

Teekay LNG Partners L.P.  
Form 6-K  
November 27, 2013  
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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, 2013**

**Commission file number 1-32479**

**TEEKAY LNG PARTNERS L.P.**

**(Exact name of Registrant as specified in its charter)**

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**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, 2013**

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## ITEM 1 FINANCIAL STATEMENTS

## TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	\$	\$	\$	\$
<b>VOYAGE REVENUES</b> (note 9a)	100,692	98,847	294,418	294,664
<b>OPERATING EXPENSES</b>				
Voyage expenses	373	860	1,988	1,445
Vessel operating expenses (note 9a)	24,655	24,202	74,785	68,766
Depreciation and amortization	24,440	24,694	73,739	74,247
General and administrative (note 9a)	4,793	4,044	15,006	13,737
Loan loss provision (note 6a)	3,804		3,804	
<b>Total operating expenses</b>	58,065	53,800	169,322	158,195
<b>Income from vessel operations</b>	42,627	45,047	125,096	136,469
<b>OTHER ITEMS</b>				
Equity income	28,831	21,098	94,680	49,232
Interest expense (note 7)	(13,548)	(14,414)	(39,928)	(40,946)
Interest income	656	850	1,953	2,731
Realized and unrealized loss on derivative instruments (note 10)	(11,143)	(9,945)	(8,762)	(43,993)
Foreign currency exchange loss (notes 7 and 10)	(16,068)	(6,248)	(10,644)	(1,989)
Other income	306	374	1,182	1,068
	(10,966)	(8,285)	38,481	(33,897)
Net income before income tax expense	31,661	36,762	163,577	102,572
Income tax expense (note 8)	(791)	(679)	(2,434)	(550)
<b>Net income</b>	30,870	36,083	161,143	102,022
<b>Other comprehensive loss:</b>				
Unrealized net loss on qualifying cash flow hedging instruments in equity accounted joint ventures (note 5)	(1,549)		(1,549)	
<b>Other comprehensive loss</b>	(1,549)		(1,549)	

<b>Comprehensive income</b>	29,321	36,083	159,594	102,022
Non-controlling interest in net income	1,262	3,022	7,429	6,542
General Partner's interest in net income	5,784	5,538	18,027	15,863
Limited partners' interest in net income	23,824	27,523	135,687	79,617
Limited partners' interest in net income per common unit				
Basic	0.34	0.42	1.94	1.22
Diluted	0.34	0.42	1.94	1.22
Weighted-average number of common units outstanding:				
Basic	70,451,950	65,882,450	69,952,550	65,201,910
Diluted	70,474,732	65,882,450	69,974,711	65,201,910
Cash distributions declared per common unit	0.6750	0.6750	2.0250	1.9800

**Related party transactions (note 9)**

*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, 2013 \$	As at December 31, 2012 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	118,131	113,577
Restricted cash – current ( <i>note 4</i> )	2,996	34,160
Accounts receivable, including non-trade of \$19,232 (2012 – \$11,654) ( <i>note 10</i> )	19,869	13,408
Prepaid expenses	7,720	5,836
Current portion of derivative assets ( <i>note 10</i> )	18,449	17,212
Current portion of net investments in direct financing leases ( <i>note 4</i> )	11,747	6,656
Advances to affiliates ( <i>note 9b</i> )	3,798	13,864
<b>Total current assets</b>	<b>182,710</b>	<b>204,713</b>
Restricted cash – long-term ( <i>note 4</i> )	496,351	494,429
<b>Vessels and equipment</b>		
At cost, less accumulated depreciation of \$397,570 (2012 – \$351,092)	1,260,588	1,286,957
Vessels under capital leases, at cost, less accumulated depreciation of \$150,274 (2012 – \$133,228)	607,026	624,059
Advances on newbuilding contracts ( <i>notes 9g and 11a</i> )	77,854	38,624
<b>Total vessels and equipment</b>	<b>1,945,468</b>	<b>1,949,640</b>
Investment in and advances to equity accounted joint ventures ( <i>notes 5, 6b, 9d, 9e and 9f</i> )	649,851	409,735
Net investments in direct financing leases ( <i>note 4</i> )	538,964	396,730
Advances to joint venture partner ( <i>note 6a</i> )	10,200	14,004
Other assets	29,964	25,233
Derivative assets ( <i>note 10</i> )	80,439	145,347
Intangible assets – net	99,769	109,984
Goodwill – liquefied gas segment	35,631	35,631
<b>Total assets</b>	<b>4,069,347</b>	<b>3,785,446</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current</b>		
Accounts payable	2,260	2,178

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Accrued liabilities ( <i>note 10</i> )	37,013	38,134
Unearned revenue	10,146	19,417
Current portion of long-term debt ( <i>note 7</i> )	88,096	86,489
Current obligations under capital lease ( <i>note 4</i> )	157,649	70,272
Current portion of derivative liabilities ( <i>note 10</i> )	72,024	48,046
Advances from affiliates ( <i>notes 9b and 10</i> )	16,870	12,083
<b>Total current liabilities</b>	<b>384,058</b>	<b>276,619</b>
Long-term debt ( <i>note 7</i> )	1,645,302	1,326,864
Long-term obligations under capital lease ( <i>note 4</i> )	472,621	567,302
Long-term unearned revenue	36,521	38,570
Other long-term liabilities ( <i>notes 4 and 5</i> )	73,589	73,568
Derivative liabilities ( <i>note 10</i> )	154,261	248,249
<b>Total liabilities</b>	<b>2,766,352</b>	<b>2,531,172</b>
<b>Commitments and contingencies (<i>notes 4, 5, 7, 10 and 11</i>)</b>		
<b>Equity</b>		
Limited Partners	1,206,043	1,165,634
General Partner	48,502	47,346
Accumulated other comprehensive loss	(1,549)	
Partners equity	1,252,996	1,212,980
Non-controlling interest	49,999	41,294
<b>Total equity</b>	<b>1,302,995</b>	<b>1,254,274</b>
<b>Total liabilities and total equity</b>	<b>4,069,347</b>	<b>3,785,446</b>

*Subsequent events (note 14)*

*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, 2013 \$	Nine Months Ended September 30, 2012 \$
Cash and cash equivalents provided by (used for)		
<b>OPERATING ACTIVITIES</b>		
<b>Net income</b>	161,143	102,022
Non-cash items:		
Unrealized (gain) loss on derivative instruments ( <i>note 10</i> )	(18,912)	16,142
Depreciation and amortization	73,739	74,247
Loan loss provision	3,804	
Unrealized foreign currency exchange loss ( <i>notes 7 and 10</i> )	10,642	1,722
Equity income, net of dividends received of \$924 (2012 \$6,500)	(93,756)	(42,732)
Amortization of deferred debt issuance costs and other	2,044	428
Change in operating assets and liabilities	(2,303)	(11,897)
Expenditures for dry docking	(18,668)	(5,531)
<b>Net operating cash flow</b>	117,733	134,401
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of long-term debt	428,471	419,221
Scheduled repayments of long-term debt	(62,034)	(60,647)
Prepayments of long-term debt	(45,000)	(324,274)
Debt issuance costs	(2,473)	(2,025)
Scheduled repayments of capital lease obligations	(7,840)	(7,590)
Proceeds from equity offering, net of offering costs ( <i>note 12</i> )	40,776	182,214
Proceeds from units issued out of continuous offering program, net of offering costs ( <i>note 12</i> )	4,926	
Advances to joint venture partners and equity accounted joint ventures ( <i>note 6</i> )	(16,785)	(3,600)
Decrease (increase) in restricted cash	28,448	(30,845)
Cash distributions paid	(159,014)	(142,939)
Other	(254)	(350)
<b>Net financing cash flow</b>	209,221	29,165



**INVESTING ACTIVITIES**

Purchase of equity accounted investments ( <i>notes 5, 9d, 9e and 9f</i> )	(135,923)	(170,067)
Receipts from direct financing leases	6,650	4,561
Expenditures for vessels and equipment	(194,657)	(1,125)
Other	1,530	1,369
<b>Net investing cash flow</b>	<b>(322,400)</b>	<b>(165,262)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>4,554</b>	<b>(1,696)</b>
Cash and cash equivalents, beginning of the period	113,577	93,627
<b>Cash and cash equivalents, end of the period</b>	<b>118,131</b>	<b>91,931</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 STATEMENT OF CHANGES IN TOTAL EQUITY

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

	TOTAL EQUITY					Total				
	Limited Partners Number of Common Units	Partners Equity General Partner \$	Equity Accumulated Other Comprehensive Loss (Note 5) \$	Non- controlling Interest \$	Total \$					
							Number of Common Units	General Partner \$	Accumulated Other Comprehensive Loss (Note 5) \$	Non- controlling Interest \$
<b>Balance as at December 31, 2012</b>	69,684	1,165,634	47,346	41,294	1,254,274					
Net income		135,687	18,027	7,429	161,143					
Other comprehensive loss				(1,549)	(1,549)					
Cash distributions		(141,197)	(17,817)	(254)	(159,268)					
Equity based compensation (note 13)	7	1,140	23		1,163					
Proceeds from equity offering (note 12)	931	39,960	816		40,776					
Proceeds from units issued out of continuous offering program, net of offering costs of \$0.5 million (note 12)	124	4,819	107		4,926					
General Partner's 1% ownership interest in LNG carrier (note 9h)				1,530	1,530					
<b>Balance as at September 30, 2013</b>	70,746	1,206,043	48,502	(1,549)	1,302,995					

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., which is a limited partnership organized 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, 2012, which are included in the Partnership's Annual Report on Form 20-F for the year ended December 31, 2012, filed with the SEC on April 16, 2013. 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 order to more closely align the Partnership's presentation to that of many of its peers, the cost of ship management services of \$2.0 million and \$5.8 million for the three and nine months ended September 30, 2013, respectively, has been presented as vessel operating expenses in the Partnership's consolidated statements of income and comprehensive income. Prior to 2013, the Partnership included these amounts in general and administrative expenses. All such costs incurred in comparative periods have been reclassified from general and administrative expenses to vessel operating expenses to conform to the presentation adopted in the current period. The amounts reclassified were \$2.2 million and \$6.1 million for the three and nine months ended September 30, 2012, respectively.

**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 4 in the Partnership's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2012. The following table includes the estimated fair value and carrying value of those assets and liabilities that are measured at fair value on a recurring and non-recurring basis, as well as the estimated fair value of the Partnership's financial instruments that are not accounted for at a fair value on a recurring basis.

	Fair Value Hierarchy Level	September 30, 2013		December 31, 2012	
		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	617,478	617,478	642,166	642,166
Derivative instruments (note 10)					
Interest rate swap agreements assets	Level 2	99,771	99,771	165,687	165,687
Interest rate swap agreements liabilities	Level 2	(219,590)	(219,590)	(304,220)	(304,220)
Cross currency swap agreements	Level 2	(15,371)	(15,371)	(2,623)	(2,623)
Other derivative	Level 3	4,603	4,603	1,100	1,100
Other:					
Advances to equity accounted joint ventures (note 6b)	(i)	84,961	(i)		
Advances to joint venture partner (note 6a)	(ii)	10,200	(ii)	14,004	(ii)
Long-term debt public (note 7)	Level 1	(266,046)	(269,393)	(125,791)	(129,439)
Long-term debt non-public (note 7)	Level 2	(1,467,352)	(1,351,975)	(1,287,562)	(1,170,788)

- (i) The advances to equity accounted joint ventures together with the Partnership's equity investments in the joint ventures form the net aggregate carrying value of the Partnership's interests in the joint ventures in these consolidated financial statements. The fair values of the individual components of such aggregate interests are not determinable.
- (ii) The Partnership owns a 99% interest in Teekay Tangguh Borrower LLC (or *Teekay Tangguh*), which owns a 70% interest in Teekay BLT Corporation (or the *Teekay Tangguh Joint Venture*), essentially giving the Partnership a 69% interest in the Teekay Tangguh Joint Venture. The advances from the Teekay Tangguh Joint Venture to the joint venture partner together with the joint venture partner's equity investment in the Teekay Tangguh Joint Venture form the net aggregate carrying value of the joint venture partner's interest in the Teekay Tangguh Joint Venture in these consolidated financial statements. The fair value of the individual components of such aggregate interest is not determinable.

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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, 2013 and 2012 for the Partnership's other derivative asset (liability), 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:

	Nine Months Ended September 30,	
	2013	2012
	\$	\$
Fair value at beginning of period	1,100	(600)
Realized and unrealized gains included in earnings	3,480	62
Settlements	23	38
Fair value at end of period	4,603	(500)

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. 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, 2013 is based upon an average daily tanker rate of \$21,896 (September 30, 2012 \$29,600) over the remaining duration of the charter contract and a discount rate of 8.8% (September 30, 2012 8.9%). In developing and evaluating this estimate, the Partnership considers the current tanker market fundamentals as well as the short and long-term outlook. A higher or lower average daily tanker rate would result in a higher or lower fair value liability or a lower or higher fair value asset. A higher or lower discount rate would result in a lower or higher fair value asset or liability.

## b) Financing Receivables

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

Class of Financing Receivable	Credit Quality Indicator	Grade	September 30,	December 31,
			2013	2012
			\$	\$
Direct financing leases	Payment activity	Performing	550,711	403,386
Other receivables:				
Long-term receivable included in other assets	Payment activity	Performing	6,806	1,704
Advances to equity accounted joint ventures (note 6b)	Other internal metrics	Performing	84,961	
Advances to joint venture partner (note 6a)	Other internal metrics	Performing	10,200	14,004
			652,678	419,094

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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,					
	2013			2012		
	Conventional		Total	Conventional		Total
	Liquefied Gas Segment	Tanker Segment		Liquefied Gas Segment	Tanker Segment	
	\$	\$	\$	\$	\$	\$
Voyage revenues	72,228	28,464	100,692	69,686	29,161	98,847
Voyage expenses		373	373	56	804	860
Vessel operating expenses	13,677	10,978	24,655	12,725	11,477	24,202
Depreciation and amortization	17,950	6,490	24,440	17,158	7,536	24,694
General and administrative <sup>(i)</sup>	3,232	1,561	4,793	2,733	1,311	4,044
Loan loss provision	3,804		3,804			
Income from vessel operations	33,565	9,062	42,627	37,014	8,033	45,047

	Nine Months Ended September 30,					
	2013			2012		
	Conventional		Total	Conventional		Total
	Liquefied Gas Segment	Tanker Segment		Liquefied Gas Segment	Tanker Segment	
	\$	\$	\$	\$	\$	\$
Voyage revenues	208,528	85,890	294,418	208,022	86,642	294,664
Voyage expenses	407	1,581	1,988	122	1,323	1,445
Vessel operating expenses	41,353	33,432	74,785	36,278	32,488	68,766
Depreciation and amortization	53,569	20,170	73,739	51,705	22,542	74,247
General and administrative <sup>(i)</sup>	10,149	4,857	15,006	9,335	4,402	13,737
Loan loss provision	3,804		3,804			
Income from vessel operations	99,246	25,850	125,096	110,582	25,887	136,469

- (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, 2013</b>	<b>December 31, 2012</b>
	<b>\$</b>	<b>\$</b>
Total assets of the liquefied gas segment	3,434,404	3,143,205
Total assets of the conventional tanker segment	485,425	495,556
<b>Unallocated:</b>		
Cash and cash equivalents	118,131	113,577
Accounts receivable and prepaid expenses	27,589	19,244
Advances to affiliates	3,798	13,864
<b>Consolidated total assets</b>	<b>4,069,347</b>	<b>3,785,446</b>



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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, 2013, for the Partnership's vessels chartered-in and vessels chartered-out are as follows:

		Remainder of 2013	2014	2015	2016	2017
		\$	\$	\$	\$	\$
Vessel Charters <sup>(i)</sup>						
Charters-in	capital leases <sup>(ii)(iii)(iv)(v)</sup>	70,871	60,000	31,790	31,672	54,953
Charters-out	operating leases <sup>(i)</sup>	88,395	322,168	315,536	333,696	351,362
Charters-out	direct financing leases <sup>(ii)</sup>	12,842	56,987	56,987	57,143	56,987
		101,237	379,155	372,523	390,839	408,349

- (i) The Teekay Tangguh Joint Venture is a party to operating leases whereby it is leasing the *Tangguh Hiri* and the *Tangguh Sago* liquefied natural gas (or *LNG*) carriers (or the *Tangguh LNG Carriers*) to a third party, which 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 6 to the Partnership's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2012.
- (ii) As at September 30, 2013 and December 31, 2012, the Partnership had \$475.5 million of cash which, including any interest earned on such amounts, is restricted to being used for charter hire payments of certain vessels chartered-in under capital leases. The Partnership also maintains restricted cash deposits relating to certain term loans and to amounts received from charterers to be used only for dry-docking expenditures and emergency repairs, which cash totaled \$23.8 million and \$53.1 million as at September 30, 2013 and December 31, 2012, respectively.
- (iii) As described in Note 6 in the Partnership's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2012, the Partnership has leasing arrangements relating to five of its LNG carriers (three through Teekay Nakilat Corporation (or the *RasGas II LNG Carriers*) and two through the Teekay Tangguh Joint Venture, in which the Partnership owns 70% and 69% ownership interests, respectively). Under these arrangements, the Partnership is the lessee and the lessors claim tax depreciation on the capital expenditures they incurred to acquire these vessels. As is typical in these leasing arrangements, tax and change of law risks are assumed by the lessee. Lease payments under the lease arrangements are based on certain tax and financial assumptions at the commencement of the leases. If an assumption proves to be incorrect, the lessor is

entitled to increase the lease payments to maintain its agreed after-tax margin.

The tax indemnification is for the duration of the lease contracts with the third parties plus the years it would take for the lease payments to be statute barred, and ends in 2033 for two vessels and 2041 for three vessels. Although there is no maximum potential amount of future payments, Teekay Nakilat Corporation and the Teekay Tangguh Joint Venture may terminate the lease arrangements on a voluntary basis at any time. If the lease arrangements terminate, Teekay Nakilat Corporation and the Teekay Tangguh Joint Venture will be required to pay termination sums to the lessor sufficient to repay the lessor's investment in the vessels and to compensate it for the tax effect of the terminations, including recapture of any tax depreciation. The Partnership's carrying amount of the tax indemnification guarantees as at September 30, 2013 was \$24.2 million (December 31, 2012 \$24.9 million) and is included as part of other long-term liabilities in the Partnership's consolidated balance sheets.

- (iv) Excludes estimated charter hire payments of \$884.4 million for the period from 2018 to 2037.
- (v) As at September 30, 2013, the Partnership was a party to capital leases on five Suezmax tankers, all of which are classified as current obligations under capital lease in the Partnership's consolidated balance sheets. Under these capital leases, the owner has the option to require the Partnership to purchase the five vessels. The charterer, who is also the owner, also has the option to cancel the charter contracts. For three of the five Suezmax tankers, the cancellation options are first exercisable in August 2013, November 2013 and April 2014, respectively. In July 2013, the Partnership received notification of termination from the owner for two of the five vessels; however, these vessels are still currently on charter pending the sale of the vessels to a third-party (see Note 14d). Upon sale of the vessels, the Partnership will not be required to pay the balance of the capital lease obligations, as the vessels under capital leases will be returned to the owner and the capital lease obligations will be concurrently extinguished. The amounts in the table assume the owner will not exercise its options to require the Partnership to purchase any of the five vessels from the owner, but rather it assumes the owner will cancel the charter contracts when the cancellation right is first exercisable, which is the 13th year anniversary of each respective contract.
- (vi) Minimum scheduled future operating lease revenues do not include revenue generated from new contracts entered into after September 30, 2013, revenue from unexercised option periods of contracts that existed on September 30, 2013, or variable or contingent revenues. Therefore, the minimum scheduled future operating lease revenues should not be construed to reflect total charter hire revenues that may be recognized for any of the years.
- (vii) As described in Note 6 in the Partnership's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2012, the Tangguh LNG Carriers' time-charters are accounted for as direct financing leases. In addition, in September 2013, the Partnership acquired a 155,900-cubic meter LNG carrier from Norway-based Awilco LNG ASA (or *Awilco*) and chartered it back to Awilco on a five-year fixed-rate bareboat charter contract (plus a one year extension option) with a fixed-price

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purchase obligation at the end of the charter. The Partnership agreed in September 2013 to acquire a second 155,900-cubic meter LNG carrier newbuilding from Awilco. This vessel is currently under construction by Daewoo Shipbuilding & Marine Engineering Co. Ltd. (or *DSME*) of South Korea and the Partnership expects to take delivery in late-2013. Upon delivery, the Partnership will charter the vessel back to Awilco on a four-year fixed-rate bareboat charter contract (plus a one-year extension option) with a fixed-price purchase obligation at the end of the charter. The bareboat charters with Awilco are accounted for as direct financing leases. The purchase price of each vessel is \$205 million less a \$50 million upfront payment of charter hire by Awilco, which is in addition to the daily bareboat charter rate.

**5. Equity Method Investments**

In February 2013, the Partnership entered into a joint venture agreement with Belgium-based Exmar NV (or *Exmar*) to own and charter-in liquefied petroleum gas (or *LPG*) carriers with a primary focus on the mid-size gas carrier segment. The joint venture entity, called Exmar LPG BVBA, took economic effect as of November 1, 2012 and includes 19 owned LPG carriers (including eight newbuilding carriers scheduled for delivery between 2014 and 2016 and taking into effect the sale of the *Donau* LPG carrier in April 2013) and five chartered-in LPG carriers. For its 50% ownership interest in the joint venture, including newbuilding payments made prior to the November 1, 2012 economic effective date of the joint venture, the Partnership invested \$133.1 million in exchange for equity and a shareholder loan and assumed approximately \$108 million of its pro rata share of existing debt and lease obligations as of the economic effective date. These debt and lease obligations are secured by certain vessels in the Exmar LPG BVBA fleet. The Partnership also paid a \$2.7 million acquisition fee to Teekay Corporation that was recorded as part of the investment in Exmar LPG BVBA (see Note 9f). The excess of the book value of net assets acquired over Teekay LNG's investment in the Exmar LPG BVBA, which amounted to approximately \$6.0 million, has been accounted for as an adjustment to the value of the vessels, charter agreements and lease obligations of Exmar LPG BVBA and recognition of goodwill, in accordance with the preliminary purchase price allocation. Control of Exmar LPG BVBA is shared equally between Exmar and the Partnership. The Partnership accounts for its investment in Exmar LPG BVBA using the equity method. In July 2013, Exmar LPG BVBA exercised its options with Hanjin Heavy Industries and Construction Co., Ltd. to construct two LPG carrier newbuildings, scheduled for delivery in 2017 at a total cost of approximately \$96.5 million (see Note 11c). In October 2013, Exmar LPG BVBA exercised two additional options with Hanjin Heavy Industries and Construction Co., Ltd. to construct two LPG carrier newbuildings, scheduled for delivery in 2017 and 2018.

In February 2012, a joint venture between the Partnership and Marubeni Corporation (or the *Teekay LNG-Marubeni Joint Venture*) acquired a 100% interest in six LNG carriers (or the *MALT LNG Carriers*) from Denmark-based A.P. Moller-Maersk A/S for approximately \$1.3 billion. The Partnership and Marubeni Corporation (or *Marubeni*) have 52% and 48% economic interests, respectively, but share control of the Teekay LNG-Marubeni Joint Venture. Since control of the Teekay LNG-Marubeni Joint Venture is shared jointly between Marubeni and the Partnership, the Partnership accounts for its investment in the Teekay LNG-Marubeni Joint Venture using the equity method. The Teekay LNG-Marubeni Joint Venture financed this acquisition with \$1.06 billion from short-term secured loan

facilities and \$266 million from equity contributions from the Partnership and Marubeni Corporation. The Partnership has agreed to guarantee its 52% share of the secured loan facilities of the Teekay LNG-Marubeni Joint Venture and, as a result, deposited \$30 million in a restricted cash account as security for the debt within the Teekay LNG-Marubeni Joint Venture and recorded a guarantee liability of \$1.4 million. The carrying value of the guarantee liability as at September 30, 2013, was nil (December 31, 2012 \$0.6 million) and is included as part of other long-term liabilities in the Partnership's consolidated balance sheets. The Partnership has a 52% economic interest in the Teekay LNG-Marubeni Joint Venture and, consequently, its share of the \$266 million equity contribution was \$138.2 million. The Partnership also contributed an additional \$5.8 million for its share of legal and financing costs and recorded the \$7.0 million acquisition fee paid to Teekay Corporation as part of the investment (see Note 9e). The Partnership financed the equity contributions by borrowing under its existing credit facilities. The excess of the Partnership's investment in the Teekay LNG-Marubeni Joint Venture over the book value of net assets acquired, which amounted to approximately \$303 million, has been accounted for as an increase to the carrying value of the vessels and out-of-the-money charters of the Teekay LNG-Marubeni Joint Venture, in accordance with the purchase price allocation. From June to July 2013, the Teekay LNG-Marubeni Joint Venture completed the refinancing of its short-term loan facilities by entering into separate long-term debt facilities totaling approximately \$963 million. These debt facilities mature between 2017 and 2030. As a result of the completed refinancing, the Partnership is no longer required to have \$30 million in a restricted cash account as security for the Teekay LNG-Marubeni Joint Venture.

In July 2013, the Teekay LNG-Marubeni Joint Venture entered into an eight-year interest rate swap with a notional amount of \$160.0 million, amortizing quarterly over the term of the interest rate swap to \$70.4 million at maturity. The interest rate swap exchanges the receipt of LIBOR-based interest for the payment of a fixed rate of interest of 2.20% in the first two years and 2.36% in the last six years. This interest rate swap has been designated as a qualifying cash flow hedging instrument for accounting purposes. The Teekay LNG-Marubeni Joint Venture uses the same accounting policy for qualifying cash flow hedging instruments as the Partnership uses.

## **6. Advances to Joint Venture Partner and Equity Accounted Joint Ventures**

a) The Partnership owns a 69% interest in the Teekay Tangguh Joint Venture and, as of September 30, 2013 and December 31, 2012, the Teekay Tangguh Joint Venture had non-interest bearing advances of \$10.2 million to the Partnership's joint venture partner, BLT LNG Tangguh Corporation, and advances of \$3.8 million, which included \$0.2 million of unpaid interest, to its parent company, P.T. Berlian Laju Tanker. The advances to P.T. Berlian Laju Tanker are due on demand and bear interest at a fixed-rate of 8.0%. These advances by the Teekay Tangguh Joint Venture were made between 2010 and 2012 as advances on dividends.

In July 2012, P.T. Berlian Laju Tanker entered into a court-supervised restructuring in Indonesia in order to restructure its debts. The Teekay Tangguh Joint Venture believes the advances to the joint venture partner, BLT LNG Tangguh Corporation of \$10.2 million, are collectible given that the expected cash flows anticipated to be generated by the Teekay Tangguh Joint Venture can be applied to repay the advances. In September 2013, the Teekay Tangguh Joint Venture recorded a \$3.8 million loan loss provision relating to the advances to P.T. Berlian Laju Tanker as the Teekay Tangguh Joint Venture reduced its assessment of the likelihood that expected cash flows anticipated to be generated by the Teekay Tangguh Joint Venture could be applied to repay the advance.

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b) The Partnership has a 50% interest in Exmar LPG BVBA and a 50% interest in a joint venture with Exmar (or the *Excalibur Joint Venture*), which owns an LNG carrier, the *Excalibur*. As of September 30, 2013, the Partnership had advances of \$81.9 million due from Exmar LPG BVBA, of which \$68.0 million was assumed through the acquisition of Exmar LPG BVBA, and \$3.1 million is due from the *Excalibur Joint Venture*. These advances bear interest at LIBOR plus margins ranging from 0.50% to 2.0% and have no fixed repayment terms.

**7. Long-Term Debt**

	September 30, 2013 \$	December 31, 2012 \$
U.S. Dollar-denominated Revolving Credit Facilities due through 2018	300,000	80,000
U.S. Dollar-denominated Term Loan due through 2018	105,522	112,264
U.S. Dollar-denominated Term Loan due through 2019	303,164	321,851
U.S. Dollar-denominated Term Loan due through 2021	300,985	309,984
U.S. Dollar-denominated Term Loan due through 2021	105,632	108,799
U.S. Dollar-denominated Unsecured Demand Loan	13,282	13,282
Norwegian Kroner-denominated Bond due in 2017	116,395	125,791
Norwegian Kroner-denominated Bond due in 2018	149,651	
Euro-denominated Term Loans due through 2023	338,767	341,382
Total	1,733,398	1,413,353
Less current portion	88,096	86,489
Total	1,645,302	1,326,864

As at September 30, 2013, the Partnership had three long-term revolving credit facilities available, which, as at such date, provided for borrowings of up to \$438.3 million, of which \$138.3 million was undrawn. Interest payments are based on LIBOR plus margins. The amount available under the revolving credit facilities reduces by \$10.6 million (remainder of 2013), \$34.5 million (2014), \$84.1 million (2015), \$27.3 million (2016), \$28.2 million (2017) and

\$253.6 million (2018). All the 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 seven 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, 2013, the Partnership had a U.S. Dollar-denominated term loan outstanding in the amount of \$105.5 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 first-priority mortgages on the five vessels to which the loan relates, together with certain other related security and is guaranteed by the Partnership.

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, 2013, totaled \$303.2 million, of which \$135.0 million bears interest at a fixed-rate of 5.39% and requires quarterly interest and principal payments over the remaining term of the loan maturing in 2018 and 2019. The remaining \$168.2 million bears interest based on LIBOR plus 0.68%, which requires quarterly interest payments over the remaining term of the loan and will require bullet repayments of approximately \$56.0 million for each of three vessels due at maturity in 2018 and 2019. The term loan is collateralized by first-priority mortgages on the three vessels, together with certain other related security and certain guarantees from 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, 2013, totaled \$301.0 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, 2013, the Partnership had a U.S. Dollar-denominated term loan outstanding in the amount of \$105.6 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.

The Teekay Nakilat Joint Venture has a U.S. Dollar-denominated demand loan outstanding owing to Qatar Gas Transport Company Ltd. (Nakilat), which, as at September 30, 2013, totaled \$13.3 million. Interest payments on this loan are based on a fixed interest rate of 4.84%. The loan is repayable on demand no earlier than February 27, 2027.

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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, 2013, the carrying amount of the bonds was \$116.4 million. 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 entered into a cross currency swap, to swap all interest and principal payments into U.S. Dollars, with the interest payments fixed at a rate of 6.88% (see Note 10) and the transfer of principal fixed at \$125.0 million upon maturity in exchange for NOK 700 million.

On September 3, 2013, the Partnership issued NOK 900 million of senior unsecured bonds that mature in September 2018 in the Norwegian bond market. As at September 30, 2013, the carrying amount of the bonds was \$149.7 million. 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 entered into a cross currency swap, to swap all interest and principal payments into U.S. Dollars, with the interest payments fixed at a rate of 6.43% (see Note 10) and the transfer of principal fixed at \$150.0 million upon maturity in exchange for NOK 900 million.

The Partnership has two Euro-denominated term loans outstanding, which as at September 30, 2013, totaled 250.5 million Euros (\$338.8 million). Interest payments are based on EURIBOR plus margins, which ranged from 0.60% to 2.25% as of September 30, 2013, 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, 2013 and December 31, 2012 was 2.35% and 2.29%, respectively. This rate does 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, 2013, the margins on the Partnership's outstanding revolving credit facilities and term loans ranged from 0.30% to 2.75%.

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 swap, the Partnership incurred foreign exchange losses of \$16.1 million and \$6.2 million, and \$10.6 million and \$2.0 million, of which these amounts were primarily unrealized, for the three months ended September 30, 2013 and 2012 and the nine months ended September 30, 2013 and 2012, respectively.

The aggregate annual long-term debt principal repayments required subsequent to September 30, 2013 are \$24.5 million (remainder of 2013), \$88.5 million (2014), \$145.3 million (2015), \$92.2 million (2016), \$223.5 million (2017) and \$1,159.4 million (thereafter).

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 level of leverage, and (d) one of the Partnership's subsidiaries maintains restricted cash deposits. The Partnership's ship-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, 2013, the Partnership, and Teekay Corporation and their affiliates were in compliance with all covenants relating to the Partnership's credit facilities and term loans.

## 8. Income Tax

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	\$	\$	\$	\$
Current	(629)	(455)	(1,810)	(1,074)
Deferred	(162)	(224)	(624)	524
Income tax expense	(791)	(679)	(2,434)	(550)



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**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 services 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. 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		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	\$	\$	\$	\$
Revenues <sup>(i)</sup>	9,463	9,696	25,968	28,879
Vessel operating expenses <sup>(ii)</sup>	2,834	2,508	7,772	7,440
General and administrative <sup>(ii)(iii)</sup>	2,819	2,460	8,823	8,527

(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 ship management and crew training services provided by Teekay Corporation. The cost of ship management services provided by Teekay Corporation of \$1.8 million and \$5.4 million for the three and nine months ended September 30, 2013, respectively, has been presented as vessel operating expenses (see Note 1). The amounts reclassified from general and administrative to vessel operating expenses in the comparative period to conform to the presentation adopted in the current period were \$2.1 million and \$5.8 million for the three and nine months ended September 30, 2012, respectively.

(iii) 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, 2013 and December 31, 2012, non-interest bearing advances to affiliates totaled \$3.8 million and \$13.9 million, respectively, and non-interest bearing advances from affiliates totaled \$16.9 million and \$12.1 million, respectively. These advances are unsecured and have no fixed repayment terms.

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 at the end of each year (see Notes 2 and 10).

d) In January 2012, the last of four LNG carriers (or the *Angola LNG Carriers*) delivered and commenced its 20-year, fixed-rate charter to Angola LNG Supply Services LLC to collect and transport gas from offshore production facilities to an onshore LNG processing plant in northwest Angola (or the *Angola LNG Project*). Concurrently, the Partnership acquired Teekay Corporation's 33% ownership interest in this vessel and related charter contract for a total equity purchase price of \$19.1 million (net of assumed debt of \$64.8 million). The excess of the purchase price over the book value of the assets (including the fair market value of the interest rate swap associated with debt secured by the vessel) underlying the 33% ownership interest in the fourth vessel of \$15.9 million was accounted for as an equity distribution to Teekay Corporation. The Partnership's investments in the Angola LNG Carriers are accounted for using the equity method.

e) In February 2012, the Partnership incurred a \$7.0 million charge relating to a fee to Teekay Corporation for its support in the Partnership's successful acquisition of its 52% interest in six LNG carriers (see Note 5). This acquisition fee is reflected as part of investments in and advances to equity accounted joint ventures in the Partnership's consolidated balance sheets.

f) In March 2013, the Partnership incurred a \$2.7 million charge relating to a fee to Teekay Corporation for its support in the Partnership's successful acquisition of its 50% interest in the Exmar LPG BVBA joint venture (see Note 5). This acquisition fee is reflected as part of investments in and advances to equity accounted joint ventures in the Partnership's consolidated balance sheets.

g) 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 four LNG newbuildings the Partnership owns. These costs are capitalized and included as part of advances on newbuilding contracts in the Partnership's consolidated balance sheets. As at September 30, 2013 and December 31, 2012, shipbuilding and site supervision costs provided by Teekay Corporation subsidiaries totaled \$0.1 million and nil, respectively.

h) As part of the September 2013 transaction described in Note 4(vii), the General Partner acquired a 1% ownership interest in the Partnership's LNG carrier acquired from Awilco for \$1.5 million.

## **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 and September 2013, concurrently with the issuance of NOK 700 million and NOK 900 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

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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 and 2018, and to economically hedge the interest rate exposure. The following table reflects information relating to the cross currency swaps as at September 30, 2013.

Principal Amount NOK	Principal Amount \$	Floating Rate Receivable		Fixed Rate Payable	Fair Value / Carrying Amount of (Liability) \$	Weighted-Average Remaining Term (Years)
		Reference Rate	Margin			
700,000	125,000	NIBOR	5.25%	6.88%	(11,577)	3.6
900,000	150,000	NIBOR	4.35%	6.43%	(3,794)	4.9
					(15,371)	

*Interest Rate Risk*

The Partnership enters into interest rate swaps which either exchange a receipt of floating interest for a payment of fixed interest or a payment of floating interest for a receipt of fixed interest to reduce the Partnership's exposure to interest rate variability on certain of its outstanding floating-rate debt and floating-rate restricted cash deposits. As at September 30, 2013, 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 <sup>(ii)</sup>	LIBOR	406,286	(75,877)	23.3	4.9
U.S. Dollar-denominated interest rate swaps <sup>(ii)</sup>	LIBOR	198,346	(44,587)	5.5	6.2

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U.S. Dollar-denominated interest rate swaps	LIBOR	90,000	(14,357)	4.9	4.9
U.S. Dollar-denominated interest rate swaps	LIBOR	100,000	(15,979)	3.3	5.3
U.S. Dollar-denominated interest rate swaps <sup>(iii)</sup>	LIBOR	193,750	(37,111)	15.3	5.2
<b>LIBOR-Based Restricted Cash Deposit:</b>					
U.S. Dollar-denominated interest rate swaps <sup>(ii)</sup>	LIBOR	468,983	99,771	23.3	4.8
<b>EURIBOR-Based Debt:</b>					
Euro-denominated interest rate swaps <sup>(iv)</sup>	EURIBOR	338,767	(31,679)	7.3	3.1
			(119,819)		

- (i) Excludes the margins the Partnership pays on its floating-rate term loans, which, at September 30, 2013, ranged from 0.30% to 2.75%.
- (ii) Principal amount reduces quarterly.
- (iii) Principal amount reduces semi-annually.
- (iv) Principal amount reduces monthly to 70.1 million Euros (\$94.8 million) by the maturity dates of the swap agreements.

As at September 30, 2013, the Partnership had multiple interest rate swaps and cross currency swaps with the same counterparty that are subject to the same master agreement. Each of these master agreements provide for the net settlement of all swaps subject to that master agreement through a single payment in the event of default or termination of any one swap. The fair value of these interest rate swaps are presented on a gross basis in the Partnership's consolidated balance sheets. As at September 30, 2013, these interest rate swaps and cross currency swaps had an aggregate fair value asset amount of \$99.8 million and an aggregate fair value liability amount of \$177.5 million.

#### *Credit Risk*

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

#### *Other Derivatives*

In order to reduce the variability of its revenue, the Partnership has entered into an agreement with Teekay Corporation under which Teekay Corporation pays the Partnership any amounts payable to the charterer of the *Toledo Spirit* as a result of spot rates being below the fixed rate,

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## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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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 September 30, 2013 was \$4.6 million (December 31, 2012 an asset of \$1.1 million). (See Note 2a).

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.

	Accounts receivable/ Advances from affiliates	Current portion of derivative assets	Derivative assets	Accrued liabilities	Current portion of derivative liabilities	Derivative liabilities
<b>As at September 30, 2013</b>						
Interest rate swap agreements	4,583	16,999	78,189	(8,555)	(71,017)	(140,018)
Cross currency swap agreements				(121)	(1,007)	(14,243)
Toledo Spirit time-charter derivative	903	1,450	2,250			
	5,486	18,449	80,439	(8,676)	(72,024)	(154,261)
<b>As at December 31, 2012</b>						
Interest rate swap agreements	4,513	16,927	144,247	(10,887)	(48,046)	(245,287)
Cross currency swap agreement	54	285				(2,962)
Toledo Spirit time-charter derivative			1,100			
	4,567	17,212	145,347	(10,887)	(48,046)	(248,249)

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 on derivative instruments in the Partnership's consolidated statements of income and comprehensive income. The effect of the gain (loss) on these derivatives on the Partnership's consolidated statements of income and comprehensive income is as follows:

		Three Months Ended September 30,	
		2013	2012
Realized gains	Unrealized gains	Realized gains	Unrealized gains

	(losses)	(losses)	Total	(losses)	(losses)	Total
Interest rate swap agreements	(9,532)	(2,314)	(11,846)	(9,450)	(295)	(9,745)
Toledo Spirit time-charter derivative	903	(200)	703		(200)	(200)
	(8,629)	(2,514)	(11,143)	(9,450)	(495)	(9,945)

	Nine Months Ended September 30,		Total	2012		Total
	2013			2012		
	Realized gains (losses)	Unrealized gains (losses)		Realized gains (losses)	Unrealized gains (losses)	
Interest rate swap agreements	(28,554)	16,312	(12,242)	(27,813)	(16,242)	(44,055)
Toledo Spirit time-charter derivative	880	2,600	3,480	(38)	100	62
	(27,674)	18,912	(8,762)	(27,851)	(16,142)	(43,993)

Unrealized and realized (losses) gains relating to cross currency swap agreements are recognized in earnings and reported in foreign currency exchange loss in the Partnership's consolidated statements of income and comprehensive income. For the three and nine months ended September 30, 2013, unrealized losses of (\$3.7) million and (\$12.6) million, respectively, and realized losses of (\$0.1) million and (\$0.1) million, respectively, were recognized in earnings. For the three and nine months ended September 30, 2012, unrealized gains (losses) of \$3.1 million and (\$7.2) million, respectively, and realized gains of \$0.1 million and \$0.2 million, respectively, were recognized in earnings.

## 11. Commitments and Contingencies

a) In December 2012 and July 2013, the Partnership signed contracts with DSME for the construction of four 173,400-cubic meter LNG carriers at a total cost of approximately \$842 million. 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. The two vessels ordered in December 2012 are scheduled for delivery in 2016 and upon

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delivery of the vessels; the vessels will be chartered to Cheniere Marketing L.L.C. at fixed rates for a period of five years. The Partnership intends to secure charter contracts for the remaining two vessels prior to their delivery in 2017. As at September 30, 2013, costs incurred under these newbuilding contracts totaled \$77.9 million and the estimated remaining costs to be incurred are \$1.5 million (remainder of 2013), \$68.8 million (2014), \$109.0 million (2015), \$295.0 million (2016) and \$289.8 million (2017).

b) As described in Note 4, the Teekay Nakilat Joint Venture is the lessee under 30-year capital lease arrangements with a third party for the three RasGas II LNG Carriers (or the *RasGas II Leases*). The UK taxing authority (or *HMRC*) has been urging the lessor as well as other lessors under capital lease arrangements that have tax benefits similar to the ones provided by the RasGas II Leases, to terminate such finance lease arrangements and has in other circumstances challenged the use of similar structures. As a result, the lessor has requested that the Teekay Nakilat Joint Venture enter into negotiations to terminate the RasGas II Leases. The Teekay Nakilat Joint Venture has declined this request as it does not believe that HMRC would be able to successfully challenge the availability of the tax benefits of these leases to the lessor. This assessment is partially based on a January 2012 court decision by the First Tribunal, 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 which upheld the 2012 verdict. HMRC has been granted leave to further appeal the 2013 decision to the Court of Appeal. If the HMRC were able to successfully challenge the RasGas II Leases, the Teekay Nakilat Joint Venture could be subject to significant costs associated with the termination of the lease or increased lease payments to compensate the lessor for the lost tax benefits. The Partnership estimates its 70% share of the potential exposure to be approximately \$34 million, exclusive of potential financing costs and interest rate swap termination costs.

The lessor for the three RasGas II LNG Carriers has communicated to the joint venture that the credit rating of the bank (or *LC Bank*) that is providing the letter of credit to Teekay Nakilat Joint Venture's lease has been downgraded. As a result, the lessor has indicated a potential increase in the lease payments over the remaining term of the RasGas II Leases of approximately \$17.5 million on a net present value basis. As a result of this potential increase in lease payments, the Teekay Nakilat Joint Venture may need to post additional collateral of \$3 million to the existing cash defeasance deposit connected to the lease structure for the three leased vessels. The Teekay Nakilat Joint Venture has engaged external legal counsel to assess these claims. The Partnership's 70% share of the present value of the potential lease payment increase claim is approximately \$12.3 million. The Teekay Nakilat Joint Venture is looking at alternatives to mitigate the impact of the downgrade to the LC Bank's credit rating in the event the lessor increases the lease payments.

c) As at September 30, 2013, Exmar LPG BVBA, in which the Partnership has a 50% ownership interest was committed to the construction of 10 LPG newbuilding carriers for a total cost of approximately \$500 million. The 10 newbuildings are scheduled for delivery between 2014 and 2017. As at September 30, 2013, costs incurred by Exmar LPG BVBA under these newbuilding contracts totaled \$52.5 million and the estimated remaining costs to be incurred by Exmar LPG BVBA are \$18.3 million (remainder of 2013), \$138.8 million (2014), \$84.5 million (2015), \$125.5 million (2016) and \$80.4 million (2017).

d) As described in Note 4(vii), the Partnership agreed to acquire a second 155,900-cubic meter LNG carrier newbuilding from Awilco. The purchase price of the vessel is \$205 million less a \$50 million upfront payment of charter hire by Awilco, which is in addition to the daily bareboat charter rate.

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

In July 2013, the Partnership issued 931,098 common units in a private placement to an institutional investor for net proceeds, including the General Partner's 2% proportionate capital contribution, of \$40.8 million. The Partnership used the proceeds from the private placement to fund the first installment payments on the two newbuilding LNG carriers ordered in July 2013 and for general partnership purposes.

In May 2013, the Partnership implemented a continuous offering program (or *COP*) under which the Partnership may issue new common units, representing limited partner interests, at market prices up to a maximum aggregate amount of \$100 million. Through September 30, 2013, the Partnership sold an aggregate of 124,071 common units under the COP, generating proceeds of approximately \$4.9 million (including the General Partner's 2% proportionate capital contribution of \$0.1 million and net of approximately \$0.1 million of commissions and \$0.4 million of other offering costs). The Partnership used the net proceeds from the issuance of these common units for general partnership purposes.

At September 30, 2013, approximately 64.4% 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.



***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 losses.

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During the three and nine months ended September 30, 2013 and 2012, 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.

**13. Unit-Based Compensation**

In March 2013, 7,362 common units, with an aggregate value of \$0.3 million, were granted to the non-management directors of our general partner as part of their annual compensation for 2013.

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 in the Partnership's consolidated statements of income and comprehensive income.

During March 2013, the Partnership granted 36,878 restricted units with a grant date fair value of \$1.5 million to certain of the Partnership's employees and to certain employees of Teekay Corporation's subsidiaries, based on the Partnership's closing unit price on the grant date. Each restricted unit is equal in value to one unit 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. During the three and nine months ended September 30, 2013, the Partnership recorded an expense of \$0.2 million and \$0.9 million, respectively, (2012 nil) related to the restricted units.

**14. Subsequent Events**

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- a) On October 7, 2013, the Partnership completed a public offering of 3.5 million common units (including 0.5 million common units issued upon exercise of the underwriters' over-allotment option) at a price of \$42.62 per unit, for gross proceeds of approximately \$150.0 million (including the General Partner's 2% proportionate capital contribution). The Partnership used the net proceeds from the offering of approximately \$144.7 million to prepay a portion of its outstanding debt under two of its revolving credit facilities and to fund the acquisition of the second LNG carrier newbuilding from Awilco.
- b) On October 29, 2013, Exmar LPG BVBA exercised its options with Hanjin Heavy Industries and Construction Co., Ltd. to construct two LPG carrier newbuildings, scheduled for delivery in 2017 and 2018.
- c) On November 8, 2013, Compania Espanole de Petroles, S.A. (or *CEPSA*), the charterer (who is also the owner) of the Partnership's vessel under capital lease, the *Tenerife Spirit*, agreed to sell the vessel to a third-party. The vessel is expected to redeliver to the new owner in December 2013. As a result of this sale, the Partnership will return the vessel to CEPSA and the full amount of the associated capital lease obligation will be concurrently extinguished. In addition, the Partnership is expected to incur seafarer severance payments of approximately \$2 million upon the sale of the vessel.
- d) On November 19, 2013, the Partnership exercised one additional option with DSME to construct another 173,400-cubic meter LNG carrier newbuilding scheduled for delivery in 2017. In addition, the Partnership renegotiated with DSME the delivery dates for two of its LNG carrier newbuildings to 2017 from 2016 and agreed to cancel two of the LNG carrier newbuilding options granted in July 2013. This reduces the number of LNG carrier newbuilding options available to the Partnership from five to three.

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

**SEPTEMBER 30, 2013**

**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