



HUSKY ENERGY

FIRST QUARTER 2019

CONFERENCE CALL TRANSCRIPT

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

Jeff Hart
Chief Financial Officer

Rob Symonds
Chief Operating Officer

Jeff Rinker
Senior Vice President, Downstream

Dan Cuthbertson
Investor Relations

Operator:

Thank you for standing by. This is the conference operator. Welcome to the Husky Energy First Quarter 2019 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, Director of Investor Relations. Please go ahead, Mr. Cuthbertson.

Dan Cuthbertson:

Thanks, and good morning. Glad you could all join us today. I'm joined today by CEO, Rob Peabody; COO, Rob Symonds; and CFO, Jeff Hart along with other members of our Senior Management team who will discuss our Q1 results.

There is forward-looking information in today's call. The risk factors and assumptions are described in our news release and annual filings on SEDAR and EDGAR. All figures are in Canadian currency and before royalties, unless otherwise stated. I remind you that if you do have any specific modeling questions, please direct them to our Investor Relations team after the call.

Now, I'll hand it over to Rob Peabody.

Robert Peabody:

Thanks, Dan, and good morning everyone. Our results this quarter were a marked improvement over this time last year despite lower production due to Alberta government imposed quotas, and with global oil prices at essentially the same level they were in 2018. The reason for this is twofold. First is our push to extract higher margins from every barrel. In the Upstream, we have focused on bringing on lower cost, higher margin production. For example, we have reduced our CHOPS production by about 13,000 barrels per day year-over-year. At the same time, we brought on about 20,000 barrels a day of additional thermal production over the past year. Without the impact of quota, total thermal production would have amounted to around 140,000 barrels per day in Q1. And in the Downstream, we've been working to optimize the value

extracted along our Integrated Corridor business. This includes investing in flexibility projects and debottlenecking initiatives.

At the Lima Refinery, our work during the Q4 turnaround has increased the efficiency of our processing units. Current throughput at Lima is around 175,000 barrels per day, up about 20,000 barrels a day from a couple of years ago, and more work will be completed at Lima this year to allow us to process up to 40,000 barrels per day of heavy oil.

The second factor is the effectiveness of our integrated model, particularly in these volatile market conditions. In the first quarter, our Upstream made a strong contribution to funds from operations, largely due to the tighter heavy oil differentials. This is a shift from last year when the value capture was primarily realized in the Downstream segment, and it illustrates how we capture value at any point along the Upstream-Downstream chain, giving us Brent-like pricing for most of our North American production.

However, while Husky is purpose-built to handle market volatility, other negative dynamics were also at play. This included the unprecedented uncertainty imposed on the Canadian heavy oil market by the Alberta government through mandatory production quotas. Before quotas were imposed, the market was already well on its way to naturally clearing the oil glut as refineries in the Midwest restarted after major turnarounds last fall and producers responded to market signals and shut-in production. Quotas have admittedly resulted in narrower differentials, but this has been at the expense of making rail shipments less economic. Looking at the data, it's questionable whether the actions have had any meaningful impact on the storage levels that quotas were meant to address.

There have been more than a few knock-on effects as a result as well. Industry is shutting in barrels that would otherwise have been economic. This has provoked job losses and resulted in economic hardship for the service sector, which will ultimately reduce the tax base. Whether higher royalties on a diminished production base offset the broader social costs is an open question.

At the same time, the market uncertainty caused by this policy has seriously eroded investor confidence in both Alberta and the Canadian energy industry. Alberta needs to take concrete measures to rebuild investor confidence. We now have a new government in Alberta and we

urge them to return to competitive free market principles by ending quotas and allowing the market to manage itself in a more natural and efficient manner.

Despite these quotas though, Husky's Integrated Corridor and Offshore businesses served us well in Q1. Steady performance contributed to funds from operations of \$959 million, net earnings of \$328 million, and free cash flow of \$147 million. We continue to maintain the strength of our balance sheet. Both our production and our capital guidance remain on track for the year and we continue to return cash to shareholders through a quarterly cash dividend.

On the project front, Rob Symonds will provide details of our Q1 progress, but I'll touch on a few in-flight developments. Our latest Lloyd Thermal project at Dee Valley continues to make good progress. We're about six months ahead of our original schedule and expect first oil in Q4 of this year. We have two more of these 10,000 barrel per day projects in the wings at Spruce Lake North and Central that will come on stream next year.

In the Asia Pacific, we're drilling the final three wells at the 29-1 field with first gas set for around the end of 2020.

In the Atlantic, the components for the West White Rose Project are continuing to take shape at three construction sites in Newfoundland and Texas.

Lastly, we are seeing strong interest in our Canadian retail and commercial fuels business and the Prince George Refinery. We'll update you as the process moves forward.

Finally, I'll note that Peter Rosenthal has now joined us as our new Senior VP of Safety and Operations Integrity. Peter reports directly to me and will ensure Husky's commitment to process and occupational safety is consistently reflected throughout our organization. This includes more closely tying safety performance to compensation for all Husky employees, including our Senior Management team. You can see this explicit link in our recent Management Information Circular. And we're working with top industry experts, making sure our processes and procedures are the right ones and are being strictly applied throughout the Company.

To sum up, we continue to invest in our organic portfolio of lower cost, higher margin projects along the Integrated Corridor and in our Offshore businesses. This will continue to lower our

cost structure, generate more funds from operations and free cash flow and provide a greater opportunity to return cash to shareholders.

Thanks very much. Now I'll ask Jeff to touch on our financial performance.

Jeff Hart:

Thanks, Rob. As mentioned, this quarter we saw funds from operations of \$959 million, which is up 7% over the year ago period and significantly higher than last quarter. Both the Integrated Corridor and Offshore businesses continue to provide strong financial results. Overall, Upstream production of 285,000 BOE per day delivered an average realized price of \$47.20 per barrel, an 85% increase over Q4 and 15% higher than the year ago period.

We also captured more margins, with an Upstream operating netback of \$27.69 per BOE, up almost 200% from Q4 and 14% higher than at this time in 2018. This was due in part to tighter differentials and higher commodity prices, but it's also the result of the ongoing structural transformation that Rob mentioned, as we've brought on higher margin thermal barrels and Asia gas.

We did see an increase in Upstream operating costs in the quarter, which averaged \$16.30 per barrel, compared to \$13.33 in the first quarter of 2018. This was due to a combination of factors, including Alberta production quotas, the ongoing ramp up of the White Rose field, which resumed production at the end of January, and higher gas and electricity prices in Western Canada.

It was also another strong quarter for our Infrastructure and Marketing segment, where we generated EBITDA of \$171 million. And while the value of our Keystone capacity decreased, we were able to offset the decline in value of our export capacity through the use of our storage assets.

In the Downstream, our upgrading and refining business produced EBITDA of \$498 million. This was about 20% lower than Q4, however, 46% higher than this time last year. Just to note that this includes a favourable FIFO pre-tax inventory impact of US\$3.91 per barrel, as well as \$113 million in insurance proceeds related to the Superior Refinery.

In terms of capital spending, spending this quarter was directed towards our lineup of five Lloyd thermal projects, the continued construction of the West White Rose Project, the 29-1 field development at Liwan and Western Canada resources. Free cash flow was \$147 million, which exceeded the amount needed to cover the dividends in the quarter and our priorities to allocate our free cash flow above the dividends remain unchanged, which include maintaining the strength of the balance sheet, returning cash to shareholders and continuing to invest in a deep portfolio of higher margin projects.

Net debt at the end of the quarter was 0.8 times trailing 12 months funds from operations, well below our target. We did see an increase in net debt from Q4, which was related to an increase in working capital driven by commodity prices, seasonal inventory builds and business interruption insurance accruals related to the Superior Refinery.

In anticipation of upcoming bond maturities in 2019, we raised US\$750 million through a notes offering last month and by extending our debt maturities and replacing bonds with reduced coupon rates we are lowering our cost of capital.

Finally, I'll refer you to this morning's news release and MD&A for our detailed numbers. As stated, our Board has approved a quarterly dividend of \$0.125 per common share.

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

Rob Symonds:

Thanks, Jeff. Upstream production was 285,000 barrels per day. This included combined thermal production from Lloyd, Sunrise and Tucker that totalled 130,000 barrels a day Husky working interest. As mentioned earlier, Alberta production quotas have forced us to dial back some production at Sunrise and Tucker and we're managing—we're working to manage this in a cost effective and efficient manner.

We've also had to shut in some CHOPS wells. Where possible, we're working to minimize the impacts on our people and contractors, but it's no secret that workers in rural Alberta communities are bearing the brunt of this program. The latest ministerial order from the Alberta government provided a slight improvement on our production quota for April and May, but the amount of barrels shut in remains at about 20,000 barrels per day.

For context, our production quota for the first quarter, the amount we were permitted to produce in Alberta, averaged out to be about 86,000 barrels per day. We've been able to make up some of the lost production in Alberta with investments in Saskatchewan, where our thermal project lineup continues to deliver excellent results.

Dee Valley is on pace for first oil in Q4, which is ahead of schedule, and Spruce Lake Central is expected to start up in the third quarter of 2020. On the heels of these two projects we'll bring on Spruce Lake North and East, and then we'll shift our focus to Edam Central.

In the Downstream, we had a standout quarter at our Lima Refinery in Ohio. We were taking advantage of efficiency and optimization improvements to increase peak throughputs to about 175,000 barrels per day. Throughput at Lima averaged 171,000 barrels a day in the quarter, compared to 164,000 barrels a day at this time last year.

In regards to our progress at the Superior Refinery, demolition of the damaged units is underway and should be complete around mid-year. Earlier this month, we held an open house with the community to share our plans for the rebuild following the fire last year, and to provide a timeline for returning to operations. While we're still in the preliminary stages of engineering, we expect the cost to rebuild will be more than US\$400 million. The vast majority of this will be covered by insurance. This investment includes modernizations and safety enhancements. We'll have the same throughput capacity and once again we'll be able to produce a full slate of products, including asphalt, gasoline, diesel and fuel oils. Superior will be a rebuilt facility with a renewed commitment to safety, better energy efficiency, and with improved technology that incorporates a number of innovative advances made by the refining industry. The permit applications to begin the rebuild were submitted at the end of March, and pending approvals, we're looking to have construction boots on the ground this fall with a partial return to operations in late 2020. We expect to return to full operations the following year.

In one other Downstream note, the Prince George Refinery is now well into a planned month-long turnaround and we expect it to return to full operations in mid-May.

Turning to the Offshore business, starting with Asia. Husky share of production from the Liwan Gas Project averaged 38,000 BOEs per day. Gas sales demand slowed down earlier in the

quarter due to the Lunar New Year holiday in China, but has since rebounded. The 29-1 field, we expect to drill the final three wells in the second quarter to add to the four previously drilled. All together, the seven wells will be tied into the existing Liwan subsea infrastructure with first gas around the end of 2020.

In Indonesia, gas sales were down slightly due to our planned 12-day maintenance at the BD project in the Madura Strait during the quarter. Again, gas demand remains strong.

In the Atlantic, production continues from the central drill center. Current production from the White Rose field is approximately 5,000 barrels per day Husky working interest. Our team recovered the damaged connector from the seabed last month and successfully plugged the flowline. Two additional infill wells are in the process of being tied in and we expect it to be brought on to production in the coming days. We anticipate the remaining drill centers will be back online by midyear.

At the West White Rose Project, construction was advanced at all three main fabrication sites in Newfoundland and Texas. Over the winter construction season, we worked on preparing the concrete gravity structure and readiness for resumption of concrete work. The concrete work has recently recommenced. First oil is expected in 2022.

Thanks, and 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, and one on their touch-tone phone. You will hear a tone to indicate you're in 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, and two.

Our first question comes from Greg Pardy of RBC Capital Markets.

Greg Pardy:

Thanks, good morning. A couple of questions for you. I guess the first one is just with respect to capital spending. Your first quarter spending came in lower than what we thought. Could you

give us an idea of just how the balance of the year will shake out, and then how you're thinking about that in relation to targeted levels this year?

Robert Peabody:

Yes. Thanks, Greg. Good morning. Just overall, I'd just say, our capital—we expect our capital to hit guidance this year, to be on guidance. We did, as I think people noted in the last quarter last year, we had some extra spending on capital. Sometimes when you have big projects, you do get some sloshing between quarters and that, and then in this quarter we're a little bit under. I think overall, as we're looking at all the capital trends throughout the remainder of the year, it looks to us like there is no indications that we won't be on guidance for the year.

Greg Pardy:

Okay, terrific. I typically don't ask M&A questions, but your balance sheet is strong and the Canadian market is still depressed. There are some select assets that are sitting out there. And at the same time, you mentioned that you've still got government involvement vis-à-vis curtailments. But when you think about adding resources, is this an environment that's potentially attractive to you or is it one in which you just protect the balance sheet and remain patient?

Robert Peabody:

Well, I think—Greg, the thing I'd point out is—and one of the things I hope people didn't miss was the strong reserve additions that we did last year, where we were upwards—we were over 200% reserve additions, and our RLI, our reserve life index, increased about 13.5% on a proved reserve life basis. So we're very comfortable with the pipeline of resource we have to develop as a company over the coming decade, decades with maybe an 's' on the back of it, so we're not feeling under any pressure to do M&A in order to boost that further.

Now clearly, we still look at what's out there and looked for things that might be strongly accretive while not at all putting our balance sheet at any sort of risk maintaining our investment grade credit ratings. So we look at those things, but we're not feeling under any great pressure to do anything.

Greg Pardy:

Okay. Last question for me is you've touched on solid interest in terms of Prince George Refinery and the retail. Just any idea when we would get a better indication on that? Is that maybe a 2Q or 3Q or later in the year?

Robert Peabody:

I'm hoping we'll have something to say by mid-year. We've got strong interest. We're beyond the first round and I think we're hoping to draw that to conclusion around the middle of the year. It may take a little longer than that to close, of course, depending on exactly who the buyer is, and if there's any sort of competitive things that have to be sorted out.

Greg Pardy:

Okay, terrific. Thanks very much.

Robert Peabody:

Thanks, Greg.

Operator:

Our next question comes from Manav Gupta of Credit Suisse.

Manav Gupta:

Hey guys, a quick comment. I mean, looks like the Superior timeline has moved a little to the right and you indicated some delays, minor delays, which do happen when something like this happens. Could you elaborate a little bit? Is it a full start-up delay, which is moving out, or is it just—like what's causing the slight delay?

Robert Peabody:

I'll let Rob Symonds, he's in the detail on that, but I guess at the highest level I'd just say, the critical path for the whole project is clearly government permitting. The good news is I think we've now submitted the applications. We've had discussions with the various bodies and regulatory bodies, and so far those discussions have all been very productive. Rob, do you want to add to that?

Rob Symonds:

Yes, absolutely. Manav, I'd say to you that the process we're on is very much driven, as Rob said, by the regulatory process. We have to do a significant amount of engineering, because the applications require you to talk about emissions, and hence, you kind of need to know the new equipment. We were able to get that done, but not—and not submit until March. Really now, if we get our approval by the end of the third quarter, we'll get the boots on the ground to get things started in terms of construction and putting in foundations before the winter freeze up. That's kind of the piece assuming that happens.

We will not have full start up in 2020. As we've said, it's about long delivery times on certain pieces of equipment. We are moving ahead on ordering equipment. And so partial start up is our goal in the end of 2020 and the full units all up later the following year.

As to your comment that it's later than it was, I don't think it really is later than we've been saying, and we're still uncertain until we get our permit.

Manav Gupta:

That's clear. Just a quick follow-up on the first question that Greg also asked. I understand there is no need to do an M&A, but I'm trying to understand from the perspective of the vision that you're taking, are you looking at only large assets and taking the ownership control in those assets? Or you would be open to taking minority interest in some of the other assets, which might come to the market as a result of divestment, so 20% interest in AOSP or something else? I mean, is the focus only on bigger projects and full control, or if the deal looks good, you might actually take some minority interest in one of the bigger projects?

Robert Peabody:

I think the answer to that really is first we look at being on strategy. We've got two major businesses, the Integrated Corridor, and so something has to be reinforcing our existing business model in the Integrated Corridor, and then the Offshore business where clearly it's either something probably in Asia or the Atlantic region to be of any real note or interest.

In the Integrated Corridor in particular, of course we would always put a premium on being able to control assets because one of the ways we're able to extract maximum value out of each

barrel produced in that Integrated Corridor is being able to control how they're produced, how they flow to market, and where ultimately we realize the value.

Manav Gupta:

That's clear, guys. Thanks, and congrats on a good quarter.

Robert Peabody:

Thank you.

Operator:

Our next question comes from Neil Mehta of Goldman Sachs.

Emily Chang:

Hi, this is Emily Chang on behalf of Neil. I just had a question around Husky's acreage that falls within Saskatchewan, which is outside of the Alberta government's jurisdiction. I guess could you give us a sense as to how much production within Western Canada is not necessarily impacted by these production curtailments, and how Husky is thinking about types of production ramp profile across those two regions?

Robert Peabody:

Yes. So I think the main production there in Saskatchewan is coming from our whole suite of thermal products, where we're currently producing in the range of 80,000 barrels a day from our Saskatchewan thermal projects. And as we—as I said in the call, we're bringing on another 10,000 barrel a day project later this year. We've got two more that we expect to bring on next year. Again, they're all in Saskatchewan.

In addition to that, we have a small amount of CHOPS production that also still comes out of Saskatchewan about 5,000 barrels or...

Rob Symonds:

About 20,000...

Robert Peabody:

Twenty thousand barrels a day. I guess even more of that in Saskatchewan, not Alberta, than I thought these days. So that's the kind of extent of the production, and it's on a very strong growth path, of course with the Thermal program.

Emily Chang:

Great, thanks. Perhaps on a slightly different note, just on the dividend strategy, I guess, given the Company's strong balance sheet position, what's the strategy behind capital returns and sort of what does the Board need to see to give them the confidence they can sustain—they can underpin a dividend increase sustainably?

Jeff Hart:

It's Jeff here. I'll talk a little bit about—we did do a dividend increase, or the Board approved a dividend increase, last year. The context of that is we had some thermal production coming on, we hit the ramp up on our Madura field, and we're at full rates. I think what you'll see is a ratable growth in the dividend as we bring on assets. We have Dee Valley coming on earlier this year or late this year, earlier than expected, and then we'll take that in conjunction with where we're sitting in our balance sheet and the fact if we're below or well below our net debt threshold, there will be a potential to advance some of those ratable increases. We're really tied to the portfolio transition, but then we'll triangulate that to where we are on our net debt targets.

Emily Chang:

Great, thanks.

Operator:

Our next question comes from Benny Wong of Morgan Stanley.

Benny Wong:

Yes, thanks. Thanks for your prepared remarks at the beginning, Rob. Just wondering if you've been in dialogue with the new government yet? Just want to get a sense of, do you have any perspective in terms of how they're thinking about or looking at the takeaway situation in Alberta and as well as the production cuts in the crude by rail program that might be a little different from the previous government?

Robert Peabody:

Yes. I haven't specifically had any personal communication yet with the new premier. Some of our people have clearly talked to some of the people that we expect to be involved in the government.

I'd just say in general, first and foremost is certainly I welcome all the comments that the new premier is making around support for business and the need to get Alberta and Canada, and that the federal government has a big role to play in this, more competitive, I think that's got to be the ultimate focus of both levels of government and certainly I get the feeling that that is a major priority for the new premier, so I'm very supportive of that.

Our positions on quotas are pretty clear. They should be brought to an end as soon as possible. It's interesting to think at the moment I know the new premier has also said that they're interested in not moving forward with some of the rail contracts the previous government has. I think one thing that we need to do to kind of bridge our way to an appropriate future is ensure the appropriate incentive is there, so that rail will be moved. I mean it's disappointing that since this policy was first rolled out, we were—we saw peak rail shipments of almost 360,000 barrels a day, but then they dropped to about 160,000 barrels a day today, so we need to get that turned around. The quickest way to turn that around, of course, is to get rid of quotas because then you'd see the differential increase, and not—if you look at what you need to incentivize rail ultimately, it's probably something in the mid-teens, and we're kind of around \$10. There's about a \$5 bridge we've got to get across here so we can get rail cars moving and move more crude out of here, and as I say not leave crude in the ground that actually today is economic.

We certainly will try, and we'll certainly work constructively with this new government, as we do with every government, to see if we can find a way through to a world where the free market is now back in control, and I think that will be better for everybody in the long haul.

Benny Wong:

Great, appreciate those thoughts. My follow-up is a little more of a nitty question, just around your guidance. I don't think you guys changed your production outlook for this year. Were you guys already baking in 2Q curtailments in there or is there some moving parts where it kind of offsets the curtailments being extended into second quarter?

Rob Symonds:

Yes, Benny, this is Rob Symonds. Yes, we did not reduce our guidance. Even though we did not have—we heard the government when they originally put in the policy, they talked about curtailment, to use their words ‘being reduced from 325 to 95 in this second quarter.’ They didn’t do that. But in our overall portfolio, we have some positive things going on elsewhere. Specifically, you go back to those Saskatchewan thermals, they’re a little ahead of where we thought they might be.

We do have a bit of a headwind also, of course, in Atlantic in terms of that coming back up and we put our whole business together, at this time, we’re still on track to make our guidance despite the fact that we do have more Alberta production shut-in than we thought we would.

Benny Wong:

Got it. Thanks, Rob. Just as a final question, you guys have your Investor Day coming up at the end of May. Just wondering if you have any early thoughts on what we should expect and if there’s any main things that you would be focused on. I’ll leave it there. Thanks.

Robert Peabody:

Sure. I would just say on the Investor Day; one, I hope you will all come out to it. Second thing is we outlined a five-year plan at our Investor Day last year. This is largely going to be an update. I don’t believe there’s going to be a huge deviation from what we outlined last year, but hopefully, we’ll have a few positive additions to what we outlined when we update this thing this year.

Operator:

Our next question comes from Dennis Fong of Canaccord Genuity.

Dennis Fong:

Hi, good morning, and thank you for taking my question. I’ve got two quick ones, which are somewhat follow-ups to some of the previous questions. The first is just on capital allocation of projects. How should we be thinking about this in terms of, we’ll call it a medium-term outlook on jurisdictions and so forth? What are you kind of looking to build out on, frankly, with respect to your evaluation of local political risk, structure and so forth?

Robert Peabody:

Yes. I think—I mean, clearly, I think the biggest feature of the capital allocation at the moment is kind of less capital into Alberta. I mean, largely that's because with production curtailment sort of in place, or quotas, as we'd like to call it, because curtailment math is quite complicated and from our standpoint, it just is much clearer when we talk about quotas. I mean, there's not much point in investing when you can't produce the product, and while that's still uncertain as to when that's going to come along, we don't want to commit further investment there.

We're in good shape, because in our overall capital program, of course, there's—if you look at our significant capital spending right now, we're spending 29-1 in China, a very happy extension to our Liwan field will come on later next year. We're spending in the Atlantic region on infill wells and West White Rose. We continue to spend in the Downstream in particular to further enhance our margin capture at this cost project in Lima in particular. Then, of course, our thermals in Saskatchewan, where we don't have any restrictions on our ability to produce those.

So we're in pretty good shape on the capital side. The main difference has just been shifting a little bit of capital sort of out of Alberta into other jurisdictions.

Dennis Fong:

Thank you. Then my second question here is just, given in Q2 how a number of other producers are frankly running through scheduled turnarounds and quite significant ones at that, are you looking to potentially, we'll call it purchase or trade, any of their production quotas through Q2 to maybe help alleviate some of the significant impact you guys saw in Q1 on your production levels?

Rob Symonds:

Yes. Dennis, This is Rob Symonds. We certainly are looking on an ongoing basis at picking up in the secondary market some of the quotas available from other parties. I would say to you to this point, it has not been significant numbers. It's been a sort of 1,000 barrels a day, 1,500 barrels a day, kind of numbers, but we certainly will look at that, if there's an economic case to do it.

Dennis Fong:

Perfect. Thank you.

Operator:

Once again, any analyst who has a question, you may press star, and one at this time. Our next question comes from Mike Dunn of GMP FirstEnergy.

Mike Dunn:

Thanks, good morning everyone. My question is on the changes to the accounting rules for IFRS 16. It looks like you're carrying a current liability of \$232 million and \$58 million showed up on financing activities in Q1. Just wondering if you could help me identify, I guess of that, let's say the \$232 million, what buckets has that come out of in terms of by segment and by cost line item? Is it mostly Downstream transportation costs or Upstream OpEx, etc. etc. Thanks.

Jeff Hart:

Thanks. Yes, it's Jeff here. We'll follow-up with more detail, but the way to look at that is we have, in the balance sheet is a gross up in assets and liabilities of about \$1.3 billion, \$200 million of which is current. What you're seeing ultimately through this is it's a large impact on a gross balance sheet basis, but on a P&L you're talking about \$20 million, and we're seeing a net impact of \$20 million. What we're really seeing is a transfer from operating cost and purchases into finance and DD&A.

It's largely in our retail space, our corporate space, and we'll provide you the details, but the way to think about it is the profit and loss statement, it's not material. It's a transfer of costs largely or split between moving from operating costs and purchases into DD&A and to interest expense. On the balance sheet, you're seeing a gross up on both our liability and assets by about \$1.3 billion. And then we'll—we can certainly follow-up with more details to get you the specifics.

Mike Dunn:

Okay. Thanks, Jeff. Just to confirm the \$58 million reported as finance lease payments and financing activities, if you were disclosing this under the old rules, your FFO would have been \$58 million lower. Is that the right way to think about it?

Jeff Hart:

Essentially, on net you could say absolutely that, and we'd have to get the split out for you, but that's exactly what's happening. You're seeing an increase in FFO and a transfer or a reduction or higher costs going through our financing activities, and so we'll break out that split. But again,

it's not substantive on the earnings basis and you will see a slightly larger impact on FFO relative to financing cash flows.

Mike Dunn:

Okay, thanks, Jeff. Thanks a lot. That's all for me.

Operator:

Our next question comes from Jon Morrison of CIBC Capital Markets.

Jon Morrison:

Good morning all. If the new government were to ultimately exit the government sponsored CBR program and then that capacity came up for grabs, perhaps a discount with them paying some penalties, is that something you'd be interested in taking on, some of that capacity even if ultimately you might just be moving third-party volume, since you're fairly well protected on market access?

Robert Peabody:

I think the answer is we look at any sort of commercial arrangements, if we think we can make money on. But we'd be looking to make money on them not doing it out of some sort of charity or something to our fellow producers.

Jon Morrison:

Okay. Is there a duration under which, if the curtailments continue going on, you get more concerned about your long-term productive capacity of some of the volumes that have been shut in? Or ultimately you've got those concerns no matter what, another couple of months maybe doesn't change it materially.

Robert Peabody:

I'll let Rob answer that.

Rob Symonds:

Yes, Jon. I mean some of the—what we're doing, particularly on the thermal assets, so for us Tucker and Sunrise, is we are balancing the steam and moving—sort of moving it around pads.

We are doing some early turnaround work, and to this point, we're pretty confident we're not damaging the reservoir. At some point, I think there is a risk that you start to do that.

In the CHOPS space, I think we've said previously, there is no doubt we will not bring back some of those production. Small volume wells, they sand off. We would expect that we will lose a proportion of those. And so the longer this goes, the more those risks will rise.

Robert Peabody:

I think just to top that off, I'd say that, I mean, I think we've said before that in that CHOPS—the volumes of risk we think in the CHOPS are 3,000 or 4,000 barrels a day.

Jon Morrison:

Okay. Rob, if something isn't on strategy from an M&A perspective, does Husky hold the view that anything can ultimately make sense at a certain price, or after having gone through an extensive portfolio review and having divested where you have, you're currently of the view that, if something isn't core and isn't on strategy, it just doesn't make sense to buy independent of price at this point. Is there certain production where you go it's just, it doesn't makes sense no matter what the price is.

Robert Peabody:

Yes. Absolutely, I think, I'm a bit of a—I've done a lot of work on strategy for this company, but other oil companies in my career and I always start by the—it has to be on strategy. You need to be very careful about going beyond that, and I think, again and again and again, we've seen it in the industry when people buy assets that they don't really understand, because their asset's similar to what they already have, the risk profile goes way up in terms of the ability to actually turn that into an accretive transaction. It's best to kind of stay away from those things.

That being said, I think we continue to see consolidation in the areas where our core businesses are. So, over time, I think there will be things that are on strategy, tick all the boxes on accretiveness and the balance sheet and all those things that are available. Again, that's another reason not to get panicky about any particular assets that are out there.

Jon Morrison:

Maybe just a last one for me. Any incremental color you guys would give on how you're thinking about the Lloyd asphalt plant expansion right now? And is it looking more interesting in the context of obviously having a lot of financial flexibility on the balance sheet, but also if the UCP followed through on some of what the NDP narrative was in terms of support for incremental downstream, could government incentives push you towards making an FID there, sooner than later?

Robert Peabody:

Jeff, did you want to talk about that at all?

Jeff Rinker:

Yes, sure. I could. I'm still thinking about—this is Jeff Rinker. I'm still thinking about the asphalt expansion at Lloydminster, I think in the same way as you were in the past year, which is the—and we really like to maintain this balance between our Upstream heavy crude production and our Downstream heavy crude processing and take away capacity. We've got a couple of years until we get to the point where the Upstream growth puts us into a position where we're kind of short processing capacity. The Lloydminster Refinery is just an option that we have if we want to execute on that to kind of keep the balance, but we're always looking at other opportunities against that option, expansion of capacity and our other heavy crude processing facilities, for example, our additional takeaway capacity from the basin. I see it as kind of a backstop. It's what we execute against, but we're always looking at other opportunities too.

Jon Morrison:

Appreciate the colour. I'll turn it back.

Robert Peabody:

Thanks.

Operator:

Our next question comes from Menno Hulshof of TD Securities.

Menno Hulshof:

Thanks for taking my question. I've just got one. I wouldn't mind getting your thoughts on the recent correction in Asian gas prices and when you see that reversing, and with the full understanding that you're locked in at much higher prices at Liwan in particular, how is this affecting your thinking on activity levels in the region over the next, say, couple of years?

Robert Peabody:

Yes. I guess I just—I don't have Bob Hinkel here to give you a very long treatise on this, but I think our overall feeling is we're still feeling very comfortable with the gas business we have in Asia. I mean, we're still seeing extremely strong demand. China in their various planning meetings continues to put further introduction of gas into their power sector as a very high priority.

When you look at the pricing, I mean, interesting enough, I guess, if you look at the LNG companies as well, most of them see this is a more of a blip than a long-term impact on gas prices in Asia, the recent correction, and people are actually talking about there being—looking further out there is a real opportunity for more LNG into Asia, which is always a good sign for us, since we produce gas just directly into the market. But even looking at the city gate prices in China and everything, by the time you take current LNG prices and re-gas it and put it through all the pipelines, we believe we're still fairly competitive with the alternative supply of LNG at the moment in China, so we're not feeling any pressure there around pricing.

Menno Hulshof:

Then as just more of a confirmation, are you trying to price anything right now or is that all complete now?

Robert Peabody:

You mean in terms of Asian gas?

Menno Hulshof:

In terms of incremental contracts, yes.

Robert Peabody:

No. I think, that's all complete.

Rob Symonds:

Yes. The 29—Menno, it's Rob Symonds. The 29-1 was the last contract and that has been signed. As we previously highlighted, it's a little lower than the other contracts, but that is north of US\$10.

Menno Hulshof:

Perfect, thank you.

Robert Peabody:

Good. Thanks, Menno.

Operator:

This concludes the analyst question-and-answer portion of today's call. We will now take questions from members of the media. As a reminder, please press star, and one on your touch-tone phone to ask a question. If you wish to remove yourself from the question queue, please press star, and two.

Our first question comes from Chris Varcoe of Calgary Herald.

Robert Peabody:

Are you there, Chris?

Chris Varcoe:

Yes. Hi, Rob. The UCP Government wants to remove the Oil Sands emissions cap of 100 megaton. Just wondering what is Husky's position on this.

Robert Peabody:

I think, overall, our position is we don't actually think it's a—it actually is ever going to come to bite. I mean we actually believe that with work we're doing and our industry peers are doing to continue to drive down the carbon intensity of the Oil Sands, we actually believe that that cap will never be reached, so it's kind of a moot point to us.

Chris Varcoe:

Just to follow-up on that, the federal government has indicated that if the cap is removed that all new in situ projects would be assessed under the new Federal Assessment Act, under Bill C-69. What's your view on that? Would it impact Husky proceeding with new in situ projects in the province?

Robert Peabody:

Well, I think we believe that the in situ projects shouldn't be subject to Bill C-69, and we don't really see the connection between the two. As with my previous comments, we actually think the question of a cap or not is actually moot in terms of industry continuing to drive down carbon intensity, so we believe that's never going to be—never actually going to come to bite the industry overall.

Certainly we would like to see in-situ projects not subject to Bill C-69, and we have a lot of concerns about Bill C-69 which we've been very vocal about, the industry has been vocal about, and I know Alberta has been vocal about, and we certainly support the Alberta stance against C-69 as it's currently envisaged.

Chris Varcoe:

Thank you.

Operator:

Once again, any members of the media may ask a question now by pressing star, and one.

Robert Peabody:

Well, I think just keeping in mind our Annual General Meeting coming up here shortly, I'll draw this to a close, but I just want to thank everybody for your questions. Overall, I'd just say we remain on track with the financial objectives we set out at last year's Investor Day, and we will be updating our five-year plan at the Investor Day we're going to hold in Toronto on May 28, and I hope to see many of you there. Just as a reminder, as I said in the intro is that we will be holding our AGM here in Calgary, and that presentation will be webcast live on our website.

On behalf of the whole team here, thanks for joining us this morning.

Operator:

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