

April 19, 2005 News Synopsis
Husky Profits Jump 50% With Midstream Gains
By Mike Byfield

Husky Energy Inc. saw its first-quarter earnings rise to \$384 million this year, up from \$255 million for the same period in 2004. The gain was due in large part to increased heavy crude differentials which pumped up profits from the company's upgrader operations and an absence of price hedging losses.

In the first quarter of 2005, Husky had midstream earnings (which includes the Lloydminster upgrader) of \$169 million versus \$60 million in the previous year's initial three months. The company also noted that "hedging diverted \$74 million in the first quarter of 2004; first quarter of 2005 commodity prices were not hedged."

Husky, the smallest of Canada's five integrated petroleum firms, earns more at its Lloydminster heavy oil upgrader when the differential between light and heavy crudes widens. The Calgary-based firm said upgrading profits rose by \$84 million on a quarter-to-quarter basis thanks to better upgrading differentials, higher sales volumes of synthetic crude and lower operating costs per bbl.

Total production in the first quarter of 2005 declined slightly, averaging 319,600 bbls of oil equivalent per day, compared with 324,400 BOE in the first quarter of 2004. The drop was largely due to difficulties in the Petro-Canada-operated Terra Nova field offshore Newfoundland. Production at 13,700 bbls per day net to Husky was 3,900 bbls lower on a quarter-to-quarter comparison basis.

Husky's crude oil and natural gas liquids production was 206,900 bbls per day, compared with 212,100 bbls per day in the first quarter of 2004. Natural gas production was 676.2 mmcf per day, up slightly from 673.6 mmcf in the same period last year.

Cash flow from operations in the first quarter surged 42% to \$816 million from \$576 million in the same quarter of 2004. Sales and operating revenues, net of royalties, rose to \$2.2 billion in the first quarter of 2005 from \$2 billion in the first quarter of 2004. The strong financial results were credited mainly to strong commodity prices.

Husky's capital expenditures in the first quarter of 2005 were \$694 million compared to \$589 million in the first quarter of 2004. Husky's planned capital expenditures for 2005 remain at \$2.5 billion, including \$460 million for its East Coast projects.

John Lau, Husky's president and CEO, says the company has now invested over \$2 billion in major construction projects -- notably on the East Coast and Alberta oilsands-- with the combined potential to "move our production profile to a new level."

On March 22, a naming ceremony was held in Busan, South Korea for the first of two shuttle tankers that will transport oil to market from the Husky-operated White Rose oil field off the coast of Newfoundland.

"The White Rose project remains on schedule to achieve first oil in late 2005 or early 2006," says Lau. "At peak production, the White Rose oil field will produce approximately 92,000 bbls per day and will add approximately 67,500 bbls per day of light oil production to Husky."

The company is planning to drill an Atlantic exploratory well in the South Whale Basin with the Rowan Gorilla VI jack-up rig. The well, about 350 kilometres south of St. John's, will test a structure at the Lewis Hill prospect and will spud toward the end of the second quarter of 2005. Delineation wells are also planned near the White Rose field off Newfoundland.

At the Tucker thermal bitumen project in northeastern Alberta, construction has begun on the central plant facility, and a drilling program for 30 horizontal well pairs is expected to commence in the second quarter. Tucker production of 30,000 bbls per day is expected by 2006-2007. Conceptual studies have also started for the Sunrise thermal project, and regulatory approval is expected by the end of 2005. Sunrise is expected to produce about 50,000 bbls per day by 2009-2010 with further expansions afterwards.

In the Central Mackenzie Valley of the Northwest Territories, Husky participated during the first quarter in the completion and testing of the Summit Creek B-44 discovery well, drilled in the winter of 2004. The company's working interests are 29.5%.

The Summit Creek B-44 well confirmed several productive intervals in a 180-metre hydrocarbon bearing column. Two intervals were perforated and tested at combined rates of approximately 20 mmcf per day of natural gas and in excess of 6,000 bbls of light oil and condensate.

Husky also held a 32.5% stake in the Sah Cho L-71 exploratory well, which was drilled on a separate structure from B-44 during the first quarter of this year. The wildcat, which failed to establish the presence of commercial hydrocarbons, was cased and suspended.

The Summit Creek B-44 gusher represents the first successful exploration in this area since Norman Wells was discovered in 1920. The working interest owners have accumulated over a million gross acres, covering the majority of the central extent of the play. Based on existing seismic data several additional prospects have been identified and further seismic is currently being contemplated for this summer.

In Indonesia, where Husky recently increased its interest in the Madura Strait production-sharing contract area, the company is striving to establish a contract for two natural gas fields yet to be developed. In addition, it has initiated seismic surveys in the area.

In China, the Wenchang oil field produced 46,000 bbls per day in the first quarter 2005, 18,500 bbls net to Husky. In 2005 the company expects to drill three development wells and preparation is underway to drill two exploration wells adjacent to the current producing structures.

Also in China, Husky is nearing final selection of a shallow water jack-up rig for at least two exploratory wells, with a possible third option well, in the Gulf of Beibu. In addition, it will be selecting a deep water rig for an exploratory probe on Block 29/26 in the South China Sea.

Debottleneck projects are on schedule to increase the Lloydminster upgrader's throughput capacity from 77,000 bbls per day to 82,000 bbls of synthetic crude oil and diluent. Completion is slated for mid-2006 following a scheduled plant turnaround. The work is estimated to cost approximately \$60 million.

Construction is under way on a \$93-million project at Husky's refinery at Prince George. Production of desulphurized gasoline is scheduled to begin next July, with low-sulphur diesel to follow in March.

Beyond the oilpatch proper, Husky intends to become a significant producer of grain-derived ethanol.

At Lloydminster, it is constructing a \$110-million plant capable of distilling 130 million litres per year, with completion scheduled for early next year. Husky is also considering an expansion of its existing ethanol plant in Manitoba at Minnedosa from its current annual capacity of 10 million litres to 130 million.

Year	*Profit	Profit/ Share	*Cash Flow	C.F./ Share	*Revenue	*Capital Expenditures
First Quarter						
2005	\$384.00	\$0.91	\$816.00	\$1.93	\$2,201.00	\$694.00
2004	\$255.00	\$0.60	\$576.00	\$1.36	\$2,021.00	\$589.00
2003	\$408.00	\$1.01	\$747.00	\$1.76	\$2,218.00	\$500.00
2002	\$126.00	\$0.29	\$373.00	\$0.87	\$1,359.00	\$426.00
2001	\$192.00	\$0.42	\$620.00	\$1.46	\$1,780.00	\$351.00
2000	\$39.00	\$0.13	\$191.00	\$0.65	\$951.00	\$134.00

* Millions of Dollars

Production Summary for Husky Energy Inc.
Three months ending March 31

	Oil And NGLs		Natural Gas		
Year	BBLs Per Day	Price Per BBL	MMCF Per Day	Price Per MCF	BOE Per Day
2005	206,900	\$35.22	676.2	\$6.07	319,600
2004	212,100	\$32.42	673.6	\$6.05	324,367

© Copyright Nickle's Energy Group, All rights reserved.

[Read the Complete Article](#)