

Teekay LNG Partners L.P.  
Form 20-F  
April 16, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

---

FORM 20-F

---

(Mark One)

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

OR

ý ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

OR

..TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

OR

..SHELL COMPANY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

Date of event requiring this shell company report

For the transition period from to

Commission file number 1- 32479

---

TEEKAY LNG PARTNERS L.P.

(Exact name of Registrant as specified in its charter)

---

Republic of The Marshall Islands

(Jurisdiction of incorporation or organization)

4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda

Telephone: (441) 298-2530

(Address and telephone number of principal executive offices)

Edith Robinson

4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda

Telephone: (441) 298-2530

Fax: (441) 292-3931

(Contact information for company contact person)

---

Securities registered, or to be registered, pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
---------------------	---

Common Units	New York Stock Exchange
--------------	-------------------------

Series A Preferred Units	New York Stock Exchange
--------------------------	-------------------------

Series B Preferred Units	New York Stock Exchange
--------------------------	-------------------------

Securities registered, or to be registered, pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each issuer's classes of capital or common stock as of the close of the period covered by the annual report.

79,626,819 Common Units

5,000,000 Series A Preferred Units

6,800,000 Series B Preferred Units

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

Act. Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark if the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if the registrant (1) has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☒ Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

International Financial Reporting Standards	<input type="checkbox"/>
U.S. GAAP as issued by the International Accounting Standards Board	<input checked="" type="checkbox"/>
Other	<input type="checkbox"/>

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

---

TEEKAY LNG PARTNERS L.P.  
INDEX TO REPORT ON FORM 20-F

	Page
<b><u>PART I.</u></b>	
Item 1. <u>Identity of Directors, Senior Management and Advisers</u>	4
Item 2. <u>Offer Statistics and Expected Timetable</u>	4
Item 3. <u>Key Information</u>	4
<u>Selected Financial Data</u>	4
<u>Risk Factors</u>	8
Item 4. <u>Information on the Partnership</u>	27
<u>A. Overview, History and Development</u>	27
<u>B. Operations</u>	27
<u>Our Charters</u>	28
<u>Liquefied Gas Segment</u>	28
<u>Conventional Tanker Segment</u>	34
<u>Business Strategies</u>	35
<u>Safety, Management of Ship Operations and Administration</u>	35
<u>Risk of Loss, Insurance and Risk Management</u>	36
<u>Flag, Classification, Audits and Inspections</u>	37
<u>Regulations</u>	37
<u>C. Organizational Structure</u>	42
<u>D. Properties</u>	42
Item 4A. <u>Unresolved Staff Comments</u>	42
Item 5. <u>Operating and Financial Review and Prospects</u>	42
<u>Overview</u>	42
<u>Significant Developments in 2017 and Early 2018</u>	42
<u>Important Financial and Operational Terms and Concepts</u>	44
<u>Results of Operations</u>	45
<u>Year Ended December 31, 2017 versus Year Ended December 31, 2016</u>	46
<u>Year Ended December 31, 2016 versus Year Ended December 31, 2015</u>	51
<u>Liquidity and Cash Needs</u>	56
<u>Credit Facilities and Capital Leases</u>	58
<u>Contractual Obligations and Contingencies</u>	59
<u>Off-Balance Sheet Arrangements</u>	60
<u>Critical Accounting Estimates</u>	60
Item 6. <u>Directors, Senior Management and Employees</u>	63
<u>Management of Teekay LNG Partners L.P.</u>	63
<u>Directors of Teekay GP L.L.C.</u>	63
<u>Our Management</u>	65
<u>Annual Executive Compensation</u>	65
<u>Compensation of Directors</u>	65
<u>2005 Long-Term Incentive Plan</u>	65
<u>Board Practices</u>	65
<u>Crewing and Staff</u>	65
<u>Common Unit Ownership</u>	66
Item 7. <u>Major Common Unitholders and Related Party Transactions</u>	66
<u>Major Common Unitholders</u>	66
<u>Related Party Transactions</u>	67

Item 8.	<u>Financial Information</u>	<u>68</u>
	<u>A. Consolidated Financial Statements and Other Financial Information</u>	<u>68</u>
	<u>Consolidated Financial Statements and Notes</u>	<u>68</u>
	<u>Legal Proceedings</u>	<u>68</u>

	<u>Cash Distribution Policy for Common Unitholders</u>	<u>68</u>
	<u>B. Significant Changes</u>	<u>69</u>
Item 9.	<u>The Offer and Listing</u>	<u>69</u>
Item 10.	<u>Additional Information</u>	<u>70</u>
	<u>Memorandum and Articles of Association</u>	<u>70</u>
	<u>Material Contracts</u>	<u>70</u>
	<u>Exchange Controls and Other Limitations Affecting Unitholders</u>	<u>72</u>
	<u>Taxation</u>	<u>72</u>
	<u>Marshall Islands Tax Consequences</u>	<u>72</u>
	<u>United States Tax Consequences</u>	<u>72</u>
	<u>Canadian Federal Income Tax Considerations</u>	<u>83</u>
	<u>Other Taxation</u>	<u>83</u>
	<u>Documents on Display</u>	<u>83</u>
Item 11.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>83</u>
Item 12.	<u>Description of Securities Other than Equity Securities</u>	<u>83</u>

PART II.

Item 13.	<u>Defaults, Dividend Arrearages and Delinquencies</u>	<u>83</u>
Item 14.	<u>Material Modifications to the Rights of Unitholders and Use of Proceeds</u>	<u>83</u>
Item 15.	<u>Controls and Procedures</u>	<u>83</u>
Item 16A.	<u>Audit Committee Financial Expert</u>	<u>83</u>
Item 16B.	<u>Code of Ethics</u>	<u>83</u>
Item 16C.	<u>Principal Accountant Fees and Services</u>	<u>83</u>
Item 16D.	<u>Exemptions from the Listing Standards for Audit Committees</u>	<u>83</u>
Item 16E.	<u>Purchases of Units by the Issuer and Affiliated Purchasers</u>	<u>83</u>
Item 16F.	<u>Change in Registrant's Certifying Accountant</u>	<u>83</u>
Item 16G.	<u>Corporate Governance</u>	<u>83</u>
Item 16H.	<u>Mine Safety Disclosure</u>	<u>83</u>

PART III.

Item 17.	<u>Financial Statements</u>	<u>83</u>
Item 18.	<u>Financial Statements</u>	<u>83</u>
Item 19.	<u>Exhibits</u>	<u>83</u>
	<u>Signature</u>	<u>86</u>

## PART I

This annual report of Teekay LNG Partners L.P. on Form 20-F for the year ended December 31, 2017 (or Annual Report) should be read in conjunction with the consolidated financial statements and accompanying notes included in this report.

Unless otherwise indicated, references in this prospectus to “Teekay LNG Partners,” “we,” “us” and “our” and similar terms refer to Teekay LNG Partners L.P. and/or one or more of its subsidiaries, except that those terms, when used in this Annual Report in connection with the units described herein, shall mean specifically Teekay LNG Partners L.P. References in this Annual Report to “Teekay Corporation” refer to Teekay Corporation and/or any one or more of its subsidiaries.

In addition to historical information, this Annual Report contains forward-looking statements that involve risks and uncertainties. Such forward-looking statements relate to future events and our operations, objectives, expectations, performance, financial condition and intentions. When used in this Annual Report, the words “expect,” “intend,” “plan,” “believe,” “anticipate,” “estimate” and variations of such words and similar expressions are intended to identify forward-looking statements. Forward-looking statements in this Annual Report include, in particular, statements regarding:

- our distribution policy and our ability to make cash distributions on our units or any increases in quarterly distributions, and the impact of cash distribution reductions on our financial position;
- our future financial condition and results of operations and our future revenues, expenses and capital expenditures, and our expected financial flexibility to pursue capital expenditures, acquisitions and other expansion opportunities;
- our liquidity needs and meeting our going concern requirements, including our anticipated funds and sources of financing for liquidity and working capital needs and the sufficiency of cash flows, and our estimation that we will have sufficient liquidity for a one-year period;
- our ability to obtain financing for unfinanced newbuildings and other purposes, including new bank financings, and to refinance existing indebtedness;
- the expected timing, amounts and methods of financing for new and existing projects, including unfinanced newbuildings;
- growth prospects and future trends of the markets in which we operate;
- liquefied natural gas (or LNG), liquefied petroleum gas (or LPG) and tanker market fundamentals, including the balance of supply and demand in the LNG, LPG and tanker markets and spot LNG, LPG and tanker charter rates;
- the expected lifespan of our vessels, including our expectations as to any impairment of our vessels;
- our expectations and estimates regarding future charter business, including with respect to minimum charter hire payments, revenues and our vessels’ ability to perform to specifications and maintain their hire rates in the future;
- our expectations regarding the ability of Awilco LNG ASA (or Awilco), and our other customers to make charter payments to us, and the ability of our customers to fulfill purchase obligations at the end of charter contracts, including obligations relating to two of our LNG carriers completing charters with Awilco in 2019;
- our ability to maximize the use of our vessels, including the redeployment or disposition of vessels no longer under long-term charter or whose charter contract is expiring in 2018 and 2019;
- the adequacy of our insurance coverage, less an applicable deductible;
- the future resumption of a LNG plant in Yemen operated by Yemen LNG Company Limited (or YLNG), the expected repayment of deferred hire amounts on our two 52% owned vessels, the Marib Spirit and Arwa Spirit, on charter to YLNG, and the expected reduction to our equity income in 2018 as a result of the charter payment deferral;
- expected purchases and deliveries of newbuilding vessels, the newbuildings’ commencement of service under charter contracts, and estimated costs for newbuilding vessels;
- expected deliveries of the LPG newbuilding vessels in Exmar LPG BVBA;
-

expected funding of our proportionate share of the remaining shipyard installment payments for our joint venture with China LNG, CETS Investment Management (HK) Co. Ltd. and BW LNG Investments Pte. Ltd. (or the Pan Union Joint Venture);

the cost of supervision and crew training in relation to the Pan Union Joint Venture, and our expected recovery of a portion of those costs;

the expected technical and operational capabilities of newbuildings, including the benefits of the M-type, Electronically Controlled, Gas Injection (or MEGI) twin engines in certain LNG carrier newbuildings;

our ability to maintain long-term relationships with major LNG and LPG importers and exporters and major crude oil companies;

our ability to leverage to our advantage Teekay Corporation's relationships and reputation in the shipping industry;

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

obtaining LNG and LPG projects that we or Teekay Corporation bid on;

the possible purchase of one of our leased Suezmax tankers, the Toledo Spirit;



our expectations regarding the schedule and performance of the receiving and regasification terminal in Bahrain, which will be owned and operated by a new joint venture, Bahrain LNG W.L.L., owned by us (30%), National Oil & Gas Authority (or Nogaholding) (30%), Gulf Investment Corporation (or GIC) (24%) and Samsung C&T (or Samsung) (16%) (or the Bahrain LNG Joint Venture), and our expectations regarding the supply, modification and charter of a floating storage unit (or FSU) vessel for the project;

our ability to continue to obtain all permits, licenses, and certificates material to our operations;

the impact of, and our ability to comply with, new and existing governmental regulations and maritime self-regulatory organization standards applicable to our business, including the expected cost to install ballast water treatment systems on our tankers in compliance with IMO proposals;

the expected impact of heightened environmental and quality concerns of insurance underwriters, regulators and charterers;

the future valuation of goodwill;

our expectations regarding whether the UK taxing authority can successfully challenge the tax benefits available under certain of our former and current leasing arrangements, and the potential financial exposure to us if such a challenge is successful;

our hedging activities relating to foreign exchange, interest rate and spot market risks, and the effects of fluctuations in foreign exchange, interest rate and spot market rates on our business and results of operations;

the potential impact of new accounting guidance;

- our and Teekay Corporation's ability to maintain good relationships with the labor unions who work with us;

anticipated taxation of our partnership and its subsidiaries; and

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

Forward-looking statements involve known and unknown risks and are based upon a number of assumptions and estimates that are inherently subject to significant uncertainties and contingencies, many of which are beyond our control. Actual results may differ materially from those expressed or implied by such forward-looking statements. Important factors that could cause actual results to differ materially include, but are not limited to, those factors discussed in "Item 3 – Key Information: Risk Factors," and other factors detailed from time to time in other reports we file with or furnish to the U.S. Securities and Exchange Commission (or the SEC).

We do not intend to revise any forward-looking statements in order to reflect any change in our expectations or events or circumstances that may subsequently arise. You should carefully review and consider the various disclosures included in this Annual Report and in our other filings made with the SEC that attempt to advise interested parties of the risks and factors that may affect our business prospects and results of operations.

#### Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

#### Item 2. Offer Statistics and Expected Timetable

Not applicable.

#### Item 3. Key Information

##### Selected Financial Data

Set forth below is selected consolidated financial and other data of Teekay LNG Partners and its subsidiaries for the fiscal years 2013 through 2017, which have been derived from our consolidated financial statements. The following table should be read together with, and is qualified in its entirety by reference to, (a) "Item 5 – Operating and Financial Review and Prospects," included herein, and (b) the historical consolidated financial statements and the accompanying notes and the Report of Independent Registered Public Accounting Firm therein (which are included herein), with respect to the consolidated financial statements for the years ended December 31, 2017, 2016 and 2015.

Our consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (or GAAP).

Edgar Filing: Teekay LNG Partners L.P. - Form 20-F

(in thousands of U.S. Dollars, except per unit and fleet data)	Year Ended December 31, 2017 \$	Year Ended December 31, 2016 \$	Year Ended December 31, 2015 \$	Year Ended December 31, 2014 \$	Year Ended December 31, 2013 \$
<b>Income Statement Data:</b>					
Voyage revenues	432,676	396,444	397,991	402,928	399,276
Income from vessel operations <sup>(1)</sup>	148,649	153,181	181,372	183,823	176,356
Equity income <sup>(2)</sup>	9,789	62,307	84,171	115,478	123,282
Interest expense	(80,937)	(58,844)	(43,259)	(60,414)	(55,703)
Interest income	2,915	2,583	2,501	3,052	2,972
Realized and unrealized loss on non-designated derivative instruments <sup>(3)</sup>	(5,309)	(7,161)	(20,022)	(44,682)	(14,000)
Foreign currency exchange (loss) gain <sup>(4)</sup>	(26,933)	5,335	13,943	28,401	(15,832)
Other income	1,561	1,537	1,526	836	1,396
Income tax expense	(824)	(973)	(2,722)	(7,567)	(5,156)
Net income	48,911	157,965	217,510	218,927	213,315
Non-controlling and other interests in net income	29,325	22,988	42,903	44,676	37,438
Limited partners' interest in net income	19,586	134,977	174,607	174,251	175,877
Limited partners' interest in net income per:					
Common unit - basic	0.25	1.70	2.21	2.30	2.48
Common unit - diluted	0.25	1.69	2.21	2.30	2.48
Cash distributions declared per common unit	0.5600	0.5600	2.8000	2.7672	2.7000
<b>Balance Sheet Data (at end of period):</b>					
Cash and cash equivalents	244,241	126,146	102,481	159,639	139,481
Restricted cash	95,194	117,027	111,519	45,997	497,298
Vessels and equipment <sup>(5)</sup>	2,905,712	2,215,983	2,108,160	1,989,230	1,922,662
Investment in and advances to equity-accounted joint ventures	1,094,596	1,037,726	883,731	891,478	671,789
Net investments in direct financing leases <sup>(6)</sup>	495,990	643,008	666,658	682,495	699,695
Total assets	5,019,299	4,315,474	4,052,980	3,947,275	4,203,143
Total debt and obligations related to capital leases	2,809,541	2,184,065	2,058,336	1,970,531	2,359,385
Partners' equity	1,879,038	1,738,506	1,519,062	1,537,752	1,390,790
Total equity	1,931,423	1,777,412	1,543,679	1,547,371	1,443,784
Common units outstanding	79,626,819	79,571,820	79,551,012	78,353,354	74,196,294
Preferred units outstanding	11,800,000	5,000,000	—	—	—
<b>Other Financial Data:</b>					
Net voyage revenues <sup>(7)</sup>	424,474	394,788	396,845	399,607	396,419
EBITDA <sup>(8)</sup>	233,302	310,741	353,243	377,983	369,086
Adjusted EBITDA <sup>(8)</sup>	424,436	445,341	442,463	468,954	461,018
<b>Capital expenditures:</b>					
Expenditures for vessels and equipment	714,529	344,987	191,969	194,255	470,213
<b>Liquefied Gas Fleet Data:</b>					
<b>Consolidated:</b>					
Calendar-ship-days <sup>(9)</sup>	8,357	7,440	6,935	6,619	5,981
Average age of our fleet (in years at end of year)	8.9	9.0	8.9	7.9	6.7

Edgar Filing: Teekay LNG Partners L.P. - Form 20-F

Vessels at end of year <sup>(10)</sup>	25	21	19	19	18
Equity Accounted: <sup>(11)</sup>					
Calendar-ship-days <sup>(9)</sup>	12,921	12,235	11,720	11,338	11,059
Average age of our fleet (in years at end of year)	8.6	8.7	8.5	8.0	9.4
Vessels at end of year <sup>(10)</sup>	37	35	32	31	32
Conventional Fleet Data:					
Calendar-ship-days <sup>(9)</sup>	1,904	2,439	2,920	3,202	3,994
Average age of our fleet (in years at end of year)	12.6	11.7	9.5	8.5	8.5
Vessels at end of year	5	6	8	8	10

(1) Income from vessel operations includes write-down and loss on sale of vessels of \$50.6 million and \$39.0 million for the years ended December 31, 2017 and 2016, respectively.

Equity income includes unrealized gains on non-designated derivative instruments, and any ineffectiveness of (2) derivative instruments designated as hedges for accounting purposes of \$2.4 million \$7.3 million, \$10.2 million, \$1.6 million and \$25.9 million for the years ended December 31, 2017, 2016, 2015, 2014 and 2013, respectively.

We entered into interest rate swap and swaption agreements to mitigate our interest rate risk from our floating-rate debt, and for the obligations related to capital leases and associated restricted cash which were terminated in 2014. We also have entered into an agreement with Teekay Corporation relating to the Toledo Spirit time-charter contract under which Teekay Corporation pays us any amounts payable to the charterer as a result of spot rates being below the fixed rate, and we pay Teekay Corporation any amounts payable to us as a result of spot rates being in excess of the fixed rate. With the exception of the interest rate swaps in our consolidated joint venture, Teekay Nakilat Corporation, and for several interest rate swaps in certain of our equity-accounted joint ventures where we have applied hedge accounting, changes in the fair value of our derivatives are recognized immediately into income and are presented as realized and unrealized loss on derivative instruments in the consolidated statements of income. Please see "Item 18 – Financial Statements: Note 12 – Derivative Instruments and Hedging Activities."

Under GAAP, all foreign currency-denominated monetary assets and liabilities, such as cash and cash equivalents, accounts receivable, restricted cash, accounts payable, accrued liabilities, advances from affiliates and long-term debt, are revalued and reported based on the prevailing exchange rate at the end of the period. Foreign exchange gains and losses include realized and unrealized gains and losses on our cross-currency swaps. We entered into cross-currency swaps concurrently with the issuance of our Norwegian Kroner-denominated (or NOK), bonds to economically hedge the foreign currency exposure on the payment of interest and principal of our NOK-denominated bonds. Our primary sources of foreign currency exchange gains and losses are our Euro-denominated term loans and NOK-denominated bonds. Euro-denominated term loans totaled, 194.1 million Euros (\$233.0 million) at December 31, 2017, 208.9 million Euros (\$219.7 million) at December 31, 2016, 227.7 million Euros (\$241.8 million) at December 31, 2015, 235.6 million Euros (\$285.0 million) at December 31, 2014 and 247.6 million Euros (\$340.2 million) at December 31, 2013. Our NOK-denominated bonds totaled 3.1 billion NOK (\$377.9 million) at December 31, 2017, 3.5 billion NOK (\$371.3 million) at December 31, 2016, 2.6 billion NOK (\$294.0 million) at December 31, 2015, 1.6 billion NOK (\$214.7 million) at December 31, 2014 and 1.6 billion NOK (\$263.5 million) at December 31, 2013.

Vessels and equipment consist of (a) our vessels, at cost less accumulated depreciation, (b) vessels related to capital leases, at cost less accumulated depreciation and (c) advances on our newbuildings.

Certain of our external charters have been accounted for as direct financing leases. As a result, the vessels associated with the external charters accounted for as direct financing leases are not included as part of vessels and equipment. Please see "Item 18 – Financial Statements: Note 5 – Leases – Net Investments in Direct Financing Leases."

Net voyage revenues is a non-GAAP financial measure. Consistent with general practice in the shipping industry, we use net voyage revenues (defined as voyage revenues less voyage expenses) as a measure of equating revenues generated from voyage charters to revenues generated from time-charters, which assists us in making operating decisions about the deployment of our vessels and their performance. Under time-charters the charterer pays the voyage expenses, whereas under voyage charter contracts the ship owner pays these expenses. Some voyage expenses are fixed, and the remainder can be estimated. If we, as the ship owner, pay the voyage expenses, we typically pass the approximate amount of these expenses on to our customers by charging higher rates under the contract or billing the expenses to them. As a result, although voyage revenues from different types of contracts may vary, the net voyage revenues are comparable across the different types of contracts. We principally use net voyage revenues because it provides more meaningful information to us than voyage revenues, the most directly comparable GAAP financial measure. Net voyage revenues are also widely used by investors and analysts in the shipping industry for comparing financial performance between companies and to industry averages. The following table reconciles net voyage revenues with voyage revenues.

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
(in thousands of U.S. Dollars)					
Voyage revenues	432,676	396,444	397,991	402,928	399,276
Voyage expenses	(8,202)	(1,656)	(1,146)	(3,321)	(2,857)

Net voyage revenues	424,474	394,788	396,845	399,607	396,419
---------------------	---------	---------	---------	---------	---------

EBITDA and Adjusted EBITDA are non-GAAP financial measures. EBITDA represents net income before interest, taxes, depreciation and amortization. Adjusted EBITDA represents EBITDA before restructuring charges, net of reimbursement, write-down and loss on sale of vessels, foreign currency exchange (gain) loss, amortization (8) of in-process contracts included in voyage revenues net of offsetting vessel operating expenses, unrealized (gain) loss on non-designated derivative instruments, realized loss on interest rate swaps and Adjustments to Equity Income. EBITDA and Adjusted EBITDA are used as a supplemental financial measure by management and by external users of our financial statements, such as investors, as discussed below:

**Financial and operating performance.** EBITDA and Adjusted EBITDA assist our management and investors by increasing the comparability of our fundamental performance from period to period and against the fundamental performance of other companies in our industry that provide EBITDA and Adjusted EBITDA information. This increased comparability is achieved by excluding the potentially disparate effects between periods or companies of interest expense, taxes, depreciation or amortization, amortization of in-process revenue contracts and realized and unrealized loss on derivative instruments relating to interest rate swaps, interest rate swaptions, and cross-currency swaps, which items are affected by various and possibly changing financing methods, capital structure and historical cost basis and which items may significantly affect net income between periods. We believe that including EBITDA and Adjusted EBITDA as financial and operating measures benefits investors in (a) selecting between investing in us and other investment alternatives and (b) monitoring our ongoing financial and operational strength and health in assessing whether to continue to hold our common and preferred units.

**Liquidity.** EBITDA and Adjusted EBITDA allow us to assess the ability of assets to generate cash sufficient to service debt, pay distributions and undertake capital expenditures. By eliminating the cash flow effect resulting from our existing capitalization and other items such as dry-docking expenditures, working capital changes and foreign currency exchange gains and losses, EBITDA and Adjusted EBITDA provides a consistent measure of our ability to generate cash over the long term. Management uses this information as a significant factor in determining (a) our proper capitalization (including assessing how much debt to incur and whether changes to the capitalization should be made) and (b) whether to undertake material capital expenditures and how to finance them, all in light of our cash distribution policy. Use of EBITDA and Adjusted EBITDA as liquidity measures also permits investors to assess the fundamental ability of our business to generate cash sufficient to meet cash needs, including distributions on our common and preferred units.

Neither EBITDA nor Adjusted EBITDA should be considered as an alternative to net income, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with GAAP. EBITDA and Adjusted EBITDA exclude some, but not all, items that affect net income and income from vessel operations and these measures may vary among other companies. Therefore, EBITDA and Adjusted EBITDA as presented in this Annual Report may not be comparable to similarly titled measures of other companies.

The following table reconciles our historical consolidated EBITDA and Adjusted EBITDA to net income, the most directly comparable GAAP financial measure, and our historical consolidated Adjusted EBITDA to net operating cash flow, the most directly comparable GAAP financial measure.

(in thousands of U.S. Dollars)	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Reconciliation of “EBITDA” and “Adjusted EBITDA” to “Net income”:					
Net income	48,911	157,965	217,510	218,927	213,315
Depreciation and amortization	105,545	95,542	92,253	94,127	97,884
Interest expense, net of interest income	78,022	56,261	40,758	57,362	52,731
Income tax expense	824	973	2,722	7,567	5,156
EBITDA	233,302	310,741	353,243	377,983	369,086
Restructuring charges, net of reimbursement	—	—	—	1,989	1,786
Write-down and loss on sale of vessels	50,600	38,976	—	—	—
Foreign currency exchange loss (gain)	26,933	(5,335)	(13,943)	(28,401)	15,832
Amortization of in-process contracts included in voyage revenues, net of offsetting vessel operating expenses	(1,113)	(1,113)	(1,113)	(1,113)	(1,113)
Unrealized (gain) loss on non-designated derivative instruments	(13,448)	(19,433)	(12,375)	2,096	(22,568)
Realized loss on interest rate swaps and swaptions	19,435	25,940	28,968	41,725	38,089
Adjustments to Equity-Accounted EBITDA <sup>(12)(13)</sup>	108,727	95,565	87,683	74,675	59,906
Adjusted EBITDA	424,436	445,341	442,463	468,954	461,018
Reconciliation of “Adjusted EBITDA” to “Net operating cash flow”:					
Net operating cash flow	194,465	166,492	239,729	191,097	183,532
Expenditures for dry docking	21,642	12,686	10,357	13,471	27,203
Interest expense, net of interest income	78,022	56,261	40,758	57,362	52,731
Income tax expense	824	973	2,722	7,567	5,156
Change in operating assets and liabilities	(1,853)	20,669	34,187	(18,822)	(10,078)
Equity income from joint ventures	9,789	62,307	84,171	115,478	123,282
Dividends received from equity-accounted joint ventures	(42,692)	(31,113)	(97,146)	(11,005)	(13,738)
Restructuring charges, net of reimbursement	—	—	—	1,989	1,786
Realized loss on interest rate swaps	19,435	25,940	28,968	41,725	38,089
Realized loss on cross-currency swaps recorded in foreign currency exchange loss (gain)	35,077	26,774	7,640	2,222	338
Adjustments to Equity-Accounted EBITDA <sup>(12)(13)</sup>	108,727	95,565	87,683	74,675	59,906
Other, net	1,000	8,787	3,394	(6,805)	(7,189)
Adjusted EBITDA	424,436	445,341	442,463	468,954	461,018

(9) Calendar-ship-days are equal to the aggregate number of calendar days in a period that our vessels were in our possession during that period.

For 2017, the number of vessels indicated does not include six LNG carrier newbuildings in our consolidated liquefied gas fleet and 12 LNG and LPG carrier newbuildings in our equity-accounted liquefied gas fleet. For 2016, the number of vessels indicated does not include nine LNG carrier newbuildings in our consolidated liquefied gas fleet and 14 LNG and LPG carrier newbuildings in our equity-accounted liquefied gas fleet. For 2015, the number of vessels indicated does not include 11 LNG carrier newbuildings in our consolidated liquefied gas fleet and 17 LNG and LPG carrier newbuildings in our equity-accounted liquefied gas fleet.

(11) Equity-accounted vessels include (i) six LNG carriers (or the MALT LNG Carriers) relating to our joint venture with Marubeni Corporation (or the Teekay LNG-Marubeni Joint Venture), (ii) four LNG carriers (or the RasGas 3

LNG Carriers) relating to our joint venture with QGTC Nakilat (1643-6) Holdings Corporation, (iii) four LNG carriers relating to the Angola Project (or the Angola LNG Carriers) in our joint venture with Mitsui & Co. Ltd. and NYK Energy Transport (Atlantic) Ltd., (iv) two LNG carriers (or the Exmar LNG Carriers) relating to our LNG joint venture with Exmar NV (or Exmar), (v) 20, 19, 16, and 15 LPG carriers (or the Exmar LPG Carriers) from 2017, 2016, 2015, and 2014, respectively, relating to our LPG joint venture with Exmar and (vi) one LNG carrier relating to the Pan Union Joint Venture from 2017. The figures in the selected financial data for our equity-accounted vessels are at 100% and not based on our ownership percentages.

Adjusted Equity-Accounted EBITDA is a non-GAAP financial measure. Adjusted Equity-Accounted EBITDA represents equity income after Adjustments to Equity Income. Adjustments to Equity Income consist of depreciation and amortization, interest expense net of interest income, income tax expense (recovery), amortization of in-process revenue contracts, foreign currency exchange loss (gain), write-down and loss (gain) on sales of vessels, unrealized gain on non-designated derivative instruments and realized loss on interest rate swaps, in each case related to our equity-accounted entities, on the basis of our ownership percentages of such (12) entities. Neither Adjusted Equity-Accounted EBITDA nor Adjustments to Equity-Accounted EBITDA should be considered as an alternative to equity income or any other measure of financial performance or liquidity presented in accordance with GAAP. Adjustments to Equity-Accounted EBITDA exclude some, but not all, items that affect equity income and these measures may vary among other companies. Therefore, Adjustments to Equity-Accounted EBITDA as presented in this Annual Report may not be comparable to similarly titled measures of the other companies. When using Adjusted EBITDA as a measure of liquidity, it should be noted that this measure includes the Adjusted EBITDA



from our equity-accounted for investments. We do not have control over the operations, nor do we have any legal claim to the revenue and expenses of our equity-accounted for investments. Consequently, the cash flow generated by our equity-accounted for investments, as measured by Adjusted Equity-Accounted EBITDA, may not be available for use by us in the period generated.

(13) Adjustments relating to equity income from our equity-accounted joint ventures are as follows:

(in thousands of U.S. Dollars)	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
Reconciliation of "Adjusted Equity-Accounted EBITDA" to "Equity Income":					
Equity income	9,789	62,307	84,171	115,478	123,282
Depreciation and amortization	54,453	52,095	48,702	45,885	45,664
Interest expense, net of interest income	51,442	39,849	37,376	36,916	35,110
Income tax expense (recovery)	504	352	315	(155)	163
Amortization of in-process revenue contracts	(4,307)	(5,482)	(7,153)	(8,295)	(14,173)
Foreign currency exchange loss (gain)	369	125	(527)	(441)	149
Write-down and loss (gain) on sales of vessels	5,500	4,861	1,228	(16,923)	—
Unrealized gain on non-designated derivative instruments	(7,491)	(6,963)	(10,945)	(1,563)	(26,432)
Realized loss on interest rate swaps	8,257	10,728	18,687	19,251	19,425
Adjustments to Equity-Accounted EBITDA	108,727	95,565	87,683	74,675	59,906
Adjusted Equity-Accounted EBITDA	118,516	157,872	171,854	190,153	183,188

#### RISK FACTORS

Some of the following risks relate principally to the industry in which we operate and to our business in general. Other risks relate principally to the securities market and to ownership of our common or preferred units. The occurrence of any of the events described in this section could materially and adversely affect our business, financial condition, operating results and ability to pay distributions on, and the trading price of, our common and preferred units. We may not have sufficient cash from operations to enable us to pay distributions on our common and preferred units. The amount of cash we can distribute on our common and preferred units principally depends upon the amount of cash we generate from our operations, which may fluctuate based on, among other things:

- the rates we obtain from our charters;
- the expiration of charter contracts;
- the charterers options to terminate charter contracts or repurchase vessels;
- the level of our operating costs, such as the cost of crews and insurance;
- the continued availability of LNG and LPG production, liquefaction and regasification facilities;
- the number of unscheduled off-hire days for our fleet and the timing of, and number of days required for, scheduled dry docking of our vessels;
- delays in the delivery of newbuildings and the beginning of payments under charters relating to those vessels;
- prevailing global and regional economic and political conditions;
- currency exchange rate fluctuations;
- the effect of governmental regulations and maritime self-regulatory organization standards on the conduct of our business; and
- limitation of obtaining cash distributions from joint venture entities due to similar restrictions within the joint venture entities.

The actual amount of cash we will have available for distribution also will depend on factors such as:

the level of capital expenditures we make, including for maintaining vessels, building new vessels, acquiring existing vessels and complying with regulations;  
our debt service requirements and restrictions on distributions contained in our debt instruments;  
fluctuations in our working capital needs;

our ability to make working capital borrowings, including to pay distributions to unitholders; and  
the amount of any cash reserves, including reserves for future capital expenditures, anticipated future credit needs and other matters, established by Teekay GP L.L.C., our general partner (or our General Partner) in its discretion.

The amount of cash we generate from our operations may differ materially from our profit or loss for the period, which will be affected by non-cash items. As a result of this and the other factors mentioned above, we may make cash distributions during periods when we record losses and may not make cash distributions during periods when we record net income.

Our ability to grow may be adversely affected by our cash distribution policy.

Our cash distribution policy, which is consistent with our partnership agreement, requires us to distribute each quarter all of our Available Cash (as defined in our partnership agreement, which takes into account cash reserves for, among other things, future capital expenditures and credit needs). Accordingly, our growth may not be as fast as businesses that reinvest their Available Cash to expand ongoing operations.

In determining the amount of cash available for distribution, the board of directors of our General Partner, in making the determination on our behalf, approves the amount of cash reserves to set aside, including reserves for future maintenance capital expenditures, anticipated future credit needs, working capital and other matters. We also rely upon external financing sources, including commercial borrowings and proceeds from debt and equity offerings, to fund our capital expenditures. Accordingly, to the extent we do not have sufficient cash reserves or are unable to obtain financing, our cash distribution policy may significantly impair our ability to meet our financial needs or to grow.

Global crude oil prices have significantly declined since mid-2014. The significant decline in oil prices has also contributed to depressed natural gas prices. Lower oil prices may negatively affect both the competitiveness of natural gas as a fuel for power generation and the market price of natural gas, to the extent that natural gas prices are benchmarked to the price of crude oil. These declines in energy prices, combined with other factors beyond our control, have adversely affected energy and master limited partnership capital markets and available sources of financing for our capital expenditures and debt repayment obligations. As a result, effective for the quarterly distribution for the fourth quarter of 2015, we reduced our quarterly cash distributions per common unit to \$0.14 from \$0.70, and our near-term business strategy is primarily to focus on funding and implementing existing growth projects and repaying or refinancing scheduled debt obligations with cash flows from operations rather than pursuing additional growth projects. It is uncertain when, if at all, the board of directors of our General Partner may increase quarterly cash distributions on our common units.

Our ability to repay or refinance our debt obligations and to fund our capital expenditures will depend on certain financial, business and other factors, many of which are beyond our control. To the extent we are able to finance these obligations and expenditures with cash from operations or by issuing debt or equity securities, our ability to make cash distributions may be diminished or our financial leverage may increase or our unitholders may be diluted. Our business may be adversely affected if we need to access other sources of funding.

To fund our existing and future debt obligations and capital expenditures, including our LNG and LPG carrier newbuildings, we will be required to use cash from operations, incur borrowings, and/or seek to access other financing sources. Our access to potential funding sources and our future financial and operating performance will be affected by prevailing economic conditions and financial, business, regulatory and other factors, many of which are beyond our control. If we are unable to access additional bank financing and generate sufficient cash flow to meet our debt, capital expenditure and other business requirements, we may be forced to take actions such as:

- restructuring our debt;
- seeking additional debt or equity capital;
- selling assets;

further reducing distributions;  
reducing, delaying or cancelling our business activities, acquisitions, investments or capital expenditures; or  
seeking bankruptcy protection.

Such measures might not be successful, available on acceptable terms or enable us to meet our debt, capital expenditure and other obligations. Some of such measures may adversely affect our business and reputation. In addition, our financing agreements may restrict our ability to implement some of these measures.

Use of cash from operations and possible future sale of certain assets will reduce cash available for distribution to unitholders. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering as well as by adverse market conditions. Even if we are successful in obtaining necessary funds, the terms of such financings could limit our ability to pay cash distributions to unitholders or operate our business as currently conducted. In addition, incurring additional debt may significantly increase our interest expense and financial leverage, and issuing additional equity securities may result in significant unitholder dilution and would increase the aggregate amount of cash required to maintain our quarterly distributions to unitholders.

We have limited current liquidity.

As at December 31, 2017, we had total liquidity of \$433.6 million, consisting of \$244.2 million of cash and cash equivalents and \$189.4 million of undrawn borrowings under our revolving credit facilities, subject to limitations in the credit facilities. Our primary near-term liquidity needs include payment of our quarterly distributions, including distributions on our common and preferred units, operating expenses, dry-docking expenditures, debt service costs, scheduled repayments of long-term debt, committed capital expenditures (including, among others, installment payments for our newbuilding vessels), and the funding of general working capital requirements. We expect to manage our near-term liquidity needs from cash flows from operations, proceeds from new debt financings and refinancings, proceeds from equity offerings, and any dividends or other distributions from our equity-accounted joint ventures; however, there can be no assurance that any such funding will be available to us on acceptable terms, if at all. We do not have control over the operations, nor do we have any legal claim to the revenue and expenses of our equity-accounted joint ventures. Consequently, the cash flow generated by our equity-accounted joint ventures may not be available for use by us in the period generated.

We make substantial capital expenditures to maintain the operating capacity of our fleet, which reduce our cash available for distribution. In addition, each quarter our General Partner is required to deduct estimated maintenance capital expenditures from operating surplus, which may result in less cash available to unitholders than if actual maintenance capital expenditures were deducted.

We must make substantial capital expenditures to maintain, over the long term, the operating capacity of our fleet. These maintenance capital expenditures include capital expenditures associated with dry docking a vessel, modifying an existing vessel or acquiring a new vessel to the extent these expenditures are incurred to maintain the operating capacity of our fleet. These expenditures could increase as a result of changes in:

- the cost of labor and materials;
- customer requirements;
- increases in the size of our fleet;
- governmental regulations and maritime self-regulatory organization standards relating to safety, security or the environment; and
- competitive standards.

In addition, our actual maintenance capital expenditures vary significantly from quarter to quarter based on, among other things, the number of vessels dry docked during that quarter. Certain repair and maintenance items are more efficient to complete while a vessel is in dry dock. Consequently, maintenance capital expenditures will typically increase in periods when there is an increase in the number of vessels dry docked. Our significant maintenance capital expenditures reduce the amount of cash we have available for distribution to our unitholders.

Our partnership agreement requires our General Partner to deduct estimated, rather than actual, maintenance capital expenditures from operating surplus (as defined in our partnership agreement) each quarter in an effort to reduce fluctuations in operating surplus. The amount of estimated maintenance capital expenditures deducted from operating surplus is subject to review and change by the conflicts committee of our General Partner's board of directors at least once a year. In years when estimated maintenance capital expenditures are higher than actual maintenance capital expenditures – as we expect will be the case in the years we are not required to make expenditures for mandatory dry dockings – the amount of cash available for distribution to unitholders will be lower than if actual maintenance capital expenditures were deducted from operating surplus. If our General Partner underestimates the appropriate level of estimated maintenance capital expenditures, we may have less cash available for distribution in future periods when actual capital expenditures begin to exceed our previous estimates.

We will be required to make substantial capital expenditures to expand the size of our fleet or gas business and generally are required to make significant installment payments for acquisitions of newbuilding vessels or for construction of receiving and regasification terminals prior to their delivery or completion and generation of revenue.

We make substantial capital expenditures to increase the size of our fleet or gas business. Please read “Item 5 – Operating and Financial Review and Prospects,” for additional information about our newbuilding acquisitions. As at December 31, 2017, we had 15 LNG carrier newbuildings scheduled for delivery between 2018 and 2020, three LPG carrier newbuildings scheduled for delivery during 2018 and one LNG receiving and regasification terminal under construction scheduled for completion in 2019. The obligations of us and our equity-accounted joint ventures to purchase the newbuilding vessels is not conditional upon our or their ability to obtain financing for such purchases. As at December 31, 2017, we have \$1.7 billion of financing (including our proportionate share of financings in our equity-accounted joint ventures) in place for the majority of our remaining newbuilding vessels and our LNG receiving and regasification terminal under construction and are seeking financing for two newbuilding vessels, please read "Item 5 – Contractual Obligations and Contingencies." Although we believe we will obtain financing for our two remaining unfinanced newbuildings during 2018, there is no assurance that we will do so.

In addition to our newbuilding vessels, we may also be obligated to purchase one of our leased Suezmax tankers, the Toledo Spirit, upon the charterer’s option, which may occur in 2018 and have an aggregate purchase price of approximately \$26.3 million at December 31, 2017.

We and Teekay Corporation regularly evaluate and pursue opportunities to provide the marine transportation requirements for new or expanding LNG and LPG projects. The award process relating to LNG transportation opportunities typically involves various stages and takes several months to complete. Neither we nor Teekay Corporation may be awarded charters relating to any of the projects we or it pursues. If any LNG project charters are awarded to Teekay Corporation, it must offer them to us pursuant to the terms of an omnibus agreement entered into in connection with our initial public offering. If we elect pursuant to the omnibus agreement to obtain Teekay Corporation’s interests in any projects

Teekay Corporation may be awarded, or if we bid on and are awarded contracts relating to any LNG and LPG project, we will need to incur significant capital expenditures to buy Teekay Corporation's interest in these LNG and LPG projects or to build the LNG and LPG carriers.

Our substantial capital expenditures may reduce our cash available for distribution to our unitholders. Funding of any capital expenditures with debt may significantly increase our interest expense and financial leverage, and funding of capital expenditures through issuing additional equity securities may result in significant unitholder dilution. Our failure to obtain the funds for necessary future capital expenditures could have a material adverse effect on our business, results of operations and financial condition and on our ability to make cash distributions to unitholders. A shipowner is typically required to expend substantial sums as progress payments during construction of a newbuilding, but does not derive any income from the vessel until after its delivery. If we were unable to obtain financing required to complete payments on any existing or future newbuilding orders, we could effectively forfeit all or a portion of the progress payments previously made. If we finance these payments by issuing debt or equity securities, we will increase the aggregate amount of interest or cash required to maintain our current level of quarterly distributions to unitholders prior to generating cash from the operation of the newbuilding.

To fund the remaining portion of existing or future capital expenditures, we will be required to use cash from operations or incur borrowings or raise capital through the sale of debt or additional equity securities. Use of cash from operations will reduce cash available for distributions to unitholders. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds for future capital expenditures could have a material adverse effect on our business, results of operations and financial condition and on our ability to make cash distributions. Even if we are successful in obtaining necessary funds, the terms of such financings could limit our ability to pay distributions to our unitholders. In addition, incurring additional debt may significantly increase our interest expense and financial leverage, and issuing additional equity securities may result in significant unitholder dilution and would increase the aggregate amount of cash required to maintain our current level of quarterly distributions to unitholders, which could have a material adverse effect on our ability to make cash distributions.

Our substantial debt levels may limit our flexibility in obtaining additional financing, refinancing credit facilities upon maturity, pursuing other business opportunities and paying distributions.

As at December 31, 2017, our consolidated debt, obligations related to capital leases and advances from affiliates totaled \$2.8 billion and we had the capacity to borrow an additional \$189.4 million under our revolving credit facilities. These facilities may be used by us for general partnership purposes. If we obtain debt financing for existing newbuilding orders or we are awarded contracts for new LNG or LPG projects, our consolidated debt and obligations related to capital leases will increase, perhaps significantly. We will continue to have the ability to incur additional debt, subject to limitations in our credit facilities. Our level of debt could have important consequences to us, including the following:

- our ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms, if at all;
- we will need a substantial portion of our cash flow to make principal and interest payments on our debt, reducing the funds that would otherwise be available for operations, future business opportunities and distributions to unitholders;
- our debt level may make us more vulnerable than our competitors with less debt to competitive pressures or a downturn in our industry or the economy generally; and
- our debt level may limit our flexibility in responding to changing business and economic conditions.

Our ability to service our debt and obligations related to capital leases depends upon, among other things, our future financial and operating performance, which is affected by prevailing economic conditions and financial, business,

regulatory and other factors, some of which are beyond our control. If our operating results are not sufficient to service our current or future indebtedness or obligations related to capital leases, we will be forced to take actions such as further reducing distributions, reducing, cancelling or delaying our business activities, acquisitions, investments or capital expenditures, selling assets, seeking to restructure or refinance our debt, seeking additional debt or equity capital or seeking bankruptcy protection. We may not be able to effect any of these remedies on satisfactory terms, or at all.

Financing agreements containing operating and financial restrictions may restrict our business and financing activities. The operating and financial restrictions and covenants in our financing arrangements and any future financing agreements for us could adversely affect our ability to finance future operations or capital needs or to engage, expand or pursue our business activities. For example, the arrangements may restrict our ability to:

- incur or guarantee indebtedness;
- change ownership or structure, including mergers, consolidations, liquidations and dissolutions;
- make dividends or distributions when in default of the relevant loans;
- make certain negative pledges and grant certain liens;
- sell, transfer, assign or convey assets;



- make certain investments; and
- enter into new lines of business.

Some of our financing arrangements require us to maintain a minimum level of tangible net worth, to maintain certain ratios of vessel values as it relates to the relevant outstanding principal balance, a minimum level of aggregate liquidity, a maximum level of leverage and require certain of our subsidiaries to maintain restricted cash deposits. Please read "Item 5 – Operating and Financial Review and Prospects: Credit Facilities". Our ability to comply with covenants and restrictions contained in debt instruments may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If market or other economic conditions deteriorate, compliance with these covenants may be impaired. If restrictions, covenants, ratios or tests in the financing agreements are breached, a significant portion or all of the obligations may become immediately due and payable, and the lenders' commitment to make further loans may terminate. This could lead to cross-defaults under other financing agreements and result in obligations becoming due and commitments being terminated under such agreements. We might not have or be able to obtain sufficient funds to make these accelerated payments. In addition, our obligations under our existing credit facilities are secured by certain of our vessels, and if we are unable to repay debt under the credit facilities, the lenders could seek to foreclose on those assets.

Restrictions in our debt agreements may prevent us from paying distributions.

The payment of principal and interest on our debt and obligations related to capital leases reduces cash available for distribution on our units. In addition, our financing agreements prohibit the payment of distributions upon the occurrence of the following events, among others:

- failure to pay any principal, interest, fees, expenses or other amounts when due;
- failure to notify the lenders of any material oil spill or discharge of hazardous material, or of any action or claim related thereto;
- breach or lapse of any insurance with respect to vessels securing the facility;
- breach of certain financial covenants;
- failure to observe any other agreement, security instrument, obligation or covenant beyond specified cure periods in certain cases;
- default under other indebtedness;
- bankruptcy or insolvency events;
- failure of any representation or warranty to be materially correct;
- a change of control, as defined in the applicable agreement; and
- a material adverse effect, as defined in the applicable agreement.

We derive a substantial majority of our revenues from a limited number of customers, and the loss of any customer, charter or vessel, or any adjustment to our charter contracts could result in a significant loss of revenues and cash flow.

We have derived, and believe that we will continue to derive, a significant portion of our revenues and cash flow from a limited number of customers. Please read "Item 18 – Financial Statements: Note 4 – Segment Reporting."

We could lose a customer or the benefits of a time-charter if:

- the customer fails to make charter payments because of its financial inability, disagreements with us or otherwise;
- we agree to reduce the charter payments due to us under a charter because of the customer's inability to continue making the original payments;
- the customer exercises certain rights to terminate the charter, purchase or cause the sale of the vessel or, under some of our charters, convert the time-charter to a bareboat charter (some of which rights are exercisable at any time);

the customer terminates the charter because we fail to deliver the vessel within a fixed period of time, the vessel is lost or damaged beyond repair, there are serious deficiencies in the vessel or prolonged periods of off-hire, or we default under the charter; or

under some of our time-charters, the customer terminates the charter because of the termination of the charterer's sales agreement or a prolonged force majeure event affecting the customer, including damage to or destruction of relevant facilities, war or political unrest preventing us from performing services for that customer.

For instance, we have two LNG carriers currently on bareboat charter contracts with Awilco with original fixed contract terms ending in November 2017 and August 2018 with one-year extension options. Awilco has a purchase obligation under the charter contracts to repurchase each vessel from us at the end of their respective terms. In June 2017, we reached an agreement 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. However, there is no assurance that Awilco will be able to generate enough operating cash flows or have the ability to raise enough equity to pay for the charter hire deferrals and associated purchase obligations for the two LNG carriers. Further, two of the six MALT LNG Carriers in the Teekay LNG-Marubeni Joint Venture, the Marib Spirit and Arwa Spirit, are currently under long-term contracts expiring in 2029 with YLNG, a consortium led by Total SA. Due to the political situation in Yemen, YLNG decided to temporarily close operation of its LNG plant in Yemen in 2015. As

a result, the Teekay LNG-Marubeni Joint Venture agreed in December 2015 to defer a portion of the charter payments for the two LNG carriers from January 1, 2016 to December 31, 2016 and further deferrals were agreed with YLNG to extend the deferral period to the end of the short-term sub-charter contracts for the Marib Spirit and Arwa Spirit, which is currently anticipated to be in August 2018 and March 2019, respectively, unless the short-term sub-charter contracts are further extended in accordance with their terms. Should the LNG plant in Yemen resume operations, it is intended that YLNG will repay the deferred amounts in full, plus interest over a period of time to be agreed upon. However, there is no assurance if or when the LNG plant will resume operations or if YLNG will repay the deferred amounts, and this deferral period may extend beyond 2018 and 2019 as it relates to the Marib Spirit and Arwa Spirit, respectively.

If we lose a key LNG time-charter, we may be unable to redeploy the related vessel on terms as favorable to us due to the long-term nature of most LNG time-charters and the lack of an established LNG spot market. If we are unable to redeploy a LNG carrier, we will not receive any revenues from that vessel, but we may be required to pay expenses necessary to maintain the vessel in proper operating condition. In addition, if a customer exercises its right to purchase a vessel, we would not receive any further revenue from the vessel and may be unable to obtain a substitute vessel and charter. This may cause us to receive decreased revenue and cash flows from having fewer vessels operating in our fleet. Any compensation under our charters for a purchase of the vessels may not adequately compensate us for the loss of the vessel and related time-charter.

If we lose a key conventional tanker customer, we may be unable to obtain other long-term conventional charters and may become subject to the volatile spot market, which is highly competitive and subject to significant price fluctuations. If a customer exercises its right under some charters to purchase or force a sale of the vessel, we may be unable to acquire an adequate replacement vessel or may be forced to construct a new vessel. Any replacement newbuilding would not generate revenues during its construction and we may be unable to charter any replacement vessel on terms as favorable to us as those of the terminated charter.

The loss of certain of our customers, time-charters or vessels, or a decline in payments under our charters, could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions to unitholders.

We depend on Teekay Corporation and certain of our joint venture partners to assist us in operating our business and competing in our markets.

Pursuant to certain services agreements between us and certain of our operating subsidiaries, on the one hand, and certain direct and indirect subsidiaries of Teekay Corporation and certain of our joint venture partners, on the other hand, the Teekay Corporation subsidiaries and certain of our joint venture partners provide to us various services including, in the case of operating subsidiaries, substantially all of their managerial, operational and administrative services (including vessel maintenance, crewing for some of our vessels, purchasing, shipyard supervision, insurance and financial services) and other technical and advisory services, and in the case of Teekay LNG Partners L.P., various administrative services. Our operational success and ability to execute our growth strategy depend significantly upon Teekay Corporation's and certain of our joint venture partners' satisfactory performance of these services. Our business will be harmed if Teekay Corporation or certain of our joint venture partners fail to perform these services satisfactorily or if Teekay Corporation or certain of our joint venture partners stop providing these services to us.

Our ability to compete for the transportation requirements of LNG and oil projects and to enter into new time-charters and expand our customer relationships depends largely on our ability to leverage our relationship with Teekay Corporation and its reputation and relationships in the shipping industry. Our ability to compete for the transportation requirement of LPG projects and to enter into new charters and expand our customer relationships depends largely on our ability to leverage our relationship with one of our joint venture partners and its reputation and relationships in the

shipping industry. If Teekay Corporation or certain of our joint venture partners suffer material damage to its reputation or relationships it may harm our ability to:

- renew existing charters upon their expiration;
- obtain new charters;
- successfully interact with shipyards during periods of shipyard construction constraints;
- obtain financing on commercially acceptable terms; or
- maintain satisfactory relationships with our employees and suppliers.

If our ability to do any of the things described above is impaired, it could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions to unitholders.

Our operating subsidiaries may also contract with certain subsidiaries of Teekay Corporation and certain of our joint venture partners to have newbuildings constructed on behalf of our operating subsidiaries and to incur the construction-related financing. Our operating subsidiaries would purchase the vessels on or after delivery based on an agreed-upon price. None of our operating subsidiaries currently has this type of arrangement with Teekay Corporation or any of its affiliates or any joint venture partners.

Significant declines in natural gas and oil prices may adversely affect our growth prospects and results of operations. Global crude oil prices have significantly declined since mid-2014. The significant decline in oil prices has also contributed to depressed natural gas prices. Significant declines in natural gas or oil prices may adversely affect our business, results of operations and financial condition and our ability to make cash distributions, as a result of, among other things:

- a reduction in exploration for or development of new natural gas reserves or projects, or the delay or cancellation of existing projects as energy companies lower their capital expenditures budgets, which may reduce our growth opportunities;

- a reduction in both the competitiveness of natural gas as a fuel for power generation and the market price of natural gas, to the extent that natural gas prices are benchmarked to the price of crude oil;

- lower demand for vessels of the types we own and operate, which may reduce available charter rates and revenue to us upon redeployment of our vessels following expiration or termination of existing contracts or upon the initial chartering of vessels, or which may result in extended periods of our vessels being idle between contracts;

- customers potentially seeking to renegotiate or terminate existing vessel contracts, or failing to extend or renew contracts upon expiration, or seeking to negotiate cancelable contracts;

- the inability or refusal of customers to make charter payments to us or to our joint ventures, due to financial constraints or otherwise; or

- declines in vessel values, which may result in losses to us upon vessel sales or impairment charges against our earnings.

Our growth depends on continued growth in demand for LNG and LPG shipping.

Our growth strategy focuses on expansion in the LNG and LPG shipping sectors. Accordingly, our growth depends on continued growth in world and regional demand for LNG and LPG and marine transportation of LNG and LPG, as well as the supply of LNG and LPG. Demand for LNG and LPG and for the marine transportation of LNG and LPG could be negatively affected by a number of factors, such as:

- increases in the cost of natural gas derived from LNG relative to the cost of natural gas generally;

- increase in the cost of LPG relative to the cost of naphtha and other competing petrochemicals;

- increases in the production of natural gas in areas linked by pipelines to consuming areas, the extension of existing, or the development of new, pipeline systems in markets we may serve, or the conversion of existing non-natural gas pipelines to natural gas pipelines in those markets;

- decreases in the consumption of natural gas due to increases in its price relative to other energy sources or other factors making consumption of natural gas less attractive;

- additional sources of natural gas, including shale gas;

- availability of alternative energy sources; and

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

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

Changes in the oil markets could result in decreased demand for our conventional vessels and services in the future.

Demand for our vessels and services in transporting oil depends upon world and regional oil markets. Any decrease in shipments of crude oil in those markets could have a material adverse effect on our conventional tankers business, financial condition and results of operations. Historically, those markets have been volatile as a result of the many conditions and events that affect the price, production and transport of oil, including competition from alternative energy sources. Past slowdowns of the U.S. and world economies have resulted in reduced consumption of oil products and decreased demand for vessels and services, which reduced vessel earnings. Additional slowdowns could have similar effects on our operating results.

Changes in the LPG markets could result in decreased demand for our LPG vessels operating in the spot market.

We have several LPG carriers that operate in the LPG spot market and are either owned by us or owned or chartered-in by Exmar LPG BVBA (or the Exmar LPG Joint Venture), a joint venture entity formed pursuant to a joint venture agreement made in February 2013 between us and Belgium-based Exmar to own and charter-in LPG carriers with a primary focus on the mid-size gas carrier segment. The charters in the spot market operate for short

durations and are priced on a current, or “spot,” market rate. The LPG spot market is highly volatile and fluctuates based upon the many conditions and events that affect the price, production and transport of LPG, including competition from alternative energy sources and negative global or regional economic or political conditions. Any adverse changes in the LPG markets may impact our ability to enter into economically beneficial charters when our LPG carriers complete their existing short-term charters in the LPG spot market, which may reduce vessel earnings and impact our operating results.

Future adverse economic conditions, including disruptions in the global credit markets, could adversely affect our business, financial condition, and results of operations.

Economic downturns and financial crises in the global markets could produce illiquidity in the capital markets, market volatility, increased exposure to interest rate and credit risks and reduced access to capital markets. If global financial markets and economic conditions significantly

deteriorate in the future, we may face restricted access to the capital markets or bank lending, which may make it more difficult and costly to fund future growth. Decreased access to such resources could have a material adverse effect on our business, financial condition and results of operations.

Future adverse economic conditions or other developments may affect our customers' ability to charter our vessels and pay for our services and may adversely affect our business and results of operations.

Future adverse economic conditions or other developments relating directly to our customers may lead to a decline in our customers' operations or ability to pay for our services, which could result in decreased demand for our vessels and services. Our customers' inability to pay for any reason could also result in their default on our current contracts and charters. The decline in the amount of services requested by our customers or their default on our contracts with them could have a material adverse effect on our business, financial condition and results of operations.

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

A complete LNG project includes production, liquefaction, regasification, storage and distribution facilities and LNG carriers. Existing LNG projects and infrastructure are limited, and new or expanded LNG projects are highly complex and capital-intensive, with new projects often costing several billion dollars. Many factors could negatively affect continued development of LNG infrastructure or disrupt the supply of LNG, including:

- increases in interest rates or other events that may affect the availability of sufficient financing for LNG projects on commercially reasonable terms;
- decreases in the price of LNG, which might decrease the expected returns relating to investments in LNG projects;
- the inability of project owners or operators to obtain governmental approvals to construct or operate LNG facilities;
- local community resistance to proposed or existing LNG facilities based on safety, environmental or security concerns;
- any significant explosion, spill or similar incident involving an LNG facility or LNG carrier; and
- labor or political unrest affecting existing or proposed areas of LNG production.

If the LNG supply chain is disrupted or does not continue to grow, or if a significant LNG explosion, spill or similar incident occurs, it could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions to unitholders.

Our growth depends on our ability to expand relationships with existing customers and obtain new customers, for which we will face substantial competition.

One of our principal objectives is to enter into additional long-term, fixed-rate LNG, LPG and oil charters. The process of obtaining new long-term charters is highly competitive and generally involves an intensive screening process and competitive bids, and often extends for several months. Shipping contracts are awarded based upon a variety of factors relating to the vessel operator, including:

- shipping industry relationships and reputation for customer service and safety;
- shipping experience and quality of ship operations (including cost effectiveness);
- quality and experience of seafaring crew;
- the ability to finance carriers at competitive rates and financial stability generally;
- relationships with shipyards and the ability to get suitable berths;
- construction management experience, including the ability to obtain on-time delivery of new vessels according to customer specifications;
- willingness to accept operational risks pursuant to the charter, such as allowing termination of the charter for force majeure events; and
- competitiveness of the bid in terms of overall price.

We compete for providing marine transportation services for potential energy projects with a number of experienced companies, including state-sponsored entities and major energy companies affiliated with the energy project requiring energy shipping services. Many of these competitors have significantly greater financial resources than we do or Teekay Corporation does. We anticipate that an increasing number of marine transportation companies – including many with strong reputations and extensive resources and experience – will enter the energy transportation sector. This increased competition may cause greater price competition for time-charters. As a result of these factors, we may be unable to expand our relationships with existing customers or to obtain new customers on a profitable basis, if at all, which would have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions to unitholders.

Delays in deliveries of newbuildings, or in conversions or upgrades of existing vessels, or construction of LNG receiving and regasification terminals could harm our operating results and lead to the termination of related contracts.



As at April 1, 2018, we had a total of 14 newbuilding vessels under construction and an LNG receiving and regasification terminal under construction. The delivery of newbuildings or vessel conversions or upgrades or construction of receiving and regasification terminals we may order or undertake or otherwise acquire, could be delayed, which would delay our receipt of revenues under the contracts for these assets. In addition, under some of our charters if delivery of a vessel to our customer is delayed, we may be required to pay liquidated damages in amounts equal to or, under some charters, almost double, the hire rate during the delay. For prolonged delays, the customer may terminate the time-charter and, in addition to the resulting loss of revenues, we may be responsible for additional, substantial liquidated damages.

Our receipt of newbuildings or of vessel conversions or upgrades, or completion of the construction of LNG receiving and regasification terminals could be delayed because of:

- quality or engineering problems;
- changes in governmental regulations or maritime self-regulatory organization standards;
- work stoppages or other labor disturbances at the shipyard or construction site;
- bankruptcy or other financial crisis of the builder;
- a backlog of orders at the shipyard;
- political or economic disturbances where our vessels or terminals are being or may be built;
- weather interference or catastrophic event, such as a major earthquake or fire;
- our requests for changes to the original vessel specifications;
- shortages of or delays in the receipt of necessary construction materials, such as steel;
- our inability to finance the purchase or construction of the vessels or terminals; or
- our inability to obtain requisite permits or approvals.

If delivery of a vessel or the completion of an LNG receiving and regasification terminal is materially delayed, it could adversely affect our results or operations and financial condition and our ability to make cash distributions to unitholders.

We may be unable to charter or recharter vessels at attractive rates, which may lead to reduced revenues and profitability.

Our ability to charter or recharter our LNG and LPG carriers upon the expiration or termination of their current time charters and the charter rates payable under any renewal or replacement charters depend upon, among other things, the then current states of the LNG and LPG carrier markets. As of December 31, 2017, we had 14 vessels in our liquefied gas operating fleet that were unchartered or trading in the spot market, three unchartered newbuilding vessels under construction, and we had 10 and four vessels with charters scheduled to expire in 2018 and 2019, respectively, excluding extension options. If charter rates are low when existing time charters expire, we may be required to recharter our vessels at reduced rates or even possibly at a rate whereby we incur a loss, which would harm our results of operations. Alternatively, we may determine to leave such vessels off-charter. The size of the current orderbooks for LNG carriers and LPG carriers is expected to result in the increase in the size of the world LNG and LPG fleets over the next few years. An over-supply of vessel capacity, combined with stability or any decline in the demand for LNG or LPG carriers, may result in a reduction of charter hire rates.

We may have more difficulty entering into long-term, fixed-rate LNG time-charters if the active short-term, medium-term or spot LNG shipping markets continue to develop.

LNG shipping historically has been transacted with long-term, fixed-rate time-charters, usually with terms ranging from 20 to 25 years. One of our principal strategies is to enter into additional long-term, fixed-rate LNG time-charters. In recent years, the amount of LNG traded on a spot and short-term basis (defined as contracts with a duration of 4 years or less) has been increasing. In 2016, spot and short-term trades accounted for approximately 28% of global LNG trade.

If the active spot, short-term or medium-term markets continue to develop, we may have increased difficulty entering into long-term, fixed-rate time-charters for our LNG carriers and, as a result, our cash flow may decrease and be less stable. In addition, an active short-term, medium-term or spot LNG market may require us to enter into charters based on changing market prices, as opposed to contracts based on a fixed rate, which could result in a decrease in our cash flow in periods when the market price for shipping LNG is depressed.

Over time, vessel values may fluctuate substantially, which could adversely affect our operating results.

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

- prevailing economic conditions in natural gas, oil and energy markets;
- a substantial or extended decline in demand for natural gas, LNG, LPG or oil;
- competition from more technologically advanced vessels;

- increases in the supply of vessel capacity; and
- the cost of retrofitting or modifying existing vessels, as a result of technological advances in vessel design or equipment, changes in applicable environmental or other regulation or standards, or otherwise.

Vessel values may decline from existing levels. If the operation of a vessel is not profitable, or if we cannot re-deploy a vessel at attractive rates upon termination of its contract, rather than continue to incur costs to maintain and finance the vessel, we may seek to dispose of it. Our inability to dispose of the vessel at a reasonable value could result in a loss on its sale and adversely affect our results of operations and financial condition. Further, if we determine at any time that a vessel's future useful life and earnings require us to impair its value on our financial statements, we may need to recognize a significant charge against our earnings.

We have recognized vessel write-downs in the past and we may recognize additional write-downs in the future, which will reduce our earnings and net assets.

If we determine at any time that a vessel's value has been impaired, we may need to recognize an impairment charge that will reduce our earnings and net assets. We review our vessels for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, which occurs when the assets' carrying value is greater than the estimated undiscounted future cash flows the asset is expected to generate over its remaining useful life.

A reduction in our net assets could result in a breach of certain financial covenants contained in our credit agreements, which could limit our ability to borrow additional funds under our credit facilities or require us to repay outstanding amounts. This could harm our business, results of operations, financial condition, ability to raise capital or ability to pay distributions.

For the write-downs that occurred during 2017, please read "Item 5 – Operating and Financial Review and Prospects: Management's Discussion and Analysis of Financial Condition and Results of Operations - Year Ended December 31, 2017 versus Year Ended December 31, 2016" and "Item 18 – Financial Statements: Note 18 – Write-Down and Loss on Sales of Vessels."

Increased technological innovation in vessel design or equipment could reduce our charter hire rates and the value of our vessels.

The charter hire rates and the value and operational life of a vessel are determined by a number of factors, including the vessel's efficiency, operational flexibility and physical life. Efficiency includes speed, fuel economy and the ability for LNG or LPG to be loaded and unloaded quickly. More efficient vessel designs, engines or other features may increase efficiency. Flexibility includes the ability to access LNG and LPG storage facilities, utilize related docking facilities and pass through canals and straits. Physical life is related to the original design and construction, maintenance and the impact of the stress of operations. If new LNG or LPG carriers are built that are more efficient or flexible or have longer physical lives than our vessels, competition from these more technologically advanced LNG or LPG carriers could reduce recharter rates available to our vessels and the resale value of the vessels. As a result, our business, results of operations and financial condition could be harmed.

We may be unable to perform as per specifications on our MEGI engine designs and other equipment.

We are investing in technology upgrades such as MEGI twin engines and other equipment for certain LNG carrier newbuildings. These new engine designs and other equipment may not perform to expectations which may result in performance issues or claims based on failure to achieve specification included in charter party agreements.

We or our joint venture partners may be unable to deliver or operate a floating store unit (or FSU) or a LNG receiving and regasification terminal.

We are modifying one of our LNG carrier newbuildings into a FSU to service a LNG regasification and receiving terminal in Bahrain in which we will have a 30% ownership interest (please read "Item 18 – Financial Statements: Note 6a (i) – Equity-Accounted Investments"). We may be unable to operate the FSU efficiently, which may result in performance issues or claims based on charter party agreements. In addition, we or our joint venture partners may be

unable to operate a LNG receiving and regasification terminal properly, which could reduce the expected output of this terminal. As a result, our business, results of operations and financial condition could be harmed.

Climate change and greenhouse gas restrictions may adversely impact our operations and markets.

Due to concern over the risk of climate change, a number of countries have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions. These regulatory measures include, among others, adoption of cap and trade regimes, carbon taxes, increased efficiency standards, and incentives or mandates for renewable energy. Compliance with changes in laws, regulations and obligations relating to climate change could increase our costs related to operating and maintaining our vessels and require us to install new emission controls, acquire allowances or pay taxes related to our greenhouse gas emissions, or administer and manage a greenhouse gas emissions program. Revenue generation and strategic growth opportunities may also be adversely affected.

Adverse effects upon the oil and gas industry relating to climate change may also adversely affect demand for our services. Although we do not expect that demand for oil and gas will lessen dramatically over the short term, in the long-term, climate change may reduce the demand for oil and gas or increased regulation of greenhouse gases may create greater incentives for use of alternative energy sources. Any long-

term material adverse effect on the oil and gas industry could have a significant financial and operational adverse impact on our business that we cannot predict with certainty at this time.

We may be unable to make or realize expected benefits from acquisitions, and implementing our growth strategy through acquisitions may harm our business, financial condition and operating results.

Our growth strategy includes selectively acquiring existing LNG and LPG carriers or LNG and LPG shipping businesses. Historically, there have been very few purchases of existing vessels and businesses in the LNG and LPG shipping industries. Factors that may contribute to a limited number of acquisition opportunities in the LNG and LPG shipping industries in the near term include the relatively small number of independent LNG and LPG fleet owners and the limited number of LNG and LPG carriers not subject to existing long-term charter contracts. In addition, competition from other companies could reduce our acquisition opportunities or cause us to pay higher prices.

Any acquisition of a vessel or business may not be profitable to us at or after the time we acquire it and may not generate cash flow sufficient to justify our investment. In addition, our acquisition growth strategy exposes us to risks that may harm our business, financial condition and operating results, including risks that we may:

- fail to realize anticipated benefits, such as new customer relationships, cost-savings or cash flow enhancements;
- be unable to hire, train or retain qualified shore and seafaring personnel to manage and operate our growing business and fleet;
- decrease our liquidity by using a significant portion of our available cash or borrowing capacity to finance acquisitions;
- significantly increase our interest expense or financial leverage if we incur additional debt to finance acquisitions;
- incur or assume unanticipated liabilities, losses or costs associated with the business or vessels acquired; or
- incur other significant charges, such as impairment of goodwill or other intangible assets, asset devaluation or restructuring charges.

Unlike newbuildings, existing vessels typically do not carry warranties as to their condition. While we generally inspect existing vessels prior to purchase, such an inspection would normally not provide us with as much knowledge of a vessel's condition as we would possess if it had been built for us and operated by us during its life. Repairs and maintenance costs for existing vessels are difficult to predict and may be substantially higher than for vessels we have operated since they were built. These costs could decrease our cash flow and reduce our liquidity.

Marine transportation is inherently risky, and an incident involving significant loss of or environmental contamination by any of our vessels could harm our reputation and business.

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

- marine disasters;
- bad weather or natural disasters;
- mechanical failures;
- grounding, fire, explosions and collisions;
- piracy;
- cyber attack;
- human error; and
- war and terrorism.

An accident involving any of our vessels could result in any of the following:

- death or injury to persons, loss of property or environmental damage;
- delays in the delivery of cargo;
- loss of revenues from or termination of charter contracts;

governmental fines, penalties or restrictions on conducting business;  
higher insurance rates; and  
damage to our reputation and customer relationships generally.

Any of these results could have a material adverse effect on our business, financial condition and operating results. In addition, any damage to, or environmental contamination involving, oil production facilities serviced by our vessels could result in the suspension or curtailment of operations by our customer, which would in turn result in loss of revenues.

Our insurance may be insufficient to cover losses that may occur to our property or result from our operations. The operation of LNG and LPG carriers and oil tankers is inherently risky. Although we carry hull and machinery (marine and war risks) and protection and indemnity insurance, all risks may not be adequately insured against, and any particular claim may not be paid. In addition, only certain of our LNG carriers carry insurance covering the loss of revenues resulting from vessel off-hire time based on its cost compared to our off-hire experience. Any significant off-hire time of our vessels could harm our business, operating results and financial condition. Any claims covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. Certain of our insurance coverage is maintained through mutual protection and indemnity associations, and as a member of such associations we may be required to make additional payments over and above budgeted premiums if member claims exceed association reserves.

We may be unable to procure adequate insurance coverage at commercially reasonable rates in the future. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in the lack of availability of, insurance against risks of environmental damage or pollution. A catastrophic oil spill, marine disaster or natural disasters could result in losses that exceed our insurance coverage, which could harm our business, financial condition and operating results. Any uninsured or underinsured loss could harm our business and financial condition. In addition, our insurance may be voidable by the insurers as a result of certain of our actions, such as our ships failing to maintain certification with applicable maritime regulatory organizations.

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

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

Because our operations, and the operations of certain of our customers, are primarily conducted outside of the United States, they may be affected by economic, political and governmental conditions in the countries where we and they engage in business. Any disruption caused by these factors could harm our business or the business of these customers, including by reducing the levels of oil and gas exploration, development and production activities in these areas. We derive some of our revenues from shipping oil, LNG and LPG from politically and economically unstable regions, such as Angola and Yemen. Hostilities, strikes, or other political or economic instability in regions where we or these customers operate or where we or they may operate could have a material adverse effect on the growth of our business, results of operations and financial condition and ability to make cash distributions, or on the ability of these customers to make payments or otherwise perform their obligations to us. In addition, tariffs, trade embargoes and other economic sanctions by the United States or other countries against countries in which we operate or to which we trade may harm our business and ability to make cash distributions and a government could requisition one or more of our vessels, which is most likely during war or national emergency. Any such requisition would cause a loss of the vessel and could harm our cash flow and financial results.

Two vessels owned by the Teekay LNG-Marubeni Joint Venture, the Marib Spirit and Arwa Spirit, are currently under long-term contracts expiring in 2029 with YLNG, a consortium led by Total SA. Due to the political situation in Yemen, YLNG decided to temporarily close operation of its LNG plant in Yemen in 2015. As a result, the Teekay LNG-Marubeni Joint Venture agreed in December 2015 to defer a portion of the charter payments for the two LNG carriers from January 1, 2016 to December 31, 2016 and further deferrals were agreed with YLNG to extend the deferral period to the end of the short-term sub-charter contracts for the Marib Spirit and Arwa Spirit, which is currently anticipated to be in August 2018 and March 2019, respectively, unless the short-term sub-charter contracts are further extended in accordance with their terms. Should the LNG plant in Yemen resume operations, it is intended that YLNG will repay the deferred amounts in full, plus interest over a period of time to be agreed upon. However, there is no assurance if or when the LNG plant will resume operations or if YLNG will repay the deferred amounts,

and this deferral period may extend beyond 2018 and 2019 as it relates to the Marib Spirit and Arwa Spirit, respectively. Our proportionate share of the impact of the charter payment deferral for 2017 compared to 2016 was a reduction to equity income of \$5.5 million. Our proportionate share of the estimated impact of the charter payment deferral for 2018 compared to original charter rates earned prior to January 1, 2016 is estimated to be a reduction to equity income ranging from \$4 million to \$5 million per quarter, depending on any sub-chartering employment opportunities for the Marib Spirit and Arwa Spirit in 2018.

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

Terrorist attacks, piracy, the current conflicts in the Middle East, West Africa (Nigeria), Libya and elsewhere, and political change, may adversely affect our business, operating results, financial condition, ability to raise capital and future growth. Continuing hostilities in the Middle East, especially among Qatar, Saudi Arabia, UAE, Yemen and elsewhere may lead to additional armed conflicts or to further acts of terrorism and civil disturbance in the United States, or elsewhere, which may contribute to economic instability and disruption of LNG, LPG and oil production and distribution, which could result in reduced demand for our services or impact on our operations and or our ability to conduct business.

In addition, LNG, LPG and oil facilities, shipyards, vessels, pipelines and oil and gas fields could be targets of future terrorist attacks and warlike operations and our vessels could be targets of pirates, hijackers, terrorists or warlike operations. Any such attacks could lead to, among other things, bodily injury or loss of life, vessel or other property damage, increased vessel operational costs, including insurance costs, and the inability to transport LNG, LPG and oil to or from certain locations. Terrorist attacks, war, piracy, hijacking or other events beyond our control that adversely affect the distribution, production or transportation of LNG, LPG or oil to be shipped by us could entitle our customers to terminate our charter contracts, which would harm our cash flow and our business.



Terrorist attacks, or the perception that LNG or LPG facilities and carriers are potential terrorist targets, could materially and adversely affect expansion of LNG and LPG infrastructure and the continued supply of LNG and LPG to the United States and other countries. Concern that LNG or LPG facilities may be targeted for attack by terrorists, as well as environmental concerns, has contributed to significant community resistance to the construction of a number of LNG or LPG facilities, primarily in North America. If a terrorist incident involving a LNG or LPG facility or LNG or LPG carrier did occur, in addition to the possible effects identified in the previous paragraph, the incident may adversely affect construction of additional LNG or LPG facilities in the United States and other countries or lead to the temporary or permanent closing of various LNG or LPG facilities currently in operation.

Acts of piracy on ocean-going vessels continue to be a risk, which could adversely affect our business.

Acts of piracy have historically affected ocean-going vessels trading in regions of the world such as the South China Sea, Gulf of Guinea and the Indian Ocean off the coast of Somalia. While there continues to be a significant risk of piracy in the Gulf of Aden and Indian Ocean, recently there have been increases in the frequency and severity of piracy incidents off the coast of West Africa and a resurgent piracy risk in the Straits of Malacca and surrounding waters. If these piracy attacks result in regions in which our vessels are deployed being named on the Joint War Committee Listed Areas, war risk insurance premiums payable for such coverage can increase significantly and such insurance coverage may be more difficult to obtain. In addition, crew costs, including costs which may be incurred to the extent we employ on-board armed security guards and escort vessels, could increase in such circumstances. We may not be adequately insured to cover losses from these incidents, which could have a material adverse effect on us. In addition, hijacking as a result of an act of piracy against our vessels, or an increase in cost or unavailability of insurance for our vessels, could have a material adverse impact on our business, financial condition and results of operations.

A cyber-attack could materially disrupt our business

We rely on information technology systems and networks in our operations and the administration of our business. Cyber-attacks have increased in number and sophistication in recent years. Our operations could be targeted by individuals or groups seeking to sabotage or disrupt our information technology systems and networks, or to steal data. A successful cyber-attack could materially disrupt our operations, including the safety of our operations, or lead to unauthorized release of information or alteration of information on our systems. Any such attack or other breach of our information technology systems could have a material adverse effect on our business and results of operations. The ARC7 LNG carrier newbuildings for the Yamal LNG Project are customized vessels and our financial condition, results of operations and ability to make distributions on our units could be substantially affected if the Yamal LNG Project is not completed.

On July 9, 2014, we entered into a 50/50 joint venture with China LNG (or the Yamal LNG Joint Venture) and ordered six internationally-flagged icebreaker LNG carriers for a project located on the Yamal Peninsula in Northern Russia (or the Yamal LNG Project), one of which newbuilding carriers delivered in January 2018. The Yamal LNG Project is a joint venture between Russia-based Novatek OAO (50.1%), France-based Total S.A. (20%), China-based China National Petroleum Corporation (20%) and Silk Road Fund (9.9%).

The five remaining ARC7 LNG carrier newbuildings ordered by the Yamal LNG Joint Venture, which are scheduled for delivery between the remainder of 2018 and 2020, are being specifically built for the Arctic requirements of the Yamal LNG Project and will have limited redeployment opportunities to operate as conventional trading LNG carriers if the project is abandoned or cancelled. If the project is abandoned or cancelled or not completed for any reason, either before or after commencement of operations, the Yamal LNG Joint Venture may be unable to reach an agreement with the shipyard allowing for the termination of the shipbuilding contracts (since no such optional termination right exists under these contracts), change the vessel specifications to reflect those applicable to more conventional LNG carriers and which do not incorporate ice-breaking capabilities, or find suitable alternative employment for the newbuilding vessels on a long-term basis with other LNG projects or otherwise.

The Yamal LNG Project may be abandoned or not completed for various reasons, including, among others:

- failure to achieve expected operating results;
- changes in demand for LNG;
- adverse changes in Russian regulations or governmental policy relating to the project or the export of LNG;
- technical challenges of completing and operating the complex project, particularly in extreme Arctic conditions;
- labor disputes; and
- environmental regulations or potential claims.

If the project is not completed or is abandoned, proceeds if any, received from limited Yamal LNG project sponsor guarantees and potential alternative employment, if any, of the vessels and from potential sales of components and scrapping of the vessels likely would fall substantially short of the cost of the vessels to the Yamal LNG Joint Venture. Any such shortfall could have a material adverse effect on our financial condition, results of operations and ability to make distributions to unitholders.

Sanctions against key participants in the Yamal LNG Project could impede completion or performance of the Yamal LNG Project, which could have a material adverse effect on us.

The U.S. Treasury Department's Office of Foreign Assets Control (or OFAC) placed Russia-based Novatek OAO (or Novatek), a 50.1% owner of the Yamal LNG Project, on the Sectoral Sanctions Identifications List. OFAC also previously imposed sanctions on an investor in Novatek and these sanctions also remain in effect. Effective as of November 2017, the restrictions on Novatek prohibit U.S. persons (and their subsidiaries) from participating in debt financing transactions of greater than 60 days maturity with Novatek and, by virtue of Novatek's 50.1% ownership interest, the Yamal LNG Project. The European Union also imposed certain sanctions on Russia. These sanctions require a European Union license or authorization before a party can provide certain technologies or technical assistance, financing, financial assistance, or brokering with regard to these technologies. However, the technologies being currently sanctioned by the EU appear to focus on oil exploration projects, not gas projects. In addition, OFAC and other governments or organizations may impose additional sanctions on Novatek, the Yamal LNG Project or other project participants, which may further hinder the ability of the Yamal LNG Project to receive necessary financing. Although we believe that we are in compliance with all applicable sanctions laws and regulations, and intend to maintain such compliance, the scope of these sanctions laws may be subject to change. Future sanctions may prohibit the Yamal LNG Joint Venture from performing under its contracts with the Yamal LNG Project, which could have a material adverse effect on our financial condition, results of operations and ability to make distributions on our units. Failure of the Yamal LNG Project to achieve expected results could lead to a default under the time-charter contracts by the charter party.

The charter party under the Yamal LNG Joint Venture's time-charter contracts for the Yamal LNG Project is Yamal Trade Pte. Ltd., a wholly-owned subsidiary of Yamal LNG, the project's sponsor. If the Yamal LNG Project does not achieve expected results, the risk of charter party default may increase. Any such default could adversely affect our results of operations and ability to make distributions on our units. If the charter party defaults on the time-charter contracts, we may be unable to redeploy the vessels under other time-charter contracts or may be forced to scrap the vessels.

We assume credit risk by entering into agreements with unrated entities.

Some of our vessels are chartered to unrated entities and some of these unrated entities will use revenue generated from the sale of the shipped gas to pay their shipping and other operating expenses, including the charter fees. The price of the gas may be subject to market fluctuations and the LNG supply may be curtailed by start-up delays and stoppages. If the revenue generated by the charterer is insufficient to pay the charter fees, we may be unable to realize the expected economic benefit from these charter agreements. In addition, some of our financing related to certain of our LNG carrier newbuildings are with unrated entities. Any inability of these entities to meet their obligations under the financing arrangements, could have an adverse effect on our liquidity and potentially delay the deliveries of certain of our LNG carrier newbuildings.

The marine energy transportation industry is subject to substantial environmental and other regulations, which may significantly limit our operations or increase our expenses.

Our operations are affected by extensive and changing international, national and local environmental protection laws, regulations, treaties and conventions in force in international waters, the jurisdictional waters of the countries in which our vessels operate, as well as the countries of our vessels' registration, including those governing oil spills, discharges to air and water, and the handling and disposal of hazardous substances and wastes. Many of these requirements are designed to reduce the risk of oil spills and other pollution. In addition, we believe that the heightened environmental, quality and security concerns of insurance underwriters, regulators and charterers will lead to additional regulatory requirements, including enhanced risk assessment and security requirements and greater inspection and safety requirements on vessels. We expect to incur substantial expenses in complying with these laws and regulations, including expenses for vessel modifications and changes in operating procedures.

These requirements can affect the resale value or useful lives of our vessels, require a reduction in cargo capacity, ship modifications or operational changes or restrictions, lead to decreased availability of insurance coverage for

environmental matters or result in the denial of access to certain jurisdictional waters or ports, or detention in certain ports. Under local, national and foreign laws, as well as international treaties and conventions, we could incur material liabilities, including cleanup obligations, in the event that there is a release of petroleum or other hazardous substances from our vessels or otherwise in connection with our operations. We could also become subject to personal injury or property damage claims relating to the release of or exposure to hazardous materials associated with our operations. In addition, failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of our operations, including, in certain instances, seizure or detention of our vessels. For further information about regulations affecting our business and related requirements on us, please read “Item 4 – Information on the Partnership: B. Operations - Regulations.”

Exposure to currency exchange rate fluctuations will result in fluctuations in our cash flows and operating results. We are paid in Euros under some of our charters, and certain of our vessel operating expenses and general and administrative expenses currently are denominated in Euros, which is primarily a function of the nationality of our crew and administrative staff. We also make payments under two Euro-denominated term loans. If the amount of our Euro-denominated obligations exceeds our Euro-denominated revenues, we must convert other currencies, primarily the U.S. Dollar, into Euros. An increase in the strength of the Euro relative to the U.S. Dollar would require us to convert more U.S. Dollars to Euros to satisfy those obligations, which would cause us to have less cash available for distribution to unitholders. In addition, if we do not have sufficient U.S. Dollars, we may be required to convert Euros into U.S. Dollars for distributions to unitholders. An increase in the strength of the U.S. Dollar relative to the Euro could cause us to have less cash available for distribution in this circumstance. We have not entered into currency swaps or forward contracts or similar derivatives to mitigate this risk.

Because we report our operating results in U.S. Dollars, changes in the value of the U.S. Dollar relative to the Euro and Norwegian Kroner also result in fluctuations in our reported revenues and earnings. In addition, under U.S. accounting guidelines, all foreign currency-denominated monetary assets and liabilities such as cash and cash equivalents, accounts receivable, restricted cash, accounts payable, accrued liabilities, advances from affiliates and long-term debt, are revalued and reported based on the prevailing exchange rate at the end of the period. This revaluation historically has caused us to report significant unrealized foreign currency exchange gains or losses each period. The primary source for these gains and losses is our Euro-denominated term loans and our Norwegian Kroner-denominated (or NOK) bonds. We incur interest expense on our NOK bonds and we have entered into cross-currency swaps to economically hedge the foreign exchange risk on the principal and interest payments of our NOK bonds. If the Norwegian Kroner depreciates relative to the U.S. Dollar beyond a certain threshold, we are required to place cash collateral with our swap providers.

Exposure to interest rate fluctuations will result in fluctuations in our cash flows and operating results.

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

In addition, we are exposed to credit loss in the event of non-performance by the counterparties to the interest rate swap agreements. For further information about our financial instruments at December 31, 2017, that are sensitive to changes in interest rates, please read "Item 11 – Quantitative and Qualitative Disclosures About Market Risk."

Many of our seafaring employees are covered by collective bargaining agreements and the failure to renew those agreements or any future labor agreements may disrupt our operations and adversely affect our cash flows.

A significant portion of our seafarers, and the seafarers employed by Teekay Corporation and its other affiliates that crew some of our vessels, are employed under collective bargaining agreements. While some of our labor agreements have recently been renewed, crew compensation levels under future collective bargaining agreements may exceed existing compensation levels, which would adversely affect our results of operations and cash flows. We may be subject to labor disruptions in the future if our relationships deteriorate with our seafarers or the unions that represent them. Our collective bargaining agreements may not prevent labor disruptions, particularly when the agreements are being renegotiated. Any labor disruptions could harm our operations and could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions to unitholders.

Teekay Corporation and certain of our joint venture partners may be unable to attract and retain qualified, skilled employees or crew necessary to operate our business, or may have to pay substantially increased costs for its employees and crew.

Our success depends in large part on Teekay Corporation's and certain of our joint venture partners' ability to attract and retain highly skilled and qualified personnel. In crewing our vessels, we require technically skilled employees with specialized training who can perform physically demanding work. The ability to attract and retain qualified crew members under a competitive industry environment continues to put upward pressure on crew manning costs.

If we are not able to increase our charter rates to compensate for any crew cost increases, our financial condition and results of operations may be adversely affected. Any inability we experience in the future to hire, train and retain a sufficient number of qualified employees could impair our ability to manage, maintain and grow our business.

Due to our lack of diversification, adverse developments in our LNG, LPG or oil marine transportation businesses could reduce our ability to make distributions to our unitholders.

We rely exclusively on the cash flow generated from our LNG and LPG carriers and conventional oil tankers that operate in the LNG, LPG and oil marine transportation businesses. Due to our lack of diversification, an adverse development in the LNG, LPG or oil shipping industry would have a significantly greater impact on our financial

condition and results of operations than if we maintained more diverse assets or lines of business.

Teekay Corporation and its affiliates may engage in competition with us.

Teekay Corporation and its affiliates, including Teekay Offshore Partners L.P. (or Teekay Offshore), may engage in competition with us. Pursuant to an omnibus agreement between Teekay Corporation, Teekay Offshore, us and other related parties, Teekay Corporation, Teekay Offshore and their respective controlled affiliates (other than us and our subsidiaries) generally have agreed not to own, operate or charter LNG carriers without the consent of our General Partner. The omnibus agreement, however, allows Teekay Corporation, Teekay Offshore or any of such controlled affiliates to:

acquire LNG carriers and related time-charters as part of a business if a majority of the value of the total assets or business acquired is not attributable to the LNG carriers and time-charters, as determined in good faith by the board of directors of Teekay Corporation or the board of directors of Teekay Offshore's general partner; however, if at any time Teekay Corporation or Teekay Offshore completes such

an acquisition, it must offer to sell the LNG carriers and related time-charters to us for their fair market value plus any additional tax or other similar costs to Teekay Corporation or Teekay Offshore that would be required to transfer the LNG carriers and time-charters to us separately from the acquired business; or own, operate and charter LNG carriers that relate to a bid or award for an LNG project that Teekay Corporation or any of its subsidiaries submits or receives; however, at least 180 days prior to the scheduled delivery date of any such LNG carrier, Teekay Corporation must offer to sell the LNG carrier and related time-charter to us, with the vessel valued at its “fully-built-up cost,” which represents the aggregate expenditures incurred (or to be incurred prior to delivery to us) by Teekay Corporation to acquire or construct and bring such LNG carrier to the condition and location necessary for our intended use, plus a reasonable allocation of overhead costs related to the development of such a project and other projects that would have been subject to the offer rights set forth in the omnibus agreement but were not completed.

If we decline the offer to purchase the LNG carriers and time-charters described above, Teekay Corporation or Teekay Offshore may own and operate the LNG carriers, but may not expand that portion of its business.

In addition, pursuant to the omnibus agreement, Teekay Corporation, Teekay Offshore or any of their respective controlled affiliates (other than us and our subsidiaries) may:

- acquire, operate or charter LNG carriers if our General Partner has previously advised Teekay Corporation or Teekay Offshore that the board of directors of our General Partner has elected, with the approval of its conflicts committee, not to cause us or our subsidiaries to acquire or operate the carriers;
- acquire up to a 9.9% equity ownership, voting or profit participation interest in any publicly traded company that owns or operates LNG carriers; and
- provide ship management services relating to LNG carriers.

If there is a change of control of Teekay Corporation or Teekay Offshore, the non-competition provisions of the omnibus agreement may terminate, which termination could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions to unitholders.

Our General Partner and its other affiliates own a controlling interest in us and have conflicts of interest and limited fiduciary duties, which may permit them to favor their own interests to those of unitholders.

Teekay Corporation, which owns and controls our General Partner, indirectly owns our 2% general partner interest and as at December 31, 2017 owned 31.7% of our common units. The directors and officers of our General Partner have a fiduciary duty to manage our General Partner in a manner beneficial to Teekay Corporation. Furthermore, certain directors and officers of our General Partner are directors or officers of affiliates of our General Partner. Conflicts of interest may arise between Teekay Corporation and its affiliates, including our General Partner, on the one hand, and us and our unitholders, on the other hand. As a result of these conflicts, our General Partner may favor its own interests and the interests of its affiliates over the interests of our unitholders. These conflicts include, among others, the following situations:

- neither our partnership agreement nor any other agreement requires our General Partner or Teekay Corporation to pursue a business strategy that favors us or utilizes our assets, and Teekay Corporation’s officers and directors have a fiduciary duty to make decisions in the best interests of the shareholders of Teekay Corporation, which may be contrary to our interests;
- executive officers of Teekay Gas Group Ltd., our recently formed subsidiary, and two of the directors of our General Partner also currently serve as officers or directors of Teekay Corporation;
- our General Partner is allowed to take into account the interests of parties other than us, such as Teekay Corporation, in resolving conflicts of interest, which has the effect of limiting its fiduciary duty to our unitholders;

our General Partner has limited its liability and restricted its fiduciary duties under the laws of the Republic of the Marshall Islands, while also restricting the remedies available to our unitholders, and as a result of purchasing units, unitholders are treated as having agreed to the modified standard of fiduciary duties and to certain actions that may be taken by our General Partner, all as set forth in our partnership agreement;

our General Partner determines the amount and timing of our asset purchases and sales, capital expenditures, borrowings, issuances of additional partnership securities and reserves, each of which can affect the amount of cash that is available for distribution to our unitholders;

in some instances, our General Partner may cause us to borrow funds in order to permit the payment of cash distributions, even if the purpose or effect of the borrowing is to make incentive distributions to affiliates to Teekay Corporation;

our General Partner determines which costs incurred by it and its affiliates are reimbursable by us;

our partnership agreement does not restrict our General Partner from causing us to pay it or its affiliates for any services rendered to us on terms that are fair and reasonable or entering into additional contractual arrangements with any of these entities on our behalf;

our General Partner controls the enforcement of obligations owed to us by it and its affiliates; and

our General Partner decides whether to retain separate counsel, accountants or others to perform services for us.



The fiduciary duties of the officers and directors of our General Partner may conflict with those of the officers and directors of Teekay Corporation.

Our General Partner has limited fiduciary duties to manage our business in a manner beneficial to us and our partners. Our General Partner has a Corporate Secretary but does not have a Chief Executive Officer or a Chief Financial Officer. The Corporate Secretary and the non-independent director of our General Partner also serve as officers of Teekay Corporation and/or other affiliates of Teekay Corporation. Consequently, these officers and directors may encounter situations in which their fiduciary obligations to Teekay Corporation or its other affiliates, on one hand, and us, on the other hand, are in conflict. The resolution of these conflicts may not always be in the best interest of us or our unitholders.

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

We and certain of our joint ventures are party and were party to lease arrangements whereby the lessor could claim tax depreciation on the capital expenditures it incurred to acquire these vessels subject to the lease arrangements. As is typical in these leasing arrangements, tax and change of law risks are assumed by the lessee. The rentals payable under the lease arrangements are predicated on the basis of certain tax and financial assumptions at the commencement of the leases. If an assumption proves to be incorrect or there is a change in the applicable tax legislation or the interpretation thereof by the United Kingdom (or UK) taxing authority (or HMRC), the lessor is entitled to increase the rentals so as to maintain its agreed after-tax margin. Under the capital lease arrangements, we do not have the ability to pass these increased rentals onto our charter party. However, the terms of the lease arrangements enable us and our joint venture partner to jointly terminate the lease arrangement on a voluntary basis at any time. In the event of an early termination of the lease arrangements, the joint venture is obliged to pay termination sums to the lessor sufficient to repay its investment in the vessels and to compensate it for the tax effect of the terminations, including recapture of tax depreciation, if any.

We own a 70% interest in Teekay Nakilat Corporation (or the Teekay Nakilat Joint Venture), 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 leasing arrangements for the RasGas II LNG Carriers, the lessor claimed tax depreciation on the capital expenditures it incurred to acquire these vessels. As is typical in these leasing arrangements, tax and change of law risks were assumed by the lessee, in this case the Teekay Nakilat Joint Venture. Lease payments under the lease arrangements were based on certain tax and financial assumptions at the commencement of the leases and subsequently adjusted to maintain the lessor's agreed after-tax margin. On December 22, 2014, the Teekay Nakilat Joint Venture terminated the leasing of the RasGas II LNG Carriers. However, the Teekay Nakilat Joint Venture remains obligated to the lessor to maintain the lessor's agreed after-tax margin from the commencement of the lease to the lease termination date and as at December 31, 2017, the Teekay Nakilat Joint Venture's carrying amount of this estimated tax indemnification guarantee was \$12.7 million (December 31, 2016 – \$13.3 million). Additionally, as at December 31, 2017, the Teekay Nakilat Joint Venture had \$7.0 million (December 31, 2016 – \$6.8 million) on deposit with the lessor as security against any future claims.

The HMRC has been challenging the use 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 were 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 lessor. The Teekay Nakilat Joint Venture does not accept this contention and has informed HMRC of this position. It is not known at this time whether the Teekay Nakilat Joint Venture would eventually prevail in court. If the former lessor of the RasGas II LNG Carriers were to lose on a similar claim from HMRC, our 70% share of the Teekay Nakilat Joint Venture's potential exposure is estimated to be approximately \$44 million. Such estimate is primarily based on information received from the lessor.

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

Our joint venture arrangements impose obligations upon us but limit our control of the joint ventures, which may affect our ability to achieve our joint venture objectives.

For financial or strategic reasons, we conduct a portion of our business through joint ventures. Generally, we are obligated to provide proportionate financial support for the joint ventures although our control of the business entity may be substantially limited. Due to this limited control, we generally have less flexibility to pursue our own objectives through joint ventures or to access available cash of the joint ventures than we would with our own subsidiaries. There is no assurance that our joint venture partners will continue their relationships with us in the future or that we will be able to achieve our financial or strategic objectives relating to the joint ventures and the markets in which they operate. In addition, our joint venture partners may have business objectives that are inconsistent with ours, experience financial and other difficulties that may affect the success of the joint venture, or be unable or unwilling to fulfill their obligations under the joint ventures, which may affect our financial condition or results of operations.

#### TAX RISKS

In addition to the following risk factors, you should read “Item 10. Additional Information — Taxation” for a more complete discussion of the expected material U.S. federal and non-U.S. income tax considerations relating to us and the ownership and disposition of our units.

United States unitholders will be required to pay U.S. taxes on their share of our income even if they do not receive any cash distributions from us.

U.S. citizens, residents or other U.S. taxpayers will be required to pay U.S. federal income taxes and, in some cases, U.S. state and local income taxes on their share of our taxable income, whether or not they receive cash distributions from us. U.S. unitholders may not receive cash distributions from us equal to their share of our taxable income or even equal to the actual tax liability that results from their share of our taxable income.

Because distributions may reduce a common unitholder's tax basis in our common units, common unitholders may realize greater gain on the disposition of their common units than they otherwise may expect, and common unitholders may have a tax gain even if the price they receive is less than their original cost.

If common unitholders sell their common units, they will recognize gain or loss for U.S. federal income tax purposes that is equal to the difference between the amount realized and their tax basis in those common units. Prior distributions in excess of the total net taxable income allocated decrease a common unitholder's tax basis and will, in effect, become taxable income if common units are sold at a price greater than their tax basis, even if the price received is less than the original cost. Assuming we are not treated as a corporation for U.S. federal income tax purposes, a substantial portion of the amount realized on a sale of common units, whether or not representing gain, may be ordinary income.

The after-tax benefit of an investment in the common units may be reduced if we are not treated as a partnership for U.S. federal income tax purposes.

The anticipated after-tax benefit of an investment in common units may be reduced if we are not treated as a partnership for U.S. federal income tax purposes. If we are not treated as a partnership for U.S. federal income tax purposes, we would be treated as a corporation for such purposes, and common unitholders could suffer material adverse tax or economic consequences, including the following:

The ratio of taxable income to distributions with respect to common units would be expected to increase because items would not be allocated to account for any differences between the fair market value and the basis of our assets at the time our common units are issued.

Common unitholders may recognize income or gain on any change in our status from a partnership to a corporation that occurs while they hold common units.

We would not be permitted to adjust the tax basis of a secondary market purchaser in our assets under Section 743(b) of the Internal Revenue Code of 1986, as amended (or the Code). As a result, a person who purchases common units from a common unitholder in the secondary market may realize materially more taxable income each year with respect to the units. This could reduce the value of common unitholders' common units.

Common unitholders would not be entitled to claim any credit against their U.S. federal income tax liability for non-U.S. income tax liabilities incurred by us.

As to the U.S. source portion of our income attributable to transportation that begins or ends (but not both) in the United States, we will be subject to U.S. tax on such income on a gross basis (that is, without any allowance for deductions) at a rate of 4%. The imposition of this tax would have a negative effect on our business and would result in decreased cash available for distribution to common unitholders. As to any net income that is effectively connected with a U.S. trade or business, we would be subject to tax on that net income at the corporate tax rate of 21%, plus branch profits tax on our net earnings after corporate tax of 30%. The imposition of this tax would have a negative effect on our business and would result in decreased cash available for distribution to common unitholders.

We also may be considered a passive foreign investment company (or PFIC) for U.S. federal income tax purposes. U.S. shareholders of a PFIC are subject to an adverse U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC, and the gain, if any, they derive from the sale or other disposition of their interests in the PFIC.

Please read "Item 10 – Additional Information: Taxation – United States Tax Consequences — Possible Classification as a Corporation."

The tax treatment of publicly traded partnerships or an investment in our units could be subject to potential legislative, judicial or administrative changes or differing interpretations, possibly on a retroactive basis.

The present U.S. federal income tax treatment of publicly traded partnerships, including us, or an investment in our units may be modified by administrative, legislative or judicial interpretation at any time. For example, members of Congress propose and consider substantive changes to the existing U.S. federal income tax laws that affect publicly traded partnerships. Further, final Treasury Regulations were issued early last year interpreting the scope of activities that generate qualifying income under Section 7704 of the Code. We believe that the income we currently treat as qualifying income satisfies the requirements for qualifying income under the final regulations. However, in furtherance of Executive Orders issued by the current administration, the U.S. Treasury Department has initiated a comprehensive review of all tax regulations. Should the final regulations be withdrawn or otherwise deemed inapplicable, we would need to rely on other guidance to determine if we satisfy the qualifying income exception, including the ruling that we received from the Internal Revenue Service (or the IRS) in connection with our initial public offering that the income we derive from transporting LNG and crude oil pursuant to time charters existing at the time of our initial public offering is qualifying income within the meaning of Section 7704, which ruling may under certain circumstances be revoked or modified by the IRS retroactively. Furthermore, there could be some uncertainty as to whether we would be classified as a partnership for

U.S. federal income tax purposes. Any modification to the U.S. federal income tax laws may be applied retroactively and could make it more difficult or impossible for us to meet the exception for certain publicly traded partnerships to be treated as partnerships for U.S. federal income tax purposes. We are unable to predict whether any of these changes or other proposals will ultimately be enacted. Any such changes could negatively impact the amount of cash available for distribution to our unitholders and the value of an investment in our units.

If the IRS contests the U.S. federal income tax positions we take, the value of our units could be adversely affected and the costs of any such contest will reduce cash available for distribution to unitholders. The procedures for assessing and collecting taxes due with respect to partnerships for taxable years beginning after December 31, 2017, have been altered in a manner that could substantially reduce cash available for distribution to unitholders.

The IRS may contest the U.S. federal income tax positions we take and there is no assurance that our tax positions would be sustained by a court. Any contest with the IRS may materially and adversely affect the value of our units. In addition, the costs of any contest with the IRS will be borne by us reducing the cash available for distribution to our unitholders.

The procedures for auditing large partnerships and for assessing and collecting taxes due (including applicable penalties and interest) with respect to taxable years beginning after December 31, 2017 as a result of a partnership audit have been changed. Unless we are eligible to (and choose to) elect to issue revised Schedules K-1 to our partners with respect to an audited and adjusted return, the IRS may assess and collect taxes (including any applicable penalties and interest) directly from us in the year in which the audit is completed under the new rules. If we are required to pay taxes, penalties and interest as the result of audit adjustments, cash available for distribution to our unitholders may be substantially reduced. In addition, because payment would be due for the taxable year in which the audit is completed, unitholders during that taxable year would bear the expense of the adjustment even if they were not unitholders during the audited taxable year.

The IRS may challenge the manner in which we prorate our items of income, gain, loss and deduction between transferors and transferees of our common units and, if successful, we may be required to change the allocation of items of income, gain, loss and deduction among our common unitholders.

We generally prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our common units on the first business day of each month, instead of on the basis of the date a particular unit is transferred. Treasury Regulations allow a similar monthly simplifying convention starting with our taxable years beginning January 1, 2016. However, such regulations do not specifically authorize all aspects of the proration method we have adopted. If the IRS were to challenge our proration method, we may be required to change the allocation of items of income, gain, loss and deduction among our common unitholders.

U.S. tax-exempt entities and non-U.S. persons face unique U.S. tax issues from owning units that may result in adverse U.S. tax consequences to them.

Investments in units by U.S. tax-exempt entities, including individual retirement accounts (known as IRAs), other retirement plans and non-U.S. persons raise issues unique to them. Assuming we are classified as a partnership for U.S. federal income tax purposes, virtually all of our income allocated to organizations exempt from U.S. federal income tax will be unrelated business taxable income and generally will be subject to U.S. federal income tax. In addition, non-U.S. persons may be subject to a 4% U.S. federal income tax on the U.S. source portion of our gross income attributable to transportation that begins or ends (but not both) in the United States, or distributions to them may be reduced on account of withholding of U.S. federal income tax by us in the event we are treated as having a fixed place of business in the United States or otherwise earn U.S. effectively connected income, unless an exemption applies and they file U.S. federal income tax returns to claim such exemption. Furthermore, the U.S. federal income tax consequences to U.S. tax-exempt entities and non-U.S. persons with respect to an investment in our preferred units is uncertain. Please read "Item 10 — Additional Information: Taxation — United States Tax Consequences — Tax-Exempt Organizations and Non-U.S. Investors."

Teekay Corporation owns less than 50% of our outstanding equity interests, which could cause certain of our subsidiaries and us to be subject to additional tax.

Certain of our subsidiaries are and have been classified as corporations for U.S. federal income tax purposes. As such, these subsidiaries would be subject to U.S. federal income tax on the U.S. source portion of our income attributable to transportation that begins or ends (but not both) in the United States if they fail to qualify for an exemption from U.S. federal income tax (the Section 883 Exemption). Teekay Corporation indirectly owns less than 50% of certain of our subsidiaries' and our outstanding equity interests. Consequently, we expect these subsidiaries failed to qualify for the Section 883 Exemption in 2016 and that Teekay LNG Holdco L.L.C., our sole remaining regarded corporate subsidiary as of January 1, 2016, failed to qualify for the Section 883 Exemption in 2016 and will fail to so qualify in 2017 and subsequent tax years. Any resulting imposition of U.S. federal income taxes will result in decreased cash available for distribution to unitholders. Please read "Item 10 – Additional Information: Taxation – United States Tax Consequences –Taxation of Our Subsidiary Corporations."

In addition, if we are not treated as a partnership for U.S. federal income tax purposes, we expect that we also would fail to qualify for the Section 883 Exemption and that any resulting imposition of U.S. federal income taxes would result in decreased cash available for distribution to unitholders.

The IRS may challenge the manner in which we value our assets in determining the amount of income, gain, loss and deduction allocable to the common unitholders and to the General Partner and certain other tax positions, which could adversely affect the value of the common units.

A unitholder's taxable income or loss with respect to a common unit each year will depend upon a number of factors, including the nature and fair market value of our assets at the time the holder acquired the common unit, whether we issue additional units or whether we engage in certain other transactions, and the manner in which our items of income, gain, loss and deduction are allocated among our partners. For this purpose, we determine the value of our assets and the relative amounts of our items of income, gain, loss and deduction allocable to our common unitholders and our General Partner as holder of the incentive distribution rights by reference to the value of our interests, including the incentive distribution rights. The IRS may challenge any valuation determinations that we make, particularly as to the incentive distribution rights, for which there is no public market. In addition, the IRS could challenge certain other aspects of the manner in which we determine the relative allocations made to our common unitholders and to the General Partner as holder of our incentive distribution rights. A successful IRS challenge to our valuation or allocation methods could increase the amount of net taxable income and gain realized by a common unitholder with respect to a common unit. The IRS could also challenge certain other tax positions that we have taken, including our position that certain of our subsidiaries that have been classified as corporations for U.S. federal income tax purposes in past years are not PFICs for federal income tax purposes. Any such IRS challenges, whether or not successful, could adversely affect the value of our common units.

Unitholders may be subject to income tax in one or more non-U.S. countries, including Canada, as a result of owning our units if, under the laws of any such country, we are considered to be carrying on business there. Such laws may require unitholders to file a tax return with, and pay taxes to, those countries. Any foreign taxes imposed on us or any of our subsidiaries will reduce our cash available for distribution to unitholders.

Unitholders may be subject to tax in one or more countries, including Canada, as a result of owning our units if, under the laws of any such country, we are considered to be carrying on business there. If unitholders are subject to tax in any such country, unitholders may be required to file a tax return with, and pay taxes to, that country based on their allocable share of our income. We may be required to reduce distributions to unitholders on account of any withholding obligations imposed upon us by that country in respect of such allocation to unitholders. The United States may not allow a tax credit for any foreign income taxes that unitholders directly or indirectly incur. Any foreign taxes imposed on us or any of our subsidiaries will reduce our cash available for unitholders.

#### Item 4. Information on the Partnership

##### A. Overview, History and Development

###### Overview and History

Teekay LNG Partners L.P. is an international provider of marine transportation services for LNG, LPG and crude oil. We were formed in 2004 by Teekay Corporation (NYSE: TK), a portfolio manager of marine services to the global oil and natural gas industries, to expand its operations in the LNG shipping sector. Our primary growth strategy focuses on expanding our fleet of LNG and LPG carriers under long-term, fixed-rate charters. In executing our growth strategy, we may engage in vessel or business acquisitions or enter into joint ventures and partnerships with companies that provide increased access to emerging opportunities from global expansion of the LNG and LPG sectors. We seek to leverage the expertise, relationships and reputation of Teekay Corporation and its affiliates to pursue these opportunities in the LNG and LPG sectors and may consider other opportunities to which our competitive strengths are well suited, including entering into the LNG receiving and regasification terminal business. We view our conventional tanker fleet primarily as a source of stable cash flow as we seek to continue to expand our LNG and LPG operations.

Please see "Item 5 – Operating and Financial Review and Prospects: Management's Discussion and Analysis of Financial Condition and Results of Operations – Significant Developments in 2017 and Early 2018."

As of December 31, 2017, our fleet, excluding newbuildings, consisted of 35 LNG carriers (including the six MALT LNG Carriers, four RasGas 3 LNG Carriers, four Angola LNG Carriers, one Pan Union LNG Carrier, and two Exmar LNG Carriers that are all accounted for under the equity method), 27 LPG carriers (including the 20 Exmar LPG Carriers that are accounted for under the equity method), four Suezmax-class crude oil tankers, and one Handymax product tanker, all of which are double-hulled. Our fleet is relatively young and has an average age of approximately eight years for our LNG carriers, approximately nine years for our LPG carriers and approximately 13 years for our conventional tankers (Suezmax and Handymax), compared to world averages of 11, 15 and 10 years, respectively, as of December 31, 2017. As at December 31, 2017, we had 15 LNG carrier newbuildings scheduled for delivery between 2018 and 2020, three LPG carrier newbuildings scheduled for delivery during 2018 and one LNG receiving and regasification terminal under construction scheduled for completion in 2019.

Our fleets of LNG and LPG carriers (excluding newbuildings but including equity-accounted vessels) currently have approximately 5.6 million and 0.8 million cubic meters of total capacity, respectively. The aggregate capacity of our conventional tanker fleet is approximately 0.7 million deadweight tonnes (or dwt).

We were formed under the laws of the Republic of The Marshall Islands as a limited partnership, Teekay LNG Partners L.P., on November 3, 2004, and maintain our principal executive offices at 4th Floor, Belvedere Building, 69 Pitts Bay Road, Hamilton, HM 08, Bermuda. Our telephone number at such address is (441) 298-2530.

B. Operations



### Our Charters

We generate revenues by charging customers for the transportation of their LNG, LPG and crude oil using our vessels. The majority of these services are provided through either a time-charter or bareboat charter contract, where vessels are chartered to customers for a fixed period of time at rates that are generally fixed but may contain a variable component based on inflation, interest rates or current market rates.

Our vessels and our regasification terminal under construction in Bahrain primarily operate under fixed-rate contracts with major energy and utility companies. As of December 31, 2017, the average remaining term for these contracts, including assets under construction, is approximately 12 years for our LNG carriers and regasification terminal, approximately two years for our LPG carriers and approximately half a year for our conventional tankers (Suezmax and Handymax), subject, in certain circumstances, to termination or vessel purchase rights.

“Hire” rate refers to the basic payment from the customer for the use of a vessel. Hire is payable monthly, in advance, in U.S. Dollars or Euros, as specified in the charter. The hire rate generally includes two components – a capital cost component and an operating expense component. The capital cost component typically approximates the amount we are required to pay under vessel financing obligations and, for two of our conventional tankers, adjusts for changes in the floating interest rates relating to the underlying vessel financing. The operating expense component, which adjusts annually for inflation, is intended to compensate us for vessel operating expenses. In addition, we may receive additional revenues beyond the fixed hire rate when current market rates exceed specified amounts under our time-charter contracts for two of our Suezmax tankers.

Hire payments may be reduced or, under some charters, we must pay liquidated damages, if the vessel does not perform to certain of its specifications, such as if the average vessel speed falls below a guaranteed speed or the amount of fuel consumed to power the vessel under normal circumstances exceeds a guaranteed amount.

When a vessel is “off-hire” – or not available for service – the customer generally is not required to pay the hire rate and we are responsible for all costs. Prolonged off-hire may lead to vessel substitution or termination of the time-charter. A vessel will typically be deemed to be off-hire if it is in dry dock unless our contract specifies drydocking is not considered off-hire. We must periodically dry dock each of our vessels for inspection, repairs and maintenance and any modifications to comply with industry certification or governmental requirements. In addition, a vessel generally will be deemed off-hire if there is a loss of time due to, among other things: operational deficiencies; equipment breakdowns; delays due to accidents, crewing strikes, certain vessel detentions or similar problems; or our failure to maintain the vessel in compliance with its specifications and contractual standards or to provide the required crew.

### Liquefied Gas Segment

#### LNG Carriers

The LNG carriers in our liquefied gas segment compete in the LNG market. LNG carriers are usually chartered to carry LNG pursuant to time-charter contracts, where a vessel is hired for a fixed period of time and the charter rate is payable to the owner on a monthly basis. LNG shipping historically has been transacted with long-term, fixed-rate time-charter contracts. LNG projects require significant capital expenditures and typically involve an integrated chain of dedicated facilities and cooperative activities. Accordingly, the overall success of an LNG project depends heavily on long-range planning and coordination of project activities, including marine transportation. Most shipping requirements for new LNG projects continue to be provided on a long-term basis, though the levels of spot voyages (typically consisting of a single voyage), short-term time-charters and medium-term time-charters have grown in the past few years. The amount of LNG traded on a spot and short-term basis (defined as contracts with a duration of 4 years or less) has increased from approximately 19% of total LNG trade in 2010 to approximately 28% in 2016.

In the LNG market, we compete principally with other private and state-controlled energy and utilities companies that generally operate captive fleets, and independent ship owners and operators. Many major energy companies compete

directly with independent owners by transporting LNG for third parties in addition to their own LNG. Given the complex, long-term nature of LNG projects, major energy companies historically have transported LNG through their captive fleets. However, independent fleet operators have been obtaining an increasing percentage of charters for new or expanded LNG projects as some major energy companies have continued to divest non-core businesses.

LNG carriers transport LNG internationally between liquefaction facilities and import terminals. After natural gas is transported by pipeline from production fields to a liquefaction facility, it is supercooled to a temperature of approximately negative 260 degrees Fahrenheit. This process reduces its volume to approximately 1/600th of its volume in a gaseous state. The reduced volume facilitates economical storage and transportation by ship over long distances, enabling countries with limited natural gas reserves or limited access to long-distance transmission pipelines to import natural gas. LNG carriers include a sophisticated containment system that holds the LNG and provides insulation to reduce the amount of LNG that boils off naturally. The natural boil off is either used as fuel to power the engines on the ship or it can be reliquefied and put back into the tanks. LNG is transported overseas in specially built tanks in double-hulled ships to a receiving terminal, where it is offloaded and stored in insulated tanks. In regasification facilities at the receiving terminal, the LNG is returned to its gaseous state (or regasified) and then shipped by pipeline for distribution to natural gas customers.

With the exception of the Arctic Spirit and Polar Spirit, which are the only two ships in the world that utilize the Ishikawajima Harima Heavy Industries Self Supporting Prismatic Tank IMO Type B (or IHI SPB) independent tank technology, our fleet makes use of one of the Gaz Transport and Technigaz (or GTT) membrane containment systems. The GTT membrane systems are used in the majority of LNG tankers now being constructed. New LNG carriers generally have an expected lifespan of approximately 35 to 40 years. Unlike the oil tanker industry, there are currently no regulations that require the phase-out from trading of LNG carriers after they reach a certain age. As at December 31,

2017, our LNG carriers, excluding newbuilding vessels but including equity-accounted vessels, had an average age of approximately eight years, compared to the world LNG carrier fleet average age of approximately 11 years. In addition, as at that date, there were approximately 502 vessels in the world LNG fleet and approximately 119 additional LNG carriers under construction or on order for delivery through 2020.

The following table provides additional information about our LNG carriers in our operating fleet as of December 31, 2017.

Vessel	Capacity (cubic meters)	Delivery	Our Ownership		Contract Type	Charterer	Expiration of Charter <sup>(1)</sup>
Operating LNG carriers:							
Consolidated							
Hispania Spirit	137,814	2002	100	%	Time-charter	Shell Spain LNG S.A.U.	Sep. 2022 <sup>(2)</sup>
Catalunya Spirit	135,423	2003	100	%	Time-charter	Gas Natural SDG	Aug. 2023 <sup>(2)</sup>
Galicia Spirit	137,814	2004	100	%	Time-charter	Unión Fenosa Gas	Jun. 2029 <sup>(3)</sup>
Madrid Spirit	135,423	2004	100	%	Time-charter	Shell Spain LNG S.A.U.	Dec. 2024 <sup>(2)</sup>
Al Marrouna	149,539	2006	70	%	Time-charter	Ras Laffan Liquefied Natural Gas Company Ltd.	Oct. 2026 <sup>(4)</sup>
Al Areesh	148,786	2007	70	%	Time-charter	Ras Laffan Liquefied Natural Gas Company Ltd.	Jan. 2027 <sup>(4)</sup>
Al Daayen	148,853	2007	70	%	Time-charter	Ras Laffan Liquefied Natural Gas Company Ltd.	Apr. 2027 <sup>(4)</sup>
Tangguh Hiri	151,885	2008	69	%	Time-charter	The Tangguh Production Sharing Contractors	Jan. 2029
Tangguh Sago	155,000	2009	69	%	Time-charter	The Tangguh Production Sharing Contractors	May 2029
Arctic Spirit	87,305	1993	99	%	Time-charter	Teekay Corporation	Apr. 2018 <sup>(4)</sup>
Polar Spirit	87,305	1993	99	%	Time-charter	Teekay Corporation	Mar. 2018 <sup>(4)</sup>
Wilforce	155,900	2013	99	%	Time-charter	Awilco LNG ASA	Dec. 2019 <sup>(5)</sup>
Wilpride	155,900	2013	99	%	Time-charter	Awilco LNG ASA	Dec. 2019 <sup>(5)</sup>
Creole Spirit	173,000	2016	100% – Capital lease <sup>(6)</sup>		Time-charter	Cheniere Marketing, LLC	Feb. 2021
Oak Spirit	173,000	2016	100% – Capital lease <sup>(6)</sup>		Time-charter	Cheniere Marketing, LLC	Aug. 2021
Torben Spirit	173,400	2017	100% – Capital lease <sup>(6)</sup>		Time-charter	Gas Natural SDG	Jun. 2018 <sup>(7)</sup>
Macoma	173,000	2017	99% – Capital lease <sup>(6)</sup>		Time-charter	Shell Tankers (Singapore) Private Ltd.	Oct. 2023 <sup>(8)</sup>
Murex	173,000	2017	99% – Capital lease <sup>(6)</sup>		Time-charter	Shell Tankers (Singapore) Private Ltd.	Nov. 2024 <sup>(8)</sup>
Equity Accounted							

Edgar Filing: Teekay LNG Partners L.P. - Form 20-F

Al Huwaila	214,176	2008	40%	Time-charter	Ras Laffan Liquefied Natural Gas Company Ltd.	Apr. 2033 <sup>(2)</sup>
Al Kharsaah	214,198	2008	40%	Time-charter	Ras Laffan Liquefied Natural Gas Company Ltd.	Apr. 2033 <sup>(2)</sup>
Al Shamal	213,536	2008	40%	Time-charter	Ras Laffan Liquefied Natural Gas Company Ltd.	May 2033 <sup>(2)</sup>
Al Khuwair	213,101	2008	40%	Time-charter	Ras Laffan Liquefied Natural Gas Company Ltd.	Jun. 2033 <sup>(2)</sup>

Edgar Filing: Teekay LNG Partners L.P. - Form 20-F

Excelsior	138,087	2005	50%	Time-charter	Excelerate Energy LP	Jan. 2025 <sup>(2)(9)</sup>
Excalibur	138,034	2002	49%	Time-charter	Excelerate Energy LP	Mar. 2022
Soyo	160,400	2011	33%	Time-charter	Angola LNG Supply Services LLC	Aug. 2031 <sup>(2)</sup>
Malanje	160,400	2011	33%	Time-charter	Angola LNG Supply Services LLC	Sep. 2031 <sup>(2)</sup>
Lobito	160,400	2011	33%	Time-charter	Angola LNG Supply Services LLC	Oct. 2031 <sup>(2)</sup>
Cubal	160,400	2012	33%	Time-charter	Angola LNG Supply Services LLC	Jan. 2032 <sup>(2)</sup>
Meridian Spirit	165,700	2010	52%	Time-charter	Total E&P Norge AS Mansel Limited	Nov. 2030 <sup>(10)</sup>
Magellan Spirit	165,700	2009	52%	Spot	Spot market	—
Marib Spirit	165,500	2008	52%	Time-charter	Yemen LNG Company Limited <sup>(11)</sup>	Mar. 2029 <sup>(10)</sup>
Arwa Spirit	165,500	2008	52%	Time-charter	Yemen LNG Company Limited <sup>(11)</sup>	Apr. 2029 <sup>(10)</sup>
Methane Spirit	165,500					