



# HUSKY ENERGY

## FOURTH QUARTER 2018 CONFERENCE CALL AND WEBCAST TRANSCRIPT

**Date:** Tuesday, February 26, 2019

**Time:** 9:00 AM MT / 11:00 AM ET

**Speakers:** **Robert Peabody**  
President and Chief Executive Officer

**Jeff Hart**  
Chief Financial Officer

**Robert Symonds**  
Chief Operating Officer

**Jeff Rinker**  
Senior Vice President, Downstream

**Dan Cuthbertson**  
Director, External Communications and Investor Relations

**OPERATOR:**

Welcome to the Husky Energy Fourth Quarter 2018 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, one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, zero.

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

**DAN CUTHBERTSON:**

Good morning, and thanks for joining us today. CEO Rob Peabody, COO Rob Symonds, and CFO Jeff Hart, along with other members of our Management Team, are here to discuss our fourth quarter and annual results.

Today's call will include forward-looking information. The associated risk factors and assumptions are described in the fourth quarter news release on our website, and are also contained within in our annual filings on SEDAR and EDGAR.

Unless otherwise stated, numbers are in Canadian currency and before royalties.

If you have specific modeling questions, please direct them to the team after the call.

Rob Peabody will now begin the call.

**ROBERT PEABODY:**

Thanks, Dan. The past year was one of the most challenging for the Canadian energy industry in recent times. In the first half of 2018, we saw a steady and welcome recovery in WTI and global oil prices. At the same time, we witnessed the political failure to advance pipeline projects, such as Trans Mountain and Keystone XL. These are developments that are clearly in Canada's national interest and critical to our economy. As the year drew to an end, world oil prices were once again on the decline, reflecting oversupply and expectations of potential demand weaknesses, and despite OPEC's assurances that they will cut production.

Against this backdrop, there was a record blowout in Canadian heavy oil differentials in November, and this prompted the Alberta government to bypass free market principles and impose mandatory production cuts, a move we strongly oppose, although we comply. We are now seeing some of the unintended consequences starting to arise, like the rapid falloff in rail shipments out of the province. This curtailment punishes companies, like Husky, that have made investments in refineries and pipeline capacity, while rewarding those companies that have not made these investments, and I'll point out that the Alberta government is now shutting in perfectly economic production. We will continue to urge the government to immediately ease these punitive production cuts and develop a clear plan to end the program and re-establish Alberta's reputation as a market economy.

Curtailement aside, Husky's strategy again proved its resilience in 2018. Despite steep discounts for both light and heavy Canadian crude grades throughout the year, our Integrated Corridor business captured global pricing for our production. In the Offshore business, we set quarterly and annual gas sales records due to strong demand in both China and Indonesia. Our long-term natural gas contracts in Asia continued to deliver high netbacks, contributing about 22% of our funds from operation in 2018.

Overall, annual funds from operation were \$4 billion, the highest since 2014, and up 21% over 2017. Annual net earnings were up 85% to \$1.5 billion. Free cash flow was \$426 million, providing enough to cover our dividend payments and we exited the year with net debt at 0.7 times trailing funds from operations. This is amongst the lowest in our industry. In terms of reserve replacement, we added 280 million barrels of oil equivalent of proved reserves, contributing to an average proved reserves replacement of 260%. We ended the year with 1.5 boes of total proved reserves, with a proved reserve life index of 13.5 years.

The backdrop for the resilience we demonstrated this year began several years ago when we began to structurally transform our business. We sold higher cost non-core assets in Western Canada, while increasing our investments in both higher margin Upstream production and in the Downstream to enhance the value-add in our heavy production, and we brought on the Liwan and BD Projects in Asia. Our 2018 investments resulted in increased production from Lloyd thermal projects, Sunrise and Tucker, while continuing to lower our operating costs. These actions have increased our ability to generate more funds from operations and free cash flow,

meaning we'll have more opportunity to return additional cash to shareholders. Looking forward to 2019, we plan to continue the structural transformation.

Last month, we announced plans to market, and potentially sell, our Canadian retail and commercial fuels business and the Prince George Refinery. This is in line with our focus on the core thermal and Downstream segments of the Integrated Corridor. We will keep investing in higher margin production. This includes: five Lloyd thermals under development, which will generate 50,000 barrels per day of additional production; the 29-1 Field at Liwan, which will contribute more than 11,000 barrels a day of oil equivalent for Husky; and the construction of the West White Rose Project, that will add 52,500 barrels per day Husky share. We will also continue to improve Downstream margin capture with investments like the Crude Oil Flexibility Project at Lima.

As you saw from our news release last month, our offer to acquire MEG Energy expired and was not extended. We believe a combination with MEG was a good way to accelerate and enhance our business plan. However, it's clear that the MEG Board and a significant number of their shareholders did not agree. Also, over the 105 days between our offer and the expiry there were several negative external developments which resulted in a degradation of the value of the transaction. In addition to the government ordered production cuts and very little meaningful progress on the pipeline file, there were a series of negative events with respect to global trade which threatened to undermine global economic growth. In light of all this, we have chosen the prudent course, which is to focus on delivery of our plan. We have a strong balance sheet and a deep organic portfolio of investment opportunities which will continue to improve our resilience to commodity cycles, while growing margins and preserving upside.

Turning to our Q4 results, which I would characterize as a tough and noisy quarter on many fronts, Jeff will provide more details associated with the one-off impacts of the large decrease in commodity prices. I'll highlight a few of the other drivers.

First, the global decline in crude oil and refined product prices lead to lower margins within our Integrated Corridor Value Chain. We also saw pipeline constraints put pressure on Canadian light crude oil prices, which reduced our upgrading margin in the period when it normally should have been growing.

Second, U.S. refining results were impacted by the Lima Refinery turnaround which lasted longer than expected.

Finally, in the Atlantic, we had an extended shutdown of the SeaRose following a regrettable oil spill. Rob Symonds will speak more to that shortly, but let me say the safety of our operations, personnel and the environment in all areas of our business remains our top priority. That commitment has been reinforced with the appointment of our new Senior Vice President of Safety and Operations Integrity. Peter Ostenfeld-Rosenthal will report directly to me. He has deep experience in process safety and risk management, with nearly 30 years of industry experience. He will oversee process and occupational safety, operations integrity and emergency response.

We did have several bright spots in the quarter, including record production for some of our major projects: at Sunrise, we reached, and then surpassed, our targeted design capacity of 60,000 barrels per day; at Tucker, we hit our planned 30,000 barrel per day milestone; at Rush Lake 2, the project was brought on stream six months ahead of schedule, in October, and exceeded its design capacity of 10,000 barrels per day within five weeks of start-up; and in Asia, we set gas sales records at both Liwan and at the BD Project, as gas demand remains very strong in the region.

Now, I'll ask Jeff to speak to our 4Q financial results.

**JEFF HART:**

Thanks, Rob. Funds from operations in the quarter were \$583 million, compared to \$1.3 billion in Q3. This is inclusive of the insurance related to Superior, of which only \$74 million was included in funds from operations. Several factors came into play here. Benchmark commodity prices were down about 15% over Q3. This was further compounded by reduced prices for refined products, reflecting a 30% decrease in crack spreads. The insulation from widening differentials, usually provided by our deep physical integration, was impacted this quarter by lower synthetic prices, due in part to pipeline constraints out of Canada. This meant we captured less margin at the Lloyd Upgrader. In addition, the usual benefit of our Infrastructure and Marketing segment, which captures the location differential between Canada and the U.S., was largely offset by inventory valuation impacts. The U.S. Downstream results were also impacted by the Lima Refinery turnaround and \$181 million pre-tax FIFO loss. As well, we had

the SeaRose shutdown in the Atlantic Region, which amounted to a loss in production of about 10,000 barrels per day averaged over the fourth quarter.

Net earnings in Q4 were \$216 million, compared to \$672 million in Q4 of 2017.

The Exploration and Production segment recorded \$208 million in EBITDA, down from \$736 million in the year ago period and \$770 million last quarter.

Upstream production averaged 304,300 boe per day in the fourth quarter, which attracted an average realized price of \$25.47 per boe, compared to \$46.69 in 2017. Overall, Upstream per unit operating costs were \$13.75 per boe, up slightly from this time last year. This takes into account the impacts from the suspension of SeaRose production, which has a significant portion of fixed costs. Upstream operating netbacks in Q4 dropped to \$9.42 per boe, compared to \$30 per boe in the year ago period, mostly driven by the much lower realized pricing for heavy oil.

Looking now at the Downstream, our Refining and Upgrading business delivered \$631 million in EBITDA, including \$331 million in Superior insurance proceeds. This result reflects the FIFO impact, lower refined product prices, the narrowing crack spread and the reduction in throughput at Lima due to the turnaround.

In terms of CapEx, spending came in higher than forecast at \$1.3 billion. This was largely due to the West White Rose Project and maintenance in our U.S. Downstream segment, including the Lima Refinery turnaround. We ended the year with net debt of just under \$2.9 billion, or 0.7 times trailing funds from operations. We currently hold more than \$2.8 billion in cash and have \$4.3 billion in undrawn credit facilities, which adds up to approximately \$7 billion in liquidity. We are continuing to maintain our strong balance sheet and commitment to returning cash to shareholders. As such, the Board has approved a quarterly dividend of \$0.125 per common share.

We have updated our anticipated 2019 production range and capital expenditures. You can see additional details in our news release and detailed guidance charts on our website.

Our production estimate of between 290,000 and 305,000 boe per day takes into account the SeaRose downtime and the Alberta curtailment requirements, and while we took issue with the

Alberta market intervention, we will remain focused on curtailing production in the most efficient and cost-effective way possible to meet these mandated requirements.

Our expected CapEx of between \$3.3 million and \$3.5 million includes spending on a number of growth projects aimed at lowering our cost structure and improving our margins.

Finally, I'll refer you to this morning's news release for the information about our planned maintenance in 2019. The most significant of these will be a 45-day full shutdown at the Lima Refinery, when we will complete the final stages of the Crude Oil Flexibility Project.

Thanks, and Rob Symonds will now provide an operational update.

**ROB SYMONDS:**

Thanks, Jeff. I'll start with an update on our Atlantic production. We suspended operations at the SeaRose FPSO following our oil release in mid-November. This was an unacceptable event and we never want to see a repeat. We worked closely with the regulators and our partners through all stages of the investigation and restart process. We remain fully committed to applying the highest standards of process safety and risk management to all of our operations. We've agreed on a plan with the regulator to recover the failed pipeline connector, but we're still waiting for a suitable weather window to execute that operation. After agreeing on procedures with the regulator, the FPSO has returned to service, but only the central drill centre is on production. We're looking to bring the remaining drill centres onstream by mid-year, as weather windows allow various operations to be completed. We also have two infill wells ready to be tied in.

Turning now to our Q4 operations, oil production was just over 304,000 boes a day. Along the Integrated Corridor, thermal production from our Lloyd projects, Tucker and Sunrise, averaged about 133,000 barrels a day in the quarter Husky working interest. Our next Lloyd thermal was the 10,000 barrel a day Dee Valley Project, with first oil in Q4 of this year, and we have four more of these projects in the queue out to 2022. At Sunrise, after a successful ramp-up during the year, including bringing on 10 infill wells in Q4, we marked a daily peak production record in December with 62,600 barrels per day. While we were looking at sustaining production at this level, we are now dealing with government-mandated production cuts to Sunrise. We're also curtailing production at Tucker and some of our conventional heavy oil assets.

Specific volumes remain unclear, however. While conventional heavy could take a hit of up to 8,000 barrels a day, but given the nature of cold production, we anticipate up to half of these barrels may never come back onstream. Tucker may be impacted by as much as 5,000 barrels a day in the first quarter, and at Sunrise, it could be as much as 15,000 barrels a day, which is 7,500 barrels a day net to Husky. Based on the latest curtailment orders we have received from the government, the amount we have to shut-in during February and March will actually be higher than what we were ordered to shut-in in January. We are awaiting their promised review of this program, with the expectation they will present a roadmap to a clear exit strategy.

Turning now to our Resource Plays in Western Canada, we continue to pivot towards more liquids from the Wilrich and Montney formations. We drilled 21 wells and completed 25 in the Ansell and Kakwa areas in 2018. In the Wembley and the Karr areas of the Montney, seven wells were drilled and six completed. Western Canada production rose by about 5,000 boes per day in 2018.

In the Downstream, overall average refining throughputs in the quarter were about 287,000 barrels a day, which included about 72,000 barrels a day at the Lloyd Upgrader and 25,000 barrels a day at the asphalt refinery. In the U.S., combined volumes at Lima and Toledo averaged about 179,000 barrels a day, down from 244,000 barrels a day in Q3. This decrease was due to the scheduled maintenance at Lima. Included in this turnaround was the completion of our 2018 planned scope of work on the Crude Oil Flexibility Project. This means we are on track to be able to process up to 40,000 barrels a day of heavy by the end of this year, so we can better swing between light and heavy to capture the best value. Thanks to recent debottlenecking successes, total peak processing capacity at the refinery has increased to up to 175,000 barrels per day. At Superior, engineering is well underway and demolition work on the damaged process unit is scheduled to start in March. We expect construction to begin later this year, with operations resuming in the 2020 timeframe.

In the Offshore business, starting first in the Atlantic, West White Rose is continuing to take shape. Slip-forming of the concrete gravity structure was completed to a height of 46 metres. While there is some additional concrete work in the spring, we'll be ready to start installing the mechanical kit inside the structure. Construction of the topside portion of the drilling platform is about 25% complete at the yard in Ingleside, Texas, and the living quarters section is being assembled in Newfoundland and nearly half done.

In the Asia-Pacific Region, as you've heard, our producing assets in Asia are running well, and now we have a green light from the regulator to begin drilling the final three wells at the 29-1 Field, where we have a 75% interest. We expect first gas from this seven-well development around the end of 2020.

Now, I'll turn the call back to the Operator for 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, one on their touchtone phone. You will hear a tone to indicate you are in the queue. For participants using a speakerphone, 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, two. One moment, please, while we poll for questions.

Our first analyst question is from Greg Pardy with RBC Capital Markets. Please go ahead.

**GREG PARDY:**

Thanks. Good morning. I've got a couple of questions. I guess the first one is, just with respect to 1P reserve additions, just in the text there's a reference to some future development at Sunrise, so I'm wondering if this is small or is this something that could lead to a bigger expansion there with time?

**ROBERT PEABODY:**

Greg, this is Rob. What we're looking to do at Sunrise over the next few years—and it is in the plan we outlined at Investor Day last year—is debottleneck the project now. We actually did increase the capacity of the steam generators over the last couple of years above the nameplate capacity and got them recertified based on their performance. So, just as we can add some additional wells over the next few years, we can actually increase production there. I think that was the reference.

**GREG PARDY:**

Okay, that's great. Then, the second thing, you still point out you've got a very strong balance sheet. How are you thinking now about asset acquisitions? Is that still a road you're going to go

down at some point based upon opportunities, or are you more inclined to stick to the plan you've already outlined?

**ROBERT PEABODY:**

I think, Greg, I think the answer to that is—first, let me just use that as an opportunity just to re-highlight the reserve additions we did this year, which were pretty—our strongest year of reserve additions that we've had in the whole time I've ever been at Husky, and now taking the RLI up to 13.5, which is a number which I feel a lot more comfortable about when I look forward, and of course that still doesn't reflect a lot of the inventory of potential heavy oil thermal projects going forward or the full potential of Sunrise. So, I think it shows what we can do with the organic portfolio going forward, and we have a very good overall program of growth projects with essentially adding about 100,000 barrels a day of new production through 2022, between West White Rose, 29-1 and our suite of thermal projects in Lloyd. Plus, I'm also throwing in a little bit of removing of curtailment in there, as well, which we hope the program will end at some point long before 2022. So, we're in good shape, we think, on the organic program, which will, again, continue to drive our costs down.

That being said, of course we look at all opportunities that are out there, and there are a number of things out there at the moment, but one of the things I would emphasize, and I think you saw it through the MEG process, that we're very, very disciplined in understanding whether anything we would do would be, you know, I would call strongly accretive to earnings and cash flow before we'd ever want to push the button on something like that.

**GREG PARDY:**

Okay, thanks a lot. Last one for me is what has come up a number of times, is just the negative free cash flow in the fourth quarter. Obviously, the operating cash flow, the number was lower, but you're spending levels were—call it, you know, \$300 million higher. Could you just walk us through where the delta there might have been versus the original budget?

**ROBERT PEABODY:**

Yes, absolutely, Greg. I've been through this a few times myself, you can imagine. Essentially, if you look at it, in the last quarter, we spent at a rate that left us \$275 million over the high end of the guidance we put out—I think it was in October—of \$3.325 billion. If you look at the capital expenditure, West White Rose was \$226 million of the \$275 million of extra CapEx, and some of

this was just phasing—big projects, they tend to—capital moves around quite easily between years—but some also represented some cost pressure, as we were applying extra resources to hit certain milestones; in particular, the 46-metre target on the GBS, because that facilitated additional work that could be done during the wintertime. To do that, we had extra shifts and we were starting to prioritize what I would say schedule over capital efficiency. We have since re-prioritized on capital efficiency. With that said, we still expect production from the project to come on in 2022. We just expect that we'll move the float out slightly further back of the GBS and start up production a little later in the year. However, we've also got a plan to rephrase the off-station for the SeaRose and that should mitigate most of the production going backwards, let's put it that way. So, it won't have a big effect on production. The balance of the extra capital was really in the Downstream at Lima and Toledo and was associated with some extra turnaround CapEx.

**GREG PARDY:**

Understood. Thanks very much all.

**ROBERT PEABODY:**

Thank you, Greg.

**OPERATOR:**

Our next analyst question comes from Neil Mehta with Goldman Sachs. Please go ahead.

**NEIL MEHTA:**

Yes, thanks very much for taking the time. I guess, Rob, I wanted to build on sort of your comments around execution, safety processes, and if you could just take a moment to talk about where you are in terms of turning that ship around. When we've talked, you've said that this is your number one, one of your most important strategic priorities. So, what are the capabilities that you're bringing into place, what are the milestones we should be watching, to get you to where you want to be?

**ROBERT PEABODY:**

Thanks, Neil, great question. Again, I would just re-emphasize it is absolutely my top priority. It's the whole team's top priority here. We have a number of actions underway, things that we've been working through last year. I guess the first one I'd just point out is we did engage this

organization, the High Reliability organization out of the U.S., which are really experts in trying to deliver high uptime and kind of very high integrity in all our operations, and that group has actually gone through and done benchmarking work in all our key assets, and then they pointed out any changes that we need to make to really become the high-reliability organization we aspire to, and that work is going on very well. Part of that work ends up being a lot of coaching of frontline people in the organization, because of course one of the things Husky has had already, is we have a very, I would say, robust safety management system, which is based on the same principles that are used in most of the super-majors and that, which we refer to as HOIMS, but a system is only as good as it's actually applied at the very front end of the process. So, this effort is to make sure all our people at the front end understand the system and operate within the system in the Company, and that I actually think we're seeing some great progress. I actually meet with the person in charge of that effort monthly and we believe we're taking really good ground across the organization.

The second thing, clearly, is the appointment of this new SVP, Peter, who I mentioned in my script, an extremely highly qualified person both academically and operationally, in managing process and occupational safety within a super-major, and with assignments from that super-major, as well, so very experienced in this, I think he will bring another lens, and the fact that he will sit at the top table in the organization is, I think, very fundamental, so that we always have that lens on everything we do.

Then, finally, as I outlined at last year's Investor Day, we have tightened our linkage of compensation to our overall safety performance, particularly our process safety performance, and you're going to see that effect when you read the MIC this year. We again have linked compensation across the whole corporation to safety, and clearly that even—that hits a lot harder at the executive level than at the bottom level of the organization, which it should. So, I have no doubt that we have really good alignment around the team. We also—and I won't go into all the other things—we have brought in some very topnotch manufacturing expertise in leadership positions in the Company.

So, as I said, I just say it's my top priority. I think we are taking a lot of ground, actually, on all the inputs across the Company. We'll be judged, clearly, by the output of this, by the output.

**NEIL MEHTA:**

No, that makes a lot of sense, and to your point, there's tangible financial impacts as a result of this, so it's something that we'll continue to monitor and be focused on, as well.

The follow-up is just around M&A. I guess the MEG transaction didn't fully go through. I guess one of the industrial logics of the transaction, as we understood it, was reserve life and making sure that you have the inventory to continue to succeed for a long time. So, as you think about the asset base that you have right now, do you have the duration of portfolio inventory to sustain the business for a really long time? Does M&A make sense for the Company and will opportunities start to emerge? There are assets that appear to be on the market. So, just any thoughts there. A pretty broad question, but I'd love your perspective.

**ROBERT PEABODY:**

Yes, a good question. I mean, again, I'd just emphasize, with 13.5 years of reserve life index, we don't have to be in a hurry, we can really look hard at things as we go, and I think a good example of that has been in the heavy oil business, where over the past, frankly, six or seven years we've been acquiring lands in order to complete this heavy oil thermal inventory of projects we have, and because we've done it in a very ratable sort of way, picking up pieces here and there, we've never had to pay large premiums for any of those properties in order to create those projects, which of course ultimately makes them much more profitable for us, because while it's nice to talk about netbacks, you really need to look at—you need to also look at your DD&A charges against projects, and things like that. So, we like that approach. We don't feel under any deep time pressure, but we also feel clearly, if we can stay financially very strong, there's still—and that will give us an opportunity to look at assets as they come to market, and, frankly, it feels more like a buyer's market at the moment than a seller's market, at least for a while, and certainly in Canada at the moment. So, as I said, we'll look at things, but we'll be extremely disciplined about the way we evaluate them and we'd only move on them if they look like they were a very good deal for our shareholders.

**NEIL MEHTA:**

All right, thanks so much, Rob, really appreciate it.

**OPERATOR:**

Our next analyst question comes from Prashant Rao with Citigroup. Please go ahead.

**PRASHANT RAO:**

Hi, good morning, and thanks for taking the questions. Rob, I wanted to circle back on some of the detail you gave on the Alberta curtailments, that these could be more meaningful in February and March versus January in terms of shut-in production. I just wanted first to get a sort of confirmation that that's really a function of the step-up in production in 3Q and into 4Q of last year, is the way the Alberta government is sort of calculating that; and then kind of maybe tying into that, there was a statement in the press release that I just want to get a little more detail on. Since the formulae that Alberta, the province is using do not consider market commitment to the curtailment or the closure and restart or early abandonment of projects or wells, I sort of wanted to see how that plays in. Would that have materially made a difference in the pace of curtailments as we go through 1Q?

**ROBERT SYMONDS:**

This is Rob Symonds. You've a lot of complicated questions inside that. Let me start with the change. As you say, the government's model, that isn't, I would say to you, totally transparent to us, as to exactly how things are done, which is obviously part of our challenge, but they did change the peak month calculation. At one point, it was an average of six and then it turned to a peak month. Interestingly, that actually resulted in us having a higher curtailment; i.e., we got cut more with that, which even though we thought we had a higher month. So, again, you're back to the nuances of it.

February and March, interestingly, as you'll have seen on the headline number, the province has said the curtailment has been reduced, but our quote went down, so our curtailment went up when the provincial number went down. That's why I'm a little confused as to how the math works. Some of the points that we make in terms of obligations that we have on pipelines, for example, is something that we are obviously building into our decision-making, as to how we do curtailment, and we're also in discussions with the government about perhaps what are unintended impacts that we're seeing in that space. As we said, we look forward to curtailments being reduced so we can get back to bringing our economic production on.

The final point that you raised about some of the things that will not come back, those are the CHOPS wells. Just mechanically, when you shut down some of those wells, they sand off and we won't be able to bring them back. So, that's the basis of the comment as to why we think

some of it won't come back. Again, we prioritize all of those things into a mix and decide how to comply with the cut we've been mandated to make.

**ROBERT PEABODY:**

I'd just add one thing. This is Rob Peabody. Again, when we talk about unintended consequences, one of the more amusing ones that has come out of this is—even when governments try to frustrate markets, markets have a habit of continuing to try to come back, and one of the things we've seen is the emergence of a secondary market in curtailed barrels now, where companies that seem to have extra barrels available for production, despite being curtailed, which is odd in itself if you think about it, are now selling them to companies that have a need, that could use those barrels profitably. We have actually purchased some of those at the margin out there. But, it's just funny to note how resilient the markets are in trying to correct actions even after government's kind of screw it all up.

**Prashant Rao:**

Thanks, Rob. No, I can appreciate that there's a multiplier effect here that can't be controlled. The initial action seems to be rippling through. My follow-up question is real quick, just on SeaRose, I just wanted to get a sense of timeframe. I think you said by mid-year you'd be back to full production (inaudible) 3Q. I think earlier, in some of our conversations, maybe there was a chance that we could see it up and running at full throttle maybe in Q2. Maybe you've sort of encompassed those two possibilities. Has there been any sort of slight delay in the timing or is that just sort of an abundance of caution on your part?

**ROBERT SYMONDS:**

This is Rob Symonds. I would say there's—our view as to pace is really driven by our view of the weather, and I'm a very bad weather forecaster. We hope, given the normal weather conditions in Atlantic Canada, we will be up and running by the end of Q2.

**PRASHANT RAO:**

Fully?

**ROBERT SYMONDS:**

Fully. We'll have all the drill centres back up by the end of Q2. Right now, as I said, we only have one drill centre. There are four total drill centres. We need to recover the pipeline piece

before we can restart some of them. That's a weather window that, unfortunately, we've not been able to see, so that's pushing us back, but with normal expectations, by the end of Q2, we should be fully up and running.

**ROBERT PEABODY:**

Most of these operations take about two-day weather windows, when the seas are under about, I think, two ...

**ROBERT SYMONDS:**

Three-and-a-half.

**ROBERT PEABODY:**

... three-and-half metres, which out there is not that normal this time of the year, and then there's the further complication of ice, which we're now into ice season out there, so we also have to have kind of clear ice and waves that aren't too high. The good news is most of them can be done if we can find weather windows of about two days for each phase of the operation, because we're able to do this with an intervention vessel we have out there, which is highly capable and should be able to do that work.

**ROBERT SYMONDS:**

Yes, the guidance we've provided for production does include our best view of how SeaRose will come back up through the year.

**PRASHANT RAO:**

Okay, and just, I guess, a final question on SeaRose, the status of any investigation by the Labrador Petroleum Board, Offshore Petroleum Board. Is that sort of coming to a conclusion or when we can expect some sort of a material conclusion, or what are the next steps, I guess is maybe a simpler way of asking the question?

**ROBERT SYMONDS:**

The simple answer is until we have the failed piece up from the sea's bed, there is no timeline. They will need to see that piece and then they will continue their investigation.

**ROBERT PEABODY:**

I think the only thing I'd add there is that we are working closely with the regulator, though, on the whole investigation process and that is going well, I think, as illustrated by the fact that we've brought the central drill centre on in cooperation with the regulator to date.

**PRASHANT RAO:**

Okay. Gentlemen, thank you very much. I'll turn it over.

**ROBERT PEABODY:**

Thank you.

**OPERATOR:**

Our next analyst question comes from Paul Cheng with Barclays. Please go ahead.

**PAUL CHENG:**

Hey, guys, good morning.

**ROBERT PEABODY:**

Hi, Paul.

**PAUL CHENG:**

Earlier, when you're talking about the reason that you abandoned the MEG hostile bid, you talked about that part of that the macro-environment, and now the little progress in the pipeline, and part of them is trade concern (inaudible), and part of them has to do with resistance from the company shareholders and the Board. So, which is the primary driver? Is it the resistance on the company Board and the shareholders, or is there other factors?

**ROBERT PEABODY:**

Paul, I'd put it in this context. One of the things that we've all learned, I guess, out of this process, that has been recently changed to a 105-day process for a takeover, is 105 days is a long time. It particularly was a long time in the last half of last year, where we saw all sorts of developments in the oil markets, in the provincial politics and global politics, you know, just about everything that could go on was going on, and generally in the wrong direction. So, there was a very long time there where this process went on.

I would say, for most of that process, had the counterparty engaged with us and drove it to conclusion, it would have concluded. I mean, we were totally behind the process. As we got to the end, the cumulative result of all those things building up, plus the fact that we still saw a company that was not sort of willing to recommend this offer to their shareholders, even though we thought it would clearly be in their interest, it just made it look like—this was just getting a little too difficult, and it created an off-ramp for us, frankly, at the same time. As I've said to some people, marriage is difficult, be careful getting into it with someone who doesn't want to be in it with you. So, I think, when you put that one on, with the macro-environment, it just caused the Board to eventually say, "This doesn't seem to be something that's in our best interest at the moment."

**PAUL CHENG:**

Should we interpret that, if that is one of a major hurdle, and if you have a willing seller, the price or the valuation that you put on, you would be willing to entertain a potential acquisition based on a similar valuation as you offered to MEG, or that the macro-environment has changed enough that you'd probably need to have a better valuation?

**ROBERT PEABODY:**

Yes, I think the second interpretation would be the more correct one, Paul.

**PAUL CHENG:**

So, you will not be willing to offer the same valuation, you need it to be more accretive, or a bigger cushion to yourself?

**ROBERT PEABODY:**

Yes.

**PAUL CHENG:**

All right. The second question on Lima. I assume when that Crude Flexibility Project comes on-stream by the end of this year, at that time we see a major delay in the (inaudible) replacement start-up, do you have an alternative way to get additional Canadian heavy oil into that project, into that refinery?

**ROBERT PEABODY:**

Yes, I'll hand that over to Jeff Rinker, who runs the Downstream.

**JEFF RINKER:**

Hi, Paul, this is Jeff.

**PAUL CHENG:**

Hi, Jeff.

**JEFF RINKER:**

The main way that we will bring heavy crude into Lima Refinery will be on our dedicated capacity on the Keystone Pipeline. So, we have plenty of capacity to get up to 40,000 barrels a day into Lima. Even more, if we could process it.

**PAUL CHENG:**

Jeff, you're already, arguably, that you're already taking orders, you're already benefiting from the trading operations, so from that standpoint, this is not incremental, you're just shifting the profitability, whether you record in the I&M or you're reporting in the refining, is it?

**JEFF RINKER:**

That's right. So, we already captured the location differential of the heavy crude on the pipeline, but somebody else is going to get the heavy crude refining upgrade, and now we'll be able to get both. We'll still get the location differential on the pipe and we'll also capture the heavy crude refining differential from the Lima Refinery.

**PAUL CHENG:**

I see, and maybe—I don't know who this should be. In the I&M, I think when you guys talk about the result, you're talking about an inventory loss that offset the widening in the differential, and that's why we didn't see a stronger result. Can you help us—elaborate a little bit more in terms of what kind of inventory loss and how big is that quantity?

**JEFF HART:**

Paul, it's Jeff here, I'll talk to that.

**PAUL CHENG:**

Hi, Jeff.

**JEFF HART:**

The way I equate it to, it's analogous in a way to FIFO in the U.S. refining. In the context of the quarter, we started with, say, \$80 Brent, down to sub-\$60, and the differential moved to the mid-\$40s. The value of the inventory we're holding, it was largely flat, and you saw that manifest, that decreasing value, basically through a one-time hit or impact to our FFO. So, as the price comes up or holds flat, it basically kind of will be a one-time hit to the inventory down to the value that it dropped during the quarter, and we'll have—I'll have the team follow up with you. I'd say it's about a \$120 million impact, off the top of my head, but we'll have the team—we had a lot of noise in the inventory valuations in all of our different segments, so we'll walk through it with you after the call.

**ROBERT PEABODY:**

Yes, we'll get you some detail on that, Paul, but, essentially, you've got to remember we carry about 22 million barrels of inventory, if you look across crude and products, so when you get a big price decrease, you see that in the results.

**JEFF HART:**

That's right, and the inverse is true, as well. As we start to see a rise up, we'll see the benefit, as well, start to manifest itself.

**ROBERT PEABODY:**

Yes.

**PAUL CHENG:**

So, from that standpoint, then, we should see—even though the differential has narrowed sharply in the first quarter versus the fourth quarter, that the oil prices from the quarter have gone up, so we should see at least a partial reversal on that result in the first quarter?

**JEFF HART:**

On an isolated basis, absolutely.

**ROBERT PEABODY:**

Thanks, Paul.

**OPERATOR:**

Our next analyst question comes from Benny Wong with Morgan Stanley. Please go ahead.

**BENNY WONG:**

Thanks. Good morning, guys. I'm just wondering if you can give us an update on your strategic review, which includes the potential selling of your B.C. refinery and retail business. I'm just hoping you can share your expectations there and what do you think you would do with the proceeds, given you guys already have a very strong balance sheet, and is there anything else you guys are looking at, or sort of at the early stages looking at to further reduce your breakeven?

**JEFF RINKER:**

This is Jeff Rinker again. It's still early days for the marketing process, so we're just getting started. There's already strong interest from the market, so I think that we're going to have some reasonable offers out there for both the refinery and the marketing business.

For the question about what we would intend to do with the proceeds, I'm going to ask the CFO, Jeff, to answer that one.

**JEFF HART:**

Yes, and I'm sure Rob will chime in, as well. We'll look at a balanced approach. I mean, we will look at—it gives us an option, potentially, to advance returns to shareholders. As we've talked about, as we'd expect, it's a Board decision always, but as we would bring on the thermals and execute the capital program, that gives us an opportunity to increase the dividend as our cash flows become more and more robust and earnings breakeven decreases. What this would allow us to do is potentially advance some of that, and then we will also balance that with managing our long-term debt maturities and look at potentially some gross debt or some deleveraging opportunities, as well.

**BENNY WONG:**

Okay, appreciate the thoughts around that. My second question is on Superior Refinery, as it progresses to return to service next year, I just want to get an update on that. Also, I believe there was an opportunity to increase the amount of heavy throughput with enhanced work. I'm just wondering is that work being done while the refinery is down now, and when it's back up, should we expect throughput ability for 100% crude when it's back up next year.

**JEFF RINKER:**

This is Jeff again. Yes, where we are on the Superior rebuild, the engineering is well advanced on the rebuild. We're really focusing on getting all the engineering done first that we need for permitting, which is going to be our critical path. We've already started demolition of the site. The demolition will really get fully underway when the weather clears a bit. They've had the snowiest February, I think, in history down there on Lake Superior, so they're just covered in snow right now, but we'll get demolition going when that gets better, and demolition isn't a critical path, anyhow. Subject to permitting, we would expect to start the construction later this year and then be operational in 2020.

The second part of the question is about whether we're doing any enhancements in the refinery. Largely, the refinery is being rebuilt in the same configuration as it was before the incident, but I think you may recall we already had plans to modify the refinery during its turnaround, so that we would not be doing the sort of heavy/light campaign mode that the refinery used to run and rather run a more consistent, steady crude to light, and that effectively has the effect of increasing the utilization of the refinery, because it's not dipping down each time you change a campaign, and also increasing the amount of heavy crude that the refinery could process. So, there will be that enhancement, and a few other enhancements that just come from having more modern equipment as part of the rebuild. We'll have more details on that at the Investor Day, I think.

**BENNY WONG:**

Great, thanks, guys.

**ROBERT PEABODY:**

Thanks, Benny.

**OPERATOR:**

Our next analyst question comes from Manav Gupta with Credit Suisse. Please go ahead.

**MANAV GUPTA:**

Hi, guys. On the Sunrise, the operating netback is minus \$26, so the more you are producing the more you are losing. I'm trying to understand what happened here? Is this reversible?

**ROBERT PEABODY:**

Well, it's very—this is kind of—this results from the way crude is priced in Alberta. Heavy crude differentials are set in the month before the month of actual production, and so what we saw was in November, we saw differentials get up to sort of \$40, \$45 a barrel, and then in December, when WTI prices crashed, they crashed down to sort of sub-\$50 a barrel, so, effectively, you're at kind of almost zero revenue per barrel coming out. Now, we keep perusing it because we run it through our Integrated Value Chain, pick up the location differential in the I&M sort of segment, and then we take the crude down and refine it in our refineries, and thermal projects are not something you want to turn on and off weekly, or anything, they don't respond to that very well. So, we're still able to make a netback across the entire value chain, so we kept it running. Now, of course, as we go into this year, it's completely changed because differentials are now sort of in the \$8, \$10 a barrel region, and WTI is well lower than—it used to be a reasonable number, and that allows Sunrise to make positive returns as we're going forward.

**MANAV GUPTA:**

Okay. A second question. Obviously, Devon has put out Jackfish as an asset for sale. It's probably the same size or slightly bigger than MEG. You probably could get it cheaper with debt refinancing. So, are you actively looking at that project?

**ROBERT PEABODY:**

We don't comment specifically on M&A stuff. I'd just refer you to my other comments that, you know, we look at everything that looks like it's relevant, but we'd be extremely disciplined about any sort of offers and ensure that any offer we made is in the interest of our shareholders.

**MANAV GUPTA:**

Okay. The last question. The Lima turnaround ran for about an additional 10 days, or something, so is there an opportunity cost you can associate with the fact that if it had completed on time how much higher the earnings could have been, the Downstream earnings?

**ROBERT PEABODY:**

I don't have that figure right at hand. I would just say that maybe it picks up a little bit on the process safety side, but one of the reasons—it didn't so much run longer as we shut it down earlier. We shut it down a couple of weeks before the scheduled turnaround, because, as we looked at the operation, there were just some indications that we thought it was time to take the refinery down and not try to push it through to the original planned turnaround date. I think that was a good decision, I think it reflected a culture now where we are always putting process safety first, and so that's what we did, and then of course, because the turnaround, it's all very scheduled in terms of when things can happen, it still finished about the same time because of suppliers, and everything like that. But, I don't have that cost specifically. I'm sure we could get somebody to calculate it, if you want to give us a call.

**MANAV GUPTA:**

Okay. Thanks, guys.

**OPERATOR:**

Our next analyst question comes from Phil Gresh with J.P. Morgan. Please go ahead.

**PHIL GRESH:**

Hi, thanks. The first question is just on OpEx. Obviously, you have the long-term target out there of \$11 to \$12 a barrel, and 2019 is clearly weighed down by the cuts, but I guess if I just look back at 2018, it was around flattish, at about \$14 a barrel, with 2017, so I just want a little more colour as to how do you think about that progression, maybe just kind of looking through the effects of the first quarter, of course.

**JEFF HART:**

Yes, I'll talk to that, it's Jeff here, to a little bit to last year and in the context. The way to think about the migration is our Tucker asset sales sub-\$9, our Lloyd thermals around \$10 to \$11 right now and will trend down a little bit as we bring on Rush Lake 2, but the context—and

Sunrise clearly was in ramp-up last year, and so a couple of things to see is our long-term on all of our thermals would be to move to an average of \$10, and the way we would get there—we're there on Tucker and now we're up at nameplate after we get through curtailment. Our thermals are there, and Sunrise is trending in that direction, we're currently around—last quarter, around \$13 a barrel. As we continue to debottleneck and move the facility forward, we'll get the blending down.

The other piece I'll comment a little bit to last year, given we had some downtime in the SeaRose, and so on and so forth, we did see a significant increase in—not in absolute costs, just on dollar per boe, simply because that's a largely fixed cost operation. So, when we get back up and bring on West White Rose and further production there, we will see that come down quite heavily, given that the costs don't move as we bring on production.

**PHIL GRESH:**

Okay. So, basically—

**ROBERT PEABODY:**

The only thing I'd add on that is, again, that'll be something we update at Investor Day, just where we are. I think the big takeaway, I'd say, from Jeff's comment, is that last year we were basically on target with our operating costs on an absolute basis, but because we did have the Atlantic situation, which cut volumes, we did see the unit costs not come down as much as we wanted to see them come down, but we expect to get back on track on that plan as curtailment comes off, and clearly the Atlantic numbers come up, and then, as Jeff said, as we add more thermal production and debottleneck Sunrise and bring on more Asian production.

**PHIL GRESH:**

Okay. No, that makes sense, okay. The second question, I guess, it's just a follow-up on the capital spending answers from earlier. I'm just trying to wrap my head around the size of the 4Q increase. It sounds like what you're saying is you pulled forward some spending there to stay, I guess, efficient for the project to some degree. So, was that one of the factors at the time that you gave the 2019 guidance as to why that would have come in lower, or are those two things unrelated?

**ROBERT PEABODY:**

I don't quite understand the question, but I think when we gave the guidance out at \$3.325 million, sort of the high end of that guidance, we had not included for the—that was in October and the real push on hitting that milestone happened in, actually, October, November and December, and so I don't think we had fully packed that in, but I would also—you know, again, this is a pretty substantial project in terms of its total spend and, as painful as it was in the quarter, it's not that unusual to see a big project come in and have a big quarter in terms of its expenditure. So, I think it's a bit of a combination of shooting for that milestone, but as I say, since then, we looked carefully at what they had been doing to hit the milestone and said, "Look, ultimately, we want capital efficiency to be the major priority here," and we kind of redirected everybody on to focusing on that as a first priority, not schedule.

**PHIL GRESH:**

Yes, I probably didn't ask that very clearly. I was referring to the 2019 guidance that you had given in December, which was a reduction from what you had thought it would be at the Analyst Day in May, so I was just—

**ROBERT PEABODY:**

Oh, yes, yes.

**PHIL GRESH:**

So, I was just trying to clarify if that was a pull-forward of some of that spending, that's all.

**ROBERT PEABODY:**

There was a little bit of that, there's a little bit of understanding of that. So, that kind of guidance for this year stands and it includes all those things.

**PHIL GRESH:**

Yes, okay. All right, thank you.

**OPERATOR:**

Our next analyst question comes from Mike Dunn with GMP FirstEnergy. Please go ahead.

**MIKE DUNN:**

Thank you. Gentlemen, I was just wondering if you could comment on Sunrise. I'm just looking at the December average data from the regulator and the steam-oil ratio was, I think, 3.65, production slightly less than 60,000 barrels a day. I know in the past you've talked about, I guess, the more mature well pairs a steam-oil ratio of 3.1 times, as I'm looking at your slide from your last Investor Day, but just maybe talk about where this—it looks like there's some new wells that have come on recently, so perhaps it's steaming without much production from those, but maybe just talk about any updates on your expectations for the steam-oil ratio at Sunrise, where that might get to, not necessarily under curtailments here, but going forward.

**ROBERT PEABODY:**

Yes, no, I think we still feel good about kind of using without enhancing the technology beyond where we have it, and of course eventually we'll go into things like non-condensable gasses, and all these other things that are being deployed in the industry, but based on the way it's designed now, we're pretty happy that overall the project will get to a 3 steam-oil ratio, which is what it was designed for. The reason we say that is one of the reports I get fairly frequently is a report that separates the initial development wells from the newer wells that have been added, so we always have what we call the IDA, the initial development area, and we look at the steam-oil ratio separately on the IDA from the newer wells that are in the earlier stages. In the IDA, we're sitting right around 3, so it feels like the project is still essentially on its design features for, as I say, the technology we're currently using there.

**Mike Dunn:**

Thanks, Rob, and then I did see, too, it looks like steam injection was about 210,000 barrels a day in December. I'm just wondering what might be the timeline. Like, if you can't hit a 3 or a 3.1 times SOR, ignoring curtailments, how long might that take for you guys to maybe ramp production closer to 70,000 barrels?

**ROBERT SYMONDS:**

Mike, it's Rob Symonds. We have a number of new pads that are still in the system, so the rolling forward—unfortunately, we aren't getting to see where all the bottlenecks are, because we're not able to produce north of 60 for an extended period, but I think you've got to be thinking about, to get to that level, hypothetical, with no curtailments and everything going well, it's a couple of years out ...

**Mike Dunn:**

Okay that makes sense.

**ROBERT PEABODY:**

Yes.

**ROBERT SYMONDS:**

... to get to 70.

**ROBERT PEABODY:**

Yes, I think we're still on target for the debottlenecking that we included in last year's sort of Investor Day, which should take us up to that sort of level in the next couple of years.

**MIKE DUNN:**

Sure. Thanks. That's all for me, gentlemen.

**ROBERT PEABODY:**

Thanks.

**OPERATOR:**

Our next analyst question comes from John Morrison with CIBC Capital Markets. Please go ahead.

**JOHN MORRISON:**

Good morning all. Just a clarification. What would make you go back and retry the MEG takeover process at this stage? Obviously, you laid out the factors that lead to you not extending the offer. If those reversed or subsided, would you be open to going back and trying to do the deal again, and just secondarily, am I correct in interpreting your earlier comments to say that if you were to go back and do that, it would essentially have to be a friendly deal for it to recommence?

**ROBERT PEABODY:**

You know, John, I think I'll just go back and say we don't comment too much on any M&A matters at this stage. I think I've kind of given the kind of broad sort of view and I don't want people to get too focused on the M&A side of this. Where we're refocusing is absolutely on the underlying business and the deep portfolio of things we have to push forward here, so that's where our focus is. Of course, we always have a Business Development Team that is always looking at other opportunities out there and they'll continue to do that, and if they can make a compelling proposition to us, we'll always listen to them as hopefully good stewards and representatives of the shareholders.

**JOHN MORRISON:**

Perfect, I can appreciate that, and maybe just a second one. Just on the CapEx side, obviously it's been above expectations the last two quarters, which you walked through the factors that lead to it getting there. What gives you confidence that spending is going to be ring-fenced in the goal posts that you put out for 2019 at this point?

**ROBERT PEABODY:**

I think we've got a pretty good history over a long period of time of managing the capital program pretty carefully and generally bringing it on target or a little under target. I mean, not to be brought up as a specific reason, but one of the reasons that I think probably surprised us a little bit, is normally, in aggregate every year, the teams tend to spend a little less than they tell you they're going to spend as they're getting close to the end of the year. In this year, they actually spent what they said they were going to, I guess, in the last month, which was a little bit surprising. But, I think we have a long history of delivering on the capital program in a pretty good way, and we'll just stay focused on it and I believe we'll bring it in on guidance this year.

**JOHN MORRISON:**

I appreciate the colour. I'll turn it back.

**ROBERT PEABODY:**

Thanks.

**OPERATOR:**

Our next analyst question comes from Harry Mateer with Barclays. Please go ahead.

**HARRY MATEER:**

Hi, good morning. I guess first, can you just remind us what your leverage tolerances are on a short-term basis, in terms of how high you'd be willing to let net leverage go, if there's an external opportunity or a large project, before reverting to your longer term target, and related to that, is the priority for Husky a particular net leverage number at a given point in time or more just maintaining investment grade ratings?

**JEFF HART:**

It's Jeff here. I'll talk to the target that we do have, that we laid out at Investor Day, and are still working within. We will triangulate our capital structure to the bottom of the cycle. For us, we mean that and just say, okay, stress test everything at \$35 Brent and maintain—what we look to maintain is net debt at two times FFO or cash flow at that time. Now, that, it's a floating target or ceiling used. As we execute the capital program, we go from—right now, we can hold about \$4 billion in net debt and ultimately go up as we execute the plan to, say, \$6 billion, give or take. So, that's how we think about it.

As far as inorganic or how we would think about the balance sheet, in anything we do, we'd have to consider our investment grade credit rating, so we would—we might relax in certain periods of time, but we would not put the investment grade credit rating at risk, or our current credit rating at risk, as well. That's something that we would consider through any potential thing we'd look at.

**HARRY MATEER:**

Got it, thanks for that, and then I know you mentioned debt reduction as a possible use of assets out of proceeds, but given the upcoming U.S.D. maturities later this year, should we look for Husky to be in the bond market to refinance at some point?

**JEFF HART:**

We're evaluating our options. We'll look at—commodity prices will feed in the process that we're looking on, the retail and PG process, and we'll look at both in Canadian and U.S. markets, so there's a lot of factors and it's something we're just monitoring, but clearly we have to consider what to do with those maturities here.

**HARRY MATEER:**

Okay. Thanks very much.

**ROBERT PEABODY:**

Thanks, Harry.

**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, two. One moment, please, while we poll for questions.

Our first media question comes from Geoffrey Morgan with the Financial Post. Please go ahead.

**ROBERT PEABODY:**

Geoffrey?

**GEOFFREY MORGAN:**

Hi, pardon, I'm sorry. Thanks for taking my question.

**ROBERT PEABODY:**

No problem.

**GEOFFREY MORGAN:**

Have you had any indication so far from the provincial government on whether or not curtailments could be adjusted again for March and if it will extend beyond March? Have they communicated anything to you at this point?

**ROBERT PEABODY:**

I'll let Rob Symonds—he's closer to those communications than I am.

**ROBERT SYMONDS:**

I would say to you that we have been—we have a letter for March and we don't believe they're going to change it again, is our understanding, and in terms of the original announcements by

the province that they would reduce curtailment, they gave out a number for the month of April and they have not told us they're not going to do that, but we have no more details than that.

**GEOFFREY MORGAN:**

Okay, thank you, and as a follow-up, earlier on the call discussed some of the kind of secondary markets for trading curtailed barrels. Can you give me an indication of how big is this market? If the province is trying to apply this evenly, it's an interesting indication of how much, or how ineffective the system might be. Can you tell me how big the market is for trading curtailed barrels or trying to trade for space?

**ROBERT PEABODY:**

I'd just say first it's interesting, because it is—this market's gotten going, but it's not a very transparent market. I think it operates mostly by people phoning people. I'll let Rob Symonds give a little more colour, but—so I don't really know the full size of it, I don't think anybody does.

**Robert Symonds:**

Yes, I think that's exactly the challenge, Geoff, is that it is a company, the company market, it is not something you can go on, on any kind of site to find out, so it's personal contacts with people saying, "I got some barrels I can't move, would you like to take them?" In our case, we're only talking about less than a thousand barrels a day that we've been party to, but I have heard stories there's more out there than that, but there's no hard numbers.

**Geoffrey Morgan:**

Okay, and just to come back to the question about whether or not you have any indication at this point whether or not curtailment will last beyond the end of next month, have you had any communications from the province about this potentially lasting into April or beyond that?

**Robert Symonds:**

The province's position as originally stated was it would continue in April and to the end of the year and they have not said that they will not do that, but they've not given us a new number for April.

**Geoffrey Morgan:**

If I can sneak in one more. There's potential for a change in government within a few months with an election. Would you be looking towards—are you trying to plan that there might be, if there is a change in government, changes the curtailment numbers earlier? How are you positioning yourselves? How are you preparing for potentially having things change quickly on that front?

**Robert Peabody:**

I mean, all I'd say there is, look, we work with various governments all around the world and we always try to be productive and constructive and try to help them achieve what they're trying to achieve, while not damaging us too much in some cases, but we'll work with whatever government comes in, or the current government if it continues to be there post the election.

**Geoffrey Morgan:**

Are you anticipating that there could be changes to curtailment if there is a change?

**Robert Peabody:**

I really don't know. You'd have to ask, I guess, the leader of the opposition currently.

**Geoffrey Morgan:**

Okay, thank you.

**Operator:**

Our next media question comes from Dan Healing with The Canadian Press. Please go ahead.

**Dan Healing:**

Thanks for taking my question. Just to follow-up on the curtailment questions, I think you said that your quotas for curtailment in February and March are actually higher than they were in January. Do you have a total number as to how much the difference is or what the percentage difference would be?

**Robert Symonds:**

Just to be clear, we are confused a little between the curtailment number and the quota. The amount we are allowed to produce in February and March is less than the number we were allowed to produce in January, and it's in the order of a few percent.

**Dan Healing:**

What is it in terms of—

**Robert Symonds:**

Two thousand barrels a day.

**Dan Healing:**

Can you say what your total curtailment is then—or what your total quota is, rather, sorry?

**Robert Symonds:**

Our total quota, no, we wouldn't give out that information. What we have said is that our production is about 20% less than what we would have been producing without it, and I did actually tell you some of our curtailment numbers, so I guess on the limit, you can look backwards.

**Robert Peabody:**

Yes, and to be clear, that's our Alberta production that's 20% less.

**Robert Symonds:**

Yes, just Alberta.

**Dan Healing:**

Great, okay. Thank you.

**Operator:**

Our next media question comes from Kevin Orland with Bloomberg News. Please go ahead.

**Kevin Orland:**

Hi, thanks for taking my question. Despite the negative effects that Husky and a lot of your peers, especially the large integrated companies, have mentioned—some of the proponents of the curtailment plan have said that the higher prices that companies are going to be getting for their crude because of the cutbacks outweigh some of those negative effects. Are you finding that to be true or is the curtailment still a net negative from what would have happened if prices had been left at that lower level?

**Robert Peabody:**

I think for Husky, it's absolutely a net negative, because we were completely capturing the full value of the value chain prior to curtailment and all that's happened is we're producing less barrels now, so it's an absolute net negative.

I also—just to re-emphasize the point that I think it's actually distorting the market for Alberta barrels, as well, because if you look at PADD 2 <sup>1</sup> at the moment, refinery utilization is currently—there's a lot of turnaround for refinery—utilization has hit sort of around 64%, I believe, and so you're actually seeing less barrels being consumed by the Downstream segment. That's what led to my comments, and you're getting barrels that could be produced economically that just aren't being produced, and, increasingly, even though heavy crude should be in very strong supply, people can't actually get it to the refineries that would like to use it, based on rail economics that require them—\$20 a barrel they need for a differential and the differentials only sitting at \$10 a barrel. So, there's a lot of strange things that are happening.

Then, on top of all that, I know from my own experience and some of my colleagues in other companies that, particularly companies that have international Boards, it's quite difficult to talk to them about investments in Alberta at the moment, because they really have kind of been shaken by this sort of very unexpected intervention.

**Kevin Orland:**

Okay, and just to follow up, do you expect that Husky will participate at all in the province's Crude by Rail program that it's starting up and should be operational over the summer?

<sup>1</sup> *The following information relates to PADD 1.*

**Robert Peabody:**

I don't think so, because we still have capacity to move all our barrels. If we're allowed to produce all our barrels, we can move them all on our existing pipeline commitment, so we don't really have need of that rail capacity.

**Kevin Orland:**

What's your judgement on that program? Do you think that's going to be a further market distortion or are you okay with that?

**Robert Peabody:**

Well, it's interesting, because, again, I guess my judgement would be that had we not put curtailment in place, those rail volumes would get moved anyways. The difference would have been the private sector would have been making the commitments to the rail companies as opposed to the government. But, once you put in the curtailment program, then you need to actually look at subsidizing the rail side of the program if you want to get the barrels to move. So, again, this is what happens when you start throwing wrenches into what is a market economy.

**Operator:**

Our next media question comes from Chris Varcoe with The Calgary Herald. Please go ahead.

**Chris Varcoe:**

Hi, Rob. Just to follow up on a couple of those questions, when you look at the plan that the government has laid out with regards to spending, I think it is \$3.7 billion to acquire these 4,400 rail cars to increase the oil by rail capacity, does that strike you as a reasonable price and do you think that this is something that the government should actually be doing?

**Robert Peabody:**

I think the short answer to that is, because we don't move a lot by rail, I'm probably the wrong person to ask about whether they got a good price for it. I'm led to believe they got a market price for it, but I haven't actually spent any time analyzing it myself.

**Chris Varcoe:**

Do you think that's something that the government should actually have gone ahead with either way?

**Robert Peabody:**

Well, I'd go back to my previous comment, which was really that once you put curtailment in place, then you create a need for the government to do something. If you hadn't had curtailment in place, the private sector would have ultimately made those commitments for the rail cars.

**Chris Varcoe:**

Just finally, to talk a little bit about curtailment, there's a little bit of discussion earlier on about some of those barrels may not come back on line. Do you have an idea overall about how many of these barrels that are curtailed won't come back on line, and, ultimately, what is driving that decision?

**Robert Peabody:**

I'll let Rob Symonds talk to that.

**Robert Symonds:**

This is Rob Symonds. I don't have a view on it on a province-wide basis, I simply talk to us. For us, we're currently cutting back about 8,000 barrels a day of CHOPS production. This is conventional production. Cold heavy oil production with sand is the acronym CHOPS. The mechanical reasons that that happens is, because the well bores are unstable when you shut them down they sometimes collapse and it's not economic to try and go back and try and reopen them. So, that's why a portion of our 8,000, we think up to half of that will go. Other operators who have CHOPS wells, may have the same issue, but I don't have a total number.

**Chris Varcoe:**

Thank you.

**Operator:**

This concludes the question and answer session. I would like to turn the conference back over to Mr. Rob Peabody for any closing remarks.

**Robert Peabody:**

Thanks, everybody, for your questions. I think that was probably one of the longest question periods we've had, but I thought they were all really good questions.

We are continuing to invest in our deep portfolio of organic projects to further improve our resiliency and provide for strong and more stable free cash flow. This allows us to maintain a strong balance sheet while returning cash to shareholders through a dividend. We'll be updating our five-year plan at our Investor Day in Toronto this May and I hope to see lots of you there. We'll also be holding our Annual General Meeting on April 26 here in Calgary, following the release of our first quarter results.

Thanks again for calling today.

**Operator:**

This concludes today's conference call, you may disconnect your line. Thank you for participating and have a pleasant day.