

Magellan Spirit ApS

**Torvet 21, 1.
4600 Køge
Denmark**

Annual report 2016 (7th financial year)

**The annual report was presented and
approved at the annual general meeting
of the Company on 28 April 2017**



Chairman

CVR no. 33 26 58 32

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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have discussed and approved the annual report of Magellan Spirit ApS for the period 1 January - 31 December 2016.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

It is our opinion that the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 28 April 2017
Executive Board:



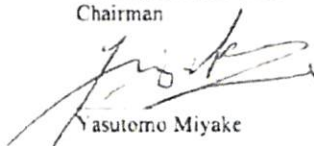
Niels Berthelsen
Managing Director

Board of Directors:

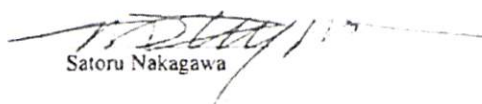


Christopher Allan Brett
Chairman

Claus Helmer Thomsen



Yasutomo Miyake



Satoru Nakagawa

Independent auditor's report

To the shareholder of Magellan Spirit ApS

Opinion

We have audited the financial statements of Magellan Spirit ApS for the financial year 1 January – 31 December 2016, comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2016 and of the results of the Company's operations for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of financial statement users made on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management
- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view

Independent auditor's report

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 28 April 2017

KPMG

Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98



Niels Vendelbo
State Authorised
Public Accountant

Management's review

Company details

Magellan Spirit ApS
Torvet 21, 1
4600 Køge, Denmark

CVR no.: 33 26 58 32
Established: 16 November 2010
Financial year: 1 January – 31 December

Board of Directors

Christopher Allan Brett (Chairman)
Claus Helmer Thomsen
Yasutomo Miyake
Satoru Nakagawa

Executive Board

Niels Berthelsen (Managing Director)

Auditors

KPMG
Statsautoriseret Revisionspartnerselskab
Dampfærgevej 28
2100 København Ø

Annual general meeting

The annual general meeting will be held on 28 April 2017.

Management's review

Financial highlights

USD'000	2016	2015	2014	2013	2012
Key figures					
Gross profit/loss	37,595	-5,479	25,335	24,116	23,997
Operating profit/loss	32,258	-10,818	20,203	19,335	18,739
Profit/loss from financial income and expenses	33	35	-51	15	21
Profit/loss for the year	32,223	-10,817	20,300	19,250	18,660
Total assets	147,505	153,587	168,519	170,148	199,314
Equity	140,119	146,896	163,713	167,651	195,401
Return on assets	21.4%	-6.7%	12.0%	10.4%	9.6%
Return on invested capital	22.5%	-7.0%	13.2%	12.6%	10.8%
Equity ratio	95.0%	95.6%	97.15%	98.5%	98.0%
Return on equity	22.5%	-7.0%	12.3%	10.6%	9.8%

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015". For terms and definitions, please see the accounting policies.

Management's review

Operating review

Principal activities of the Company

The principal activity of Magellan Spirit ApS (the Company) is the transportation of liquefied natural gas (LNG). The construction of the Magellan Spirit was completed in 2009. The vessel is currently trading in the spot market and the Company continues to seek medium-term to long-term employment for the vessel.

Profit for the financial year

Profit for the financial year, after taxation, amounts to USD 32 million (2015: loss of USD 11 million) as a result of the Company reaching a settlement agreement with the charterer of the disputed charter contract in 2015, under which the charterer paid USD 39 million to the Company for lost revenues, which was received and included as part of gross profit/loss in the income statement for the year ended 31 December 2016.

Subsequent events

No events have occurred after the balance sheet date that materially affect the financial statements for 2016.

Outlook

The Company expects a decrease in profit in 2017 due to settlement payment for the disputed charter contract termination received in 2016; partially offset by higher charter rates expected during 2017.

Particular risks

The Company's vessel is currently trading in the spot market. The Company may be unable to re-charter the vessel at attractive rates, which may lead to reduced profitability.

Financial statements for the period 1 January – 31 December

Income statement

USD'000	Note	2016	2015
Gross profit/loss	2,3	<u>37,595</u>	<u>-5,479</u>
Profit/loss before depreciation and amortisation		37,595	-5,479
Depreciation and amortisation	4	<u>-5,337</u>	<u>-5,339</u>
Operating profit/loss		32,258	-10,818
Financial income		44	35
Financial expenses		<u>-11</u>	<u>0</u>
Profit/loss before tax		32,291	-10,783
Tax on profit/loss for the year	5	<u>-68</u>	<u>-34</u>
Profit/loss for the year	6	<u><u>32,223</u></u>	<u><u>-10,817</u></u>

Financial statements for the period 1 January – 31 December

Balance sheet

USD'000	Note	2016	2015
ASSETS			
Non-current assets			
Property, plant and equipment			
Vessel	4	<u>142,750</u>	<u>147,921</u>
Total non-current assets		<u>142,750</u>	<u>147,921</u>
Current assets			
Receivables			
Trade receivables		17	1,084
Receivables from affiliate		0	517
Prepayments		<u>1,464</u>	<u>124</u>
		<u>1,481</u>	<u>1,725</u>
Cash at bank and in hand		<u>3,274</u>	<u>3,941</u>
Total current assets		<u>4,755</u>	<u>5,666</u>
TOTAL ASSETS		<u>147,505</u>	<u>153,587</u>

Financial statements for the period 1 January – 31 December

Balance sheet

USD'000	Note	2016	2015
EQUITY AND LIABILITIES			
Equity	7		
Share capital		193	193
Retained earnings		139,926	146,703
Total equity		<u>140,119</u>	<u>146,896</u>
Liabilities			
Non-current liabilities			
Other liabilities		45	0
		<u>45</u>	<u>0</u>
Current liabilities			
Trade payables		323	2,568
Payables to affiliates		704	0
Payables to shareholders		6,314	3,379
Deferred income		0	744
		<u>7,341</u>	<u>6,691</u>
Total liabilities		<u>7,386</u>	<u>6,691</u>
TOTAL EQUITY AND LIABILITIES		<u>147,505</u>	<u>153,587</u>
Contractual obligations, contingencies, etc.	8		
Related party disclosures	9		

Financial statements for the period 1 January – 31 December

Statement of changes in equity

USD'000	Share capital	Retained earnings	Proposed dividend	Total
Equity at 1 January 2015	193	157,520	6,000	163,713
Dividends paid	0	0	-6,000	-6,000
Profit/loss appropriation	0	-10,817	0	-10,817
Equity at 31 December 2015	193	146,703	0	146,896
Interim dividend	0	-39,000	0	-39,000
Profit/loss appropriation	0	32,223	0	32,223
Equity at 31 December 2016	193	139,926	0	140,119

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Magellan Spirit ApS for 2016 has been prepared in accordance with the provisions applying to reporting class C medium-sized entities under the Danish Financial Statements Act.

Pursuant to section 86(4) of the Danish Financial Statements Act, the Company has not prepared a cash flow statement as the Company is included in the consolidated financial statements for Malt LNG Netherlands Holdings B.V., Wilhelminakade 95, 3072 AP Rotterdam, the Netherlands. The consolidated financial statements of Malt LNG Netherlands Holdings B.V. can be obtained at the Company's address.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

As from 1 January 2016, the Company has implemented Act no. 738 of 1 June 2015. This has entailed the following changes to recognition and measurement:

- Going forward, the residual value of property, plant and equipment must be reassessed on an ongoing basis. Pursuant to the transition provisions of the Act, any adjustments to residual values must be made prospectively as an accounting estimate without restatement of comparative figures and without effect on equity.

The changes have no monetary effect on the income statement or the balance sheet for 2016 or for the comparative figures.

Currency

Pursuant to section 16(2) of the Danish Financial Statements Act, the Company has decided to present the annual report in the Company's functional currency, USD. At 31 December 2016, the currency exchange rate was 7.0528 DKK/USD (31 December 2015: 6.8300 DKK/USD).

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Income statement

Gross profit/loss

Income from the charter of the Magellan Spirit is recognised in the income statement when delivery and transfer of risk to the buyer have taken place and provided that the income can be reliably measured and is expected to be received. Gross profit is measured at fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties.

Financial income and expenses

Financial income and expenses comprise interest income and expense, gains and losses on payables and transactions denominated in foreign currencies.

Tax on profit for the year

Tax for the year comprises of current tax for the year. The tax expense relating to the profit/loss for the year is recognised in the income statement.

Balance sheet

Property, plant and equipment

Vessels are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers, and wages and salaries.

Interest expense is not capitalised.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The depreciable amount, which is calculated as cost less the residual value at 10% of the cost price, is depreciated on a straight-line basis over the expected useful life.

The expected useful lives are as follows:

Vessels	35 years
Dry-docking costs	5 years

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Depreciation is recognised in the income statement as production costs, distribution costs and administrative expenses, respectively.

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating costs, respectively.

Dry-docking costs are recognised under vessels when incurred and allocated over the period until next dry-docking.

Impairment of non-current assets

The carrying amount of property, plant and equipment is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the expected net cash flows from the use of the asset or the group of assets and expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that a receivable or a receivable portfolio has been impaired. If there is an objective indication that an individual receivable has been impaired, write-down is made on an individual basis.

Write-downs are calculated as the difference between the carrying amount of receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Prepayments

Prepayments comprise costs incurred in relation to subsequent financial years.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

1 Accounting policies (continued)

Equity – dividends

Proposed dividends are recognised as a liability at the date when they are adopted at the annual general meeting (declaration date). The expected dividend payment for the year is disclosed as a separate item under equity.

Corporation tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account. The Company is part of a compulsory joint taxation with MALT LNG Holdings ApS, which is the administrative company.

Liabilities other than provisions

Other liabilities are measured at net realisable value.

Deferred income

Deferred income comprises payments received concerning income in subsequent years.

Financial ratios

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

The financial ratios stated in the survey of financial highlights have been calculated as follows:

Return on assets	$\frac{\text{Results for the year} \times 100}{\text{Average assets}}$
Return on invested capital	$\frac{\text{Profit before financial income and expenses} \times 100}{\text{Average invested capital}}$
Invested capital	Operating intangible assets and property, plant and equipment plus net working capital
Equity ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total equity and liabilities at year end}}$
Return on equity	$\frac{\text{Profit for the year} \times 100}{\text{Average equity}}$

Financial statements for the period 1 January – 31 December

Notes to the financial statements

2 Gross profit/loss

Pursuant to section 32 of the Danish Financial Statements Act, the Company's revenue is not presented.

3 Staff costs

Staff costs included in gross profit/loss for the Company's employees can be specified as follows:

USD'000	2016	2015
Wages and salaries	1,832	1,817
Pensions	187	254
Other staff costs	387	445
Other social security costs	7	11
	<u>2,413</u>	<u>2,527</u>
Average number of full-time employees	<u>78</u>	<u>66</u>

4 Property, plant and equipment

USD'000	2016	2015
Cost at 1 January	182,026	181,967
Additions	166	59
Cost at 31 December	<u>182,192</u>	<u>182,026</u>
Depreciation at 1 January	-34,105	-28,766
Depreciation for the year	-5,337	-5,339
Depreciation at 31 December	<u>-39,442</u>	<u>-34,105</u>
Carrying amount at 31 December	<u>142,750</u>	<u>147,921</u>

Financial statements for the period 1 January – 31 December

Notes to the financial statements

5 Tax on profit/loss for the year

USD'000	2016	2015
Current tax for the year	-68	0
Prior year adjustment	0	-34
	<u>-68</u>	<u>-34</u>

The Company is jointly taxed with MALT LNG Holdings ApS.

The Company is included under the tonnage tax scheme. The Company has no deferred tax; however, disposal of vessels or withdrawal from the tonnage tax scheme may trigger taxation.

6 Proposed profit/loss appropriation

USD'000	2016	2015
Interim dividend	39,000	0
Retained earnings	-6,777	-10,817
	<u>32,223</u>	<u>-10,817</u>

7 Equity

The share capital consists of 10,000 shares of a nominal value DKK 100 each, equivalent to USD 192,675. All shares rank equally.

For 2016, the Company's financial figures were included in the consolidated financial statements of Malt LNG Netherlands Holdings B.V.

The share capital has remained unchanged since the Company was established in 2010.

8 Contractual obligations, contingencies, etc.

The Company is jointly taxed with other Danish companies in the MALT LNG Holdings Group, with MALT LNG Holdings ApS being the administrative company. The Company has, together with the administrative company and its subsidiaries, unlimited joint and several liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties under the joint taxation scheme. The jointly taxed companies' total net liability to the Danish tax authorities amounted to USD 0 at 31 December 2016. Any subsequent corrections of the taxable jointly taxed income or withholding taxes, etc., may entail an increase in the Company's liability.

The Company has no contingent liabilities.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

9 Related party disclosures

The Company has chosen only to disclose transactions that are not carried out on an arm's length basis in accordance with section 98c(7) of the Danish Financial Statements Act.

Magellan Spirit ApS' related parties comprise the following:

Parties exercising control

MALT LNG Transport ApS, Torvet 21, 1, 4600 Køge, Denmark, parent company.

MALT LNG Holdings ApS, Torvet 21, 1, 4600 Køge, Denmark, ultimate parent company in Denmark. MALT LNG Holdings ApS is owned by Malt LNG Netherlands Holdings B.V.

Other related parties

Group entities and associates of the Teekay Corporation Group.

The Company's related parties also comprise the Board of Directors, the Executive Board and executive employees and their family members. Further, related parties comprise companies in which the above persons have substantial interests.