Energy

Husky completes the drilling and completion operations of the Liuhua 29-1 field at the Liwan Gas project in South China Sea, anticipating first gas by the end of 2020.

1. Husky commences production at its Dee Valley thermal project in Saskatchewan, Canada.

2. Progress on Husky's West White Rose Project, located offshore Newfoundland and Labrador, sees the completion of full four quadrants of the concrete gravity base in October 2019.

3. The SeaRose floating production, storage and offloading (FPSO) vessel is a key component of Husky's ongoing development of the White Rose field in the Atlantic region of Canada.

4. A diluent reduction technology pilot project at the Sunrise Energy Project could reduce costs and lower greenhouse gas emissions.

The energy division comprises the Group's 40.19% interest in Husky Energy ("Husky"), an integrated energy company listed on the Toronto Stock Exchange.

	2019 HK$ million	2018 HK$ million	Change	Local currency change
Total Revenue	**47,618**	54,251	-12%	-10%
EBITDA [(1)]	**3,139**	12,106	-74%	-72%
- Underlying	**9,122**	12,106	-25%	-23%
- One-off impairment and other charges [(2)]	**(5,983)**	–		
EBIT [(1)]	**(3,004)**	5,742	-152%	-151%
- Underlying	**2,979**	5,742	-48%	-47%
- One-off impairment and other charges [(2)]	**(5,983)**	–		
Production (mboe/day)	**290.0**	299.2	-3%	
	C$ million	C$ million		
Husky's reported net earnings [(3)]	**(1,370)**	1,457	-194%	
- Underlying	**976**	1,457	-33%	
- One-off impairment and other charges [(4)]	**(2,346)**	–		

Note 1: Under Post-IFRS 16 basis and before the Group's share of impairment and other charges after consolidation adjustments, the Group's share of EBITDA was HK$9,463 million; EBIT was HK$3,009 million.

Note 2: Represents the Group's share of one-time non-cash impairment and other charges (before-tax) after consolidation adjustments.

Note 3: Net earnings for the year ended 31 December 2019 are under Post-IFRS 16 basis, whereas net earnings for the year ended 31 December 2018 are under Pre-IFRS 16 basis.

Note 4: Represents one-time non-cash impairment and other charges (after-tax) recognised in Q4 2019.

Husky Post-IFRS 16 net losses of C$1,370 million in 2019, which included recognition of one-time non-cash asset impairment and other charges (after-tax) in Q4 2019 of C$2,346 million. Net earnings excluding this one-off item was C$976 million, 33% below net earnings of C$1,457 million in 2018, primarily due to:

- Lower Upstream earnings due to tightening location differentials between Canada and the US despite the higher crude and natural gas liquids ("NGL") realised prices,
- Lower realised Upgrading margins,
- Lower Canadian Refining operation earnings due to planned turnaround in 2019 and lower commodity prices, and
- Lower US Refining operation earnings due to extended shutdown of the Lima Refinery to implement a crude oil flexibility project in the fourth quarter of 2019, as well as planned turnaround in Toledo Refinery.

In Q4 2019, Husky recognised C$3.1 billion (before-tax) or C$2.3 billion (after-tax) of non-cash asset impairment and other charges, primarily related to Husky's upstream assets in North America which was largely due to lower long-term commodity price assumptions and reductions in planned future capital spending. Other charges included exploration-related write-downs and asset derecognition at the Lima Refinery due to the crude oil flexibility project mentioned above. As the Group rebased certain of these assets to their fair values in the 2015 Reorganisation, the Group's share of these charges, after consolidation adjustments, was HK$5,983 million and was included under the Group's EBITDA and EBIT results.

Excluding the one-off item, after translation into Hong Kong dollars and including consolidation adjustments based on Pre-IFRS 16, the Group's share of EBITDA and EBIT were HK$9,122 million and HK$2,979 million respectively, decreased by 25% and 48% respectively, reflecting the aforementioned adverse underlying performance during 2019.

Cash flow from operating activities was C$2,971 million for the year ended 31 December 2019, 28% lower than C$4,134 million in 2018, primarily attributed to the same factors noted above for the net earnings.

Production and Reserves

Husky reported a 3% decrease of average production in 2019, from 299,200 barrels of oil equivalent per day ("boe/day") in 2018 to 290,000 boe/day in 2019.

Crude oil and NGL production

Crude oil and NGL production decreased by 8.2 thousand barrels per day ("mbbls/day"), or 4%, in 2019 compared to 2018. The decrease was primarily due to a reduction of heavy crude oil production as a result of government-mandated production curtailments in Alberta and natural declines, combined with lower production from Atlantic due to the suspension of production from the White Rose field. The decreases were partially offset by increased bitumen production from Husky's thermal projects in Saskatchewan.

Natural gas production

Natural gas production decreased by 6.1 million cubic feet per day ("mmcf/day"), or 1%, in 2019 compared to 2018, primarily due to lower production from Liwan Gas Project. The decrease was partially offset by the higher production at the Rainbow Lake development in Western Canada.

Oil and Gas Reserves

At 31 December 2019, Husky's proved oil and gas reserves were 1,431 million barrels of oil equivalent ("mmboe"), compared to 1,471 mmboe at the end of 2018. Probable reserves were 674 mmboe compared to 1,070 mmboe at the end of 2018. The overall proved and probable reserves of 2,105 mmboe at the end of 2019 were 17% below 2,541 mmboe at the end of 2018, reflecting the reduced future capital spending expected at the Sunrise Energy Project and the Ansell natural gas resource play in Western Canada in Husky's current long term plan.

Husky's 2019 reserves replacement ratio was 67% excluding economic revisions (62% including economic revisions).

Operation milestones

Integrated corridor (Integrated Canada-US Upstream and Downstream Corridor)

- Annual average production from Lloydminster thermal bitumen projects, Sunrise and Tucker of 128,800 barrels per day ("bbls/day") (Husky's working interest), compared to annual average production of 124,200 bbls/day in 2018 (Husky's working interest); takes into account impacts from the government-mandated production quotas in Alberta
- Successful startup of the 10,000 barrel-per-day Dee Valley thermal bitumen project ahead of schedule
- Advanced construction of the 10,000 barrel-per-day Spruce Lake Central and Spruce Lake North thermal bitumen projects towards first production in 2020; continued construction progress on three additional 10,000 bbls/day projects
- Commenced Superior Refinery rebuild project; full operations expected to resume in 2021
- Safe and orderly execution of the Lima Refinery crude oil flexibility project
- Completed the sale of the Prince George Refinery for C$215 million in cash plus a closing adjustment of approximately C$53.5 million in November 2019

Offshore (Atlantic and Asia Pacific)

- Average gross natural gas and liquids production at the Liwan Gas Project of 73,200 boe/day (35,900 boe/day Husky working interest)
- Total average oil production of 16,400 bbls/day (Husky working interest) in the Atlantic region
- Advanced construction of the Liuhua 29-1 field at the Liwan Gas Project; first gas expected by the end of 2020
- Completed fourth quadrant of concrete gravity base at the West White Rose Project ahead of schedule, with first oil planned for around the end of 2022