed the acquisition of the remaining 49% ownership interest in the *Höegh Grace* entities.

As of March 31, 2019, we had a fleet of five FSRUs. Our fleet consists of interests in the following vessels:

- a 50% interest in the *Neptune*, an FSRU built in 2009 that is currently operating under a time charter with Global LNG Supply, a subsidiary of Total, a French publicly listed company, that produces and markets fuels, natural gas and low-carbon electricity, that expires in 2029, with an option to extend for up to two additional periods of five years each;

- a 50% interest in the *Cape Ann*, an FSRU built in 2010 that is currently operating under a time charter with Global LNG Supply that expires in 2030, with an option to extend for up to two additional periods of five years each;

- a 100% economic interest in the *PGN FSRU Lampung*, an FSRU built in 2014 that is currently operating under a time charter with PGN LNG, a subsidiary of PT Perusahaan Gas Negara (Persero) Tbk, a subsidiary of PT Pertamina, government-controlled, Indonesian oil and gas producer, natural gas transportation and distribution company. The time charter expires in 2034, with options to extend the time charter either for an additional 10 years or for up to two additional periods of five years each;

- a 100% interest in the *Höegh Gallant*, an FSRU built in 2014 that is currently operating under a time charter with EgyptCo, a subsidiary of Höegh LNG, that expires in 2020. EgyptCo had a time charter agreement with the government-owned Egyptian Natural Gas Holding Company ("EGAS") until October 2018. EgyptCo has an LNG carrier time charter to a third party from October 2018 until April 2020. In addition, we have an option agreement pursuant to which we have the right to cause Höegh LNG to charter the *Höegh Gallant* from the expiration or termination of the EgyptCo charter until July 2025; and

- a 100% interest in *Höegh Grace,* an FSRU built in 2016 that is currently operating under a time charter with SPEC. SPEC is owned 51% by Promigas S.A. ESP, a Colombian company focused on the transportation and distribution of natural gas, and 49% by private equity investors. The non-cancellable charter period is 10 years. The initial term of the charter is 20 years. However, each party has an unconditional option to cancel the charter after 10 and 15 years without a penalty. However, if SPEC waives its right to terminate in year 10 within a certain deadline, we will not be able to exercise our right to terminate in year 10.

We were formed on April 28, 2014 as a Marshall Islands limited partnership and have our principal executive offices at Wessex House, 5th Floor, 45 Reid Street, Hamilton, Bermuda.

Capital Expenditures

Our capital expenditures amounted to \$0.7 million, \$21 thousand and \$0.5 million for the years ended December 31, 2018, 2017 and 2016 respectively.

B. Business Overview

General

We own and operate FSRUs, under long-term charters, which we define as charters of five or more years. Our primary business objective is to increase quarterly distributions per unit over time by making accretive acquisitions of FSRUs, LNG carriers and other LNG infrastructure assets with long-term charters.

We intend to leverage our relationship with Höegh LNG to make accretive acquisitions of FSRUs, LNG carriers and other LNG infrastructure assets with long-term charters from Höegh LNG and third parties. Pursuant to the omnibus agreement we have entered into with Höegh LNG, we have a right to purchase from Höegh LNG any FSRU or LNG carrier operating under a charter of five or more years. We cannot assure you that we will make any particular acquisition or that as a consequence we will successfully grow the amount of our per unit distributions. Among other things, our ability to acquire additional FSRUs, LNG carriers and other LNG infrastructure assets will be dependent upon our ability to raise additional equity and debt financing.

Natural Gas and Liquefied Natural Gas

Natural gas is used to generate electric power, has residential and industrial use and it is finding increasing application as a transportation fuel. The low carbon intensity and clean burning characteristics of natural gas contribute to the view that natural gas has the lowest environmental impact of hydrocarbon fuels.

The LNG trade developed from a need to transport natural gas over long distances with greater flexibility than is allowed by its movement via pipelines. Condensing natural gas into liquid form reduces its volume by a factor of over 600, making LNG an efficient means of transporting and storing natural gas in significant quantities. LNG is natural gas (predominantly methane (CH_4)) that has been converted to liquid form by cooling it to -160 degrees centigrade under compression.

The processing of natural gas, transportation of LNG and regasification process requires specialized technologies, complex liquefaction processes and cryogenic materials. The specially built carriers in which LNG is transported have heavily insulated cargo tanks that maintain cryogenic temperatures by allowing a small portion of LNG to evaporate as boil-off gas.

LNG projects are capital intensive. LNG project sponsors are typically large international oil and gas companies often partnering with national oil and gas companies on the export side of the chain. The importers of LNG are typically large, regulated natural gas companies or power utilities. The diagram below shows the flow of natural gas and LNG from production to regasification:

Floating Regasification Vessels

Traditionally, the import of LNG and its regasification has been done in land based terminals. However, the interest in and use of floating import and regasification solutions is increasing.

Floating regasification vessels may be called shuttle and regas vessels (“SRVs”) or LNG regas vessels (“LNGRVs”) but are more commonly referred to as FSRUs or Floating Storage and Regasification Units. FSRU technology represents a flexible, proven, expedient and cost effective means of allowing countries or regions to import LNG.

The underlying technology used in an FSRU is that of heat exchange between LNG and a warm fluid resulting in vaporization of the LNG into the gaseous state for delivery to shore. The fluid may either be seawater—often referred to as open loop vaporization—or recirculated water heated by a natural gas fired boiler on the FSRU itself—often referred to as closed loop vaporization. Vaporization capacity varies by vessel and is typically specified as a combination of continuous vaporization capacity (base capacity) and peak vaporization capacity (peak capacity). The vaporized LNG is replenished by delivery of LNG into the FSRU by LNG carriers serving as feeder vessels.

Key benefits of FSRU technology include:

- *Speed*. Planning, siting, permitting and constructing a traditional, land-based LNG terminal typically requires five to six years. In comparison, FSRU projects typically take less than 24 months to execute, and have been implemented in as little as six months.
- *Reduced Costs*. FSRUs are considerably less capital intensive than a land-based LNG terminal, where even small terminals can cost upwards of $600 million. More importantly, the providers of FSRUs are prepared to retain ownership of their vessels and charter them to the importing company for a short, medium or long term period, avoiding the need for major capital outlays and corresponding financing requirements.
- *Greater Cost Certainty*. An importer has greater clarity on fees for regasification services and delivery of gas with an FSRU as compared to a land-based LNG terminal, which may be more likely to face construction cost overruns and uncertainty around terminal throughput fees.
- *Operational Flexibility*. FSRU operators have entered into agreements as short as three years, whereas land-based LNG terminals often require long term commitments of 15 years or more.

- *Market Flexibility*. Some FSRUs can also be operated as conventional LNG carriers and owners have been prepared to build such vessels on a speculative basis. FSRU technology has the flexibility to meet different market needs and terminal location challenges.

However, FSRUs are not without limitations and constraints. Land-based terminals typically have larger storage capacity and potentially larger gas send out capacities than FSRUs, especially FSRUs that are a result of LNG carrier conversions. This disadvantage could be partially mitigated by using multiple FSRUs. Greater storage capacity of land-based terminals facilitates faster cargo offload in a situation when storage tanks are partially full. The boil-off rate of an FSRU is higher than that of a land-based terminals, and boil-off gas that cannot be used for fuel or regas purposes has to be flared in the gas combustion unit. The limitations on the physical size of an FSRU prevent it from having as much redundancy of vaporization equipment as a land-based terminal. As a result, an FSRU is more vulnerable to equipment outages, and thus requires the FSRU provider to hold very high standards regarding operations and maintenance. A technical problem with an FSRU could require a visit to drydock, which would result in a loss of service.

Our Relationship with Höegh LNG

We believe that one of our principal strengths is our relationship with Höegh LNG (Oslo Børs symbol: HLNG). With a track record dating back to the delivery of the world’s first Moss-type LNG carrier in 1973, we believe that Höegh LNG is one of the most experienced operators of LNG carriers, and one of only a few operators of FSRUs in the world, excluding FSRUs owned by companies dedicated to single projects, and has one of the largest FSRU fleets in operation and under construction. Our affiliation with Höegh LNG gives us access to Höegh LNG’s long-standing relationships with leading oil and gas companies, utility companies, shipbuilders, financing sources and suppliers, which we believe will allow us to compete more effectively when seeking additional long-term charters for FSRUs, LNG carriers and other LNG infrastructure assets. In addition, we believe Höegh LNG’s more than 40-year track record of providing LNG services and its technical, commercial and managerial expertise, including its leadership in the development of floating liquefaction solutions, will enable us to continue to maintain the high utilization of our fleet to preserve our stable cash flows. We cannot assure you that our relationship with Höegh LNG will lead to high fleet utilization rates or stable cash flows in the future.

Business Strategies

Our primary business objective is to increase quarterly distributions per unit over time by executing the following strategies:

- ***Focus on FSRU Newbuilding Acquisitions***. We intend to acquire newbuilding FSRUs on long-term charters, which we believe generally offer greater flexibility than FSRUs based on retrofitted, first generation LNG carriers. Newbuilding FSRUs have superior fuel efficiency, improved storage performance and larger capacity than retrofitted, first-generation LNG carriers. Their larger capacity allows for a full cargo from a comparably sized, modern-day LNG carrier to be offloaded in a single transfer, and this streamlines logistics. We may also acquire retrofitted LNG carriers if such vessels are converted from modern LNG carriers with comparable and logistical benefits. In addition, Höegh LNG has strong customer relationships deriving from its ability to work alongside customers on their vessel design and infrastructure needs. Moreover, Höegh LNG pursues a strategy of generally maintaining one or more uncontracted newbuilding vessels on order so it can provide its customers an FSRU with minimum lead time. We believe that Höegh LNG's ability to offer newbuild vessels promptly and its engineering expertise make it an operator of choice for projects that require rapid execution, complex engineering or unique specifications. This, in turn, enhances the growth opportunities available to us.

- ***Pursue Strategic and Accretive Acquisitions of FSRUs, LNG Carriers and Other LNG Infrastructure Assets on Long-Term, Fixed-Rate Charters with Strong Counterparties***. We will seek to leverage our relationship with Höegh LNG to make strategic and accretive acquisitions. Pursuant to the omnibus agreement that we have entered into with Höegh LNG, Höegh LNG is required to offer us the opportunity to purchase all or portion of Höegh LNG's interest in FSRUs or LNG carriers under a charter of five or more years. We also intend to take advantage of business opportunities and market trends in the LNG transportation industry to grow our assets through third-party acquisitions of FSRUs, LNG carriers and other LNG infrastructure assets under long-term charters.

- ***Expand Global Operations in High-Growth Regions***. We will seek to capitalize on opportunities emerging from the global expansion of LNG production activity and the need to provide flexible regasification solutions in areas which require natural gas imports. We believe that Höegh LNG's position as one of a few FSRU owners and operators in the world, more than 40-year operational track record and strong customer relationships will enable us to have early access to new projects worldwide.

- ***Enhance and Diversify Customer Relationships Through Continued Operating Excellence and Technological Innovation***. We intend to maintain and grow our cash flows by focusing on strong customer relationships and actively seeking the extension and renewal of existing charters, entering into new long-term charters with current customers, and identifying new business opportunities with other creditworthy charterers. We believe our customer relationships are enhanced by our ability to provide expert technical advice to our customers through Höegh LNG's in-house engineering department, which in turn enables us to be directly involved in our customers' project development processes. We will continue to incorporate safety, health, security and environmental stewardship into all aspects of vessel design and operation in order to satisfy our customers and comply with national and international rules and regulations. We believe that Höegh LNG's operational expertise, recognized position, and track record in floating LNG infrastructure services will position us favorably to capture additional commercial opportunities in the FSRU and LNG sectors.

We can provide no assurance, however, that we will be able to implement our business strategies described above or that the business strategies discussed above will increase our quarterly distributions. For further discussion of the risks that we face, please read "Item 3.D. Risk Factors."

Our Fleet

Our Current Fleet

As of March 31, 2019, our fleet consists of interests in the following vessels:

- a 50% interest in the *Neptune*, an FSRU built in 2009 that is currently operating under a time charter with Global LNG Supply that expires in 2029, with an option to extend for up to two additional periods of five years each;

- a 50% interest in the *Cape Ann*, an FSRU built in 2010 that is currently operating under a time charter with Global LNG Supply that expires in 2030, with an option to extend for up to two additional periods of five years each;

- a 100% economic interest in the *PGN FSRU Lampung*, an FSRU built in 2014 that is currently operating under a time charter with PGN LNG that expires in 2034, with options to extend either for an additional 10 years or for up to two additional periods of five years each;

- a 100% interest in the *Höegh Gallant*, an FSRU built in 2014 that is currently operating under a time charter with EgyptCo, a subsidiary of Höegh LNG, that expires in 2020. EgyptCo had a time charter agreement with EGAS until October 2018. EgyptCo has an LNG carrier time charter to a third party from October 2018 until April 2020. In addition, we have an option agreement pursuant to which we have the right to cause Höegh LNG to charter the *Höegh Gallant* from the expiration or termination of the EgyptCo charter until July 2025; and

- a 100% interest in *Höegh Grace,* an FSRU built in 2016 that is currently operating under a time charter with SPEC. The non-cancellable charter period is 10 years. The initial term of the charter is 20 years. However, each party has an unconditional option to cancel the charter after 10 and 15 years without penalty. However, if SPEC waives its right to terminate in year 10 within a certain deadline, we will not be able to exercise our right to terminate in year 10.

Both the *Neptune* and the *Cape Ann* are owned in joint ventures with MOL and TLT, which own in the aggregate 50% of each joint venture. For a description of the joint venture agreements governing our joint ventures, please read "Item 4.B. Business Overview—Shareholder Agreements." The *PGN FSRU Lampung* is 49% owned by one of our subsidiaries and 51% owned by PT Bahtera Daya Utama ("PT Bahtera"), an Indonesian subsidiary of PT Imeco Inter Sarana, which provides products and services for various energy and infrastructure projects. Due to local Indonesian regulations, we are required to have a local Indonesian joint venture partner (e.g., PT Bahtera). However, we have a 100% economic interest in the *PGN FSRU Lampung*. For a description of the agreements related to this arrangement, please read "—Shareholder Agreements—PT Höegh Shareholders' Agreement."

The following table provides information about our five FSRUs:

FSRU	Our Economic Interest		Capacity (cbm)	Maximum send out capacity (MMscf/d)	Location of operation	Charter commencement	Charterer	Charter Expiration		Charter extension option period
Neptune	50	%	145,000	750	Turkey	November 2009	Global LNG Supply	2029		Five years plus five years
Cape Ann	50	%	145,000	750	Various	June 2010	Global LNG Supply	2030		Five years plus five years
PGN FSRU Lampung	100	%	170,000	360	Indonesia	July 2014	PGN LNG	2034		Five or 10 years(1)
Höegh Gallant	100	%	170,000	500	Various	April 2015	EgyptCo (2)	2020		n/a
Höegh Grace	100	%	170,000	500	Colombia	December 2016	SPEC	2036	(3)	n/a

(1) After the initial term, PGN LNG has the choice to extend the term by either five years or 10 years. If PGN LNG extends the term by five years, it subsequently may extend the term by another five years.

(2) Pursuant to an option agreement, the Partnership has the right to cause Höegh LNG to charter the *Höegh Gallant* from the expiration or termination of the EgyptCo charter until July 2025. Please read “Item 7.B. Related Party Transactions—Acquisition of the *Höegh Gallant*.”

(3) The non-cancellable term is 10 years. The initial term is 20 years. However, each party has an unconditional option to cancel the charter after 10 and 15 years without penalty. However, if SPEC waives its right to terminate in year 10 within a certain deadline, we will not be able to exercise our right to terminate in year 10.

As of December 31, 2018, the *Neptune*, the *Cape Ann*, the *PGN FSRU Lampung,* the *Höegh Gallant* and the *Höegh Grace* were approximately 9.2 years old, 8.6 years old, 4.8 years old, 4.2 years old and 2.8 years old, respectively. FSRUs are generally designed to have a lifespan of approximately 40 years.

Since December 2016, the *Neptune* has been operating as the first FSRU in the Turkish market at the Etki Terminal near the port of Aliaga in Izmir province on the west coast of Turkey. Prior to that, the *Neptune* was used as an LNG carrier, delivering LNG from Trinidad to Boston, Spain, Asia and other locations. From April 2018, the *Cape Ann* has served as an LNG carrier prior to, and subsequent to, the drydock and modifications for the charterer's new FSRU sub-contract due to commence during 2019. From October 2017 to March 2018, the *Cape Ann* was sub-chartered as an FSRU, located in Tianjin outside Beijing, China. From November 2013 to January 2017, the *Cape Ann* was also sub-chartered and employed as China’s first FSRU, serving the same terminal in Tianjin, China. At the time of construction, both the *Neptune* and the *Cape Ann* were the most advanced FSRUs ever built in terms of regasification technology, power generation and thermal insulation. In addition, the vessels received the “Green Passport” from Det Norske Veritas GL certifying the environmental considerations taken when constructing, operating and ultimately when disposing of the vessel.

The *PGN FSRU Lampung* is located offshore in the Lampung province at the southeast coast of Sumatra, Indonesia. The vessel is moored at a purpose-built mooring system built by a subcontractor of Höegh LNG, subsequently sold to PGN LNG and located approximately 16 kilometers offshore.

In October 2018, the *Höegh Gallant* commenced operating as an LNG carrier for EgyptCo.'s charter with a third party with a term until April 2020. The FSRU *Höegh Gallant* operated as an LNG import terminal at Ain Sokhna port, located on the Red Sea in Egypt, until October 2018. The *Höegh Gallant* was delivered from the shipyard in November 2014 and employed as an LNG carrier until mid-January 2015 when it entered the shipyard for minor modifications required for the contract in Egypt.

The *Höegh Grace* is operating as an LNG import terminal in the port of Cartagena on the Atlantic coast of Colombia. The *Höegh Grace* was delivered from the shipyard in March 2016 and employed as an LNG carrier by SPEC from June to October 2016.

Each of the *Neptune*, the *Cape Ann*, the *PGN FSRU Lampung,* the *Höegh Gallant* and the *Höegh Grace* has a reinforced membrane-type cargo containment system that facilitates offshore loading operations.

Additional FSRUs

Pursuant to the omnibus agreement we entered into with Höegh LNG at the time of the IPO, Höegh LNG is obligated to offer to the Partnership any FSRU or LNG carrier operating under a charter of five or more years.

Höegh LNG is actively pursuing the following projects that are subject to a number of conditions outside its control, impacting the timing and the ability of such projects to go forward. The Partnership may have the opportunity in the future to acquire the FSRUs listed below, when operating under a charter of five years or more, if one of the following projects is fulfilled:

- On December 21, 2018, Höegh LNG announced that it had entered into a contract with AGL Shipping Pty Ltd. ("AGL"), a subsidiary of AGL Energy Ltd., to provide an FSRU to service AGL's proposed import facility in Victoria, Australia. The contract is for a period of 10 years and is subject to AGL's final investment decision by the board of directors of AGL Energy Ltd. for the project and obtaining necessary regulator and environmental approvals.

- Höegh LNG has also won exclusivity to provide an FSRU for a potential import project at Port Kembia, Australia.

Höegh LNG has two operating FSRUs, the *Höegh Giant* (HHI Hull No. 2552), which was delivered from the shipyard on April 27, 2017 and the *Höegh Esperanza* (HHI Hull No. 2865), which was delivered from the shipyard on April 5, 2018. The *Höegh Giant* is operating on a three-year contract that commenced on February 7, 2018 with Gas Natural SGD, SA ("Gas Natural Fenosa"). The *Höegh Esperanza* is operating on a three-year contract that commenced on June 7, 2018 with CNOOC Gas & Power Trading and Marketing Ltd. (CNNOC) which has an option for a one-year extension. Höegh LNG took delivery of the *Höegh Gannet* (HHI Hull No.2909) on December 6, 2018, which will serve on a 15 month LNG carrier contract with Naturgy. Höegh LNG has one additional FSRU on order (SHI Hull No. 2220) (under a shipbuilding contract with Samsung Heavy Industries ("SHI")).

Pursuant to the terms of the omnibus agreement, we will have the right to purchase the *Höegh Giant*, the *Höegh Esperanza,* the *Höegh Gannet* and *SHI Hull No. 2220* following acceptance by the respective charterer of the related FSRU under a contract of five years or more, subject to reaching an agreement with Höegh LNG regarding the purchase price. There can be no assurance that we will acquire any vessels from Höegh LNG or of the terms upon which any such acquisition may be made.

The following table provides information about the additional FSRUs that we anticipate that we may have the right to purchase from Höegh LNG pursuant to the omnibus agreement or by agreement with Höegh LNG:

FSRU	Capacity (cbm)	Maximum send out capacity (MMscf/d)
Höegh Giant	170,000	750
Höegh Esperanza	170,000	750
Höegh Gannet	170,000	1,000
Hull no. 2220	170,000	750

Please read “Item 7.B. —Related Party Transactions—Omnibus Agreement” for a description of our omnibus agreement.

Technical Specifications

Each FSRU in our fleet, as well as the *Höegh Giant*, *Höegh Esperanza, Höegh Gannet* and *SHI Hull No. 2220*, has or will have the following onboard equipment for the vaporization of LNG and delivery of high-pressure natural gas:

- *High-Pressure Cryogenic Pumps*. Each FSRU has, or will have upon delivery from the shipyard, high-pressure cryogenic pumps, which pressurize the LNG prior to vaporization.

- *Vaporizers*. Each FSRU has, or will have upon delivery from the shipyard, vaporizers, which convert the LNG back to vaporous natural gas using heat generated by either steam boilers or seawater.

- *Dual-Fuel Diesel Electric Propulsion Plant*. Each FSRU has, or will have upon delivery from the shipyard, a dual-fuel diesel electric propulsion plant, which provides the power for the vessel’s regasification, propulsion and utility systems.

- *Mooring System*. Each of the *Neptune* and the *Cape Ann* is equipped with a submerged turret loading (“STL”) offshore mooring system and can also be moored to a jetty. The *PGN FSRU Lampung* is equipped for mooring to a tower yoke. The *Höegh Gallant,* the *Höegh Grace*, the *Höegh Giant*, the *Höegh Esperanza,* the *Höegh Gannet* and *SHI Hull No. 2220* are or will be equipped for quay-side mooring.

- *Gas Export System*. The *PGN FSRU Lampung* has an export pipeline on her bow, which is connected via jumper hoses to the tower yoke. The *Höegh Gallant*, the *Höegh Grace*, the *Höegh Giant*, the *Höegh Esperanza,* the *Höegh Gannet* and *SHI Hull No. 2220* have or will have a high-pressure manifold on the side, to connect to the loading arms on the purpose-built jetties. The *Neptune* and the *Cape Ann* have an STL buoy system, but have also been retrofitted with high-pressure gas manifold on the side, which can be connected to loading arms on a jetty.

Each of the *Höegh Giant*, the *Höegh Esperanza,* the *Höegh Gannet* and *SHI Hull No. 2220* is or will be equipped with the same reinforced membrane-type cargo containment system as our current fleet.

Each of the *Neptune* and the *Cape Ann* has a closed-loop regasification system, where heat for vaporization is generated by steam boilers. The *PGN FSRU Lampung*, the *Höegh Gallant,* the *Höegh Grace* and the *Höegh Giant* have open-loop regasification systems, where heat for vaporization is generated by pumping sea water. The *Höegh Esperanza* and the *Höegh Gannet* are equipped to operate using a regasification system that is closed-loop, open-loop or a combination of closed-loop and open-loop, i.e. any mix of seawater and steam heating. *SHI Hull No. 2220* will have an open loop regasification system, but will also be prepared for retrofitting with a closed and combined loop system.

Each of the *Neptune*, the *Cape Ann*, the *Höegh Gallant*, the *Höegh Grace*, the *Höegh Giant*, the *Höegh Esperanza,* the *Höegh Gannet* and *SHI Hull No. 2220* is or will be capable of operating as a conventional LNG carrier.

Customers

For the years ended December 31, 2018 and 2017, the total revenues in the consolidated statements of income are from PGN LNG, EgyptCo and SPEC. PGN LNG is a subsidiary of PT Perusahaan Gas Negara (Persero) Tbk, a subsidiary of PT Pertamina, a government-controlled, Indonesian oil and gas producer, natural gas transportation and distribution company. EgyptCo had a time charter agreement with EGAS until October 2018. EgyptCo has an LNG carrier time charter to a third party from October 2018 until April 2020. SPEC is owned 51% by Promigas S.A. ESP, a Colombian company focused on the transportation and distribution of natural gas, and 49% by private equity investors. For the year ended December 31, 2016, total revenues in the consolidated statements of income are from PGN LNG and EgyptCo. Global LNG Supply, accounted for 100% of our joint ventures' time charter revenues for the years ended December 31, 2018, 2017 and 2016. During 2018, Global LNG Supply was acquired by Total, a French publicly listed company, that produces and markets fuels, natural gas and low-carbon electricity, from ENGIE.

Vessel Time Charters

Our vessels are provided to the applicable charterer by our joint venture or us, as applicable (each, a "vessel owner"), under separate time charters.

A time charter is a contract for the use of a vessel for a fixed period of time at a specified hire rate. Under a time charter, the vessel owner provides the crew, technical and other services related to the vessel's operation, the majority or all of the cost of which is included in the hire rate, and the charterer generally is responsible for substantially all of the vessel voyage costs (including fuel, port and canal fees and LNG boil-off).

Neptune Time Charter

Initial Term; Extensions

The *Neptune* time charter commenced upon acceptance of the vessel by the charterer in November 2009. The initial term of the *Neptune* time charter is 20 years. Global LNG Supply has the option to extend the time charter for up to two additional periods of five years each.

Performance Standards

Under the *Neptune* time charter, the vessel owner undertakes to ensure that the vessel meets specified performance standards at all times during the term of the time charter. The vessel must maintain a guaranteed speed, consume no more than a specified amount of fuel oil and not exceed a maximum average daily boil-off, all as specified in the time charter. In addition, the vessel owner undertakes that the vessel will be capable of discharging her cargo within a specified time and regasifying and discharging her cargo at not less than a specified rate.

Hire Rate

Under the *Neptune* time charter, hire is payable to the vessel owner monthly, in advance in U.S. Dollars. The hire rate under the *Neptune* time charter consists of three cost components:

- *Fixed Element*. The fixed element is a fixed per day fee providing for ownership costs and all remuneration due to the vessel owner for use of the vessel and the provision of time charter services.

- *Variable (Operating Cost) Element*. The variable (operating cost) element is a fixed per day fee providing for the operating costs of the vessel, which consists of (i) a cost pass-through sub-element, which covers the crew (excluding the extra cost associated with a U.S. crew requirement, which is invoiced separately), insurance, consumables, miscellaneous services, spares and damage deductible costs and is subject to annual adjustment and (ii) an indexed sub-element, which covers management and is subject to annual adjustment for changes in labor costs and the size of the fleet under management.

- *Optional (Capitalized Equipment Cost) Element*. The optional (capitalized equipment cost) element consists of (i) costs associated with modifications to, changes in specifications of, structural changes in or new equipment for the vessel that become compulsory for the continued operation of the vessel by reason of new class requirements or national or international regulations coming into effect after the date of the time charter, subject to specified caps and (ii) costs associated with any new equipment or machinery that the owner and charterer have agreed should be capitalized. Such costs are distributed over the remaining term of the time charter.

While the hire rate under the *Neptune* time charter does not cover drydocking expenses or extra costs associated with a U.S. crew requirement, the charterer will reimburse the vessel owner on a cost pass-through basis.

If Global LNG Supply exercises its option to extend the *Neptune* time charter beyond its initial term, the hire rate will be determined as set forth above, provided that the fixed element will be reduced by approximately 30%.

The hire rate is subject to deduction by the charterer by, among other things, any sums due in respect of the vessel owner's failure to satisfy the undertakings described under "—Performance Standards" and off-hire accruing during the period. The hire rate is also subject to deduction by the charterer if the vessel owner fails to maintain the vessel in compliance with the vessel's specifications and contractual standards, provide the required crew, keep the vessel at the charterer's disposal or comply with specified corporate organizational requirements and such failure increases the time taken by the vessel to perform her services or results in the charterer directly incurring costs.

Expenses

The vessel owner is responsible for providing certain items and services, which include the crew; drydocking, overhaul, maintenance and repairs; insurance; stores; necessary spare parts; water; inert gas and nitrogen; communication expenses and fees paid to the classification societies, regulatory authorities and consultants. The variable (operating cost) element of the hire rate is designed to cover these expenses. Except for when the vessel is off-hire, the charterer pays for bunker fuels, marine gas oil and boil-off if used or burned while steaming at a reduced rate. Additionally, except for when the vessel is off-hire, the charterer pays for boil-off used to provide power for discharge and regasification; and fuel for inert gas, nitrogen and diesel generators.

Off-hire

Under the *Neptune* time charter, the vessel generally will be deemed off-hire if the vessel is not available for the charterer's use for a specified amount of time due to, among other things:

- failure of an inspection that prevents the vessel from performing normal commercial operations;
- scheduled drydocking that exceeds allowances;
- the vessel's inability to discharge regasified LNG at normal performance;
- requisition of the vessel; or

- the vessel owner’s failure to maintain the vessel in compliance with her specifications and contractual standards or to provide the required crew.

In the event of off-hire, all hire will cease to be due or payable for the duration of off-hire. Notwithstanding the foregoing, hire is not reduced due to an event of off-hire if the event of off-hire does not exceed a specified number of days in any 12-month period.

Ship Management and Maintenance

Under the *Neptune* time charter, the vessel owner is responsible for the technical management of the vessel, including engagement and provision of a qualified crew, maintaining the vessel, arranging supply of stores and equipment, periodic drydocking and ensuring compliance with applicable regulations, including licensing and certification requirements. These services are provided to the vessel owner by Höegh LNG Management pursuant to a ship management agreement.

Termination

Under the *Neptune* time charter, the vessel owner is entitled to terminate the time charter if the charterer fails to pay its debts, becomes insolvent or enters into bankruptcy or liquidation.

The charterer is entitled to terminate the time charter and, at its option, convert the time charter into a bareboat charter, if (i) either the vessel owner or any guarantor (a) fails to pay its debts or (b) becomes insolvent or enters into bankruptcy or liquidation or (ii) the vessel owner’s guarantee ceases to be in full force and effect. Furthermore, after the fourth anniversary of the delivery date of the vessel, the charterer has the option to terminate the time charter without cause by providing notice at least two years in advance of the charterer’s election. On the date of such termination, the charterer will pay the vessel owner a specified termination fee, which declines over time and is based upon the year in which the time charter is terminated. Furthermore, the charterer may terminate the time charter if any period of off-hire due to (i) the vessel owner’s failure to maintain the vessel in compliance with her specifications and contractual standards or to provide the required crew exceeds a specified number of days, (ii) damage to the vessel’s cargo containment system as a result of the vessel owner’s failure to comply with cargo and filling level restrictions exceeds a specified number of months or (iii) any reason other than scheduled drydocking or damage to the vessel’s cargo containment system exceeds a specified number of months, unless such period of off-hire is due to the vessel owner’s failure to comply with cargo and filling level restrictions.

After attempting to take mitigating steps for a specified number of days, both the vessel owner and the charterer have the right to terminate the time charter if war is declared in any location that materially interrupts the performance of the time charter. The time charter will terminate automatically if the vessel is lost, missing or a constructive or compromised total loss.

Indemnification

No liability is imposed upon the vessel owner for the death or personal injury of the charterer, its representatives or their estates (collectively, the "Global Charterer's Group") while engaged in activities contemplated by the time charter unless such death or personal injury is by the gross negligence or willful misconduct of the vessel owner, its employees or its agents. Additionally, no liability is imposed upon the vessel owner if any personal property of the Global Charterer's Group is damaged, lost or destroyed as a result of the gross negligence or willful misconduct of the vessel owner, its employees or its agents. Similar provisions apply to the charterer in both cases.

However, if any of the charterer's representatives dies or is personally injured while engaged in activities contemplated by the time charter and as a result of the gross negligence or willful misconduct of the vessel owner, its employees or its agents, the vessel owner will indemnify the Global Charterer's Group, as applicable. Additionally, if any personal property of the Global Charterer's Group is damaged, lost or destroyed as a result of the gross negligence or willful misconduct of the vessel owner, its employees or its agents, the vessel owner will indemnify the Global Charterer's Group, as applicable. Reciprocal obligations are imposed on the charterer in both cases.

The charterer will indemnify the vessel owner for losses associated with shipping documents to the extent they were signed as directed by the charterer or based upon information that it provided. In addition, the charterer will indemnify the vessel owner against taxes imposed on the vessel owner or the vessel in respect of hire by any country where loading or discharging of LNG takes place, where the vessel is located or through which the vessel travels, where the charterer is organized, does business or has a fixed place of business or where the charterer makes payments under the time charter, subject to certain exceptions.

The vessel owner will indemnify the charterer, its servants and agents against all losses, claims, responsibilities and liabilities arising from the employment of pilots, tugboats or stevedores, subject to certain exceptions.

The vessel owner will indemnify the charterer against any claim by a third party alleging that the construction or operation of the vessel infringes any right claimed by such third party, including but not limited to patent rights, copyrights, trade secrets, industrial property or trademarks. The charterer will indemnify the vessel owner for all amounts properly payable to the vessel builder if the charterer takes, or requires the vessel owner to take, any action that puts the vessel owner in breach of its intellectual property rights obligations under the vessel building contract.

Guarantee

Pursuant to the *Neptune* time charter, both Höegh LNG Ltd. and MOL guarantee the performance and payment obligations of the vessel owner under the time charter. Such guarantee is joint and several as to performance obligations and several as to payment obligations. If the guarantee is not maintained, the charterer may terminate the time charter.

Subcharter Provisions

Global LNG Supply entered into a subcharter to provide the *Neptune* as an FSRU for the Etki Terminal in Izmir province on the west coast of Turkey, pursuant to which Global LNG Supply and SRV Joint Gas Ltd. amended the *Neptune* time charter in December 2016 (the "*Neptune* charter amendments"). The *Neptune* charter amendments apply only during the term of the subcharter.

In connection with the subcharter, the charterer will after the expiration of the subcharter, reimburse the costs of reinstating the vessel, during which times the vessel will be on-hire. The charterer is also required to compensate the vessel owner for time spent and reasonable, direct and documented costs and expenses incurred in connection with the subcharter and arrange for the importation, stay and exportation into and from Turkey of the *Neptune* and any materials or equipment needed for the vessel owner's performance of the subcharter. The charterer will indemnify the vessel owner for (i) costs, claims or losses that the vessel owner incurs as a consequence of the subcharter, except that the vessel owner's liability for any tortious act (which includes negligence) to any third party will be treated in the same manner as under the original charter, and (ii) any Turkish tax implications. During the term of the subcharter and while the vessel is not on a voyage as an LNG carrier, certain amendments to the time charter apply, including the following:

- the charterer will provide port and marine facilities capable of receiving the vessel and berths and places that the vessel can safely reach and return from;

- in lieu of the off-hire provision, hire will be reduced proportionately to the extent the vessel does not achieve the specified discharge rate of regasified LNG or fails to meet other performance specifications;

- the maintenance provisions and allowances differ;

- a right of charterer to change the manager of the *Neptune* if the average commercial availability of the regasification system falls below certain thresholds; and

- performance standards different from those described above under "—Performance Standards," pursuant to which the vessel owner undertakes to ensure that the vessel delivers the nominated discharge rate in accordance with the daily curve agreed with the charterer, is capable of regasifying LNG in a closed-loop heating mode at a specified pressure and temperature and regasifies and discharges her cargo at neither less nor more than a specified LNG discharge rate, among others.

Cape Ann Time Charter

Initial Term; Extensions

The *Cape Ann* time charter commenced upon acceptance of the vessel by the charterer in June 2010. The initial term of the *Cape Ann* time charter is 20 years. Global LNG Supply has the option to extend the time charter for up to two additional periods of five years each. From October 2017 until March 2018, the *Cape Ann* operated as an FSRU pursuant to a subcharter between Global LNG Supply and CNOOC Tianjin LNG Limited Company ("CNOOC TLNG"). From November 2013 until January 3, 2017, the *Cape Ann* also operated as an FSRU pursuant to a similar subcharter with CNOOC TLNG.

Global LNG Supply entered into a subcharter with CNOOC TLNG, pursuant to which Global LNG Supply and SRV Joint Gas Two Ltd. amended the *Cape Ann* time charter in June 2012 and October 2017. Such amendments apply only during the term of the subcharter.

The terms of the *Cape Ann* time charter are substantially similar to those of the *Neptune* time charter unmodified by the *Neptune* charter amendments.

Guarantee

Pursuant to the *Cape Ann* time charter, both Höegh LNG Ltd. and MOL guarantee the performance and payment obligations of the vessel owner under the time charter. Such guarantee is joint and several as to performance obligations and several as to payment obligations. If the guarantee is not maintained, the charterer may terminate the time charter.

PGN FSRU Lampung Time Charter

Under a lease, operation and maintenance agreement, which we refer to as a time charter, we provide to PGN LNG the services of the *PGN FSRU Lampung*, which is moored at the Mooring owned by PGN LNG and located approximately 16 kilometers off the shore of Labuhan Maringgai at the southeast coast of Sumatra, Indonesia. Also under the time charter, we operate and maintain the Mooring.

Initial Term; Extensions

The long-term time charter for the *PGN FSRU Lampung* with PGN LNG has an initial term of 20 years from the acceptance date of October 30, 2014. The time charter hire payments began July 21, 2014 when the project was ready to begin commissioning. At any time on or before 17 years and 183 days after acceptance, PGN LNG may exercise its option to extend the time charter for either five or 10 years. If the term is extended for five years pursuant to such option, at any time on or before the date that is 22 years and 183 days after acceptance, PGN LNG may exercise its option to extend the time charter for a subsequent five years.

Performance Standards

Under the *PGN FSRU Lampung* time charter, the vessel owner makes certain performance warranties for the term of the time charter, excluding time during which the vessel is off-hire or in lay-up or a failure to satisfy any such warranty due to a “Lampung Charterer Risk Event” (which includes, among other things, any breach, act, interference or omission by the charterer that prevents or interferes with the vessel owner’s performance under the time charter) or an event of force majeure, including the following:

- the management warranties, which consist of the following:

- the vessel complies with specifications; is classed by Det Norske Veritas GL; is in good order and condition and fit for service; and has onboard all certificates, documents, approvals, permits, permissions and equipment required by Det Norske Veritas GL or any law necessary for the vessel to carry out required operations on the Mooring;

- the vessel owner provides shipboard personnel in accordance with specified terms;

- the vessel owner loads LNG in accordance with specified procedures; operates all equipment in a safe and proper manner and as required by Indonesian law; keeps up-to-date records and logs; uses reasonable endeavors to cooperate with the charterer to comply with and satisfy any requirements of any governmental authority; stows LNG properly and keeps a strict account of all LNG loaded, boil-off and regasified LNG discharged; and exercises due diligence and good industry practice to minimize venting of boil-off; and

- the vessel owner provides and pays for all provisions, wages and discharging fees and all other expenses related to the master, officers and crew; insurance; spare parts and other necessary stores, including lubricating oil; drydocking in emergency cases, maintenance and repairs; certificates; customs or import duties arising in connection with any of the foregoing; and consents, licenses and permits required by governmental authorities to be in the vessel owner's name (collectively, the "Lampung Vessel Owner Expenses");

- the vessel receives LNG in accordance with a specified nominating loading rate;

- the vessel consumes fuel at or below a specified amount;

- during a nomination period, the vessel delivers regasified LNG at a specified average rate;

- during a period in which there is no regasification send-out, no LNG transfer or cargo tank cool down ongoing and no LNG pump running in any cargo tank, the amount of boil-off does not exceed a specified percentage of cargo capacity per day;

- the boil-off recondenser is able to recondense boil-off gas for the days when the vessel is sending out regasified LNG; and
- the cargo capacity of the vessel does not exceed the aggregate volume of LNG that can be stored in the cargo tanks of the vessel.

Hire Rate

Under the *PGN FSRU Lampung* time charter, hire is payable to the vessel owner monthly, in arrears in U.S. Dollars. The hire rate under the *PGN FSRU Lampung* time charter consists of three cost components:

- *Capital Element*. The capital element is a fixed per day fee, which is intended to cover remuneration due to the vessel owner for use of the vessel and the provision of time charter services.
- *Operating and Maintenance Element*. The operating and maintenance element is a fixed per day fee, subject to annual adjustment, which is intended to cover the operating costs of the vessel, including manning costs, maintenance and repair costs, consumables and stores costs, insurance costs, management and operational costs, miscellaneous costs and alterations not required by Det Norske Veritas GL to maintain class or the IMO.
- *Tax Element*. The tax element is a fixed per day fee, equal to the vessel owner's reasonable estimate of the tax liability for that charter year divided by the number of days in such charter year. If the vessel owner receives a tax refund or credit, the vessel owner will pay such amount to the charterer. Similarly, if any audit required by the time charter reveals that the vessel owner's reasonable estimate of the tax liability varied from the actual tax liability, the vessel owner or the charterer, as applicable, will pay to the other party the difference in such amount.

If PGN LNG exercises an option to extend the *PGN FSRU Lampung* time charter beyond its initial term, the hire rate will be determined as set forth above, provided that the capital element will be increased by 50% and the operating and maintenance element will equal cost pass-through.

The hire rate is subject to adjustment if any change in Indonesian law or tax occurs that alters the vessel owner's performance of the time charter or the charterer requires the vessel owner to lay-up the vessel.

Furthermore, the hire rate is subject to deduction by the charterer for sums due in respect of the vessel owner's failure to satisfy the performance warranties or if, as a result of an event of force majeure and subject to specified exceptions, the regasification flow rate is less than that required to meet the quantity nominated. However, any deduction for the vessel owner's failure to satisfy the performance warranties may not exceed the aggregate of the capital element and the operating and maintenance element for that day; provided, that such cap does not apply to the vessel owner's failure to satisfy specified fuel consumption or boil-off warranties.

The charterer will pay the vessel owner the hire rate for time lost due to a Lampung Charterer Risk Event.

Expenses

The vessel owner is responsible for providing certain items and services, which include the Lampung Vessel Owner Expenses and the supply of all LNG required for gassing up and cooling of the vessel. The vessel owner pays for non-Indonesian taxes and alterations required by Det Norske Veritas GL to maintain class or the IMO. The vessel owner also will provide, at its expense, accommodation space for at least two of the charterer's employees responsible for coordinating terminal operations onshore and offshore, provided that the charterer reimburses the vessel owner for the cost of provisions supplied to such employees.

The charterer pays for make-up of bunker fuels provided by the vessel owner and during tests; regasified LNG for use as fuel; port charges, pilotage, towing, mooring, agency fees or customs or import duties; duties, levies and taxes relating to unloading; costs and expenses relating to terminal security required by the International Ship and Port Facility Security Code (the "ISPS Code"); and mooring, periodic maintenance, repairs, insurance, inspections and surveys beyond daily inspections and capital spares. The charterer also pays for Indonesian taxes and alterations not required by Det Norske Veritas GL to maintain class or the IMO.

Off-hire

Under the *PGN FSRU Lampung* time charter, the vessel generally will be deemed off-hire if she is not available for the charterer's use for a specified amount of time due to, among other things:

- drydocking that exceeds allowances;
- the vessel failing to satisfy specified operational minimum requirements, except as a result of a Lampung Charterer Risk Event or an event of force majeure; or
- the vessel owner's failure to satisfy the management warranties described above under "—Performance Standards."

In the event of off-hire, all hire will cease to be due or payable for the duration of off-hire. Notwithstanding the foregoing, hire is not reduced due to an event of off-hire if the event of off-hire does not exceed a specified number of hours in any 12-month period.

Technical Support

Under the *PGN FSRU Lampung* time charter, the vessel owner is responsible for the technical support services with respect to the vessel, including engagement and provision of a qualified crew, maintaining the vessel, arranging supply of stores and equipment, periodic drydocking and ensuring compliance with applicable regulations, including licensing and certification requirements. These services are provided by Höegh LNG Management pursuant to the technical information and services agreement between the vessel owner and Höegh Norway and the sub-technical support agreement between Höegh Norway and Höegh LNG Management.

Termination

Under the *PGN FSRU Lampung* time charter, the charterer is entitled to terminate the time charter for the following reasons:

- if, due to one of several specified events of force majeure (“Lampung Nongovernmental Force Majeure”) that results in physical damage to the vessel or the Mooring in respect of which insurance proceeds are payable under the loss of hire insurance and hull and machinery insurance (“Lampung Vessel Force Majeure”), the vessel owner is unable to comply with nominations for a specified number of days;

- if, due to an event of force majeure that is not Lampung Nongovernmental Force Majeure or Lampung Vessel Force Majeure (“Lampung Other Force Majeure”), the vessel owner is unable to comply with nominations for a specified number of days; or

- if there has been an event of force majeure caused by the Indonesian government (“Lampung Governmental Force Majeure”) during a specified number of days.

If the charterer terminates for Lampung Other Force Majeure or Lampung Governmental Force Majeure, the charterer will pay the vessel owner a specified termination fee based upon the year in which the time charter is terminated.

Additionally, after the occurrence of an event of default by the vessel owner, and while such event of default continues, the charterer may terminate the time charter. If the charterer terminates the time charter for certain events of default that the vessel owner intentionally or deliberately committed for the purpose of terminating the time charter so that the vessel owner could employ the vessel with a third party, the vessel owner will transfer the vessel’s title to the charterer.

The vessel owner may terminate the time charter after the occurrence of an event of default by the charterer while such event of default continues. If the charterer fails to pay invoiced amounts when due and such failure continues for a specified number of days following notice from the vessel owner, the vessel owner may suspend its performance and remain on-hire until such failure is corrected.

If the time charter is terminated by the vessel owner for an event of default of the charterer, the charterer will pay the vessel owner a specified termination fee based upon the year in which the time charter is terminated. Under such circumstances, as well as if the time charter is terminated by the charterer for Lampung Governmental Force Majeure, the vessel owner may require that the parties begin negotiation of terms under which the vessel owner would be willing to sell to the charterer a 50% ownership interest in the vessel for a specified amount that declines over time and is based upon the year in which the time charter is terminated. If the charterer terminates the time charter for force majeure other than Lampung Governmental Force Majeure or an event of default of the vessel owner, the charterer may require the parties to begin such negotiation.

The time charter will terminate automatically if the vessel is lost or a constructive total loss.

Indemnification

For losses arising out of claims for illness or injuries to or death of any employees of the vessel owner, the vessel owner's affiliates, certain subcontractors of the vessel owner, persons contracting with the vessel owner under the building contract or the Mooring contract and representatives of each of the foregoing (collectively, the "Lampung Owner's Group"), the vessel owner will indemnify the charterer, certain affiliates and subcontractors of the charterer, persons executing tug charters and terminal use agreements, persons receiving regasified LNG delivered by the vessel and representatives of each of the foregoing (collectively, the "Lampung Charterer's Group"). Reciprocal obligations are imposed on the charterer.

For losses arising out of claims for damage to or loss of the vessel or property, equipment or materials owned or leased by any member of the Lampung Owner's Group, the vessel owner will indemnify the Lampung Charterer's Group. Similarly, the charterer will indemnify the Lampung Owner's Group for losses arising out of claims for damage to or loss of property, equipment or materials owned or leased by any member of the Lampung Charterer's Group or LNG stored on the vessel or the Mooring.

For losses arising from pollution or contamination created by the vessel or the operation thereof or the Mooring, the vessel owner will indemnify the Lampung Charterer's Group; provided, that the vessel owner's aggregate liability for each applicable accident will not exceed $150,000,000. For losses arising from pollution or contamination created by, or directly related to, the operation of the downstream pipeline, any LNG carrier or any vessel operating under a tug charter, the charterer will indemnify the Lampung Owner's Group.

Purchase Option

PGN LNG was granted an option to purchase the *PGN FSRU Lampung* at specified prices based upon the year in which the option is exercised. Such option to purchase may be exercised commencing in June 2018; however, it may not be exercised if either of the charter extension options has expired without exercise. The option is exercisable upon PGN LNG giving us notice specifying the time and date of delivery, which must be after the third anniversary of the date of delivery. The option to purchase survives termination of the time charter. PGN LNG has discussed alternatives regarding the option, among other contractual provisions. However, no notice has been provided to indicate an intention of exercising this option as of March 31, 2019. Please read "Item 3.D. Risk Factors—Risks Inherent in Our Business—PGN LNG and SPEC have options to purchase the *PGN FSRU Lampung* and *Höegh Grace*, respectively. If either charterer exercises its option, it could have a material adverse effect on our operating cash flows and our ability to make cash distributions to our unitholders."

Guarantee

Pursuant to the *PGN FSRU Lampung* time charter, Höegh LNG guarantees the due and proper performance by PT Höegh of all its obligations and liabilities under the time charter.

Höegh Gallant Time Charter

Term

The *Höegh Gallant* lease and maintenance agreement (the "*Höegh Gallant* time charter") commenced in April 2015. The term of the *Höegh Gallant* time charter is 5 years.

Performance Standards

Under the *Höegh Gallant* time charter, the vessel owner undertakes to maintain the vessel in accordance with international standards, provide a suitably qualified marine crew and comply with applicable laws, rules and regulation at all times during the term of the time charter.

Hire Rate

Under the *Höegh Gallant* time charter, hire to the vessel owner is payable monthly, in arrears, with the rate denominated 90% in U.S. Dollars and 10% in EGP. The hire rate under the *Höegh Gallant* time charter has only one component, which is intended to cover remuneration due to the vessel owner for use of the vessel and the provision of time charter services as well as the operating and maintenance costs of the vessel, including manning costs, the cost of spare parts and any tax incurred.

The *Höegh Gallant* time charter does not have any pass-through provisions for drydocking expenses.

A price review of the hire rate may be conducted after three years, but a revised rate can only be implemented upon written agreement by both parties.

On October 15, 2018, we announced that Höegh LNG and EGAS agreed to amend the time charter for the *Höegh Gallant* between EgyptCo and EGAS whereby EgyptCo has chartered the *Höegh Gallant* on an LNG carrier time charter to a third party, and EGAS will compensate for the rate difference between the original FSRU charter and the new LNG carrier time charter. The amended contract structure became effective in October 2018 and expires in April 2020, the termination date of the original FSRU charter. As a result of the changes outlined above, a price review is expected to be conducted. To the extent that the parties reach an agree on a price adjustment, such an amendment would be subject to approval by the Conflicts Committee of our Board of Directors and would not be expected to have a material effect on us. We expect that all existing guarantees and the option provided by Höegh LNG to us would remain in place under any amendment.

Höegh LNG guarantees the payment of hire by the charterer (EgyptCo) under the *Höegh Gallant* time charter but only to the extent that the failure of the charterer to pay such hire is caused by the breach by EGAS of its obligation to make payments under EgyptCo's contractual arrangements with EGAS (and the charterer is unable to draw upon EGAS' performance guarantees.

Expenses

The vessel owner is responsible for providing certain items and services, which include the crew; bunker fuel, drydocking, overhaul, maintenance and repairs; insurance; stores; necessary spare parts; communication expenses and fees paid to the classification societies, regulatory authorities and consultants. The hire rate is designed to cover these expenses except for when the vessel is off-hire. The charterer pays for port and light dues.

Off-hire

Under the *Höegh Gallant* time charter, the vessel generally will be deemed off-hire if she is not available for the charterer's use due to, among other things:

- drydocking or other repairs and maintenance;
- any damage, defect, breakdown or deficiency to the vessel;
- any deficiency of crew, stores, repairs, surveys, or similar cause preventing the working of the vessel;
- any labor dispute, failure or inability of the officers or crew to perform the required services; or
- any failure to comply with laws, regulations or operational practices at the site of the vessel operations.

In the event of off-hire, all hire will cease to be due or payable for the duration of off-hire. Except for force majeure events and a specified maintenance allowance period, the vessel owner will be obligated to indemnify the charterer (up to a specified cap) for losses suffered during off-hire, including loss of earnings and certain liquidated damages payable under the charterer's charter.

Ship Management and Maintenance

Under the *Höegh Gallant* time charter, the vessel owner is responsible for the technical management of the vessel, including engagement and provision of a qualified crew, maintaining the vessel, arranging supply of stores and equipment, periodic drydocking and ensuring compliance with applicable regulations, including licensing and certification requirements. The crew is provided to the vessel owner by Höegh Maritime Management pursuant to a secondment agreement. The remaining services are provided to the vessel owner by Höegh LNG Management pursuant to a ship management agreement.

Termination

Under the *Höegh Gallant* time charter, the vessel owner is entitled to terminate the time charter if the charterer fails to pay its hire, debts, becomes insolvent, enters into bankruptcy or liquidation or otherwise materially breaches the terms of the charter.

The charterer is entitled to terminate the time charter if (i) the vessel owner (a) fails to pay its debts or is otherwise insolvent, (b) enters into bankruptcy or liquidation, (c) fails to maintain insurance or classification or (d) is otherwise in material breach of the terms of the agreement or (ii) the vessel is unavailable for the charterer for a specified period of days in any contract year. Furthermore, following the expiration of the third year of the contract term, the charterer may request to meet with the vessel owner to seek mutual agreement on terms for early termination of the time charter. After attempting to take mitigating steps, both the vessel owner and the charterer have the right to terminate the time charter if war is declared at the vessel site. The time charter will terminate automatically if the vessel is lost, missing or a constructive or compromised total loss.

Indemnification

The charterer will indemnify the vessel owner for any damage or loss of property, death or personal injury of the charterer, its affiliates or their contractors (collectively, the “Charterer Indemnified Parties”) regardless of cause or whether or not the negligence, omission or default of the vessel owner, its affiliates or their contractors (collectively, the “Owner Indemnified Parties”) caused or contributed to the damages. The charter will indemnify the Owner Indemnified Parties for (i) all damage and harm to the environment, including damages for control remediation and clean-up of all pollution arising from pollution, which originates from the property of any Charterer Indemnified Parties, regardless of fault or whether or not the negligence, omission or default of the Owner Indemnified Parties caused or contributed to the damages and (ii) losses caused by any non-compliance with sanctions as a consequence of the charterer's use of the vessel.

The vessel owner will indemnify the charterer for any damage or loss of the vessel and of its property and any cargo on board, and any death or personal injury of the Owner Indemnified Parties regardless of cause or whether or not the negligence, omission or default of the Charterer Indemnified Parties caused or contributed to the damages. The vessel owner will indemnify the Charterer Indemnified Parties for all damage and harm to the environment, including damages for control remediation and clean-up of all pollution arising from pollution, which originates from the vessel, regardless of fault or whether or not the negligence, omission or default of the Charterer Indemnified Parties caused or contributed to the damages.

Each of the vessel owner and the charterer will indemnify the other party for any loss, damage to any property or injury or death arising out of the time charter suffered by any third party, for which the vessel owner or charterer, as applicable, is responsible.

Option Agreement

In addition, we have entered into an option agreement with Höegh LNG pursuant to which we have the right to cause Höegh LNG to charter the *Höegh Gallant* from the expiration or termination of the EgyptCo charter until July 2025 at a rate equal to 90% of the rate payable pursuant to the current charter with EgyptCo, plus any incremental taxes or operating expenses as a result of the new charter. See "Item 7.B. Related Party Transactions—Acquisition of the *Höegh Gallant.*"

Höegh Grace Charter

The *Höegh Grace* is subject to two material agreements with SPEC: an International Leasing Agreement, pursuant to which Höegh FSRU IV leases the vessel to SPEC (the "ILA") and the FSRU Operation and Services Agreement, pursuant to which Höegh Colombia provides certain operational services to SPEC with respect to the vessel (the "OSA"). The ILA and the OSA are collectively referred to herein as the "*Höegh Grace* charter."

Term and Termination

The *Höegh Grace* charter has a term of 20 years. Each party has an unconditional option to cancel the *Höegh Grace* charter after 10 and 15 years without a penalty. However, if the charterer waives its right to terminate in year 10 within a certain deadline, the vessel owner will not be able to exercise its right to terminate in year 10. Accordingly, the non-cancellable charter period is for 10 years.

There are certain conditions under which the *Höegh Grace* charter could terminate prior to its expiration date. The charter will terminate automatically upon the loss of the vessel. Either party may also terminate the charter for force majeure after a specified period. Additionally, either party may elect to terminate the charter upon the occurrence of specified events of default. The charterer also has the right to terminate the charter in the event of a prolonged off-hire period. If the ILA is terminated for any reason, the OSA will automatically terminate as well.

Performance Standards

Under the *Höegh Grace* charter, the vessel owner undertakes to ensure that the vessel meets specified performance standards at all times during the term of the charter. The vessel owner is required to pay liquidated damages in the event that the *Höegh Grace* is unable to accept all or part of a delivered LNG cargo, is unable to deliver the specified amount of regasified natural gas, exceeds a maximum average daily boil-off, consumes more than a specified amount of fuel or suffers other performance failures, which damages are subject to various caps per cargo, per year and in the aggregate for the term of the *Höegh Grace* charter.

Hire Rate

Under the *Höegh Grace* charter, hire is payable monthly, in arrears, in U.S. Dollars. The charterer pays a fixed daily rate of hire (with respect to the ILA) and operating fees (with respect to the OSA), as set forth in the *Höegh Grace* charter. Under the OSA, the operating fees are escalated yearly by a fixed percentage, and the OSA provides for a review and reasonable adjustment by the parties if the actual operating costs increase by more than such percentage over a period of three consecutive years.

Expenses

The vessel owner is responsible for providing certain items and services, which include the crew; bunker fuel, drydocking, overhaul, maintenance and repairs; insurance; stores; necessary spare parts; communication expenses and fees paid to the classification societies and regulatory authorities. The hire rate is designed to cover these expenses except for when the vessel is off-hire. The charterer pays for fuel oil and port expenses.

Off-hire

Except for force majeure events and a specified maintenance allowance period, under the *Höegh Grace* charter the vessel generally will be deemed off-hire:

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· if the vessel is not able to discharge regasified LNG at a specified rate;

· if the vessel owner breaches its warranties related to international sanctions; or

· if the vessel is not available for the charterer's use due to, among other things:

o any damage, defect, breakdown or deficiency to the vessel;

o any deficiency of crew, stores, repairs, surveys, or similar cause preventing the working of the vessel;

o any labor dispute, failure or inability of the officers or crew to perform the required services; or

o any failure to comply with laws, regulations or operational practices at the site of the vessel operations.

In the event of off-hire, all hire will cease to be due or payable for the duration of off-hire.

Ship Management and Maintenance

Under the *Höegh Grace* charter, the vessel owner is responsible for the technical management of the vessel, including engagement and provision of a qualified crew, maintaining the vessel, arranging supply of stores and equipment, periodic drydocking and ensuring compliance with applicable regulations, including licensing and certification requirements. The vessel owner has entered into services agreements with affiliates of Höegh LNG and Höegh Autoliners Ltd. to provide certain of these services. See "Item 7.B. Related Party Transactions—Ship Management Agreements and Sub-Technical Support Agreement" and "— *Höegh Grace* Services Agreements".

Indemnification

The charterer will indemnify the vessel owner for any damage or loss to the charterer's vessel interconnection infrastructure, including the jetty and interconnection pipeline, or to any other property, death or personal injury of the charterer, its affiliates or their contractors (collectively, the "Charterer Indemnified Parties") regardless of cause or whether or not the negligence, omission or default of the vessel owner, its affiliates or their contractors (collectively, the "Owner Indemnified Parties") caused or contributed to the damages. The charter will indemnify the Owner

Indemnified Parties for all damage and harm to the environment, including fines imposed by a governmental authority, including damages for control, remediation and clean-up of all pollution or contamination that originates from the charterer's vessel interconnection infrastructure, including the jetty and interconnection pipeline, or any other property of any Charterer Indemnified Parties, regardless of fault.

The vessel owner will indemnify the charterer for any damage or loss of the vessel and of its property, and any death or personal injury of the Owner Indemnified Parties regardless of cause or whether or not the negligence, omission or default of the Charterer Indemnified Parties caused or contributed to the damages. The vessel owner will indemnify the Charterer Indemnified Parties for all damage and harm to the environment, including fines imposed by a governmental authority, including damages for control, remediation and cleanup of all pollution or contamination that originates from the vessel, regardless of fault.

Each of the vessel owner and the charterer will indemnify the other party for any loss, damage to any property or injury or death suffered by any third party, caused by the vessel owner or charterer, as applicable.

Purchase Option

Pursuant to the *Höegh Grace* charter, the charterer has the option to purchase the *Höegh Grace* in year 10, year 15 and year 20 at a price specified in the *Höegh Grace* charter. The option is exercisable upon the charterer giving notice at the end of the applicable term and survives any early termination of the charter in year 10 or year 15 thereof. Please read "Item 3.D. Risk Factors—Risks Inherent in Our Business—PGN LNG and SPEC have options to purchase the *PGN FSRU Lampung* and *Höegh Grace*, respectively. If either charterer exercises its option, it could have a material adverse effect on our operating cash flows and our ability to make cash distributions to our unitholders."

Guarantee

The Partnership guarantees the performance of Höegh FSRU IV and Höegh Colombia under the *Höegh Grace* charter.

Shareholder Agreements

The following provides a summary of the governance, distribution and other significant terms of our shareholders' agreements.

SRV Joint Gas Shareholders' Agreement

We hold our interests in two vessels in our fleet through the following joint ventures (collectively, the "SRV Joint Gas joint ventures"):

- SRV Joint Gas Ltd. (owner of the *Neptune*), a limited liability company incorporated under the laws of the Cayman Islands, 50% of the equity interests of which are owned by our operating company, 48.5% of which are owned by MOL, and 1.5% of which are owned by TLT; and

- SRV Joint Gas Two Ltd. (owner of the *Cape Ann*), a limited liability company incorporated under the laws of the Cayman Islands, 50% of the equity interests of which are owned by our operating company, 48.5% of which are owned by MOL and 1.5% of which are owned by TLT.

The SRV Joint Gas joint ventures are governed by the SRV Joint Gas shareholders' agreement. As a result, the terms and conditions for each of the SRV Joint Gas joint ventures are substantially the same.

The SRV Joint Gas shareholders' agreement provides that the management of each of the SRV Joint Gas joint ventures will be carried out by a board of directors consisting of four members. We have the right to appoint two members to each board of directors, and MOL has the right to appoint the remaining two members. Additionally, as long as TLT holds at least 1.5% of the shares in an SRV Joint Gas joint venture, it may appoint an observer to attend any meeting of the board of directors of such joint venture.

Pursuant to the SRV Joint Gas shareholders' agreement, neither we nor our joint venture partners exercise affirmative control over either of the SRV Joint Gas joint ventures. The approval of a majority of the members of the board of directors of an SRV Joint Gas joint venture is required to consent to any proposed action by such joint venture and, as a result, we are unable to cause such joint venture to act in our best interests over the objection of our joint venture partners. Moreover, a deadlocked dispute that cannot be resolved by the board of directors or the senior executives of the applicable joint venture may result in the transfer of our interest in such joint venture to our joint venture partners or a third party. Please read "Item 3.D. Risk Factors—Risks Inherent in Our Business—We are a holding entity that has historically derived a significant amount of our income from equity interests in our joint ventures. Neither we nor our joint venture partners exercise affirmative control over our joint ventures. Accordingly, we cannot require our joint ventures to act in our best interests. Furthermore, our joint venture partners may prevent our joint ventures from taking action that may otherwise be beneficial to us, including making cash distributions to us. A deadlock between us and our joint venture partners could result in our exchanging equity interests in one of our joint ventures for the equity interests in our other joint venture held by our joint venture counterparties or in us or our joint venture partner selling shares in a joint venture to a third party."

Additionally, certain matters relating to our joint venture partners require the unanimous approval of the board of directors of the applicable SRV Joint Gas joint venture, including:

- agreement of any form of time charter to be entered into by such SRV Joint Gas joint venture and any material amendment to such time charter;
- agreement of any form of ship management agreement to be entered into by such SRV Joint Gas joint venture;
- agreement of the terms of any financing of the *Neptune* or the *Cape Ann*, as applicable, or any other financing exceeding $5,000,000;
- investments exceeding $2,500,000 for an SRV Joint Gas joint venture or $5,000,000 for both SRV Joint Gas joint ventures;
- amendment or change of the articles of association, business or composition of the board of directors of such SRV Joint Gas joint venture;
- issuance of, or granting of options or rights to subscribe for, shares in such SRV Joint Gas joint venture, issuance of loan capital or convertible securities of such SRV Joint Gas joint venture, alteration of the share capital of such SRV Joint Gas joint venture or formation of any subsidiary;
- granting any security over shares of such SRV Joint Gas joint venture other than in accordance with the applicable security documents;

- acquisition of other companies;

- entering into joint ventures and other long-term cooperation with third parties;

- taking any action in respect of a significant contractual dispute, including commencement and defending any action or settling any dispute; and

- sale of the *Neptune* or the *Cape Ann*.

Höegh LNG, MOL and TLT made loans to each of the SRV Joint Gas joint ventures, in part to finance the operations of such joint ventures. In connection with the IPO, Höegh LNG's shareholder loans to each of the joint ventures were transferred to our operating company. For a description of the shareholder loans, please read "Item 5.B. Liquidity and Capital Resources—Borrowing Activities—Joint Ventures Debt—Loans Due to Owners (Shareholder Loans)."

Under the SRV Joint Gas shareholders' agreement, the board of directors of an SRV Joint Gas joint venture is responsible for determining the amount of profits to be distributed each financial year. Distributions must first be used to repay the principal of the shareholder loans. Subsequent distributions are permitted but are subject to (i) preexisting financial agreements between such SRV Joint Gas joint venture and its lenders and (ii) prudent maintenance of reserve accounts.

Pursuant to the SRV Joint Gas shareholders' agreement, in order for a party to transfer its shares, it must provide written notice and establish a fair price evaluation of the shares proposed to be transferred. Additionally, such party must permit the remaining parties (excluding TLT) to acquire such shares or sell their shares to the proposed transferor at the same price as the proposed transfer.

The SRV Joint Gas shareholders' agreement also contemplates certain events that, upon occurrence and failure to cure, if a cure period is allowed, will give rise to a potential exchange of shares or a liquidation of such joint venture. These events include a party's failure to make required payments, default in any material duties and/or obligations, insolvency and change of control, pursuant to which such party is acquired by a direct competitor. If one of these events occurs, we and our joint venture partners will attempt to exchange shares so that our operating company, on the one hand, will own 100% of one SRV Joint Gas joint venture, and MOL and TLT, on the other hand, will own 100% of the other SRV Joint Gas joint venture. If such an exchange cannot be agreed upon, then the party not in default, not insolvent or not undergoing a change of control may either purchase the shares and the shareholder loans from the other parties or demand termination of the SRV Joint Gas shareholders' agreement and a liquidation of the applicable SRV Joint Gas joint venture.

Until the termination of the SRV Joint Gas shareholders' agreement, Höegh LNG has agreed to continue to own common units and subordinated units representing a greater than 25% limited partner interest in us in the aggregate. In addition, Höegh LNG will be required to continue to directly or indirectly maintain the ability to control our general partner pursuant to an agreement with MOL.

The SRV Joint Gas shareholders' agreement terminates when one party holds a 100% interest in the SRV Joint Gas joint ventures or a party not in default, not insolvent or not undergoing a change of control elects to terminate the agreement.

PT Höegh Shareholders' Agreement

We own a 100% equity interest in Höegh Lampung, which owns a 49% equity interest in PT Höegh (the owner of the *PGN FSRU Lampung*). PT Bahtera, an Indonesian company established in February 2013, owns the remaining 51% equity interest in PT Höegh in order to comply with local Indonesian regulations. However, pursuant the Shareholders' Agreement, dated March 13, 2013, between Höegh Lampung and PT Bahtera ("the PT Höegh shareholders' agreement") and the PT Höegh shareholder loan, we have a 100% economic interest in the *PGN FSRU Lampung*.

The board of directors of PT Höegh manages PT Höegh, whereas the board of commissioners of PT Höegh supervise the operation and management of PT Höegh. Both such board of directors and board of commissioners must consist of between three and five members. Furthermore, Höegh Lampung may appoint three members to each, whereas PT Bahtera may appoint one member. A majority of present members of the board of directors or the board of commissioners, respectively, is required to pass any resolution.

Höegh Lampung and PT Bahtera, in their capacity as shareholders, may also convene general meetings to consider resolutions. Resolutions concerning most matters require the approval of two-thirds of the issued shares for passage. However, resolutions concerning filing for bankruptcy, changes of control, disposal of certain assets or the creation of certain encumbrances require the approval of 75% of the issued shares for passage.

When deadlock (as defined below) occurs, Höegh Lampung has the right to provide notice to, and subsequently confer with, PT Bahtera to resolve the matters giving rise to deadlock. Deadlock occurs under the PT Höegh shareholders' agreement if (i) a quorum is not present at a meeting of the board of directors of PT Höegh, the board of commissioners of PT Höegh or the shareholders as a result of the absence of PT Bahtera or (ii) any resolution proposed at a meeting of the board of directors of PT Höegh, the board of commissioners of PT Höegh and/or the shareholders of PT Höegh is approved by the directors appointed by Höegh Lampung, the commissioners appointed by Höegh Lampung or Höegh Lampung, as applicable, but is not passed.

The board of directors of PT Höegh is responsible for determining the amount of profits to be distributed each financial year. Once this determination is made, and prior to distributing net cash flow, the shares of Höegh Lampung are entitled to 65% of all dividends and distributions, and the shares of PT Bahtera are entitled to 35% of all dividends and distributions.

Höegh Lampung may transfer its shares in PT Höegh to anyone, subject only to the requirement that, upon the request of PT Bahtera, Höegh Lampung procures from the same transferee or an Indonesian entity an offer to purchase PT Bahtera's shares. Conversely, PT Bahtera may transfer its shares only to an affiliate it wholly owns and only if both Höegh Lampung and any applicable lenders consent to the transfer.

At any time or in the event of a default, Höegh Lampung may require PT Bahtera to transfer its shares to Höegh Lampung or any other person it designates. Events of default only apply to PT Bahtera and occur if it fails to pay any amount due and payable under the shareholders' agreement, becomes insolvent, materially breaches the shareholders' agreement, becomes controlled by other people or breaches a financing requirement.

Additionally, in association with the PT Höegh shareholders' agreement, PT Imeco Inter Sarana has guaranteed the performance and obligations of PT Bahtera. Furthermore, pursuant to the PT Höegh shareholders' agreement, Höegh Lampung indemnifies PT Bahtera against liabilities it may suffer as a result of a breach of statutory duty or infringement of laws committed by PT Höegh, a failure by PT Höegh to pay tax, a dispute, litigation or arbitration relating to PT Höegh and all costs, losses, liabilities and claims relating to the *PGN FSRU Lampung* as a result of environmental damage.

The PT Höegh shareholders' agreement terminates when:

- all of the shareholders agree in writing that the agreement should be terminated;

- all of the issued shares in PT Höegh become directly or indirectly owned by the same person; or
- Höegh Lampung requires the other shareholders to dissolve PT Höegh. PT Imeco Inter Sarana has guaranteed the obligations of PT Bahtera under the equity loan agreement pursuant to a deed of guarantee and indemnity.

PT Höegh Shareholder Loan

PT Bahtera, as borrower, entered into an equity loan agreement with Höegh Lampung, as lender, the proceeds of which were used to purchase PT Bahtera's 51% interest in PT Höegh. In connection with this loan, as security, PT Bahtera collaterally assigned its equity interest and any dividends it may receive from PT Höegh to Höegh Lampung for as long as amounts remain outstanding. As a result of the above and the PT Höegh shareholders' agreement, we will be entitled to all of the net cash flows from PT Höegh, after the payment of management, agency and local representation fees.

Employees

Other than our Chief Executive Officer and Chief Financial Officer and certain administrative staff in foreign subsidiaries, we do not have other direct employees and rely on the key employees of Höegh Norway and Leif Höegh UK who perform services for us pursuant to the administrative services agreements. Höegh Norway and Höegh LNG Management also provide commercial and technical management services to our fleet pursuant to ship management agreements, the Gallant management agreement, the Höegh Grace Services Agreements, a sub-technical support agreement and commercial and administration management agreements. Höegh Maritime Management also provides crew pursuant to a secondment agreement. Our crew may be employed by our or Höegh LNG's subsidiaries. Please read "—Maritime Personnel and Competence Development" and "Item 6.A. Directors and Senior Management."

Competition

The FSRU and LNG carrier industries are capital-intensive and operational expertise is critical, which create high barriers to entry. These industries are viewed as an integral part of the LNG industry. A company with a solid track record, knowledge of the market and an experienced, well-trained crew is preferred to a new entrant since the cost and impact of vessel downtime is significant for the customer. Our competitors in the FSRU sector include BW Maritime Pte. Ltd., Dynagas Ltd, Excelerate Energy L.P., Golar LNG Limited, Golar LNG Partners LP and MOL. Certain terminal operators have also ordered FSRUs directly from shipyards for specific projects. Our competitors in the LNG carrier universe is more diverse and, while we compete with this group when operating in LNG carrier mode, few have entered the FSRU market.

Classification, Inspection and Maintenance

Every large, commercial seagoing vessel must be “classed” by a classification society. The classification society certifies that the vessel is “in class,” signifying that the vessel has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of that particular class of vessel as laid down by that society and the applicable flag state. In addition, where surveys are required by international conventions and corresponding laws and ordinances of a flag state, the classification society will undertake to conduct a survey on application or by official order, acting on behalf of the authorities concerned.

Our FSRUs are “classed” as LNG carriers with the additional class notation REGAS-2 signifying that the regasification installations are designed and approved for continuous operation. To ensure continuous compliance, regular and extraordinary surveys of hull and machinery, including the power plant and any special equipment classed, are required to be performed by a class surveyor. For inspection of the underwater parts and for repairs related to intermediate inspections, vessels generally are drydocked, pursuant to a drydock cycle determined by the classification society and the flag state concerned. However, with FSRUs, certain inspections can be done without drydocking, as special measures are available to inspect the underwater parts. If any defects are found, the class surveyor will issue a “recommendation” which must be rectified by the vessel owner within prescribed time limits. The classification society also undertakes other surveys on request of the flag state and checks that regulations and requirements of that flag state are complied with. These surveys are subject to agreements made for each individual survey and flag state concerned.

It is a condition for insurance coverage (i.e., the “seaworthiness” of the vessel) that the vessel is certified as “in class” with a member of the International Association of Classification Societies. Each of our vessels is certified by Det Norske Veritas GL, compliant with the ISM Code, and “in class.”

The ship manager carries out inspections of the ships on a regular basis; both at sea and while the vessels are in port, while the classification societies carry out inspections and ship audits to verify conformity with manager's reports. The results of these inspections, which are conducted both in port and underway, are presented in a report containing recommendations for improvements to the overall condition of the vessel, maintenance, improvements to the safety and environmental protection system and to crew welfare. Among others, based on these evaluations, the ship manager creates and implements a program of continuous maintenance and improvement for its vessel and its systems.

Safety, Management of Ship Operations and Administration

Safety is a top priority. Our vessels are operated in a manner intended to protect the safety and health of employees, the general public and the environment. We actively manage the risks inherent in our business and are committed to eliminating incidents that threaten safety, such as groundings, collisions, loss of containment and fire. We are also committed to reducing emissions and waste generation. We have established key performance indicators to facilitate regular monitoring of our operational performance. We set targets on an annual basis to drive continuous improvement, and we review performance indicators monthly to determine if remedial action is necessary to reach our targets. Höegh LNG's shore staff performs a full range of technical, commercial and business development services for us. This staff also provides administrative support to our operations in accounting, finance and cash management, legal, commercial insurance and general office administration and secretarial services.

Höegh LNG assists the vessel owners in managing ship operations and maintaining a technical department to monitor and audit ship manager operations. Höegh LNG hold its certifications for and works to the standards of ISO 9001 on Quality Management, ISO 14001 on Environmental Management and OHSAS 18001 Occupational Health and Safety Advisory Services. Additionally, Höegh LNG hold all compliance documents and permits needed to manage and operate LNG carriers and FSRUs. Through Det Norske Veritas GL, Höegh LNG Management has obtained approval of its safety management systems as being in compliance with the ISM Code, on behalf of the appropriate flag state for the vessels in our fleet, which are flagged in Norway and Indonesia. Our vessels' safety management certificates are being maintained through ongoing internal audits performed by Höegh LNG Management and through intermediate audits performed by the flag states or recognized classification societies on its behalf. To supplement our operational experience, Höegh LNG provides expertise in various functions critical to our operations. This affords an efficient and cost-effective operation and, pursuant to commercial and administration management agreements with Höegh Norway and a technical information and services agreement with Höegh Norway, access to accounting, finance and cash management, legal, commercial insurance and general office administration and secretarial services. Critical ship management or technical support functions that will be provided by Höegh LNG Management through its various offices around the world include:

- technical management, maintenance and drydocking;
- crew management;
- procurement, purchasing and forwarding logistics;
- marine operations;
- oil major and terminal vetting compliance;
- shipyard supervision;
- insurance; and
- financial services.

These functions are supported by onboard and onshore systems for maintenance, inventory, purchasing and budget management. In addition, Höegh LNG's day-to-day focus on cost control will be applied to our operations. To some extent, the uniform design of some of our vessels and the adoption of common equipment standards should also result in operational efficiencies, including with respect to crew training and vessel management, equipment operation and repair and spare parts ordering.

Maritime Personnel and Competence Development

As of March 31, 2019, entities in the Höegh LNG group employed approximately 580 maritime personnel who serve on our and Höegh LNG’s vessels. The Scandinavian employees are employed by Höegh LNG Management. Non-Scandinavian employees, except for seafarers operating the *PGN FSRU Lampung* and the *Höegh Grace*, are employed by Höegh Maritime Management. The seafarers operating the *PGN FSRU Lampung* are employed by PT Höegh. The seafarers operating the *Höegh Grace* are employed by Höegh Colombia. Höegh LNG Management and Höegh Maritime Management will employ and train additional maritime personnel to assist us as we grow. Höegh LNG Management, the ISM-certified company, provides technical management services, including all necessary maritime personnel-related services, to the vessel owners pursuant to the ship management agreements. Please read “Item 7.B. Related Party Transactions—Ship Management Agreements and Sub-Technical Support Agreement.”

We regard attracting and retaining competent and motivated seagoing personnel as a top priority. Like Höegh LNG, we offer our seafarers competitive employment packages and opportunities for personal and career development, which relates to a philosophy of promoting internally. The officers and crew operating our vessels are employed on individual employment contracts, which are based on International Transport Federation-Approved Collective Bargaining Agreements (CBAS) and include conditions determined both by the negotiating parties and the flag states. We believe our relationships with these labor unions are good. Höegh LNG currently is a member of the Norwegian Shipowners' Association and is participating in some of the collective bargaining agreement negotiations with trade unions.

Our commitment to training is fundamental to the development of the highest caliber of seafarers for our marine operations. Höegh LNG Management's cadet training approach is designed to balance academic learning with hands-on training at sea. Höegh LNG Management uses only recognized training institutions in Norway and other countries. Höegh LNG Management has cadets from Europe, Asia and the United States. We believe that high-quality crew and training policies will play an increasingly important role in distinguishing the preferred LNG-experienced independent shipping companies from those that are newcomers to LNG and lacking in-house experienced staff and established expertise on which to base their customer service and safety operations.

We will use in our operations Höegh LNG's thorough risk management program that includes, among other things, computer-aided risk analysis tools, maintenance and assessment programs, a seafarers competence training program, seafarers workshops and membership in emergency response organizations. We expect to benefit from Höegh LNG's commitment to safety and environmental protection as certain of its subsidiaries assist us in managing our vessel operations. Höegh LNG Management has been certified under the standards reflected in ISO 9001 for quality assurance and is certified in accordance with the International Marine Organization's International Management Code for the Safe Operation of Ships and Pollution Prevention on a fully integrated basis.

Risk of Loss, Insurance and Risk Management

The operation of FSRUs, LNG carriers and other LNG infrastructure assets has inherent risks. These risks include mechanical failure, personal injury, collision, property loss, vessel or cargo loss or damage and business interruption due to political circumstances in foreign countries or hostilities. In addition, there is always an inherent possibility of marine disaster, including explosion, spills and other environmental mishaps, and the liabilities arising from owning and operating vessels in international trade. We believe that our present insurance coverage is adequate to protect us against the accident-related risks involved in the conduct of our business and that we maintain appropriate levels of environmental damage and pollution insurance coverage consistent with standard industry practice. However, not all risks can be insured, and there can be no guarantee that any specific claim will be paid, or that we will always be able to obtain adequate insurance coverage at reasonable rates.

We have obtained hull and machinery insurance on all our vessels against marine risks, which include the risks of damage to our vessels, including claims arising from collisions with other vessels or contact with jetties or wharves, salvage or towing costs and also insure against actual or constructive total loss of any of our vessels. However, our insurance policies contain deductible amounts for which we will be responsible.

We have also obtained loss of hire insurance to protect us against loss of income in the event the vessel cannot be employed due to damage that is covered under the terms of our hull and machinery insurance. Under our loss of hire policy, our insurer will pay us the hire rate agreed in respect of each vessel for each day, in excess of 20 deductible days, for the time that the vessel is out of service as a result of damage, for a maximum of 180 days.

Protection and indemnity insurance, which covers our third-party legal liabilities in connection with our shipping activities, is provided by a mutual P&I club. This includes third-party liability and other expenses related to the injury or death of crewmembers, passengers and other third-party persons, loss or damage to cargo and other damage to other third-party property, including pollution arising from oil or other substances, and other related costs, including wreck removal.

We have war risk insurance for all our vessels cover standard hull and machinery, protection and indemnity and loss of hire, if the event causing the damage is a war peril. In addition, war risk insurance will also compensate the owner for the total loss of the ship caused by intervention of a foreign state power, or if the ship is prevented from leaving a port or a similar limited area.

Our current protection and indemnity insurance coverage is limited to $3.1 billion for all liabilities, except for pollution, which is limited to $1 billion per vessel per incident. We are a member of the Gard P&I Club and The

Standard club, which are among the 13 P&I clubs that comprise the International Group. Members of the International Group insure approximately 90% of the world's commercial tonnage, and they have entered into a pooling agreement to reinsure each P&I club's liabilities. P&I clubs provide the basic layer of insurance, which is currently $10 million. For members of the International Group, the International Group provides the next layer of insurance, covering liability between $10 million and $90 million. For liabilities above $90 million, the International Group has one of the world's largest reinsurance contracts, with the maximum liability per accident or occurrence currently set at $3 billion. As a member of the Gard P&I Club or The Standard club, we are subject to a call for additional premiums based on the clubs' claims record, as well as the claims record of all other members of the P&I clubs comprising the International Group. However, our P&I club has reinsured the risk of additional premium calls to limit our additional exposure. This reinsurance is subject to a cap, and there is the risk that the full amount of the additional call would not be covered by this reinsurance.

The insurers providing the covers for hull and machinery, loss of hire and protection and indemnity have confirmed that they will consider the FSRUs as vessels for the purpose of providing insurance.

Environmental and Other Regulation

General

Governmental and international agencies extensively regulate the carriage, handling, storage and regasification of LNG. These regulations include international conventions and national, state and local laws and regulations in the countries where our vessels now or, in the future, will operate or where our vessels are registered. We cannot predict the ultimate cost of complying with these regulations or the impact that these regulations will have on the resale value or useful lives of our vessels. Various governmental and quasi-governmental agencies require us to obtain permits, licenses and certificates for the operation of our vessels.

We believe that we are substantially in compliance with applicable environmental laws and regulations and have all permits, licenses and certificates required for our vessels. In many cases where permits are required from countries to whose jurisdictional waters our vessels have been deployed, the charter party or its customer is responsible for obtaining the permit. A variety of governmental and private entities inspect our vessels on both a scheduled and unscheduled basis. These entities, each of which may have unique requirements and each of which conducts frequent inspections, include classification societies, flag state, or the administration of the country of registry, charterers, terminal operators, LNG producers and local port authorities, such as the U.S. Coast Guard, harbor master or equivalent. Our vessels are subject to inspections on an unscheduled basis and we expect, in the future, they will also be subject to inspection by the applicable governmental and private entities on a scheduled basis. However, future noncompliance or failure to maintain necessary permits or approvals could require us to incur substantial costs or temporarily suspend operation of one or more of our vessels.

Höegh LNG Management is operating in compliance with the ISO Environmental Standard for the management of the significant environmental aspects associated with the ownership and operation of a fleet of FSRUs and LNG carriers. Höegh Norway received its ISO 9001 certification (Quality Management Systems) in May 2008, which also includes certification of Höegh LNG Management. Höegh Norway also received its certification to the ISO 14001 Environmental Management Standard, which requires that we and Höegh LNG Management commit managerial resources to act on our environmental policy through an effective management system.

International Maritime Regulations of FSRUs and LNG Carriers

The IMO is the United Nations' agency that provides international regulations governing shipping and international maritime trade. The requirements contained in the International Safety Management Code ("ISM Code") promulgated by the IMO govern our operations. Among other requirements, the ISM Code requires the party with operational control of a vessel to develop an extensive safety management system that includes, among other things, the adoption of a policy for safety and environmental protection setting forth instructions and procedures for operating its vessels safely and also describing procedures for responding to emergencies. Höegh LNG Management holds a Document of Compliance under the ISM Code for operation of the *Neptune,* the *Cape Ann*, the *Höegh Gallant* and the *Höegh Grace* and PT Höegh holds a Document of Compliance under the ISM Code for operation of the *PGN FSRU Lampung*. All Documents of Compliance meet the standards set by the IMO.

Vessels that transport gas, including FSRUs and LNG carriers, are also subject to regulation under the International Gas Carrier Code (the "IGC Code"), published by the IMO. The IGC Code provides a standard for the safe carriage of LNG and certain other liquid gases by prescribing the design and construction standards of vessels involved in such carriage. Compliance with the IGC Code must be evidenced by a Certificate of Fitness for the Carriage of Liquefied Gases in Bulk. Each of our vessels is in compliance with the IGC Code, and each of our newbuildings contracts requires that the vessel receive certification of compliance with applicable regulations before she is delivered. Noncompliance with the IGC Code or other applicable IMO regulations may subject a vessel owner or a bareboat charterer to increased liability, 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.

The IMO also promulgates ongoing amendments to SOLAS. SOLAS provides rules for the construction of and equipment required for commercial vessels and includes regulations for safe operation. It requires the provision of lifeboats and other life-saving appliances, requires the use of the Global Maritime Distress and Safety System, which is an international radio equipment and watchkeeping standard, afloat and at shore stations, and relates to the Treaty on the Standards of Training and Certification of Watchkeeping Officers ("STCW"), also promulgated by the IMO. Flag states that have ratified SOLAS and STCW generally employ the classification societies, which have incorporated SOLAS and STCW 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. Noncompliance with these types of IMO regulations 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 U.S. Coast Guard and European Union authorities have indicated that vessels not in compliance with the ISM Code are prohibited from trading in U.S. and European Union ports.

In the wake of increased worldwide security concerns, the IMO amended SOLAS and added the ISPS Code as a new chapter to that convention. The objective of the ISPS Code, which came into effect on July 1, 2004, is to detect security threats and take preventive measures against security incidents affecting ships or port facilities. Höegh LNG Management has developed Security Plans and appointed and trained Ship and Office Security Officers, and all of our vessels have been certified to meet the ISPS Code. Please read "—Vessel Security Regulations" for a more detailed discussion about these requirements.

The IMO continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulations may have on our operations.

Air Emissions

The MARPOL Convention is the principal international convention negotiated by the IMO governing marine pollution prevention and response. The MARPOL Convention imposes environmental standards on the shipping industry relating to oil spills, management of garbage, the handling and disposal of noxious liquids, sewage and air emissions. MARPOL 73/78 Annex VI “Regulations for the Prevention of Air Pollution” (“Annex VI”) entered into force on May 19, 2005, and applies to all ships, fixed and floating drilling rigs and other floating platforms. Annex VI sets limits on sulfur oxide and nitrogen oxide emissions from ship exhausts, emissions of volatile compounds from cargo tanks and incineration of specific substances, and prohibits deliberate emissions of ozone-depleting substances. Annex VI also includes a global cap on sulfur content of fuel oil and allows for special areas to be established in different regions of the world with more stringent controls on sulfur emissions. The certification requirements for Annex VI depend on size of the vessel and time of periodical classification survey. Ships weighing more than 400 gross tons and engaged in international voyages involving countries that have ratified the conventions, or ships flying the flag of those countries, are required to have an International Air Pollution Certificate (an “IAPP Certificate”). Annex VI came into force in the United States on January 8, 2009. All of our vessels currently have IAPP Certificates.

Annex I to the MARPOL Convention, which applies to various ships delivered on or after August 1, 2010. It includes requirements for the protected location of the fuel tanks, performance standards for accidental oil fuel outflow, a tank capacity limit and certain other maintenance, inspection and engineering standards. IMO regulations also require owners and operators of vessels to adopt Ship Oil Pollution Emergency Plans. Periodic training and drills for response personnel and for vessels and their crews are required.

On July 1, 2010, amendments to Annex VI took effect that impose progressively stricter limitations on sulfur oxide (SOx) emissions from ships. As of January 1, 2012, the cap on the sulfur content of fuel used to power ships was 3.5%, with this cap decreasing over time. Pursuant to Annex VI Regulation 14, for fuels used in the four Emission Control Areas (“ECAs”) for SOx, i.e., the Baltic Sea, North Sea, North America, and United States Caribbean Sea ECAs, the cap settled at 0.1% in January 2015. For fuels used in all non-ECA seas, the cap decreases over time and will settle at 0.5% on January 1, 2020. The European Directive 2005/33/EU, which came into effect January 1, 2010, bans the use of fuel oils containing more than 0.1% sulfur by mass by any merchant vessel while at berth or anchored in any European Union country port. The European Commission continues to review directive 2005/33/EU after adopting a proposal to amend it to bring it into alignment with the latest IMO provisions on the sulfur content of marine fuels. Our FSRUs have achieved compliance with applicable low sulfur fuel requirements through use of gas boil-off and low sulfur marine diesel oil in their diesel generators and boilers.

MARPOL Annex VI regulations also establish progressively more stringent standards for emissions of nitrogen oxides (NOx) from new and certain modified marine engines, depending on their date of installation or the date of ship construction. Engine standards required under Annex VI to limit NOx emissions in designated areas are referred to as "Tier III" controls. Pursuant to amendments adopted in April 2014, the Tier III Annex VI requirements for NOx apply to certain newbuild vessels with marine diesel engines that are constructed on or after January 1, 2016, and that operate in the North American or United States Caribbean Sea NOx Tier III ECAs. And, pursuant to amendments adopted in July 2017 and entered into force on January 1, 2019, the Baltic Sea and North Sea ECAs have been designated as NOx Tier III ECAs, with NOx Tier III Annex VI requirements applying to certain newbuild vessels with marine diesel engines constructed on or after January 1, 2021 that operate in the Baltic Sea or North Sea NOx Tier III ECAs.

As discussed in "—U.S. Clean Air Act" below, U.S. air emissions standards are now equivalent to these amended Annex VI requirements. Additional or new conventions, laws and regulations may be adopted in the future and could require the installation of emission control systems. Because our vessels are largely powered by means other than fuel oil we do not anticipate that any emission limits that may be promulgated will require us to incur any material costs for the operation of our vessels but that possibility cannot be eliminated.

Ballast Water Management Convention

The IMO has negotiated international conventions that impose liability for oil pollution in international waters and the territorial waters of the signatory to such conventions. For example, the IMO adopted an International Convention for the Control and Management of Ships' Ballast Water and Sediments (the "BWM Convention") in February 2004. The BWM Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements, which is being replaced with a requirement for treatment. The BWM Convention was ratified by a sufficient number of countries in September 2016 and the requirement to install ballast water management systems ("BWMS") on new ships became effective in September 2017. As referenced below, the U.S. Coast Guard issued ballast water management rules on March 23, 2012, and the U.S. Environmental Protection Agency (the "EPA") issued a five-year Vessel General Permit (VGP) in March 2013 that contains numeric technology-based ballast water effluent limitations that apply to certain commercial vessels with ballast water tanks. The VPG program is in the process of being phased out and replaced with National Standards of Performance (NSP) to be developed by EPA and implemented and enforced by the U.S. Coast Guard. From 2016 (or not later than the first intermediate or renewal survey after 2016), only ballast water treatment will be accepted by the BWM Convention. Because the convention has been ratified and entered into force, installation of approved ballast water treatment systems will be required on the *Neptune* and the *Cape Ann* in order to call on US ports. The *Neptune* would require retrofitting to meet the BWMS requirements no later than November 30, 2022 based on the drydock schedule. The *Cape Ann* was not retrofitted to meet the BWMS requirements during the drydock in 2018 and, therefore, cannot call on US ports. The charterer would cover the cost of complying with the rules and, therefore, makes the decision on whether retrofit to meet the BWMS requirements based upon their plans for the use of the vessels.

Bunkers Convention/CLC State Certificate

The International Convention on Civil Liability for Bunker Oil Pollution 2001 (the "Bunker Convention") entered into force in signatory states to the Convention on November 21, 2008. The Bunker Convention provides a liability, compensation and compulsory insurance system for the victims of oil pollution damage caused by spills of bunker oil. The Bunker Convention requires the vessel owner that is liable for pollution damage to pay compensation for such damage (including the cost of preventive measures) caused in the territory, including the territorial sea of a State Party, as well as its economic zone or equivalent area. Registered owners of any seagoing vessel and seaborne craft over 1,000 gross tonnage, of any type whatsoever, and registered in a State Party, or entering or leaving a port in the territory of a State Party, are required to maintain insurance that meets the requirements of the Bunker Convention and to obtain a certificate issued by a State Party attesting that such insurance is in force. The State Party-issued certificate must be carried onboard at all times. The Bunker Convention complements the international regime of liability, limitation and mandatory insurance in place with respect to spills of persistent oils from tankers under the International Convention on Civil Liability for Oil Pollution Damage, 1992 (CLC). The CLC and the Bunker Convention do not overlap; in circumstances where the CLC applies, the Bunker Convention does not apply.

P&I clubs in the International Group issue the required Bunkers Convention “Blue Cards” to enable signatory states to issue certificates. All of our vessels have received “Blue Cards” from their P&I club and are in possession of a CLC State-issued certificate attesting that the required insurance coverage is in force.

Anti-Fouling Requirements

In 2001, the IMO adopted the International Convention on the Control of Harmful Anti-fouling Systems on Ships (the “Anti-fouling Convention”). The Anti-fouling Convention, which entered into force on September 17, 2008, prohibits the use of organotin compounds in coatings applied to vessels to prevent the attachment of mollusks and other sea life to the hulls of vessels and establishes a mechanism to prevent the potential future use of other harmful substances in anti-fouling systems. Vessels of over 400 gross tons engaged in international voyages must obtain an International Anti-fouling System Certificate and undergo a survey before the vessel is put into service or when the anti-fouling systems are altered or replaced. We have obtained Anti-fouling System Certificates for all of our vessels, and we do not believe that actions required to maintain such certificates will have an adverse financial impact on the operation of our vessels.

Compliance Enforcement

The flag state, as defined by the United Nations Convention on Law of the Sea, has overall responsibility for the implementation and enforcement of international maritime regulations for all ships granted the right to fly its flag. The “Shipping Industry Guidelines on Flag State Performance” evaluates flag states based on factors such as sufficiency of infrastructure, ratification of international maritime treaties, implementation and enforcement of international maritime regulations, supervision of surveys, casualty investigations and participation at the IMO meetings.

As of January 2016, auditing of flag states that are parties to the SOLAS convention is mandatory and are conducted under the IMO Instruments Implementation Code (III Code), which provides guidance on implementation and enforcement of IMO policies by flag states. These audits may lead the various flag states to be more aggressive in their enforcement, which may in turn lead us to incur additional costs.

Criminal sanctions including fines and penalties and possible charges against company employees are possible under the laws of various countries. For instance, the European Union directive on ship source pollution imposes criminal sanctions for intentional, reckless or negligent pollution discharges by ships. Implementing laws in the EU could result in criminal liability for pollution from vessels in waters of European countries that adopt implementation legislation. Criminal liability for pollution may result in substantial penalties or fines and increased civil liability claims. Similar consequences are possible for spills in other countries that have enacted similar laws.

U.S. Environmental Regulation of FSRUs and LNG Carriers

Our vessels operating in U.S. waters now or, in the future, will be subject to various federal, state and local laws and regulations relating to protection of the environment. In some cases, these laws and regulations require governmental permits and authorizations before we may conduct certain activities. These environmental laws and regulations may impose substantial penalties for noncompliance and substantial liabilities for pollution that occurs. Failure to comply with these laws and regulations may result in substantial civil and criminal fines and penalties. As with the industry generally, our operations will entail risks in these areas, and compliance with these laws and regulations, which may be subject to frequent revisions and reinterpretation, increases our overall cost of business.

Oil Pollution Act and CERCLA

OPA 90 established an extensive regulatory and liability regime for environmental protection and clean-up of oil spills. OPA 90 affects all owners and operators whose vessels trade with the United States or its territories or possessions, or whose vessels operate in the waters of the United States, which include the U.S. territorial waters and the 200 nautical mile exclusive economic zone of the United States. CERCLA applies to the discharge of hazardous substances, rather than oil, whether on land or at sea. While OPA 90 and CERCLA would not apply to the discharge of LNG, they may affect us because we carry oil as fuel and lubricants for our engines, and the discharge of these could cause an environmental hazard and subject us to liability under these laws. Under OPA 90, vessel operators, including vessel owners, managers and bareboat or “demise” charterers, are “responsible parties” who are all liable regardless of fault, individually and as a group, for all containment and clean-up costs and other damages arising from oil spills from their vessels. These “responsible parties” would not be liable if the spill results solely from the act or omission of a third party, an act of God or an act of war. The other damages aside from clean-up and containment costs are defined broadly to include:

- natural resource damages and related assessment costs;
- real and personal property damages;

· net loss of taxes, royalties, rents, profits or earnings capacity;

· 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.

Effective as of December 21, 2015, the U.S. Coast Guard adjusted the limits of OPA 90 liability to the greater of $2,200 per gross ton or $18,796,800 for any double-hull tanker that is over 3,000 gross tons (subject to possible adjustment for inflation) (relevant to our and Höegh LNG's vessels). The liability limits are subject to possible further adjustment for inflation in the future. These limits of liability do not apply where the incident is caused by violation of applicable U.S. federal safety, construction or operating regulations, or by the responsible party's gross negligence or willful misconduct. These limits likewise do not apply if the responsible party fails or refuses to report the incident or to cooperate and assist in connection with the substance removal activities. OPA 90 specifically permits individual states to impose their own liability regimes with regard to oil pollution incidents occurring within their boundaries, and some states have enacted legislation providing for unlimited liability for discharge of pollutants within their waters. In some cases, states, which have enacted their own legislation, have not yet issued implementing regulations defining vessel owners' responsibilities under these laws.

CERCLA, which also applies to owners and operators of vessels, contains a liability regime similar to OPA 90 and provides for cleanup, removal and natural resource damages for releases of "hazardous substances." Liability under CERCLA is limited to the greater of $300 per gross ton or $0.5 million for each release from vessels not carrying hazardous substances as cargo or residue, and $300 per gross ton or $5 million for each release from vessels carrying hazardous substances as cargo or residue. As with OPA 90, these limits of liability do not apply where the incident is caused by violation of applicable U.S. federal safety, construction or operating regulations, 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 substance removal activities. OPA 90 and CERCLA each preserve the right to recover damages under existing law, including maritime tort law. We believe that we are in substantial compliance with OPA 90, CERCLA and all applicable state regulations in the ports where our vessels call.

OPA 90 requires owners and operators of vessels to establish and maintain with the U.S. Coast Guard evidence of financial responsibility sufficient to meet the limit of their potential strict liability under OPA 90/CERCLA. Under the regulations, evidence of financial responsibility may be demonstrated by insurance, surety bond, self-insurance or guaranty. Under OPA 90 regulations, an owner or operator of more than one vessel is required to demonstrate evidence of financial responsibility for the entire fleet in an amount equal only to the financial responsibility requirement of the vessel having the greatest maximum liability under OPA 90/CERCLA. We currently maintain U.S. Coast Guard National Pollution Funds Center-issued three-year Certificates of Financial Responsibility supported by guarantees that we purchased from an insurance-based provider for all of our vessels.

In response to the BP Deepwater Horizon oil spill, the U.S. Congress considered a number of bills that could potentially increase or even eliminate the limits of liability under OPA 90. Compliance with any new requirements of OPA 90 may substantially impact our cost of operations or require us to incur additional expenses to comply with any new regulatory initiatives or statutes. Additional legislation or regulation applicable to the operation of our vessels that may be implemented in the future could adversely affect our business and ability to make cash distributions to our unitholders.

U.S. Clean Water Act

The CWA prohibits the discharge of oil or hazardous substances in U.S. navigable waters unless authorized by a permit or exemption, and imposes strict liability in the form of penalties for unauthorized discharges. The CWA also imposes substantial liability for the costs of removal