

Teekay LNG Partners L.P.
Form 6-K
November 28, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2012
Commission file number 1- 32479

TEEKAY LNG PARTNERS L.P.

(Exact name of Registrant as specified in its charter)

4th Floor, Belvedere Building

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69 Pitts Bay Road

Hamilton, HM 08 Bermuda

(Address of principal executive office)

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

Form 20-F Form 40-F

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

Yes No

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

Yes No

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TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

REPORT ON FORM 6-K FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

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Table of Contents**ITEM 1 FINANCIAL STATEMENTS****TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES (Note 1)****UNAUDITED CONSOLIDATED STATEMENTS OF INCOME**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012 \$	2011 \$	2012 \$	2011 \$
VOYAGE REVENUES (note 9a)	98,723	97,256	294,293	282,722
OPERATING EXPENSES				
Voyage expenses	860	307	1,445	1,362
Vessel operating expenses (note 9a)	21,992	22,366	62,627	66,561
Depreciation and amortization	24,570	23,032	73,876	67,552
General and administrative (note 9a)	6,254	5,804	19,876	18,665
Total operating expenses	53,676	51,509	157,824	154,140
Income from vessel operations	45,047	45,747	136,469	128,582
OTHER ITEMS				
Equity income	21,098	891	49,232	12,395
Interest expense (note 7)	(14,414)	(12,129)	(40,946)	(36,019)
Interest income	850	1,576	2,731	4,852
Realized and unrealized loss on derivative instruments (note 10)	(9,945)	(37,690)	(43,993)	(54,250)
Foreign currency exchange (loss) gain (notes 7 and 10)	(6,248)	29,480	(1,989)	(412)
Other income (expense)	374	133	1,068	(137)
	(8,285)	(17,739)	(33,897)	(73,571)
Net income before income tax (expense) recovery	36,762	28,008	102,572	55,011
Income tax (expense) recovery (note 8)	(679)	176	(550)	(779)
Net income	36,083	28,184	102,022	54,232
Non-controlling interest in net income	3,022	535	6,542	4,731
General Partner's interest in net income	5,538	2,917	15,863	8,084
Limited partners' interest in net income	27,523	24,732	79,617	41,417
Limited partners' interest in net income per common unit (basic and diluted) (note 12)	0.42	0.42	1.22	0.72
Weighted-average number of common units outstanding (basic and diluted)	65,882,450	59,357,900	65,201,910	57,887,847
Cash distributions declared per unit	0.6750	0.6300	1.9800	1.8900

Related party transactions (note 9)

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

Table of Contents**TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES (Note 1)****UNAUDITED CONSOLIDATED BALANCE SHEETS**

(in thousands of U.S. Dollars)

	As at September 30, 2012 \$	As at December 31, 2011 \$
ASSETS		
Current		
Cash and cash equivalents	91,931	93,627
Restricted cash – current (note 5)	31,361	
Accounts receivable, including non-trade of \$13,146 (2011 – \$10,011) (note 10)	14,773	13,921
Prepaid expenses	4,554	4,916
Current portion of derivative assets (note 10)	16,883	15,608
Current portion of net investments in direct financing leases (note 5)	6,522	6,074
Advances to affiliates (note 9b)	3,338	11,922
Total current assets	169,362	146,068
Restricted cash – long-term (note 5)	496,309	495,634
Vessels and equipment		
At cost, less accumulated depreciation of \$336,151 (2011 – \$291,689)	1,299,621	1,339,571
Vessels under capital leases, at cost, less accumulated depreciation of \$186,488 (2011 – \$163,926)	661,135	681,554
Total vessels and equipment	1,960,756	2,021,125
Investment in and advances to equity accounted joint ventures (notes 9d, 9e and 13)	388,722	191,448
Net investments in direct financing leases (note 5)	398,459	403,467
Advances to joint venture partner (note 6)	14,004	10,200
Other assets	23,664	24,560
Derivative assets (note 10)	150,755	139,651
Intangible assets – net	107,568	114,416
Goodwill – liquefied gas segment	35,631	35,631
Total assets	3,745,230	3,582,200
LIABILITIES AND EQUITY		
Current		
Accounts payable (includes nil and \$556 for 2012 and 2011, respectively, owing to related parties) (note 9b)	1,201	3,302
Accrued liabilities (includes nil and \$3,550 for 2012 and 2011, respectively, owing to related parties) (notes 9b and 10)	34,166	46,740
Unearned revenue	10,652	9,988
Current portion of long-term debt (note 7)	85,731	84,722
Current obligations under capital lease (note 5)	168,060	47,203
Current portion of derivative liabilities (note 10)	50,425	43,973
Advances from affiliates (note 9b)	11,072	17,400
Total current liabilities	361,307	253,328

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Long-term debt <i>(note 7)</i>	1,258,308	1,230,509
Long-term obligations under capital lease <i>(note 5)</i>	471,912	599,844
Long-term unearned revenue	37,531	40,003
Other long-term liabilities <i>(notes 5 and 13)</i>	67,616	69,562
Derivative liabilities <i>(note 10)</i>	278,505	249,245
Total liabilities	2,475,179	2,442,491
Commitments and contingencies <i>(notes 5, 7, 10, 11 and 13)</i>		
Equity		
Non-controlling interest	32,434	26,242
Partners' equity	1,237,617	1,113,467
Total equity	1,270,051	1,139,709
Total liabilities and total equity	3,745,230	3,582,200

Consolidation of variable interest entities *(note 11)*

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

Table of Contents**TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES (Note 1)****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands of U.S. Dollars)

	Nine Months Ended September 30, 2012 \$	Nine Months Ended September 30, 2011 \$
Cash and cash equivalents provided by (used for)		
OPERATING ACTIVITIES		
Net income	102,022	54,232
Non-cash items:		
Unrealized loss on derivative instruments <i>(note 10)</i>	16,142	23,892
Depreciation and amortization	73,876	67,552
Unrealized foreign currency exchange loss	1,722	304
Equity income, net of dividends received of \$6,500 (2011 \$3,440)	(42,732)	(8,955)
Equity based compensation	28	
Amortization of deferred debt issuance costs and other	771	2,169
Change in operating assets and liabilities	(9,772)	9,346
Accrued interest	(2,125)	(2,148)
Expenditures for dry docking	(5,531)	(12,220)
Net operating cash flow	134,401	134,172
FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	419,221	219,401
Debt issuance costs	(2,025)	
Scheduled repayments of long-term debt	(60,647)	(54,563)
Prepayments of long-term debt	(324,274)	(173,000)
Scheduled repayments of capital lease obligations and other long-term liabilities	(7,590)	(7,502)
Proceeds from equity offering, net of offering costs	182,214	161,655
Advances to and from affiliates		1,596
Increase in restricted cash	(30,845)	(3,381)
Cash distributions paid	(142,939)	(118,809)
Purchase of Skaugen Multigas Subsidiary <i>(note 11a)</i>		(55,313)
Proceeds on sale of 1% interest in Skaugen LPG Carriers and Skaugen Multigas Subsidiaries		1,220
Advances to joint venture partners	(3,600)	
Other	(350)	(260)
Net financing cash flow	29,165	(28,956)
INVESTING ACTIVITIES		
Purchase of equity investment in MALT LNG Carriers <i>(note 13)</i>	(150,999)	
Purchase of equity investment in Angola LNG Carriers <i>(note 9d)</i>	(19,068)	(38,447)
Receipts from direct financing leases	4,561	4,536
Expenditures for vessels and equipment	(1,125)	(50,861)
Repayments from joint venture	830	
Other	539	
Net investing cash flow	(165,262)	(84,772)

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(Decrease) increase in cash and cash equivalents	(1,696)	20,444
Cash and cash equivalents, beginning of the period	93,627	81,055
Cash and cash equivalents, end of the period	91,931	101,499

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

Table of Contents**TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES (Note 1)****UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY**

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

	Partners Equity		General Partner \$	Non- controlling Interest \$	Total \$
	Common Units	\$			
Balance as at December 31, 2011	64,858	1,070,066	43,401	26,242	1,139,709
Net income and comprehensive income		79,617	15,863	6,542	102,022
Cash distributions		(128,419)	(14,520)	(350)	(143,289)
Re-investment tax credit <i>(note 8)</i>		5,200	105		5,305
Equity based compensation		26	2		28
Proceeds from follow-on public offering of units, net of offering costs of \$7.0 million <i>(note 12)</i>	4,826	178,430	3,784		182,214
Acquisition of investment in the fourth Angola LNG Carrier <i>(note 9d)</i>		(15,143)	(795)		(15,938)
Balance as at September 30, 2012	69,684	1,189,777	47,840	32,434	1,270,051

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

Table of Contents**TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****(all tabular amounts stated in thousands of U.S. Dollars, except unit and per unit data or unless otherwise indicated)****1. Basis of Presentation**

The unaudited interim consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (or *GAAP*). These financial statements include the accounts of Teekay LNG Partners L.P., which is a limited partnership organized under the laws of the Republic of The Marshall Islands, its wholly owned or controlled subsidiaries and variable interest entities for which Teekay LNG Partners L.P. or its subsidiaries are the primary beneficiaries (see Note 11) (collectively, the *Partnership*). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Certain information and footnote disclosures required by GAAP for complete annual financial statements have been omitted and therefore, these interim financial statements should be read in conjunction with the Partnership's audited consolidated financial statements for the year ended December 31, 2011, which are included in the Partnership's Annual Report on Form 20-F for the year ended December 31, 2011, filed with the SEC on April 11, 2012. In the opinion of management of Teekay GP L.L.C., the general partner of Teekay LNG Partners L.P. (or the *General Partner*), these interim unaudited consolidated financial statements reflect all adjustments consisting solely of a normal recurring nature, necessary to present fairly, in all material respects, the Partnership's consolidated financial position, results of operations, changes in total equity and cash flows for the interim periods presented. The results of operations for the interim periods presented are not necessarily indicative of those for a full fiscal year. Significant intercompany balances and transactions have been eliminated upon consolidation.

2. Adoption of New Accounting Pronouncements

In January 2012, the Partnership adopted an amendment to Financial Accounting Standards Board (or *FASB*) Accounting Standards Codification (or *ASC*) 820, *Fair Value Measurement*, which clarifies or changes the application of existing fair value measurements, including: that the highest and best use and valuation premise in a fair value measurement are relevant only when measuring the fair value of nonfinancial assets; that a reporting entity should measure the fair value of its own equity instrument from the perspective of a market participant that holds that instrument as an asset; to permit an entity to measure the fair value of certain financial instruments on a net basis rather than based on its gross exposure when the reporting entity manages its financial instruments on the basis of such net exposure; that in the absence of a Level 1 input, a reporting entity should apply premiums and discounts when market participants would do so when pricing the asset or liability consistent with the unit of account; and that premiums and discounts related to size as a characteristic of the reporting entity's holding are not permitted in a fair value measurement. The adoption of this amendment did not have an impact on the Partnership's consolidated financial statements other than in the disclosures as presented in Note 3 – Financial Instruments.

3. Financial Instruments**a) Fair Value Measurements**

For a description of how the Partnership estimates fair value and for a description of the fair value hierarchy levels, see Note 4 in the Partnership's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2011. The following table includes the estimated fair value and carrying value of those assets and liabilities that are measured at fair value on a recurring and non-recurring basis, as well as the estimated fair value of the Partnership's financial instruments that are not accounted for at a fair value on a recurring basis.

September 30, 2012

December 31, 2011

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	Fair Value Hierarchy Level	Carrying Amount Asset (Liability) \$	Fair Value Asset (Liability) \$	Carrying Amount Asset (Liability) \$	Fair Value Asset (Liability) \$
Recurring:					
Cash and cash equivalents and restricted cash	Level 1	619,601	619,601	589,261	589,261
Derivative instruments (note 10)					
Interest rate swap agreements assets	Level 2	171,848	171,848	159,603	159,603
Interest rate swap agreements liabilities	Level 2	(329,424)	(329,424)	(304,066)	(304,066)
Cross currency swap agreement	Level 2	(7,104)	(7,104)		
Other derivative	Level 3	(500)	(500)	(600)	(600)
Other:					
Advances to joint venture partner (note 6)	(1)	14,004	(1)	10,200	(1)
Long-term debt (note 7)	Level 2	(1,344,039)	(1,234,309)	(1,315,231)	(1,191,117)

- (1) The fair value of the Partnership's advances to its joint venture partner as at September 30, 2012 and December 31, 2011 was not determinable given the repayment terms described in Note 6 - Advances to Joint Venture Partner.

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TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

Changes in fair value during the nine months ended September 30, 2012 and 2011 for the Partnership's other derivative liability, the *Toledo Spirit* time-charter derivative, that is measured at fair value on a recurring basis using significant unobservable inputs (Level 3), are as follows:

	Nine Months Ended September 30,	
	2012	2011
	\$	\$
Fair value at beginning of period	(600)	(10,000)
Realized and unrealized gains included in earnings	62	1,947
Settlements	38	53
Fair value at end of period	(500)	(8,000)

In order to reduce the variability of its revenue, the Partnership entered into an agreement with Teekay Corporation under which Teekay Corporation pays the Partnership any amounts payable to the charterer of the *Toledo Spirit* as a result of spot rates being below the fixed rate, and the Partnership pays Teekay Corporation any amounts payable to the Partnership by the charterer of the *Toledo Spirit* as a result of spot rates being in excess of the fixed rate. The estimated fair value of this other derivative is based in part upon the Partnership's projection of future spot market tanker rates, which has been derived from current spot market tanker rates and long-term historical average rates as well as an estimated discount rate. The estimated fair value of this other derivative as of September 30, 2012 is based upon an average daily tanker rate of \$29,600 (December 31, 2011 - \$29,498) over the remaining duration of the charter contract and a discount rate of 8.91% (December 31, 2011 - 8.68%). In developing and evaluating this estimate, the Partnership considers the current tanker market fundamentals as well as the short and long-term outlook. A higher or lower average daily tanker rate would result in a higher or lower fair value liability or a lower or higher fair value asset. A higher or lower discount rate would result in a lower or higher fair value asset or liability.

b) Financing Receivables

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

Class of Financing Receivable	Credit Quality Indicator	Grade	September 30,	December 31,
			2012	2011
			\$	\$
Direct financing leases	Payment activity	Performing	404,981	409,541
Other receivables				
Long-term receivable included in other assets	Payment activity	Performing		786
Advances to joint venture included in investment in and advances to joint ventures	Payment activity	Performing		830
Advances to joint venture partner (note 6)	Other internal metrics	Performing	14,004	10,200
			418,985	421,357

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4. Segment Reporting

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

	Three Months Ended September 30,					
	2012			2011		
	Liquefied Gas Segment	Conventional Tanker Segment	Total	Liquefied Gas Segment	Conventional Tanker Segment	Total
	\$	\$	\$	\$	\$	\$
Voyage revenues	69,686	29,037	98,723	68,951	28,305	97,256
Voyage expenses	56	804	860	30	277	307
Vessel operating expenses	11,477	10,515	21,992	11,803	10,563	22,366
Depreciation and amortization	17,158	7,412	24,570	15,689	7,343	23,032
General and administrative ⁽¹⁾	3,981	2,273	6,254	2,722	3,082	5,804
Income from vessel operations	37,014	8,033	45,047	38,707	7,040	45,747

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

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

	Nine Months Ended September 30,					
	Liquefied Gas Segment	2012 Conventional Tanker Segment	Total	Liquefied Gas Segment	2011 Conventional Tanker Segment	Total
	\$	\$	\$	\$	\$	\$
Voyage revenues	208,022	86,271	294,293	200,629	82,093	282,722
Voyage expenses	122	1,323	1,445	100	1,262	1,362
Vessel operating expenses	33,006	29,621	62,627	36,025	30,536	66,561
Depreciation and amortization	51,705	22,171	73,876	45,894	21,658	67,552
General and administrative ⁽¹⁾	12,607	7,269	19,876	9,987	8,678	18,665
Income from vessel operations	110,582	25,887	136,469	108,623	19,959	128,582

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

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

	September 30, 2012	December 31, 2011
	\$	\$
Total assets of the liquefied gas segment	3,107,292	2,911,659
Total assets of the conventional tanker segment	523,342	546,155
Unallocated:		
Cash and cash equivalents	91,931	93,627
Accounts receivable and prepaid expenses	19,327	18,837
Advances to affiliates	3,338	11,922
Consolidated total assets	3,745,230	3,582,200

5. Vessel Charters

The minimum estimated charter hire payments for the remainder of the year and the next four fiscal years, as at September 30, 2012, for the Partnership's vessels chartered-in and vessels chartered-out are as follows:

	Remainder of 2012	2013	2014	2015	2016
	\$	\$	\$	\$	\$
Vessel Charters ⁽¹⁾					
Charters-in capital lease ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	11,673	104,791	60,000	31,790	31,672

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Charters-out operating lease ⁽⁹⁾	87,451	346,952	346,952	343,800	319,664
Charters-out direct financing lease ⁽⁸⁾	9,847	39,065	39,065	39,065	39,172
	97,298	386,017	386,017	382,865	358,836

- (1) The Partnership owns a 99% interest in Teekay Tangguh Borrower LLC (or *Teekay Tangguh*), which owns a 70% interest in Teekay BLT Corporation (or the *Teekay Tangguh Joint Venture*), giving the Partnership a 69% interest in the Teekay Tangguh Joint Venture. The joint venture is a party to operating leases whereby it is leasing the *Tangguh Hiri* and the *Tangguh Sago* LNG carriers (or the *Tangguh LNG Carriers*) to a third party, which is in turn leasing the vessels back to the joint venture. The table does not include the Partnership's minimum charter hire payments to be paid and received under these leases, which are described in more detail in Note 6 to the Partnership's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2011.
- (2) As at September 30, 2012 and December 31, 2011, the Partnership had \$475.7 million and \$476.1 million, respectively, of cash which, including any interest earned on such amounts, are restricted to being used for charter hire payments of certain vessels chartered-in under capital leases. The Partnership also maintains restricted cash deposits relating to certain term loans and to amounts received from the charterer to be used only for dry-docking expenditures and emergency repairs, which cash totaled \$52.0 million and \$19.5 million as at September 30, 2012 and December 31, 2011, respectively.

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

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

- (3) As described in Note 6 in the Partnership's audited consolidated financial statements filed with its Annual Report on Form 20-F for the year ended December 31, 2011, the Partnership has leasing arrangements relating to five of its LNG carriers (three through Teekay Nakilat Corporation (or the *RasGas II LNG Carriers*) and two through the Teekay Tangguh Joint Venture, in which the Partnership owns 70% and 69% ownership interests, respectively). Under these arrangements, the Partnership is the lessee and the lessors claim tax depreciation on the capital expenditures they incurred to acquire these vessels. As is typical in these leasing arrangements, tax and change of law risks are assumed by the lessee. Lease payments under the lease arrangements are based on certain tax and financial assumptions at the commencement of the leases. If an assumption proves to be incorrect, the lessor is entitled to increase the lease payments to maintain its agreed after-tax margin.

The tax indemnification is for the duration of the lease contracts with the third parties plus the years it would take for the lease payments to be statute barred, and ends in 2033 for two vessels and 2041 for three vessels. Although there is no maximum potential amount of future payments, Teekay Nakilat Corporation and the Teekay Tangguh Joint Venture may terminate the lease arrangements on a voluntary basis at any time. If the lease arrangements terminate, Teekay Nakilat Corporation and the Teekay Tangguh Joint Venture will be required to pay termination sums to the lessor sufficient to repay the lessor's investment in the vessels and to compensate it for the tax effect of the terminations, including recapture of any tax depreciation. The Partnership's carrying amount of the tax indemnification guarantees as at September 30, 2012 was \$25.2 million (December 31, 2011 - \$26.0 million) and is included as part of other long-term liabilities in the Partnership's consolidated balance sheets.

- (4) Excludes estimated charter hire payments of \$939.4 million for the period from 2017 to 2037.
- (5) As at September 30, 2012, the Partnership was a party to capital leases on five Suezmax tankers. Under the terms of the lease arrangements the Partnership is required to purchase these vessels after the end of their respective lease terms in 2013 to 2018 for a fixed price and the lessor has the option to sell these vessels to the Partnership any time after 2012 for the duration of the remaining lease terms. The table above is based on the remaining terms of the leases assuming the lessor does not exercise its option to sell the vessels to the Partnership. However, the present value of these leases are classified as current liabilities in the Partnership's consolidated balance sheets.
- (6) Minimum scheduled future operating lease revenues do not include revenue generated from new contracts entered into after September 30, 2012, revenue from unexercised option periods of contracts that existed on September 30, 2012, or variable or contingent revenues. Therefore, the minimum scheduled future operating lease revenues should not be construed to reflect total charter hire revenues that may be recognized for any of the years.

6. Advances to Joint Venture Partner

The Partnership owns a 69% interest in the Teekay Tangguh Joint Venture and, as of September 30, 2012 and December 31, 2011 the Teekay Tangguh Joint Venture had advances of \$14.0 million and \$10.2 million, respectively, to the Partnership's joint venture partner, BLT LNG Tangguh Corporation, and its parent company, PT Berlian Laju Tanker. The advances are comprised of a \$3.6 million promissory note due on demand that bears interest at a fixed-rate of 8.0%. The remaining amount of the advance is non-interest bearing.

In March 2012, PT Berlian Laju Tanker filed for bankruptcy protection in order to restructure its debts. The Partnership believes the advances to the joint venture partner and its parent are still collectible given that the expected cash flows anticipated to be generated by the Teekay Tangguh Joint Venture can be used to repay the advances.

7. Long-Term Debt

September 30, 2012	December 31, 2011
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	\$	\$
U.S. Dollar-denominated Revolving Credit Facilities due through 2018	5,000	49,274
U.S. Dollar-denominated Term Loan due through 2018	114,445	120,796
U.S. Dollar-denominated Term Loan due through 2019	328,081	346,768
U.S. Dollar-denominated Term Loan due through 2021	312,911	321,337
U.S. Dollar-denominated Term Loan due through 2021	111,877	114,868
U.S. Dollar-denominated Unsecured Demand Loan	13,282	13,282
Norwegian Kroner-denominated Bond due in 2017	122,268	
Euro-denominated Term Loans due through 2023	336,175	348,906
Total	1,344,039	1,315,231
Less current portion	85,731	84,722
Total	1,258,308	1,230,509

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As at September 30, 2012, the Partnership had three long-term revolving credit facilities available, which, as at such date, provided for aggregate borrowings of up to \$472.0 million, of which \$467.0 million was undrawn. Interest payments are based on LIBOR plus margins. The amount available under the revolving credit facilities reduces by \$10.5 million (remainder of 2012), \$33.7 million (2013), \$34.5 million (2014), \$84.1 million (2015), \$27.3 million (2016) and \$281.9 million (thereafter). All the revolving credit facilities may be used by the Partnership to fund general corporate purposes and cash distributions. The Partnership is required to repay all borrowings used to fund cash distributions within 12 months of their being drawn, from a source other than further borrowings. The revolving credit facilities are collateralized by first-priority mortgages granted on seven of the Partnership's vessels, together with other related security, and include a guarantee from the Partnership or its subsidiaries of all outstanding amounts.

At September 30, 2012, the Partnership had a U.S. Dollar-denominated term loan outstanding in the amount of \$114.4 million. Interest payments on this loan are based on LIBOR plus 2.75% and require quarterly interest and principal payments and a bullet repayment of approximately \$50.7 million due at maturity in 2018. This loan facility is collateralized by first-priority mortgages on the five vessels to which the loan relates, together with certain other related security and is guaranteed by the Partnership.

The Partnership owns a 70% interest in Teekay Nakilat Corporation (or the *Teekay Nakilat Joint Venture*), a consolidated entity of the Partnership. The Teekay Nakilat Joint Venture has a U.S. Dollar-denominated term loan outstanding, which, as at September 30, 2012, totaled \$328.1 million, of which \$159.9 million bears interest at a fixed-rate of 5.39% and requires quarterly interest and principal payments over the remaining term of the loan. The remaining \$168.2 million bears interest based on LIBOR plus 0.68%, which requires quarterly interest payments over the remaining term of the loan and will require bullet repayments of approximately \$56.0 million for each of three vessels due at maturity in 2018 and 2019. The term loan is collateralized by first-priority mortgages on the three vessels, together with certain other related security and certain guarantees from the Partnership.

The Partnership owns a 69% interest in the Teekay Tangguh Joint Venture, a consolidated entity of the Partnership. The Teekay Tangguh Joint Venture has a U.S. Dollar-denominated term loan outstanding, which, as at September 30, 2012, totaled \$312.9 million. Interest payments on the loan are based on LIBOR plus margins. Interest payments on one tranche under the loan facility are based on LIBOR plus 0.30%, while interest payments on the second tranche are based on LIBOR plus 0.63%. One tranche reduces in quarterly payments while the other tranche correspondingly is drawn up with a final \$95.0 million bullet payment for each of two vessels due in 2021. This loan facility is collateralized by first-priority mortgages on the two vessels to which the loan relates, together with certain other security and is guaranteed by the Partnership.

At September 30, 2012, the Partnership had a U.S. Dollar-denominated term loan outstanding in the amount of \$111.9 million. Interest payments on one tranche under the loan facility are based on LIBOR plus 0.30%, while interest payments on the second tranche are based on LIBOR plus 0.70%. One tranche reduces in semi-annual payments while the other tranche correspondingly is drawn up every six months with a final \$20 million bullet payment for each of two vessels due 12 years and six months from each vessel delivery date. This loan facility is collateralized by first-priority mortgages on the two vessels to which the loan relates, together with certain other related security and is guaranteed by Teekay Corporation.

The Teekay Nakilat Joint Venture has a U.S. Dollar-denominated demand loan outstanding owing to Qatar Gas Transport Company Ltd. (Nakilat), which, as at September 30, 2012, totaled \$13.3 million. Interest payments on this loan are based on a fixed interest rate of 4.84%. The loan is repayable on demand no earlier than February 27, 2027.

On May 3, 2012, the Partnership issued Norwegian Kroner (or *NOK*) 700 million of senior unsecured bonds that mature in May 2017 in the Norwegian bond market. As at September 30, 2012, the carrying amount of the bonds was \$122.3 million. The bonds are listed on the Oslo Stock Exchange. The interest payments on the bonds are based on NIBOR plus a margin of 5.25%. The Partnership entered into a cross currency swap, to swap all interest and principal payments into U.S. Dollars, with the interest payments fixed at a rate of 6.88% (see Note 10), and the transfer of principal fixed at \$125.0 million upon maturity in exchange for NOK 700 million.

The Partnership has two Euro-denominated term loans outstanding, which as at September 30, 2012, totaled 261.4 million Euros (\$336.2 million). Interest payments are based on EURIBOR plus a margin, which margins ranged from 0.60% to 2.25% as of September 30, 2012, and require monthly interest and principal payments. The term loans have varying maturities through 2023. The term loans are collateralized by first-priority mortgages on two vessels to which the loans relate, together with certain other related security and are guaranteed by the Partnership and one of its subsidiaries.

The weighted-average effective interest rate for the Partnership's long-term debt outstanding at September 30, 2012 and December 31, 2011 was 2.47% and 2.30%, respectively. This rate does not reflect the effect of related interest rate swaps that the Partnership has used to economically hedge certain of its floating-rate debt (see Note 10). At September 30, 2012, the margins on the Partnership's outstanding revolving credit facilities and term loans ranged from 0.30% to 2.75%.

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All Euro-denominated term loans and Norwegian Kroner-denominated bonds are revalued at the end of each period using the then-prevailing U.S. Dollar exchange rate. Due primarily to the revaluation of the Partnership's Norwegian Kroner-denominated bonds, the Partnership's Euro-denominated term loans, capital leases and restricted cash, and the change in the valuation of the Partnership's cross currency swap, the Partnership incurred foreign exchange (losses) gains of (\$6.2) million and \$29.5 million, and (\$2.0) million and (\$0.4) million, of which these amounts were primarily unrealized, for the three months ended September 30, 2012 and 2011 and the nine months ended September 30, 2012 and 2011, respectively.

The aggregate annual long-term debt principal repayments required subsequent to September 30, 2012 are \$24.0 million (remainder of 2012), \$86.1 million (2013), \$87.7 million (2014), \$94.4 million (2015), \$91.3 million (2016) and \$960.5 million (thereafter).

Certain loan agreements require that (a) the Partnership maintains minimum levels of tangible net worth and aggregate liquidity, (b) the Partnership maintains certain ratios of vessel values as it relates to the relevant outstanding loan principal balance, (c) the Partnership not exceed a maximum level of leverage, and (d) one of the Partnership's subsidiaries maintains restricted cash deposits. The Partnership's ship-owning subsidiaries may not, among other things, pay dividends or distributions if the Partnership is in default under its term loans or revolving credit facilities. One of the Partnership's term loans is guaranteed by Teekay Corporation and contains covenants that require Teekay Corporation to maintain the greater of a minimum liquidity (cash and cash equivalents) of at least \$50.0 million and 5.0% of Teekay Corporation's total consolidated debt which has recourse to Teekay Corporation. As at September 30, 2012, the Partnership, and Teekay Corporation and their affiliates were in compliance with all covenants relating to the Partnership's credit facilities and term loans.

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

8. Income Tax

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

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	\$	\$	\$	\$
Current	(455)	(412)	(1,074)	(1,031)
Deferred	(224)	588	524	252
Income tax (expense) recovery	(679)	176	(550)	(779)

As of December 31, 2011, the Partnership had unrecognized tax benefits of 4.2 million Euros (approximately \$5.5 million) relating to a re-investment tax credit in connection with a 2005 annual tax filing. The Partnership received this tax credit refund in 2008; however, the relevant tax authorities had challenged the eligibility of the re-investment tax credit and, as a result, the Partnership believed the more-likely-than-not threshold was not met and recognized a liability of 3.4 million Euros (approximately \$4.7 million) in 2009. During 2012, the Central Administrative Court accepted the Partnership's claim on its re-investment tax credit and, as a result, the Partnership has recognized this tax benefit in equity as the original vessel sale transaction was a related party transaction reflected in equity.

9. Related Party Transactions

a) Two of the Partnership's LNG carriers, the *Arctic Spirit* and *Polar Spirit* (or the *Kenai LNG Carriers*), are employed on long-term charter contracts with subsidiaries of Teekay Corporation. In addition, the Partnership and certain of its operating subsidiaries have entered into services agreements with certain subsidiaries of Teekay Corporation pursuant to which the Teekay Corporation subsidiaries provide the Partnership and its subsidiaries with administrative, crew training, advisory, business development, technical and strategic consulting services. Finally, the Partnership reimburses the General Partner for expenses incurred by the General Partner that are necessary for the conduct of the Partnership's business. Such related party transactions were as follows for the periods indicated:

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	\$	\$	\$	\$
Revenues ⁽¹⁾	9,696	9,378	28,879	27,164
Vessel operating expenses ⁽²⁾	8,507	8,488	25,518	24,567
General and administrative ^{(3) (4) (5)}	4,569	3,582	14,362	12,336

- (1) Commencing in 2008, the Kenai LNG Carriers were time-chartered to Teekay Corporation at a fixed-rate for a period of ten years (plus options exercisable by Teekay Corporation to extend up to an additional 15 years).
- (2) Teekay Corporation's crew salaries and training.
- (3) Teekay Corporation's administrative, advisory, business development, technical and strategic management fees.
- (4) Includes \$0.2 million and \$0.2 million, and \$0.8 million and \$0.8 million of costs incurred by the General Partner during the three months ended September 30, 2012 and 2011 and the nine months ended September 30, 2012 and 2011, respectively.

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- (5) Amounts are net of nil and \$0.2 million, and \$0.2 million and \$0.7 million for the three months ended September 30, 2012 and 2011, and the nine months ended September 30, 2012 and 2011, respectively, which consist of the amortization of \$3.0 million paid to the Partnership by Teekay Corporation in March 2009 for the right to provide ship management services to certain of the Partnership's vessels.
- b) At December 31, 2011, crewing and manning costs of \$4.1 million were payable to affiliates and were included as part of accounts payable and accrued liabilities in the Partnership's consolidated balance sheets. In addition, as at September 30, 2012 and December 31, 2011, non-interest bearing advances to affiliates totaled \$3.3 million and \$11.9 million, respectively, and non-interest bearing advances from affiliates totaled \$11.1 million and \$17.4 million, respectively. These advances are unsecured and have no fixed repayment terms.
- c) The Partnership's Suezmax tanker the *Toledo Spirit* operates pursuant to a time-charter contract that increases or decreases the otherwise fixed-hire rate established in the charter depending on the spot charter rates that the Partnership would have earned had it traded the vessel in the spot tanker market. The remaining term of the time-charter contract is 13 years, although the charterer has the right to terminate the time-charter in July 2018. The Partnership has entered into an agreement with Teekay Corporation under which Teekay Corporation pays the Partnership any amounts payable to the charterer as a result of spot rates being below the fixed rate, and the Partnership pays Teekay Corporation any amounts payable to the Partnership as a result of spot rates being in excess of the fixed rate. The amounts payable to or receivable from Teekay Corporation are recognized at the end of each year (see Note 10).

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

d) In December 2007, a consortium in which Teekay Corporation had a 33% ownership interest agreed to charter four newbuilding 160,400-cubic meter LNG carriers (or the *Angola LNG Carriers*) for a period of 20 years to Angola LNG Supply Services LLC. The consortium entered into agreements to construct the four LNG carriers at a total cost of \$906.2 million (of which Teekay Corporation's 33% portion was \$299.0 million), excluding capitalized interest. The vessels are chartered at fixed rates, with inflation adjustments, which began upon delivery of the vessels. In March 2011, the Partnership agreed to acquire Teekay Corporation's 33% ownership interest in these vessels and related charter contracts upon delivery of each vessel.

Three of the four Angola LNG Carriers delivered during August to October 2011 and commenced their 20-year, fixed-rate charters to Angola LNG Supply Services. Concurrently, the Partnership acquired Teekay Corporation's 33% ownership interest in these three vessels and related charter contracts for a total equity purchase price of \$57.3 million (net of assumed debt of \$193.8 million). In January 2012, the remaining Angola LNG Carrier delivered and commenced its 20-year, fixed-rate charter. Concurrently, the Partnership acquired Teekay Corporation's 33% ownership interest in this vessel and related charter contract for a total equity purchase price of \$19.1 million (net of assumed debt of \$64.8 million). The excess of the purchase price over the book value of the assets (including the fair market value of the interest rate swap associated with debt secured by the vessel) underlying the 33% ownership interest in the fourth vessel of \$15.9 million was accounted for as an equity distribution to Teekay Corporation. The Partnership's investments in the Angola LNG Carriers are accounted for using the equity method.

e) In February 2012, the Partnership incurred a \$7.0 million charge relating to a one-time fee to Teekay Corporation for its support in the Partnership's successful acquisition of its 52% interest in six LNG carriers (see Note 13). This acquisition fee is reflected as part of investments in and advances to equity accounted joint ventures in the Partnership's consolidated balance sheets.

f) On September 15, 2011, the Partnership sold 1% of its ownership interest in its four LPG/Multigas carriers at that time to the General Partner for approximately \$1.2 million.

10. Derivative Instruments

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

Foreign Exchange Risk

In May 2012 the Partnership entered into a cross currency swap and pursuant to this swap the Partnership receives the principal amount in NOK on the maturity date of the swap, in exchange for payment of a fixed U.S. Dollar amount. In addition, the cross currency swap exchanges a receipt of floating interest in NOK based on NIBOR plus a margin for a payment of U.S. Dollar fixed interest. The purpose of the cross currency swap is to economically hedge the foreign currency exposure on the payment of interest and principal of the Partnership's Norwegian Kroner-denominated bond due in 2017 and to economically hedge the interest rate exposure. As at September 30, 2012, the Partnership was committed to the following cross currency swap:

Principal Amount NOK	Principal Amount \$	Floating Rate Reference Rate	Floating Rate Receivable Margin	Fixed Rate Payable	Fair Value / Carrying Amount of Liability \$	Weighted-Average Remaining Term (Years)
700,000	125,000	NIBOR	5.25%	6.88%	(7,104)	4.6

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

Interest Rate Risk

The Partnership enters into interest rate swaps which either exchange a receipt of floating interest for a payment of fixed interest or a payment of floating interest for a receipt of fixed interest to reduce the Partnership's exposure to interest rate variability on its outstanding floating-rate debt and floating-rate restricted cash deposits. As at September 30, 2012, the Partnership was committed to the following interest rate swap agreements:

	Interest Rate Index	Principal Amount \$	Fair Value / Carrying Amount of Assets (Liability) \$	Weighted-Average Remaining Term (years)	Fixed Interest Rate (%) ⁽¹⁾
LIBOR-Based Debt:					
U.S. Dollar-denominated interest rate swaps ⁽²⁾	LIBOR	415,288	(130,824)	24.3	4.9
U.S. Dollar-denominated interest rate swaps ⁽²⁾	LIBOR	205,092	(60,859)	6.5	6.2
U.S. Dollar-denominated interest rate swaps	LIBOR	90,000	(19,739)	5.9	4.9
U.S. Dollar-denominated interest rate swaps	LIBOR	100,000	(21,437)	4.3	5.3
U.S. Dollar-denominated interest rate swaps ⁽³⁾	LIBOR	206,250	(57,213)	16.3	5.2
LIBOR-Based Restricted Cash Deposit:					
U.S. Dollar-denominated interest rate swaps ⁽²⁾	LIBOR	469,464	171,848	24.3	4.8
EURIBOR-Based Debt:					
Euro-denominated interest rate swaps ⁽⁴⁾	EURIBOR	336,175	(39,352)	11.7	3.1
			(157,576)		

(1) Excludes the margins the Partnership pays on its floating-rate term loans, which, at September 30, 2012, ranged from 0.30% to 2.75% (see Note 7).

(2) Principal amount reduces quarterly.

(3) Principal amount reduces semi-annually.

(4) Principal amount reduces monthly to 70.1 million Euros (\$90.1 million) by the maturity dates of the swap agreements.

Credit Risk

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

Other Derivative

In order to reduce the variability of its revenue, the Partnership has entered into an agreement with Teekay Corporation under which Teekay Corporation pays the Partnership any amounts payable to the charterer of the *Toledo Spirit* as a result of spot rates being below the fixed rate, and the Partnership pays Teekay Corporation any amounts payable to the Partnership by the charterer of the *Toledo Spirit* as a result of spot rates being in excess of the fixed rate. The fair value of the derivative at September 30, 2012 was a liability of \$0.5 million (December 31, 2011

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liability of \$0.6 million).

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

	Accounts receivable	Current portion of derivative assets	Derivative assets	Accrued liabilities	Current portion of derivative liabilities	Derivative liabilities
As at September 30, 2012						
Interest rate swap agreements	4,342	16,751	150,755	(8,317)	(50,425)	(270,682)
Cross currency swap agreement	87	132				(7,323)
Toledo Spirit time-charter derivative						(500)
	4,429	16,883	150,755	(8,317)	(50,425)	(278,505)
As at December 31, 2011						
Interest rate swap agreements	4,344	15,608	139,651	(11,448)	(43,973)	(248,645)
Toledo Spirit time-charter derivative						(600)
	4,344	15,608	139,651	(11,448)	(43,973)	(249,245)

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

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

	Three Months Ended September 30,					
	Realized gains (losses)	2012 Unrealized gains (losses)	Total	Realized gains (losses)	2011 Unrealized gains (losses)	Total
Interest rate swap agreements	(9,450)	(295)	(9,745)	(10,022)	(29,268)	(39,290)
Toledo Spirit time-charter derivative		(200)	(200)		1,600	1,600
	(9,450)	(495)	(9,945)	(10,022)	(27,668)	(37,690)

	Nine Months Ended September 30,					
	Realized gains (losses)	2012 Unrealized gains (losses)	Total	Realized gains (losses)	2011 Unrealized gains (losses)	Total
Interest rate swap agreements	(27,813)	(16,242)	(44,055)	(30,305)	(25,892)	(56,197)
Toledo Spirit time-charter derivative	(38)	100	62	(53)	2,000	1,947
	(27,851)	(16,142)	(43,993)	(30,358)	(23,892)	(54,250)

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

11. Commitments and Contingencies

a) The Partnership consolidates certain variable interest entities (or *VIEs*) within its consolidated financial statements. In general, a *VIE* is a corporation, partnership, limited-liability company, trust or any other legal entity used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to make those decisions about its significant activities, or (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations. A party that is a variable interest holder is required to consolidate a *VIE* if the holder has both (a) the power to direct the activities of a *VIE* that most significantly impact the entity's economic performance and (b) the obligation to absorb losses of the *VIE* that could potentially be significant to the *VIE* or the right to receive benefits from the *VIE* that could potentially be significant to the *VIE*.

In July 2008, subsidiaries of Teekay Corporation (or the *Skaugen Multigas Subsidiaries*) signed contracts for the purchase of two multigas carriers from I.M. Skaugen ASA (or *Skaugen*). The Partnership agreed to acquire the Skaugen Multigas Subsidiaries from Teekay Corporation upon delivery of the vessels. Each vessel commenced service under 15-year, fixed-rate charters to Skaugen upon delivery. Subsequent to July 2008 and prior to the delivery of the vessels in June and October 2011, the Partnership consolidated the Skaugen Multigas Subsidiaries as they were *VIEs* and the Partnership was the primary beneficiary during this period. The Partnership acquired 100% of the shares of the two Skaugen

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Multigas Subsidiaries in June and October 2011, respectively, for a purchase price of \$55.3 million and \$59.2 million, respectively.

b) As described in Note 5, the Teekay Nakilat Joint Venture is the lessee under 30-year capital lease arrangements with a third party for the three RasGas II LNG Carriers (or *RasGas II Leases*). The UK taxing authority (or *HMRC*) has been urging the lessor as well as other lessors under capital lease arrangements that have tax benefits similar to the ones provided by the RasGas II Leases, to terminate such finance lease arrangements and has in other circumstances challenged the use of similar structures. As a result, the lessor has requested that the Teekay Nakilat Joint Venture enter into negotiations to terminate the RasGas II Leases. The Teekay Nakilat Joint Venture has declined this request as it does not believe that HMRC would be able to successfully challenge the availability of the tax benefits of these leases to the lessor. This assessment is partially based on a January 2012 court decision, regarding a similar financial lease of an LNG carrier, that ruled in favor of the taxpayer. However, the HMRC is appealing that decision. If the HMRC were able to successfully challenge the RasGas II Leases, the Teekay Nakilat Joint Venture could be subject to significant costs associated with the termination of the lease or increased lease payments to compensate the lessor for the lost tax benefits. The Partnership estimates its 70% share of the potential exposure to be approximately \$46 million.

12. Total Capital and Net Income Per Unit

On September 10, 2012, the Partnership completed a public offering of 4.8 million common units (including 225,863 common units issued upon exercise of the underwriters' over-allotment option) at a price of \$38.43 per unit, for gross proceeds of approximately \$189.2 million (including the General Partner's 2% proportionate capital contribution). The Partnership used the net proceeds from the offering of approximately \$182.2 million to prepay a portion of its outstanding debt under two of its revolving credit facilities.

At September 30, 2012, approximately 63.8% of the Partnership's common units outstanding were held by the public. The remaining common units, as well as the 2% general partner interest, were held by a subsidiary of Teekay Corporation.

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

Net Income Per Unit

Net income per unit is determined by dividing net income, after deducting the non-controlling interest and the General Partner's interest, by the weighted-average number of units outstanding during the period.

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

During the three and nine months ended September 30, 2012 and 2011, cash distributions exceeded \$0.4625 per unit and, consequently, the assumed distribution of net income resulted in the use of the increasing percentages to calculate the General Partner's interest in net income for the purposes of the net income per unit calculation. For more information on the increasing percentages to calculate the General Partner's interest in net income, please refer to the Partnership's Annual Report on Form 20-F.

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

13. Equity Method Investments

On February 28, 2012, a joint venture between the Partnership and Marubeni Corporation (or *Teekay LNG-Marubeni Joint Venture*) acquired a 100% interest in six LNG carriers (or the *MALT LNG Carriers*) from Denmark-based A.P. Moller-Maersk A/S for approximately \$1.3 billion. The Teekay LNG-Marubeni Joint Venture financed this acquisition with \$1.06 billion from secured loan facilities and \$266 million from equity contributions from the Partnership and Marubeni Corporation. The Partnership has agreed to guarantee its 52% share of the secured loan facilities of the Teekay LNG-Marubeni Joint Venture and as a result, deposited \$30 million in a restricted cash account as security for the debt within the Teekay LNG-Marubeni Joint Venture and recorded a guarantee liability of \$1.4 million. The carrying value of the guarantee liability as at September 30, 2012, was \$0.8 million and is included as part of other long-term liabilities in the Partnership's consolidated balance sheets. The recognition of the guarantee liability in 2012 was treated as a non-cash transaction in the Partnership's consolidated statements of cash flows. The Partnership has a 52% economic interest in the Teekay LNG-Marubeni Joint Venture and consequently its share of the \$266 million equity contribution was \$138.2 million. The Partnership also contributed an additional \$5.8 million for its share of legal and financing costs and recorded the \$7.0 million acquisition fee paid to Teekay Corporation as part of the investment (see Note 9e). The Partnership financed the equity contributions by borrowing under its existing credit facilities.

This jointly-controlled entity is accounted for using the equity method. The excess of the Partnership's investment in the Teekay LNG-Marubeni Joint Venture over the book value of net assets acquired, which amounted to approximately \$303 million, has been accounted for as an increase to the carrying value of the vessels and out-of-the-money charters of the Teekay LNG-Marubeni Joint Venture, in accordance with the purchase price allocation.

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TEEKAY LNG PARTNERS L.P. AND SUBSIDIARIES

SEPTEMBER 30, 2012

PART I FINANCIAL INFORMATION

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

OVERVIEW

Teekay LNG Partners L.P. is an international provider of marine transportation services for liquefied natural gas (or *LNG*), liquefied petroleum gas (or *LPG*) and crude oil. Our current fleet of 27 LNG carriers (including one regasification unit), five LPG/Multigas carriers and 11 conventional tankers operates under long-term, fixed-rate charters primarily with major energy and utility companies and Teekay Corporation. Our interests in these vessels range from 33% to 100%.

SIGNIFICANT DEVELOPMENTS IN 2012

Equity Offering

On September 10, 2012, we completed a public offering of 4.8 million common units (including 225,863 common units issued upon exercise of the underwriters' over-allotment option) at a price of \$38.43 per unit, for gross proceeds of approximately \$189.2 million (including our general partner's 2% proportionate capital contribution). We used the net proceeds from the offering of approximately \$182.2 million to prepay a portion of our outstanding debt under two of our revolving credit facilities.

Maersk LNG Carriers

In 2011 we and the Marubeni Corporation (or *Marubeni*) entered into an agreement to acquire, through a joint venture, ownership interests in six LNG carriers from Denmark-based A.P. Moller-Maersk A/S (or *Maersk*) for an aggregate purchase price of approximately \$1.3 billion (or the *Maersk LNG Acquisition*). We and Marubeni have 52% and 48% economic interests, respectively, but share control of the joint venture, MALT LNG Holdings ApS (or the *Teekay LNG-Marubeni Joint Venture*), that we formed to acquire the LNG carriers. In February 2012, the Teekay LNG-Marubeni Joint Venture acquired a 100% interest in the six LNG carriers (or the *MALT LNG Carriers*). Four of the six MALT LNG Carriers are currently operating under long-term, fixed-rate time-charter contracts, with an average remaining firm contract period of approximately 17 years, plus extension options. The other two vessels are currently operating under medium-term, fixed-rate time-charters with an average remaining firm contract period of approximately four years. Since control of the Teekay LNG-Marubeni Joint Venture is shared jointly between Marubeni and us, we account for our investment in the Teekay LNG-Marubeni Joint Venture using the equity method.

The Teekay LNG-Marubeni Joint Venture financed approximately \$1.06 billion of the purchase price for the MALT LNG Carriers from secured loan facilities, and \$266 million from equity contributions from us and Marubeni Corporation. We agreed to guarantee our 52% share of the secured loan facilities of the Teekay LNG-Marubeni Joint Venture and as a result, deposited \$30 million in a restricted cash account as security. Our 52% share of the equity contribution was approximately \$138 million. We financed this equity contribution by drawing on our existing credit facilities. Teekay Corporation provides technical management of the acquired vessels.

Angola LNG Project

In December 2007, a consortium in which Teekay Corporation had a 33% ownership interest agreed to charter four newbuilding 160,400-cubic meter LNG carriers (or the *Angola LNG Carriers*) to the Angola LNG Project. The Angola LNG Project involves the collection and transportation of gas from offshore production facilities to an onshore LNG processing plant at Soyo, located in northwest Angola. The project is being developed by subsidiaries of Chevron Corporation, Sociedade Nacional de Combustiveis de Angola EP, BP Plc, Total S.A. and Eni SpA. Mitsui & Co., Ltd. and NYK Bulkship (Europe) have 34% and 33% ownership interests in the consortium, respectively. In 2011, Teekay Corporation offered to us, and we agreed to purchase, its 33% ownership interest in these vessels and related charter contracts at a total equity purchase price of approximately \$76 million (net of assumed debt of approximately \$259 million). We acquired the ownership interests and paid a proportionate share of the purchase price as each vessel delivered. Three of the Angola LNG Carriers delivered in 2011 and the remaining Angola LNG Carrier delivered in January 2012.

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The Angola LNG Carriers are chartered at fixed rates, subject to inflation adjustments, to the Angola LNG Project for a period of 20 years from the date of delivery from the shipyard, with two extension periods for five years each. The charterer has the option to terminate the charter upon 120 days notice and payment of an early termination fee, which would equal approximately 50% of the fully built-up cost of the applicable vessel. The charterer may also terminate the charter under other circumstances typical in our long-term charters, such as excessive off-hire during which we do not provide a replacement vessel, or certain force majeure events.

Norwegian Bond Issuance

In May 2012, we issued in the Norwegian bond market Norwegian Kroner (or *NOK*) 700 million in senior unsecured bonds that mature in May 2017 and bear interest at NIBOR plus a margin of 5.25%. The aggregate principal amount of the bonds is equivalent to approximately U.S. \$125 million and we entered into a cross currency swap agreement to swap all interest and principal payments into U.S. Dollars, with the interest payments fixed at a rate of 6.88%. We used the proceeds of the bonds to prepay outstanding debt under our revolving credit facilities and for general corporate purposes. The bonds have been listed on the Oslo Stock Exchange.

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There are a number of factors that should be considered when evaluating our historical financial performance and assessing our future prospects and we use a variety of financial and operational terms and concepts when analyzing our results of operations. These factors, terms and concepts are described in Item 5. Operating and Financial Review and Prospects of our Annual Report on Form 20-F for the year ended December 31, 2011, filed with the SEC on April 11, 2012.

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

Liquefied Gas Segment

As at September 30, 2012, our liquefied gas segment fleet (in which our interests ranged from 33% to 100%) included 27 LNG carriers and five LPG/Multigas carriers; however, the table below only includes 11 LNG carriers (excluding the six MALT LNG Carriers, the four Angola LNG Carriers, the four RasGas 3 LNG Carriers and the Excalibur and Excelsior Carriers, which are all accounted for under the equity method) and five LPG carriers.

The following table compares our liquefied gas segment's operating results for the three and nine months ended September 30, 2012 and 2011, and compares its net voyage revenues (which is a non-GAAP financial measure) for the three and nine months ended September 30, 2012 and 2011 to voyage revenues, the most directly comparable GAAP financial measure. We principally use net voyage revenues because it provides more meaningful information to us than voyage revenues and net voyage revenues is also widely used by investors and analysts in the shipping industry for comparing financial performance between companies and to industry averages. The following tables also provide a summary of the changes in calendar-ship-days and revenue days for our liquefied gas segment:

(in thousands of U.S. Dollars, except revenue days,

Three Months Ended September 30,

calendar-ship-days and percentages)	2012	2011	% Change
Voyage revenues	69,686	68,951	1.1
Voyage expenses	56	30	86.7
Net voyage revenues	69,630	68,921	1.0
Vessel operating expenses	11,477	11,803	(2.8)
Depreciation and amortization	17,158	15,689	9.4
General and administrative ⁽¹⁾	3,981	2,722	46.3
Income from vessel operations	37,014	38,707	(4.4)
Operating Data:			
Revenue Days (A)	1,470	1,299	13.2
Calendar-Ship-Days (B)	1,472	1,303	13.0
Utilization (A)/(B)	99.9%	99.7%	

(in thousands of U.S. Dollars, except revenue days,

Nine Months Ended September 30,

calendar-ship-days and percentages)	2012	2011	% Change
Voyage revenues	208,022	200,629	3.7
Voyage expenses	122	100	22.0
Net voyage revenues	207,900	200,529	3.7
Vessel operating expenses	33,006	36,025	(8.4)
Depreciation and amortization	51,705	45,894	12.7
General and administrative ⁽¹⁾	12,607	9,987	26.2
Income from vessel operations	110,582	108,623	1.8
Operating Data:			
Revenue Days (A)	4,361	3,643	19.7
Calendar-Ship-Days (B)	4,384	3,671	19.4

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Utilization (A)/(B)	99.5%	99.2%
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- ⁽¹⁾ Includes direct general and administrative expenses and indirect general and administrative expenses (allocated to each segment based on estimated use of resources).

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During the nine months ended September 30, 2012, our liquefied gas segment's total calendar-ship-days increased by 19.4% from the nine months ended September 30, 2011, primarily as a result of the delivery of two Multigas carriers, the *Norgas Unikum*, in June 2011 and the *Norgas Vision*, in October 2011 and the delivery of an LPG carrier, the *Norgas Camilla*, in September 2011.

Net Voyage Revenues. Net voyage revenues increased for the three and nine months ended September 30, 2012 from the same periods last year, primarily as a result of:

increases of \$2.2 million and \$9.6 million for the three and nine months ended September 30, 2012, respectively, due to the deliveries of the *Norgas Unikum*, *Norgas Camilla* and *Norgas Vision*;

increases of \$0.2 million and \$1.3 million for the three and nine months ended September 30, 2012 due to the *Arctic Spirit* and *Polar Spirit* being off-hire for 11 days and 13 days, respectively, in the second quarter and third quarter of 2011 for scheduled dry dockings;

increases of \$0.3 million and \$1.1 million for the three and nine months ended September 30, 2012, respectively, due to operating expense recovery adjustments under charter provisions and increases in the charter-hire rates for the *Tangguh Hiri* and *Tangguh Sago* at the beginning of the year;

increases of \$0.2 million and \$0.7 million for the three and nine months ended September 30, 2012, respectively, due to escalation of charter-hire rates for *Al Areesh*, *Al Daayen*, *Al Marrouna*, *Arctic Spirit* and *Polar Spirit*; and

an increase of \$0.7 million for the nine months ended September 30, 2012 due to one additional calendar day during 2012; partially offset by

decreases of \$2.2 million and \$4.2 million for the three and nine months ended September 30, 2012, respectively, due to the effect on our Euro-denominated revenues from the weakening of the Euro against the U.S. Dollar compared to the same periods last year;

a decrease of \$1.4 million for the nine months ended September 30, 2012 due to the *Hispania Spirit* being off-hire for 21 days in the second quarter of 2012 for a scheduled dry docking; and

a decrease of \$0.9 million for the nine months ended September 30, 2012 due to a one-time payment made in August 2012 to the charterer of the *Galicia Spirit* for delaying the scheduled dry docking.

Vessel Operating Expenses. Vessel operating expenses decreased for the three and nine months ended September 30, 2012 from the same periods last year, primarily as a result of:

decreases of \$0.6 million and \$1.4 million for the three and nine months ended September 30, 2012, respectively, primarily due to the effect on our Euro-denominated crew manning expenses from the weakening of the Euro against the U.S. Dollar during 2012 compared to 2011 (a portion of our vessel operating expenses are denominated in Euros, which is primarily due to the nationality of our crew);

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decreases of \$0.1 million and \$1.0 million for the three and nine months ended September 30, 2012, respectively, due to the cancellation of loss of hire insurance on the *Tangguh Hiri* and *Tangguh Sago* in the third quarter of 2011 and lower insurance premiums on certain LNG carriers; and

a decrease of \$0.8 million for the nine months ended September 30, 2012 due to maintenance on the *Tangguh Hiri* during the second quarter of 2011 relating to a scheduled dry docking.

Depreciation and Amortization. Depreciation and amortization increased for the three and nine months ended September 30, 2012 from the same periods last year, primarily as a result of:

increases of \$0.8 million and \$3.0 million for the three and nine months ended September 30, 2012, respectively, as a result of amortization of dry-dock expenditures incurred in 2011 and the first and second quarters of 2012 (the dry docking of the *Al Daayen* in the first quarter of 2012 did not result in any off-hire days based on the time-charter contract and, therefore, did not result in a corresponding decrease in revenue during the dry-docking period); and

increases of \$0.6 million and \$2.8 million for the three and nine months ended September 30, 2012, respectively, due to the deliveries of the *Norgas Unikum*, *Norgas Camilla* and *Norgas Vision*.

Conventional Tanker Segment

Our fleet includes 10 Suezmax-class double-hulled conventional crude oil tankers and one Handymax Product tanker, each of which we own 100%. All of our conventional tankers operate under fixed-rate charters. However, the *Bermuda Spirit s* and *Hamilton Spirit s* charter contracts are in the process of being renegotiated which will reduce the charter rate on both vessels for a period of up to two years within the remaining nine year duration of the existing charters. The renegotiated charter will result in a reduction in the charter rate by a maximum amount of approximately \$12,000 per day for each vessel in this renegotiated period and as a consequence, our future revenue, earnings and cash flow will be negatively impacted.

In addition, the charter contracts for two of the five Suezmax tankers on charter to CEPSA have cancellation options first exercisable in August and November 2013. While we have not received official notification of termination, we expect the charterer to exercise these options and the vessels to be sold. Excluding the impact of any potential impairment, the impact on our net income will not be materially affected if this termination occurs. We will need to assess these two vessels, along with the remaining three Suezmax tankers on charter to CEPSA, for impairment during the fourth quarter of 2012. The carrying value of these five vessels, net of their outstanding lease obligation balance at September 30, 2012 was \$41.0 million.

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The following table compares our conventional tanker segment's operating results for the three and nine months ended September 30, 2012 and 2011, and compares its net voyage revenues (which is a non-GAAP financial measure) for the three and nine months ended September 30, 2012 and 2011 to voyage revenues, the most directly comparable GAAP financial measure. We principally use net voyage revenues because it provides more meaningful information to us than voyage revenues and net voyage revenues is also widely used by investors and analysts in the shipping industry for comparing financial performance between companies and to industry averages. The following tables also provide a summary of the changes in calendar-ship-days and revenue days for our conventional tanker segment:

(in thousands of U.S. Dollars, except revenue days, calendar-ship-days and percentages)	Three Months Ended September 30,		
	2012	2011	% Change
Voyage revenues	29,037	28,305	2.6
Voyage expenses	804	277	190.3
Net voyage revenues	28,233	28,028	0.7
Vessel operating expenses	10,515	10,563	(0.5)
Depreciation and amortization	7,412	7,343	0.9
General and administrative ⁽¹⁾	2,273	3,082	(26.2)
Income from vessel operations	8,033	7,040	14.1
Operating Data:			
Revenue Days (A)	1,012	1,012	
Calendar-Ship-Days (B)	1,012	1,012	
Utilization (A)/(B)	100.0%	100.0%	

(in thousands of U.S. Dollars, except revenue days, calendar-ship-days and percentages)	Nine Months Ended September 30,		
	2012	2011	% Change
Voyage revenues	86,271	82,093	5.1
Voyage expenses	1,323	1,262	4.8
Net voyage revenues	84,948	80,831	5.1
Vessel operating expenses	29,621	30,536	(3.0)
Depreciation and amortization	22,171	21,658	2.4
General and administrative ⁽¹⁾	7,269	8,678	(16.2)
Income from vessel operations	25,887	19,959	29.7
Operating Data:			
Revenue Days (A)	3,014	2,931	2.8
Calendar-Ship-Days (B)	3,014	3,003	0.4
Utilization (A)/(B)	100.0%	97.6%	

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

During the nine months ended September 30, 2012, none of our vessels were off-hire as compared to 72 off-hire days for the *Huelva Spirit* relating to a scheduled dry docking in the second quarter last year. As a result, our utilization increased to 100.0% from 97.6% for the nine months ended September 30, 2012 compared to the same period in 2011.

Net Voyage Revenues. Net voyage revenues increased for the three and nine months ended September 30, 2012, from the same periods last year, primarily as a result of:

an increase of \$1.6 million for the nine months ended September 30, 2012 due to the *Huelva Spirit* being off-hire for 72 days in the second quarter of 2011 for a scheduled dry dock;

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increases of \$0.6 million and \$1.3 million for the three and nine months ended September 30, 2012, respectively, due to adjustments to the daily charter rates based on inflation and an increase in interest rates in accordance with the time-charter contracts for five Suezmax tankers (however, under the terms of these capital leases, we had corresponding increases in our lease payments, which are reflected as increases to interest expense; therefore, these and future similar interest rate adjustments do not affect our cash flow or net income); and

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increases of \$0.1 million and \$0.6 million for the three and nine months ended September 30, 2012, respectively, relating to the *Alexander Spirit* for crew manning adjustments in the charter-hire rates; the crew manning adjustments increased due to higher crewing costs and the strengthening of the Australian Dollar against the U.S. Dollar compared to the same periods last year; partially offset by

a decrease of \$0.5 million for the three months ended September 30, 2012 due to higher voyage expenses in 2012 compared to 2011 primarily as a result of an adjustment to broker commissions relating to two vessels in the third quarter of 2012. *Vessel Operating Expenses.* Vessel operating expenses decreased for the three and nine months ended September 30, 2012 from the same periods last year, primarily as a result of:

decreases of \$0.9 million and \$1.9 million for the three and nine months ended September 30, 2012, respectively, primarily due to the effect on our Euro-denominated crew manning expenses from the weakening of the Euro against the U.S. Dollar during 2012 compared to 2011 (a portion of our vessel operating expenses are denominated in Euros, which is primarily due to the nationality of our crew); partially offset by

increases of \$0.8 million and \$1.0 million for the three and nine months ended September 30, 2012, respectively, due to the scope and extent of service and maintenance activities performed and an increase in manning costs for certain of our conventional tankers. *Depreciation and Amortization.* Depreciation and amortization increased slightly for the three and nine months ended September 30, 2012, from the same periods last year, primarily as a result of amortization of dry-dock expenditures incurred in 2011.

Other Operating Results

General and Administrative Expenses. General and administrative expenses increased to \$6.3 million and \$19.9 million for the three and nine months ended September 30, 2012, respectively, from \$5.8 million and \$18.7 million for the same periods last year, primarily as a result of:

increases of \$0.5 million and \$2.3 million for the three and nine months ended September 30, 2012, respectively, primarily as a result of an agreement executed with Teekay Corporation for business development services as of January 2012 and a greater amount of services to support our growth; and

increases of \$0.2 million and \$0.5 million for the three and nine months ended September 30, 2012, respectively, as a result of a one-time procurement fee received in 2009 being fully amortized by the end of the second quarter of 2012; partially offset by

a decrease of \$0.9 million for the nine months ended September 30, 2012 relating to the one-time management fee charged to us by Teekay Corporation in the first quarter of 2011, associated with the portion of stock-based compensation grants to Teekay Corporation's former Chief Executive Officer that had not yet vested prior to the date of his retirement; and

decreases of \$0.5 million and \$0.8 million for the three and nine months ended September 30, 2012, respectively, due to a reduction in corporate expenses.

The general and administrative expense allocation between our Liquefied Gas and Conventional Tanker segments has changed for the three and nine months ended September 30, 2012 as compared to last year as a result of our growth in the liquefied gas market over the past year, which

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requires a higher percentage of administrative support.

Interest Expense. Interest expense increased to \$14.4 million and \$40.9 million for the three and nine months ended September 30, 2012, respectively, from \$12.1 million and \$36.0 million for the same periods last year. Interest expense primarily reflects interest incurred on our capital lease obligations and long-term debt. These changes were primarily the result of:

increases of \$2.3 million and \$3.7 million for the three and nine months ended September 30, 2012, respectively, as a result of the NOK bond issuance in May 2012;

increases of \$0.7 million and \$2.3 million for the three and nine months ended September 30, 2012, respectively, as a result of refinancing one of our debt facilities with a higher margin than the previous debt facility;

increases of \$0.6 million and \$2.3 million for the three and nine months ended September 30, 2012, respectively, due to an increase in our borrowings upon our acquisitions of three LPG/Multigas vessels during the second, third and fourth quarters of 2011; and

increases of \$0.8 million and \$2.0 million for the three and nine months ended September 30, 2012, respectively, due to increased LIBOR and a higher principal debt balance due to draws on an existing debt facility during the first and second quarters of 2012; and

increases of \$0.1 million and \$0.5 million for the three and nine months ended September 30, 2012, respectively, due to an interest rate adjustment on our five Suezmax tanker capital lease obligations (however, as described above, under the terms of the time-charter contracts for these vessels, we have a corresponding increase in charter receipts, which are reflected as an increase to voyage revenues);

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partially offset by

decreases of \$1.3 million and \$3.9 million for the three and nine months ended September 30, 2012, respectively, due to the maturity of the *Madrid Spirit* capital lease in the fourth quarter of 2011 (the *Madrid Spirit* was financed pursuant to a Spanish tax lease arrangement, under which we borrowed under a term loan and deposited the proceeds into a restricted cash account and entered into a capital lease for the vessel; as a result, this decrease in interest expense from the capital lease is offset by a corresponding decrease in the interest income from restricted cash); and

decreases of \$1.2 million and \$2.3 million for the three and nine months ended September 30, 2012, respectively, due to lower EURIBOR relating to Euro-denominated debt.

Interest Income. Interest income decreased to \$0.9 million and \$2.7 million for the three and nine months ended September 30, 2012, respectively, from \$1.6 million and \$4.9 million for the same periods last year. These changes were primarily the result of:

decreases of \$1.1 million and \$3.3 million for the three and nine months ended September 30, 2012, respectively, due to the termination of the capital lease on one of our LNG carriers, the *Madrid Spirit*, during the fourth quarter of 2011, which was funded from restricted cash;

partially offset by

increases of \$0.4 million and \$1.2 million for the three and nine months ended September 30, 2012, respectively, due to a higher principal balance in restricted cash deposits during 2012 compared to last year.

Realized and Unrealized Loss on Derivative Instruments. Net realized and unrealized losses on derivative instruments decreased to losses of \$9.9 million and \$44.0 million for the three and nine months ended September 30, 2012, respectively, from losses of \$37.7 million and \$54.3 million in the same periods last year, as set forth in the tables below.

	Three Months Ended September 30,					
	2012		Total	2011		Total
Realized gains (losses)	Unrealized gains (losses)	Realized gains (losses)		Unrealized gains (losses)		
Interest rate swap agreements	(9,450)	(295)	(9,745)	(10,022)	(29,268)	(39,290)
Toledo Spirit time-charter derivative		(200)	(200)		1,600	1,600
	(9,450)	(495)	(9,945)	(10,022)	(27,668)	(37,690)

	Nine Months Ended September 30,					
	2012		Total	2011		Total
Realized gains (losses)	Unrealized gains (losses)	Realized gains (losses)		Unrealized gains (losses)		
Interest rate swap agreements	(27,813)	(16,242)	(44,055)	(30,305)	(25,892)	(56,197)
Toledo Spirit time-charter derivative	(38)	100	62	(53)	2,000	1,947
	(27,851)	(16,142)	(43,993)	(30,358)	(23,892)	(54,250)

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As at September 30, 2012 and 2011, we had interest rate swap agreements with an aggregate average net outstanding notional amount of approximately \$0.9 billion, with average fixed rates of 4.6% and 4.9%, respectively. The decreases in realized losses from 2011 to 2012 relating to our interest rate swaps were primarily due to higher short-term variable benchmark interest rates in 2012 compared to 2011.

Long-term LIBOR and EURIBOR benchmark interest rates decreased during the three and nine months ended September 30, 2012. The decrease in rates during the three and nine months ended September 30, 2012 resulted in (\$5.6) million and (\$28.5) million of unrealized losses, respectively, from our interest rates swaps associated with our U.S. Dollar-denominated long-term debt and capital lease obligations and from our interest rates swaps associated with our Euro-denominated long-term debt, which were partially offset by \$5.3 million and \$12.3 million of unrealized gains, respectively, from our interest rate swaps associated with our restricted cash deposits.

Long-term LIBOR and EURIBOR benchmark interest rates decreased during the three and nine months ended September 30, 2011. The decrease in rates during the three and nine months ended September 30, 2011 resulted in (\$114.3) million and (\$116.1) million of unrealized losses, respectively, from our interest rates swaps associated with our U.S. Dollar-denominated long-term debt and capital lease obligations and from our interest rates swaps associated with our Euro-denominated long-term debt, which were partially offset by \$85.0 million and \$90.2 million of unrealized gains, respectively, from our interest rate swaps associated with our restricted cash deposits.

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The projected average tanker rates in the tanker market in the third quarter of 2012 increased slightly compared to the second quarter of 2012 and decreased compared to the beginning of the year, which resulted in a (\$0.2) million unrealized loss and a \$0.1 million unrealized gain, respectively, on our Toledo Spirit time-charter derivative. The projected average tanker rates in the tanker market in the third quarter of 2011 decreased compared to the second quarter of 2011 and the beginning of the year, which resulted in a \$1.6 million and \$2.0 million unrealized gain, respectively, on our Toledo Spirit time-charter derivative. The Toledo Spirit time-charter derivative is the agreement with Teekay Corporation under which Teekay Corporation pays us any amounts payable to the charterer of the *Toledo Spirit* as a result of spot rates being below the fixed rate, and we pay Teekay Corporation any amounts payable to us by the charterer of the *Toledo Spirit* as a result of spot rates being in excess of the fixed rate.

Foreign Currency Exchange Losses and Gains. Foreign currency exchange (losses) were (\$6.2) million and (\$2.0) million for the three and nine months ended September 30, 2012, respectively, compared to a gain and (loss) of \$29.5 million and (\$0.4) million for the same periods last year. Our foreign currency exchange (losses) gains, substantially all of which are unrealized, are due primarily to the relevant period-end revaluation of our Norwegian Kroner-denominated debt and our Euro-denominated term loans, capital leases and restricted cash for financial reporting purposes and the realized and unrealized (losses) gains on our cross currency swap. Losses on Norwegian Kroner-denominated and Euro-denominated monetary liabilities reflect a weaker U.S. Dollar against the Norwegian Kroner and Euro on the date of revaluation or settlement compared to the rate in effect at the beginning of the period. Gains on Norwegian Kroner-denominated and Euro-denominated monetary liabilities reflect a stronger U.S. Dollar against the Norwegian Kroner and Euro on the date of revaluation or settlement compared to the rate in effect at the beginning of the period. For the three and nine months ended September 30, 2012, foreign currency exchange (losses) gains include realized losses of a nominal amount and unrealized gains (losses) of \$3.1 million and (\$7.2) million, respectively, on our cross currency swap and unrealized (losses) gains of (\$4.7) million and \$2.8 million, respectively, on the revaluation of our Norwegian Kroner-denominated debt. For the three and nine months ended September 30, 2012, foreign currency exchange (losses) gains include the revaluation of our Euro-denominated restricted cash, debt and capital leases of (\$4.6) million and \$2.8 million, respectively, as compared to \$29.5 million and (\$0.3) million for the same periods last year.

Equity Income. Equity income increased to \$21.1 million and \$49.2 million for the three and nine months ended September 30, 2012, respectively, from \$0.9 million and \$12.4 million for the same periods last year, primarily as a result of:

increases of \$13.0 million and \$26.3 million for the three and nine months ended September 30, 2012, respectively, due to the acquisition of a 52% ownership interest in the six MALT LNG Carriers in February 2012;

increases of \$2.6 million and \$8.0 million for the three and nine months ended September 30, 2012, respectively, due to our 33% investment in the Angola LNG Project that we acquired upon delivery of the four Angola LNG Carriers in the third and fourth quarters of 2011 and the first quarter of 2012; and

increases of \$4.7 million and \$6.6 million for the three and nine months ended September 30, 2012, respectively, due to the change in unrealized gains (losses) on derivative instruments for the three and nine months ended September 30, 2012, as compared to the same periods last year in our 40% investment in Teekay Nakilat (III) Corporation; partially offset by

decreases of \$0.2 million and \$4.5 million for the three and nine months ended September 30, 2012, respectively, due to the change in unrealized losses on derivatives for the three and nine months ended September 30, 2012, as we acquired our 33% investment in the Angola LNG Project upon delivery of the four Angola LNG carriers in the third and fourth quarters of 2011 and the first quarter of 2012.

Other Income and Expense. Other income (expense) increased to \$0.4 million and \$1.1 million for the three and nine months ended September 30, 2012, respectively, from \$0.1 million and (\$0.1) million for the same periods last year, primarily as a result of:

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increases of \$0.2 million and \$0.5 million for the three and nine months ended September 30, 2012, respectively, due to the amortization of a guarantee liability related to the acquisition of the six MALT LNG Carriers in February 2012; and

an increase of \$0.5 million for the nine months ended September 30, 2012 due to an insurance settlement relating to a 2011 claim on the LNG carrier *Algeciras Spirit*.

Liquidity and Cash Needs

Our business model is to employ our vessels on fixed-rate contracts with major oil companies, with original terms typically between 10 to 25 years. The operating cash flow our vessels generate each quarter, excluding a reserve for maintenance capital expenditures and debt repayments, are generally paid out to our unitholders within approximately 45 days after the end of each quarter. Our primary short-term liquidity needs are to pay these quarterly distributions on our outstanding units, payment of operating expenses, dry-docking expenditures, debt service costs and to fund general working capital requirements. We anticipate that our primary sources of funds for our short-term liquidity needs will be cash flows from operations.

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

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Our revolving credit facilities and term loans are described in Item 1 Financial Statements: Note 7 Long-Term Debt. They contain covenants and other restrictions typical of debt financing secured by vessels, that restrict the ship-owning subsidiaries from: incurring or guaranteeing indebtedness; changing ownership or structure, including through mergers, consolidations, liquidations and dissolutions; making dividends or distributions if we are in default; making capital expenditures in excess of specified levels; making certain negative pledges and granting certain liens; selling, transferring, assigning or conveying assets; making certain loans and investments; and entering into a new line of business. Certain of our revolving credit facilities and term loans require us to maintain financial covenants. If we do not meet these financial covenants, the lender may accelerate the repayment of the revolving credit facilities and term loans, thus having a significant impact on our short-term liquidity requirements. As at September 30, 2012, we, Teekay Corporation and their affiliates were in compliance with all covenants relating to our credit facilities and term loans.

As at September 30, 2012, our cash and cash equivalents were \$91.9 million, compared to \$93.6 million at December 31, 2011. Our total liquidity which consists of cash, cash equivalents and undrawn medium-term credit facilities, was \$558.9 million as at September 30, 2012, compared to \$538.7 million as at December 31, 2011. The increase in total liquidity is primarily due to an increase of \$182.2 million resulting from an equity offering in September 2012 and an increase of \$125.0 million resulting from our NOK 700 million Norwegian bond offering in May 2012; partially offset by borrowings to fund the acquisition of the Teekay LNG-Marubeni Joint Venture in February 2012, the acquisition of our 33% interest in the fourth Angola LNG carrier, an increase in restricted cash and repayments of long-term debt.

As of September 30, 2012, we had a working capital deficit of \$191.9 million. The working capital deficit includes a \$168.1 million lease obligation for five Suezmax tankers. We may be obligated to purchase the five tankers as the lessor has the option to sell these vessels to us any time after 2012. Such exercise would require us to satisfy the purchase price either by assuming the existing vessel financing, if the lender consents, or by financing the purchase using existing liquidity or by obtaining new debt or equity financing. We expect to manage the remaining working capital deficit primarily with net operating cash flow generated in the fourth quarter of 2012 and, to a lesser extent, existing undrawn revolving credit facilities. Please read Item 1 Financial Statements: Note 11 Commitments and Contingencies.

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

(in thousands of U.S. Dollars)	Nine Months Ended September 30,	
	2012	2011
Net cash flow from operating activities	134,401	134,172
Net cash flow from (used for) financing activities	29,165	(28,956)
Net cash flow used for investing activities	(165,262)	(84,772)

Operating Cash Flows. Net cash flow from operating activities increased slightly to \$134.4 million for the nine months ended September 30, 2012, from \$134.2 million for the same period last year, primarily due to an increase for the delivery of two Multigas carriers in June and October 2011 and an LPG carrier in September 2011; offset by changes in working capital due to the timing of our cash receipts and payments. Net cash flow from operating activities depends upon the timing and amount of dry-docking expenditures, repairs and maintenance activity, the impact of vessel additions and dispositions on operating cash flows, foreign currency rates, changes in interest rates, timing of dividends from equity accounted investments and fluctuations in working capital balances. The number of vessel dry dockings tends to vary each period.

Financing Cash Flows. Our investments in vessels and equipment are financed primarily with term loans and capital lease arrangements. Proceeds from long-term debt were \$419.2 million and \$219.4 million for the nine months ended September 30, 2012 and 2011, respectively. The proceeds from long-term debt for 2012 includes proceeds received from the issuance of our NOK 700 million senior unsecured bonds in May 2012. From time to time, we refinance our loans and revolving credit facilities. During the nine months ended September 30, 2012, we primarily used the proceeds from long-term debt to fund the acquisition of our 52% interest in the six MALT LNG Carriers for \$151.0 million (including working capital contribution and acquisition costs), to fund the acquisition of our 33% interest in the fourth Angola LNG Carrier for \$19.1 million, to prepay and repay outstanding debt under our revolving credit facilities and for general corporate purposes.

In September 2012, we completed a public offering of approximately 4.8 million common units at a price of \$38.43 per unit, for net proceeds of approximately \$182.2 million. In April 2011, we completed a public equity offering of approximately 4.3 million common units at a price of \$38.88 per unit, for net proceeds of \$161.7 million. All such proceeds include our general partners' 2% contribution. We used the proceeds from the September 2012 public offering to prepay a portion of our outstanding debt under two of our revolving credit facilities.

Cash distributions paid during the nine months ended September 30, 2012 increased to \$142.9 million from \$118.8 million for the same period last year. This increase was the result of an increase in the number of units eligible to receive the cash distribution as a result of two public offerings during 2011 and a 7.1% increase in the quarterly cash distribution per unit commencing in the first quarter of 2012. In addition, restricted cash during the nine months ended September 30, 2012 increased by \$30 million for collateral on the 18-month bridge loan used to

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finance a portion of our 52% interest in the six MALT LNG Carriers.

Investing Cash Flows. Net cash flow used in investing activities increased to \$165.3 million for the nine months ended September 30, 2012 from \$84.8 million for the same period last year. During the nine months ended September 30, 2012, we used cash of \$151.0 million to fund the acquisition of our 52% interest in the six MALT LNG Carriers and \$19.1 million for our acquisition of a 33% interest in the fourth and last Angola LNG Carrier.

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The following table summarizes our contractual obligations as at September 30, 2012:

	Total	Remainder of 2012 (in millions of U.S. Dollars)	2013 and 2014	2015 and 2016	Beyond 2016
U.S. Dollar-Denominated Obligations:					
Long-term debt ⁽¹⁾	885.5	20.5	144.0	151.3	569.7
Commitments under capital leases ⁽²⁾	196.2	5.7	116.8	15.5	58.2
Commitments under capital leases ⁽³⁾	983.1	6.0	48.0	48.0	881.1
Commitments under operating leases ⁽⁴⁾	412.6	6.2	50.0	50.0	306.4
Total U.S. Dollar-Denominated obligations	2,477.4	38.4	358.8	264.8	1,815.4