

Teekay LNG Partners L.P.  
Form 6-K  
November 20, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 6-K**

**Report of Foreign Private Issuer**  
**Pursuant to Rule 13a-16 or 15d-16 of**  
**the Securities Exchange Act of 1934**  
**For the quarterly period ended September 30, 2015**  
**Commission file number 1- 32479**

**TEEKAY LNG PARTNERS L.P.**  
**(Exact name of Registrant as specified in its charter)**

**4<sup>th</sup> Floor, Belvedere Building**  
**69 Pitts Bay Road**

**Hamilton, HM 08 Bermuda**

**(Address of principal executive office)**

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

Form 20-F       Form 40-F

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

Yes       No

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

Yes       No

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**TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES**

**REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015**

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## ITEM 1 FINANCIAL STATEMENTS

## TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Voyage revenues (note 9a)	98,415	100,776	294,349	303,589
Voyage expenses	(240)	(448)	(931)	(2,948)
Vessel operating expenses (note 9a)	(24,319)	(23,538)	(70,055)	(72,114)
Depreciation and amortization	(22,473)	(23,309)	(69,251)	(70,949)
General and administrative expenses (note 9a)	(5,676)	(5,579)	(19,452)	(18,241)
Restructuring charges (note 14)	(3,510)	(2,231)	(3,510)	(2,231)
<b>Income from vessel operations</b>	<b>42,197</b>	<b>45,671</b>	<b>131,150</b>	<b>137,106</b>
Equity income	13,523	38,710	60,583	92,007
Interest expense (note 7)	(11,175)	(14,747)	(32,432)	(44,646)
Interest income	617	1,530	1,962	2,750
Realized and unrealized (loss) gain on derivative instruments (note 10)	(26,835)	2,288	(29,979)	(21,568)
Foreign currency exchange (loss) gain (notes 7 and 10)	(8,153)	23,477	8,231	22,632
Other income	393	210	1,171	636
Net income before income tax expense	10,567	97,139	140,686	188,917
Income tax expense (note 8)	(258)	(370)	(291)	(1,140)
<b>Net income</b>	<b>10,309</b>	<b>96,769</b>	<b>140,395</b>	<b>187,777</b>
Non-controlling interest in net income	2,811	6,182	11,736	15,295
General Partner's interest in net income	7,622	8,469	24,832	23,152
Limited partners' interest in net income	(124)	82,118	103,827	149,330
<b>Limited partners' interest in net income per common unit:</b>				
- Basic	0.00	1.07	1.32	1.99
- Diluted	0.00	1.07	1.32	1.99
<b>Weighted-average number of common units outstanding:</b>				
- Basic	78,941,689	76,731,913	78,679,813	75,057,369
- Diluted	79,009,078	76,776,175	78,741,533	75,126,727

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Cash distributions declared per common unit	0.7000	0.6918	2.1000	2.0754
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Related party transactions (*note 9*)

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

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## TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of U.S. Dollars)

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
	\$	\$	\$	\$
<b>Net income</b>	10,309	96,769	140,395	187,777
<b>Other comprehensive (loss) income:</b>				
Unrealized (loss) gain on qualifying cash flow hedging instruments in equity accounted joint ventures before reclassifications, net of tax (notes 5c and 5d)	(4,829)	160	(5,474)	(1,904)
Realized loss on qualifying cash flow hedging instruments in equity accounted joint ventures reclassified to equity income, net of tax (notes 5c and 5d)	585	389	1,538	1,171
<b>Other comprehensive (loss) income</b>	(4,244)	549	(3,936)	(733)
<b>Comprehensive income</b>	6,065	97,318	136,459	187,044
Non-controlling interest in comprehensive income	2,811	6,182	11,736	15,295
General and limited partners interest in comprehensive income	3,254	91,136	124,723	171,749

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

**Table of Contents****TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED BALANCE SHEETS**

(in thousands of U.S. Dollars)

	As at September 30, 2015 \$	As at December 31, 2014 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	154,173	159,639
Restricted cash – current ( <i>notes 7 and 10</i> )	9,699	3,000
Accounts receivable, including non-trade of \$3,949 (2014 – \$7,998)	10,197	11,265
Prepaid expenses	5,866	3,975
Current portion of net investments in direct financing leases ( <i>note 4</i> )	20,178	15,837
Advances to affiliates ( <i>note 9b</i> )	13,404	11,942
<b>Total current assets</b>	<b>213,517</b>	<b>205,658</b>
Restricted cash – long-term ( <i>notes 7, 10 and 11c</i> )	60,497	42,997
<b>Vessels and equipment</b>		
At cost, less accumulated depreciation of \$647,300 (2014 – \$588,735)	1,606,482	1,659,807
Vessels under capital leases, at cost, less accumulated depreciation of \$54,937 (2014 – \$50,898)	89,799	91,776
Advances on newbuilding contracts ( <i>notes 9d, 11a and 11b</i> )	401,054	237,647
<b>Total vessels and equipment</b>	<b>2,097,335</b>	<b>1,989,230</b>
Investments in and advances to equity accounted joint ventures ( <i>notes 5, 6, 11d and 11e</i> )	864,013	891,478
Net investments in direct financing leases ( <i>note 4</i> )	651,440	666,658
Other assets	39,605	44,679
Derivative assets ( <i>note 10</i> )	2,646	441
Intangible assets – net	81,004	87,646
Goodwill – liquefied gas segment	35,631	35,631
<b>Total assets</b>	<b>4,045,688</b>	<b>3,964,418</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current</b>		
Accounts payable	1,707	643
Accrued liabilities ( <i>notes 10 and 14</i> )	31,351	39,037
Unearned revenue	28,708	16,565

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Current portion of long-term debt ( <i>note 7</i> )	170,432	157,235
Current obligations under capital lease ( <i>note 4</i> )	60,245	4,422
Current portion of in-process contracts	10,849	4,736
Current portion of derivative liabilities ( <i>note 10</i> )	54,319	57,678
Advances from affiliates ( <i>notes 9b and 10</i> )	20,351	43,205
<b>Total current liabilities</b>	<b>377,962</b>	<b>323,521</b>
Long-term debt ( <i>note 7</i> )	1,824,410	1,766,889
Long-term obligations under capital lease ( <i>note 4</i> )		59,128
Long-term unearned revenue	31,699	33,938
Other long-term liabilities ( <i>notes 4, 5c and 5d</i> )	72,418	74,734
In-process contracts	22,943	32,660
Derivative liabilities ( <i>note 10</i> )	189,446	126,177
<b>Total liabilities</b>	<b>2,518,878</b>	<b>2,417,047</b>
<b>Commitments and contingencies (<i>notes 4, 7, 10, and 11</i>)</b>		
<b>Equity</b>		
Limited Partners	1,456,322	1,482,647
General Partner	56,084	56,508
Accumulated other comprehensive loss	(5,339)	(1,403)
Partners equity	1,507,067	1,537,752
Non-controlling interest	19,743	9,619
<b>Total equity</b>	<b>1,526,810</b>	<b>1,547,371</b>
<b>Total liabilities and total equity</b>	<b>4,045,688</b>	<b>3,964,418</b>

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



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**TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands of U.S. Dollars)

	Nine Months Ended September 30, 2015 \$	Nine Months Ended September 30, 2014 \$
Cash and cash equivalents provided by (used for)		
<b>OPERATING ACTIVITIES</b>		
<b>Net income</b>	140,395	187,777
Non-cash items:		
Unrealized loss (gain) on derivative instruments ( <i>note 10</i> )	7,879	(8,012)
Depreciation and amortization	69,251	70,949
Unrealized foreign currency exchange gain	(13,917)	(25,895)
Equity income, net of dividends received of \$89,041 (2014 \$2,600)	28,458	(89,407)
Amortization of deferred debt issuance costs and other	3,080	2,800
Change in operating assets and liabilities	(26,766)	8,514
Expenditures for dry docking	(4,182)	(11,572)
<b>Net operating cash flow</b>	204,198	135,154
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of long-term debt	314,412	312,828
Debt issuance costs	(1,796)	(1,513)
Scheduled repayments of long-term debt	(88,562)	(71,934)
Prepayments of long-term debt	(90,000)	(230,000)
Scheduled repayments of capital lease obligations	(3,305)	(4,658)
Proceeds from equity offerings, net of offering costs ( <i>note 12</i> )	34,548	140,484
Increase in restricted cash	(24,616)	(1,778)
Cash distributions paid	(191,094)	(179,164)
Novation of derivative liabilities ( <i>note 9e</i> )		2,985
Dividends paid to non-controlling interest ( <i>note 15b</i> )	(1,612)	(9,741)
<b>Net financing cash flow</b>	(52,025)	(42,491)
<b>INVESTING ACTIVITIES</b>		
Investments in and additional capital contributions to equity accounted joint ventures	(25,719)	(99,105)
Repayments of advances by equity accounted joint ventures	23,744	
Receipts from direct financing leases	10,877	9,588

Expenditures for vessels and equipment	(166,541)	(45,172)
<b>Net investing cash flow</b>	<b>(157,639)</b>	<b>(134,689)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(5,466)</b>	<b>(42,026)</b>
Cash and cash equivalents, beginning of the period	159,639	139,481
<b>Cash and cash equivalents, end of the period</b>	<b>154,173</b>	<b>97,455</b>

Supplemental cash flow information (*note 15*)

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

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## TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

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

	TOTAL EQUITY				Non- controlling Interest	Total
	Partners		Equity			
	Limited Partners		General Partner	Accumulated Other Comprehensive Loss		
	Number of Common Units	\$	\$	\$	\$	\$
<b>Balance as at December 31, 2014</b>	78,353	1,482,647	56,508	(1,403)	9,619	1,547,371
Net income		103,827	24,832		11,736	140,395
Other comprehensive income				(3,936)		(3,936)
Cash distributions		(165,107)	(25,987)			(191,094)
Dividends paid to non-controlling interest					(1,612)	(1,612)
Equity based compensation, net of tax of \$408 (note 13)	25	1,115	23			1,138
Proceeds from equity offerings (note 12)	1,136	33,840	708			34,548
<b>Balance as at September 30, 2015</b>	79,514	1,456,322	56,084	(5,339)	19,743	1,526,810

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

Table of Contents**TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

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

**1. Basis of Presentation**

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

Certain information and footnote disclosures required by GAAP for complete annual financial statements have been omitted and, therefore, these interim financial statements should be read in conjunction with the Partnership's audited consolidated financial statements for the year ended December 31, 2014, which are included in the Partnership's Annual Report on Form 20-F for the year ended December 31, 2014, filed with the U.S. Securities and Exchange Commission (or *SEC*) on April 23, 2015. In the opinion of management of Teekay GP L.L.C., the general partner of the Partnership (or the *General Partner*), these interim unaudited consolidated financial statements reflect all adjustments consisting solely of a normal recurring nature, necessary to present fairly, in all material respects, the Partnership's consolidated financial position, results of operations, changes in total equity and cash flows for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of those for a full fiscal year. Significant intercompany balances and transactions have been eliminated upon consolidation.

**2. Financial Instruments**

## a) Fair Value Measurements

For a description of how the Partnership estimates fair value and for a description of the fair value hierarchy levels, see Note 2 in the Partnership's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2014. The following table includes the estimated fair value and carrying value of those assets and liabilities that are measured at fair value on a recurring and non-recurring basis, as well as the estimated fair value of the Partnership's financial instruments that are not accounted for at a fair value on a recurring basis.

	September 30, 2015		December 31, 2014	
Fair Value Hierarchy Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Asset	Asset	Asset	Asset
	(Liability)	(Liability)	(Liability)	(Liability)

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		\$	\$	\$	\$
<b>Recurring:</b>					
Cash and cash equivalents and restricted cash	Level 1	224,369	224,369	205,636	205,636
<b>Derivative instruments (note 10)</b>					
Interest rate swap agreements	Level 2	(115,665)	(115,665)	(119,558)	(119,558)
Interest rate swaption agreements assets	Level 2	2,646	2,646		
Interest rate swaption agreements liabilities	Level 2	(7,980)	(7,980)		
Cross currency swap agreements	Level 2	(120,723)	(120,723)	(70,386)	(70,386)
Other derivative	Level 3	(4,554)	(4,554)	(2,137)	(2,137)
<b>Other:</b>					
Advances to equity accounted joint ventures (note 6)	(i)	158,857	(i)	181,514	(i)
Long-term receivable included in accounts receivable and other assets <sup>(ii)</sup>	Level 3	17,165	17,150	17,137	17,164
Long-term debt public (note 7)	Level 1	(305,326)	(299,422)	(214,707)	(220,762)
Long-term debt non-public (note 7)	Level 2	(1,689,516)	(1,643,729)	(1,709,417)	(1,659,852)

- (i) The advances to equity accounted joint ventures together with the Partnership's equity investments in the joint ventures form the net aggregate carrying value of the Partnership's interests in the joint ventures in these consolidated financial statements. The fair values of the individual components of such aggregate interests are not determinable.
- (ii) As described in Note 2 in the Partnership's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year-ended December 31, 2014, the estimated fair value of the non-interest bearing receivable from BG International Limited (or *BG*) is based on the remaining future fixed payments as well as an estimated discount rate. The estimated fair value of this receivable as of September 30, 2015 is \$17.2 million using a discount rate of 8.0%. As there is no market rate for the equivalent of an unsecured non-interest bearing receivable from BG, the discount rate is based on unsecured debt instruments of similar maturity held, adjusted for a liquidity premium. A higher or lower discount rate would result in a lower or higher fair value asset.

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## TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Changes in fair value during the nine months ended September 30, 2015 and 2014 for the Partnership's other derivative asset, the Toledo Spirit time-charter derivative, which is described below and is measured at fair value on a recurring basis using significant unobservable inputs (Level 3), is as follows:

	Nine Months Ended September 30,	
	2015	2014
	\$	\$
Fair value at beginning of period	(2,137)	6,344
Realized and unrealized losses included in earnings	(3,624)	(4,724)
Settlement payments (receipts)	1,207	(1,320)
Fair value at end of period	(4,554)	300

The Partnership's Suezmax tanker, the *Toledo Spirit*, operates pursuant to a time-charter contract that increases or decreases the otherwise fixed-hire rate established in the charter depending on the spot charter rates that the Partnership would have earned had it traded the vessel in the spot tanker market. The time-charter contract ends in August 2025, although the charterer has the right to terminate the time-charter in July 2018. In order to reduce the variability of its revenue under the *Toledo Spirit* time-charter, the Partnership entered into an agreement with Teekay Corporation under which Teekay Corporation pays the Partnership any amounts payable to the charterer of the *Toledo Spirit* as a result of spot rates being below the fixed rate, and the Partnership pays Teekay Corporation any amounts payable to the Partnership by the charterer of the *Toledo Spirit* as a result of spot rates being in excess of the fixed rate. The estimated fair value of this other derivative is based in part upon the Partnership's projection of future spot market tanker rates, which has been derived from current spot market tanker rates and long-term historical average rates, as well as an estimated discount rate. The estimated fair value of this other derivative as of September 30, 2015 is based upon an average daily tanker rate of \$33,500 (September 30, 2014 - \$26,171) over the remaining duration of the charter contract and a discount rate of 7.4% (September 30, 2014 - 8.5%). In developing and evaluating this estimate, the Partnership considers the current tanker market fundamentals as well as the short and long-term outlook. A higher or lower average daily tanker rate would result in a higher or lower fair value liability or a lower or higher fair value asset. A higher or lower discount rate would result in a lower or higher fair value asset or liability.

## b) Financing Receivables

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

<b>Class of Financing Receivable</b>	<b>Credit Quality Indicator</b>	<b>Grade</b>	<b>September 30, December 31,</b>	
			<b>2015</b>	<b>2014</b>
			<b>\$</b>	<b>\$</b>
Direct financing leases	Payment activity	Performing	671,618	682,495
Other receivables:				
Long-term receivable and accrued revenue included in accounts receivable and other assets	Payment activity	Performing	29,463	30,664
Advances to equity accounted joint ventures ( <i>note 6</i> )	Other internal metrics	Performing	158,857	181,514
			859,938	894,673

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## TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

**3. Segment Reporting**

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

	Three Months Ended September 30,					
	2015			2014		
	Liquefied Gas Segment	Conventional Tanker Segment	Total	Liquefied Gas Segment	Conventional Tanker Segment	Total
	\$	\$	\$	\$	\$	\$
Voyage revenues	75,142	23,273	98,415	76,687	24,089	100,776
Voyage expenses		(240)	(240)	(240)	(208)	(448)
Vessel operating expenses	(16,260)	(8,059)	(24,319)	(14,259)	(9,279)	(23,538)
Depreciation and amortization	(17,268)	(5,205)	(22,473)	(17,737)	(5,572)	(23,309)
General and administrative expenses <sup>(i)</sup>	(3,916)	(1,760)	(5,676)	(4,142)	(1,437)	(5,579)
Restructuring charges		(3,510)	(3,510)		(2,231)	(2,231)
Income from vessel operations	37,698	4,499	42,197	40,309	5,362	45,671
Equity income	13,523		13,523	38,710		38,710

	Nine Months Ended September 30,					
	2015			2014		
	Liquefied Gas Segment	Conventional Tanker Segment	Total	Liquefied Gas Segment	Conventional Tanker Segment	Total
	\$	\$	\$	\$	\$	\$
Voyage revenues	228,542	65,807	294,349	229,253	74,336	303,589
Voyage expenses		(931)	(931)	(1,768)	(1,180)	(2,948)
Vessel operating expenses	(46,693)	(23,362)	(70,055)	(43,719)	(28,395)	(72,114)
Depreciation and amortization	(53,578)	(15,673)	(69,251)	(53,738)	(17,211)	(70,949)
General and administrative expenses <sup>(i)</sup>	(14,755)	(4,697)	(19,452)	(13,350)	(4,891)	(18,241)



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Restructuring charges		(3,510)	(3,510)		(2,231)	(2,231)
Income from vessel operations	113,516	17,634	131,150	116,678	20,428	137,106
Equity income	60,583		60,583	92,007		92,007

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

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

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
Total assets of the liquefied gas segment	3,494,982	3,395,759
Total assets of the conventional tanker segment	367,066	381,838
Unallocated:		
Cash and cash equivalents	154,173	159,639
Accounts receivable and prepaid expenses	16,063	15,240
Advances to affiliates	13,404	11,942
Consolidated total assets	4,045,688	3,964,418

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## TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

**4. Vessel Charters**

The minimum estimated charter hire payments for the remainder of the year and the next four fiscal years, as at September 30, 2015, for the Partnership's vessels chartered-in and vessels chartered-out are as follows:

	<b>Remainder of 2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Vessel Charters<sup>(i)</sup></b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Charters-in capital leases <sup>(ii)</sup>	1,936	7,673	30,953	27,296	
Charters-out operating leases <sup>(iii)</sup>	81,229	294,924	279,782	238,475	223,449
Charters-out direct financing leases <sup>(iv)</sup>	18,881	75,064	204,109	173,701	39,065
	100,110	369,988	483,891	412,176	262,514

- (i) The Partnership owns 69% of Teekay BLT Corporation (or *Teekay Tangguh Joint Venture*) and the Teekay Tangguh Joint Venture is a party to operating leases whereby it is leasing the *Tangguh Hiri* and the *Tangguh Sago* liquefied natural gas (or *LNG*) carriers (or the *Tangguh LNG Carriers*) to a third party, which is in turn leasing the vessels back to the joint venture. The table does not include the Partnership's minimum charter hire payments to be paid and received under these leases, which are described in more detail in Note 4 in the Partnership's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2014. Under the terms of the leasing arrangement for the Tangguh LNG Carriers, whereby the Teekay Tangguh Joint Venture is the lessee, the lessors claim tax depreciation on its lease of these vessels. As is typical in these types of leasing arrangements, tax and change of law risks are assumed by the lessee. Lease payments under the lease arrangements are based on certain tax and financial assumptions at the commencement of the leases. If an assumption proves to be incorrect, the lessor is entitled to increase the lease payments to maintain its agreed after-tax margin.

The carrying amount of tax indemnification guarantees of the Partnership relating to the leasing arrangement through the Teekay Tangguh Joint Venture as at September 30, 2015 was \$8.1 million (December 31, 2014 \$8.4 million) and is included as part of other long-term liabilities in the Partnership's consolidated balance sheets. The tax indemnification is for the duration of the lease contracts with the third parties plus the years it would take for the lease payments to be statute barred, which will end in 2033 for the vessels. Although there is no maximum potential amount of future payments, the Teekay Tangguh Joint Venture may terminate the lease arrangement on a voluntary basis at any time. If the lease arrangement terminates, the Teekay Tangguh Joint Venture will be required to pay termination sums to the lessor sufficient to repay the lessor's investment in the vessels and to compensate it for the tax effect of the

terminations, including recapture of any tax depreciation.

- (ii) As at September 30, 2015, the Partnership was a party to capital leases on two Suezmax tankers. Under these capital leases, the owner has the option to require the Partnership to purchase the two vessels. The charterer, who is also the owner, also has the option to cancel the charter contracts. The amounts in the table assume the owner will not exercise its options to require the Partnership to purchase either of the vessels from the owner, but rather it assumes the owner will cancel the charter contracts when the cancellation right is first exercisable, which is the thirteenth anniversary of each respective contract in 2017 and 2018.
- (iii) Minimum scheduled future operating lease revenues do not include revenue generated from new contracts entered into after September 30, 2015, revenue from undelivered vessels, revenue from unexercised option periods of contracts that existed on September 30, 2015, or variable or contingent revenues. Therefore, the minimum scheduled future operating lease revenues should not be construed to reflect total charter hire revenues that may be recognized for any of the years as shown in the table above.
- (iv) As described in Note 4 in the Partnership's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2014, the Tangguh LNG Carriers' time-charters and the two bareboat charter contracts to Awilco LNG ASA are accounted for as direct financing leases.

## 5. Equity Method Investments

### a) *BG Joint Venture*

On June 27, 2014, the Partnership acquired from BG its ownership interests in four 174,000-cubic meter LNG carrier newbuildings. Through this transaction, the Partnership has a 30% ownership interest in two LNG carrier newbuildings and a 20% ownership interest in the remaining two LNG carrier newbuildings (collectively the *BG Joint Venture*). The four vessels are scheduled to deliver between September 2017 and January 2019, and, upon delivery, will each operate under 20-year fixed-rate time-charter contracts, plus extension options with Methane Services Limited, a wholly-owned subsidiary of BG.

As at September 30, 2015, to fund its newbuilding installments, the BG Joint Venture has drawn \$75.0 million (December 31, 2014 - \$53.7 million) from its \$787.0 million long-term debt facility and received \$8.4 million of capital contributions from the Partnership (December 31, 2014 - \$3.8 million), representing the Partnership's proportionate share.

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b) *Teekay LNG-Marubeni Joint Venture*

The joint venture between the Partnership and Marubeni Corporation (or the *Teekay LNG-Marubeni Joint Venture*) is a party to a loan facility for four of its six LNG carriers, including the *Magellan Spirit*, which had a grounding incident in January 2015. The Partnership has guaranteed its 52% share of the Teekay LNG-Marubeni Joint Venture's obligations under this facility. The loan facility contains mandatory prepayment provisions upon early termination of a charter and requires the borrower to maintain a specific debt service coverage ratio. In June 2015, the lenders waived the mandatory prepayment provision in relation to the *Magellan Spirit* and the debt service coverage ratio covenant for the loan facility. Both waivers are for the remaining term of the facility. In return, the Teekay LNG-Marubeni Joint Venture funded an earnings account, which is collateral for the loan facility, with \$7.5 million and prepaid \$30.0 million of the loan facility. These amounts were funded by the Partnership and Marubeni Corporation based on their respective ownership percentages.

c) *Excalibur and Excelsior Joint Ventures*

In February 2015, joint ventures between the Partnership and Exmar NV (or *Exmar*) for two LNG carriers (or the *Excalibur and Excelsior Joint Ventures*) completed refinancing existing debt facilities by entering into a \$172.8 million long-term debt facility bearing interest at a rate of LIBOR plus 2.75%, maturing in 2019. The Partnership has guaranteed its 50% share of the secured loan facilities of the Excalibur and Excelsior Joint Ventures and, as a result, recorded a guarantee liability of \$0.4 million. The carrying value of the guarantee liability as of September 30, 2015 was \$0.3 million and is included as part of other long-term liabilities in the Partnership's consolidated balance sheet. In addition, the Excalibur and Excelsior Joint Ventures entered into four-year interest rate swaps with an aggregate notional amount of \$172.8 million, which amortizes quarterly over the term of the interest rate swaps to \$133.4 million at maturity. These interest rate swaps exchange the receipt of LIBOR-based interest for the payment of a fixed rate of interest of 1.46% excluding the margin. These interest rate swaps have been designated as qualifying cash flow hedging instruments for accounting purposes. The Excalibur and Excelsior Joint Ventures use the same accounting policy for qualifying cash flow hedging instruments as the Partnership.

d) *Exmar LPG BVBA*

In June 2015, Exmar LPG BVBA (or *Exmar LPG*), a 50/50 joint venture between the Partnership and Exmar for 24 liquefied petroleum gas (or *LPG*) carriers, completed refinancing its existing debt facility by entering into a \$460.0 million long-term debt facility bearing interest at a rate of LIBOR plus 1.90%, maturing in 2021. The Partnership has guaranteed its 50% share of the secured loan facility of Exmar LPG and, as a result, recorded a guarantee liability of \$1.7 million. The carrying value of the guarantee liability as at September 30, 2015 was \$1.6 million and is included as part of other long-term liabilities in the Partnership's consolidated balance sheet. In addition, Exmar LPG entered into a five-year interest rate swap with an aggregate notional amount of \$301.3 million, which amortizes quarterly over the term of the interest rate swap to \$109.9 million at maturity. This interest rate swap exchanges the receipt of

LIBOR-based interest for the payment of a fixed rate of interest of 1.84% excluding the margin. This interest rate swap has been designated as a qualifying cash flow hedging instrument for accounting purposes. Exmar LPG uses the same accounting policy for qualifying cash flow hedging instruments as the Partnership.

e) *Yamal LNG Joint Venture*

On July 9, 2014, the Partnership, through a new 50/50 joint venture with China LNG (or the *Yamal LNG Joint Venture*), ordered six internationally-flagged icebreaker LNG carriers for a project located on the Yamal Peninsula in Northern Russia. The six LNG carriers are scheduled to deliver at various times between the first quarter of 2018 and the first quarter of 2020. Upon their deliveries, the six LNG carriers will each operate under fixed-rate time-charter contracts with Yamal Trade Pte. Ltd. until December 31, 2045, plus extension options.

As at September 30, 2015, the Partnership has contributed \$96.9 million of capital to the Yamal LNG Joint Venture to fund its newbuilding installments (December 31, 2014 \$95.3 million), representing the Partnership's proportionate share (see Note 6b).

**6. Advances to Equity Accounted Joint Ventures**

a) As of September 30, 2015, the Partnership had advanced \$57.8 million to Exmar LPG, which bears interest at LIBOR plus 0.50% and has no fixed repayment terms. As at September 30, 2015, the interest accrued on the advances was \$0.3 million (December 31, 2014 \$0.6 million). Both the advances and the accrued interest on these advances are included in investments and advances to equity accounted joint ventures in the Partnership's consolidated balance sheets.

b) As of September 30, 2015, the Partnership had advanced \$96.9 million to the Yamal LNG Joint Venture (December 31, 2014 \$95.3 million). The advances bear interest at LIBOR plus 3.00% compounded semi-annually. As of September 30, 2015, the interest accrued on these advances was \$3.9 million (December 31, 2014 \$1.0 million). Both the advances and the accrued interest on these advances are included in investments and advances to equity accounted joint ventures in the Partnership's consolidated balance sheets.

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**7. Long-Term Debt**

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
	<b>\$</b>	<b>\$</b>
U.S. Dollar-denominated Revolving Credit Facilities due through 2018	263,222	257,661
U.S. Dollar-denominated Term Loan due through 2016	55,000	
U.S. Dollar-denominated Term Loan due through 2018	86,000	93,595
U.S. Dollar-denominated Term Loan due through 2018	110,417	116,667
U.S. Dollar-denominated Term Loan due through 2018	119,167	125,667
U.S. Dollar-denominated Term Loan due through 2021	275,384	285,274
U.S. Dollar-denominated Term Loan due through 2021	92,002	95,560
U.S. Dollar-denominated Term Loan due through 2026	435,724	450,000
Norwegian Kroner-denominated Bond due in 2017	82,203	93,934
Norwegian Kroner-denominated Bond due in 2018	105,690	120,773
Norwegian Kroner-denominated Bond due in 2020	117,433	
Euro-denominated Term Loans due through 2023	252,600	284,993
<b>Total</b>	<b>1,994,842</b>	<b>1,924,124</b>
Less current portion	170,432	157,235
<b>Total</b>	<b>1,824,410</b>	<b>1,766,889</b>

As at September 30, 2015, the Partnership had two revolving credit facilities available. The two credit facilities, as at such date, provided for borrowings of up to \$315.3 million, of which \$52.1 million was undrawn. Interest payments are based on LIBOR plus margins. The amount available under the two revolving credit facilities reduces by \$6.1 million (remainder of 2015), \$27.3 million (2016), \$28.2 million (2017) and \$253.7 million (2018). Both revolving credit facilities may be used by the Partnership to fund general partnership purposes and to fund cash distributions. The Partnership is required to repay all borrowings used to fund cash distributions within 12 months of their being drawn, from a source other than further borrowings. The revolving credit facilities are collateralized by first-priority mortgages granted on four of the Partnership's vessels, together with other related security, and include a guarantee from the Partnership or its subsidiaries of all outstanding amounts.

At September 30, 2015, the Partnership had a U.S. Dollar-denominated term loan outstanding in the amount of \$55.0 million. Interest payments on this loan are based on LIBOR plus 1.00% with one principal repayment of \$4.6 million due on November 2, 2015 and a bullet repayment of \$50.4 million due at maturity in 2016. This loan facility is collateralized by a first-priority mortgage on the three vessels to which the loan relates, together with certain other related security, and is guaranteed by the Partnership.

At September 30, 2015, the Partnership had a U.S. Dollar-denominated term loan outstanding in the amount of \$86.0 million. Interest payments on this loan are based on LIBOR plus 2.75% and require quarterly interest and principal payments and a bullet repayment of \$50.7 million due at maturity in 2018. This loan facility is collateralized by a first-priority mortgage on the five vessels to which the loan relates, together with certain other related security, and is guaranteed by the Partnership.

At September 30, 2015, the Partnership had a U.S. Dollar-denominated term loan outstanding in the amount of \$110.4 million. Interest payments on this loan are based on LIBOR plus 2.80% and require quarterly interest and principal payments and a bullet repayment of \$83.3 million due at maturity in 2018. This loan facility is collateralized by a first-priority mortgage on one vessel to which the loan relates, together with certain other related security, and is guaranteed by the Partnership.

At September 30, 2015, the Partnership had a U.S. Dollar-denominated term loan outstanding in the amount of \$119.2 million. Interest payments on this loan are based on LIBOR plus 2.75% and require quarterly interest and principal payments and a bullet repayment of \$95.3 million due at maturity in 2018. This loan facility is collateralized by a first-priority mortgage on one vessel to which the loan relates, together with certain other related security, and is guaranteed by the Partnership.

The Partnership owns a 69% interest in the Teekay Tangguh Joint Venture, a consolidated entity of the Partnership. The Teekay Tangguh Joint Venture has a U.S. Dollar-denominated term loan outstanding, which, as at September 30, 2015, totaled \$275.4 million. Interest payments on the loan are based on LIBOR plus margins. Interest payments on one tranche under the loan facility are based on LIBOR plus 0.30%, while interest payments on the second tranche are based on LIBOR plus 0.63%. One tranche reduces in quarterly payments while the other tranche correspondingly is drawn up with a final \$95.0 million bullet payment for each of two vessels due in 2021. This loan facility is collateralized by first-priority mortgages on the two vessels to which the loan relates, together with certain other security and is guaranteed by the Partnership.

At September 30, 2015, the Partnership had a U.S. Dollar-denominated term loan outstanding in the amount of \$92.0 million. Interest payments on one tranche under the loan facility are based on LIBOR plus 0.30%, while interest payments on the second tranche are based on LIBOR plus 0.70%. One tranche reduces in semi-annual payments while the other tranche correspondingly is drawn up every six months with a final \$20.0 million bullet payment for each of two vessels due at maturity in 2021. This loan facility is collateralized by first-priority mortgages on the two vessels to which the loan relates, together with certain other related security, and is guaranteed by Teekay Corporation.

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The Partnership owns a 70% interest in Teekay Nakilat Corporation (or the *Teekay Nakilat Joint Venture*), a consolidated entity of the Partnership. The Teekay Nakilat Joint Venture has a U.S. Dollar-denominated term loan outstanding, which, as at September 30, 2015, totaled \$435.7 million. Interest payments on this loan are based on LIBOR plus 1.85% and the loan facility requires quarterly interest and principal payments over the remaining term of the loan and will require bullet repayments of approximately \$155.4 million due at maturity in 2026. This loan facility is collateralized by first-priority mortgages on the three vessels to which the loan relates, together with certain other related security and certain guarantees from the Teekay Nakilat Joint Venture.

The Partnership has Norwegian Kroner (or *NOK*) 700 million of senior unsecured bonds that mature in May 2017 in the Norwegian bond market. As at September 30, 2015, the carrying amount of the bonds was \$82.2 million and the bonds are listed on the Oslo Stock Exchange. The interest payments on the bonds are based on NIBOR plus a margin of 5.25%. The Partnership has a cross currency swap (see Note 10), to swap all interest and principal payments into U.S. Dollars, with the interest payments fixed at a rate of 6.88% and the transfer of principal fixed at \$125.0 million upon maturity in exchange for NOK 700 million.

The Partnership has NOK 900 million of senior unsecured bonds that mature in September 2018 in the Norwegian bond market. As at September 30, 2015, the carrying amount of the bonds was \$105.7 million and the bonds are listed on the Oslo Stock Exchange. The interest payments on the bonds are based on NIBOR plus a margin of 4.35%. The Partnership has a cross currency swap (see Note 10), to swap all interest and principal payments into U.S. Dollars, with the interest payments fixed at a rate of 6.43% and the transfer of principal fixed at \$150.0 million upon maturity in exchange for NOK 900 million.

The Partnership has NOK 1,000 million of senior unsecured bonds that mature in May 2020 in the Norwegian bond market. As at September 30, 2015, the carrying amount of the bonds was \$117.4 million and the bonds are listed on the Oslo Stock Exchange. The interest payments on the bonds are based on NIBOR plus a margin of 3.70%. The Partnership has a cross currency swap (see Note 10), to swap all interest and principal payments into U.S. Dollars, with the interest payments fixed at a rate of 5.92% and the transfer of principal fixed at \$134.0 million upon maturity in exchange for NOK 1,000 million.

The Partnership has two Euro-denominated term loans outstanding, which as at September 30, 2015, totaled 226.0 million Euros (\$252.6 million). Interest payments are based on EURIBOR plus margins, which ranged from 0.60% to 2.25% as of September 30, 2015, and the loans require monthly interest and principal payments. The term loans have varying maturities through 2023. The term loans are collateralized by first-priority mortgages on two vessels to which the loans relate, together with certain other related security and are guaranteed by the Partnership and one of its subsidiaries.

The weighted-average effective interest rate for the Partnership's long-term debt outstanding at September 30, 2015 and December 31, 2014 were 2.29% and 2.19%, respectively. These rates do not reflect the effect of related interest rate swaps that the Partnership has used to economically hedge certain of its floating-rate debt (see Note 10). At



September 30, 2015, the margins on the Partnership's outstanding revolving credit facilities and term loans ranged from 0.30% to 2.80%.

All Euro-denominated term loans and NOK-denominated bonds are revalued at the end of each period using the then-prevailing U.S. Dollar exchange rate. Due primarily to the revaluation of the Partnership's NOK-denominated bonds, the Partnership's Euro-denominated term loans, capital leases and restricted cash, and the change in the valuation of the Partnership's cross currency swaps, the Partnership incurred foreign exchange (losses) gains of (\$8.2) million and \$23.5 million, and \$8.2 million and \$22.6 million, which amounts were primarily unrealized, for the three months ended September 30, 2015 and 2014, and the nine months ended September 30, 2015 and 2014, respectively.

The aggregate annual long-term debt principal repayments required after September 30, 2015 are \$32.0 million (remainder of 2015), \$166.5 million (2016), \$202.0 million (2017), \$782.6 million (2018), \$70.3 million (2019) and \$741.4 million (thereafter).

The Partnership and a subsidiary of Teekay Corporation are borrowers under a loan arrangement and are jointly and severally liable for the obligations to the lender. Obligations resulting from long-term debt joint and several liability arrangements are measured at the sum of the amount the Partnership agreed to pay, on the basis of its arrangement with the co-obligor, and any additional amount the Partnership expects to pay on behalf of the co-obligor. This loan arrangement matures in 2021, and as of September 30, 2015 had an outstanding balance of \$179.4 million, of which \$92.0 million was the Partnership's share. Teekay Corporation has agreed to indemnify the Partnership in respect of any losses and expenses arising from any breach by the co-obligor of the terms and conditions of the loan facility.

Certain loan agreements require that (a) the Partnership maintains minimum levels of tangible net worth and aggregate liquidity, (b) the Partnership maintains certain ratios of vessel values as it relates to the relevant outstanding loan principal balance, (c) the Partnership not exceed a maximum amount of leverage, and (d) one of the Partnership's subsidiaries maintains restricted cash deposits. The Partnership has one facility that requires it to maintain a vessel-value-to-outstanding-loan-principal-balance ratio of 115% which as at September 30, 2015, was 199%. The vessel value was determined using a current market value for comparable second-hand vessels. Since vessel values can be volatile, the Partnership's estimate of market value may not be indicative of either the current or future price that could be obtained if the related vessel was actually sold. The Partnership's vessel-owning subsidiaries may not, among other things, pay dividends or distributions if the Partnership is in default under its term loans or revolving credit facilities. One of the Partnership's term loans is guaranteed by Teekay Corporation and contains covenants that require Teekay Corporation to maintain the greater of a minimum liquidity (cash and cash equivalents) of at least \$50.0 million and 5.0% of Teekay Corporation's total consolidated debt which has recourse to Teekay Corporation. As at September 30, 2015, the Partnership, and Teekay Corporation and their affiliates were in compliance with all covenants relating to the Partnership's credit facilities and term loans.

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The Partnership maintains restricted cash deposits relating to certain term loans, which totaled \$23.0 million and \$23.0 million as at September 30, 2015 and December 31, 2014, respectively. In addition, the Partnership has restricted cash deposits relating to collateral for cross currency swaps (see Note 10), project tenders, leasing arrangements (see Note 11c) and amounts received from charterers to be used only for dry-docking expenditures and emergency repairs, which cash totaled \$47.2 million and \$23.0 million as at September 30, 2015 and December 31, 2014, respectively.

**8. Income Tax**

The components of the provision for income tax (expense) recovery for the periods indicated were as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current	(258)	(370)	(517)	(1,140)
Deferred			226	
<b>Income tax expense</b>	<b>(258)</b>	<b>(370)</b>	<b>(291)</b>	<b>(1,140)</b>

**9. Related Party Transactions**

a) Two of the Partnership's LNG carriers, the *Arctic Spirit* and *Polar Spirit*, are employed on long-term charter contracts with subsidiaries of Teekay Corporation. In addition, the Partnership and certain of its operating subsidiaries have entered into service agreements with certain subsidiaries of Teekay Corporation pursuant to which the Teekay Corporation subsidiaries provide the Partnership and its subsidiaries with administrative, commercial, crew training, advisory, business development, technical and strategic consulting services. In addition, as part of the Partnership's acquisition of its ownership interest in the BG Joint Venture (see Notes 5a and 11d), the Partnership has an agreement with a subsidiary of Teekay Corporation whereby Teekay Corporation's subsidiary will, on behalf of the Partnership, provide shipbuilding supervision and crew training services for the four LNG carrier newbuildings in the BG Joint Venture up to their delivery date. All costs incurred by Teekay Corporation's subsidiaries are charged to the Partnership and recorded as part of vessel operating expenses and general and administrative expenses. Finally, the Partnership reimburses the General Partner for expenses incurred by the General Partner that are necessary for the conduct of the Partnership's business. Such related party transactions were as follows for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Revenues <sup>(i)</sup>	7,727	9,557	27,735	28,358
Vessel operating expenses	(4,714)	(3,490)	(14,337)	(9,564)
General and administrative expenses <sup>(ii)</sup>	(3,658)	(3,340)	(11,326)	(10,474)

- (i) Commencing in 2008, the *Arctic Spirit* and *Polar Spirit* were time-chartered to Teekay Corporation at a fixed-rate for a period of ten years (plus options exercisable by Teekay Corporation to extend up to an additional 15 years).
- (ii) Includes commercial, strategic, advisory, business development and administrative management fees charged by Teekay Corporation and reimbursements to Teekay Corporation and our General Partner for costs incurred on the Partnership's behalf.
- b) As at September 30, 2015 and December 31, 2014, non-interest bearing advances to affiliates totaled \$13.4 million and \$11.9 million, respectively, and non-interest bearing advances from affiliates totaled \$20.4 million and \$43.2 million, respectively. These advances are unsecured and have no fixed repayment terms. Affiliates are entities that are under common control.
- c) The Partnership's Suezmax tanker the *Toledo Spirit* operates pursuant to a time-charter contract that increases or decreases the otherwise fixed-hire rate established in the charter depending on the spot charter rates that the Partnership would have earned had it traded the vessel in the spot tanker market. The time-charter contract ends in August 2025, although the charterer has the right to terminate the time-charter in July 2018. The Partnership has entered into an agreement with Teekay Corporation under which Teekay Corporation pays the Partnership any amounts payable to the charterer as a result of spot rates being below the fixed rate, and the Partnership pays Teekay Corporation any amounts payable to the Partnership as a result of spot rates being in excess of the fixed rate. The amounts receivable or payable to Teekay Corporation are settled annually (see Notes 2 and 10).
- d) The Partnership entered into services agreements with certain subsidiaries of Teekay Corporation pursuant to which the Teekay Corporation subsidiaries provide the Partnership with shipbuilding and site supervision services relating to the LNG newbuildings the Partnership owns (see Notes 11a and 11b). These costs are capitalized and included as part of advances on newbuilding contracts in the Partnership's consolidated balance sheets. During the three and nine months ended September 30, 2015 and 2014, the Partnership incurred shipbuilding and site supervision costs of \$1.1 million, \$2.6 million, \$1.1 million and \$2.0 million, respectively. As at September 30, 2015 and December 31, 2014, shipbuilding and site supervision costs provided by Teekay Corporation subsidiaries totaled \$5.6 million and \$3.0 million, respectively.

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e) In March 2014, two interest rate swap agreements were novated from Teekay Corporation to the Partnership. Teekay Corporation concurrently paid the Partnership \$3.0 million in cash consideration, which represents the estimated fair value of the interest rate swap liabilities on the novation date.

**10. Derivative Instruments**

The Partnership uses derivative instruments in accordance with its overall risk management policy. The Partnership has not designated derivative instruments described within this note as hedges for accounting purposes.

*Foreign Exchange Risk*

In May 2012, September 2013 and May 2015, concurrently with the issuance of NOK 700 million, NOK 900 million and NOK 1,000 million, respectively, of senior unsecured bonds (see Note 7), the Partnership entered into cross currency swaps, and pursuant to these swaps, the Partnership receives the principal amount in NOK on maturity dates of the swaps in exchange for payments of a fixed U.S. Dollar amount. In addition, the cross currency swaps exchange a receipt of floating interest in NOK based on NIBOR plus a margin for a payment of U.S. Dollar fixed interest. The purpose of the cross currency swaps is to economically hedge the foreign currency exposure on the payment of interest and principal of the Partnership's NOK-denominated bonds due in 2017, 2018 and 2020, and to economically hedge the interest rate exposure. The following table reflects information relating to the cross currency swaps as at September 30, 2015.

Principal Amount NOK	Principal Amount \$	Floating Rate Receivable		Fixed Rate Payable	Fair Value /	Weighted- Average Remaining Term (Years)
		Reference Rate	Margin		Carrying Amount of (Liability) \$	
700,000	125,000	NIBOR	5.25%	6.88%	(47,380)	1.6
900,000	150,000	NIBOR	4.35%	6.43%	(51,387)	2.9
1,000,000	134,000	NIBOR	3.70%	5.92%	(21,956)	4.6
					(120,723)	

*Interest Rate Risk*

The Partnership enters into interest rate swaps which exchange a receipt of floating interest for a payment of fixed interest to reduce the Partnership's exposure to interest rate variability on certain of its outstanding floating-rate debt. As at September 30, 2015, the Partnership was committed to the following interest rate swap agreements:

	Interest Rate Index	Principal Amount \$	Fair Value / Carrying Amount of Assets (Liability) \$	Weighted-Average Remaining Term \$(years)	Fixed Interest Rate (%) <sup>(i)</sup>
<b>LIBOR-Based Debt:</b>					
U.S. Dollar-denominated interest rate swaps	LIBOR	90,000	(10,619)	2.9	4.9
U.S. Dollar-denominated interest rate swaps	LIBOR	100,000	(7,334)	1.3	5.3
U.S. Dollar-denominated interest rate swaps <sup>(ii)</sup>	LIBOR	168,750	(36,543)	13.3	5.2
U.S. Dollar-denominated interest rate swaps <sup>(ii)</sup>	LIBOR	64,268	(3,152)	5.8	2.8
U.S. Dollar-denominated interest rate swaps <sup>(iii)</sup>	LIBOR	320,000	(17,978)	0.5	2.9
U.S. Dollar-denominated interest rate swaps <sup>(iv)</sup>	LIBOR	119,167	(2,634)	3.3	1.7
<b>EURIBOR-Based Debt:</b>					
Euro-denominated interest rate swaps <sup>(v)</sup>	EURIBOR	252,600	(37,405)	5.3	3.1
			(115,665)		

- (i) Excludes the margins the Partnership pays on its floating-rate term loans, which, at September 30, 2015, ranged from 0.30% to 2.80%.
- (ii) Principal amount reduces semi-annually.
- (iii) These interest rate swaps are being used to economically hedge expected interest payments on future debt that is planned to be outstanding from 2016 to 2021. These interest rate swaps are subject to mandatory early termination in 2016 whereby the swaps will be settled based on their fair value at that time.
- (iv) Principal amount reduces quarterly.
- (v) Principal amount reduces monthly to 70.1 million Euros (\$78.4 million) by the maturity dates of the swap agreements.

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## TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

During June and August 2015, as part of its hedging program, the Partnership entered into two interest rate swaption agreements, whereby the Partnership has a one-time option (or *Call Option*) to enter into an interest rate swap with a third party, and the third party has a one-time option (or *Put Option*) to require the Partnership to enter into interest swap agreements. If the Partnership or the third parties exercises its options, there will be cash settlements for the fair value of the interest rate swap, in lieu of taking delivery of the actual interest rate swaps. At September 30, 2015, the terms of the interest rate swaps underlying the interest rate swaptions were as follows:

		Interest Rate Index	Principal Amount \$	Start Date	Carrying Amount of Assets (Liability)	Remaining Term (Years)	Fixed Interest Rate (%)
Interest rate swaption							
Call Option		LIBOR	155,000 <sup>(i)</sup>	April 28, 2017	586	7.5	3.34%
Interest rate swaption	Put						
Option		LIBOR	155,000 <sup>(i)</sup>	April 28, 2017	(3,984)	7.5	2.15%
Interest rate swaption							
Call Option		LIBOR	160,000 <sup>(ii)</sup>	January 31, 2018	2,060	8.0	3.10%
Interest rate swaption	Put						
Option		LIBOR	160,000 <sup>(ii)</sup>	January 31, 2018	(3,996)	8.0	1.97%

(i) Amortizing every three months from \$155.0 million in April 2017 to \$85.4 million in October 2024.

(ii) Amortizing every three months from \$160.0 million in January 2018 to \$82.5 million in January 2026.

As at September 30, 2015, the Partnership had multiple interest rate swaps and cross currency swaps with the same counterparty that are subject to the same master agreements. Each of these master agreements provides for the net settlement of all swaps subject to that master agreement through a single payment in the event of default or termination of any one swap. The fair value of these interest rate swaps are presented on a gross basis in the Partnership's consolidated balance sheets. As at September 30, 2015, these interest rate swaps and cross-currency swaps had an aggregate fair value liability of \$216.0 million. As at September 30, 2015, the Partnership had \$33.8 million on deposit as security for swap liabilities under certain master agreements. The deposit is presented in restricted cash - current and long-term on the Partnership's consolidated balance sheets.

*Credit Risk*

The Partnership is exposed to credit loss if the counterparties to its interest rate swap agreements fail to perform. In order to minimize counterparty risk, the Partnership only enters into derivative transactions with counterparties that are rated A- or better by Standard & Poor's or A3 or better by Moody's at the time of the transactions. In addition, to the extent practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

*Other Derivative*

In order to reduce the variability of its revenue, the Partnership has entered into an agreement with Teekay Corporation under which Teekay Corporation pays the Partnership any amounts payable to the charterer of the *Toledo Spirit* as a result of spot rates being below the fixed rate, and the Partnership pays Teekay Corporation any amounts payable to the Partnership by the charterer of the *Toledo Spirit* as a result of spot rates being in excess of the fixed rate. The fair value of the derivative liability at September 30, 2015 was \$4.6 million (December 31, 2014 a liability of \$2.1 million).

The following table presents the location and fair value amounts of derivative instruments, segregated by type of contract, on the Partnership's consolidated balance sheets.

	Advances to affiliates	Derivative assets	Accrued liabilities/ Advances from affiliates	Current portion of derivative liabilities	Derivative liabilities
<b>As at September 30, 2015</b>					
Interest rate swap agreements			(4,428)	(42,378)	(68,859)
Interest rate swaption agreements		2,646			(7,980)
Cross currency swap agreements			(1,055)	(9,141)	(110,527)
Toledo Spirit time-charter derivative	326			(2,800)	(2,080)
	326	2,646	(5,483)	(54,319)	(189,446)
<b>As at December 31, 2014</b>					
Interest rate swap agreements		441	(7,486)	(52,356)	(60,157)
Cross currency swap agreements			(544)	(4,922)	(64,920)
Toledo Spirit time-charter derivative			(637)	(400)	(1,100)
		441	(8,667)	(57,678)	(126,177)

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

Realized and unrealized gains (losses) relating to interest rate swap agreements and the Toledo Spirit time-charter derivative are recognized in earnings and reported in realized and unrealized (loss) gain on derivative instruments in the Partnership's consolidated statements of income. The effect of the gain (loss) on these derivatives on the Partnership's consolidated statements of income is as follows:

	<b>Three Months Ended September 30,</b>					
	<b>2015</b>			<b>2014</b>		
	<b>Realized gains (losses)</b>	<b>Unrealized gains (losses)</b>	<b>Total</b>	<b>Realized gains (losses)</b>	<b>Unrealized gains (losses)</b>	<b>Total</b>
Interest rate swap agreements	(7,232)	(12,232)	(19,464)	(10,092)	13,880	3,788
Interest rate swaption agreements		(5,927)	(5,927)			
Toledo Spirit time-charter derivative	326	(1,770)	(1,444)		(1,500)	(1,500)
	(6,906)	(19,929)	(26,835)	(10,092)	12,380	2,288

	<b>Nine Months Ended September 30,</b>					
	<b>2015</b>			<b>2014</b>		
	<b>Realized gains (losses)</b>	<b>Unrealized gains (losses)</b>	<b>Total</b>	<b>Realized gains (losses)</b>	<b>Unrealized gains (losses)</b>	<b>Total</b>
Interest rate swap agreements	(21,856)	835	(21,021)	(29,356)	12,512	(16,844)
Interest rate swaption agreements		(5,334)	(5,334)			
Toledo Spirit time-charter derivative	(244)	(3,380)	(3,624)	(224)	(4,500)	(4,724)
	(22,100)	(7,879)	(29,979)	(29,580)	8,012	(21,568)

Unrealized and realized gains (losses) relating to cross currency swap agreements are recognized in earnings and reported in foreign currency exchange (loss) gain in the Partnership's consolidated statements of income. For the three and nine months ended September 30, 2015, unrealized losses relating to the cross currency swap agreements of \$31.0 million and \$49.8 million, respectively, and realized losses of \$2.3 million and \$5.2 million, respectively, were recognized in earnings. For the three and nine months ended September 30, 2014, unrealized losses of \$10.0 million



and \$13.8 million, respectively, and realized losses of \$0.5 million and \$1.1 million, respectively, were recognized in earnings.

## 11. Commitments and Contingencies

a) Between December 2012 and February 2015, the Partnership signed contracts with Daewoo Shipbuilding & Marine Engineering Co. (or *DSME*) for the construction of nine 173,400-cubic meter LNG carriers at a total fully-built up cost of approximately \$1.8 billion. These newbuilding vessels will be equipped with the M-type, Electronically Controlled, Gas Injection (or *MEGI*) twin engines, which are expected to be significantly more fuel-efficient and have lower emission levels than other engines currently being utilized in LNG shipping. Two of the vessels ordered are scheduled for delivery in 2016 and, upon delivery of the vessels, will be chartered to Cheniere Marketing L.L.C. at fixed rates for a period of five years. Five of the vessels ordered are scheduled for delivery between 2017 and 2018 and, upon delivery of the vessels, will be chartered to a wholly owned subsidiary of Royal Dutch Shell PLC (or *Shell*) at fixed rates for a period of six to eight years, plus extension options. The Partnership intends to secure charter contracts for the remaining two newbuilding vessels prior to their deliveries in 2017 and 2018. As at September 30, 2015, costs incurred under these newbuilding contracts totaled \$361.1 million and the estimated remaining costs to be incurred are \$23.7 million (remainder of 2015), \$335.0 million (2016), \$585.1 million (2017) and \$534.4 million (2018). The Partnership intends to finance the newbuilding payments through existing liquidity and expects to secure long-term debt financing for the vessels prior to their scheduled deliveries.

b) In June 2015, the Partnership signed contracts with Hyundai Samho Heavy Industries Co., Ltd. of South Korea for the construction of two 174,000-cubic meter LNG carriers equipped with MEGI engines at a total fully-built up cost of approximately \$416.7 million. One of the vessels is scheduled for delivery in the first quarter of 2019 and, upon delivery of the vessel, will be chartered to BP Shipping Limited (or *BP*) at fixed rates for a period of 13 years. The Partnership intends to secure a charter contract for the second newbuilding vessel prior to its delivery in 2019. As at September 30, 2015, costs incurred under these newbuilding contracts totaled \$39.9 million and the estimated remaining costs to be incurred are \$1.7 million (remainder of 2015), \$2.3 million (2016), \$82.0 million (2017), \$44.5 million (2018) and \$246.3 million (2019). The Partnership intends to finance the newbuilding payments through existing liquidity and expects to secure long-term debt financing for the vessels prior to their scheduled deliveries.

c) As described under Note 4 in the Partnership's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2014, the Teekay Nakilat Joint Venture was the lessee under three separate 30-year capital lease arrangements with a third party for three LNG carriers (or the *RasGas II LNG Carriers*). Under the terms of the leasing arrangements for the RasGas II LNG Carriers, the lessor claimed tax depreciation on the capital expenditures it incurred to acquire these vessels. As is typical in these leasing arrangements, tax and change of law risks were assumed by the lessee, in this case the Teekay Nakilat Joint Venture. Lease payments under the lease arrangements were based on certain tax and financial assumptions at the commencement of the leases and subsequently adjusted to maintain the lessor's agreed after-tax margin. On December 22, 2014, the Teekay Nakilat Joint Venture terminated the leasing of the RasGas II LNG Carriers. However, the Teekay Nakilat Joint Venture remains obligated to the lessor to maintain the lessor's agreed after-tax margin from the commencement of the lease to the lease termination date and placed \$6.8 million on deposit with the lessor as security against any future claims.

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

The UK taxing authority (or *HMRC*) has been challenging the use of similar lease structures. One of those challenges resulted in a court decision from the First Tribunal in January 2012 regarding a similar financial lease of an LNG carrier that ruled in favor of the taxpayer, as well as a 2013 decision from the Upper Tribunal that upheld the 2012 verdict. However, HMRC appealed the 2013 decision to the Court of Appeal and in August 2014, HMRC was successful in having the judgment of the First Tribunal (in favor of the taxpayer) set aside. Taking into account the appellate court's comments on the earlier judgment, the First Tribunal reconsidered the matter and ruled in favor of HMRC in a decision released on August 14, 2015. The taxpayer in this particular ruling has the election to appeal the First Tribunal's decision, but it is unclear whether such an appeal has been filed since that information is currently not publically available. If the lessor of the RasGas II LNG Carriers were to lose on a similar claim from HMRC, the Partnership's 70% share of the potential exposure in the Teekay Nakilat Joint Venture is estimated to be approximately \$60 million. Such estimate is primarily based on information received from the lessor.

d) As described in Note 5a, the Partnership acquired an ownership interest in the BG Joint Venture and, as part of the acquisition, agreed to assume BG's obligation to provide shipbuilding supervision and crew training services for the four LNG carrier newbuildings up to their delivery dates pursuant to a ship construction support agreement. As at September 30, 2015, the Partnership incurred \$3.5 million, net of reimbursement from BG, relating to shipbuilding and crew training services. The remaining estimated amounts to be incurred for the shipbuilding and crew training obligation, net of the reimbursement from BG, are \$2.5 million (remainder of 2015), \$4.2 million (2016), \$3.8 million (2017), \$4.1 million (2018) and \$0.4 million (2019).

In addition, the BG Joint Venture has a \$787.0 million debt facility to finance a portion of the estimated fully built-up cost of \$1.0 billion for its four newbuilding carriers, with the remaining portion to be financed pro-rata based on ownership interests by the Partnership and the other partners. As at September 30, 2015, the Partnership's proportionate share of the remaining newbuilding installments, net of the financing, totaled \$0.3 million (remainder of 2015), \$7.9 million (2016), \$15.0 million (2017), \$17.3 million (2018) and \$6.3 million (2019).

e) The Partnership, through the Yamal LNG Joint Venture, has a 50% ownership interest in six 172,000-cubic meter ARC7 LNG carrier newbuildings that have an estimated total fully built-up cost of \$2.1 billion. As at September 30, 2015, the Partnership's proportionate costs incurred under these newbuilding contracts totaled \$99.5 million and the Partnership's proportionate share of the estimated remaining costs to be incurred is \$0.3 million (remainder of 2015), \$74.3 million (2016), \$97.5 million (2017), \$356.5 million (2018), \$214.3 million (2019) and \$198.3 million (thereafter). The Yamal LNG Joint Venture intends to secure debt financing for 70% to 80% of the fully built-up cost of the six newbuildings.

**12. Total Capital and Net Income Per Unit**

At September 30, 2015, approximately 68.3% of the Partnership's common units outstanding were held by the public. The remaining common units, as well as the 2% general partner interest, were held by a subsidiary of Teekay

Corporation.

In 2013, the Partnership implemented a continuous offering program (or *COP*) under which the Partnership may issue new common units at market prices up to a maximum aggregate amount of \$100.0 million. The Partnership sold 1.2 million units under the COP as at December 31, 2014 for net proceeds of \$48.4 million, of which 160,000 units were settled in January 2015 for net proceeds of \$6.8 million (including General Partner's 2% proportionate capital contribution). In addition, during the three and nine months ended September 30, 2015, the Partnership sold 701,496 units and 981,288 units, respectively, under the COP for net proceeds of \$18.4 million and \$27.9 million (including General Partner's 2% proportionate capital contribution), respectively, of which 4,958 units were settled in October 2015 for net proceeds of \$0.1 million (including General Partner's 2% proportionate capital contribution). The Partnership did not sell any units under the COP during the three and nine months ended September 30, 2014.

### ***Net Income Per Unit***

Net income per common unit is determined by dividing net income, after deducting the non-controlling interest and the General Partner's interest, by the weighted-average number of units outstanding during the period. The computation of limited partners' interest in net income per common unit diluted assumes the exercise of all dilutive restricted units using the treasury stock method. The computation of limited partners' interest in net loss per common unit diluted does not assume such exercises as the effect would be anti-dilutive.

The General Partner's and common unitholders' interests in net income are calculated as if all net income was distributed according to the terms of the Partnership's partnership agreement, regardless of whether those earnings would or could be distributed. The partnership agreement does not provide for the distribution of net income; rather, it provides for the distribution of available cash, which is a contractually defined term that generally means all cash on hand at the end of each quarter after establishment of cash reserves determined by the Partnership's board of directors to provide for the proper conduct of the Partnership's business, including reserves for maintenance and replacement capital expenditures and anticipated credit needs. In addition, the General Partner is entitled to incentive distributions if the amount the Partnership distributes to unitholders with respect to any quarter exceeds specified target levels. Unlike available cash, net income is affected by non-cash items, such as depreciation and amortization, unrealized gains or losses on non-designated derivative instruments and foreign currency translation gains or losses.

During the three and nine months ended September 30, 2015 and 2014, cash distributions exceeded \$0.4625 per unit and, consequently, the assumed distribution of net income resulted in the use of the increasing percentages to calculate the General Partner's interest in net income for the purposes of the net income per unit calculation. For more information on the increasing percentages to calculate the General Partner's interest in net income, please refer to the Partnership's Annual Report on Form 20-F.

Pursuant to the partnership agreement, allocations to partners are made on a quarterly basis.

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**13. Unit-Based Compensation**

In March 2015, a total of 10,447 common units, with an aggregate value of \$0.4 million, were granted to the non-management directors of the General Partner as part of their annual compensation for 2015.

The Partnership grants restricted unit awards as incentive-based compensation under the Teekay LNG Partners L.P. 2005 Long-Term Incentive Plan to certain of the Partnership's employees and to certain employees of Teekay Corporation's subsidiaries that provide services to the Partnership. The Partnership measures the cost of such awards using the grant date fair value of the award and recognizes that cost, net of estimated forfeitures, over the requisite service period. The requisite service period consists of the period from the grant date of the award to the earlier of the date of vesting or the date the recipient becomes eligible for retirement. For unit-based compensation awards subject to graded vesting, the Partnership calculates the value for the award as if it was one single award with one expected life and amortizes the calculated expense for the entire award on a straight-line basis over the requisite service period. The compensation cost of the Partnership's unit-based compensation awards are reflected in general and administrative expenses in the Partnership's consolidated statements of income.

In March 2015 and 2014, the Partnership granted 32,054 and 31,961 restricted units, respectively, with grant date fair values of \$1.1 million and \$1.3 million, respectively, to certain of the Partnership's employees and to certain employees of Teekay Corporation's subsidiaries who provide services to the Partnership, based on the Partnership's closing unit price on the grant date. Each restricted unit is equal in value to one of the Partnership's common units plus reinvested distributions from the grant date to the vesting date. The restricted units vest equally over three years from the grant date. Any portion of a restricted unit award that is not vested on the date of a recipient's termination of service is cancelled, unless their termination arises as a result of the recipient's retirement, and in this case, the restricted unit award will continue to vest in accordance with the vesting schedule. Upon vesting, the value of the restricted unit awards is paid to each recipient in the form of units, net of withholding tax. During March 2015, 13,783 restricted units with a fair value of \$0.6 million, net of withholding tax of \$0.4 million, vested. During the three and nine months ended September 30, 2015, the Partnership recognized an expense of \$0.1 million and \$1.1 million, respectively, relating to the restricted units (three and nine months ended September 30, 2014, \$0.1 million and \$1.3 million, respectively).

**14. Restructuring Charges**

a) Compania Espanole de Petroles, S.A., the charterer and owner of the Partnership's former conventional vessels under capital lease, sold the *Tenerife Spirit*, *Algeciras Spirit*, and *Huelva Spirit* between December 2013 and August 2014. As a result of these sales, the Partnership recorded restructuring charges of \$2.0 million and \$1.8 million during 2014 and 2013, respectively, relating to seafarer severance payments. The balance outstanding of \$0.8 million at September 30, 2015 (December 31, 2014 \$1.6 million) is included in accrued liabilities in the Partnership's consolidated balance sheets.

b) In July 2015, pursuant to a request by the charterer of the *Alexander Spirit*, the Partnership changed the crew on the vessel which resulted in a restructuring charge of \$3.5 million relating to seafarer severance payments. The full amount of the restructuring charge was recovered from the charterer and is included in voyage revenues in the Partnership's consolidated statements of income. The balance payable to the affected seafarers of \$2.5 million at September 30, 2015 is included in accrued liabilities in the Partnership's consolidated balance sheets.

### **15. Supplemental Cash Flow Information**

a) As described in Note 4 in the Partnership's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2014, the sales of the *Algeciras Spirit* and *Huelva Spirit* in 2014 resulted in the vessels under capital lease being returned to the owner and the capital lease obligations being concurrently extinguished. As a result, the sales of the *Algeciras Spirit* and *Huelva Spirit* under capital lease of \$56.2 million in 2014 and the concurrent extinguishment of the corresponding capital lease obligations for \$56.2 million were treated as non-cash transactions in the Partnership's consolidated statements of cash flows.

b) A portion of the dividends declared by the Teekay Tangguh Joint Venture on February 1, 2014 that was used to settle advances made by the Teekay Tangguh Joint Venture to BLT LNG Tangguh Corporation and P.T. Berlian Laju Tanker of \$14.4 million, was treated as a non-cash transaction in the Partnership's consolidated statements of cash flows.

c) As described in Notes 5a and 11d, in June 2014 the Partnership acquired BG's ownership interest in the BG Joint Venture. As compensation, the Partnership assumed BG's obligation (net of an agreement by BG to pay the Partnership approximately \$20.3 million) to provide shipbuilding supervision and crew training services for the four LNG carrier newbuildings up to their delivery dates pursuant to a ship construction support agreement. The estimated fair value of the assumed obligation of approximately \$33.3 million was used to offset the purchase price and the Partnership's receivable from BG and was treated as a non-cash transaction in the Partnership's consolidated statements of cash flows.

### **16. Accounting Pronouncements**

In April 2014, the Financial Accounting Standards Board (or *FASB*) issued Accounting Standards Update 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (or *ASU 2014-08*) which raises the threshold for disposals to qualify as discontinued operations. A discontinued operation is now defined as: (i) a component of an entity or group of components that has been disposed of or classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results; or (ii) an acquired business that is classified as held for sale on the acquisition date. ASU 2014-08 also requires additional disclosures regarding discontinued operations, as well as material disposals that do not meet the definition of discontinued operations. ASU 2014-08 was adopted on January 1, 2015. The impact, if any, of adopting ASU 2014-08 on the Partnership's financial statements will depend on the occurrence and nature of disposals that occur in future periods.

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In May 2014, the FASB issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, (or ASU 2014-09). ASU 2014-09 will require an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue as each performance obligation is satisfied. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017 and shall be applied, at the Partnership's option, retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is not permitted. The Partnership is evaluating the effect of adopting this new accounting guidance.

In February 2015, the FASB issued Accounting Standards Update 2015-02, *Amendments to the Consolidation Analysis* (or ASU 2015-02) which eliminates the deferral of certain consolidation standards for entities considered to be investment companies, modifies the consolidation analysis performed on limited partnerships and modifies the impact of fee arrangements and related parties on the determination of the primary beneficiary of a variable interest entity. ASU 2015-02 is effective for interim and annual periods beginning after December 15, 2015. ASU 2015-02 may be applied using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. A reporting entity also may apply ASU 2015-02 retrospectively. The Partnership is evaluating the effect of adopting this new accounting guidance.

In April 2015, the FASB issued Accounting Standards Update 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (or ASU 2015-03) which require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Deferred debt issuance costs of line-of-credit arrangements may continue to be presented as an asset and subsequently amortized ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-03 is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted and the application of this standard is to be applied on a retrospective basis. The Partnership is evaluating the effect of adopting this new accounting guidance.

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**TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES**

**SEPTEMBER 30, 2015**

**PART I FINANCIAL INFORMATION**

**ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements and accompanying notes contained in Item 1 Financial Statements of this Report on Form 6-K and with our audited consolidated financial statements contained in Item 18 Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 5 Operating and Financial Review and Prospects of our Annual Report on Form 20-F for the year ended December 31, 2014.

**OVERVIEW**

Teekay LNG Partners L.P. is an international provider of marine transportation services for liquefied natural gas (or *LNG*), liquefied petroleum gas (or *LPG*) and crude oil. As of September 30, 2015, we had a fleet of 50 LNG carriers (including one regasification unit and 21 LNG carrier newbuildings), 30 LPG/Multigas carriers (including seven LPG carrier newbuildings) and eight conventional tankers which generally operate under medium to long-term, fixed-rate charters. Our interests in these vessels range from 20% to 100%.

**SIGNIFICANT DEVELOPMENTS IN 2015**

**LNG Newbuildings**

In June 2015, we ordered two LNG carrier newbuildings from Hyundai Samho Heavy Industries Co., Ltd. (or *HHI*), of which one of the LNG carrier newbuildings will be chartered out to BP Shipping Limited (or *BP*) at fixed rates for a period of 13 years. In total, we have 11 wholly-owned LNG carrier newbuildings on order, which are scheduled for delivery between early 2016 and early 2019, and we have time-charter contracts for all but three of the 11 ordered newbuildings. In addition to these 11 wholly-owned LNG carrier newbuildings, we have a 20% interest in two LNG carrier newbuildings and a 30% interest in another two LNG carrier newbuildings (or the *BG Joint Venture*) scheduled for delivery between 2017 and 2019 and six LNG carrier newbuildings relating to our 50% owned joint venture with China LNG Shipping (Holdings) Limited (or the *Yamal LNG Joint Venture*) scheduled for delivery between 2018 and 2020.

**Equity Offerings**

During the second quarter of 2015, we sold 279,792 common units under our continuous offering program for net proceeds of \$9.5 million (including our general partner's 2% proportionate capital contribution and net of offering costs). During the third quarter of 2015, we sold 701,496 common units under our continuous offering program for net proceeds of \$18.4 million (including our general partner's 2% proportionate capital contribution and net of offering costs).

**Bond Issuance**

In May 2015, we issued, in the Norwegian bond market, NOK 1,000 million in senior unsecured bonds that mature in May 2020. The aggregate principal amount of the bonds was equivalent to \$134.0 million and all interest and principal payments have been swapped into U.S. Dollars at a fixed interest rate of 5.92%. We used the net proceeds from the bond offering for general partnership purposes, including the funding of newbuilding installments. The bonds are listed on the Oslo Stock Exchange.

### **Charter Contracts for MALT LNG Carriers**

In January 2015, the *Magellan Spirit*, one of the six vessels (or the *MALT LNG Carriers*) in our joint venture with Marubeni Corporation (or the *Teekay LNG-Marubeni Joint Venture*) in which we have a 52% ownership interest, had a grounding incident. The vessel was subsequently refloated and returned to service. We expect the cost of such refloating and related costs associated with the grounding to be covered by insurance, less an applicable deductible. The charterer has claimed that the vessel was off-hire for more than 30 consecutive days during the first quarter of 2015, which in the view of the charterer, permitted the charterer to terminate the charter contract, which it did in late-March 2015. The Teekay LNG-Marubeni Joint Venture has disputed both the charterer's aggregate off-hire claims as well as the charterer's ability to terminate the charter contract, which originally would have expired in September 2016. The Teekay LNG-Marubeni Joint Venture has obtained legal assistance in resolving this dispute. The impact in future periods from this incident will depend upon our ability to re-charter the vessel and the resolution of this dispute. The charter contract of another MALT LNG Carrier, the *Methane Spirit*, expired in March 2015 as scheduled. The Teekay LNG-Marubeni Joint Venture secured some short-term employment for the *Magellan Spirit* and *Methane Spirit* during the second and third quarters of 2015. In October 2015, both the *Magellan Spirit* and the *Methane Spirit* commenced charter contracts for a period of six months plus two extension options ranging from two to three months at significantly lower charter rates than their previous contracts. The Teekay LNG-Marubeni Joint Venture continues to seek medium-term to long-term employment for both vessels.

The Teekay LNG-Marubeni Joint Venture is a party to a loan facility for four of its LNG carriers, including the *Magellan Spirit* that had the grounding incident in January 2015. We have guaranteed our 52% share of the Teekay LNG-Marubeni Joint Venture's obligations under this facility. The loan facility contains mandatory prepayment provisions upon early termination of a charter and requires the borrower to maintain a specific debt service coverage ratio. In June 2015, the lenders waived the mandatory prepayment provision in relation to the *Magellan Spirit* and the debt service coverage ratio covenant for the loan facility. Both waivers are for the remaining term of the facility. In return, the Teekay LNG-Marubeni Joint Venture funded an earnings account, which is collateral for the loan facility, with \$7.5 million and prepaid \$30.0 million of the loan facility, both in September 2015. These amounts were funded by us and Marubeni Corporation based on our respective ownership percentages.



**Table of Contents****RESULTS OF OPERATIONS**

There are a number of factors that should be considered when evaluating our historical financial performance and assessing our future prospects and we use a variety of financial and operational terms and concepts when analyzing our results of operations. These factors, terms and concepts are described in Item 5 Operating and Financial Review and Prospects of our Annual Report on Form 20-F for the year ended December 31, 2014, filed with the U.S. Securities and Exchange Commission (or *SEC*) on April 23, 2015.

We manage our business and analyze and report our results of operations on the basis of two business segments: the liquefied gas segment and the conventional tanker segment, each of which are discussed below.

***Liquefied Gas Segment***

As at September 30, 2015, our liquefied gas segment fleet included 50 LNG carriers and 30 LPG/Multigas carriers, including newbuildings, in which our interests ranged from 20% to 100%. However, the table below only includes 13 LNG carriers and six LPG/Multigas carriers, which are accounted for under the consolidation method of accounting. The table below excludes 11 LNG carrier newbuildings and the following vessels accounted for under the equity method: (i) the six MALT LNG Carriers in which we have a 52% ownership interest, (ii) four LNG carriers relating to the Angola LNG Project (or the *Angola LNG Carriers*) in which we have a 33% ownership interest, (iii) four LNG carriers relating to our joint venture with QGTC Nakilat (1643-6) Holdings Corporation (or the *RasGas 3 LNG Carriers*) in which we have a 40% ownership interest, (iv) four LNG carrier newbuildings in the BG Joint Venture in which we have a 30% ownership interest in two LNG carrier newbuildings and a 20% ownership interest in the other two LNG carrier newbuildings, (v) six LNG carrier newbuildings relating to the Yamal LNG Joint Venture in which we have a 50% ownership interest, (vi) two LNG carriers (or the *Exmar LNG Carriers*) and (vii) 17 LPG carriers and seven LPG carrier newbuildings (or the *Exmar LPG Carriers*) relating to our 50/50 joint ventures with Exmar. The comparison of the results from vessels accounted for under the equity method are described below under Other Operating Results Equity Income.

The following table compares our liquefied gas segment's operating results for the three and nine months ended September 30, 2015 and 2014, and compares its net voyage revenues (which is a non-GAAP financial measure) for three and nine months ended September 30, 2015 and 2014 to voyage revenues, the most directly comparable GAAP financial measure. Non-GAAP financial measures may not be comparable to those of other companies which may calculate similar measures differently. The following table also provides a summary of the changes in calendar-ship-days and revenue days for our liquefied gas segment:

(in thousands of U.S. Dollars, except revenue days, calendar-ship-days and percentages)	Three Months Ended September 30,		
	2015	2014	% Change
Voyage revenues	75,142	76,687	(2.0)
Voyage expenses		(240)	(100.0)
Net voyage revenues	75,142	76,447	(1.7)
Vessel operating expenses	(16,260)	(14,259)	14.0
Depreciation and amortization	(17,268)	(17,737)	(2.6)
General and administrative expenses <sup>(1)</sup>	(3,916)	(4,142)	(5.5)

Income from vessel operations	37,698	40,309	(6.5)
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Operating Data:

Revenue Days (A)	1,721	1,630	5.6
Calendar-Ship-Days (B)	1,748	1,656	5.6
Utilization (A)/(B)	98.5%	98.4%	

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(in thousands of U.S. Dollars, except revenue days, calendar-ship-days and percentages)	Nine Months Ended		
	2015	2014	% Change
Voyage revenues	228,542	229,253	(0.3)
Voyage expenses		(1,768)	(100.0)
Net voyage revenues	228,542	227,485	0.5
Vessel operating expenses	(46,693)	(43,719)	6.8
Depreciation and amortization	(53,578)	(53,738)	(0.3)
General and administrative expenses <sup>(1)</sup>	(14,755)	(13,350)	10.5
Income from vessel operations	113,516	116,678	(2.7)
Operating Data:			
Revenue Days (A)	5,160	4,843	6.5
Calendar-Ship-Days (B)	5,187	4,914	5.6
Utilization (A)/(B)	99.5%	98.6%	

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

Our liquefied gas segment's total calendar-ship-days increased by 5.6% to 5,187 days for the nine months ended September 30, 2015 from 4,914 days for the same period in 2014 as a result of the acquisition of the *Norgas Napa* from I.M. Skaugen SE in November 2014. During the nine months ended September 30, 2015, one consolidated vessel in this segment was off-hire for 27 days compared to three vessels being off-hire for 71 days in the same period last year. As a result, our utilization increased to 99.5% for the nine months ended September 30, 2015 compared to 98.6% for the same period in 2014.

*Net Voyage Revenues.* Net voyage revenues decreased and increased for the three and nine months ended September 30, 2015, respectively, from the same periods last year, primarily as a result of:

decreases of \$3.0 million and \$8.8 million for the three and nine months ended September 30, 2015, respectively, due to the effect on our Euro-denominated revenues from the depreciation of the Euro against the U.S. Dollar compared to the same periods in 2014;

a decrease of \$1.3 million for the three and nine months ended September 30, 2015, respectively, due to the *Polar Spirit* being off-hire for 27 days in the third quarter of 2015 for a scheduled dry docking;

a decrease of \$0.7 million for the three and nine months ended September 30, 2015 due to a performance claim on the *Madrid Spirit* in the third quarter of 2015;

a decrease of \$0.5 million and an increase of \$0.7 million for the three and nine months ended September 30, 2015, respectively, relating to a charter rate cost flow-through adjustment for the *Arctic Spirit* and *Polar Spirit* in accordance with the charter contracts with Teekay Corporation;

an increase of \$2.6 million for the nine months ended September 30, 2015, due to the *Galicia Spirit* being off-hire for 28 days in the first quarter of 2014 for a scheduled dry docking;

an increase of \$2.4 million for the nine months ended September 30, 2015, respectively, relating to 18 days of unscheduled off-hire in the first quarter of 2014 due to repairs required for one of our LNG carriers;

an increase of \$1.9 million for the three and nine months ended September 30, 2014 due to the *Madrid Spirit* being off-hire for 24 days in the third quarter of 2014 for a scheduled dry docking;

increases of \$1.1 million and \$3.4 million for the three and nine months ended September 30, 2015, respectively, relating to amortization of in-process contracts recognized into revenue with respect to our shipbuilding and site supervision contract for the four LNG carrier newbuildings in the BG Joint Venture (however, we had a corresponding increase in operating expenses);

increases of \$0.9 million and \$2.7 million for the three and nine months ended September 30, 2015, respectively, as a result of the acquisition and delivery of the *Norgas Napa* in November 2014; and

an increase of \$0.5 million and a decrease of \$1.1 million for the three and nine months ended September 30, 2015, respectively, due to operating expense flow-through adjustments under our charter provisions for the *Tanggung Hiri* and *Tanggung Sago*.

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*Vessel Operating Expenses.* Vessel operating expenses increased for the three and nine months ended September 30, 2015 from the same periods last year, primarily as a result of:

increases of \$1.1 million and \$3.4 million for the three and nine months ended September 30, 2015, respectively, in relation to our agreement to provide shipbuilding and site supervision costs for the four LNG carrier newbuildings in the BG Joint Venture;

increases of \$0.4 million and \$1.2 million for the three and nine months ended September 30, 2015, respectively, in ship management fees for our LNG carriers; and

an increase of \$0.5 million and a decrease of 1.1 million for the three and nine months ended September 30, 2015 as a result of timing of main engine overhauls on the *Tangguh Hiri* and *Tangguh Sago*; partially offset by:

a decrease of \$0.9 million for the nine months ended September 30, 2015 relating to lower crew wages primarily due to the depreciation of the Euro against the U.S. Dollar compared to the same periods in 2014.

**Conventional Tanker Segment**

As at September 30, 2015, our fleet included seven Suezmax-class double-hulled conventional crude oil tankers and one Handymax Product tanker, six of which we own and two of which we lease under capital leases.

The following table compares our conventional tanker segment's operating results for the three and nine months ended September 30, 2015 and 2014, and compares its net voyage revenues (which is a non-GAAP financial measure) for the three and nine months ended September 30, 2015 and 2014 to voyage revenues, the most directly comparable GAAP financial measure. The following tables also provide a summary of the changes in calendar-ship-days and revenue days for our conventional tanker segment:

(in thousands of U.S. Dollars, except revenue days, calendar-ship-days and percentages)	Three Months Ended		
	September 30,		
	2015	2014	% Change
Voyage revenues	23,273	24,089	(3.4)
Voyage expenses	(240)	(208)	15.4
Net voyage revenues	23,033	23,881	(3.6)
Vessel operating expenses	(8,059)	(9,279)	(13.1)
Depreciation and amortization	(5,205)	(5,572)	(6.6)
General and administrative expenses <sup>(1)</sup>	(1,760)	(1,437)	22.5
Restructuring charges	(3,510)	(2,231)	57.3

Income from vessel operations	4,499	5,362	(16.1)
<b>Operating Data:</b>			
Revenue Days (A)	702	778	(9.8)
Calendar-Ship-Days (B)	736	778	(5.4)
Utilization (A)/(B)	95.4%	100.0%	

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(in thousands of U.S. Dollars, except revenue days, calendar-ship-days and percentages)	Nine Months Ended September 30,		% Change
	2015	2014	
Voyage revenues	65,807	74,336	(11.5)
Voyage expenses	(931)	(1,180)	(21.1)
Net voyage revenues	64,876	73,156	(11.3)
Vessel operating expenses	(23,362)	(28,395)	(17.7)
Depreciation and amortization	(15,673)	(17,211)	(8.9)
General and administrative expenses <sup>(1)</sup>	(4,697)	(4,891)	(4.0)
Restructuring charges	(3,510)	(2,231)	57.3
Income from vessel operations	17,634	20,428	(13.7)
<b>Operating Data:</b>			
Revenue Days (A)	2,148	2,415	(11.1)
Calendar-Ship-Days (B)	2,184	2,466	(11.4)
Utilization (A)/(B)	98.4%	97.9%	

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

Our conventional tanker fleet's total calendar ship days decreased by 11.4% to 2,184 days for the nine months ended September 30, 2015 from 2,466 days for the same period in 2014 as a result of the sales of the *Algeciras Spirit* and the *Huelva Spirit* in February 2014 and August 2014, respectively. During the nine months ended September 30, 2015, one of our vessels in this segment was off-hire for 22 days for a scheduled dry docking and another vessel was off-hire for 12 days relating to a crew work stoppage, compared to two of our vessels being off-hire for a total of 51 days for scheduled dry dockings during the same period in 2014. As a result, our utilization increased to 98.4% for the nine months ended September 30, 2015 compared to 97.9% for the same period in 2014.

*Net Voyage Revenues.* Net voyage revenues decreased for the three and nine months ended September 30, 2015 from the same periods last year, primarily as a result of:

decreases of \$1.4 million and \$7.9 million for the three and nine months ended September 30, 2015, respectively, due to the sales of the *Algeciras Spirit* and *Huelva Spirit* in February 2014 and August 2014, respectively;

decreases of \$1.3 million and \$3.0 million for the three and nine months ended September 30, 2015, respectively, due to higher revenues recognized in the same periods last year by the *Bermuda Spirit* and *Hamilton Spirit* relating to an agreement between us and the charterer that ended in October 2014, which resulted in our recognizing additional revenues in 2014 when Suezmax tanker spot rates exceeded a certain

amount;

a decrease of \$0.6 million for the three and nine months ended September 30, 2015 due to the *Toledo Spirit* being off-hire for 22 days in the third quarter of 2015 for a scheduled dry docking; and

decreases of \$0.6 million and \$0.9 million for the three and nine months ended September 30, 2015, respectively, due to the *Alexander Spirit* being off-hire for 12 days in the third quarter of 2015 due to a crew work stoppage and as a result of the depreciation of the Australian Dollar (*AUD*) against the U.S. Dollar compared to the same periods in 2014, affecting our AUD-denominated revenues;

partially offset by:

an increase of \$3.5 million for the three and nine months ended September 30, 2015 due to our recovery of crew restructuring charges from the charterer of the *Alexander Spirit*, who had requested we change the crew nationality on board the vessel (however, we had a corresponding increase in our restructuring charges, therefore this increase in revenue did not affect our cash flow or net income); and

an increase of \$0.8 million for the nine months ended September 30, 2015 due to the *Bermuda Spirit* being off-hire for 27 days in the first quarter of 2014 and the *Hamilton Spirit* being off-hire for 24 days in the second quarter of 2014 for scheduled dry dockings.

*Vessel Operating Expenses.* Vessel operating expenses decreased for the three and nine months ended September 30, 2015 compared to the same periods last year, primarily as a result of:

decreases of \$0.5 million and \$3.0 million for the three and nine months ended September 30, 2015, respectively, due to the sales of the *Algeciras Spirit* and *Huelva Spirit* in February 2014 and August 2014, respectively; and

decreases of \$0.4 million and \$1.5 million for the three and nine months ended September 30, 2015, respectively, in crew wages due to favorable foreign exchange impacts on crew wages denominated in foreign currencies.



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**Depreciation and Amortization.** Depreciation and amortization decreased for the three and nine months ended September 30, 2015, from the same periods last year, primarily as a result of the sales of the *Algeciras Spirit* and *Huelva Spirit* in February 2014 and August 2014, respectively.

**Restructuring Charges.** The restructuring charges of \$3.5 million for the three and nine months ended September 30, 2015 relates to seafarer severance payments pursuant to a request by the charterer to change the crew nationality on board the *Alexander Spirit*. However, we had a corresponding increase in our net voyage revenues as the charterer is responsible for all the severance payments. Therefore, this increase in restructuring expense did not affect our cash flow or net income. The restructuring charges of \$2.2 million for the three and nine months ended September 30, 2014 relates to the seafarer severance payments upon CEPSA's sale of our vessel under capital lease, the *Huelva Spirit*, on August 12, 2014.

**Other Operating Results**

**General and Administrative Expenses.** General and administrative expenses remained consistent for the three months ended September 30, 2015 compared to the same period last year, and increased to \$19.5 million for the nine months ended September 30, 2015 from \$18.2 million for the same period last year. The increase is primarily due to an increase of \$1.2 million due to higher advisory fees incurred to support our business development activities.

**Equity Income.** Equity income decreased to \$13.5 million and \$60.6 million for the three and nine months ended September 30, 2015, respectively, from \$38.7 million and \$92.0 million, respectively, for the same periods last year as set forth in the tables below:

(in thousands of U.S. Dollars)	Three Months Ended						Total Equity Income
	Angola LNG Carriers	Exmar LNG Carriers	Exmar LPG Carriers	MALT LNG Carriers	RasGas 3 LNG Carriers	Other	
Three months ended September 30, 2015	(2,709)	2,222	9,325	(840)	5,561	(36)	13,523
Three months ended September 30, 2014	5,433	2,851	14,542	10,726	5,162	(4)	38,710
Difference	(8,142)	(629)	(5,217)	(11,566)	399	(32)	(25,187)

(in thousands of U.S. Dollars)	Nine Months Ended						Total Equity Income
	Angola LNG Carriers	Exmar LNG Carriers	Exmar LPG Carriers	MALT LNG Carriers	RasGas 3 LNG Carriers	Other	
Nine months ended September 30, 2015	9,389	6,506	25,863	3,057	15,944	(176)	60,583
Nine months ended September 30, 2014	4,264	7,782	37,965	26,616	15,384	(4)	92,007
Difference	5,125	(1,276)	(12,102)	(23,559)	560	(172)	(31,424)

The \$8.1 million decrease for the three months ended September 30, 2015 in our 33% investment in the four Angola LNG Carriers was primarily due to unrealized losses on derivative instruments in 2015 as a result of long-term LIBOR benchmark interest rates decreasing for interest rate swaps, compared to unrealized gains on derivative

instruments in the same period last year, and a decrease in voyage revenues due to scheduled dry dockings for three of the four vessels in the joint venture during the third quarter of 2015. The \$5.1 million increase for the nine months ended September 30, 2015 was primarily due to an increase in voyage revenues upon amending the charter contract in the second quarter of 2015 to allow for drydocking and operating costs to pass-through to the charterer, retroactive to the beginning of the charter contract, and unrealized gains on derivative instruments in 2015 as a result of long-term LIBOR benchmark interest rates increasing for interest rate swaps compared to unrealized losses on derivative instruments in the same period last year.

The \$0.6 million and \$1.3 million decreases for the three and nine months ended September 30, 2015, respectively, in equity income from our 50% ownership interest in two Exmar LNG Carriers was primarily due to higher interest expense as a result of the completion of the joint venture's debt refinancing in 2015 and hedge ineffectiveness of its interest rate swaps in 2015.

The \$5.2 million and \$12.1 million decreases for the three and nine months ended September 30, 2015, respectively, in equity income from our 50% ownership interest in Exmar LPG BVBA were primarily due to the gains on the sales of the *Flanders Tenacity*, *Eeklo* and *Flanders Harmony*, which were sold during the second and third quarters of 2014, and hedge ineffectiveness of interest rate swaps in the third quarter of 2015, partially offset by higher contracted charter rates from four LPG newbuildings which delivered during 2014 and early 2015, net of four disposed of LPG carriers during 2014, and a loss on the sale of the *Temse* in the first quarter of 2014.

The \$11.6 million and \$23.6 million decreases for the three and nine months ended September 30, 2015, respectively, in our 52% investment in the MALT LNG Carriers were primarily due to fewer revenue days compared to the same periods in 2014 as a result of the disputed termination of the charter contract and unscheduled off-hire days relating to a grounding incident for the *Magellan Spirit* in the first quarter of 2015, the scheduled expiration of the charter contract for the *Methane Spirit* in March 2015 and the unscheduled off-hire days relating to the *Woodside Donaldson* to repair a damaged propulsion motor in January 2015.

*Interest Expense.* Interest expense decreased to \$11.2 million and \$32.4 million for the three and nine months ended September 30, 2015, respectively, from \$14.7 million and \$44.6 million, respectively, for the same periods last year. Interest expense primarily reflects interest incurred on our capital lease obligations and long-term debt. These changes were primarily the result of:

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decreases of \$1.4 million and \$3.4 million for the three and nine months ended September 30, 2015, respectively, due to an increase in capitalized interest as a result of our exercising three newbuildings options with Daewoo Shipbuilding & Marine Engineering Co. (or *DSME*) in December 2014, and entering into an additional newbuilding agreement with DSME in February 2015 and two additional newbuilding agreements with HHI in June 2015;

decreases of \$0.9 million and \$2.9 million for the three and nine months ended September 30, 2015, respectively, due to a lower interest rate on debt facilities and elimination of interest on capital lease obligations relating to our LNG carriers in Teekay Nakilat Corporation (or the *Teekay Nakilat Joint Venture*) upon debt refinancing and termination of capital lease obligations in December 2014;

decreases of \$0.6 million and \$2.6 million for the three and nine months ended September 30, 2015, respectively, due to lower interest on capital lease obligations associated with the sales of the *Algeciras Spirit* and *Huelva Spirit* in February 2014 and August 2014, respectively;

a decrease of \$1.1 million for the nine months ended September 30, 2015 relating to lower interest expense on our Norwegian Kroner (or *NOK*) bonds as a result of the depreciation of the NOK against the U.S. Dollar and a decrease in NIBOR;

decreases of \$0.7 million and \$1.9 million for the three and nine months ended September 30, 2015, respectively, relating to capitalized interest on the advances we made to the Yamal LNG Joint Venture in July 2014 to fund our proportionate share of the joint venture's newbuilding installments; and

decreases of \$0.4 million and \$1.4 million for the three and nine months ended September 30, 2015, respectively, due to the impact of a decrease in EURIBOR and depreciation of the Euro against the U.S. Dollar on our Euro-denominated debt facilities.

partially offset by:

an increase of \$0.8 million for the nine months ended September 30, 2015 relating to a new debt facility used to fund the delivery of the *Wilpride* in April 2014.

*Realized and Unrealized (Losses) Gains on Derivative Instruments.* Net realized and unrealized (losses) gains on derivative instruments were (\$26.8) million and (\$30.0) million for the three and nine months ended September 30, 2015, respectively, as compared to net realized and unrealized gains (losses) of \$2.3 million and (\$21.6) million, respectively, in the same periods last year, as set forth in the tables below:

		<b>Three Months Ended September 30,</b>	
		<b>2015</b>	<b>2014</b>
<b>Realized</b>	<b>Unrealized</b>	<b>Realized</b>	<b>Unrealized</b>
<b>gains</b>	<b>gains</b>	<b>gains</b>	<b>gains</b>

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<b>(in thousands of U.S. Dollars)</b>	<b>(losses)</b>	<b>(losses)</b>	<b>Total</b>	<b>(losses)</b>	<b>(losses)</b>	<b>Total</b>
Interest rate swap agreements	(7,232)	(12,232)	(19,464)	(10,092)	13,880	3,788
Interest rate swaption agreements		(5,927)	(5,927)			
Toledo Spirit time-charter derivative	326	(1,770)	(1,444)		(1,500)	(1,500)
	(6,906)	(19,929)	(26,835)	(10,092)	12,380	2,288

<b>(in thousands of U.S. Dollars)</b>	<b>Nine Months Ended September 30,</b>					
	<b>2015</b>			<b>2014</b>		
	<b>Realized gains</b>	<b>Unrealized gains</b>	<b>Total</b>	<b>Realized gains</b>	<b>Unrealized gains</b>	<b>Total</b>
	<b>(losses)</b>	<b>(losses)</b>		<b>(losses)</b>	<b>(losses)</b>	
Interest rate swap agreements	(21,856)	835	(21,021)	(29,356)	12,512	(16,844)
Interest rate swaption agreements		(5,334)	(5,334)			
Toledo Spirit time-charter derivative	(244)	(3,380)	(3,624)	(224)	(4,500)	(4,724)
	(22,100)	(7,879)	(29,979)	(29,580)	8,012	(21,568)

As at September 30, 2015 and 2014, we had interest rate swap and interest rate swaption agreements with aggregate average net outstanding notional amounts of approximately \$1.6 billion and \$1.3 billion, respectively, with average fixed rates of 3.3% and 3.8%, respectively. The decrease in realized losses from 2014 to 2015 relating to our interest rate swaps was primarily due to the termination of interest rate swaps in December 2014 that had been held by the Teekay Nakilat Joint Venture.

During the three months ended September 30, 2015, we recognized unrealized losses on our interest rate swap and swaption agreements associated with our U.S. Dollar-denominated long-term debt. This resulted from \$21.9 million of unrealized losses relating to decreases in long-term forward LIBOR benchmark interest rates, relative to June 30, 2015, partially offset by transfers of \$5.2 million of previously recognized unrealized losses to realized losses related to actual cash settlements of our interest rate swaps.

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During the nine months ended September 30, 2015, we recognized unrealized losses on our interest rate swap and swaption agreements associated with our U.S. Dollar-denominated long-term debt. This resulted from \$28.8 million of unrealized losses relating to decreases in long-term forward LIBOR benchmark interest rates, relative to the beginning of 2015, partially offset by transfers of \$15.9 million of previously recognized unrealized losses to realized losses related to actual cash settlements of our interest rate swaps.

During the three months ended September 30, 2015, we recognized unrealized losses on our interest rate swap agreements associated with our EURO-denominated long-term debt. This resulted from \$3.5 million of unrealized losses relating to decreases in long-term forward EURIBOR benchmark interest rates, relative to June 30, 2015, partially offset by transfers of \$2.0 million of previously recognized unrealized losses to realized losses related to actual cash settlements of our interest rate swaps.

During the nine months ended September 30, 2015, we recognized unrealized gains on our interest rate swap agreements associated with our EURO-denominated long-term debt. This resulted from \$2.4 million of unrealized gains relating to increases in long-term forward EURIBOR benchmark interest rates, relative to the beginning of 2015, and transfers of \$6.0 million of previously recognized unrealized losses to realized losses related to actual cash settlements of our interest rate swaps.

The projected forward average tanker rates in the tanker market increased at September 30, 2015 compared to June 30, 2015 and compared to the beginning of 2015, which resulted in \$1.8 million and \$3.4 million of unrealized losses on our Toledo Spirit time-charter derivative for the three and nine months ended September 30, 2015, respectively. The Toledo Spirit time-charter derivative is the agreement with Teekay Corporation under which Teekay Corporation pays us any amounts payable to the charterer of the *Toledo Spirit* as a result of spot rates being below the fixed rate, and we pay Teekay Corporation any amounts payable to us by the charterer of the *Toledo Spirit* as a result of spot rates being in excess of the fixed rate.

During the three and nine months ended September 30, 2014, long-term forward LIBOR benchmark interest rates decreased relative to June 30, 2014 and the beginning of 2014 which resulted in our recognizing \$4.3 million and \$44.6 million of unrealized gains, respectively, from our interest rate swaps associated with our restricted cash deposits. We terminated all interest rate swaps economically hedging restricted cash deposits in December 2014.

During the three and nine months ended September 30, 2014, we recognized unrealized losses on our interest rate swap agreements associated with our U.S. Dollar-denominated long-term debt and capital leases. This resulted from \$2.9 million and \$57.5 million, respectively, of unrealized losses relating to decreases in long-term LIBOR benchmark interest rates relative to June 30, 2014 and the beginning of 2014; partially offset by transfers of \$13.3 million and \$38.6 million, respectively, of previously recognized unrealized losses to realized losses related to actual cash settlements of our interest rate swaps.

During the three and nine months ended September 30, 2014, we recognized unrealized losses on our interest rate swap agreements associated with our EURO-denominated long-term debt. This resulted from \$3.1 million and \$20.3 million, respectively, of unrealized losses relating to decreases in long-term forward EURIBOR benchmark interest rates relative to June 30, 2014 and the beginning of 2014; partially offset by transfers of \$2.3 million and \$7.1 million, respectively, of previously recognized unrealized losses to realized losses related to actual cash settlements of our interest rate swaps.

The projected forward average tanker rates in the tanker market increased for the three and nine months ended September 30, 2014 compared to June 30, 2014 and the beginning of 2014, which resulted in \$1.5 million and \$4.5 million of unrealized losses, respectively, on our Toledo Spirit time-charter derivative.

*Foreign Currency Exchange Gains and (Losses).* Foreign currency exchange gains and (losses) were (\$8.2) million and \$8.2 million for the three and nine months ended September 30, 2015, respectively, compared to \$23.5 million and \$22.6 million for the same periods last year. Our foreign currency exchange gains and losses, substantially all of which are unrealized, are due primarily to the relevant period-end revaluation of our NOK-denominated debt and our Euro-denominated term loans and restricted cash for financial reporting purposes and the realized and unrealized losses on our cross currency swaps. Gains on NOK-denominated and Euro-denominated monetary liabilities reflect a stronger U.S. Dollar against the NOK and Euro on the date of revaluation or settlement compared to the rate in effect at the beginning of the period. Losses on NOK-denominated and Euro-denominated monetary liabilities reflect a weaker U.S. Dollar against the NOK and Euro on the date of revaluation or settlement compared to the rate in effect at the beginning of the period.

For the three months ended September 30, 2015, foreign currency exchange gains (losses) included the realized losses of (\$2.3) million and unrealized losses of (\$31.0) million on our cross currency swaps, and revaluation of our Euro-denominated cash, restricted cash and debt of (\$0.9) million. These losses were partially offset by the revaluation of our NOK-denominated debt of \$25.8 million.

For the nine months ended September 30, 2015, foreign currency exchange gains (losses) included the revaluation of our Euro-denominated cash, restricted cash and debt of \$20.4 million and the revaluation of our NOK-denominated debt of \$43.4 million. These gains were partially offset by realized losses of (\$5.2) million and unrealized losses of (\$49.8) million on our cross currency swaps.

For the three and nine months ended September 30, 2014, foreign currency exchange gains (losses) included the revaluation of our Euro-denominated cash, restricted cash and debt of \$22.2 million and \$23.2 million, respectively and the revaluation of the of our NOK-denominated debt of \$11.9 million and \$14.6 million, respectively. These gains were partially offset by realized losses of (\$0.5) million and (\$1.1) million and unrealized losses of (\$10.0) million and (\$13.8) million, respectively, on our cross currency swaps.

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*Income Tax Expense.* Income tax expense decreased by \$0.8 million for the nine months ended September 30, 2015 compared to the same period last year due to a reversal of an uncertain tax position and recognition of a deferred income tax asset in the first quarter of 2015. Income tax expense remained consistent for the three months ended September 30, 2015 compared to the same period last year.

***Liquidity and Cash Needs***

Our business model is to employ our vessels on fixed-rate contracts primarily with large energy companies and their transportation subsidiaries. The operating cash flow generated by our vessels each quarter, excluding a reserve for maintenance capital expenditures and debt repayments, is generally paid out to our unitholders and general partner as cash distributions within approximately 45 days after the end of each quarter. Our primary short-term liquidity needs include payment of our quarterly distributions, operating expenses, dry-docking expenditures and debt service costs and the funding of general working capital requirements. We anticipate that our primary source of funds for our short-term liquidity needs will be cash flows from operations.

Our long-term liquidity needs primarily relate to expansion and maintenance capital expenditures and debt repayment. Expansion capital expenditures primarily represent the purchase or construction of vessels to the extent the expenditures increase the operating capacity or revenue generated by our fleet, while maintenance capital expenditures primarily consist of dry-docking expenditures and expenditures to replace vessels in order to maintain the existing revenue generating capacity of our fleet. Our primary sources of funds for our long-term liquidity needs are cash from operations, long-term bank borrowings, proceeds from other debt or equity financings and proceeds from the sale of assets. Consequently, our ability to continue to expand the size of our fleet is dependent upon our ability to obtain long-term bank borrowings and other debt, as well as our ability to raise debt or equity financing through either public or private offerings.

Our revolving credit facilities and term loans are described in Item 1 Financial Statements: Note 7 Long-Term Debt . They contain covenants and other restrictions typical of debt financing secured by vessels, that restrict the vessel-owning subsidiaries from: incurring or guaranteeing indebtedness; changing ownership or organizational structure, including mergers, consolidations, liquidations and dissolutions; paying dividends or distributions if we are in default; making capital expenditures in excess of specified levels; making certain negative pledges and granting certain liens; selling, transferring, assigning or conveying assets; making certain loans and investments; and entering into new lines of business. Certain of our revolving credit facilities and term loans require us to maintain financial covenants. If we do not meet these financial covenants, the lender may accelerate the repayment of our revolving credit facilities and term loans, which would have a significant impact on our short-term liquidity requirements. As at September 30, 2015, we and our affiliates were in compliance with all covenants relating to our credit facilities and term loans.

We have one credit facility that requires us to maintain a vessel value to outstanding loan principal balance ratio of 115%, which as at September 30, 2015, was 199%. The vessel value was determined using a current market value for comparable second-hand vessels. Since vessel values can be volatile, our estimate of market value may not be indicative of either the current or future price that could be obtained if the related vessel was actually sold.

As at September 30, 2015, our consolidated cash and cash equivalents were \$154.2 million, compared to \$159.6 million at December 31, 2014. Our total liquidity, which consists of cash, cash equivalents and undrawn credit facilities, was \$206.3 million as at September 30, 2015, compared to \$295.2 million as at December 31, 2014. The decrease in total consolidated liquidity was primarily due to installment payments relating to our newbuildings and a reduction in the number of our revolving credit facilities from three to two.

As at September 30, 2015, we had a working capital deficit of \$164.4 million. The working capital deficit includes a \$60.2 million current capital lease obligation for two Suezmax tankers, under which the owner has the option to require us to purchase the vessels. However, we do not expect the owner to exercise this option.

We expect to manage the remaining portion of our working capital deficit primarily with net operating cash flow, debt refinancing and, to a lesser extent, existing undrawn revolving credit facilities. As at September 30, 2015, we had undrawn revolving credit facilities of \$52.1 million. Subsequent to September 30, 2015, we secured a new \$150.0 million unsecured revolving credit facility which is expected to be completed later in the year, to fund future capital commitments.

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

(in thousands of U.S. Dollars)	Nine Months Ended	
	September 30,	
	2015	2014
Net cash flow from operating activities	204,198	135,154
Net cash flow used for financing activities	(52,025)	(42,491)
Net cash flow used for investing activities	(157,639)	(134,689)

**Operating Cash Flows.** Net cash flow from operating activities increased to \$204.2 million for the nine months ended September 30, 2015, from \$135.2 million for the same period last year, primarily due to a greater aggregate amount of dividends received from our equity accounted joint ventures, the acquisition of the *Norgas Napa* in November 2014, upfront hire payments received relating to our six LPG carriers chartered out to I.M. Skaugen SE, higher charter rates received from the *Bermuda Spirit* and *Hamilton Spirit* relating to an agreement between us and the charterer that ended in October 2014, and 18 days of unscheduled off-hire during the first quarter of 2014 due to repairs required for one of our LNG carriers. These increases were partially offset by the sales of the *Algeciras Spirit* and *Huelva Spirit* in February 2014 and August 2014, respectively, and the timing of payments to affiliates. Net cash flow from operating activities depends upon the timing and amount of dry-docking expenditures, repair and maintenance activity, the impact of vessel additions and dispositions on operating cash flows, foreign currency rates, changes in interest rates, timing of dividends received from equity accounted investments, fluctuations in working capital balances and spot market hire rates (to the extent we have vessels operating in the spot tanker market or our hire rates are partially affected by spot market rates). The number of vessel dry dockings tends to vary each period depending on the vessels maintenance schedule.



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

***Financing Cash Flows.*** Net cash flow used for financing activities increased to \$52.0 million for the nine months ended September 30, 2015, from \$42.5 million for the same period last year, primarily as a result of \$11.9 million increase in cash distributions paid to our unitholders and general partner net of debt and equity financings, repayments and prepayments. Cash distributions paid during the nine months ended September 30, 2015 increased to \$191.1 million from \$179.2 million for the same period last year. This increase was the result of an increase in the number of units eligible to receive cash distributions from us as a result of our common unit public offering in July 2014 and common units sold under our COP from December 2014 to June 2015, and a 1.2% increase in the quarterly cash distribution per unit relating to the fourth quarter of 2014, effective February 2015.

***Investing Cash Flows.*** Net cash flow used for investing activities was \$157.6 million for the nine months ended September 30, 2015, compared to \$134.7 million for the same period last year. During the nine months ended September 30, 2015, we used cash of \$166.5 million, primarily relating to newbuilding installment payments for six of our 11 LNG carrier newbuildings, as compared to \$45.2 million for the same period last year. In addition, we used cash of \$25.7 million to provide capital to our equity accounted investments primarily to prepay debt within the Teekay LNG-Marubeni Joint Venture (please read Item 1 Financial Statements: Note 5b Equity Method Investments), partially offset by a \$23.7 million shareholder loan repayment to us by Exmar LPG BVBA in 2015.

**Table of Contents****Contractual Obligations and Contingencies**

The following table summarizes our contractual obligations as at September 30, 2015:

	<b>Total</b>	<b>Remainder of 2015</b>	<b>2016 and 2017</b>	<b>2018 and 2019</b>	<b>Beyond 2019</b>
<b>(in millions of U.S. Dollars)</b>					
<b>U.S. Dollar-Denominated Obligations:</b>					
Long-term debt <sup>(1)</sup>	1,436.9	28.3	254.3	605.2	549.1
Commitments under capital leases <sup>(2)</sup>	67.8	1.9	38.6	27.3	
Commitments under operating leases <sup>(3)</sup>	328.7	9.1	48.2	48.2	223.2
Newbuilding installments/shipbuilding supervision <sup>(4)</sup>	2,877.2	29.5	1,221.7	1,427.7	198.3
<b>Total U.S. Dollar-Denominated obligations</b>	<b>4,710.6</b>	<b>68.8</b>	<b>1,562.8</b>	<b>2,108.4</b>	<b>970.6</b>
<b>Euro-Denominated Obligations: <sup>(5)</sup></b>					
Long-term debt <sup>(6)</sup>	252.6	3.7	32.0	142.0	74.9
<b>Total Euro-Denominated obligations</b>	<b>252.6</b>	<b>3.7</b>	<b>32.0</b>	<b>142.0</b>	<b>74.9</b>
<b>Norwegian Kroner-Denominated Obligations: <sup>(5)</sup></b>					
Long-term debt <sup>(7)</sup>	305.3		82.2	105.7	117.4
<b>Total Norwegian Kroner-Denominated obligations</b>	<b>305.3</b>		<b>82.2</b>	<b>105.7</b>	<b>117.4</b>
<b>Totals</b>	<b>5,268.5</b>	<b>72.5</b>	<b>1,677.0</b>	<b>2,356.1</b>	<b>1,162.9</b>

(1) Excludes expected interest payments of \$6.2 million (remainder of 2015), \$45.1 million (2016 and 2017), \$25.9 million (2018 and 2019) and \$40.1 million (beyond 2019). Expected interest payments are based on the existing interest rates (fixed-rate loans) and LIBOR at September 30, 2015, plus margins on debt that has been drawn that ranges up to 2.80% (variable-rate loans). The expected interest payments do not reflect the effect of related interest rate swaps or swaptions that we have used as an economic hedge of certain of our variable-rate debt.

(2) Includes, in addition to lease payments, amounts we may be required to pay to purchase leased vessels at the end of lease terms. The lessor has the option to sell these vessels to us at any time during the remaining lease term; however, in this table we have assumed the lessor will not exercise its right to sell the vessels to us until after the lease terms expire, which is during the years 2017 to 2018. The purchase price for any vessel we are required to purchase would be based on the unamortized portion of the vessel construction financing costs for the vessels, which are included in the table above. We expect to satisfy any such purchase price by assuming the existing vessel financing, although we may be required to obtain separate debt or equity financing to complete any

purchases if the lenders do not consent to our assuming the financing obligations. Please read Item 1 Financial Statements: Note 4 Vessel Charters .

(3) We have corresponding leases whereby we are the lessor and expect to receive approximately \$289.5 million under these leases from remainder of 2015 to 2029.

(4) Between December 2012 and June 2015, we entered into agreements for the construction of 11 wholly-owned LNG carrier newbuildings. The remaining cost for these newbuildings totaled \$1,855.0 million as of September 30, 2015, including estimated interest and construction supervision fees.

As part of the acquisition of an ownership interest in the BG Joint Venture, we agreed to assume BG's obligation to provide shipbuilding supervision and crew training services for the four LNG carrier newbuildings and to fund our proportionate share of the remaining newbuilding installments. The estimated remaining costs for the shipbuilding supervision and crew training services and our proportionate share of newbuilding installments, net of the secured financing within the joint venture for the LNG carrier newbuildings, totaled \$81.0 million as of September 30, 2015. However, as part of this agreement with BG, we expect to recover \$19.3 million of the shipbuilding supervision and crew training costs from BG between 2015 and 2019.

In July 2014, the Yamal LNG Joint Venture, in which we have a 50% ownership interest entered into agreements for the construction of six LNG carrier newbuildings. As at September 30, 2015, our 50% share of the remaining cost for these six newbuildings totaled \$941.2 million. The Yamal LNG Joint Venture intends to secure debt financing for 70% to 80% of the fully built-up cost of the six newbuildings.

The table above excludes seven LPG carrier newbuildings scheduled for delivery between 2015 and 2018 in the joint venture between Exmar and us as the joint venture does not require additional capital contributions from Exmar and us. As at September 30, 2015, our 50% share of the remaining cost for these seven newbuildings totaled \$150.6 million, including estimated interest and construction supervision fees.

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- (5) Euro-denominated and NOK-denominated obligations are presented in U.S. Dollars and have been converted using the prevailing exchange rate as of September 30, 2015.
- (6) Excludes expected interest payments of \$0.9 million (remainder of 2015), \$6.8 million (2016 and 2017), \$2.3 million (2018 and 2019) and \$1.2 million (beyond 2019). Expected interest payments are based on EURIBOR at September 30, 2015, plus margins that range up to 2.25%, as well as the prevailing U.S. Dollar/Euro exchange rate as of September 30, 2015. The expected interest payments do not reflect the effect of related interest rate swaps that we have used as an economic hedge of certain of our variable-rate debt.
- (7) Excludes expected interest payments of \$4.2 million (remainder of 2015), \$30.3 million (2016 and 2017), \$15.4 million (2018 and 2019) and \$2.9 million (beyond 2019). Expected interest payments are based on NIBOR at September 30, 2015, plus margins that range up to 5.25%, as well as the prevailing U.S. Dollar/NOK exchange rate as of September 30, 2015. The expected interest payments do not reflect the effect of the related cross currency swaps that we have used as an economic hedge of our foreign exchange and interest rate exposure associated with our NOK-denominated long-term debt.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements. The details of our equity accounted investments are shown in Item 18 Notes to Consolidated Financial Statements: Note 5 Equity Method Investments of our Annual Report on Form 20-F for the year ended December 31, 2014. In addition, please read Item 1 Financial Statements: Note 5 Equity Method Investments .

**Critical Accounting Estimates**

We prepare our consolidated financial statements in accordance with GAAP, which require us to make estimates in the application of our accounting policies based on our best assumptions, judgments and opinions. On a regular basis, management reviews the accounting policies, assumptions, estimates and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could materially differ from our assumptions and estimates. Accounting estimates and assumptions discussed in Item 5 Operating and Financial Review and Prospects Critical Accounting Estimates in our Annual Report on Form 20-F for the year ended December 31, 2014, are those that we consider to be the most critical to an understanding of our financial statements, because they inherently involve significant judgments and uncertainties. For a further description of our critical accounting policies, please read Item 5 Operating and Financial Review and Prospects in our Annual Report on Form 20-F for the year ended December 31, 2014. There have been no significant changes in accounting estimates and assumptions from those discussed in the Form 20-F.

As at September 30, 2015, we had one reporting unit with goodwill attributable to it. Based on conditions that existed at September 30, 2015, we do not believe that there is a reasonable possibility that the goodwill attributable to this reporting unit might be impaired for the remainder of the year. However, certain factors that impact this assessment are inherently difficult to forecast and, as such, we cannot provide any assurance that an impairment will or will not occur in the future. An assessment for impairment involves a number of assumptions and estimates that are based on factors that are beyond our control. These are discussed in more detail in the following section entitled Forward-Looking Statements .

**FORWARD-LOOKING STATEMENTS**

## Edgar Filing: Teekay LNG Partners L.P. - Form 6-K

This Report on Form 6-K for the three months ended September 30, 2015 contains certain forward-looking statements (as such term is defined in Section 27A of the Securities Exchange Act of 1933 as amended, and Section 21E of the Securities Exchange Act of 1934, as amended) concerning future events and our operations, performance and financial condition, including, in particular, statements regarding:

our financial condition and results of operations and our revenues and expenses;

growth prospects of the LNG and LPG shipping and oil tanker markets;

LNG, LPG and tanker market fundamentals, including the balance of supply and demand in the LNG, LPG and tanker markets and spot LNG, LPG and tanker charter rates;

our ability to conduct and operate our business and the business of our subsidiaries in a manner than minimizes taxes imposed upon us and our subsidiaries;

estimated minimum charter hire payments for the remainder of 2015 and the next four fiscal years, and our expectation regarding our vessels' ability to perform to specifications and maintain their hire rates;

our ability to maximize the use of our vessels, including the redeployment or disposition of vessels no longer under long-term charter, specifically, our 52% owned vessels, the *Magellan Spirit* and the *Methane Spirit*;

the expectation that insurance will cover the costs related to the grounding of the *Magellan Spirit*, less an applicable deductible;

the expected outcome of our dispute on the charterer's claims of the aggregate off-hire time and charter contract termination for the *Magellan Spirit*;

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expected purchases and deliveries of newbuilding vessels, our ability to obtain charter contracts for the three wholly-owned LNG carrier newbuildings that are not yet subject to fixed-rate contracts, and the newbuildings commencement of service under charter contracts, including with respect to the nine LNG carrier newbuildings ordered from DSME, two LNG carrier newbuildings ordered from HHI, four LNG carrier newbuildings ordered within the BG Joint Venture, six LNG carrier newbuildings relating to the Yamal LNG Joint Venture and seven remaining LPG carrier newbuildings ordered within Exmar LPG BVBA;

delivery dates, financing and estimated costs for acquisitions and newbuildings, including the possible purchase of our leased Suezmax tankers, the 11 LNG carrier newbuildings we own, and the 10 LNG carrier newbuildings and seven LPG carrier newbuildings in our equity accounted joint ventures;

expected completion of a new \$150.0 million unsecured revolving credit facility;

expected financing for the Yamal LNG Joint Venture;

expected funding of our proportionate share of the remaining shipyard installment payments for the BG Joint Venture;

the cost of supervision and crew training in relation to the BG Joint Venture;

the expected technical and operational capabilities of newbuildings, including the benefits of the MEGI engines in certain LNG carrier newbuildings;

the expected sale or redelivery of certain vessels;

the expected source of funds for short-term and long-term liquidity needs;

the timing and amount of dividends distributed by our equity accounted joint ventures;

estimated capital expenditures and our ability to fund them;

the expected source of funds to manage our working capital deficit;

our continued ability to enter into long-term, fixed-rate time-charters with our LNG and LPG customers;

obtaining LNG and LPG projects that we bid on;

our expected financial flexibility to pursue acquisitions and other expansion opportunities;

the possibility that goodwill attributable to a reporting unit will not be impaired for the remainder of the year;

the potential financial exposure to us if the UK taxing authority can successfully challenge the tax benefits available under certain of our leasing arrangements;

our hedging activities relating to foreign exchange, interest rate and spot market risks;

the potential impact of new accounting guidance;

anticipated taxation of our partnership and its subsidiaries; and

our business strategy and other plans and objectives for future operations.

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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, probably, will be, will continue, will likely result, plan, intend or words or phrases of 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: changes in production or price of LNG, LPG or oil; changes in anticipated levels of vessel newbuilding orders or rates of vessel scrapping; changes in the financial stability of our charterers; changes in trading patterns; changes in our expenses; changes in applicable industry laws and regulations and the timing of implementation of new laws and regulations; LNG or LPG infrastructure constraints and community and environmental group resistance to new LNG or LPG infrastructure; potential development of active short-term or spot LNG or LPG shipping markets; spot tanker market rate fluctuations; potential inability to implement our growth strategy; competitive factors in the markets in which we operate; potential for early termination of long-term contracts and our ability to renew or replace long-term contracts; our ability to secure charter contracts for our newbuilding LNG carriers or other vessels; loss of any customer, time-charter or vessel; shipyard production or vessel delivery delays; changes in tax regulations or the outcome of tax positions; our and our joint ventures potential inability to raise financing to purchase additional vessels; our exposure to currency exchange rate fluctuations; conditions in the public equity markets; LNG or LPG project delays or abandonment; potential failure of the Yamal LNG Project to be completed for any reason, including due to lack of funding as a result of existing or future sanctions against Russian entities and individuals, which may affect partners in the project; potential delays or cancellation of the Yamal LNG Project; failure to materialize of assumptions underlying our estimates of U.S. federal taxable income to a holder of our common units in a given year; and other factors detailed from time to time in our periodic reports filed with the SEC, including our Annual Report on Form 20-F for the year ended December 31, 2014. We do not intend to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with respect thereto or any change in events, conditions or circumstances on which any such statement is based.



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## TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

SEPTEMBER 30, 2015

## PART I FINANCIAL INFORMATION

## ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

**Interest Rate Risk**

We are exposed to the impact of interest rate changes primarily through our borrowings that require us to make interest payments based on LIBOR, EURIBOR or NIBOR. Significant increases in interest rates could adversely affect our operating margins, results of operations and our ability to service our debt. We use interest rate swaps to reduce our exposure to market risk from changes in interest rates. The principal objective of these contracts is to minimize the risks and costs associated with our floating-rate debt.

We are exposed to credit loss if the counterparties to our interest rate swap agreements fail to perform. In order to minimize counterparty risk, we only enter into derivative transactions with counterparties that are rated A- or better by Standard & Poor's or A3 or better by Moody's at the time of the transactions. In addition, to the extent practical, interest rate swaps are entered into with different counterparties to reduce concentration risk.

The table below provides information about our financial instruments at September 30, 2015, that are sensitive to changes in interest rates. For long-term debt and capital lease obligations, the table presents principal payments and related weighted-average interest rates by expected contractual maturity dates. For interest rate swaps, the table presents notional amounts and weighted-average interest rates by expected contractual maturity dates. The expected contractual maturity dates do not reflect potential prepayments of long-term debt and capital lease obligations as well as the potential exercise of early termination options for certain of our interest rate swaps.

	Expected Maturity Date						Total	Fair Value Liability	Rate <sup>(1)</sup>
	Remainder of 2015	2016	2017	2018	2019	There-after			
<b>Long-Term Debt:</b>									
Variable Rate (\$U.S.) <sup>(2)</sup>	28.3	151.1	103.2	544.3	60.9	549.1	1,436.9	1,400.6	1.7%
Variable Rate (Euro) <sup>(3) (4)</sup>	3.7	15.4	16.6	132.6	9.4	74.9	252.6	243.1	1.5%
Variable Rate (NOK) <sup>(4) (5)</sup>			82.2	105.7		117.4	305.3	299.4	3.7%
<b>Capital Lease Obligations:</b>									
Fixed-Rate (\$U.S.) <sup>(6)</sup>	1.1	4.5	28.3	26.3			60.2	60.2	5.5%
Average Interest Rate <sup>(7)</sup>	5.4%	5.4%	4.6%	6.4%			5.5%		

**Interest Rate****Swaps:** <sup>(8)</sup>

Contract Amount (\$U.S.) <sup>(9)</sup>	2.1	351.9	161.9	61.9	144.2	140.2	862.2	78.3	3.7%
Average Fixed Pay Rate <sup>(2)</sup>	1.7%	3.0%	4.9%	4.1%	2.7%	4.8%	3.7%		
Contract Amount (Euro) <sup>(4) (10)</sup>	3.7	15.4	16.6	132.6	9.4	74.9	252.6	37.4	3.1%
Average Fixed Pay Rate <sup>(3)</sup>	3.1%	3.1%	3.1%	2.6%	3.7%	3.8%	3.1%		

(1) Rate refers to the weighted-average effective interest rate for our long-term debt and capital lease obligations, including the margin we pay on our floating-rate debt and the average fixed pay rate for our interest rate swap agreements. The average interest rate for our capital lease obligations is the weighted-average interest rate implicit in our lease obligations at the inception of the leases. The average fixed pay rate for our interest rate swaps excludes the margin we pay on our floating-rate term loans, which as of September 30, 2015 ranged from 0.30% to 2.80%. Please read Item 1 Financial Statements: Note 7 Long-Term Debt .

(2) Interest payments on U.S. Dollar-denominated debt and interest rate swaps are based on LIBOR.

(3) Interest payments on Euro-denominated debt and interest rate swaps are based on EURIBOR.

(4) Euro-denominated and NOK-denominated amounts have been converted to U.S. Dollars using the prevailing exchange rate as of September 30, 2015.

(5) Interest payments on our NOK-denominated debt and on our cross currency swaps are based on NIBOR. Our NOK 700 million, NOK 900 million, and NOK 1,000 million debt have been economically hedged with cross currency swaps, to swap all interest and principal payments into U.S. Dollars, with the respective interest payments fixed at a rate of 6.88%, 6.43%, and 5.92%, respectively, and the transfer of principal locked in at \$125.0 million, \$150.0 million, and \$134.0 million, respectively, upon maturity. Please see below in the foreign currency fluctuation section and read Item 1 Financial Statements: Note 10 Derivative Instruments .

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- (6) The amount of capital lease obligations represents the present value of minimum lease payments together with our purchase obligation, as applicable.
- (7) The average interest rate is the weighted-average interest rate implicit in the capital lease obligations at the inception of the leases. Interest rate adjustments on these leases have corresponding adjustments in charter receipts under the terms of the charter contracts to which these leases relate.
- (8) The table above does not reflect our interest rate swaption agreements, whereby we have a one-time option to enter into an interest rate swap at a fixed rate with a third party, and the third party has a one-time option to require us to enter into an interest rate swap at a fixed rate. If we or the third party exercises its option, there will be cash settlements for the fair value of the interest rate swap in lieu of taking delivery of the actual interest rate swap. The net fair value of the interest rate swaption agreements as at September 30, 2015 was a liability of \$5.3 million. Please read Item 1 Financial Statements: Note 10 Derivative Instruments .
- (9) The average variable receive rate for our U.S. Dollar-denominated interest rate swaps is set at 3-month or 6-month LIBOR.
- (10) The average variable receive rate for our Euro-denominated interest rate swaps is set at 1-month EURIBOR.

**Spot Market Rate Risk**

One of our Suezmax tankers, the *Toledo Spirit*, operates pursuant to a time-charter contract that increases or decreases the otherwise fixed-rate established in the charter depending on the spot charter rates that we would have earned had we traded the vessel in the spot tanker market. The remaining term of the time-charter contract is 10 years, although the charterer has the right to terminate the time-charter in July 2018. We have entered into an agreement with Teekay Corporation under which Teekay Corporation pays us any amounts payable to the charterer as a result of spot rates being below the fixed rate, and we pay Teekay Corporation any amounts payable to us from the charterer as a result of spot rates being in excess of the fixed rate. The amounts payable to or receivable from Teekay Corporation are settled at the end of each year. At September 30, 2015, the fair value of this derivative liability was \$4.6 million and the change from June 30, 2015 and December 31, 2014 to the reporting period has been reported in realized and unrealized (loss) gain on derivative instruments.

**Foreign Currency Fluctuation Risk**

Our functional currency is U.S. Dollars because primarily all of our revenues and most of our operating costs are in U.S. Dollars. Our results of operations are affected by fluctuations in currency exchange rates. The volatility in our financial results due to currency exchange rate fluctuations is attributed primarily to foreign currency revenues and expenses, our Euro-denominated loans and restricted cash deposits and our NOK-denominated bonds. A portion of our voyage revenues are denominated in Euros. A portion of our vessel operating expenses and general and administrative expenses are denominated in Euros, which is primarily a function of the nationality of our crew and administrative staff. We have Euro-denominated interest expense and Euro-denominated interest income related to our Euro-denominated loans of 226.0 million Euros (\$252.6 million) and Euro-denominated restricted cash deposits of 16.3 million Euros (\$18.2 million), respectively, as at September 30, 2015. We also incur NOK-denominated interest expense on our NOK-denominated bonds; however, we entered into cross currency swaps and pursuant to these swaps we receive the principal amount in NOK on the maturity date of the swap, in exchange for payment of a fixed

U.S. Dollar amount. In addition, the cross currency swaps exchange a receipt of floating interest in NOK based on NIBOR plus a margin for a payment of U.S. Dollar fixed interest. The purpose of the cross currency swaps is to economically hedge the foreign currency exposure on the payment of interest and principal of our NOK bonds due in 2017 through 2020, and to economically hedge the interest rate exposure. We have not designated, for accounting purposes, these cross currency swaps as cash flow hedges of our NOK-denominated bonds due in 2017 through 2020. Please read Item 1 Financial Statements: Note 10 Derivative Instruments . As at September 30, 2015, the fair value of our cross currency swaps was a liability of \$120.7 million and the change from June 30, 2015 and December 31, 2014 to the reporting period has been reported in foreign currency exchange (loss) gain. As a result, fluctuations in the Euro and NOK relative to the U.S. Dollar have caused, and are likely to continue to cause, fluctuations in our reported voyage revenues, vessel operating expenses, general and administrative expenses, interest expense, interest income, realized and unrealized (loss) gain on derivative instruments and foreign currency exchange (loss) gain.

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**TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES**

**SEPTEMBER 30, 2015**

**PART II OTHER INFORMATION**

Item 1 Legal Proceedings

None

Item 1A Risk Factors

In addition to the other information set forth in this Report on Form 6-K, you should carefully consider the risk factors discussed in Part I, Item 3. Key Information-Risk Factors in our Annual Report on Form 20-F for the year ended December 31, 2014, which could materially affect our business, financial condition or results of operations.

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

Because our operations, and the operations of certain of our customers, are primarily conducted outside of the United States, they may be affected by economic, political and governmental conditions in the countries where we and they engage in business. Any disruption caused by these factors could harm our business or the business of these customers, including by reducing the levels of oil and gas exploration, development and production activities in these areas. We derive some of our revenues from shipping oil, LNG and LPG from politically and economically unstable regions, such as Angola and Yemen. Hostilities, strikes, or other political or economic instability in regions where we or these customers operate or where we or they may operate could have a material adverse effect on the growth of our business, results of operations and financial condition and ability to make cash distributions, or on the ability of these customers to make payments or otherwise perform their obligations to us. In addition, tariffs, trade embargoes and other economic sanctions by the United States or other countries against countries in which we operate or to which we trade may harm our business and ability to make cash distributions and a government could requisition one or more of our vessels, which is most likely during war or national emergency. Any such requisition would cause a loss of the vessel and could harm our cash flow and financial results. Two vessels owned by our joint venture with Marubeni Corporation (or the *Teekay LNG-Marubeni Joint Venture*) are chartered to Yemen LNG Company Limited, an entity that operates in Yemen and has close ties to the Yemeni government. The hostilities in Yemen have adversely affected the LNG facilities in Yemen and could hinder Yemen LNG Company Limited's ability to perform its obligations under its time charter contracts with our joint venture, which would adversely affect our operating results and liquidity. The Teekay LNG-Marubeni Joint Venture and Yemen LNG Company Limited are currently discussing a possible extended LNG plant closing in Yemen, which may result in the Teekay LNG-Marubeni Joint Venture temporarily deferring a portion of the charter payments otherwise payable to the Teekay LNG-Marubeni Joint Venture by the charterer.

***Certain of our lease arrangements contain provisions whereby we have provided a tax indemnification to third parties, which may result in increased lease payments or termination of favorable lease arrangements.***

We and certain of our joint ventures are party and were party to lease arrangements whereby the lessor could claim tax depreciation on the capital expenditures it incurred to acquire these vessels. As is typical in these leasing arrangements, tax and change of law risks are assumed by the lessee. The rentals payable under the lease arrangements are predicated on the basis of certain tax and financial assumptions at the commencement of the leases. If an

assumption proves to be incorrect or there is a change in the applicable tax legislation or the interpretation thereof by the United Kingdom (U.K.) taxing authority, the lessor is entitled to increase the rentals so as to maintain its agreed after-tax margin. Under the capital lease arrangements, we do not have the ability to pass these increased rentals onto our charter party. However, the terms of the lease arrangements enable us and our joint venture partner to jointly terminate the lease arrangement on a voluntary basis at any time. In the event of an early termination of the lease arrangements, the joint venture must pay termination sums to the lessor sufficient to repay its investment in the vessels and to compensate it for the tax effect of the terminations, including recapture of tax depreciation, if any.

We and our joint venture partner were the lessee under three separate 30-year capital lease arrangements (or the *RasGas II Leases*) with a third party for three LNG carriers (or the *RasGas II LNG Carriers*). On December 22, 2014, we and our joint venture partner voluntarily terminated the leasing of the RasGas II LNG Carriers. However, Teekay Nakilat Corporation (or the *Teekay Nakilat Joint Venture*), of which we own a 70% interest, remains obligated to the lessor under the RasGas II Leases to maintain the lessor's agreed after-tax margin from the commencement of the lease to the lease termination date.

The UK taxing authority (or *HMRC*) has been challenging the use of similar lease structures. One of those challenges resulted in a court decision from the First Tribunal on January 2012 regarding a similar financial lease of an LNG carrier that ruled in favor of the taxpayer, as well as a 2013 decision from the Upper Tribunal that upheld the 2012 verdict. However, HMRC appealed the 2013 decision to the Court of Appeal and in August 2014, HMRC was successful in having the judgment of the First Tribunal (in favor of the taxpayer) set aside. Taking into account the appellate court's comments on the earlier judgment, the First Tribunal reconsidered the matter and ruled in favor of HMRC in a decision released on August 14, 2015. The taxpayer in this particular ruling has the election to appeal the First Tribunal's decision, but it is unclear whether such an appeal has been filed since that information is not currently publically available. We continue to monitor the situation. If the lessor of the RasGas II LNG Carriers were to lose on a similar claim from HMRC, our 70% share of the potential exposure in the Teekay Nakilat Joint Venture is estimated to be approximately \$60 million. Such estimate is primarily based on information received from the lessor.

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In addition, the subsidiaries of another joint venture formed to service the Tangguh LNG project in Indonesia have lease arrangements with a third party for two LNG carriers. The terms of the lease arrangements provide similar tax and change of law risk assumption by this joint venture as we had with the three RasGas II LNG Carriers.

**Item 2 Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Item 3 Defaults Upon Senior Securities**

None

**Item 4 Mine Safety Disclosures**

None

**Item 5 Other Information**

None

**Item 6 Exhibits**

4.31 Agreement dated November 7, 2014, for a US\$175,000,000 secured loan facility between Solaia Shipping L.L.C. and Excelsior BVBA, and Nordea Bank Norge ASA.

4.32 Agreement dated April 27, 2015, for a US\$55,000,000 secured loan facility between African Spirit L.L.C., European Spirit L.L.C. and Asian Spirit L.L.C., and ING Bank N.V.

**THIS REPORT ON FORM 6-K IS HEREBY INCORPORATED BY REFERENCE INTO THE FOLLOWING REGISTRATION STATEMENTS OF THE PARTNERSHIP:**

**REGISTRATION STATEMENT ON FORM S-8 (NO.333-124647) FILED WITH THE SEC ON MAY 5, 2005**

**REGISTRATION STATEMENT ON FORM F-3 (NO.333-170838) FILED WITH THE SEC ON NOVEMBER 24, 2010**

**REGISTRATION STATEMENT ON FORM F-3 (NO.333-188387) FILED WITH THE SEC ON MAY 6, 2013**

**REGISTRATION STATEMENT ON FORM F-3 (NO.333-190783) FILED WITH THE SEC ON AUGUST 22, 2013**

**REGISTRATION STATEMENT ON FORM F-3ASR (NO.333-197479) FILED WITH THE SEC ON JULY 17, 2014**

**REGISTRATION STATEMENT ON FORM F-3 (NO.333-197651) FILED WITH THE SEC ON JULY 25, 2014**





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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEEKAY LNG PARTNERS L.P.

By: Teekay GP L.L.C., its General Partner

Date: November 20, 2015

By: /s/ Peter Evensen  
Peter Evensen  
Chief Executive Officer and Chief Financial Officer  
(Principal Financial and Accounting Officer)