TEEKAY LNG PARTNERS' THIRD QUARTER 2018 EARNINGS RESULTS CONFERENCE CALL

Company: **Teekay LNG Partners L.P.**

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Conference Time: **11:00 ET**

Operator: Welcome to the Teekay LNG Partners Third Quarter 2018 Earnings Results Conference Call. During the call, all participants will be in a listen only mode. Afterwards, you will be invited to participate in the question and answer session. At that time, if you have a question, participants will be asked to press star one to register for a question. For assistance during the call, please press star zero on your touchtone phone. As a reminder, this call is being recorded.

Now for opening remarks and introductions, I would like to turn the call over to Mr Mark Kremin, Teekay Gas Group's President and Chief Executive Officer. Please go ahead, sir.

Scott Gayton: Before Mr Kremin begins, I would like to direct all participants to our website at www.teekaylng.com where you'll find a copy of the third quarter of 2018 earnings presentation. We will review this presentation during today's conference call. Please allow me to remind you that our discussion today contains forward looking statements. Actual results may differ materially from results projected by those forward looking statements. Additional information concerning factors that could cause actual results to materially differ from those in the forward looking statements is contained in the third quarter of 2018 earnings release and earnings presentation available on our website.

I'll now turn the call over to Mark to begin.

Mark Kremin: Thank you, Scott. Good morning everyone and thank you for joining us on the third quarter 2018 investor call for Teekay LNG Partners. I'm joined today by Scott Gayton, Teekay Gas Group's CFO.

Turning to slide 3 of the presentation, we will review some of Teekay LNG's recent highlights. This quarter's results were significantly stronger than last quarter. We generated cash flow from vessel operations or CFVO of $132.6 million, which was up 15% over the last quarter; adjusted net income of $19.5 million, up 44%; and adjusted EPU of $0.16 per unit, up 78%.

Our third quarter results were up primarily due to the delivery of five LNG carriers during the second quarter and part way through the third quarter. And we expect our fourth quarter results will be even higher as the earnings from new building deliveries are realised.

In addition, as we will detail on the next slide, we have increased our exposure to the currently very strong spot LNG carrier market and the cash flow from the strong charters secured in early October will have a positive impact on earnings for the next few quarters.

We have been speaking for the past few quarters about implementing a balanced capital allocation plan. Yesterday, we announced our intention to increase distributions to our unitholders by 36% starting next year. This level of pay-out will still allow us to delever our balance sheet into our target range within the next couple of years, which will position us to both return additional capital to unitholders in the form of increased distributions and/or buybacks and to continue growing our LNG fleet at a time when we expect significant demand for our LNG shipping services.

As we also announced yesterday, we intend to amend the partnership's tax status to that of a 1,099 filer from our current status as a K 1 filer. This change, if approved by unitholders, will not impact the taxes paid by Teekay LNG.

And lastly, we made good progress with our financings this quarter. We enhanced our $190 million 364 day facility by upsizing it to $225 million and extending it to a two year facility. And we expect to close the last of our newbuild financings, the Yamal Spirit facility in the next couple of weeks.

Looking at slide 4, as you will hear later in today's presentation when we speak about the LNG markets, the spot LNG shipping market has been incredibly strong and we have recently taken steps to participate directly in this upturn. In addition, similar to our last ARC7 LNG carrier, Yamal LNG requested early delivery of the remaining four vessels in our 50% owned joint venture with China LNG. Even the Sean Spirit and FSU Bahrain Spirit will enjoy unexpected spot exposure prior to the intended delivery dates of their long term charters.

Due to these two factors, being strong rates and early deliveries, and based on just – based just on charter secured, we expect our cash flow and earnings will be approximately $80 million higher at a minimum over the period of these charters when compared against the long term LNG shipping average rate.

Looking at the bar chart, we fixed the Torben Spirit on a multiyear contract at over $100,000 per day. In September, we in chartered the Magellan Spirit from our 52% owned MALT joint venture for two years at an opportune time this fall. We were able to out charter the ship from early October on a three week voyage for nearly $100,000 per day and then on a five month charter at a rate over $100,000 per day. All told, we will book an additional income of approximately $8 million on only one fourth of the in charter period. We look forward to reporting back to you once this vessel exits its scheduled drydock in the springtime.

The 52% owned Methane Spirit renewed its charter at a higher rate and the 52% owned Arwa Spirit and Marib Spirit LNG carriers are expected to be available for spot cargos starting Q1 and Q2 of 2019.

Looking at the table at the bottom of the slide, the Yamal LNG project has asked for our four remaining 50% owned ARC7 icebreaking LNG carriers to be delivered between three and five months early as indicated in the table. We have worked with the shipyard and our lenders and we believe we should be able to meet these earlier delivery days. And just yesterday, we were informed that the Sean Spirit, which is on charter to BP, will now deliver on 10th December this year, nearly one month ahead of schedule, which will add meaningful upside to our Q4 results.

We are pleased with the steps we have taken to benefit from the strong spot market and we are proud of our technical teams for responding to our customers' requests for early delivery and the resulting significant upside this will bring to our results over the next number of quarters.

Turning to slide 5. Over the past number of years since we embarked on completing what was the world's largest LNG newbuild order book, we have now taken delivery of 11 vessels with another seven, plus the Bahrain re-gas facility set to deliver throughout 2019. These seven vessels include the Sean Spirit, which we now know will deliver early in December 2018. We've invested over $3 billion in these projects. And along the way, we secured over $2.2 billion of debt and lease funding for these vessels.

Importantly, the majority of the equity funding for our new buildings was sourced through routine cash flow. We did not and we do not expect to issue any common equity in order to take delivery of our remaining eight projects. This method of funding is a departure from typical MLP model

and is one that we believe benefited our current unitholders and which preserves equity value for future long term unitholders.

Our LNG CFVO will grow by approximately $310 million as a result of our newbuilding book. And this incremental cash flow is a key component of our capital allocation strategy that we will discuss in a moment.

We believe we have the most diverse customer base with only one customer, Shell, accounting for just over 20% of our contract portfolio. At 6.5 years, our fleet is younger than the industry average of eight years. And we have a contract backlog of $10.6 billion or over $320 million per LNG carrier on a percentage of ownership basis. None of our peers can make similar claims to the facts on this page.

Turning to slide 6. Roughly $10.5 billion of our $10.6 billion book of forward fee based revenues comes from our LNG carrier fleet. And we service the customers whose logos can be seen across the bottom. These are definitely blue chip customers.

On an invested capital basis, nearly 90% of our invested capital is in LNG carriers. With the recent sale of two of our remaining four legacy crude oil tankers, we expect this will be over 90% soon meaning that we are now basically a pure play on liquefied gas carriers.

We have included these two charts this quarter because we have at times been viewed as having heavy exposure to the LPG market, which we are optimistic on in the longer term. However, as these charts indicate, we are primarily an LNG shipping company. We are the world’s third largest independent LNG carrier company and we expect LNG shipping will remain our main focus for many years to come.

Turning to our next slide, slide 7. On our last few earnings conference calls, we have spoken about a balanced capital allocation plan as one that will allow us to focus on deploying capital in multiple ways simultaneously, all to the benefit of unitholders.

Starting at the bottom of this slide, we have listed out a few of the key objectives of our balanced capital allocation plan. First, it needs to provide for significant balance sheet strengthening. Given the timing of our newbuilding deliveries, we are currently levered at nearly nine times cash flow. And while we are confident our fixed rate cash flows are solid, we view this as too high on a long term basis. We would like to target a ratio of approximately 5.5 times cash flow or lower, which leads us to our second objective.

We need to use discipline and ensure that when we deploy capital, it is sustainable over the long term. We expect our priorities will ebb and flow between the three uses indicated here in part depending on the relevant returns at the time. However, ideally we will be positioned to do all three on a sustainable basis going forward.

The third objective is that we would like Teekay LNG to be more self funding and not reliant on the MLP markets as a primary source of equity funding. We have not issued any common units since mid 2015. And we have no plans to issue additional units to complete our existing growth projects. We believe the MLP markets have been in a tumultuous state for the past number of years and the ability for firms like ours to raise competitively priced capital has diminished since the energy downturn in late 2015. We do not see this trend improving in the next few years. And therefore, we need to ensure we can fund the equity portion of new growth more through internally generated sources.

And lastly, we are using more fundamental financial metrics, like free cash flow including debt amortisation payments, when analysing distribution levels and our own intrinsic value when evaluating

divestment returns because sometimes buying our own fleet through share repurchases is the best investment we can make.

Looking to the top of the slide now. As we mentioned previously, we have just come through a massive newbuild programme of over $3 billion with the final vessel scheduled to deliver toward the end of 2019. And while we are extremely proud of the team's ability to bring each of these vessels in on time and on budget so far, we believe we need to pause on growth for a little while, in part, because we do not find current new investment returns compelling but also because we need to focus on the other avenues for deploying capital.

Yesterday, we announced our intention to increase distributions by 36% in 2019 with future increases and/or stock buybacks to be analysed at least annually. We will continue to analyse the amount of capital we are returning to unitholders with the goal of increasing returns over time based on our outlook for the LNG market, the amount of free cash flow available after debt amortisation, the relative return of investing in new growth versus buying back our stock, our balance sheet leverage and future liquidity needs.

Thanks to the recent strength in the spot LNG carrier market and our upcoming exposure to it, our de-levering plans will likely be expedited, providing us with the opportunity to deploy excess capital potentially earlier, which brings us to the left of this diagram and our key focus for the next couple of years. With our leverage currently near nine times, we will focus the near term allocation of Teekay LNG's capital towards debt repayment, because the stronger balance sheet will allow us to ramp up capital allocations to unitholders or for attractive growth opportunities in the future.

I will now turn over to Scott to cover the next couple of slides.

Scott Gayton: Thank you, Mark. Looking on slide 8, I'm happy to say that our leverage will naturally decline from the current 8.9 times or 8.7 on a proportionately consolidated basis, down to our targeted range of approximately 5.5 as newbuild projects and their associated cash flow deliver and begin to have a positive impact on our balance sheet.

We expect to generate total CFVO of approximately $650 to $680 million next year, including our proportionate share of equity accounted joint ventures, which will help us to repay approximately 300 million per year of scheduled debt amortisation payments on a proportionate consolidation basis and representing more than 25% of our market cap. And importantly, all of this value accretes to our unitholders.

And as we approach our targeted leverage range of 5.5 times, we will look at increasing returns to unitholders in the form of distributions and/or unit buybacks and pursuing attractive growth opportunities in a very disciplined manner.

The other unitholder action we announced yesterday is one we discussed on last quarter's earnings call and summarised on slide 9. We intend to amend our tax structure to that of a C Corp for US tax purposes because we believe this will help us attract new investors who may not focus on MLPs to file K 1s. This amendment is subject to a unitholder vote that we plan to hold on 18th December 2018. And the details of the special meeting can be found on the proxy statement that has been filed with the SEC today.

The partnership does not expect to incur additional taxes as a result of this conversion. And while some investors will recognise a gain on the conversion, we expect this gain to be more than offset by lower taxes on cash distributions paid by TGP in the future. We urge all investors to vote in favour of this proposal at 18th December meeting because we believe it will facilitate our ability to attract new investors to Teekay LNG compared with our current tax status as a K 1 filing MLP.

I will now turn the call back over to Mark.

Mark Kremin: Thanks, Scott. Turning to slide 10, we will now look at recent activity in the LNG shipping market. We have seen a significant increase in short term charter rates in recent months with average rates across the third quarter of 2018 exceeding $80,000 per day. Rates have continued to increase significantly in the fourth quarter and have averaged $180,000 per day so far in November. This is the highest rate ever recorded by Clarkson's and surpasses the previous peak seen in mid 2012 after Japan's nuclear outage.

Several factors have contributed to the strong increase in charter rates. First, global LNG demand has remained firm, especially in Asia. Despite trade tensions, Chinese LNG imports have continued to increase by approximately 40% year over year. And global LNG imports are on track to increase by approximately 9% this year.

Second, an increase in arbitrage trading at the start of the third quarter has supported LNG vessel demand. And European LNG reloads in 2018 were the highest in several years.

Lastly, the availability of LNG carriers on the spot market has been reduced to very low levels in recent weeks due to charter securing vessels in advance of the winter season and which has allowed remaining vessels to command higher rates.

As discussed earlier, Teekay LNG's vessels operating in the spot market have been able to take advantage of these stronger rates with many of our vessels recently securing vessels – sorry, charters at attractive rates significantly above the long term market average. We believe these rates are further evidence of an ongoing tightening in the LNG shipping market. And we expect attractive rates to continue on average through the winter season, and into 2019 and 2020, supported by the start up of new LNG export capacity.

New export trains at four projects have recently started or are scheduled to start in the fourth quarter of 2018. And we expect this ongoing growth in global LNG supply will continue to support LNG shipping demand.

Turning to slide 11. We turn our attention to the growing influence of the emerging Asia region on LNG demand. Global LNG demand growth is now largely driven by importers and the emerging Asia region, which includes China, India and several smaller but growing LNG importers such as Singapore, Thailand, Pakistan and Bangladesh. Collectively, imports in this region have increased from less than 10% of global demand in 2010 to more than 30% of global demand in 2018.

Last year, China became the world's second largest LNG importer behind Japan. And this year, China is expected to be the world's largest total importer of natural gas, which includes both LNG and pipeline imports. The importance of this region to the LNG market is expected to continue growing with total imports reaching nearly half of all LNG supply by 2030.

Turning to slide 12, we will highlight recent export project activity that will support the long term growth of global LNG supply. After several years of delay, the broad based recovery in energy markets is now supporting new LNG export projects and moving towards successful final investment decisions.

The recent decision to construct LNG Canada represents the largest export capacity to be sanctioned since 2014. And we're also tracking eight other projects with a combined export capacity of more than 70 million tons per annum that appear best positioned to reach a final investment decision before the end of 2019.

Recently, Wood Mackenzie stated that they anticipate 2019 could be a record year for LNG final investment decisions. This new supply will underpin the long term demand for LNG vessels, which would require more than 200 LNG carrier newbuild orders within the next ten years to fill this growing demand for LNG shipping.

In summary, we are encouraged by improving supply demand balance to the LNG shipping market. And we maintain a positive outlook in both the near and longer term due to the expected strong growth in global LNG supply and demand.

Similar to the last couple of quarters, we have included slide 13 as our scorecard of how what we are doing adds value to our shareholders. Our financings are progressing well with only the Yamal Spirit newbuilding still to be financed, which we expect to sign in the next couple of weeks. After that, we have only one JV LNG carrier to be refinanced in Q4 2019. 2020 and 2021 are similarly light.

Our new buildings are delivering on time or early. Everything delivered to date has been on budget and we're not expecting cost overruns on any of our remaining projects. As evidenced this quarter, the cash flows have been – we have been guiding to for many years now are starting to positively impact our results and we expect this to continue.

With our announcement overnight of a 36% increase in our distributions and our ability to significantly delever from our current state into our targeted range over the next couple of years, we are executing on our balanced capital allocation strategy. And we believe this approach will add significant value to our unitholders.

The market is acting as a tailwind for Teekay LNG right now. The spot market is very strong sitting at above $175,000 per day and we are benefiting directly from it.

And finally, we see a significant number of vessels that will be required to service new FIDs that have been taken. And we expect we will be well positioned financially to be able to take advantage of these opportunities in the future.

Operator, we are now available to take questions.

Operator: Thank you. Once again, ladies and gentlemen, if you'd like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question and we will pause for just a moment to allow everyone an opportunity to signal for questions. And our first question will come from the line of Michael Webber from Wells Fargo Securities. Please go ahead.

Michael Webber: Hey, good morning guys. How are you?

Mark Kremin: Good morning, Mike.

Michael Webber: Hey, Mark, first question is on the distribution you bumped to 36%. So in true equity fashion, I want to start focusing on what's going to happen a year from now. But you gave some language around revisiting it, at least annually. I just want to – just to firm up the right way to think about your intentions there. Is the right way to interpret that that this is something you would expect if all things goes as planned to grow annually in a relatively traditional sense? Or is the right way to read that that you are keeping your options open for different means of capital returns and it's really kind of TBD? I'm just trying to make sure I am interpreting that the right way.

Mark Kremin: So if it's okay with you, Mike, I'll take a stab at this and then I'll hand it over to Scott for further comments. But yeah, we do expect to hopefully continue to increase the distribution year on

year but it will be at a moderate pace. So if we reiterate what we've said, our deleveraging will be our focus over the next couple of years or few years. And so that's going to be our focus.

We've also mentioned today, and you've seen in the release, there's a lot of tailwinds. And so we may enjoy unexpected tailwinds over the next couple of quarters and over the next year in 2019 – we hope to. And depending on how those look, we will analyse what the best opportunities for with our capital at that time. But just to kind of sum up, I think, we are anticipating a moderate increase going forward after this bump. Scott, do you have anything to add to that?

Scott Gayton: Yeah. I think if I was going to add to it, I would say that part of the reason that we're not providing that 2020 guidance and beyond is we are going to try and be more dynamic with the way that we are allocating capital on a go forward basis. And it really will depend on the best return at that time. And once we've got a clear path for reaching our target at leverage levels, like Mark said, I think we'll really be looking to deploy the capital to the highest returning avenue we can find at that time. And whether that's dividend, then great. If that happens to be buybacks are more beneficial to unitholders, then that makes sense too. Further down the list would be growth opportunities but you never know what's going to hit us in that timeframe. So I think that we're trying to be a little more dynamic. It's not that we don't want to give visibility. We're just trying to transition towards looking at things on more overall return basis.

Michael Webber: Yeah. No, that's helpful. One of your competitors at the GP level kind of introduced and kind of embraced the idea of special dividends on top of kind of a fixed kind of flat pay-out just to kind of keep some flexibility and be a bit more tactical. Is that something that's come up with you all at the board level as a thing you would think about as well? Should that be included in the mix? Or is it – or are you looking at the more traditional tools, just kind of buybacks and kind of bumping the predictable distribution?

Scott Gayton: Yeah. I think I would say again, it's going to come back down to that relative return. I know that the peer that you are speaking of is trading in a very large premium to their NAV. And so in which case doing stock buybacks is probably not the best way of deploying that capital. And I would say that we are on the other end of that spectrum. So maybe that's a high class issue if you're trading at such a premium to NAV that you would look at doing a structured dividend. So, no, at this point given where we're trading and what we think our ultimate value is, it hasn't come up. But it's really just more to do with the fundamentals of it.

Michael Webber: Yeah. No, that's fair. Scott, just on refinancing, the ARC7s and the conventional carriers and moving those up, was there any lag that's developed associated with in terms of the new delivery schedule versus when that refinance cap – that refinance that would get released? I'm trying to figure out whether there is any sort of, you know, going to over equitise these a bit to get them to delivery because there is a lag around the revised just scheduled?

Scott Gayton: Yeah, no. No, good question. And we were – as soon as we got the request from the charter, we go right back to the shipyard to see that they are able to do it three to five months early. And once they give us the go ahead, then we go to the lenders to make sure that they are able to fund commensurately. So there will be no difference in timing expected for everything – the drawdowns and the equity portion – everything else just simply gets moved up from where it was to the new delivery date.

Michael Webber: So it's all on lockstep – okay. And then Mark, one more and I'll turn it over. But you mentioned a bit when you talked about this – obviously, the focus on deleveraging, which I think makes sense. Within your comments there, you mentioned not liking returns on new business right now. And it's interesting because it's something that I've asked some of your peers in their calls as well. I'm just curious, are you seeing new entrants into the LNG carrier market way on – so just basically, kind of newbuild business and kind of the five- to seven year tender range. I know you guys are – I don't know how active you guys are right now in some of

these tenders. But it seems like there's a little bit of pressure there and I'm wondering if that's kind of what you're referring to. And if not, what were you referring to?

Mark Kremin: We are referring to that Mike. So what we've seen on the five- to seven year charter type of length, there's been competition. And some of that's been new entrants and some of that's been more established entrants. And so those returns we don't think are the best pay value right now. Almost spot market is better or long term is better, if it's available. But that midterm seems to be one which is prevailing and it's not that attractive to us to date.

That said, we are still looking at it. We have ships that come off charter from Cheniere, for instance, at around the time that those charters start and the same two strokes that everyone has on order right now. So we will be competing against those for those charters but with existing tonnage. I think for us to go out and buy tonnage new, respectful tonnage for those kinds of opportunities, the five to seven years is – with the order book as it is today – is not a prudent measure for us right now.

On the other hand, there is always these tenders that will come out that are bespoke. And I don't know what exactly they are, certainly Arctic 2 type of tender. But there will be other type of bespoke and newbuilds that will always be required, I think, in the future where you can't necessarily compete with a prospective newbuild. And so hopefully, we get a good look at those as well as things pan out.

Michael Webber: Got you. That's helpful; I appreciate the time guys. Thank you.

Mark Kremin: Thank you.

Operator: Your next question will come from the line of Randy Giveans of Jefferies. Please go ahead.

Chris Robertson: This is Chris Robertson on for Randy. Thanks for taking my call. In the past, you provided a slide that shows the remaining CAPEX and completed undrawn debt financings. Could you provide an update on that for the end of 3Q?

Scott Gayton: Yeah. Hey, Chris, sure. So remaining CAPEX as of the end of the third quarter is about 830 million, of which we've got completed and undrawn debt financings of around $640 million. And if we add to that the Yamal Spirit financing that we expect to complete in the next couple of weeks, which is going to be around $160 million. So with that, then we do expect to be fully financed to take delivery of the remaining ships.

Chris Robertson: Okay, thanks. With so much focus on de-levering the balance sheet, what would be the plans for the crude tankers and some of the LPG carriers? Are they potential divestment candidates? Or what's the story there?

Mark Kremin: Well, starting with the crude tankers, we've signed an MOA for Suezmax just this month and we expect to deliver that ship in December. So we will be left with one crude oil tanker and one product tanker. And we're – we've basically exited that space. I would anticipate the last of our crude oil tankers could be sold as recently as this year or very soon and the product tanker that we have will be sold at the end of next year. So we basically have been, and we will continue to, divest completely out of the tanker space.

On the LPG side, I think what we have there is a cyclical play. As we've put in our remarks, it's a relatively small part of our liquefied gas carrier fleet. The franchise that we have, particularly on the midsize base, our JV with EXMAR, as the world leader in the midsize gas carrier space, is strengthening and we see that as a good franchise to hold. As you know, the shipping market goes up and down and I think we're on the upswing of that. So we don't have any ideas to sell from that fleet. I will say, however, that going into the bear market that we are now in, we did sell a number of LPG ships from that fleet.

And on the ethylene side, which is a much, again, smaller part of our fleet – that's seven small ethylene carriers – it's to be determined. We are working on the TMP fleet. We've been gaining traction with customers, but we keep our eyes on that. It's probably less core than certainly the midsize and definitely less core than the LNG. So we'll just – we'll see how that goes over the next couple of quarters before we do anything there.

Chris Robertson: Okay. And just a follow up on the de-levering question. What are your expected debt repayments in 2019? Can you give at least a range of a minimum and maximum for that?

Scott Gayton: Yeah, if we look at it on a proportionately consolidated basis and some market given guidance of the – where we expected the overall EBITDA to come in, in that 650 to 680 range, so we would expect to have amortisation payments of around $300 million. And then I would say that on top of that, there would be interest expense of around $250 million.

Chris Robertson: Okay, great. Thank you for taking my questions.

Operator: And your next question will come from the line of Fotis Giannakoulis from Morgan Stanley. Please go ahead.

Fotis Giannakoulis: Yes. Hi, gentlemen and thank you. I would like to focus a little bit more on the potential opportunities out there. I understand – the market is booming right now. And I understand that you do not find very attractive and long term – available long term business. Is this something that you consider is structural because of the increased competition? Are you planning to focus more on the spot business in the future especially since I saw that you're chartering one vessel from one of your JVs in order to increase your spot exposure?

Mark Kremin: Sure, Fotis. So when we look at – we've done recently with the – we've been talking about taking a prudent measure on the distribution. We have a diverse fleet and most of which is fixed out. We're not held hostage to a pay-out structure, which, yes, it does allow us to take a better look at spot market ships. And we don't have to necessarily do a five- or seven year charter, which we are forced to pay-out. So if the balance and the reward is in the spot side, I think with our ships that we have available for exposure, we are happy to take a look at it whereas five years ago or so, we probably couldn't frankly. So yes, we will be looking at spot market.

Just to reiterate what I said about the five to seven, I'm not sure we would necessarily order a speculative ship at this point to be competing against it but we have ships that will be rolling off of good five year charters at the same time. So we will be able to compete for those charters with two strokes that we already have. And it's a way of optimising our current fleet for those types of charters rather than ordering a newbuild for a relatively short charter. So we will participate; I just wouldn't order new buildings against it. Does that help?

Fotis Giannakoulis: Yes, absolutely. And can you also comment about the new round of newbuilding orders or the new round of long term charters because we see some projects that they are reaching effectively LNG Canada, Cheniere's expansion. Qatar has mentioned that they are going to grow their production very soon. At what point do you expect that these participants will try to look for vessels and sign long term contracts?

Mark Kremin: Hopefully next year. We are in agreement on those projects you mentioned. They should be taken FID relatively soon. They'll need shipping. And hopefully next year, we will start to see the tenders come out. In the meantime, what we are seeing is, existing trains or trains that are about to start up shortly, looking for five to seven years starting say 2020 or 2021. That sort of 2023 start up for these new projects is something we hope to see for shipping starting next year.

Fotis Giannakoulis: Thank you for that. And can you comment about the order book and the increase in newbuilding orders, some of them they seem to be speculative? At what point do you think that we should start worrying about the increase of the supply or you expect that we still have plenty of room to grow? And I'm talking about for the period of 2021, '22, when these vessels will be delivered.

Mark Kremin: I think we should start thinking about that – where we are at right now. I've seen in the news that one of our peers has kind of perhaps ordered another – a couple of ships by the end of the year. The newbuilding order book, as we see it today, is probably getting close to saturated before 2021. So that's – obviously, there's going to be a lot more ships in the – over the next ten years. But we think that the newbuilding space right now is getting saturated.

Fotis Giannakoulis: Thank you very much. One last question about the spot market right now. Henry Hub has increased significantly, probably well above most people's expectations. Do you see that this has caused any impact on the trading of spot volume out of the US? Does this make it harder for US exporters to sell their volume especially given the very tight shipping market?

Mark Kremin: We haven't seen it. What we've seen more or so is storage. So you've talked about the production side and the pricing there. We have seen certainly a lot of storage situations in Asia. And that seems to be driving things more than the production side for us. It seems to be tying up shipping. It's tying up at least some of our shipping of which we are aware. And that's probably having a greater impact on shipping right now than the production as far as we can see.

Fotis Giannakoulis: Thank you very much, gentlemen.

Operator: Next question will come from the line of Chris Snyder of Deutsche Bank. Please go ahead.

Chris Snyder: Hey, good morning guys. So I just wanted to follow up on the last question on natural gas prices but maybe taking a longer-term view and how it affects LNG shipping markets somewhat. And obviously, higher natural gas prices increase production and cash flows for producers, which generally drives infrastructure investments. However, it also compresses the spread between the US and China, which makes many of these projects attractive. So I know this futures market [inaudible] is short lived but I'm interested just to see how you guys think about how all these moving parts shake out?

Mark Kremin: I'm not sure I understood the question. Sorry, could you repeat that?

Chris Snyder: Yeah. I mean, just kind of thinking about longer term, US natural gas prices are structurally higher. Like do you view that as a positive or a negative for LNG shipping markets because higher prices, of course, drive higher cash flows for natural gas producers? When those guys are generating cash, they're more likely to invest in infrastructure like LNG terminals. But on the other side, part of what makes US projects so attractive is the low prices of the natural gas and the spread between that and the Far East. So just kind of longer term, how do you think that would shake out?

Mark Kremin: Fair enough. So a couple things. When we talk about rising gas prices in the US, what we see over time is a pretty flat line. And it's been pretty flat for a while and we expect it will remain relatively flat compared to Asia for instance. The demand growth in Asia is – and that we've discussed in our prepared remarks – is significant in getting more significant all the time. And I'm not sure that the [inaudible] on the – is ever going to swing that much by increasing prices in the US. We are not seeing that.

Chris Snyder: Okay, thank you for that. So you guys have clearly taken on a bit more spot exposure over the last couple of months. Should we expect this trend to continue as you guys kind of transition more towards being a C Corp?

Mark Kremin: Well, we're certainly probably more open to it as we behave more like a C Corp but we only have so much tonnage to have. And we have to be mindful of what we've also said today which is that these good times as we say in house may be transient. And by 2022 or whatever that is, you might – things might become – not be as sloppy as they are today. So we will certainly be enjoying the spot market over the near term but we will also be looking at some point to fix these ships out on a multiyear. And so, I think both those things will happen.

Chris Snyder: Okay. But so it kind of seems like the vessels that are coming available over the next six months, you guys would potentially be open to operating those in the spot market, just kind of given where term and spot rates are at that time?

Mark Kremin: Absolutely. We have tonnage coming up as we've said in our remarks. We have tonnage coming up in Q1 and Q2. And we have, yeah, so definitely those ships are probably earmarked for spot business for the foreseeable future.

Chris Snyder: Okay. And then just one last one on the charter out contract you guys announced. Based on some of the data provided, I kind of see that charter out to five months contract to be in the $120,000 a day range. So I guess my question is well, one, is that right? And two, obviously, that purely encompasses the seasonally strong part of the year. But is that kind of where you think the term market is currently?

Mark Kremin: Well, first of all, you are pretty close to the rate. So that's for starters. And in terms of where we're going to be, I think that were in a good seasonal point right now, being winter coming on. There is a lot of winter fixtures. I think we see a little bit of softening probably in Q2 or

so. But the second half of next year we anticipate will be strong or stronger than we are today. So I think you can look at that charter, although it covers a season as being representative of what we might hope to expect for all of 2019.

Chris Snyder: Okay, that's it for me. Thanks for the time guys. I appreciate it.

Operator: And your next question will come from the line of Noah Parquette of JP Morgan. Please go ahead.

Noah Parquette: Hey, thanks. I wanted to ask, if you guys kind of deleverage the balance sheet and you choose what things have to go, what parts of the capital structure do you find core? And what things do you think we would paid off first?

Scott Gayton: Yeah, I think that most of what we will be de-levering is just simply regular amortisation that goes along with the ship mortgages that we have taken on, on a lot of our newbuild book. And so I wouldn't say that there is a ton of flexibility within that in order to pay things off. But if there is or if we do have excess cash flow, then we will just simply look at what is going to be the easiest and most cost efficient to pay off.

Initially, that would be revolvers, obviously, just given their very nature. Norwegian bonds, for example, yes, they're more expensive. But if they're trading above par, then that may not make sense to deploy capital doing that.

And then the other one is potentially preferreds. Preferreds carry a high ticking fee. I kind of look at preferreds as debt in sheep's clothing. So that may be something that we would also look at doing and really just comes to the cash flow that we have and where the best return is to deploy. And as we said earlier, while initially our plans are to delever, as we do delever, and if we delever quicker, then that actually may be better off being put back towards equity where

we can get the highest returns. So we are going to trying and be flexible and really analyse ourselves as a C Corp and not necessarily be beholden to a pay-out structure where you are not always making the optimal decisions.

Noah Parquette: Okay. And then on the conversion to the C Corp structure, and I don't think the IDR has a tonne of value now, but will there be anything associated with that in terms of compensating Teekay or is that just going to go away?

Scott Gayton: No. There is nothing that happens to either the GP or the IDR by moving from a K 1 to to a 1099 filer. I would say that the K 1 is probably legacy and something that we have had since we IPOd over ten years ago. And all we are trying to do is to move into the neighbourhood that the rest of our LNG peers are in. If we were to continue to go further through that spectrum and go from being a 1099 to a C Corp, then you are correct. We would have to address both the GP and the IDRs but that's not in the plans right now.

Noah Parquette: Okay, sorry. And then just one modelling one. On the Awilco ships next year, can you just remind me or refresh my memory about how much – what the sale proceeds will be and how much debt are associated those two ships?

Mark Kremin: The sale proceeds will be about $130 million at the end of 2019. On the debt side…

Scott Gayton: Yeah, I think, we're about $75 million or so on each one of those vessels.

Noah Parquette: $75 each, each ship?

Scott Gayton: Yeah, that's correct.

Noah Parquette: Okay, thanks. Bye.

Operator: And gentlemen, there are no further questions at this time. I would like to hand it back over to Mr Kremin for closing remarks.

Mark Kremin: Well, thanks to everyone for your support. We hope you will agree that your patience has started to pay off. And we hope to give you even better news next quarter. Thanks and goodbye.

Operator: And this concludes today's call. Thank you for your participation. You may now disconnect your lines and have a wonderful day everyone. Goodbye.