



HUSKY ENERGY

FIRST QUARTER 2018 CONFERENCE CALL TRANSCRIPT

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

Jeff Hart
Acting Chief Financial Officer

Robert Symonds
Chief Operating Officer

Dan Cuthbertson
Director, External Communications and Investor Relations

OPERATOR:

Welcome to the Husky Energy First 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, 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 like to turn the conference over to Dan Cuthbertson, Director of External Communications and Investor Relations. Please go ahead, Mr. Cuthbertson.

DAN CUTHBERTSON:

Thanks, and good morning. I'm joined today by our CEO Rob Peabody, COO Rob Symonds, and Acting CFO Jeff Hart. They'll provide an overview of our first quarter results and then we will open up the line for your questions.

Today's call will include forward-looking information. The associated risk factors and assumptions can be found in this morning's news release, which is posted on our website, and in our annual filings on SEDAR and EDGAR.

All numbers are in Canadian dollars and before royalties, unless stated otherwise.

A reminder, that if you have specific modeling questions, please get in touch with our Investor Relations Team.

Rob will now begin the call.

ROBERT PEABODY:

Thanks, Dan, and good morning everyone. The first quarter saw persistent deeply discounted prices for Canadian heavy oil, and it appears the market dynamics behind the wide differential may be with us on and off for a while. Industry continues to wait on additional rail capacity and, ultimately, pipelines to clear the glut. This is when our business model really demonstrates its value. Our Integrated Corridor is purpose-built to capture the margin available from refinery— from the reservoir to the refinery rack regardless of these types of market dislocations. Our Downstream Heavy Oil processing capacity is matched with our Upstream heavy production,

and we have the ability to upgrade and refine in Canada and in the United States, and we benefit from significant long-term transportation capacity to end users in the U.S. Midwest and Gulf Coast refining complexes. This gives us the flexibility to quickly adjust to any environment.

We now have about 400,000 barrels a day of total refining and upgrading capacity, with approximately three-quarters sitting in the United States benefiting from the recent tax changes. We are investing in our ability to process more heavy crudes. We're heavying up at Lima with the Crude Oil Flexibility Project underway, and later this quarter, we'll be adding 5,000 barrels per day of heavy capacity at our Superior Refinery. This was our first full quarter of operations at Superior. The refinery came on with significant storage assets that complement our existing capacity in the region. Combined with long-term pipeline commitments, which include 75,000 barrels a day on the existing Keystone line, this means we don't need to use rail to move any of our Upstream production.

With the Integrated Corridor, we are essentially covered on our Heavy Oil exposure until 2021. At that time, we expect to have more clarity on the outlook for export pipeline capacity and can make informed decisions about the most value-enhancing way of accommodating our future Heavy Oil growth. The Offshore business further enhances our resilience by contributing high netback production. The Atlantic region receives a premium to Brent pricing and our Asia-Pacific business benefits from fixed price gas contracts.

Putting it all together, in the quarter we generated funds from operations of \$895 million, That more than covered our CapEx program and the dividend.

This morning, we disclosed we are taking a 75% stake in the third field at Liwan, up from 49% that we have in the rest of the complex. We hold the view that Asia will continue to be one of the fastest growing energy markets in the world for the foreseeable future. This puts our net share of 29-1 production to 45 million cubic feet a day of gas and 1,800 barrels per day of liquids, once ramped up. The project has a few advantages, including production from 29-1 can be effectively tied back to our existing infrastructure, and we have a strong partner in CNOOC as we continue to build on our longstanding relationship.

Now, I'll hit on a few operational highlights, as we continue to deliver on our five-year plan.

The modular assembly line approach we've honed at our Lloyd Thermal projects continues to pay off. Construction at Rush Lake 2 will be completed two quarters ahead of schedule and we now see it coming online in Q3 of this year. This will be the eleventh Lloyd Thermal we've delivered and we keep building our expertise with each one. Capital efficiencies on this project are expected to be in the \$25,000 per flowing barrel area.

Moving to the Sunrise Energy Project, we hit 50,000 barrels per day last month, or about 85% of the nameplate capacity for Phase 1. The ramp-up to full capacity is ongoing. The SOR for the first 55 well pairs is now approaching three, and I certainly see this as a great long-term asset, with regulatory approval in place to grow gross production up to 200,000 barrels a day, and at that rate, we'd still expect it to have a life in excess of 50 years. Looking forward, we are working on debottlenecking projects for Sunrise and combining those with co-gen opportunities, which will also help lower our operating costs in the fullness of time. We are looking to build on the success that we've had at our Lloyd thermals to develop further phases at Sunrise in a more modular way, at lower cost with less risk.

To wrap up, we continue to execute against our five-year plan by investing in our deep portfolio of projects. By investing in those projects, we further reduce the oil price we need to achieve for our earnings and cash flow breakevens. At the same time, we are returning cash to our shareholders and maintaining a strong balance sheet.

Just before I pass it over to Jeff, let me just say that Jon McKenzie made a solid contribution over his three years at Husky. One area of focus I've had since joining Husky has been building on the depth of our senior management talent pool. I think Jeff, who's been with us for eight years, working through a series of more and more senior financial positions, is a great example of what we've achieved. Hopefully, those who haven't already met Jeff will get a chance to meet him over the next few months. Now, Jeff will walk you through the financial results.

JEFF HART:

Thanks, Rob. We generated overall funds from operations of \$895 million in the quarter, a 35% increase over a year ago: our capital spending \$637 million, and with \$40 million invested in joint ventures, leaving \$218 million in free cash flow. These results are the outcome of consistent performance in both our businesses.

Starting with our Integrated Corridor, which generates about two-thirds of our funds from operations, as Rob mentioned, while Canadian heavy oil was challenged by wide differentials, we are largely shielded by the tight integration of our Upstream and Downstream assets. The reduction in EBITDA in our Upstream is being picked up in the Downstream business. Our U.S. refineries continue to deliver value, realizing margins of US\$8.51 per barrel. However, those numbers don't tell the whole story. A key to avoiding the Canadian heavy differential, like the ones we saw this quarter, is the ability to move our molecules to the U.S. We capture most of this gain from our access to pipelines, including our committed capacity on the existing Keystone line. You'll see that the Infrastructure Marketing segment captured EBITDA of \$190 million in the quarter, an increase of 98% year-over-year. When you put it all together, this resulted in a full value chain netback for our heavy production of about \$44 per barrel for the quarter. We responded to the differential situation by reducing some of our own heavy barrels. This meant we could purchase additional third-party distressed heavy production and run it in our Downstream. Our sensitivity to the differential is largely mitigated through our existing Keystone capacity and Downstream assets. We've included this in our sensitivity table in the MD&A.

Now, turning to our Offshore business, which generates about one-third of our funds from operations, Liwan gas sales prices averaged CAD\$13.95 per mcf, with liquids pricing averaging \$73.60 per barrel. Our overall Asia-Pacific netback was \$70.31, and in the Atlantic region, where we capture Brent-like pricing, the netback was \$65.23 per barrel.

Corporately, of the \$895 million of Funds from Operations, \$637 million was directed to our CapEx program, including our inventory of projects that meet an internal hurdle rate of 10% at US\$45 WTI, and that spending was mostly weighted towards advancing 60,000 barrels a day of Lloyd Thermal projects and the West White Rose project. Continued investment in these types of projects keeps reducing our operating costs. OpEx for the quarter was \$13.33 per boe, down from Q1 2017, and a 23% reduction since the same period in 2014.

After spending on CapEx and investment in joint ventures, we realized \$218 million of free cash flow, \$75 million of which will be returned to shareholders through our quarterly cash dividend, and we closed the quarter with net debt of \$3.2 billion, including seasonal working capital builds and \$2.3 billion in cash. This represents less than one times net debt to 2017 Funds from Operations.

We are revising our annual production guidance for the year, lowering it by 10,000 boe per day. We now expect it to average in the range of 310,000 to 320,000 boe per day, while still exiting the year in the 330,000 to 340,000 boe per day range. However, we remain on track with our previously guided \$4 billion of annual Funds from Operations and \$1 billion in free cash flow.

We reduced heavy oil production in light of wide Canadian heavy differentials and substituted discounted third-party crude as feedstock for our Downstream operations. This allowed us to maximize the value captured. Also contributing to the production guidance revision is the slower ramp-up at the BD project in Indonesia. We have a few turnarounds scheduled for the year, both in Upstream and Downstream, and you can find the details in today's news release.

Now, I'll turn the call over to Rob Symonds to talk about our first quarter operations.

ROB SYMONDS:

Thanks, Jeff. Let's start with the Integrated Corridor. Combined thermal production was 123,200 barrels a day from Lloyd, Tucker and Sunrise. We continue to advance the 60,000 barrels a day of new Lloyd Thermal production that we expect to bring online by 2021. As Rob mentioned, work at the Rush Lake 2 plant is progressing better than planned. We also completed the drilling of the first 12 well pads in the quarter. We're now looking to commence steaming in Q3 and production will start a couple of months later. At Dee Valley, construction began in March and the first modules for the central processing facility have been arriving on site. Meanwhile, site clearing is underway at Spruce Lake North and Spruce Lake Central; all three projects are expected to be on production in 2020, and we're advancing the Westhazel and Edam Central projects which were sanctioned in November of last year.

At Tucker, taking the wide differential for Canadian heavy oil into consideration, we have advanced the turnaround into the third quarter of this year. Tucker has also been impacted by low delivery pressures from our third-party natural gas system during the first quarter, reducing production by about 1,000 barrels a day. Tucker is averaging around 22,500 barrels a day as we work towards our production target of 30,000 barrels a day by the end of the year. The new 15 well pads achieved first oil last month.

Moving next to Sunrise, as we mentioned it would during our last call, Sunrise remained relatively flat quarter-over-quarter at 46,800 barrels a day gross production. This is the result of

recompleting a few of the original wells in January and February. This work is proving very successful with the three wells that are back on production going from less than 500 barrels a day to more than 1,000 barrels a day, on average. Following that work, the ramp-up continues. Sunrise April month-to-date production is over 50,000 barrels per day and we remain on track to reach 60,000 barrels a day by the end of this year. The SOR for the original development area is now approaching three, although it will continue to fluctuate as steam is allocated to get better long-term performance.

At our Western Canada resource plays, our 18-well drilling program in the Ansell and Kakwa areas, which is targeting the Wilrich formation, is underway, with seven wells drilled during the quarter and four completed, and in the oil and liquids-rich Montney formation, we have an eight-well program this year in the Wembley and Karr area.

Turning next to the Downstream business, overall throughput for the quarter averaged 398,100 barrels a day. Overall capacity utilization was 92%, including 100% at the Lloydminster upgrader and 89% of our U.S. refineries. At our Canadian facilities, synthetic crude sales averaged 56,000 barrels a day at the upgrader, along with 6,400 barrels a day of diesel. The actual refinery ran at 99% utilization with throughput averaging 28,700 barrels a day in the quarter. In the U.S., throughput averaged 276,400 barrels a day, including 37,000 barrels a day at the Superior Refinery. This was our first full quarter of operations at Superior and it's proving to be a great asset for us. I would remind you that seasonally Q1 is generally the weakest for U.S. refining margins, particularly for a refinery that produces a significant value stream of asphalt. The turnaround that's currently underway at Superior will allow us to run more heavy there, increasing the flexibility of our feedstock. Our total gasoline, diesel and jet fuel in the United States, sales were 228,000 barrels a day in the first quarter.

In the Offshore business, starting with Asia-Pacific, as Rob mentioned, we are taking a 75% stake in the 29-1 field. We hold a 49% stake in the main Liwan field, so this represents a larger position and one that we are happy to have. We expect to drill three wells in the fourth quarter of this year; four wells were previously drilled, so this will bring the total in the field to seven. First gas is anticipated around the end of 2020. Gas will be processed at the onshore Gaolan Gas Plant for delivery to buyers. At Liwan in the quarter, sales averaged 367 million standard cubic feet per day, 180 million net to Husky. Associated liquids was 16,700 barrels a day, 8,200 Husky share. At the shallow water Block 15/33, we started drilling an exploration well last

month. This will be followed by a second in Q2. After that, the rig will move over and exploration drilling will commence on the nearby 16/25 well block, with two wells scheduled.

Moving to Indonesia, we continue to ramp up the liquids-rich BD project in the Madura Strait. Production in the quarter averaged 19 million standard cubic feet per day net to Husky, compared to 17 million in Q4. We sold 1,000 barrels a day of liquids Husky working interest. At the MDA-MBH field, seven production wells will be drilled in the second half of this year and first gas is expected in 2019.

Turning to the Atlantic, through our infill and step-up well program, we plan to bring on two wells a year, on average. At West White Rose, work is advancing at the graving dock and on the topsides and living quarters.

Thank you, and now I'll turn the call back to the Operator, so that we can take your questions.

OPERATOR:

Thank you. We will now begin the analyst question and answer session. Any analyst who wishes to ask a question may press star, then one on their touch-tone telephone. You will hear a tone acknowledging 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 and two. One moment, please, while we poll for questions.

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

GREG PARDY:

Thanks. Good morning, all. Just some quick ones, really, on the operating side. I heard the comments just around 29-1 and that being at the end of 2020. Is your sense that that will really offset declines at the field? Is that really what it's designed to do?

ROBERT PEABODY:

Yes, absolutely, it should offset declines. It might do a little better, we'll see when we get there. If we look at the reserves associated with the whole Liwan complex, as of today, really, we haven't really depleted any reserves, we continue to add them as we're taking production off.

So, the field continues to hold up even better than we originally anticipated, and we've got similar hopes for these extensions. So, we'll see how it plays out as we get a little closer, but at the moment, that's the way we're portraying it, as something that'll maintain the plateau production.

GREG PARDY:

Okay, thanks, Rob, and then the exploration expenditures you'll pick up, will you book those essentially in the form of higher production?

ROBERT PEABODY:

Correct. Once we come on production, we get allocated a higher portion of the production, until that's paid off.

GREG PARDY:

Okay, perfect. Then, just with Madura, what's the line of sight for rates there? Like, that's not a wellhead issue, right, that's really a function of the consumers and how quickly they will uptake the gas?

ROBERT PEABODY:

Correct. I'll let Rob give you a little more detail on that.

ROBERT SYMONDS:

Yes, Greg, it's Rob Symonds. Certainly, Indonesia, like many of these emerging Asian markets, the pace at which the market is able to take the gas is always a challenge and certainly a little slower than we had anticipated. It's absolutely not a wellhead issue. Today, we are seeing higher nominations, and we're very confident that as we move to the back end of the year, we will see the full nomination being taken in that 100 million a day gross number.

GREG PARDY:

Okay, perfect, and then the last one for me, is just with Lima. Can you talk—and the throughputs looked really good, and I know you booked the benefits of the wider spreads, and so forth, a lot of that's come into the Midstream, and so on, but can you just talk a little bit about just Lima's performance in the quarter and/or Toledo?

ROBERT SYMONDS:

Yes, this is Rob Symonds again, Greg. Yes, Lima had a couple of operational upsets at the early part of the quarter in both the coker and some of the other units, and as a result we weren't running optimally in terms of capturing the full spread. So, while the throughputs are not too bad, even though down a little bit from our expectations, there were some hiccups in Q1. Today I can tell you everything is back running as we want it to do.

ROBERT PEABODY:

Yes, and I would just add, Toledo had, again, a problem with one of the units. So, again, throughput rate is not affected too much but the key here sometimes is how you plan and how you run these refineries, and if you plan one thing and then you have to make some adjustments, you never capture quite the same level of margin.

GREG PARDY:

Okay, perfect, and last one for me. Just with Alberta's climate policy and so on, is there much of a bearing on your cost structure as a result of those policies, or no?

ROBERT PEABODY:

No. What's going on here, which is good, and I think this is a good move actually by the Alberta government generally, is that we continue our major projects that would be affected, our Sunrise and Tucker, and if you've been watching these projects, the SOR has been continually declining in those projects, and will continue to decline for another couple of years probably. The Alberta government is recognizing that under their output-based allocation system. Because we continue to improve, it's not actually—well, essentially, it means we get a credit for that improvement against what would have been the taxes or extra charges, but at the moment it's not having an impact.

GREG PARDY:

Okay, thanks very much, guys.

ROBERT PEABODY:

Thanks, Greg.

OPERATOR:

Our next question comes from Phil Gresh of JPMorgan.

JOHN ROYALL:

Hey, good morning. This is actually John Royall sitting in for Phil.

ROBERT PEABODY:

Hi, John.

JOHN ROYALL:

Hi, how are you? So, we just had one quick question. As we look at your first quarter FFO, with a \$900 million at a WTI price of greater than \$60, and then we think about your guidance for the full year of \$4 billion at \$55 WTI, can you help us bridge how you get there from 1Q?

ROBERT PEABODY:

Sure. The short answer really is that, one, we have ramp-up over the year, so we're looking at 330 to 340 as a kind of exit rate, and the other real component of that is the seasonally lower cracks in U.S. refining in 1Q, which is a normal seasonal factor, and we are seeing U.S. refining cracks improve here as we've come into 2Q. So, you kind of put those two things together and that's what takes us up to the levels that delivers the over \$4 billion of Funds from Operations over the year. So, we're still broadly on track for that goal.

JOHN ROYALL:

Great, thank you.

OPERATOR:

Our next question comes from Dennis Fong of Canaccord Genuity.

DENNIS FONG:

Hi, good morning, guys, and thanks for taking my questions. So, first, just quickly on the BD field, I was actually curious as to what your own expectations for the production sales profile look like through the year; and second, if you wouldn't mind reminding us as to the take-or-pay agreements that you have with the end users.

ROBERT SYMONDS:

Yes, Dennis, it's Rob Symonds. As we look out, what we're seeing currently is quite a decent take going on. Our expectation is that it will fluctuate between now and the end of the year and the full take. As you saw first quarter, our share around 19 million. By the end of the year, net share for us is about 40 million, so we're on track to make that fully. But to your point on send-or-pay, about 85% of the volume is covered by a send-or-pay obligation. Depending on the contract, they true up some of them every six months, some of them every quarter, so cash-wise, we would get it, although, obviously, in today's environment, cash is not as much of a concern for us. We're working with the market and we fully expect that the full consumption off-take will occur by year end.

DENNIS FONG:

Okay, thanks. Then just with respect to Sunrise, and notwithstanding the recompleted wells, how are the other wells kind of ramping up? Are they ramping up to your expectations, and how are you thinking of those individual well pairs proceeding forward from here?

ROBERT SYMONDS:

Yes, the original development area wells, we guided some time ago they would be in the 800 to 900 range, and they are currently in that range. They're running in the 850-ish range today, that original area. The additional 14 well pairs are ramping up slightly better than the original area did, and so very much on expectation for us. So, everything is as we expect, and we expect to reach 60,000, as we've said, by the end of the year.

ROBERT PEABODY:

Yes, and the only thing I'd to add to that is, as I say, it looks like we're comfortably in the 800 to 900 range on these. Again, it's interesting to look at the spreads, because we have quite a few wells well over 1,000 barrels a day. One of the gratifying things is when you actually stack that up against other Oil Sands projects, this is one of now—the top Oil Sands projects average about 1,000 barrels a day per well. So, we're now in kind of one of the top three for well production, or production per well, which I think reflects the quality of the overall lease.

DENNIS FONG:

Perfect, and sorry, just two really other quick ones. So, just clarity on the shut-ins, those are just conventional heavy oil production, they have nothing to do with the more thermal operations that you guys have, outside the acceleration of the Tucker turnaround; correct?

ROBERT SYMONDS:

Absolutely correct, Dennis.

DENNIS FONG:

Perfect, and then just finally, just plans for that excess free cash flow, is that still just going to your balance sheet? How are you guys thinking about the uses of the excess free cash flow you're generating above the dividend?

ROBERT PEABODY:

Well, one of the things I keep saying is that first we've got to earn it and then we can spend it. I guess I've been in this business too long to assume that things always play out the way they appear they're going to play out.

As I think we've said, we established a dividend and we were quite conservative about the way we put it in place, very much with the idea of being able to progressively grow it over time, particularly as we continue to drive down the breakeven on our earnings and cash flow going forward. So, that's sort of the framework. Obviously, as we have lots of capacity to pay a dividend and that becomes sustainable, and we've got the balance sheet where it is, I think that's a good place to be in.

I think the only thing I'd add to that is I do like maintaining a balance sheet that maybe at the moment can be seen as marginally under-levered. Because we are in an environment where there are a number of things becoming available, not big things, it's more the smaller stuff, but there's some great opportunities out there now to buy versus build, which we look at it and we may take advantage of a few of those as we go forward, when they're compelling, very similar to what we did on the Superior Refinery.

DENNIS FONG:

Okay, thanks.

OPERATOR:

Once again, if there are any analysts who wish to join the question queue, you may press star, then one.

Our next question comes from Joe Gemino of Morningstar.

JOE GEMINO:

Thank you. Which of your production, if any, is exposed to the heavy oil discount? Obviously, not from the integrator refineries or for your commitments on the Keystone?

JEFF HART:

Yes, it's Jeff here. None of our heavy oil at this point, as we're largely mitigated on all our heavy oil and bitumen production, so it's not even the product that goes through our Downstream facilities. With the capacity we have on the existing Keystone line, the differentials are largely driven by the Canadian location differential, and that pipeline has mitigated that. So, effectively, think of it right now as largely all of our heavy oil and bitumen production is mitigated from the location differential.

JOE GEMINO:

Great, and any of your growth projects, will they be subject to some of the heavy oil discounts or location differentials?

JEFF HART:

Yes, it's Jeff again. On that, we're largely balanced through the end of this decade, into 2021, which will give us some more time to—we'll see how the pipeline situation goes, but we are balanced and not exposed through 2021.

JOE GEMINO:

Great, thank you.

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, press star and two.

Our first question is from Ashok Dutta of Platts.

ASHOK DUTTA:

Hi. Good morning, Rob.

ROBERT PEABODY:

Good morning.

ASHOK DUTTA:

Good morning, sir. A quick question. How many barrels were shut in and when was that done?

ROBERT PEABODY:

On average, over the quarter, it was around 5,000 barrels a day, and it was just done kind of over the quarter. Rob, do you want to add to that?

ROBERT SYMONDS:

Yes, let me just give you a little more colour. A lot of what we did was, if wells went down, we didn't perhaps go out and bring them back as fast as would have done in a different price environment. So, it was less about shutting in wells, large numbers of wells; it was more about slowing down the pace we brought them back.

ASHOK DUTTA:

Okay. So, it's more about slowing down rather than shutting in, but, in effect, you still lost about 5,000 barrels, on average, last quarter. Did I get it right?

ROBERT PEABODY:

Yes, and we did that, the reason was we could make more money by using the capacity we had to pick up other barrels that were sitting in Alberta that were quite distressed. There were barrels that people were trying to send down pipelines that just didn't get allocated pipeline space and they had really no place to put them and they didn't have a storage place, so we—that was just such a compelling opportunity, rather than just producing our own production.

ASHOK DUTTA:

Okay, all right. Thank you very much.

ROBERT PEABODY:

Thank you.

OPERATOR:

Our next question comes from Chris Varcoe of The Calgary Herald.

CHRIS VARCOE:

Hi, Rob. I know you in the past have talked a fair bit about pipelines and the fact that you want to see them get built, and obviously, with the developments in the last few weeks on Trans Mountain, I'm just wondering what do you think about the Alberta and the federal government getting involved and potentially becoming owners or potential owners in that entity.

ROBERT PEABODY:

Well, I'll take the first—I'll split your question in two, one about them getting involved and then about becoming owners.

I think in terms of getting involved, thank goodness they're getting involved. In fact, they were always involved, but I think they're really both getting much more deeply engaged, and it's great to see that they're recognizing the value of those pipelines, not just to the industry, which is often spoken about, but really to the province and to the country and to the tax base and to the funds that can be redeployed for all sorts of public uses. So I think quite rightly they've kind of woken up to that fact and are now very engaged, so that's good.

In terms of the specifics of how they're going to do it and how a deal might work or might not work for Kinder Morgan, I'm not really close enough to it to really comment on the exact mechanisms they might be discussing. It's really, I think, between—well, it's really ultimately up to Kinder Morgan, I guess, as to whether it satisfies their needs for risk reduction around completion of the pipeline.

CHRIS VARCOE:

Just to follow up, we've seen the Alberta government introduce legislation that it would let it issue export permits and potentially restrict the flow of crude oil and refined products going in either direction. Have you looked at this legislation at all and do you think it will have an impact upon you, and I guess what is your overall reaction to that piece of legislation?

ROBERT PEABODY:

Well, I guess, from a Husky point of view, we have the refinery in Prince George in B.C. It's actually generally sourced from crude, I think, in B.C. So, it's not likely to be too affected in terms of its source of supplies, and we'll certainly continue to do our best at supplying customers in that part of B.C.

OPERATOR:

Our next question comes from Dan Healing of The Canadian Press.

DAN HEALING:

Good morning, and thanks for taking my question. Rob, I was wondering if you could expand at all on what you were saying about there being opportunities out there to buy assets. Are you talking about in Canada, and are you specifically talking about heavy oil, light oil? Can you give us any hint on that?

ROBERT PEABODY:

I like to look at assets through an economic and accounting lens sort of, so geography doesn't have to come into it. The acquisition of the Superior Refinery was compelling because the alternative was building our own refinery, which we still may do down the road, but this opportunity became available to basically give us the capacity immediately, and compared to building our own refinery, this added \$500 million of free cash flow, including the acquisition price, over the five years of the plan. So, we look at two things. Is it on strategy with our two major businesses, the Integrated Corridor and the Offshore business? And then beyond that, if you look at the five-year plan, is an acquisition actually going to improve the five-year plan? Then finally, of course, we look at the economic metrics around the acquisition. So, those could absolutely be heavy oil assets, but they could be really anything around our core businesses, where the acquisition looked compelling versus our base plan.

DAN HEALING:

Okay, So, is that where you're seeing, I guess, the bargains or the areas where there's a good opportunity to buy something at a good price?

ROBERT PEABODY:

Yes, I think—I mean, we're seeing them in a lot of areas. It's just, I think, a factor of the industry's been through a long period here of pretty tough environment and people's balance—many people's sheets are quite stretched and they're needing to sell things in order to get their balance sheet back to a reasonable position. So that's what I think is generating the opportunities.

DAN HEALING:

Okay, and kind of a related question. When you're talking about picking up distressed barrels in the first quarter to supply to your refineries, are you talking about heavy oils that go to the Lloydminster works, or something else?

ROBERT PEABODY:

We were actually talking about both heavies, but mostly bitumen blends and that, and we can take those—we were able to take those either down to our U.S. refining system through our Midstream committed capacity or, in many cases, right down to the Gulf of Mexico because we have pipeline commitments in place that take us all the way down to the Gulf.

DAN HEALING:

Okay. So, those would be Canadian dilbit primarily. You were saying about 5,000 barrels?

ROBERT PEABODY:

Well, that's what we—yes, that was kind of the offset, yes.

DAN HEALING:

Okay, great, thank you.

ROBERT PEABODY:

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:

Thank you very much for your questions. To sum up, the Integrated Corridor is doing what it was built for, capturing the margins available from the reservoir to the refinery rack regardless of heavy light and Canadian U.S. differentials. Essentially, the results for this part of the business are tied to Brent pricing. Combined with our Offshore business, we are generating Funds from Operations that more than cover our capital spending and dividend, resulting in free cash flow, and we continue to execute against our five-year plan. At our Investor Day at the end of May, we'll be sharing more details about the way ahead and we certainly hope to see you all there.

On a final note, a quick reminder that we're holding our AGM in Calgary later this morning and that presentation will be webcast live on our website.

So, thanks again for participating today.

OPERATOR:

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