HUSKY ENERGY
Q1 2014 CONFERENCE CALL & WEBCAST
TRANSCRIPT

Date: Wednesday, May 7, 2014
Time: 8:00 AM MT

Speakers:
Asim Ghosh
President & Chief Executive Officer

Alister Cowan
Chief Financial Officer

Robert Peabody
Chief Operating Officer

Dan Cuthbertson
Manager, Investor Relations

Bob Baird
Sr. VP, Downstream
OPERATOR:
At this time, I would like to turn the conference over to Dan Cuthbertson, Manager, Investor Relations. Please go ahead.

DAN CUTHBERTSON:
Good morning and thanks for joining us for our first quarter results. I’m here with CEO, Asim Ghosh; COO, Rob Peabody; and CFO, Alister Cowan, as well as Bob Baird, who is the Senior VP of our Downstream business. We will be taking a look at our first quarter results and then we’ll answer your questions.

Later this morning, at 10:30 a.m. Mountain Standard Time, we will hold our Annual Meeting of Shareholders here in Calgary. A webcast of this meeting will be available on our website at huskyenergy.com.

As usual, our comments today will contain forward-looking information. The actual results may differ materially from expected results because of various risk factors and assumptions that are outlined in our quarterly release and in our annual filings. These are available on SEDAR, EDGAR and our website.

Now, I will turn the call over to Asim.

ASIM GHOSH:
Thanks, Dan, and good morning, everybody. It was something of a whirlwind quarter for us at Husky, as the biggest project in our history achieved first gas. Just seven years after the discovery, Liwan is now flowing gas into the fastest-growing energy market in the world. I’ll speak more about this in a few moments. Overall, once again this quarter, we kept a clear eye on the fundamentals we outlined in our business plan three years ago. You recollect that included clear performance metrics, a focus on driving efficiencies across our operations, making sure that our best projects were being funded at the right time, and focusing on execution.

So, looking at the numbers in the past quarter, net earnings were $662 million, up 24% from $535 million a year ago; cash flow was $1.5 billion, up 20% from $1.3 billion in the first quarter of 2013; and production was 326,000 barrels a day equivalent, up 321,000 BOE per day in the
first quarter of 2013, and 308,000 in the last quarter. Overall, we continue to follow a steady course. Alister will provide you more details on our financial performance in the section which follows mine.

Now, turn to our operations, let me start with our base business. We put three heavy oil thermal projects under our belt over the past couple of years and all continue to perform in their early years beyond their design capacity. You will recollect that we brought the Pikes Peak South and Paradise Hill thermals in production in 2013, and we started up the Sandall project early in the first quarter of this year. Looking ahead, we have a deepening portfolio of new thermals waiting in the wings. Rush Lake will come on in late 2015, and Edam East and Vawn are set for production in 2016. In addition, we have a new thermal project. Our Board has just sanctioned Edam West, which is scheduled to be in production in 2016. The nice thing about these projects, they provide attractive returns, we can build the modules quickly, and we can run them cost efficiently over a long life to create sustained production and value over the long term.

In our western Canada business, the headline continues to be the steady transformation of our portfolio to higher impact liquids-rich gas and oil resource plays. In particular, we’ve been seeing great progress at Ansell, which is a liquids-rich gas project that’s undergoing rapid growth. Overall, production from our resource plays now exceeds 30,000 barrels a day, so we are well on our way to our target of 50,000 barrels equivalent per day by 2017.

Moving on with Downstream, we continue to advance our crude flexibility project at the Liwan refinery, which will further support our focused integration strategy by providing a home for our growing heavy oil thermal production in western Canada. I think Rob will talk more about this in his section, about how we are building out our Midstream pipeline infrastructure to accommodate these increasing volumes.

Finally, I move on to our major growth areas. Let me start first with the Asia-Pacific region. So, as I just said earlier, we achieved first gas at the end of the March at the landmark Liwan Gas Project and now we are producing and selling gas to our customers. The Liwan 3-1 field and facilities are operating well with volumes already ramped up to around 775,000 mmcf per day of sales gas, plus in the range of 7,000 barrels a day of liquids. All of these numbers, by the way, are gross.
Moving to the Sunrise Energy Project, we are proceeding as planned and Phase 1 remains on track for start-up in the second half of 2014. As we said last year, we are planning for a staggered start. There are two trains within the CPF – that’s the Central Processing Facility – we’ll be starting up the first train in the second half of this year with a production ramp-up over the following 18 to 24 months. The second train is scheduled for completion about six months after the first is brought on line. I’ll remind you that the first phase is expected to deliver, once it’s fully ramped up, about 60,000 barrels a day and half of those, 30,000 barrels a day, are net to us at Husky.

In the Atlantic region, we are not resting on our laurels following the two exploration discoveries in the Flemish Pass last year at Harpoon and Bay du Nord. We moved quickly with our partner to secure a rig for further appraisal drilling and that rig is the West Hercules, which is scheduled to arrive in the region in the third quarter of this year to conduct further exploration and appraisal work in the Bay du Nord area. This rig is specially designed for drilling in harsh weather conditions, such as high seas and deep water, and I can say that with some confidence because it was the same rig that drilled our Liwan wells in the South China Sea, where we encountered some rather challenging weather and sea conditions. You’ll recollect that our partners refer to Bay du Nord as the largest oil discovery in the world for 2013, and we are very keen to see the results of this additional appraisal drilling.

In the Jeanne d’Arc Basin, where we have some long-year-term and medium-term projects underway, we are continuing to advance our developments in the White Rose field and, again, this is something that Rob will bring you more up to speed on.

So, to sum up the quarter, we are hitting our marks. The Liwan Gas Project is now a reality and we are continuing to build momentum in our heavy oil thermal business with a series of long-life projects that are on production, under construction or in the hopper.

Alister, why don’t you amplify a bit on the financial picture and then we’ll move on to Rob?

**Alister Cowan:**
Thanks, Asim. We had a strong quarter from an earnings and cash flow perspective. Net earnings were $662 million for the quarter, which was up from $535 million at the same time last year, and our cash flow was up to $1.5 billion, up from $1.3 billion in 2013.
Now, the results reflected a number of factors. They included: increased production across our foundation business – that was the new production from the Sandall heavy oil thermal start-up and strong results on the Ansell liquids-rich gas resource play. We had increased production from our multi-lateral well at North Amethyst in the Atlantic region, and improved operating performance from our interests at Terra Nova; stronger realized gas prices as a result of the exceptionally cold weather during the winter and, of course, higher realized oil prices due to slightly stronger benchmark prices and a weaker Canadian dollar.

Our integrated strategy performed as we expected, with narrowing product and location differentials increasing realized prices Upstream, but these were offset in the Marketing and the Downstream results. The MD&A and our website contain details on our pricings, but let me highlight a few items for you.

The average realized price for our total Upstream production, both crude oil and natural gas, was $72.21 per BOE, and that was up from $54.43 last year and, as I said, this benefited from a combination of higher benchmark commodity prices, narrower product differentials and a weaker Canadian dollar.

Chicago market crack spreads averaged $18.35, compared to $26.87 in the first quarter of last year. However, location differentials were narrower between Chicago and the refinery locations, and increased distillate production partially mitigated this decrease.

We also recorded a FIFO gain $63 million after tax in the first quarter.

As a result of these, the realized US Downstream refinery market was $21.63 per barrel, compared to $20.47 a year ago.

Now, looking at net earnings, the Upstream segment recorded increased net earnings of $422 million, compared to $255 million a year ago and that reflected the increased production and improved pricing. If you look at the results in a little bit more detail, you’ll see that the higher E&P earnings—you’ll see higher E&P earnings and lower I&M earnings, as the differential is narrowed and the value moved back up the integration chain into the E&P business unit.
Our net earnings from our US Refining and Marketing operations were $112 million in the first quarter, compared to $145 million a year ago, and that reflected the turnaround we had at our Liwan refinery. The upgrader contributed $79 million to net earnings in the first quarter, compared to $132 million a year ago and this was due to a number of factors that included higher heavy oil feedstock costs due to the narrower differentials, and higher operating costs due to increased natural gas prices, and some planned maintenance during the quarter.

Looking ahead; a few items to note in the coming quarters. In Upstream, at Liwan, customer offtake delays due to reduced demand from the three new gas-fired power plants that have earned their commissioning resulted in some production volumes being deferred in the short term. Still in the Asia-Pacific region, we’ve commenced a major offstation at the Wenchang field to replace mooring lines and conduct other dry-dock maintenance. The FPSO will be off line for approximately five months, with an anticipated production impact of 3,300 BOEs per day over the year. In western Canada, we scheduled a full turnaround at our Rainbow oil and gas facility in the second quarter and this should last about a month. Finally, our partner is planning a four-week turnaround in the Terra Nova FPSO, starting in Q3.

In Downstream, during April, the Lloydminster upgrader operated at about 50% capacity due to some plant equipment issues. We also have a partial outage scheduled for this fall and we expect to maintain operating capacity at about 80% during that 42-day program. At the Lima refinery, our March turnaround extended into April, followed by a slower than anticipated ramp-up, and for the month of April the refinery operated at about 50% of capacity and is now back to full normal production. Also, we started scheduled maintenance of a partner-operated refinery in Toledo. We are anticipating a draw-down in operating capacity to about 70% for an estimated period of 35 to 50 days, depending on the unit. The remaining 70% of the operating units are scheduled to be addressed in a turnaround planned for 2015.

In respect to the dividend, the Board has approved a quarterly dividend of $0.30 per share and following some feedback from investors, the Board of Directors has decided to reinstitute the stock dividend program which allows shareholders to accept dividends in cash and in common shares. When we stopped that program in late 2013, take-up was a minimal at 291,000 shares for the whole of 2013.

Now, over to Rob and he’ll give you his perspective on our first quarter operations.
ROBERT PEABODY:
Thanks, Alister. I’ll start first with heavy oil. As you heard, we brought the Sandall Thermal Project on line in the first part of the quarter. We have seven wells going at Sandall now, which has already outstripped its nameplate capacity of 3,500 barrels per day. Currently, it’s pumping in the neighbourhood of 4,500 barrels per day. One after another, these thermal projects are being brought on production often ahead of schedule and surpassing our expectations. The lower F&D in operating costs are reflected in increasing netbacks, giving us added value per barrel in improving the quality of our earnings.

As Asim mentioned, we have a strong lineup of thermals in our portfolio. We have already sanctioned Edam East and Vawn, which are both 10,000-barrel-a-day projects coming on 2016, and now, as Asim mentioned, we have a new candidate on the block, Edam West, which is based on the Sandall model. It will be a 3,500-barrel-per-day project and we’re hoping to bring it on to production in 2016, as well.

At Rush Lake, which is a 10,000-barrel-a-day project, we are continuing to advance construction towards first oil in late 2015.

In other parts of our heavy oil business, we drilled 23 horizontal wells during the quarter out of our planned 140-well program for 2014. In addition, we drilled 73 CHOPS wells to start off our 177-well program for the year.

Turning to our western Canada operations, starting with our liquids-rich gas resource plays, Ansell continues to be a primary focus. In the first quarter, we averaged about 17,000 barrels of oil equivalent per day from this asset, up about 18% from Q1 a year ago, and we’re continuing with our multi-rig drilling program. You will recall that we are accelerating production from Ansell towards 30,000 barrels per day in the next few years. During Q1, we drilled an additional eight wells and completed three on this multi-zone play.

In the Duvernay at Kaybob, our four-well pad is producing as expected and we brought on another two-well pad late in the first quarter. Drilling has started at the Wilrich liquids-rich gas play at Kakwa, where we have a five-well program with our partner. Completions will begin after breakup and initial production is expected towards the end of the year.
We have also been very active in the Strachan Cardium, which is an emerging Ansell-like play, near Rocky Mountain House, that is showing some encouraging results. We drilled and completed four liquids-rich horizontal wells at Strachan during the quarter. Overall, we drilled 15 wells and completed nine over our liquids-rich portfolio in the first quarter.

Looking at our oil resource play activities, we drilled a total of 18 wells and completed another 22 in the first quarter, with activity primarily centred at the Viking and Oungre Bakken and the Cardium plays. Production from our oil resource plays in Q1 approached 8,000 barrels per day, an increase of 13% over the first quarter of 2013.

We plan to give you more information on the status of our oil and liquids-rich gas resource play activities at our upcoming Investor Day in early June.

Moving to our Downstream business, work is underway to expand our Midstream pipeline infrastructure to support the accelerated growth of our heavy oil thermal business. We have just completed an expansion of our pipeline system from the Sandall thermal development to the existing gathering system that leads to Hardisty. We are also building out our south Saskatchewan gathering system to accommodate future volumes from the Rush Lake Thermal Project. As mentioned earlier, we’ve been making good progress with the crude flexibility project at Lima. About 90% of the early engineering work is now complete on the project. This involves making some cost-efficient equipment modifications to allow us to process our growing thermal production from western Canada. Preparations are continuing at our partner-operated refinery in Toledo, Ohio, to process bitumen once the first phase of Sunrise starts up in the second half of this year.

Turning to our growth pillars in the Asia-Pacific, Liwan gas is being produced and sold to customers. Meanwhile, in the Madura Strait, offshore Indonesia, we’re awaiting regulatory approval for the FPSO tender for the BD field. We recently signed an agreement setting out the principal terms and conditions for gas sales from the shallow water MDA and MBH fields. The government of Indonesia has appointed a lead distributor for the majority of that gas. In addition, we have signed a Production Sharing Contract on a new offshore block in the East Java Basin. We are looking to start exploration work there in the next couple of years.
Looking at our oil sands business and the Sunrise Energy Project, as Asim said, start-up is expected in the second half of the year. As mentioned earlier, we’ll bring on Plant 1A later this year. Plant 1B is scheduled for completion about six months after Plant 1A.

Moving now to the Atlantic region, we are gearing up to resume drilling on a Hibernia-formation well that targets a deeper zone beneath our North Amethyst field. We’re looking to bring the new well on production later in this year. At South White Rose, we are injecting gas to increase the reservoir pressure prior to bringing on the first oil well from this project around the end of the year. With West White Rose, we’ve been making good progress on the graving dock, which is about 35% complete as of now. I was out there, actually, just a couple of weeks ago and was pretty impressed with the progress they’ve made in the past few months, through what’s actually been a pretty harsh Newfoundland winter. Subject to final approvals, we’re expecting to begin construction of the wellhead platform later this year, with first production from this field targeted in the 2017 timeframe.

Asim talked a bit about West Hercules and how this rig will be used to appraise our Flemish Pass discoveries. We’re zeroing in on Bay du Nord as our prime target initially, but we’ll also be doing some additional delineation work at Harpoon and Mizzen next year. We hold a 35% working interest in all three discoveries and believe they have significant commercial potential. Meanwhile, the purpose-built West Mira rig is coming into the play in mid-2015, and that’s going to provide us with further options down the road for both exploration and also, clearly, continuing development of our existing fields. In other words, we have lots of running room in a very big Basin, with many opportunities to pursue.

So, just summing up, we finished the quarter strongly, which included the start-up of Liwan and the steady results we’ve been seeing from our heavy oil thermal projects, but our momentum has only really just started to build as we begin to put the final touches on Sunrise, continue our parade of new heavy oil thermal projects, and get set for a deeper dive into our Atlantic region opportunities.

With that, I’ll turn you back over to the Operator for your questions.
OPERATOR:
Thank you. We will now begin the analyst question and answer session. Any analyst who wishes to ask a question may press star, and one, on their touchtone phone. You will hear a tone to indicate you’re in queue. For participants using a speaker phone, it may be necessary to pick up your handset before pressing any keys. If you wish to remove yourself from the question queue, you may press star, and two. One moment, please, while we poll for questions.

The first question is from Chris Cox of Raymond James. Please go ahead.

CHRIS COX:
Hi, guys, just a quick question. You’re looking at, you know, your growing heavy oil thermal portfolio. Can you maybe discuss just kind of how that is—how should we think about the continued roll-out of new project announcements there, and are you fairly advanced right now in terms of the evaluation of all these new potential thermal opportunities, or is it something that we should expect to kind of to be gradually announced over the next couple of years?

ALISTER COWAN:
Rob, do you want to take that?

ROBERT PEABODY:
Sure. Thanks, Alister. Yes, on the heavy oil thermals, I mean, our previous target that we set at the last Investor Day was 55,000 barrels a day from thermal for 2016. Currently, thermal production is over 40,000 barrels a day – it’s actually closer to 45,000 barrels a day – and, as I said, Sandall is on production and exceeding its targets. We’ve got three more projects – well, four more projects now that we just sanctioned another one currently in the queue under development at the moment – and we do believe there’s some substantial potential beyond that. We’re working up all those things, you know, all the details of those projects as we go, so it’s a production line. We don’t yet see the end of the production line. Again, when we have our Investor Day, we’ll give a little better view of what our current view of the whole thing is.

CHRIS COX:
Okay, great. Then just one more quick question here. Just looking at the Duvernay, can you maybe just quickly comment in terms of what you’re seeing from some of those wells you drilled more recently, and what you’re thinking in terms of development of that asset?
ROBERT PEABODY:
Well, we have very encouraging results from the Duvernay. I think I’ve previously said, and still would just stand by, that our results are kind of as good as anybody else is seeing in the play. Again, we’ll give you a bit more result—we’ll give you, really, a much better view of what we see on that at the Investor Day.

CHRIS COX:
All right. Great. Thanks, guys.

OPERATOR:
The next question is from Paul Cheng of Barclays. Please go ahead.

PAUL CHENG:
Hey, guys. Good morning. I have a number of, hopefully, short questions. Rob, in the thermal project, what’s the resource recovery rate that you guys assume and what’s the upside there?

ROBERT PEABODY:
Okay. So, just quickly, before I get so many questions I forget the first one, is just the—is on the thermal, what we have seen in places like Pikes Peak, where we’ve been this business for a quite a while, we see up to 60%/70% recoveries on these projects. That’s not what we assume for our economics when we sanction them. We’ll see how they do over time but certainly, in the long term, we expect to see recoveries in excess of 50%.

PAUL CHENG:
Rob, can you tell us what is your current assumption?

ROBERT PEABODY:
I think we actually – I’d have to go back and check – I think we actually sanctioned these projects around 35%/40% recovery.

PAUL CHENG:
That means that the total rate or that the production life could be much longer than what you currently assume.
ALISTER COWAN:
That's correct, Paul.

ROBERT PEABODY:
That’s right, and just to amplify on that, while I’m not guaranteeing anything, our original projects have been on production since essentially the early 90’s. So, we’re well past 20 years now on these projects.

PAUL CHENG:
Sure, sure. Alister, the Liwan gas contract, is it take-or-pay, or that it is pay as it goes, because I think that in the press release you guys are saying that some of the power plants have come and maybe that the start-up a little bit delayed, so that we’re going to see a curtailment in volume. How does that impact on the earnings and cash flow?

ALISTER COWAN:
Yes, as we’ve indicated, we’re up to—ramped up successfully to 175 million cubic feet a day, with about 7,000 in liquids, and we did say that there’s some demand issues with some power plants that are currently under commissioning. It’s not take-or-pay until we complete the 22-inch line, which as said, will be done by the end of the year, so we will be slightly affected for the rest of this year. It’s not a significant amount.

PAUL CHENG:
Okay. Rob, if we’re looking at it statistically – or maybe this is more for Asim – statistically, you have great and robust opportunities in Canada, which is a far cry from, let’s say five years ago, at least from the outsider standpoint. So, at this point, does it really make sense then for your to pour a lot of resources into international or are you better off just focusing in Canada?

ASIM GHOSH:
Let me remind you of two points. Point number one, we have significantly raised the hurdle rate of our investments in the last couple of years. The second point is we are sticking to our core business and therefore, we allocate capital if it fits within our core business. We have a series of factors that we look at. It’s got to be our core business, it’s a technology we know, it’s a regulatory environment that we are comfortable with, and it’s got to meet a hurdle rate. Finally,
most importantly, it’s a mix between just project IRR and the short-term return on assets; in other words, a balance between hockey-stick projects and quicker return projects.

Within that, basically, we will look at Asia because we’re already there and we will look at Canada because we’re already there, but we will give a lot more colour on this at Investor Day. We’ll basically say, “Look, we’ve mined that portfolio strongly, we have a strong mix of near-term, mid-term and long-term projects in our portfolio, and we will allocate capital within that set.” I think if you could just wait for Investor Day, you’ll be in a position to get a lot more colour on this.

**PAUL CHENG:**
Okay. The next question, maybe also you want us to wait. At least based on the calculations, within the next 12 to 18 months, you will be generating positive free cash flow after CapEx and current dividend, so I want to see what is the priority of the free cash use.

**ASIM GHOSH:**
So, as we look—we basically look at our opportunities as we go and at all times, we are mindful of balancing our growth prospects and balancing our immediate dividend return prospects. On the latter, the Board takes a call (ph 28:3) quarter-to-quarter but, fundamentally, I should remind you of the positioning I took for the Company when I came on board four years ago and I used the phrase “balanced growth,” and we’re going to stick to that. You know, we are mindful of growth, we are mindful of return, and we don’t want to get to either extreme of the spectrum.

**PAUL CHENG:**
Mm-hmm. I assume we will share buyback part of the consideration.

**ASIM GHOSH:**
As I said, these are views that our Board takes from quarter-to-quarter. Frankly, a share buyback, to me, is just a dividend by another means. So, you know, we will take a view on that as we come to it, but at this point in time our position—our job is to get the Company through this period where, in fact, we have absorbed these major events. I remind everybody that the final major event after we get Sunrise started up is the fact that we’ve got the BP true-up payment coming at the end of 2015.
PAUL CHENG:
Mm-hmm. The two final questions. One, Rob, the carbonate oilsands pilot (ph 29:30) project, I think previously, was talking about a 2018 start-up. I want to see if that is still the target and this last question is for Alister.

The upgrader, the unit margin improved sharply from the fourth quarter level, but when we’re looking at Syncrude and WCS price differential, the actual doesn’t seem to change much between the fourth and the first quarter. So, can you help us a little bit in terms of what’s causing the sharp improvement? Thank you.

ROBERT PEABODY:
So, I think you’re referring to Saleski on the carbonate oil sands project. I mean, point number one is we still see tremendous potential in that asset and if you look at some of the results other people are reporting, it’s very encouraging for the long-term development. That being said, our focus is really on Phase 1, getting it up and running now, and actually Phase 2 following Phase 1 at Sunrise; that’s our primary focus. We’re continuing to do a small amount of work to progress a long-term development plan at Saleski, but we haven’t—I can’t give you a timeframe for exactly when that will come on stream, and it’s not an area of primary focus.

ASIM GHOSH:
Well, let me put it this way. We look at our opportunities, as I said – and we’ll give more colour at the Investor Day – three buckets, near-term, medium-term, long-term. Saleski’s definitely in the long-term bucket. We are just at the pilot stage there. Maybe you’re misunderstanding the thing that we’re talking of for a 2015 start-up, or 2018 start-up, that’s not the case at all. It’s definitely in the long-term bucket. It’s a huge resource, it’s a massive resource and a transformational resource, but it’s going to require a lot of homework for us to get a formula where we can commercialize that economically.

Alister, do you want to take the…

ALISTER COWAN:
Yes, Paul, just on the upgrader, I don’t have the details to hand of Q4, so why don’t we get back to you? We’ll give you a call.

© 2014 Husky Energy
PAUL CHENG:
Thank you.

OPERATOR:
The next question is from David McColl of Morningstar. Please go ahead.

DAVID MCCOLL:
Good morning, everyone. Thanks for taking my questions. There’ll be two quick ones here. I’m wondering if you can talk a little bit of strategy right now, away from heavy oil. In particular, can you provide any thoughts on whether you have or are considering locking in any material natural gas hedges for the coming year? Kind of related to this, I guess, aside from liquids-rich gas opportunities, do you see any opportunities, I guess, to ramp up dry gas production or, perhaps put a little bit differently, what type of a sustained AECO or Henry Hub price would get you interested in ramping up gas production, dry gas, in particular?

ASIM GHOSH:
Well look, we’ve got a large portfolio of assets, where we could swing as the numbers change materially, but at this point in time the economics are best on the assets we are focusing on. When it comes to our gas assets, the economics are best on our liquids-rich gas resource plays, so that’s where we are putting our capital, okay? We don’t really—I don’t think we give any guidance on pricing and what that does for the portfolio but overall, strategy-wise, that’s where we are.

DAVID MCCOLL:
So, is there any, I guess, particular price range that might get you interested in increasing gas or is it just something right now that you don’t see the… (cross talking 33:06).

ASIM GHOSH:
When we hit that price range, we will allocate capital to it and we’ll give you guidance on that.

DAVID MCCOLL:
All right. Thank you.

OPERATOR:
As a reminder, any analyst who wishes to ask a question may press star, one. The next question is from Arthur Grayser of CIBC. Please go ahead.

ARTHUR GRAYSER:
Hi, good morning. Just a quick question on the thermal projects. So, any thoughts on accelerating the development of these projects and if you did, would there be capital moved away from other projects? Like, would you consider actually accelerating the thermals at the cost of Sunrise Phase 2? That’s the first question and then I have another one after.

ASIM GHOSH:
First of all, what you are seeing is, in fact, the acceleration of the projects. The fact that we have announced so many sanctions last year and this year is significantly ahead of what we had talked about at our original Investor Day three days ago. So, you are actually seeing an acceleration.

I just want say that when you look at the Lloyd field, different parts of the field lend themselves to different types of projects, so it’s not as if you can do a thermal project just about anywhere in the Lloyd field. There’s quite a lot of exploration work and that’s ongoing.

In terms of capital allocation, we are sticking to the discipline of sticking within the overall range of capital guidance that we have given certainly, until we get to a free cash flow positive position and basically – we will actually have a portfolio slide this afternoon—this morning actually, in a short while at the AGM – so, if you are there, would you plug into that? You’ll get a better sense of it.

ARTHUR GRAYSER:
Okay, and the second question is can you provide any updated thoughts on the payment to BP? Any opportunities you have to mitigate that payment and use those proceeds in a project together—or anything along those lines, what are the updated thoughts?

ASIM GHOSH:
Well, I think everything’s on the table but, fundamentally, for planning purposes, for our cash flow planning purposes, we basically modeled a true-up at the end of 2015.
ARTHUR GRAYSER:
Okay, thank you. Yes, that’s great. Thanks.

ASIM GHOSH:
Thank you.

OPERATOR:
This concludes the analyst Q&A portion of today’s call. We will now take questions from members of the media. As a reminder, please press star, one, on your touchtone phone to ask a question. If you wish to remove yourself from the question queue, please press star and two.

The first question is from Rebecca Penty of Bloomberg News. Please go ahead.

REBECCA PENTY:
Hi, there. Thank you for taking my question. There was some commentary recently at the CAPP Conference in Toronto, I believe, from Husky about the idea of LNG export off Canada’s Atlantic Coast. I was hoping someone could talk about that and how you look at that potential opportunity, how far away that would be and some of the thoughts around that.

ASIM GHOSH:
Thanks, Rebecca. Look, if the right boutique-type opportunity came along, we might consider it down the line, but LNG is not on our front burner; we are not contemplating any major shifts in our business operations or direction from what we have outlined before. We have a clear strategy laid out that we’re executing and we plan to stay in what I call our wheelhouse. I think there may have been a bit of misunderstanding around those comments, but I think we clarified that already.

REBECCA PENTY:
Thank you.

OPERATOR:
There are no more questions at this time. I will now hand the call back over to Asim Ghosh for closing comments.
ASIM GHOSH:
So, thank you, everybody, for joining us and thank you for our questions. Overall, we’ve put a pretty big check mark on our report card with the successful execution of our biggest project ever at Liwan, but if I may paraphrase an old Taoist proverb, “It’s really only the first step in a journey of a thousand miles.” Our strategy over the past three years has been underpinned by consistent execution and not only that, but driving a culture within the Company of execution. Going forward, our plan is focused on delivering reliable and repeatable results from a deep portfolio of, as I said, three buckets, near- and mid-term and long-term projects.

I remind you that we’ll be holding our AGM in Calgary later this morning. That presentation will be webcast through our website and for those who have the time and the occasion to join us, you know, in fact, will get a clearer picture of what I’m talking about this portfolio.

So, thank you again for joining us. I appreciate that.

OPERATOR:
This concludes today’s conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.