HUSKY ENERGY
FOURTH QUARTER 2016 CONFERENCE CALL & WEBCAST TRANSCRIPT

Date: Friday, February 24, 2017
Time: 9:00 AM MT
Speakers: Robert Peabody
President and Chief Executive Officer

Jonathan McKenzie
Chief Financial Officer

Dan Cuthbertson
Director, Communications and Investor Relations
Welcome to the Husky Energy Fourth Quarter 2016 Conference Call and Webcast. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone Keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero.

I would now like to turn the conference over to Dan Cuthbertson with Investor Relations. Please go ahead, sir.

Dan Cuthbertson:
Good morning, and thanks for calling in. We’re here today with CEO Rob Peabody, CFO Jon McKenzie, and other members of our Executive Team. Rob and Jon will give you an overview of our fourth quarter and annual results, and provide context for our 2017 business program. Then, we’ll take your questions.

This call will include forward-looking information. The various risk factors and assumptions are listed in this morning’s news release, as well as our annual filings on SEDAR, EDGAR and our website.

Unless otherwise stated, all figures are in Canadian dollars and before royalties.

A reminder that any detailed modelling questions can be directed to our Investor Relations Team following the call.

I’ll now turn the call over to Rob.

Rob Peabody:
Thanks, Dan, and good morning to everyone. Our fourth quarter results are a good indication that the work undertaken to structurally transform the business has taken hold. Strong upstream production and U.S. downstream performance has delivered increased funds from operations, resulting in $279 million in free cash flow, and we are continuing to lower our cost structure and expand our margins. As such, we remain well positioned to execute our 2017 capital spending program and generate free cash flow at current prices.
We completed several initiatives in 2016, that have set the stage for the next phase of growth.

First, we strengthened the balance sheet. A series of dispositions resulted in our debt being reduced by $3 billion. Our balance sheet was further supported by keeping spending below funds from operations.

The second initiative was to continue the structural transformation of our business. We are increasing the percentage of our production coming from longer life projects that have lower operating costs and reduced sustaining capital requirements. I’ll give you two examples related to this structural transformation.

Last year, we sold about 32,000 barrels of oil equivalent per day of legacy production in Western Canada for $1.3 billion, or $40,000 per flowing barrel. Those projects had an average operating cost of about $20 per barrel in 2015. Over the same period, we brought on new thermal production that ramped up to more than 43,000 barrels per day at Lloyd and Tucker at a capital cost of about $1 billion, or about $23,000 per flowing barrel. These projects have an average operating cost of about CAD$10 per barrel. This means that we are improving both capital and operating efficiency in the upstream business.

We’ve also been expanding margin capture throughout the downstream chain. Investments are improving efficiency, reliability, and increasing processing capacity for our heavy feedstocks. The crude oil flexibility project at Lima will increase the refinery’s heavy oil processing capacity to 40,000 barrels a day by the end of 2018. Margin realization will expand for every incremental barrel of heavy oil feedstock we run at Lima. The upgrades we completed last year at Toledo increased the amount of high-TAN crude we can run from 30,000 barrels a day to 65,000 barrels a day. With more price discounted crude feedstock, we’re now seeing increased margins of about US$3.00 per barrel for the refinery’s entire output.

The final significant initiative for the year was to build out a deep inventory of projects in which to invest in the future. In the heavy oil segment alone, we’ve identified 18 new Lloyd thermal projects that together represent more than 150,000 barrels per day of potential development. The first 40,000 barrels per day of this production is currently under development, with Rush Lake 2 and the three recently sanctioned thermals at Dee Valley, Spruce Lake North and
Spruce Lake Central. As we increase the percentage of production from these low-risk, copy-and-paste type projects, overall corporate decline rates, operating costs and F&D costs also improve. We now have more than $20 billion worth of projects that can generate a minimum 10% return in the low US$40s WTI. As such, we have many options for investment that will further improve our cost structure.

As a result of these actions, we have lowered both our sustaining capital requirements and breakeven oil price, and we are well positioned to continue to do that as we move forward. Sustaining and maintenance capital for 2017 is $2.2 billion to $2.3 billion, a 25% improvement over the last two years. It’s important to note, at Husky, we define sustaining and maintenance capital as the amount of capital required to keep production steady, maintain our facilities and meet regulatory requirements.

As we continue to position ourselves to increase free cash flow, our free cash flow is going to be directed towards three priorities. We will maintain the strength of our balance sheet, but it’s important to note we’re fairly comfortable with our current levels of debt. In addition, we will keep investing in our deep portfolio of projects. We base new investment decisions on a minimum hurdle rate of 10% IRR, with oil prices in the low US$40s WTI, and these projects have to break even in the low $30s. Finally, as the oil market supply and demand comes back into balance, we’re looking to establish a sustainable cash dividend, and this is something the Board is looking at quarterly.

I’ll take a moment to touch on a few highlights from the past year. From a strategic standpoint, the new midstream partnership, signed in July, provides significant advantage to our business. We unlocked $1.7 billion in cash, but have still maintained a 35% equity interest, well retaining our tight integration by continuing to operate the asset as, importantly, the partnership is funding takeaway capacity for at least eight more Lloyd thermal projects.

In Western Canada, we achieved our proceeds targets from the disposition program, and we expect to do some modest portfolio tidy-up throughout this year. We are now focusing on fewer, more material plays in Western Canada. This has created a more streamlined capital-efficient business, with reduced reclamation obligations. The repositioned Western Canada portfolio is now more than 70% gas weighted. This provides the supply and a natural hedge for our energy requirements at our thermal projects and our refineries.
Last year, we saw further growth from our thermal operations, which included our series of Lloyd thermal projects, as well as Tucker and Sunrise. At the end of December, our overall thermal volumes were around 120,000 barrels per day. This resulted in average annual thermal production growth of 55% between 2015 and '16. So, you can see just how much that is affecting the shape of the portfolio. Looking ahead, we expect to see another 30% increase this year over 2016.

Now, I’ll ask Jon to walk us through the fourth quarter and the year-end results.

**JONATHAN MCKENZIE:**

Great. Thanks, Rob, and good morning to everybody.

Just starting with the upstream, average production in the fourth quarter was 327,000 boe per day, and this compares to 357,000 boe per day in the same period in 2015, and this is up 26,000 boe a day from the third quarter of 2016. This reflects the dispositions, as well as the natural declines in Western Canada and Atlantic business units. This was partially offset by new thermal production and an infill well at South White Rose. The average realized price for our total upstream production in the fourth quarter was $39.90 per boe, compared to $34.89 per barrel in the fourth quarter of 2015. Upstream operating costs decreased to $13.92 per barrel, compared to $14.51 in the year-ago period, reflecting the ongoing structural transformation of the Company. Upstream operating netbacks were $22.30, up from $15.70 in the third quarter of 2016, and $16.91 in the fourth quarter of 2015.

Now, just looking at the downstream, upgrading and refining throughputs averaged 351,000 barrels per day, compared to 338,000 barrels per in the same period of 2015. The increase was lead by capacity utilization of 92% in the U.S. refining business. The Chicago 3:2:1 crack spread averaged US$10.59 per barrel, compared to $13.73 in the fourth quarter of 2015. Average realized U.S. refining margins were US$9.86 per barrel, compared to $4.51 in the same period of 2015. Meanwhile, in the Canadian segment, while asphalt margins for the year came in at $20.80 per barrel in the fourth quarter, they were seasonally lower at $14.37. As usual, we took advantage of our large storage position to inventory more product for later in the paving season when prices are expected to be higher. Upgrading margins were steady at $18.85 per barrel.
Overall, we recorded $670 million in funds flow from operations, formerly called cash flow from operations, and this included a pre-tax FIFO gain of $39 million. It did not take into account, however, $23 million in cash received as a prepayment for future gas volumes at Liwan. Going forward, any undelivered portion of the Liwan gas sales will be booked annually as deferred revenue.

CapEx came in at $391 million, and we generated $279 million in free cash flow for the quarter. Net earnings were $186 million and included one-time items associated with Western Canada asset sales and a net impairment reversal of about $202 million after tax. Excluding these one-time items, adjusted net earnings were a loss of $6 million for the quarter.

Now, looking at our annual highlights, we finished the year with net debt of $4 billion, which includes $1.3 billion of cash on hand. We expect to stay around this mark throughout the course of 2017. In addition, our financial flexibility remains strong with no major long-term debt maturities until 2019, $4 billion in undrawn credit facilities, and strong investment grade credit ratings with all the rating agencies.

In regards to production, our full year average volumes were 321,000 boe per day, well within our guidance range, and I'll note that our 2016 production guidance did not take into account the sale of about 32,000 boe per day of assets and royalty interest in Western Canada. Average production also did not include 43 million cubic feet per day of deferred volumes at Liwan for which cash was received. Adjusting for these items, we would have averaged about 343,000 boe per day for the year, which would be at the top end of our range.

In terms of CapEx, total capital spending of $1.9 billion, which included approximately $176 million in equity accounted entities, was about $200 million below the low end of our guidance range. This reflected the ongoing cost-reduction program and improved productivity in our capital program. Even with the lower spend, we were able to expand the work program beyond what was originally planned for 2016, including accelerating our construction at Rush Lake 2.

Funds from operations was $2.1 billion, compared with $3.3 billion in 2015. Again, this doesn’t include the $209 million in cash we received as prepayment for future gas volumes at Liwan. Free cash flow for the year was $371 million.
Net earnings were $922 million, which reflected the net gains on the sale of both the midstream deal and the Western Canadian dispositions.

In regard to upcoming turnarounds, work is scheduled at both the Lloyd upgrader and the asphalt plant in the second quarter of this year. The upgrader is set for a seven-week maintenance program, while the asphalt plant will undergo a four-week turnaround. Just looking farther out, we have a three-week turnaround scheduled in the Atlantic Region at both the Sea Rose and Terra Nova in the third quarter of this year, and the Lima refinery will undergo a five-week partial turnaround in Q4 and we’ll be running that facility at about half capacity.

Finally, I’ll just mention that we expect Q1 refining margins to reflect the usual seasonal factors.

Now, I’ll now turn the call back over to Rob to talk about our operational progress over the fourth quarter and into 2017.

ROBERT PEABODY:
Thanks, Jon. We finished the year with good progress in several segments across the portfolio. The headline story was our thermal production. We saw very good results from our three newest Lloyd thermal projects, at Edam East, Vawn and Edam West, over the quarter. Average combined production was 28,500 barrels per day, more than 15% above design capacity, with an average SOR of 2.2. Currently, combined production from the three projects is now running at about 32,500 barrels per day, or well above the design capacity.

At Sunrise, gross production is now 36,000 per day, with production per well pair averaging about 650 barrels per day.

At Tucker, volumes averaged around 21,000 barrels per day. We’re currently steaming a new eight-well pad at Tucker and will bring it on line in the second quarter. In addition, we are drilling another 15-well pad that is scheduled for first oil in early 2018. All in all, we expect to see production at Tucker continue to ramp up this year, and through 2018, towards 30,000 barrels per day.
Meanwhile, we sanctioned 30,000 barrels per day worth of new Lloyd thermals at Dee Valley, Spruce Lake North and Spruce Lake Central. We expect to see first oil from all three projects in 2020. This is in addition to the 10,000 barrels per day now under construction at Rush Lake 2, with production on track for the first half of 2019.

Turning to Western Canada, we’ve commenced a 16-well program for the year, and that is targeted at the Wilrich formation in the Ansell and Kakwa areas. In the downstream business, we continue to work to expand our crude processing capacity at Lima towards the 40,000 barrels per day of heavy that I spoke about earlier, by the end of 2018, further improving our margins. At Toledo, we started lifting and marketing our refined products, with first deliveries made to us last month.

At Lloydminster, we began engineering work last year on a project to expand our asphalt capacity. We’ll consider this project for sanction later this year. If approved, it will provide another important outlet for our growing Lloyd thermal production, and, in this case, without requiring any additional export pipeline capacity.

Now, looking at the Asia-Pacific region, construction has wrapped up at the liquids-rich BD project in the Madura Straight and the shallow water platform and pipeline infrastructure is now in place. The FPSO vessel is moored on site and preparations are underway for commissioning. The ramp-up is expected to be completed during the second half of the year, with net capacity of 40 million cubic feet per day and 2,400 barrels per day of liquids. Nearby in the Strait, the MDA-MBH and MDK gas fields continue to be advanced. The tender for a floating production unit was recently approved and we’re on track for first gas in the 2018/2019 timeframe. Our Asia-Pac projects benefit from long-term fixed price gas contracts.

In the Atlantic business, we continue to add infill wells to support our production. We brought a new infill well onto production at South White Rose in December, which is now producing about 3,000 barrels per day net to Husky, and continuing to ramp up. We have two more White Rose infill wells scheduled for this year to help offset natural declines in the region. The first well has just come on line at North Amethyst and is running at about 8,600 barrels per day net to Husky. A second well is scheduled for first oil in the fourth quarter and we expect net peak production from that well to be around 7,500 barrels per day. In regards to West White Rose, we are
moving closer to a sanction decision later this year, and in the Flemish Pass, we have finalized preparations for two exploration wells that are scheduled to be drilled beginning in mid-2017.

With that, I’ll turn the call back to the Operator, so we can take your questions.

OPERATOR:
Thank you. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their telephone keypad. You will hear a tone acknowledging your request. If you’re using a speaker phone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

The first question today comes from Neil Mehta with Goldman Sachs. Please go ahead.

NEIL MEHTA:
Good morning, guys.

ROBERT PEABODY:
Hi, Neil.

NEIL MEHTA:
So, first question for you is around capital allocation. We’ve got an Analyst Day coming up in a couple of months, and the oil price has firmed up here, it seems to be in a tight range but certainly ahead of the price that you outlined. So, are we lining ourselves up here for a return of the dividend in the first half of 2017, and what are the final milestones for you to get over the hump there?

ROBERT PEABODY:
Okay, thanks, Neil. I thought the dividend question might come up today. I mean, essentially, the guidance we’re kind of giving to the market hasn’t really changed. We’ve said there’s a few conditions that we have to meet in order to be comfortable about reinstating a sustainable cash dividend. The first one, clearly, was around the balance sheet. We were targeting about $4 billion in debt, in net debt, in order to get comfortable with where we thought the balance sheet was before we would take such an action. We’re actually—as Jon earlier described, we’re kind
of there. In fact, I can think at the moment we’re a little better than there, just a month-to-month fluctuation. So, we’re feeling comfortable with where we are on the balance sheet.

The second thing is really around ultimately having enough free cash flow, as we kind of look to pay the dividend out of earnings and cash rather than to be paying it out of—adding to debt in the future, which we don’t think is a sustainable policy that comes into the sustainable dividend question. Again, we did—the last quarter, we managed to generate free cash flow. I think the outlook at these prices is that we should be able to generate cash flow this year. So, again, we’re getting more comfortable with that.

Finally, it’s just the oil market, of course is—we want to be a position so that—it looks like it’s stable, but if we saw a few quarters of it dipping down below the kind of current range that we would be able to weather that even after we’ve established the cash dividend without ever having to mark—kind of go backwards on it, and again, I think things are looking better.

So, with that, I’d just kind of say the Board’s reviewing this whole thing quarterly and as soon as they’re comfortable with those three conditions, hopefully, we’ll be in a good position to move forward on that.

**NEIL MEHTA:**
That’s great, and the second question is related to Liwan. It ran very well here in the fourth quarter. Can you talk about throughputs in 2017, or volumes in 2017, and thoughts on whether this level of operating performance is sustainable?

**ROBERT PEABODY:**
Yes. Again, I think one thing it shows, even the last—the liftings that we were getting in December, that were very strong, was—like a lot of gas markets, this fluctuates a little bit seasonally, and I would certainly say that our long-term view on Liwan, just as an aside, is still extremely positive because gas consumption in China, we still think there’s an absolute clear trend for higher and higher gas consumption in China, and we’re extremely well positioned to meet that demand.

I also want to just point out that under the contract terms, we still receive cash for any of the contracted volumes. So, while we guide on contracted volumes, it doesn’t actually affect our
cash flow whether or not we actually lift in any particular quarter those sort of volumes. As you mentioned, in Q4 the sales volumes were strong, but in aggregate they were still at the lower end of the daily contract quantity range, and, conversely, there were times when we were a little bit above that.

So, I think I’d say the quarter-on-quarter nominations, I expect will continue to fluctuate this year, although the cash flow we generate from it over the course of the year is locked in under the contracts and we’re feeling good about that. Currently, we’re lifting around—currently, gross production is around 290 million a day, so they’re very close to the DCQ rate at the moment, and, again, I think over the course of the year we’ve got a pretty good chance of being close to DCQ, and if we’re not, we’re going to get the money anyways.

NEIL MEHTA:
Great, and the last question for me is on the refining business. Cracks have started off the year a little soft. Can you talk your product outlook relative to guidance, and then also the impact of lower RINs costs, which have been a factor in your 2016 refining earnings?

ROBERT PEBODY:
Yes, okay. I mean, first of all, I guess I’d just note that at the moment our U.S. refining, particularly Lima, is running actually above nameplate capacity right now and that’s reflecting a lot of work we’ve been doing on reliability and enhancement, and, of course, with the work we’ve done on the crude oil flexibility project so far, we’re also running more heavy feedstock, which is also helping us on our margins at Lima.

As you say, the year did start off rather strange, actually. In fact, it started off with abnormally high crack spreads just for a week or two at the start of January and then it plunged to more traditional levels, I would say, in the latter part of January. They’ve improved slightly in February, but they’re much closer to what I would call traditional seasonally weak margins starting the year.

So, overall, I guess we made a budget and we’re not of the view that we’re seeing anything unusual. We anticipated weaker 3:2:1 crack spreads in Chicago than we’ve seen in the past few years as we went into this year, just looking at all the trends.
In term of the RINs, it’s nice to see those coming down a bit and hopefully that trend is going to continue and that would help us relative to our own internal assumptions, I think, because, net net, RINs are still a cost to us.

**NEIL MEHTA:**
Great. Thanks, guys.

**OPERATOR:**
The next question is from Dennis Fong with Canaccord Genuity. Please go ahead.

**DENNIS FONG:**
Hi, good morning, gentlemen. So, I have two quick questions here. First is just on the West White Rose development, have you guys decided on which option you guys are looking to pursue? That’s the first—kind of part of the first question, and the second is, if you guys do sanction this project later this year, is the $200 million to $250 million of unallocated CapEx going to West White Rose? Then, I have one more question afterwards. Thanks.

**ROBERT PEABODY:**
Okay. We haven’t actually announced the final design selection criteria—or not criteria, but what we’re actually going to do between the subsea and the wellhead platform. We’ve been advancing both of them, we’ve been working them both hard. We’ve actually improved, I think, both options significantly from the last time we talked about them, and, certainly, if we can get to the point of sanction, we’ll update everybody on what those projects are looking at—or what that project is looking like, and it’s going to look better than what the last time people saw it as. So, that’s kind of where we are at West White Rose and I’m hopeful of getting to a decision, hopefully, in the first half of this year on that project.

In terms of the unallocated capital, it’s actually in there for two things. It’s in there for the West White Rose project, if it’s sanctioned, and also for the asphalt project, a much more modest amount this year for the asphalt project, because most of that’s all engineering this year that’s in that budget.

**DENNIS FONG:**
Okay, perfect. Then, just quickly, I noted that there are some capital cost savings, and so forth, that you saw through Q4. Has that been fully reflected in your ‘17 budget or is there a chance that there could be a possible revision part way through year? Thank you.

ROBERT PEABODY:
A good question, is what I’d say. I don’t think I have the absolute answer. I don’t think it was fully reflected because we put our capital budgets together much earlier in the year. That being said, I’m not also yet announcing that we’re changing our guidance on that because we haven’t gone through it enough to see exactly the impact on this year’s budget.

I will just mention that, again, we think a lot of those capital savings are also coming from the structural nature of the changes we’ve made in the portfolio. What we’re seeing, again, and I guess the industry sees this, wherever they can do it, is the big benefits we get wherever we can kind of get into a cookie-cutter sort of replication sort of implementation of the capital projects, and we’ve seen that big time in the thermal projects in Lloydminster where each one seems to be costing less than the previous one just because we’re getting better and better at them, at Ansell, where it’s kind of one well after another.

I mean, one point that’s interesting, and I really think it shows where the Company is going, is that a few years ago it took us an average of 50-plus rigs running all the time to keep our production steady, and now just out looking it at the moment, with 10 rigs operating worldwide, that’s enough to not only keep our production level but actually give us some modest growth. That’s what I call kind of a large structural transformation to the cost base of the Company.

DENNIS FONG:
Okay, perfect. Thank you very much.

OPERATOR:
As a reminder, analysts who wish to ask a question may press star and one on their touchtone phone.

The next question is from Paul Cheng with Barclays. Please go ahead.

ROBERT PEABODY:
Hi, Paul.

**PAUL CHENG:**
Rob, just curious—I mean, Sunrise, the ramp-up seems to be continuing a little bit slower than we thought. Is there any risk that we may not ramp up to the design peak capacity at all?

**ROBERT PEBODY:**
Paul, I think the short answer to that is no, there’s no risk of that happening in my mind. The current production is around 36,000 barrels a day. That’s about 650 barrels per well pair. We expect to see average production from the initial 55 well pairs as we’ve said at guidance last year, around 800 to 900, and we’re still looking at the 650 going to 800 to 900, it looks pretty comfortable in the next while. It’s going to—this ramp-up is going to continue through the year. As I described, again, around the guidance call, we are spending about $50 million net, which is going to give us—which accelerates about 14 wells that we previously drilled in 2017. This is going to use up—this will utilize the steam plant capacity as the wells ramp up in 2018 and these wells are expected to average in the same 800 to 900 barrels a day range which gives us the 60,000 barrels a day when everything is ramped up.

Again, as I said last time, this accelerated investment is really more than offset by the savings we’ve achieved on our sustainable capital program where we used to look at new well pads, including the wells, the pads, the pipelines to them, sort of at over $100 million a pad. Now, those same costs are sort of in the $70 million range. So, we’re getting a big offset and much better capital efficiency on our ongoing well pads.

Again, the other thing I mentioned which is important to keep in mind is we expect the reserve recovery from the individual wells to remain the same. So, while the rates are a little lower than the 1,100 that was sort of the design spec on the wells originally, we expect them to recover the same amount. So, all that happens is the same ultimate number of wells are drilled, it’s just this is an acceleration of a bit of the capital.

**PAUL CHENG:**
When do you think the well pad throughput is going to get to that 800/900 barrels per day kind of range from the current 650? Are we talking about 12 months from now or that you need to
continue until you really ramp up to the full? I mean, I’m trying to understand how should we track the progress.

**ROBERT PEOBODY:**
I mean, I’d say we’re just seeing—I guess we’ve been seeing sort of a couple of thousand barrels a month, generally, coming onto our overall—to the overall number, kind of month-on-month over the past three or four months. So, I mean, that’s kind of the way I’m looking at it.

**PAUL CHENG:**
Mm-hmm. Rob, I’m just curious, is there a benefit or that you think maybe that it’s actually not for you guys, that have a long-term cash return to shareholders target as a percentage to your more sustainable or longer term cycle cash flow? Is there something beneficiary to force better discipline in the organization, or that you think it just puts too much constraint on your business?

**ROBERT PEOBODY:**
I’m sorry, can you give me that framework one more time, Paul?

**PAUL CHENG:**
I’m just curious. Some of your competitors, they will—not necessarily in Canada, but in U.S. and others—that will say, “Okay, let’s target a long-term—not particular one year, but long-term X amount of the cash flow will go back to the shareholder and X amount that we’ll continue to invest in the operation.” Is that something that you guys may consider or do you think that’s really not for you, you don’t see the benefit of that?

**ROBERT PEOBODY:**
So, Paul, I think—actually, though, I have to say—and, probably I shouldn’t say this but I will. I’d just say that it’s interesting many of our U.S. competitors have that, because I don’t see too much free cash flow coming out of too many of them, but that is—so, it must be a long-term target. But, we are looking at both dividends and dividend frameworks to think about, but I think if you go back to what we’ve said before, is that we want to pay the dividend out of free cash flow, for sure, and we have a very rich and deep portfolio of good projects that work in the low $40s WTI and can give us a 10% return. So, one of the things we’re really setting up as part of our framework, I guess, in addition to just thinking about the strict dividend thing, is that as we reinvest free cash flow into our portfolio of capital projects, we’re actually, over time, increasing
the free cash flow we generate at any given oil price. So, there’s a very sort of positive reinforcing cycle that we’re in at the moment, and we want to continue to do that. I think you will see us come out with something that gives a sense of the balance we’re looking to achieve between the reinvestment and the sustainable cash dividend over time, and that’s something we’ll come out with a little clearer when we’re in a position to announce the dividend.

**Paul Cheng:**

Just a final question and then I just want to make one comment. My final question is that, on the longer term basis, what is your—based on your organizational capability and also your asset base, what is the desirable or target, longer term production growth target that you have in mind, without stretching your system or running to the point that you may not have the most efficient execution?

The comment that I want to make just quickly is that on the dividend, given that order of the thing that you have mentioned, how your cost structure and everything have been coming down, your unit margin has been going up, if we look at last year, even if we—excluding the deferred revenue, you have $1.8 billion in cash flow from operations, and that’s about $45 oil. So, it seems like that if we all truly believe and it seems we all do agree on the really great improvement that you have done in the thermal heavy oil and all that, I think it would be a very strong commitment, and also the conviction from Management, saying that, “Yes, indeed, all those savings is sustainable to issue the dividend.”

**Robert Peabody:**

I appreciate that, Paul. I don’t disagree with your framework. On your other point about long-term sort of growth in the upstream, the way I look at this again is, before oil went from a hundred and some dollars plus to $55—I guess $30 and then $55—is that what we were trying to deliver to shareholders was balanced growth, that’s what we’ve always talked about, and really, what we’ve been trying to do over this kind of big market disconnect in the last two years is how do we take a company that was delivering balanced growth at $100 and delivering balanced growth—and by that I mean production growth in the upstream and the dividend at $100 plus, and how do you do that at $55 plus, and as I say, I think we’ve made great strides to getting there.
What we really want to do is re-establish a balanced growth framework, again, and if you remember, and you probably do, Paul, is that we used to talk about growth in the sort of 4% to 6% range and then a dividend, and that’s how I think about upstream growth. We clearly have the upstream portfolio that can deliver that sort of production growth over the foreseeable future, and we’re getting the cost base in line where I think we can do that and get back to paying a dividend to the shareholders. So, to me, that’s the journey we’ve been on, we’re getting closer to the end of it, is where I’m hoping we are, and then we’re just going to keep moving forward and try to build on that using that kind of reinforceable—investing the free cash flow to grow free cash flow. So, that’s the journey we’ve been on and that’s where we’re going.

PAUL CHENG:
Thank you.

OPERATOR:
The next question is from Phil Gresh of JP Morgan. Please go ahead.

PHIL GRESH:
Hi, good afternoon.

ROBERT PEBODY:
Hi.

PHIL GRESH:
I have a question on your cash flow that you achieved in the quarter. I’m looking at a slide that you had given in a previous deck, where you talked about certain levels of cash flow at certain price levels, and I think at $50 WTI, it’s around $1.25 billion a quarter or $4 billion annual. You basically had close to that from an oil price perspective this quarter, and you were a bit below that. So, I guess my question would be, is there anything specific about this quarter that you would say was maybe one-time in nature, or would you say I’m—correct me if I’m wrong on that, I guess.

JONATHAN MCKENZIE:
Phil, it’s Jon, Jon McKenzie. Just on sort of one-time items or things that impacted the cash flow that you wouldn’t have seen in the $670 million, you remember that for Liwan we don’t
recognize the cash flow for any volumes underneath the take-or-pay on that; and then the other thing that I would point to in Q4 that was a little bit different from the assumptions that we would have made more on a full-year basis would be the crack assumptions in the U.S. that are seasonally low in Q4 and Q1, and then improve through the driving season in Q2, Q3. So, what you're looking at is an annualized number and it would include the take-or-pay volumes from Liwan versus what actually happens where we get the cash flow but we don't recognize the cash flow.

**PHIL GRESH:**
Okay. So, generally speaking, you're still comfortable with like a $4 billion CFO type of number for a $50 oil price on an annual basis?

**JONATHAN McKENZIE:**
That's right. With the assets that we've got today we're comfortable with that sensitivity.

**PHIL GRESH:**
Got it, okay. I apologize. I got kicked off by accident here, so if I'm redundant with Paul I apologize, but when you're looking at your dividend target, the way you're thinking about it, and you had said you wanted to be sustainable essentially—I guess you're saying in the trough at a certain level. So, is there a certain kind of range you would think about with respect to dividend to CFO ratios or is it more about free cash flow as opposed to CFO, just any additional color?

**JONATHAN McKENZIE:**
Yes, I think we've been pretty clear on how we think about the dividends and Rob's kind of walked through the framework. I know you were kicked off, Phil, so you probably missed a lot of that discussion. But, clearly having a sustainable free cash flow supported dividend is the direction we're going and we've also been pretty clear that over the long term we'd like this to be paid out of earnings as well. So, as we look at our asset base and what free cash flow we can generate while being true to the balance sheet, continuing with our asset transformation, and providing that kind of a yield to our investors, we're trying to balance that through the cycle so that we don't have a dividend that's more dependent on the commodity price versus the cash flow generating capacity of the assets at the bottom of the cycle.

**PHIL GRESH:**
Okay. Thanks a lot.

OPERATOR:
This concludes the analyst Q&A portion of today’s call. We’ll now take questions from members of the media. As a reminder, please press star and 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 next question is from Dan Healing with The Canadian Press. Please go ahead.

DAN HEALING:
Good morning and thanks for taking my question. I just had a question on the cost of the Saskatchewan pipeline spill that appears to have gone up a bit. Can you talk about why that’s gone up and maybe say whether you expect more costs to occur because of that spill?

ROBERT PEABODY:
Thanks, Dan. Well, I think it’s not so much that the cost has gone up, is that we just got more of the bills in. I mean, certainly, internally we actually started out with a higher number and it’s gone down a little bit. But, I think the point I’d make, when something like that happens—we’ve said from the very start that we were going to make sure this was an absolutely comprehensive cleanup and do whatever was required to restore the environment to the condition that it was in prior to the spill. So, the cost reflects our kind of unwavering commitment to do that as we went through the process. Yes, I think that’s probably all the detail I’d give. There’s lots of other odds and ends, but I think that’s probably a good place to leave it.

DAN HEALING:
Okay, and just as a follow-up, are you expecting that there will be more ongoing compliance costs from regulatory authorities because of this incident?

ROBERT PEABODY:
I don’t know. I guess we’ll find out when we—as regulatory authorities respond. What I would say is that it’s not—I mean, there is a loss of regulation around pipelines already so I wouldn’t anticipate that the incremental costs are going to be dramatic.
**DAN HEALING:**
Okay, and maybe just one final thing. Is the spill all cleaned up now and is that pipeline back in service? Can you give us an update on what’s going on operationally?

**ROBERT PEABODY:**
Yes, well, we haven’t put the pipeline back in service just because we want to have all the investigations finished, particularly at the provincial level, they want to make sure they’ve actually gotten to the root cause so we are absolutely sure that any revised installation fully is engineered to avoid any future incidents like this. So, that’s kind of the main reason why it hasn’t yet been reinstated.

**DAN HEALING:**
Okay. Thanks very much.

**ROBERT PEABODY:**
Thanks.

**OPERATOR:**
The next question is from Ethan Lou with Reuters. Please go ahead.

**ETHAN LOU:**
Good morning, and thanks for taking my question. We are hearing that Husky is weighing the sale of assets of the Atlantic Coast. I’m just wondering if you can address that?

**ROBERT PEABODY:**
Yes, that was an interesting rumour. I think, first of all, I’d just say in the Atlantic, this is a business that is an important part of our portfolio. It’s had a phenomenal track record over time of making a strong contribution to Husky. We are, of course, on the verge of looking at sanctioning West White Rose, we continue to drill infill wells, and we’re continuing to explore the in Flemish Pass with Statoil, and we’re looking at drilling two new exploration wells there this year with Statoil. We’ve been pretty happy with the results we’ve been seeing in the Flemish Pass. So, I can’t comment on that rumour, but, certainly we continue to move forward with our business in the Atlantic.
ETHAN LOU:
Well, we do have sources saying that. So, are you weighing the sale?

ROBERT PEABODY:
I can't comment on speculation about sales of assets.

ETHAN LOU:
Okay. Thank you.

OPERATOR:
The next question is from Ashok Dutta with Platts. Please go ahead.

ASHOK DUTTA:
Thank you very much and good morning. Rob, I wanted to ask you, given the current Brent and Dubai spread, do you feel there are more opportunities for arbitrage and export to Asia—and I'm talking about a Newfoundland crude.

ROBERT PEABODY:
I think that the main point I'd just make there is White Rose is a very premium quality mid-distillate type crude. They're in pretty short supply in general, in the world, and certainly when OPEC starts restricting volumes to various places, then there are a number of customers that really want this crude. I think the recent sale we made to China was just a reflection of that. That wasn't us beating the bushes so much as someone coming and saying, "Look, we would really like to buy the crude and we're willing to pay a price that's as good or better than what anybody else is willing to pay in the region." Again, I think if current trends continue, if OPEC is still maintaining their cuts on that, I think there's probably a good chance we'll see some other sales like that in the future.

ASHOK DUTTA:
Excellent. Thank you very much.

ROBERT PEABODY:
Thanks.
OPERATOR:
This concludes the time allocated for questions on today’s call. I will now turn the conference back over to Rob Peabody for any closing remarks.

ROBERT PEABODY:
Well, thanks, everyone, for joining us on the call this morning. Just to wrap up, I guess I’d say our results over the past quarter, and indeed, throughout 2016, show that the transformation that’s been underway at Husky for the past several years is really taking hold. Our balance sheet is strong and it’s now where we really want it to be. We now have a more resilient cost-efficient business, with growing margins and production, and we have a deep portfolio of projects in which to invest which can provide steady growth and further improve our breakeven and free cash flow going forward. We’re looking forward to providing a more detailed update on the path forward at our Investor Day in May and I hope we’ll see lots of you there.

Thanks very much, and on behalf of our team, thanks for joining the call today.

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