Teekay LNG Partners L.P.
Form 6-K
May 29, 2018

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 March 31, 2018
Commission file number 1- 32479

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

4th Floor, Belvedere Building
69 Pitts Bay Road
Hamilton, HM 08 Bermuda
(Address of principal executive office)

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

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2018
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ITEM 1 – FINANCIAL STATEMENTS
TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF (LOSS) INCOME (notes 1 and 2)
(in thousands of U.S. Dollars, except unit and per unit data)

	Three Months Ended March 31,	
	2018	2017
	$	$
Voyage revenues (note 9a)	115,306	101,180
Voyage expenses	(5,801)	(1,437)
Vessel operating expenses (note 9a)	(28,467)	(23,388)
Depreciation and amortization	(29,267)	(26,120)
General and administrative expenses (notes 9a and 13)	(6,571)	(4,157)
Write-down of vessels (notes 14a, 14b and 14d)	(18,662)	—
Restructuring charges (note 14c)	(1,396)	—
Income from vessel operations	25,142	46,078
Equity income	26,724	5,887
Interest expense (notes 7 and 10)	(24,706)	(16,988)
Interest income	914	854
Realized and unrealized gain on non-designated derivative instruments (note 10)	8,001	1,187
Foreign currency exchange loss (notes 7 and 10)	(1,273)	(3,568)
Other (expense) income (note 11c)	(52,582)	391
Net (loss) income before income tax expense	(17,780)	33,841
Income tax expense (note 8)	(779)	(157)
Net (loss) income	(18,559)	33,684
Non-controlling interest in net (loss) income	(11,665)	4,627
Preferred unitholders' interest in net (loss) income	6,425	2,812
General Partner’s interest in net (loss) income	(272)	525
Limited partners’ interest in net (loss) income	(13,047)	25,720
Limited partners’ interest in net (loss) income per unit: (note 12)		
• Basic	(0.16)	0.32
• Diluted	(0.16)	0.32
Weighted-average number of common units outstanding:		
• Basic	79,637,607	79,590,153
• Diluted	79,637,607	79,690,391
Cash distributions declared per common unit	0.14	0.14

Related party transactions (note 9)
Commitments and contingencies (note 11)
Subsequent events (note 16)
The accompanying notes are an integral part of the unaudited consolidated financial statements.

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (notes 1 and 2)
(in thousands of U.S. Dollars)

	Three Months Ended March 31,	
	2018	2017
	$	$
Net (loss) income	(18,559)	33,684
Other comprehensive income (loss):		
Other comprehensive income (loss) before reclassifications		
Unrealized gain (loss) on qualifying cash flow hedging instruments, net of tax (note 10)	2,299	(796)
Amounts reclassified from accumulated other comprehensive income (loss)		
To equity income:		
Realized (gain) loss on qualifying cash flow hedging instruments	(91)	697
To interest expense:		
Realized loss on qualifying cash flow hedging instruments (note 10)	250	—
Other comprehensive income (loss)	2,458	(99)
Comprehensive (loss) income	(16,101)	33,585
Non-controlling interest in comprehensive (loss) income	(10,598)	4,617
Preferred unitholders' interest in comprehensive (loss) income	6,425	2,812
General and limited partners' interest in comprehensive (loss) income	(11,928)	26,156

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

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS (notes 1 and 2)
(in thousands of U.S. Dollars)

	As at March 31, 2018 $	As at December 31, 2017 $
ASSETS		
Current		
Cash and cash equivalents	197,007	244,241
Restricted cash – current (notes 7 and 10)	19,256	22,326
Accounts receivable, including non-trade of $13,366 (2017 – $13,203)	22,561	24,054
Prepaid expenses	6,209	6,539
Vessels held for sale (notes 14a and 14b)	28,000	33,671
Current portion of derivative assets (note 10)	1,919	1,078
Current portion of net investments in direct financing leases (note 5b)	10,676	9,884
Advances to affiliates (notes 9b and 10)	5,621	7,300
Other current assets (note 2)	3,972	—
Total current assets	295,221	349,093
Restricted cash – long-term (notes 7 and 11c)	67,032	72,868
Vessels and equipment		
At cost, less accumulated depreciation of $686,012 (2017 – $681,991)	1,388,434	1,416,381
Vessels related to capital leases, at cost, less accumulated depreciation of $33,855 (2017 – $25,883) (note 5a)	1,213,748	1,044,838
Advances on newbuilding contracts (note 9d)	407,211	444,493
Total vessels and equipment	3,009,393	2,905,712
Investments in and advances to equity-accounted joint ventures (note 6)	1,087,877	1,094,596
Net investments in direct financing leases (note 5b)	482,946	486,106
Derivative assets (note 10)	18,459	6,172
Intangible assets – net	58,864	61,078
Goodwill – liquefied gas segment	35,631	35,631
Other assets	8,165	8,043
Total assets	5,063,588	5,019,299
LIABILITIES AND EQUITY		
Current		
Accounts payable	1,995	3,509
Accrued liabilities (note 10, 11c and 14c)	119,404	45,757
Unearned revenue (note 5b)	19,770	25,873
Current portion of long-term debt (note 7)	524,166	552,404
Current obligations related to capital leases (note 5a)	82,652	106,946
In-process contracts	6,163	7,946
Current portion of derivative liabilities (note 10)	62,586	79,139
Advances from affiliates (note 9b)	11,984	12,140
Total current liabilities	828,720	833,714
Long-term debt (note 7)	1,235,722	1,245,588
Long-term obligations related to capital leases (note 5a)	1,018,416	904,603

Other long-term liabilities (note 5a)	43,669	57,594
Derivative liabilities (note 10)	36,678	45,797
Total liabilities	3,163,205	3,087,876
Commitments and contingencies (notes 5, 7, 10 and 11)		
Equity		
Limited Partners - common units (79.7 million units and 79.6 million units issued and outstanding at March 31, 2018 and December 31, 2017, respectively)	1,517,132	1,539,248
Limited Partners - preferred units (11.8 million units issued and outstanding at March 31, 2018 and December 31, 2017)	285,159	285,159
General Partner	49,696	50,152
Accumulated other comprehensive income	5,870	4,479
Partners' equity	1,857,857	1,879,038
Non-controlling interest	42,526	52,385
Total equity	1,900,383	1,931,423
Total liabilities and total equity	5,063,588	5,019,299

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

TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS (notes 1 and 2)
(in thousands of U.S. Dollars)

	Three Months Ended March 31,	
	2018	2017
	$	$
Cash, cash equivalents and restricted cash provided by (used for)		
OPERATING ACTIVITIES		
Net (loss) income	(18,559)	33,684
Non-cash items:		
Unrealized gain on non-designated derivative instruments (note 10)	(12,170)	(5,452)
Depreciation and amortization	29,267	26,120
Write-down of vessels	18,662	—
Unrealized foreign currency exchange (gain) loss and other	(3,661)	975
Equity income	(26,724)	(5,887)
Non-cash item included in other (expense) income (note 11c)	53,000	—
Change in operating assets and liabilities	2,355	11,506
Expenditures for dry docking	(3,162)	(5,668)
Net operating cash flow	39,008	55,278
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	115,515	61,424
Scheduled repayments of long-term debt	(25,794)	(25,290)
Prepayments of long-term debt	(147,675)	(18,704)
Financing issuance costs	(2,775)	(585)
Proceeds from financing related to sales and leaseback vessels (note 1)	126,273	220,825
Scheduled repayments of obligations related to capital leases	(13,506)	(13,485)
Cash distributions paid	(16,917)	(14,086)
Dividends paid to non-controlling interest	—	(658)
Other	—	(571)
Net financing cash flow	35,121	208,870
INVESTING ACTIVITIES		
Capital contributions to equity-accounted joint ventures	(20,464)	(77,786)
Return of capital from equity-accounted joint ventures	—	40,320
Proceeds from sale of equity-accounted joint venture (note 6c)	54,438	—
Receipts from direct financing leases	2,367	5,156
Proceeds from sale of vessels	—	20,580
Expenditures for vessels and equipment	(166,610)	(207,489)
Net investing cash flow	(130,269)	(219,219)
(Decrease) increase in cash, cash equivalents and restricted cash	(56,140)	44,929
Cash, cash equivalents and restricted cash, beginning of the period	339,435	243,173
Cash, cash equivalents and restricted cash, end of the period	283,295	288,102
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 Partners' Equity Limited Partners							
	Common Units	Common Units	Preferred Units	Preferred Units	General Partner	Accumulated Other Comprehensive Income	Non-controlling Interest	Total
	#	$	#	$	$	$	$	$
Balance as at December 31, 2017	79,627	1,539,248	11,800	285,159	50,152	4,479	52,385	1,931,423
Net loss	—	(13,047)	—	6,425	(272)	—	(11,665)	(18,559)
Other comprehensive income	—	—	—	—	—	1,391	1,067	2,458
Distributions declared	—	(11,148)	—	(6,425)	(228)	—	—	(17,801)
Change in accounting policy (note 2)	—	1,959	—	—	41	—	739	2,739
Equity based compensation, net of withholding tax of $0.6 million (note 13)	61	120	—	—	3	—	—	123
Balance as at March 31, 2018	79,688	1,517,132	11,800	285,159	49,696	5,870	42,526	1,900,383

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

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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)

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. (or the Partnership), which is a limited partnership formed under the laws of the Republic of the Marshall Islands, its wholly-owned and controlled subsidiaries and any variable interest entities (or VIEs) of which it is the primary beneficiary. 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, 2017, which are included in the Partnership's Annual Report on Form 20-F for the year ended December 31, 2017 filed with the U.S. Securities and Exchange Commission (or SEC) on April 16, 2018. In the opinion of management of Teekay GP L.L.C., the general partner of the Partnership (or the General Partner), these interim unaudited consolidated financial statements reflect all adjustments consisting solely of a normal recurring nature, necessary to present fairly, in all material respects, the Partnership's consolidated financial position, results of operations, changes in total equity and cash flows for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of those for a full fiscal year.

Significant intercompany balances and transactions have been eliminated upon consolidation. In addition, because the Partnership has determined that the entities that have financed certain of the Partnership's liquefied natural gas (or LNG) carriers or LNG carrier newbuildings through sale leaseback transactions are VIEs that should be consolidated, the presentation of the sale leaseback transactions in the consolidated statements of cash flows has been adjusted to reflect these transactions as financing activities instead of investing activities in the current and comparative period. This has resulted in a decrease in net investing cash flow of $221 million and an increase in net financing cash flow of $221 million for the three months ended March 31, 2017.

2. Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (or 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 at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This update creates a five-step model that requires entities to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue as each performance obligation is satisfied. ASU 2014-09 became effective for the Partnership as of January 1, 2018, and may be applied, at the Partnership's option, retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Partnership adopted ASU 2014-09 as a cumulative-effect adjustment as of this date. The Partnership has elected to apply ASC 2014-09 only to those contracts that are not completed as of January 1, 2018. The Partnership has identified the following differences on adoption of ASU

2014-09:

- In certain cases, the Partnership will incur pre-operational costs that relate directly to a specific customer contract, that generate or enhance resources of the Partnership that will be used in satisfying performance obligations in the future, whereby such costs are expected to be recovered via the customer contract. Such costs will be deferred and amortized over the duration of the customer contract. The Partnership previously expensed such costs as incurred unless the costs were directly reimbursable by the contract. This change had no material impact on the statement of income for the three months ended March 31, 2018, and increased other assets by $2.6 million, investments in and advances to equity-accounted joint ventures by $0.1 million, and total equity by $2.7 million as at March 31, 2018. The cumulative increase to opening equity as at January 1, 2018 was $2.7 million.
- The Partnership previously presented all accrued revenue as a component of accounts receivable. The Partnership has determined that if the right to such consideration is conditioned upon something other than the passage of time , such accrued revenue should be presented apart from accounts receivable. This had the effect of increasing other current assets and decreasing accounts receivable by $4.0 million at March 31, 2018. There was no cumulative impact to opening equity as at January 1, 2018.

In February 2016, FASB issued Accounting Standards Update 2016-02, Leases (or ASU 2016-02). ASU 2016-02 establishes a right-of-use model that requires a lessee to record a right of use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. For lessees, leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 requires lessors to classify leases as a sales-type, direct financing, or operating lease. A lease is a sales-type lease if any one of five criteria are met, each of which indicate that the lease, in effect, transfers control of the underlying asset to the lessee. If none of those five criteria are met, but two additional criteria are both met, indicating that the lessor has transferred substantially all of the risks and benefits of the underlying asset to the lessee and a third party, the lease is a direct financing lease. All leases that are not sales-type leases or direct financing leases are operating leases. ASU 2016-02 is effective January 1, 2019, with early adoption permitted. FASB issued an exposure draft in early 2018 that made further amendments to accounting for leases. The Partnership currently intends to adopt ASU 2016-02 during 2018 or on January 1, 2019, when a final ASU is issued related to this exposure draft using a transition approach whereby a cumulative effect adjustment will be made as of the effective date, with no retrospective effect. The quarter in which the Partnership adopts ASU 2016-02 and the estimated impact from adoption contained below are based upon the expectation that FASB will issue an additional ASU that will allow adoption of ASU 2016-02 with retrospective effect to January 1, 2018. To determine the cumulative effect adjustment, the Partnership has not reassessed lease classification, initial direct costs for any existing leases and whether any expired or existing contracts are or contain leases. The Partnership has identified the following differences based on the work performed to date:

- The adoption of ASU 2016-02 will result in a change in the accounting method for the lease portion of the daily charter hire for the chartered-in vessels of the Partnership's equity-accounted joint ventures accounted for as operating leases with firm periods of greater than one year. Under ASU 2016-02, the equity accounted joint ventures will recognize a right-of-use asset and a lease liability on the balance sheet for these charters based on the present value of future minimum lease payments, whereas currently no right-of-use asset or lease liability is recognized. This will have the result of increasing the equity-accounted joint venture's assets and liabilities. The pattern of expense recognition of chartered-in vessels is expected to remain substantially unchanged, unless the right of use asset becomes impaired.
- The adoption of ASU 2016-02 will result in the Partnership's lease classification assessment being determined when a lease commences instead of when the lease is entered into. The Partnership has entered into charters in prior periods for certain of its vessels currently under construction and which are expected to deliver over the period from 2018 to 2020. Historically, for charters that were negotiated concurrently with the construction of the related vessels, the fair value of the constructed asset was presumed to be its newbuilding cost and no gain or loss was recognized on commencement of the charter if such charters were classified as direct finance leases. On the adoption of ASU 2016-02, the fair value of the vessel is determined based on information available at the lease commencement date and any difference in the fair value of the ship upon commencement of the charter and its carrying value is recognized as a gain or loss upon commencement of the charter.
- The adoption of ASU 2016-02 will result in the recognition of revenue from the reimbursement of scheduled dry-dock expenditures, where such charter contract is accounted for as an operating lease, occurring upon completion of the scheduled dry-dock, instead of ratably over the period between the previous scheduled dry-dock and the next scheduled dry-dock. The Partnership is in the process of determining which vessels this applies to and the cumulative impact to opening equity as at January 1, 2018.
- In addition, direct financing lease payments received will be presented as an operating cash inflow instead of an investing cash inflow in the statement of cash flows.

In June 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses
on Financial Instruments (or ASU 2016-13). ASU 2016-13 replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This update is effective for the Partnership January 1, 2020, with a modified-retrospective approach required on adoption. The Partnership is currently evaluating the effect of adopting this new guidance.

In August 2016, the FASB issued Accounting Standards Update 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts
and Cash Payments (or ASU 2016-15), which, among other things, provides guidance on two acceptable approaches of classifying distributions received from equity-method investees in the statements of cash flows. ASU 2016-15 became effective for the Partnership as of January 1, 2018, with a retrospective approach required on adoption. The Partnership has elected to classify distributions received from equity method investees in the statement of cash flows based on the nature of the distribution. The adoption of this update did not have a material impact on the financial statements of the Partnership.

In November 2016, the FASB issued Accounting Standards Update 2016-18, Statement of Cash Flows: Restricted Cash (or ASU 2016-18).

ASU 2016-18 requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts
generally described as restricted cash or restricted cash equivalents. Entities are also required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. ASU 2016-18 became effective for the Partnership as of January 1, 2018. Adoption of ASU 2016-18 resulted in the Partnership including in the consolidated statements of cash flows changes in cash, cash equivalents and restricted cash.

In August 2017, the FASB issued Accounting Standards Update 2017-12, Derivatives and Hedging - Targeted Improvements to Accounting
for Hedging Activities (or ASU 2017-12). ASU 2017-12 eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires, for qualifying hedges, the entire change in the fair value of a hedging instrument to be presented in the same income
statement line as the hedged item. The guidance also modifies the accounting for components excluded from the assessment of hedge effectiveness, eases documentation and assessment requirements and modifies certain disclosure requirements. ASU 2017-12 will be effective for the Partnership January 1, 2019. The Partnership is currently evaluating the effect of adopting this new guidance.

3. 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 3 to the Partnership's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2017. 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 fair value on a recurring basis.

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	Fair Value Hierarchy Level	March 31, 2018		December 31, 2017	
		Carrying Amount Asset (Liability) $	Fair Value Asset (Liability) $	Carrying Amount Asset (Liability) $	Fair Value Asset (Liability) $
Recurring:					
Cash and cash equivalents and restricted cash	Level 1	283,295	283,295	339,435	339,435
Derivative instruments (note 10)					
Interest rate swap agreements – assets	Level 2	5,070	5,070	878	878
Interest rate swap agreements – liabilities	Level 2	(59,906)	(59,906)	(73,984)	(73,984)
Cross-currency swap agreements – assets	Level 2	13,618	13,618	3,758	3,758
Cross-currency swap agreements – liabilities	Level 2	(41,536)	(41,536)	(54,217)	(54,217)
Other derivative	Level 3	1,549	1,549	1,648	1,648
Non-recurring:					
Vessels held for sale (notes 14a and 14b)	Level 2	28,000	28,000	16,671	16,671
Vessels and equipment (note 14d)	Level 2	13,200	13,200	—	—
Other:					
Advances to equity-accounted joint ventures (note 6)	(i)	131,449	(i)	131,685	(i)
Long-term receivable included in accounts receivable and other assets (ii)	Level 3	2,258	2,246	3,476	3,459
Long-term debt – public (note 7)	Level 1	(394,315)	(403,020)	(376,581)	(384,820)
Long-term debt – non-public (note 7)	Level 2	(1,365,573)	(1,347,753)	(1,421,411)	(1,391,524)
Obligations related to capital leases	Level 2	(1,101,068)	(1,091,151)	(1,011,549)	(1,001,588)

(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 3 to the Partnership's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year-ended December 31, 2017, the estimated fair value of the non-interest bearing receivable from Royal Dutch Shell Plc (or Shell) is based on the remaining future fixed payments as well as an estimated discount rate. The estimated fair value of this receivable as of March 31, 2018 was $2.2 million (December 31, 2017 – $3.5 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 Shell, the discount rate is based on unsecured debt instruments of similar maturity held by the Partnership, adjusted for a liquidity premium. A higher or lower discount rate would result in a lower or higher fair value asset.

Changes in fair value during the three months ended March 31, 2018 and 2017 for the Partnership's other derivative instrument, the Toledo Spirit time-charter derivative, which is described below and is measured at fair value on a recurring basis using significant unobservable inputs (Level 3), are as follows:

	Three Months Ended March 31,	
	2018	2017
	$	$
Fair value at beginning of period	1,648	2,134
Realized and unrealized gains included in earnings	579	1,135
Settlement payments	(678)	(1,304)
Fair value at end of period	1,549	1,965

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 contract 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 March 31, 2018 is based upon an average daily tanker rate of $17,000 (March 31, 2017 – $18,000) over the remaining duration of the charter

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contract and a discount rate of 8.7% (March 31, 2017 – 8.4%). 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.

			March 31, 2018	December 31, 2017
Class of Financing Receivable	Credit Indicator	Grade	$	$
Direct financing leases	Payment activity	Performing	493,622	495,990
Other receivables:				
Long-term receivable and accrued revenue included in accounts receivable and other assets	Payment activity	Performing	4,695	5,476
Advances to equity-accounted joint ventures (note 6)	Other internal metrics	Performing	131,449	131,685
			629,766	633,151

4. Segment Reporting

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

	Three Months Ended March 31,					
	2018			2017		
	Liquefied Gas Segment $	Conventional Tanker Segment $	Total $	Liquefied Gas Segment $	Conventional Tanker Segment $	Total $
Voyage revenues	105,049	10,257	115,306	88,947	12,233	101,180
Voyage expenses	(2,808)	(2,993)	(5,801)	(346)	(1,091)	(1,437)
Vessel operating expenses	(24,688)	(3,779)	(28,467)	(18,665)	(4,723)	(23,388)
Depreciation and amortization	(27,221)	(2,046)	(29,267)	(23,220)	(2,900)	(26,120)
General and administrative expenses [(i)]	(5,787)	(784)	(6,571)	(3,380)	(777)	(4,157)
Write-down of vessels	—	(18,662)	(18,662)	—	—	—
Restructuring charges	—	(1,396)	(1,396)	—	—	—
Income (loss) from vessel operations	44,545	(19,403)	25,142	43,336	2,742	46,078
Equity income	26,724	—	26,724	5,887	—	5,887

(i)

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

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

	March 31, 2018	December 31, 2017
	$	$
Total assets of the liquefied gas segment	4,760,881	4,624,321
Total assets of the conventional tanker segment	71,309	112,844
Unallocated:		
Cash and cash equivalents	197,007	244,241
Accounts receivable and prepaid expenses	28,770	30,593
Advances to affiliates	5,621	7,300
Consolidated total assets	5,063,588	5,019,299

5. Vessel Charters

a) Obligations Related to Capital Leases

The minimum estimated charter hire and rental payments for the remainder of the year and the next four fiscal years, as at March 31, 2018, for the Partnership’s vessels chartered-in are as follows:

	Remainder of 2018	2019	2020	2021	2022
Vessel Charters (i)	$	$	$	$	$
Charters-in – capital leases (ii)	114,238	119,657	118,909	117,954	117,159

(i) The Partnership owns 69% of Teekay BLT Corporation (or Teekay Tangguh Joint Venture), which is a party to operating leases whereby the Teekay Tangguh Joint Venture is leasing the Tangguh Hiri and Tangguh Sago 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 above 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 5 to the Partnership’s audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2017. Under the terms of the leasing arrangement for the Tangguh LNG Carriers, whereby the Teekay Tangguh Joint Venture is the lessee, the lessor claims 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 March 31, 2018 was $6.8 million (December 31, 2017 – $7.1 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 party 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 March 31, 2018, the Partnership was a party, as lessee, to a capital lease on one Suezmax tanker, the Toledo Spirit. Under this capital lease, the owner has the option to require the Partnership to purchase the vessel. The charterer, who is also the owner, also has the option to cancel the charter contract and the cancellation option is first exercisable in July 2019. The amounts in the table above assume the owner will not exercise its option to require the Partnership to purchase the vessel from the owner, but rather assume the owner will cancel the charter contract when the cancellation right is first exercisable in August 2018 and sell the vessel to a third party, upon which the remaining lease obligation will be extinguished. Therefore, the table above does not include any amounts after the expected cancellation date of the lease. In May 2018, the charterer of the Toledo Spirit gave formal notification to the Partnership of its intention to terminate its charter contract subject to certain conditions being met and third-party approvals being received.

The Partnership is also a party to capital leases on six LNG carriers, the Creole Spirit, the Oak Spirit, the Torben Spirit, the Macoma, the Murex and the Magdala. Upon delivery of these six LNG carriers between February 2016 and February 2018, the Partnership sold these respective vessels to third parties (or Lessors) and leased them back under 10-year bareboat charter contracts ending in 2026 through to 2028. The bareboat charter contracts are accounted for as obligations related to capital leases and have fixed-price purchase obligations at the end of the lease terms.

As at March 31, 2018, the Partnership had sale-leaseback agreements in place for two of its LNG carrier newbuildings scheduled to deliver during the remainder of 2018, and at such dates, the Lessors will take delivery and charter each respective vessel back to the Partnership. As at March 31, 2018, the Partnership had received $118 million from the Lessors relating to the two LNG carrier newbuildings, which was recorded in current and long-term obligations related to capital leases in the Partnership's consolidated balance sheets. The Partnership has secured a further $248 million in capital lease financing to be received during the remainder of 2018 upon delivery of the vessels.

The Partnership understands that these vessels and lease operations are the only assets and operations of the Lessors. The Partnership operates the vessels during the lease term and as a result, is considered to be, under GAAP, the Lessor's primary beneficiary; therefore, the Partnership consolidates the Lessors for financial reporting purposes as VIEs.

The liabilities of the Lessors are loans and are non-recourse to the Partnership. The amounts funded to the Lessors in order to purchase the vessels materially match the funding to be paid by the Partnership's subsidiaries under the sale-leaseback transaction. As a result, the amounts due by the Partnership's subsidiaries to the Lessors have been included in obligations related to capital leases as representing the Lessors' loans.

The obligations of the Partnership under the bareboat charter contracts are guaranteed by the Partnership. In addition, the guarantee agreements require the Partnership to maintain minimum levels of tangible net worth and aggregate liquidity, and not to exceed a maximum amount of leverage. As at March 31, 2018, the Partnership was in compliance with all covenants in respect of the obligations related to capital leases.

b)Revenue

The Partnership’s primary source of revenue is chartering its vessels to customers. The Partnership utilizes three primary forms of contracts, consisting of time-charter contracts, voyage charter contracts and bareboat charter contracts. The Partnership also generates revenue from construction supervision and crew-training for the vessels under construction in its joint venture with China LNG, CETS Investment Management (HK) Co. Ltd. and BW Investments Pte. Ltd (or the Pan Union Joint Venture), in which the Partnership's ownership interests range from 20% to 30%, and from the operation of an LNG receiving and regasification terminal related to its 30%-owned joint venture with National Oil and Gas Authority (30%), Gulf Investment Corporation (24%), and Samsung C&T (16%) (or the Bahrain LNG-Joint Venture). Such services may include the procurement of third party goods and services for the asset’s owner.

Time Charters

Pursuant to a time charter, the Partnership charters a vessel to a customer for a fixed period of time, generally one year or more. The performance obligations within a time-charter contract, which will include the lease of the vessel to the charterer as well as the operation of the vessel, are satisfied as services are rendered over the duration of such contract, as measured using the time that has elapsed from commencement of performance. In addition, any expenses that are unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions, are the responsibility of the customer, as long as the vessel is not off-hire. Hire is based on a fixed daily hire amount and is typically invoiced monthly in advance for time-charter contracts. However, certain sources of variability exist. Those include penalties, such as those that relate to periods the vessels are off-hire and where minimum speed and performance metrics are not met. In addition, certain time charters contain provisions that allow the Partnership to be compensated for increases in the Partnerships costs during the term of the charter. Such provisions may be in the form of annual hire rate adjustments for changes in inflation indices or interest rates or in the form of cost reimbursements for vessel operating expenditures or dry-docking expenditures. Finally, in a small number of charters, the Partnership may earn a profit share consideration, which occurs when actual spot tanker rates earned by the vessel exceed certain thresholds for a period of time. Variable consideration of the Partnership’s contracts is typically recognized as incurred as either such revenue is allocated and accounted for under lease accounting requirements or alternatively such consideration is allocated to distinct periods within a contract that such variable consideration was incurred in. The Partnership does not engage in any specific tactics to minimize residual value risk.

As at March 31, 2018, a substantial majority of the Partnership’s vessels operated under time charter contracts with the Partnership’s customers. Such contracts are scheduled to expire between 2018 and 2029. The time charters for many of our LNG carriers have options whereby the charterer can extend the contract for periods up to a total extension of between three to 15 years. In addition, each of our time-charters are subject to certain termination and purchase provisions. As at March 31, 2018, the Partnership had $16.1 million of advanced payments recognized as contract liabilities (December 31, 2017 - $22.2 million) which are expected to be recognized as voyage revenues in the following period and are included in unearned revenue on the Partnership's consolidated balance sheets.

Voyage Charters

Voyage charters are charters for a specific voyage that are usually priced on a current or “spot” market rate. The performance obligations within a voyage charter contract, which will typically include the lease of the vessel to the charterer as well as the operation of the vessel, are satisfied as services are rendered over the duration of the voyage, as measured using the time that has elapsed from commencement of performance. In addition, any expenses that are unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions, are the responsibility of the vessel owner. The Partnership’s voyage charters will normally contain a lease; however, judgment is necessary to determine this based upon the decision-making rights the charterer has within the contract. Consideration for such contracts are generally fixed, although certain sources of variability exist. Delays caused by the charterer result in additional consideration. Payment for the voyage is not due until the voyage is completed. The duration of a single voyage will typically be less than three months. The Company does not engage in any specific tactics to minimize residual value risk due to the short-term nature of the contracts.

Bareboat Charters

Pursuant to a bareboat charter, the Partnership charters a vessel to a customer for a fixed period of time, generally one year or more, at rates that are generally fixed. However, the customer is responsible for operation and maintenance of the vessel with its own crew as well as any expenses that are unique to a particular voyage, including any bunker fuel expenses, port fees, cargo loading and unloading expenses, canal tolls, agency fees and commissions. If the vessel goes off-hire due to a mechanical issue or any other reason, the monthly hire received by the vessel owner is normally not impacted by such events. The performance obligations within a bareboat charter, which will include the lease of the vessel to the charterer, are satisfied over the duration of such contract, as measured using the time that has elapsed from commencement of the lease. Hire is typically invoiced monthly in advance for bareboat charters, based on a fixed daily hire amount.

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Revenue Table

The following table contains the Partnership’s revenue for the three months ended March 31, 2018 and 2017, by contract type and by segment.

	Three Months Ended March 31,					
	2018			2017		
	Liquefied Gas Segment $	Conventional Tanker Segment $	Total $	Liquefied Gas Segment $	Conventional Tanker Segment $	Total $
Time charters	93,459	5,398	98,857	78,514	10,732	89,246
Voyage charters	3,623	4,751	8,374	—	1,223	1,223
Bareboat charters	5,377	—	5,377	8,430	—	8,430
Management fees and other income	2,590	108	2,698	2,003	278	2,281
	105,049	10,257	115,306	88,947	12,233	101,180

The following table contains the Partnership’s revenue from contracts that do not contain a lease element and the non-lease element of time-charters accounted for as direct financing leases for the three months ended March 31, 2018 and 2017.

	Three Months Ended March 31,	
	2018 $	2017 $
Non-lease revenue - related to sales type or direct financing leases	4,140	4,388
Management fees and other income	2,698	2,281
Total	6,838	6,669

Net Investments in Direct Financing Leases

The Tangguh LNG Carriers commenced their time-charters with their charterers in 2009. Both time-charter contracts are accounted for as direct financing leases with 20-year terms. In 2013, the Partnership acquired two 155,900-cubic meter LNG carriers (or Awilco LNG Carriers) from Norway-based Awilco LNG ASA (or Awilco) and chartered them back to Awilco on five- and four-year fixed-rate bareboat charter contracts (plus a one-year extension option), respectively, with Awilco holding fixed-price purchase obligations at the end of the charter. The bareboat charters with Awilco were accounted for as direct financing leases. In June 2017, the Partnership agreed to amend the charter contracts with Awilco to defer a portion of charter hire and extend the bareboat charter contracts and related purchase obligations on both vessels to December 2019. The amendments have the effect of deferring between $10,600 per day and $20,600 per day per vessel from July 1, 2017 until December 2019, with such deferred amounts added to the purchase obligation amounts. As a result of the contract amendments, one of the charter contracts with Awilco was reclassified as an operating lease upon the expiry of its original contract terms in November 2017. The second charter

contract with Awilco will be reclassified as an operating lease upon the expiry of its original contract terms in August 2018, and at that time, approximately $131 million will be recorded as part of vessels and equipment. The following table lists the components of the net investments in direct financing leases:

	March 31, 2018 $	December 31, 2017 $
Total minimum lease payments to be received	556,391	568,710
Estimated unguaranteed residual value of leased properties	194,965	194,965
Initial direct costs	352	361
Less unearned revenue	(258,086)	(268,046)
Total net investments in direct financing leases	493,622	495,990
Less current portion	(10,676)	(9,884)
Net investments in direct financing leases	482,946	486,106

As at March 31, 2018, estimated minimum lease payments to be received by the Partnership related to the Tangguh LNG Carrier leases in each of the next five succeeding fiscal years are approximately $29.4 million (remainder of 2018), $39.1 million per year from 2019 through 2022 and an aggregate of $235.7 million thereafter. Both leases are scheduled to end in 2029. In addition, the estimated minimum lease

payments to be received by the Partnership in 2018 related to the second Awilco LNG Carrier lease, up to its original contract term in August 2018, are approximately $4.1 million.

Operating Leases

As at March 31, 2018, the minimum scheduled future rentals to be received by the Partnership in each of the next five years for the lease and non-lease elements related to time-charters that were accounted for as operating leases are approximately $266.1 million (remainder of 2018), $337.9 million (2019), $308.0 million (2020), $268.5 million (2021), $239.2 million (2022), and $694.2 million thereafter. Minimum scheduled future rentals on operating lease contracts do not include rentals generated from new contracts entered into after March 31, 2018, rentals from vessels in the Partnership's equity-accounted investments, rentals from unexercised option periods of contracts that existed on March 31, 2018, variable or contingent rentals, or rentals from contracts which commenced after March 31, 2018. Therefore, the minimum scheduled future rentals on operating leases should not be construed to reflect total charter hire revenues for any of these periods.

The carrying amount of the Company's vessels which are employed on these time charters as at March 31, 2018, was $2.4 billion (December 31, 2017 - $2.2 billion). The cost and accumulated depreciation of the vessels employed on these time charters as at March 31, 2018 were $3.0 billion (December 31, 2017 - $2.9 billion) and $655.7 million (December 31, 2017 - $646.2 million), respectively.

Contract Costs

In certain cases, the Partnership incurs pre-operational costs that relate directly to a specific customer contract, that generate or enhance resources of the Partnership that will be used in satisfying performance obligations in the future, whereby such costs are expected to be recovered via the customer contract. Those costs include costs incurred to reposition a vessel to a location where a charterer will take delivery of the vessel. In certain cases, the Partnership must make judgements about whether costs relate directly to a specific customer contract or whether costs were factored into the pricing of a customer contract and thus expected to be recovered. Such deferred costs are amortized on a straight-line basis over the duration of the customer contract. Amortization of such costs for the three months ended March 31, 2018 was $0.2 million. As at March 31, 2018, repositioning costs of $2.7 million were included as part of other assets in the Partnership's consolidated balance sheets.

6. Equity-Accounted Investments

a) As of March 31, 2018, the Partnership had advanced $52.3 million to Exmar LPG BVBA (December 31, 2017 – $52.3 million), the Partnership's 50/50 joint venture (or the Exmar LPG Joint Venture) with Exmar NV (or Exmar). These advances bear interest at LIBOR plus 0.50% and have no fixed repayment terms. As at March 31, 2018, the interest receivable on the advances was $nil (December 31, 2017 – $0.2 million). Both the advances and the interest receivable on these advances are included in investments and advances to equity-accounted joint ventures in the Partnership's consolidated balance sheets.

b) As of March 31, 2018, the Partnership had advanced $79.1 million to the Bahrain LNG Joint Venture (December 31, 2017 – $79.1 million). As of March 31, 2018, the interest accrued on these advances was $0.1 million (December 31, 2017 – $0.1 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.

c) On January 31, 2018, the Partnership sold its 50% ownership interest in its equity-accounted joint venture with Exmar (or the Excelsior Joint Venture) for gross proceeds of approximately $54 million. As a result of the sale, the Partnership recorded a gain of $5.6 million which is included in equity income in the Partnership's consolidated statements of (loss) income.

7. Long-Term Debt

	March 31, 2018 $	December 31, 2017 $
U.S. Dollar-denominated Revolving Credit Facilities due from 2018 to 2022	166,600	254,275
U.S. Dollar-denominated Term Loans due from 2018 to 2031	979,774	935,286
Norwegian Kroner-denominated Bonds due from 2018 to 2021	395,343	377,856
Euro-denominated Term Loans due from 2018 to 2023	234,386	232,957
Other U.S. Dollar-denominated loan	—	10,000
Total principal	1,776,103	1,810,374
Unamortized discount and debt issuance costs	(16,215)	(12,382)
Total debt	1,759,888	1,797,992
Less current portion	(524,166)	(552,404)
Long-term debt	1,235,722	1,245,588

As at March 31, 2018, the Partnership had three revolving credit facilities available of which two credit facilities are current and one is long-term. The three credit facilities, as at such date, provided for borrowings of up to $433.1 million (December 31, 2017 – $443.7 million), of which $266.5 million (December 31, 2017 – $189.4 million) was undrawn. Interest payments are based on LIBOR plus margins, which margins ranged from 0.80% to 2.25%. The amount available under the three revolving credit facilities reduces by $257.5 million during the remainder

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of 2018, $22.4 million in 2019, $23.4 million in 2020, $24.4 million in 2021 and $105.4 million in 2022. The revolving credit facilities may be used by the Partnership to fund general partnership purposes and to fund cash distributions. One of the revolving credit facilities is unsecured, while the other two 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. The Partnership is in the process of seeking to extend the other two revolving credit facilities.

As at March 31, 2018, the Partnership had seven U.S. Dollar-denominated term loans outstanding which totaled $979.8 million in aggregate principal amount (December 31, 2017 – $935.3 million). Interest payments on the term loans are based on LIBOR plus a margin, which margins ranged from 0.30% to 3.25%. The seven term loans require quarterly interest and principal payments and have balloon or bullet repayments due at maturity. The term loans are collateralized by first-priority mortgages on 16 of the Partnership's vessels to which the loans relate, together with certain other related security. In addition, at March 31, 2018, all of the outstanding term loans were guaranteed by either the Partnership or Teekay Nakilat Corporation, of which the Partnership is a 70% owner (or the Teekay Nakilat Joint Venture).

The Partnership has Norwegian Kroner (or NOK) 3.1 billion of senior unsecured bonds in the Norwegian bond market that mature through 2021. As at March 31, 2018, the total amount of the bonds, which are listed on the Oslo Stock Exchange, was $395.3 million (December 31, 2017 – $377.9 million). The interest payments on the bonds are based on NIBOR plus a margin, which margins ranged from 3.70% to 6.00%. The Partnership entered into cross-currency rate swaps, to swap all interest and principal payments of the bonds into U.S. Dollars, with the interest payments fixed at rates ranging from 6.00% to 7.72% and the transfer of principal fixed at $430.5 million upon maturity in exchange for NOK 3.1 billion (see Note 10).

The Partnership has two Euro-denominated term loans outstanding, which as at March 31, 2018, totaled 190.2 million Euros ($234.4 million) (December 31, 2017 – 194.1 million Euros ($233.0 million)). Interest payments are based on EURIBOR plus margins, which margins ranged from 0.60% to 2.25% as at March 31, 2018, 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 interest rates for the Partnership's long-term debt outstanding at March 31, 2018 and December 31, 2017 were 3.80% and 3.34%, respectively. These rates do not reflect the effect of related interest rate swaps that the Partnership has used to economically hedge certain of its floating-rate debt (see Note 10). At March 31, 2018, the margins on the Partnership's outstanding revolving credit facilities and term loans ranged from 0.30% to 3.25%.

All Euro-denominated term loans and NOK-denominated bonds are revalued at the end of each period using the then-prevailing U.S. Dollar exchange rate. Due primarily to the revaluation of the Partnership's NOK-denominated bonds, the Partnership's Euro-denominated term loans and restricted cash, and the change in the valuation of the Partnership's cross-currency swaps, the Partnership incurred foreign exchange losses of $1.3 million and $3.6 million for the three months ended March 31, 2018 and 2017, respectively.

The aggregate annual long-term debt principal repayments required subsequent to March 31, 2018, after giving effect to the debt facility refinancing completed in May 2018 (see Note 16b), are $502.2 million (remainder of 2018), $102.5 million (2019), $375.9 million (2020), $379.8 million (2021), $55.9 million (2022) and $359.8 million (thereafter).

Certain loan agreements require that (a) the Partnership maintain minimum levels of tangible net worth and aggregate liquidity, (b) the Partnership maintain certain ratios of vessel values related to the relevant outstanding loan principal balance, (c) the Partnership not exceed a maximum amount of leverage, and (d) certain of the Partnership's subsidiaries maintain restricted cash deposits. As at March 31, 2018, the Partnership has three facilities with an aggregate outstanding loan balance of $168.5 million that require it to maintain minimum vessel-value-to-outstanding-loan-principal-balance ratios ranging from 110% to 135%, which as at March 31, 2018, ranged from 120% to 224%. The vessel values used in calculating these ratios are the appraised values provided by third parties where available, or prepared by the Partnership based on second-hand sale and purchase market data. Since vessel values can be volatile, the Partnership's estimates of market value may not be indicative of either the current or future prices that could be obtained if the Partnership sold any of the vessels. The Partnership's ship-owning subsidiaries may not, among other things, pay dividends or distributions if the Partnership's subsidiaries are in default under their term loans or revolving credit facilities and, in addition, the term loan in the Teekay Nakilat Joint Venture requires it to satisfy a minimum vessel-value-to-outstanding-loan-principle-balance ratio to pay dividends. As at March 31, 2018, the Partnership was in compliance with all covenants relating to the Partnership's credit facilities and term loans.

The Partnership maintains restricted cash deposits relating to certain term loans, 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 $86.3 million and $95.2 million as at March 31, 2018 and December 31, 2017, respectively.

8. Income Tax

The components of the provision for income taxes were as follows:

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	Three Months Ended March 31,	
	2018	2017
	$	$
Current	(505)	(238)
Deferred	(274)	81
Income tax expense	(779)	(157)

9. Related Party Transactions

a) Two of the Partnership’s LNG carriers, the Arctic Spirit and Polar Spirit, were employed on long-term charter contracts with subsidiaries of Teekay Corporation which contracts ended in April 2018 and March 2018, respectively. The Partnership and certain of its operating subsidiaries have entered into service agreements with certain subsidiaries of Teekay Corporation pursuant to which the Teekay Corporation subsidiaries provide to the Partnership and its subsidiaries administrative, commercial, crew training, advisory, business development, technical management and strategic consulting services. In addition, as part of the Partnership's acquisition of its ownership interest in the Pan Union Joint Venture in 2014, the Partnership entered into an agreement with a subsidiary of Teekay Corporation whereby Teekay Corporation’s subsidiary will, on behalf of the Partnership, provide shipbuilding supervision and crew training services for the four LNG carrier newbuildings in the Pan Union Joint Venture, up to their delivery dates. All costs incurred by these Teekay Corporation subsidiaries related to these services are charged to the Partnership and recorded as part of vessel operating expenses. 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 March 31,	
	2018	2017
	$	$
Voyage revenues (i)	7,979	8,991
Vessel operating expenses	(5,857)	(5,316)
General and administrative expenses (ii)	(4,099)	(2,107)
General and administrative expenses deferred and capitalized (iii)	(185)	(507)

(i) Commencing in 2008, the Arctic Spirit and Polar Spirit were time-chartered to Teekay Corporation at a fixed-rate for a period of 10 years. The contract periods for the Polar Spirit and for the Arctic Spirit expired in March 2018 and April 2018, respectively.

(ii) Includes commercial, strategic, advisory, business development and administrative management fees charged by Teekay Corporation and reimbursements to Teekay Corporation and the Partnership's General Partner for costs incurred on the Partnership’s behalf.

(iii)

Includes the Partnership's proportionate costs associated with the Bahrain LNG Joint Venture, including pre-operation, engineering and financing-related expenses, of which $nil and $0.1 million was reimbursed by the Bahrain LNG Joint Venture for the three months ended March 31, 2018 and 2017, respectively. The net costs are recorded as part of investments in and advances to equity-accounted joint ventures in the Partnership's consolidated balance sheets.

b) As at March 31, 2018 and December 31, 2017, non-interest bearing advances to affiliates totaled $5.6 million and $7.3 million, respectively, and non-interest bearing advances from affiliates totaled $12.0 million and $12.1 million, respectively. These advances are unsecured and have no fixed repayment terms. Affiliates are entities that are under common control with the Partnership.

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 August 2018. The charterer has notified the Partnership in May 2018 of its intention to terminate its charter contract as early as August 2018 subject to certain conditions being met and third-party approvals being received. 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 3 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 carrier newbuildings the Partnership has ordered. These costs are capitalized and included as part of advances on newbuilding contracts in the Partnership’s consolidated balance sheets. For the three months ended March 31, 2018 and 2017, the Partnership incurred shipbuilding and site supervision costs of $3.3 million and $3.3 million, respectively.

e) The Partnership entered into an operation and maintenance contract with the Bahrain LNG Joint Venture and an operating and maintenance subcontract with Teekay Marine Solutions (Bermuda) Ltd. (or TMS), an entity wholly-owned by Teekay Tankers Ltd., which is controlled by Teekay Corporation, relating to the LNG regasification terminal in Bahrain. The Partnership, as the contractor, and TMS, as the subcontractor, agreed to provide pre-mobilization services up to August 2018, and mobilization services and other general operational and maintenance services of the facility thereafter. The subcontractor fees from TMS of $0.1 million and $0.1 million for the three months ended March 31, 2018

and 2017, respectively, are included in general and administrative expenses in the Partnership's consolidated statements of (loss) income. Cost recoveries from the Bahrain LNG Joint Venture of $0.1 million and $0.1 million for the three months ended March 31, 2018 and 2017, respectively, are included in voyage revenues in the Partnership's consolidated statements of (loss) income.

10. Derivative Instruments and Hedging Activities

The Partnership uses derivative instruments in accordance with its overall risk management policy.

Foreign Exchange Risk

The Partnership entered into cross-currency swaps concurrently with the issuance of its NOK-denominated senior unsecured bonds (see Note 7), 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 2018, 2020 and 2021, and to economically hedge the interest rate exposure. The following table reflects information relating to the cross-currency swaps as at March 31, 2018.

		Floating Rate Receivable				
Principal Amount NOK (in thousands)	Principal Amount $	Reference Rate	Margin	Fixed Rate Payable	Fair Value / Carrying Amount of Asset (Liability) $	Weighted-Average Remaining Term (Years)
900,000	150,000	NIBOR	4.35 %	6.43 %	(35,931)	0.4
1,000,000	134,000	NIBOR	3.70 %	5.92 %	(5,605)	2.1
1,200,000	146,500	NIBOR	6.00 %	7.72 %	13,618	3.6
					(27,918)	

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 March 31, 2018, the Partnership was committed to the following interest rate swap agreements:

	Interest Rate Index	Principal Amount $	Fair Value / Carrying Amount of Asset (Liability)	Weighted-Average Remaining Term (years)	Fixed Interest Rate (%) (i)

			$		
LIBOR-Based Debt:					
U.S. Dollar-denominated interest rate swaps	LIBOR	60,000	(1,588)	0.8	4.9
U.S. Dollar-denominated interest rate swaps (ii)	LIBOR	137,500	(17,449)	10.8	5.2
U.S. Dollar-denominated interest rate swaps (ii)	LIBOR	37,490	(174)	3.3	2.8
U.S. Dollar-denominated interest rate swaps (iii) (iv)	LIBOR	348,275	(12,518)	2.8	3.4
U.S. Dollar-denominated interest rate swaps (iv)	LIBOR	97,500	494	0.8	1.7
U.S. Dollar-denominated interest rate swaps (iv)	LIBOR	192,257	4,576	8.7	2.3
EURIBOR-Based Debt:					
Euro-denominated interest rate swaps (v)	EURIBOR	234,386	(28,177)	2.7	3.1
			(54,836)		

(i) Excludes the margins the Partnership pays on its floating-rate term loans, which, at March 31, 2018, ranged from 0.30% to 3.25%.

(ii) Principal amount reduces semi-annually.

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(iii) These interest rate swaps are subject to mandatory early termination in 2020 and 2021 whereby the swaps will be settled based on their fair value at that time.
(iv) Principal amount reduces quarterly.
(v) Principal amount reduces monthly to 70.1 million Euros ($86.4 million) by the maturity dates of the swap agreements. Certain of these Euro-denominated interest rate swaps are subject to mandatory early termination in 2018 whereby the swaps will be settled based on their fair value at that time.

As at March 31, 2018, 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 derivative instruments is presented on a gross basis in the Partnership's consolidated balance sheets. As at March 31, 2018, these interest rate swaps and cross-currency swaps had an aggregate fair value asset of $18.2 million and an aggregate fair value liability of $64.4 million. As at March 31, 2018, the Partnership had $12.3 million (December 31, 2017 – $22.3 million) on deposit as security for swap liabilities under certain master agreements. The deposit is presented as restricted cash – current in the Partnership's consolidated balance sheets.

Credit Risk

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

Other 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 asset at March 31, 2018 was $1.5 million (December 31, 2017 – asset of $1.6 million).

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

	Advances to affiliates	Current portion of derivative assets $	Derivative assets $	Accrued liabilities $	Current portion of derivative liabilities $	Derivative liabilities $
As at March 31, 2018						
Interest rate swap agreements	—	679	4,409	(2,025)	(25,059)	(32,840)

Cross-currency swap agreements	—	—	14,050	(603)	(37,527)	(3,838)
Toledo Spirit time-charter derivative	309	1,240	—	—	—	—
	309	1,919	18,459	(2,628)	(62,586)	(36,678)
As at December 31, 2017						
Interest rate swap agreements	—	108	1,130	(4,101)	(34,614)	(35,629)
Interest rate swaption agreements	—	—	—	—	(2)	—
Cross-currency swap agreements	—	—	5,042	(810)	(44,523)	(10,168)
Toledo Spirit time-charter derivative	678	970	—	—	—	—
	678	1,078	6,172	(4,911)	(79,139)	(45,797)

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

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	Three Months Ended March 31,					
	2018			2017		
	Realized gains (losses)	Unrealized gains (losses)	Total	Realized gains (losses)	Unrealized gains (losses)	Total
	$	$	$	$	$	$
Interest rate swap agreements	(4,478)	11,898	7,420	(4,675)	4,302	(373)
Interest rate swaption agreements	—	2	2	—	30	30
Interest rate swaption agreements termination	—	—	—	395	—	395
Toledo Spirit time-charter derivative	309	270	579	15	1,120	1,135
	(4,169)	12,170	8,001	(4,265)	5,452	1,187

Realized and unrealized gains (losses) relating to cross-currency swap agreements are recognized in earnings and reported in foreign currency exchange loss in the Partnership's consolidated statements of (loss) income. The effect of the gain (loss) on these derivatives on the Partnership's consolidated statements of (loss) income is as follows:

	Three Months Ended March 31,					
	2018			2017		
	Realized gains (losses)	Unrealized gains (losses)	Total	Realized gains (losses)	Unrealized gains (losses)	Total
	$	$	$	$	$	$
Cross-currency swap agreements	(1,384)	22,334	20,950	(3,537)	2,699	(838)
	(1,384)	22,334	20,950	(3,537)	2,699	(838)

For the periods indicated, the following table presents the effective and ineffective portions of gains or losses on interest rate swap agreements designated and qualifying as cash flow hedges. The following table excludes any interest rate swap agreements designated and qualifying as cash flow hedges in the Partnership's equity-accounted joint ventures.

Three Months Ended March 31, 2018				Three Months Ended March 31, 2017			
Effective Portion Recognized in AOCI (i) $	Effective Portion Reclassified from AOCI (ii) $	Ineffective Portion (iii) $		Effective Portion Recognized in AOCI (i) $	Effective Portion Reclassified from AOCI (ii) $	Ineffective Portion (iii) $	
3,556	(250)	740	Interest expense	(32)	—	—	Interest expense
3,556	(250)	740		(32)	—	—	

(i) Effective portion of designated and qualifying cash flow hedges recognized in other comprehensive income (loss) (or OCI).
(ii) Effective portion of designated and qualifying cash flow hedges recorded in accumulated other comprehensive income (or AOCI) during the term of the hedging relationship and reclassified to earnings.
(iii) Ineffective portion of designated and qualifying cash flow hedges recorded in interest expense.

11. Commitments and Contingencies

a) The Partnership's share of commitments to fund newbuilding and other construction contract costs as at March 31, 2018 are as follows:

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	Total $	Remainder of 2018 $	2019 $	2020 $
Consolidated LNG carrier newbuildings (i)	637,584	387,582	250,002	—
Equity-accounted joint ventures (ii)	871,720	350,298	322,222	199,200
	1,509,304	737,880	572,224	199,200

(i) As at March 31, 2018, the Partnership had five LNG carrier newbuildings on order which are scheduled for delivery during 2018 and 2019. These commitment amounts are described in more detail in Note 13a of the Partnership’s audited consolidated financial statements filed with its Annual Report on Form 20-F for the year-ended December 31, 2017. The Partnership has secured $492 million of undrawn financing related to the remaining commitments for four of the five LNG carrier newbuildings included in the table above.

(ii) The commitment amounts relating to the Partnership’s share of costs for newbuilding and other construction contracts in the Partnership’s equity-accounted joint ventures are based on the Partnership’s ownership percentage in each respective joint venture as of March 31, 2018. These commitments are described in more detail in Note 13a of the Partnership’s audited consolidated financial statements filed with its Annual Report on Form 20-F for the year-ended December 31, 2017. Based on the Partnership's ownership percentage in each respective joint venture, the Partnership's equity-accounted joint ventures have secured $815 million of undrawn financing related to the Partnership's proportionate share of the remaining commitments included in the table above.

b) Management is required to assess if the Partnership will have sufficient liquidity to continue as a going concern for the one-year period following the issuance of its financial statements. The Partnership anticipates making payments related to commitments to fund its wholly-owned vessels under construction of $387.6 million during the remainder of 2018 and $250.0 million during 2019 as well as other payments relating to its equity-accounted joint ventures (see Note 11a(ii)) and one of its joint ventures may be required to make a $65.6 million payment under a tax indemnification agreement (see Note 11c).

Over the one-year period following the issuance of these financial statements, the Partnership will need to obtain additional sources of financing, in addition to amounts generated from operations, to meet its minimum liquidity requirements under its financial covenants, and to finance newbuildings for which financing commitments have not yet been obtained. These anticipated sources of financing include refinancing loan facilities maturing in 2018 (see Note 16b) as well as obtaining new debt financing for the unfinanced portion of the Partnership's vessels under construction.

The Partnership is actively pursuing the alternatives described above, which it considers probable of completion based on the Partnership’s history of being able to refinance similar loan facilities and to obtain new debt financing for its vessels under construction, as well as the progress it has made on the financing process to-date. The Partnership is in various stages of completion with respect to its anticipated new financing facilities.
Based on the Partnership’s liquidity at the date these consolidated financial statements were issued, the liquidity it expects to generate from operations over the following year, and by incorporating the Partnership’s plans to raise additional liquidity that it considers probable of completion, the Partnership estimates that it will have sufficient liquidity to continue as a going concern for at least the one-year period following the issuance of these consolidated financial statements.

c) The Partnership owns a 70% interest in the Teekay Nakilat Joint Venture, which wholly owns a subsidiary which was the lessee under three separate 30-year capital lease arrangements with a third party for three LNG carriers (or the RasGas II LNG Carriers). Under the terms of the leases, the lessor claimed tax depreciation on the capital expenditures it incurred to acquire these vessels. 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 in 2006 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 joint venture remained obligated to the lessor for changes in tax treatment and as at March 31, 2018, the Teekay Nakilat Joint Venture's carrying amount of this estimated tax indemnification guarantee was $65.6 million or 46.9 million GBP (December 31, 2017 – $12.7 million or 9.4 million GBP) which is included as part of accrued liabilities (December 31, 2017, included as part of other long-term liabilities) in the Partnership's consolidated balance sheets. Additionally, as at March 31, 2018, the Teekay Nakilat Joint Venture had $7.0 million (December 31, 2017 – $7.0 million) on deposit with the lessor as security against any future claims which is recorded as part of restricted cash-current in the Partnership's consolidated balance sheets.

The UK taxing authority (or HMRC) has been challenging the use by third parties of similar lease structures in the UK courts. One of those challenges was eventually decided in favor of HMRC (Lloyds Bank Equipment Leasing No. 1 or LEL1), with the lessor and lessee choosing not to appeal further. The LEL1 tax case concluded that capital allowances are not available to the lessor. On the basis of this conclusion, HMRC is now asking lessees on other leases, including the Teekay Nakilat Joint Venture, to accept that capital allowances are not available to their lessors. Under the terms of the Teekay Nakilat Joint Venture lease, the lessor is entitled to make a determination that additional rentals are due, even where a court has not made a determination on whether capital allowances are available or where discussions are otherwise ongoing with HMRC on the matter (such that additional rentals paid may be rebated in due course if the final tax position is not as determined by the lessor). On May 10, 2018, the lessor made a determination that additional rentals are due under the leases. As a result, during the three months ended March 31, 2018, the Teekay Nakilat Joint Venture recognized an additional tax indemnification guarantee liability of $53.0 million for a total liability of $65.6 million (46.9 million GBP) as at March 31, 2018. The Teekay Nakilat Joint Venture is in discussions with HMRC in relation to the correct tax treatment to be applied to the leases and with the lessor regarding the timing and amount of this consequential liability for additional rentals.

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12. Total Capital and Net (Loss) Income Per Unit

At March 31, 2018, 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. All of the Partnership's outstanding Series A Cumulative Redeemable Perpetual Preferred Units (or the Series A Preferred Units) and Series B Fixed-to-Floating Rate Cumulative Redeemable Perpetual Preferred Units (or the Series B Preferred Units) are held by the public.

Net (loss) Income Per Common Unit

Limited partners' interest in net (loss) income per common unit is determined by dividing net (loss) income, after deducting the amount of net (loss) income attributable to the non-controlling interests, the General Partner’s interest and the distributions on the Series A and Series B Preferred Units by the weighted-average number of common units outstanding during the period. The 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 distributions payable on the Series A and Series B Preferred Units for the three months ended March 31, 2018 and 2017 were $6.4 million and $2.8 million, respectively.

	Three Months Ended March 31,	
	2018	2017
	$	$
Limited partners' interest in net (loss) income for basic net (loss) income per common unit	(13,047)	25,720
Weighted average number of common units	79,637,607	79,590,153
Dilutive effect of unit-based compensation	—	100,238
Common units and common unit equivalents	79,637,607	79,690,391
Limited partner's interest in net (loss) income per common unit:		
basic	(0.16)	0.32
diluted	(0.16)	0.32

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

During the three months ended March 31, 2018 and 2017, cash distributions were below $0.4625 per common unit and, consequently, the assumed distribution of net (loss) income was based on the limited partners' and General Partner’s ownership percentage for purposes of the net (loss) income per common unit calculation. For more

information on the increasing percentages used to calculate the General Partner's interest in net (loss) income, please refer to the Partnership's Annual Report on Form 20-F for the year ended December 31, 2017.

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

13. Unit-Based Compensation

In March 2018, a total of 17,498 common units, with an aggregate value of $0.3 million, were granted to the non-management directors of the General Partner as part of their annual compensation for 2018.

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 costs of the Partnership's unit-based compensation awards are reflected in general and administrative expenses in the Partnership's consolidated statements of (loss) income.

During March 2018 and 2017, the Partnership granted 62,283 and 60,809 restricted units, respectively, with grant date fair values of $1.2 million and $1.0 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.