



HUSKY ENERGY

FIRST QUARTER 2017 CONFERENCE CALL & WEBCAST TRANSCRIPT

Date: Friday, May 5, 2017

Time: 9:00 AM MT

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

Jonathan McKenzie
Chief Financial Officer

Rob Symonds
Chief Operating Officer

Bob Baird
Senior Vice President, Downstream

Dan Cuthbertson
Director, External Communications and Investor Relations

OPERATOR:

Welcome to the Husky Energy First Quarter 2017 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, simply press star, then one on your touchtone phone. Should anyone need assistance during the conference call, they may signal an Operator by pressing star and zero on their telephone.

At this time, I would like to turn the conference over to Dan Cuthbertson, Director, External Communications and Investor Relations. Please go ahead, Mr. Cuthbertson.

DAN CUTHBERTSON:

Good morning, and thanks for calling in. We're here today with CEO Rob Peabody, CFO Jon McKenzie, COO Rob Symonds, and other members of our Executive Team. Rob, Jon and Rob will give you an overview of our first quarter results, provide context for our 2017 business program, and then we'll take your questions.

Following the call, we will be holding our Annual Meeting of Shareholders in Calgary, starting at 10:30 a.m. Mountain Standard Time. I will direct you to our website at huskyenergy.com for more information and a webcast of the meeting.

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

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

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

I'll now turn the call over to Rob.

ROB PEABODY:

Thanks, Dan, and good morning. Over the past few years, we've repositioned Husky to increase its resilience and growth potential in a radically lower price environment. We have

lowered our cost structure. Sustaining capital is down from \$3 billion in 2014 to about \$2.2 billion this year. We expect this number to keep coming down. Over the same timeframe, our operating costs have been reduced by about 25%, and as margins continue to improve, so does our ability to generate free cash flow.

In terms of establishing a dividend, we have said we have three conditions: achieving our net debt target of below \$4 billion, demonstrating free cash flow, and line of sight to stability in the oil markets. We have checked the box on the first two. Stability in the market, however, remains an open question. There's uncertainty around whether an extension of the OPEC cuts—if, in fact, they are extended—will be enough to offset the impact of growing U.S. shale production. In short, the market is not yet stable or in balance. It is important to us that a dividend be sustainable through the commodity price cycle. The next scheduled meeting of the Board to evaluate the dividend will take place ahead of our second quarter results at the end of July.

Now, moving to our quarterly results, steady Upstream and Downstream performance delivered funds from operations of \$709 million and free cash flow of \$325 million. Increasing thermal and Liwan volumes contributed to quarter-over-quarter production growth. Edam East, Vawn and Edam West ran at a combined average of 30,000 barrels per day, and that's about 20% above their design capacity. Their current SOR is 2.3. Growing output from these type of projects continues to bring down our cost structure. Operating costs at these most recent projects averaged CAD\$8.23 a barrel.

At the Sunrise Energy Project, gross production has now reached 40,000 barrels a day. With the tie-in of existing pads, starting in the third quarter, we expect production to ramp up to full plant capacity of 60,000 barrels per day in 2018.

Total net thermal production in the quarter, including our Lloyd projects, Tucker and Sunrise, averaged 121,000 barrels per day, and that's up 47% over a year ago, and not, in total, represents 36% of our total production.

We saw increased volumes at Liwan, which boosted production in the Asia-Pacific regions. With netbacks of over \$64 a barrel of oil equivalent, this business alone generated \$184 million

of EBITDA in the quarter, and remember, we are nearing production at our BD field offshore Indonesia, the first in a series of projects there.

In the Downstream, overall refining capacity utilization was 95% in the quarter. The strategic investments in this business have been improving efficiencies and reliability, and increasing processing capacity for our heavy crude feedstock. Canadian Downstream generated \$86 million of EBIT. The upgrader produced about 78,000 barrels per day of synthetic crude, diesel and condensate. Most of this production was sweet synthetic crude, which fetches a higher price than the heavier stream. I'll also point out that our all-in costs to extract, blend, transport and upgrade a thermal barrel into a finished product is about CAD\$18.50.

In terms of reshaping the portfolio, we have signed agreements for the sale of some Western Canada assets, which are expected to generate \$88 million in gross proceeds. This includes about 3,300 barrels of oil equivalent per day of production. The repositioning of Western Canada is now almost complete, transforming that portfolio into a more capital-efficient business. Overall, the structural transformation of our business has reached critical mass. Our consistent and improving performance is delivering increased cash flow, and we are moving closer to our objective of returning cash to shareholders while continuing to invest in a deep portfolio of projects.

Now, Jon will walk us through the first quarter results.

JONATHAN MCKENZIE:

Great. Thanks, Rob, and welcome everybody. Starting with the Upstream, average production in the first quarter was 334,000 boe per day, compared to 341,000 boe per day a year ago, and that's up from 327,000 barrels per day in the prior quarter. Year-over-year production reflects the disposition in 2016 of about 32,000 boe per day of production from Western Canada. This was largely offset by growing thermal production, the new infill well in the Atlantic region, and increased sales volumes from Liwan. The average realized price from our total Upstream production was \$41.58 per boe, up from \$25.02 a year ago. Upstream operating costs averaged CAD\$13.75 per barrel. Upstream operating netbacks were \$24.17 per boe, an increase from \$9.68 per barrel in the same quarter a year ago.

Now, on the Downstream, upgrading and refining ran at 96% and throughputs averaged 367,000 barrels per day, compared to 314,000 barrels per day in the same period in 2016. In the Canadian business, we realized strong asphalt margins of \$21.50, and wider heavy oil differentials resulted in upgrading margins of \$19.83 per barrel, compared to \$18.85 in the fourth quarter. A year ago, it was \$20.21 per barrel. The Chicago 3:2:1 crack spread averaged US\$11.22 per barrel, compared to US\$9.23 per barrel a year ago. Average realized U.S. refining margins were US\$8.33 per barrel, up from US\$3.76 per barrel in Q1 2016. The FIFO loss for the quarter was \$9 million.

At the corporate level, funds from operations were \$709 million. In the quarter, CapEx was \$384 million, leaving \$325 million in free cash flow. Net earnings for the quarter were \$71 million.

In March, we completed a notes offering for CAD\$750 million, and we exited the quarter with a net debt position of about \$3.8 billion, and this does not include the proceeds from our most recent dispositions from Western Canada.

In terms of upcoming maintenance and turnarounds, scheduled maintenance work is underway at the asphalt refinery in Lloydminster and is expected to be completed early next week. Following this, there's a seven-week turnaround plan for our upgrader in Q2 of this year. Both the SeaRose and the Terra Nova will undergo a three-week turnaround in the third quarter of this year.

Now, I will turn it over to Rob Symonds to talk about our operations.

ROB SYMONDS:

Thanks, Jon. Let's start with our thermal production. Our three newest Lloyd thermal projects at Edam East, Vawn and Edam West came on production in 2016, and continues to perform well. These projects have average operating costs of CAD\$8.23 a barrel, and we were able to deliver these latest three projects with capital efficiencies of about \$25,000 per flowing barrel. We expect to achieve similar metrics for the next four 10,000 barrel a day development.

Construction continues at the 10,000 barrel a day Rush Lake 2 project, where we expect to see first oil in the first half of 2019, and we're advancing plans for three new 10,000 barrel a day

projects at Dee Valley, Spruce Lake North and Spruce Lake Central. Open houses were held for all three during the quarter, as we progress towards regulatory approval. We expect them to start up in the 2020 timeframe.

At Tucker, first production from a new eight-well pad began during the quarter and drilling continues on an additional 15-well pad. Volumes averaged about 22,300 barrels a day over the quarter and we expect to see production continuing to ramp up this year and next towards the plant capacity of 30,000 barrels a day.

At Sunrise, gross production in the quarter averaged 35,800 barrels a day, a 6% increase over the fourth quarter, and as Rob mentioned, current production is around 40,000 barrels a day, with production per well pair averaging 730 barrels a day. This is approaching our estimated range of 800 to 900 barrels a day per well pair. An additional 14 well pairs will begin steaming in the third quarter and we expect to see them on production before the end of the year.

Turning next to Western Canada, we have signed agreements to sell about 3,300 boe a day of production. We are now more than 70% gas weighted in the Western Canada business unit, providing a natural hedge for the energy requirements of our thermal plants and refinery. The focus we have is on gas resource plays which generate competitive returns at \$2.50 AECO. A 16-well program targeting the Wilrich formation in the Ansell and Kakwa areas is underway, and in the Wembley and Karr areas, we've commenced an exploratory drilling program in the oil and liquid-rich Montney formation. We are encouraged by the land position we've put together in the Wembley and Karr areas.

In the Downstream business, in Canadian Downstream, average utilization was more than 96%. At the upgrader, we produced about 55,000 barrels a day of synthetic crude, as well as 23,000 barrels a day of diesel and other products. Operating costs at the upgrader were \$6.99 a barrel. Engineering work is progressing on the proposed asphalt refinery expansion. We held an open house in Lloydminster on this project a couple of months ago.

At our U.S. refinery operations, utilization was 95%. Work is advancing on the crude oil flexibility project at the Lima refinery, which will allow for the processing of up to 40,000 barrels a day of heavy oil by the end of 2018. The first stage of the project was completed last year and we now have the ability to take up to 10,000 barrels a day of heavy.

Looking now at Asia-Pacific, we're finalizing work at the liquid-rich BD project offshore Indonesia in preparation for first gas. This includes commissioning the FPSO that is already on site. The project is expected to ramp up to its full sales gas rate in the second half of the year, with gross production of 100 million standard cubic feet per day of gas and 6,000 barrels a day of liquids. We hold a 40% working interest in this project.

At the MDA-MBH fields, platform construction is now more than 40% complete. The floating production unit contract is awaiting final government approval. I'll remind you that these projects all benefit from long-term, fixed-price gas contracts.

At Liwan, we saw demand increase over the quarter. Current gas sales were about 275 million standard cubic feet per day gross. Operating costs here are around \$5.70 per boe, and this gives us a netback of \$65.94 per boe. Negotiations are progressing on a fixed-price sales gas agreement for the Liuhua 29-1 field. Subject to a final agreement, we expect the project to be sanctioned later this year.

Still in China, we have signed a production sharing contract for Block 16/25 at Pearl River Mouth Basin, and we expect to drill two exploration wells in the 2018 timeframe. This will be done in conjunction with two additional exploration wells planned at the nearby Block 15/33. These blocks are in shallow water and close to existing infrastructure, which would allow any development to be tied in more easily.

In the Atlantic region, with a new infill well on production at South White Rose, overall Atlantic net production averaged about 40,000 barrels a day in the quarter. A second infill well is planned for later this year, with production expected in the fourth quarter. The first well is currently producing about 8,600 barrels a day net to Husky. West White Rose is moving closer to a final investment decision. In the Flemish Pass, we are on track to participate in two exploration wells in mid-2017.

Overall, we continue to deliver against our operational targets for 2017.

Now, I'll turn the call back to the Operator for your questions.

OPERATOR:

We will now begin the analyst question and answer session. Any analyst who wishes to ask a question may press star, then one on their touchtone 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, then two. One moment, please, while we poll for questions.

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

GREG PARDY:

Thanks. Good morning. Rob, I just wanted to touch on the asset dispositions. I know the number was relatively small in the quarter, but are you continuing to just high-grade the portfolio? In other words, is that going to be sort of just the continued strategy as you move ahead?

ROBERT PEABODY:

Yes, thanks, Greg. We will always continue to high-grade the portfolio, but I'd also want to characterise this job as sort of 90/10 done. It was Western Canada assets. We sold a lot of these last year at a reasonable price. We've actually had a number of offers come in on some of things we didn't sell, but, again, weren't really core or strategic to our long-term future, and so we've been moving these out. So, there'll be a few more as we go through this quarter, but we're close to being wrapped up on it.

GREG PARDY:

Okay, and our other Rob had just mentioned just your Western Canadian production being a good hedge for the thermal gas requirements, as well as the Downstream. Do you have a number as to how much gas you consume in those operations, roughly?

ROBERT PEABODY:

I can probably just answer that. I mean, roughly, at the moment, it's about 70% of our own gas is consumed. I'm excluding our Asia-Pacific production, of course. But, 70% of our gas is consumed in those operations, and, of course, we have four more thermal plants under construction at that moment, and lots more planned behind that. So, we see that coming into balance as we move forward in aggregate.

GREG PARDY:

Okay, great, and the last question for me is just with respect to expanding the asphalt plant. Is there any more colour you could provide around that? I know you're going through the engineering, but just interested with any updated thoughts there.

ROBERT PEABODY:

I'll hand that over to Bob, Bob Baird.

BOB BAIRD:

Thank you, Greg. Well, as you know, no sanction decision has been taken at this point. We are progressing engineering and we did hold a successful open house. As you know, the project will double our asphalt capacity of our production, and, more importantly, it will provide a home for our growing thermal production without the need of additional pipeline takeaway capacity. As this moment, asphalt margins have been consistently strong, so this looks like a very good project.

ROBERT PEABODY:

Yes, I'd just add, when we say the margins have been consistently strong, they've been consistently strong for many, many years, and I think the margins we realized there are in the order of \$22 a barrel, which means it's a little more value-accretive putting a barrel into the asphalt business than it is into the upgrading and refining business.

GREG PARDY:

Great. Thanks a lot, guys.

OPERATOR:

The next question is from Phil Gresh with JP Morgan. Please go head.

PHIL GRESH:

Yes, hi, good morning. First question around the capital spending for the year—obviously, it was very low in the first quarter. Maybe you could just talk about some of the factors that you had expected to drive it higher to meet your full year expectation at this point, or any flexibility

that you see on the other side of that, if oil prices were to remain lower, how you think about that?

ROBERT PEABODY:

Super. I'll get Jon to answer that.

JONATHAN MCKENZIE:

Sure, Phil. Capital spending was lower in the first quarter, and there's a number of seasonal factors that caused that. It's not unusual for capital spending to be under your forecasted budget in the first quarter, with some catch-up expected or some phasing expected through the year. So, right now, we are still forecasting to be on track for our capital budget. What we're seeing is continued improvements in our capital efficiencies. So, as we continue to execute on the scope, we expect to see some capital efficiencies over the course of the year.

One thing I'd say about our capital budget again, though, is the capital budget actually lowers the cost structure of the Company. So, even in light of lower commodity prices, we still have balance sheet capability to execute our program if we were going to see a commodity price retrenchment. So, we're quite comfortable with the capital budget, of where we are, and we're quite comfortable with the trajectory of the spend right now.

PHIL GRESH:

If you were to think about the amount of flexibility in the budget versus what's already locked in this year, is there a number you'd think about?

ROBERT PEABODY:

Let me just add one thing to that. I just want to make one point, reinforce one point Jon made. One of the virtues of this capital budget, because we're not investing in anything that doesn't achieve a 10% return at \$45 and sort of a zero IRR at \$35, as we spend this capital, we're actually bringing down the breakeven earnings point of the Company. So, as I often said, I spent my whole year thinking of capital as almost a bit of an enemy of profit, but in this plan, capital is actually helping us, ultimately, increase our funds flow at any given price. So, that's why, as Jon said, we'd be reluctant to cut the capital, and we certainly have the balance sheet strength to maintain the program. There's more than enough flexibility at the margin if we really needed to do anything. We've got a lot of short-cycle type of investments. However, I'd just

emphasize it's not going to be a high priority for us to do that, in the absence of an extreme oil price scenario.

PHIL GRESH:

Yes, okay, understood. With respect to dividend, you made a comment that the Board will review it, but the timing of that would be after the Analyst Day. So, I mean, are you still thinking at the Analyst Day that you'd maybe be able to provide some kind of framework for us to think about at that point, or I'm just kind of wondering—

ROBERT PEABODY:

Let me just tell you how we're thinking about it again, and maybe put a little more colour on it than in the comments I made earlier. I mean, first, as we said, we've always had three conditions. The balance sheet is in great shape now. We actually are generating free cash flow now. The other thing that's happened here is the major transformation of our business is nearing completion. So, all the work we did in Western Canada is pretty much finished and that certainly has significantly reduced the sustaining capital requirements of that business. Our heavy oil thermal program, we brought on four projects, we're building four, and it's in good shape and moving forward. Liwan and Indonesia are also contributing strong free cash flow to the business, which I don't know is fully appreciate yet by the market, but I think it will be as we move through these quarters, just how free cash-generative our Asia-Pacific business is going to be over the next five-plus years.

If you look at 1Q results, you're really starting to see those benefits flowing through into 1Q, but as I said earlier, the markets look fairly uncertain still, and what we'd like to do is get another quarter or so under our belt, so that we're confident when we look at the full year results, that those results would support a sustainable dividend for the long haul paid out of earnings.

So, that's kind of what—I feel like I'm commenting on a Federal Reserve sort of conversation, but, basically, it's just this a—as we look at it, everything looks like it's on track, but there just isn't—if we could get another quarter behind us, then you're halfway through the year and you'll have a lot more confidence about what the full year is going to look like.

PHIL GRESH:

Sure, okay, thanks for that. The final question would be general thoughts on M&A at this point, for a couple of reasons. Obviously, we've seen a bit of wave of acquisition interest in Canada and then there's also been some things about there about, maybe, one of your partners potentially looking to divest of some assets. So, just your general thoughts on M&A, and, to the extent you have any interest at all, whether it be more skewed Upstream or Downstream, or there's not really a particular thing you'd emphasize.

ROBERT PEABODY:

Well, you know, one thing about M&A, I'd say first, is anything we'd have to do has to really look and feel like a compelling value-accretive deal to shareholders, and in doing that, we do have a fairly large bar to cross, because, as we've laid in our materials before, we have about \$20 billion worth of investment that we think does chin the bar at \$45 earning a 10% return, and it's not that easy to guarantee a 10% return at \$45 on most acquisitions at the moment. That being said, we always keep our eyes open—the standard comments everybody makes.

In relation to the specific comments, I guess I read the papers, too, I'm always surprised by what I read in them sometimes. However, the one thing I would say is we have a great partnership with BP, both in the Upstream and in the Downstream, in our oil sands business, and I can genuinely say that's been a great experience for us, and I believe for them, as well. Beyond that, I can't really comment on any specific speculation that's going on.

PHIL GRESH:

Right. Okay, thank you.

OPERATOR:

Paul, your line is open.

PAUL CHENG:

Hi. Is it me?

ROBERT PEABODY:

Yes, that's you, Paul.

PAUL CHENG:

Hi, because I couldn't hear my name. Good morning, guys. I think a couple questions for me. Jon, any high coupon debt you would be able to repay without penalty over the next 12 to 18 months?

JON MCKENZIE:

Thanks, Paul, for that question. There's no high coupon debt that we can prepay without having a make-whole provision come into effect. So, what we've talked about, and we did this as part of the debt raise earlier in the year, is we're positioning ourselves not only for a repayment of the 2017 maturity, but also positioning ourselves for a broader maturity schedule that we have in '19 and '20, as well.

PAUL CHENG:

Mm-hmm, okay. For the West White Rose, Rob, if you're going to FID, assume that you may, what needs to be achieved in order for you to feel comfortable to sanction that project? Is the cost structure right now that you think is okay and you would be able, or that you need to work on that more?

ROBERT PEABODY:

Thanks, Paul. You know, we're feeling pretty good with how this project is progressing. As we've said, the project, it will be considered for FID in 2017. At the moment, we're just continuing to advance all the reviews with our partner, governments and regulators, and we're using—as you've said, we've used the time to really work on capital efficiencies, and, certainly, at Investor Day, we'll talk about that a little more, but I think we've made a kind of step-change in capital efficiency overall in the project, and that looks really good. So, I think we'll come back with a much better project plan. I think I'll just leave—I'm quite hopeful that I'll have something to say on that pretty soon.

PAUL CHENG:

Okay. For the Liuhua 29-1, can you share any information in terms of what is the range of the selling price, natural gas selling price that you guys may be able to reach, and (inaudible 29:30), and also that once that you come to that agreement, how long it take for the project to come on-stream?

ROBERT PEABODY:

I'll get Jon to answer that.

JON MCKENZIE:

Sure, Paul. So, as we've said, and as you know, we're actively working, or negotiating that sales price with our counterparties in Southeast Asia. We don't expect that price to be as robust as the price we're getting for 3-1, but it's not materially off from what you've seen before in terms of those fixed-price contracts in Southeast Asia. So, that's a piece of work that continues. But, the way you should think about 29-1 is it really backfills the decline of 3-1. So, as that production comes on, there's a small bump in the first couple of years and then we kind of get back to traditional rates of about 330 million gross. If we were to come to a sanctioned position this year, you'd see that 29-1 would come on in the 2020 timeframe.

PAUL CHENG:

Thank you.

OPERATOR:

The next question is from Fernando Valle with Citi. Please go ahead.

FERNANDO VALLE:

Hi, guys, good morning.

ROBERT PEABODY:

Good morning.

FERNANDO VALLE:

My question was—first, on the infrastructure, you had fairly high results, when looking, since the sale to Hutchison and your partners. So, I'd like to understand a little bit how much third-party business is going through infrastructure right now and how we should think about results growth in that segment as that partnership gets developed.

ROBERT PEABODY:

Sure. Jon will answer that.

JONATHAN MCKENZIE:

Yes, Fernando, we've been really happy with the way that transaction has manifested itself for Husky and Husky shareholders, and you can see—I think you're looking at our results—the equity pickup from that business was pretty robust for Q1. So, today, when we started—or the Husky volumes related to, or Husky throughput related to that set of assets is about 60%, and we have a couple of significant major projects going on in the pipeline group to increase our capacity and, ultimately, our throughput there. So, we've got an expansion of the Saskatchewan gathering system, as well as what call LB Direct, that'll be completed later next year, which will materially increase the operating capacity of that pipeline network, and a lot of that will be filled by third-party volumes coming through the whole system. So, we expect, overall, the volume to grow through the system, with Husky being about 60% of the throughput on an ongoing basis.

FERNANDO VALLE:

It would be useful to get more operational metrics out of that segment in the future, as that growth becomes more relevant. My other question was just on the Downstream piece. We saw Syncrude coming offline at the end of last quarter. I was just wondering if that had any impact on your decisions for how hard you're going to run the upgrader, and if you saw any impact on margins at the end of last quarter and throughout April.

ROBERT PEABODY:

I'd just say that, yes, it did have an impact on our margins in a positive way. Unfortunately, it came at some, of course, expense, but it was helpful, and we were able to run the upgrader extremely reliably and we actually—we took advantage of that situation in running the upgrader a little harder than normal and that helped the results a little bit.

Anything you'd add to that, Bob?

BOB BAIRD:

No, we're going into our turnaround in a very good position. The plant is running really well.

ROBERT PEABODY:

Yes, as we've outlined in our other materials, the upgrader does go into its turnaround in a couple of weeks now and it'll be down for 45 days. It doesn't always happen this way, but it

seems like the heavy/light differentials have narrowed as we're going into that, so it's kind of a good time to do the turnaround.

FERNANDO VALLE:

Great, that's very helpful. Thank you.

OPERATOR:

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

The first question comes from Ashok Dutta with Platts. Please go ahead.

ASHOK DUTTA:

Hi, good morning. Thank you for taking my questions.

ROBERT PEABODY:

Good morning.

ASHOK DUTTA:

Rob, yesterday, on the earnings call, CNRL said that they see a growing potential of pipeline takeaway capacity being restricted as we reach the end of 2017. Would you share that concern? Is that something that you're worried about?

ROBERT PEABODY:

I don't share it as a concern, but I absolutely agree that that's what the picture looks like at the moment. It looks like it'll tighten up towards the end of this year, and that will probably continue until a significant new line comes on-stream. However, what we have—oh, and, clearly, one of the drivers of that is going to be Fort Hill starting to come on-stream. So, we certainly recognize that issue. As we said before, between things like our asphalt business, that doesn't use pipeline capacity, and the fact that we have reservations for all the rest of the pipeline capacity we need, we're in pretty good shape on that, and our upgrader actually also helps us capture the light/heavy differentials, if that happens to blow out. But, at a high level, I agree with the

assessment of CNRL, that there is a good chance that that could happen starting the end of the year.

ASHOK DUTTA:

Okay, thank you, and just a very quick follow-up question, if I may. What kind of operating costs did you handle in the first quarter with your offshore operations in Newfoundland?

ROBERT PEABODY:

I think the offshore operations in Newfoundland were running around \$14 a barrel. One point I'd make on that, though, and it's one of the drivers for moving forward with West White Rose, is that—you know, again, one of the unique features of West White Rose is it's going use euros for processing capacity. So, if you actually look at the incremental operating costs that are actually attributable to West White Rose over the first 10 years of its life, they're actually kind of \$2.00, \$3.00 a barrel region, in terms of incremental operating costs.

ASHOK DUTTA:

Okay. Thank you very much.

OPERATOR:

The next question is from Chris Varcoe with Calgary Herald. Please go ahead.

CHRIS VARCOE:

Hi. Thanks for taking my call. Rob, you talked at the beginning of the call about the lack of stability in the oil markets and I'm just wondering your thinking on that and at what part do you have to recalibrate your capital spending if these oil prices continue to sink lower.

ROBERT PEABODY:

Thanks, Chris. Yes, I mean, first, on our capital spending, in fact, how we position the Company, with the strong balance sheet, where we are, and the fact that the capital that we have targeted is in such high-return projects, again, as I said earlier, we'll be reluctant to cut the capital, except in an extreme sort of oil price scenario, because that capital is actually driving down our breakevens going forward. So, I think it's reasonably—our capital program is pretty robust, I think, as we go through this year.

CHRIS VARCOE:

Just to follow up, are you expecting to see more instability here in the next few months, just given some of the geopolitical factors at play? You mentioned OPEC's meeting, obviously, coming up.

ROBERT PEABODY:

Yes, I mean, what I would say is—as my predecessor said, and I think I told him to say it at one point, predicting oil price is just about impossible. However, there's a lot of big moving pieces here, clearly OPEC's actions, clearly the ramp-up of oil production in the United States, even things like, you know, people talk about potential border taxes, hopefully, that's gone into the background a little bit now, but there's a lot of big moving pieces here and no one is very clear about how they're going to all play out. So, on that basis, we're kind of saying we want to get a little more information about how all these things look like they're going to play out in the next quarter.

CHRIS VARCOE:

Thank you.

OPERATOR:

The next question is from Nia Williams with Thomason Reuters. Please go ahead.

NIA WILLIAMS:

Hi, there. Thanks for my taking my questions. A lot of companies have been talking about how technology and innovation are going to be key for Canada to remain competitive, so I was hoping to get your thoughts on that; and also I wanted to ask is Husky's R&D spending going up or going down at the moment, can you give you a bit of colour around that?

ROBERT PEABODY:

Thanks, Nia. Yes, I mean, I absolutely ascribe to that. It's interesting, even if you reflect back five or 10 years with Husky, how much of our business plan today is really built on new technology. I mean, our whole thermal program and heavy oil, the things we're able to do now in the Atlantic region and in Asia, are predicated on technology that's only recently been developed. We are continuing to push that, particularly, in the oil sands, where we feel we're at the very early stages of the technology curve, both in terms of sub-surface technology and in

terms of the type of technology to drive capital efficiency. So, we've seen dramatic reductions in our sustaining capital requirements. The new pads we're building right now, we've been able to bring down the capital in those pads by more than 30%, 40%, when you look at the drilling and the well pads.

We're also doing a lot in our heavy oil business. Looking forward, we're doing a lot of carbon capture research there. We're running three different pilots on different new carbon capture technologies, which could be quite radical breakthroughs. We're looking at carbon capture technology that has the potential to reduce the cost of capturing carbon by half, versus today's best technology.

Then, for our business, we're looking to take the captured carbon—in fact, we're already doing this today—take the captured carbon and inject it into CHOPS wells that have previously produced but still have 93% of the oil left in place after the traditional CHOPS production. We use that CO₂ to run those wells through more cycles and increase recovery. In pilots there today, we are more than doubling the initial recovery. Ultimately, that CO₂ will remain in the reservoir at the end of these processes. So, not only do we get enhanced recovery, we sequester CO₂.

So, we're doing a lot in technology, so I absolutely agree with the comment that—I ascribe to the same aspiration I know many of my industry colleagues do, and that is that we will turn oil sands and heavy oil into a low carbon source of energy versus a high CO₂ source of energy, which the perception it is today.

NIA WILLIAMS:

Okay, thanks. Then, on the Husky spending, can you give any idea whether it's going up, or it's increasing, the R&D spending, compared to previous years?

ROBERT PEABODY:

Yes, the only thing I'd say is often—I actually think the oil industry is quite poor at capturing its R&D spending, because a lot of it is kind of pilot testing and new technologies. When we drill new wells in the Montney today, we're using new technology, but we don't call it R&D, we just call it new technology that we're applying. But, my sense is that technology is playing a bigger

and bigger role in our industry, and the pace of change is faster and faster, which would actually imply that the actual amount of total R&D spend is actually continuing to increase.

NIA WILLIAMS:

Okay. Thank you.

OPERATOR:

Once again, if you have a question, please press star, then one. The next question is from Dan Healing with Canadian Press. Please go ahead.

DAN HEALING:

Hi, good morning. Thanks for taking my questions. Rob, it's your first AGM this afternoon. Asim came in kind of with a long-term, multi-year plan to transform the Company. Are you going to be bringing forward any sort of larger scale plan like that to talk to investors about today?

ROBERT PEABODY:

Well, first of all, I'll draw your attention at the AGM this afternoon, I wouldn't expect big new announcements beyond what you've already seen. That's not the normally the forum we do that, anyways. But, we have the Investor Day on May 30, where we will go through the game plan for the next five years and what we think that will do in terms of the results, and get quite granular about sort of what projects we're going to do, when we're going to do them, so that people have a good understanding about how we expect to deliver what we plan to deliver over the next five years.

In terms of your high level comment, is there a new grand strategy, Asim and I worked extremely closely together, and I think he would say that, too, and you're not going to see us—you know, we've been working on a transformation over the last five/six years. We're very close to finishing the main part of that transformation. What that has positioned us for is to be able to do two things at once, to generate enough free cash flow to start returning it to shareholders at an oil price half of what it was when we started the transformation, but also to be able to deliver sustainable growth in the production base going forward. So, that's what we'll take everybody through on Investor Day and, hopefully, give them a real granular and clear feeling about how it's all going to be delivered.

DAN HEALING:

Okay. Thanks.

OPERATOR:

There are no more questions at this time. I would now like—

ROBERT PEABODY:

If that's the case, I'll just wrap up here. Thanks very much. I'd just say our structural transformation here continues to drive down our sustaining capital requirements and the oil price required to breakeven on earnings. The Company is benefiting from its integrated business that runs from our thermal production in Western Canada to our Downstream assets in Canada, and through the U.S.—again, at Investor Day, we'll give you a little more colour on how that whole integrated business works as you wrap it up into, and even think of it as, a business—and in our offshore business, Asia-Pacific is coming into its own, contributing large amounts of free cash flow, well delivering production growth over the next five years plus. In the Atlantic region, we're holding production steady with infills, as we move closer to the next phase of growth with West White Rose, and we look forward to discussing this path, as I said before, with you in detail at Investor Day at the end of the month.

Just a reminder—it was referred to earlier—later this morning, we are holding our AGM in Calgary, and that presentation will also be webcast live on our website.

So, on behalf of our Team, 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.