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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to Nexen's first quarter 2012 conference call. I would now like to turn the meeting over to Janet Craig, Nexen's Vice President of Investor Relations. Please go ahead Ms. Craig.

Janet Craig - Nexen Inc - VP of IR

Thank you, Sarah, and good morning. As a reminder, some of our comments today will be forward-looking in nature. Our earnings release provides more information about these statements, and our AIF describes our various risk factors. This quarter, we have a few slides of supplementary disclosure. These are available on our website in the IR section. You do not require them to follow our conference call today, but they are supplemental information. In a moment, I'm going to turn the call over to Kevin Reinhart, Nexen's Interim President and CEO. Joining him is Una Power, our Interim CFO. Kevin will provide an update on our operational results and progress against our strategic priorities, and recent progress on those priorities. Then Una will provide some on the financial results. Kevin and Una will then be available to answer questions. I'd like to remind everyone, if you have any detailed modeling questions, my IR team would be pleased to answer those at the conclusion of the call. With that, I'll turn the call over to Kevin.

Kevin Reinhart - Nexen Inc - Interim President and CEO

Thanks, Janet, and good morning, everyone. As always, we appreciate your time and interest. I'm going to keep my comments quite brief this morning, as I am assuming everyone has had a chance to read our news release, which provides more detail on our progress and financial results. There are four important highlights that I'd like to leave with you today.

First is our strong cash flow that we reported in the quarter. Cash flow grew by 15% over the prior quarter, despite the expiry of our Yemen Masila block contract in mid-December. This increase was largely due to our significant weighting to Brent priced oil. For over a year now, we've seen Brent trade at a CAD\$15 to CAD\$20 premium to WTI, and lately we've seen Canadian crudes trade at a significant discount to WTI. The result is that we are getting as much as CAD\$40 per barrel premium over Western Canadian Select oil. Also important to note is that we achieved this cash flow growth without the benefit of any sales from Usan. The first sales will start in the second quarter.



The second highlight is that we met our production guidance once again. Production came in just about the midpoint of our guidance. Buzzard had a steady quarter, and our operating efficiency exceeded our target of 85% by a small margin. Usan startup was on schedule, and at Long Lake production rose 10% over the prior quarter. Pad 11 production continues to rise, and is heading towards the upper end of our expected range, and we also had continued progress on our well optimizations on the other 10 pads.

The third key highlight is that our Long Lake action plan is progressing very well. As we've described before, our plan is to drill more wells in a higher quality reservoir to fill the upgrader. Pad 12 started to steam in March, and is expected to be producing by the fourth quarter. Pad 13 is expected to start steaming by mid-year, and be on production by year end. The remaining wells are on pads 14, 15, and K1A. Here, we recently received approvals, and expect to start drilling these later this year. If you recall, without these approvals by now, we would have missed the weather window, and added a year to getting the upgrader full. Steaming is expecting into pads 14 and 15 late next year, and K1A by mid-2014.

The final key highlight is that we continue to have success at Appomattox. As we've reported, we have now found over 500 million barrels of recoverable resource in the south and the northeast fault blocks. Our share is about 115 million barrels. To put that in context, that's over 10% of our current proved reserves base. We are moving forward with appraisal and further exploration drilling, including on the northwest fault, and another structure between Appomattox and our previous Vicksburg discovery. This is very exciting, given what we've already found and the large acreage position that we have in this emerging offshore Norphlet play.

We had a couple challenges in the quarter. Our Kakuna well is going slower than expected, but we are through the salt, and drilling in the reservoir section now. We expect to reach our main target shortly, and complete drilling operations next month. We completed the tie-in of the TAC well at Telford in the North Sea, but we encountered a problem with the hydraulic systems when we attempted to begin production. Repairs are complete, and we expect the well to start producing very shortly.

Let me take a moment to address the news that you would have heard about recently with respect to the Buzzard shutdown that we had last weekend. We had a bearing failure in one of the compressors. That work has been completed, and the repairs are done, and we are moving to restart the facility today. So with that, I'll leave it and turn it over to Una for a few comments on our financial results.

Una Power - Nexen Inc - Interim CFO & Senior VP

Thanks, Kevin. Clearly, our quarterly results reflect strong cash flow growth. This is a result of solid production volumes and strong crude oil prices, especially our significant weighting to Brent priced oil, which continues to trade at a significant premium to WTI, and we've increased our exposure to Brent pricing by securing 18,000 barrels per day of long-term pipeline capacity to the west coast of Canada, via the Trans Mountain pipeline. This allowed us to generate an additional CAD\$40 million of cash flow in the quarter, as we are now able to get Brent-linked pricing for some otherwise heavily discounted Canadian crude. The value we realized from this is recognized as part of our marketing results.

We expect cash flow to further increase next quarter, as we start to see Usan reflected in our results. Our first sales are expected to occur in the second quarter, and have been priced at just below Brent. We continue to expect Usan to generate about CAD\$600 million of cash flow for us this year, and contribute to rising cash netbacks. Production growth and margin expansion are expected to continue this cash flow trend through 2012 and 2013. With that, I'll turn it back to Kevin.

Kevin Reinhart - Nexen Inc - Interim President and CEO

Thanks, Una. So let me close our comments by giving a bit of colour on what to look for over the rest of the year. We are on track to meet our annual production guidance. Second quarter production is expected to grow a little over the first quarter, and head towards the midpoint of our guidance. We expect some increase from the continued ramp-up at Usan, and the startup of production from the TAC well at Telford. These will be somewhat offset by a Syncrude scheduled turnaround, and the expected closing of our shale gas joint venture, which will cause us to shift 40% of the production to our partner. The Long Lake growth rate is expected to moderate somewhat, as we work our way through the well optimizations, and we start to undertake some facility turnaround work. Of course, Buzzard operating efficiency is always a big factor. We expect to see operations in-line with Q1, and we don't expect that the shutdown that we just had at Buzzard to impact on that guidance.

There are several interesting things to watch for, also, as the year progresses. That's Kakuna results that we should have pretty soon. The North Uist well west of the Shetland Islands in the North Sea is drilling, and we should have results sometime this summer. Watch for continued drilling results at Appomattox throughout the year. Later this year, we plan an exciting exploration well at our Owowo West location offshore West Africa, which is following up on our earlier success there at Owowo South. Watch for progress to first production at Rochelle in the North Sea by year end, and watch for the start-up of production from pads 12 and 13 at Long Lake. So as you can see, there's quite a bit to watch for over the next few months and through the rest of the year. So thank you for listening. I will now turn it back to Janet to get started with the questions.

Janet Craig - Nexen Inc - VP of IR

Thanks, Kevin. That concludes our prepared remarks, and we will now move to the Q&A portion of the call. So at this point, I'll turn the call over to Sarah to poll for questions.

QUESTION AND ANSWER

Operator

Thank you.

(Operator Instructions)

And your first question comes from the line of George Toriola from UBS. Your line is open.

George Toriola - UBS - Analyst

Thanks. Good morning guys. The question I have is on Long Lake. So when I look at what you've suggested in the past Q4, we could see cash flow from Long Lake somewhere in the CAD\$70 million range, and I compare that to Q1 at CAD\$18 million. The production that you suggest is more or less the same, so I'm wondering what you expect would change by then, and how Long Lake begins to deliver material cash flow here?

Kevin Reinhart - Nexen Inc - Interim President and CEO

George, that is a good question. As we go through the rest of the year, we expect a little bit of an improvement in the differentials. It should narrow that gap a little bit, but we'll have to wait and see. We also expect, following the turnaround, operating costs to stabilize a little bit. We did have some operating costs in the first quarter that are eroding the results for the first quarter, and once we get through that turnaround, we should have very low maintenance related costs early on in that process. So I think those would be the biggest drivers to the improvement in cash flow.

George Toriola - UBS - Analyst

That's helpful. And when you add the 35,000 to 40,000 gross production at Long Lake, where would you expect the unit operating cost to be?

Kevin Reinhart - Nexen Inc - Interim President and CEO

I can't do the math that quickly in my head, but I think, typically, we run at about CAD\$150 million operating costs per quarter, and that is on a gross basis. So if you simply take, roughly, that number, and divide it by your production assumption for the quarter, you should get there. So that should give you a number at mid-point of the guidance somewhere in the low 60s

George Toriola - UBS - Analyst

Okay. Okay, that's helpful. Thank you very much.

Janet Craig - Nexen Inc - VP of IR

Thanks, George.

Kevin Reinhart - Nexen Inc - Interim President and CEO



Thanks, George.

Operator

Your next question comes from the line of Brian Dutton from Credit Suisse. Your line is open.

Janet Craig - Nexen Inc - VP of IR

Good morning.

Brian Dutton - Credit Suisse - Analyst

Yes. Good morning. Just continuing on Long Lake. I was wondering if you could give us some ideas to coming out of the quarter, and the first quarter coming, now, into the second quarter, how you saw production building. And I think, also, in the commentary in the quarterly report, you state that you see some of the costs temporarily rising, here, in preparation for the turnaround. I was wondering if you could give some background color to that, as well, please.

Kevin Reinhart - Nexen Inc - Interim President and CEO

Yes. So the coming-into-the-quarter production is a little bit lower than what we averaged in the first quarter. We are starting to do some of the minor maintenance work. I don't want to call it turnarounds, because it's not of that magnitude. But we are starting to do some of the regular type maintenance work, and so we have some facilities come down for a small part of the period, and so we expect that to continue on, here, for the rest of the quarter. That's all embedded in our guidance, that we were going to do this type of work. So we expect to be reasonably strong relative to that guidance. And the second half of the question, I'm trying to recall.

Brian Dutton - Credit Suisse - Analyst

It has to do with the pre-spending on the turnaround.

Kevin Reinhart - Nexen Inc - Interim President and CEO

Yes, that starts late in the second quarter, just getting ready for the turnaround in the third quarter. As you recall, we had originally scheduled the turnaround to happen in more of the early part of the summer. We have moved that into the third quarter, now, to better coordinate with labor and staff availability. But we will start to incur some of those costs late in the second quarter. Some of those will be capitalized under the new IFRS rules, but many of them will go to expense. So you will see, likely, an increase in our operating cost per unit in the second quarter. But those are maintenance related costs, and what we had expected.

Brian Dutton - Credit Suisse - Analyst

Thank you.

Kevin Reinhart - Nexen Inc - Interim President and CEO

Thanks, Brian

Operator

Your next question comes from the line of Kate Minyard from JPMorgan. Your line is open.



Kate Minyard - JPMorgan - Analyst

Hi. Good morning. Thanks. Just a little bit of clarity, as we kind of look at the CAD\$600 million of cash flows unfolding over the course of the year from Usan. Clearly, we didn't see any in 1Q. It looks like there might be a lifting schedule for 2Q, but can you talk about whether what you're anticipating for Q2 liftings would completely reverse the under-lift, and also catch you up for 2Q production, or whether we're sort of looking at an overall even further back end loading over the course of the year, just given what you know about the timing of liftings at this point.

Kevin Reinhart - Nexen Inc - Interim President and CEO

So we've had a few questions on that, Kate. The basic accounting, here, is that if nobody lifts, if the inventory is still sitting on the ship, nobody gets to book that as revenue, because we haven't sold it yet. But to the extent that it's sold by somebody off the FPSO, everybody gets to accrue their share of that, whether we actually lift it, or Total, or one of the other partners lift it, we all get to accrue our share, because at that point we have a legal right to the value of that oil. So you won't see a lot of volatility in the cash flow going forward, other than to the extent of any inventory that we might be carrying. And we have inventory, we had it in Yemen in the Masila field, we have some of it in the UK, and at Ettrick, we build up and then offload some tankers. Even at Long Lake we have some inventory. So this is just another one of our operations that will add a little bit of inventory. But once we get rolling, the inventory coming in and the inventory going out each quarter should be fairly irrelevant to the cash flow numbers.

Kate Minyard - JPMorgan - Analyst

Okay. So my interpretation of that is that it should be fairly, then, a little smoother 2Q, 3Q, 4Q, and maybe a little bit more in line with the way production is trending?

Kevin Reinhart - Nexen Inc - Interim President and CEO

Yes.

Kate Minyard - JPMorgan - Analyst

Okay, great.

Kevin Reinhart - Nexen Inc - Interim President and CEO

And so the liftings are scheduled to occur fairly regularly, but we each take one lifting, and then the other partner gets complete lifting. We don't do co-liftings there. But as those start to happen fairly frequently, we will be incurring our share of the cash flow.

Kate Minyard - JPMorgan - Analyst

Okay. That's helpful. Thanks very much.

Janet Craig - Nexen Inc - VP of IR

Thanks, Kate.

Operator

Your next question comes from the line of Philip Skolnick from Canaccord Genuity. Your line is open.

Janet Craig - Nexen Inc - VP of IR

Good morning.

Philip Skolnick - Canaccord Genuity - Analyst

Yes. Thanks. Good morning. A couple of questions. First, is there any update on the CEO search, and kind of explain to us, from what you know, what the Board is possibly looking for?

Kevin Reinhart - Nexen Inc - Interim President and CEO

Yes, there's not a lot I can comment on that at this point in time, other than to say that the CEO search is actively underway, and they are moving forward, and moving forward on the timeline that they have set here. So I think the Board is going to go through the full process, and take whatever time is required to land the right individual. In terms of attributes, you know I'm not sure I can provide any great insight there, other than the normal attributes that you would look for in a CEO to lead a company like Nexen. So I think we should just wait and let the process unfold.

Philip Skolnick - Canaccord Genuity - Analyst

Okay. Thanks. Just a final question in terms of your effective tax rate, should we expect that to come down once Usan starts hitting the income statement?

Kevin Reinhart - Nexen Inc - Interim President and CEO

The effective tax rate should come down. The reason our effective tax rate was so high in the first quarter, it's just simple math that most of the gains which come out of the UK are taxed at 62%, but then we have losses after exploration expense and depletion and so forth. We have losses in other parts of the business which are at a much lower tax rate, and if you just go through and do the math, you end up with a higher effective tax rate. So when Usan comes in, it's going to be much like Buzzard. It's going to add a lot of profits, and at a lower tax rate, and that should help us bring our tax rate down.

Philip Skolnick - Canaccord Genuity - Analyst

Okay, great. Thanks.

Janet Craig - Nexen Inc - VP of IR

Thanks, Philip

Operator

Your next question comes from the line of Arjun Murti from Goldman Sachs. Your line is open.

Janet Craig - Nexen Inc - VP of IR

Good morning.

Arjun Murti - Goldman Sachs - Analyst

Good morning. Thank you. Kevin, over the last several years, you've had a number of asset sales, I think both to clean up the portfolio, and also to pay down debt. Can you talk about where you are on both those fronts? Is the portfolio cleaned up to where -- I realize companies are always looking to do stuff, but is that mostly behind you, and are you happy with where the balance sheet is today? Thank you.



Kevin Reinhart - Nexen Inc - Interim President and CEO

Yes, Arjun. You know the asset sales that we undertook a couple years ago were assets, big assets that were non-core to our business. It was Canexus. It was heavy oil. I would say, today we don't have the same opportunity for non-core assets that we'd like to sell at this point in time. So I would take it out of that category, but I would talk to, the other assets that we will always consider as to whether the best value, in our view, is to hold the asset and produce it out, or whether it makes sense to sell it somewhere along the way. So that decision, going forward, will be more, as you framed it, normal course type assessments as to where the greatest value is for us. So we don't have any great plans at this point in time, but we continue to challenge ourselves on what's the best way to monetize the value of an asset.

Arjun Murti - Goldman Sachs - Analyst

That's great. And in terms of the debt levels, are you happy with where they are now?

Kevin Reinhart - Nexen Inc - Interim President and CEO

Yes, I'm happy. Our leverage is somewhere in the 1.5 debt-to-cash flow range. That puts us in a very comfortable position, given where we are in our investment cycle, and given the strength of oil prices, and particularly Brent oil price. So we don't see a lot of threat there, and being at 1.5 times, here, gives us a lot of comfort, and a lot of liquidity and confidence that we can carry on with our investment program.

Arjun Murti - Goldman Sachs - Analyst

That's great. And maybe just two quick, unrelated, but I think quick questions. Room to expand oil volumes to the west, to what degree can that increase? I assume that does require new pipeline capacity, if you could touch upon that. And then secondly, with this year's Appomattox development and appraisal program, how far along will that get you to towards being able to sanction the project? Should we expect that in the next couple years, or any parameters on when Appomattox could get sanctioned? Thank you.

Kevin Reinhart - Nexen Inc - Interim President and CEO

Sure. On your first question, on west coast pipeline access, the only incremental capacity that -- and in effect, it's not even incremental capacity. This is on the Trans-Mountain pipeline, and they were selling the excess capacity that wasn't contracted into the Pacific Northwest, they were just selling that on a spot basis every month. What they did is move that to firm capacity, effective the beginning of January. So it was just re-categorizing where about 50,000 barrels a day, how that was contracted, and we were able to secure that for a 10 year period at the rate of 18,000 barrels a day. Any incremental capacity going to the West Coast has to come from new pipelines. There is really not a lot more that can be done, and there are multiple projects on that front underway now, from Northern Gateway to Trans-Mountain, to many other ideas that are being reported in the press these days.

On Appomattox, we are drilling right now the south fault block, so we are drilling on the western side there to firm up our view of what the resource in that section is. Our initial estimate was 325 million barrels, in around that number on a gross basis. We are testing the westerly extent to firm up that number, and then we will continue on drilling some of the other, the northwest fault block, and some of the other nearby structures. Shell is diligently working on development plans right now. As I mentioned last quarter, their strategy, which we fully support, is to build optimal size, rather than maximum size facilities. And we believe we are already at the level to support an optimal structure. So Shell is moving along with that planning, but it does take some time. So I think we are looking at sanctioning, it's probably going to be about sometime in early 2014, is when we would expect to see sanctioning on this project. There is just a lot of work that needs to be done on the engineering, and cost estimates, and so forth.

Arjun Murti - Goldman Sachs - Analyst

So if you sanction in early '14, typical, three or four years after that would be when it could come on?

Kevin Reinhart - Nexen Inc - Interim President and CEO

Yes. I think rule of thumb would be, at this point in time, and it's pretty early, but I think a rule of thumb would be late '17, maybe early '18.

Arjun Murti - Goldman Sachs - Analyst

That's great. Thank you so much.

Janet Craig - Nexen Inc - VP of IR

Thanks Arjun.

Operator

Your next question comes from the line of Andrew Potter from CIBC. Your line is open.

Andrew Potter - CIBC World Markets - Analyst

Just I'll start off with a strategic question, and then a more detailed question on exploration. So from a strategic standpoint, I mean Marvin was pretty clear back at the investor day in December that corporate sale, or going down that avenue is pretty much completely off the table. Since then, there have obviously been changes at the Board and senior management level. So any thoughts on that? Is a corporate sale something that is in the realm of possibility, or is that still completely off the table?

Kevin Reinhart - Nexen Inc - Interim President and CEO

I think we're back to where, our thinking last year was not the thinking of any one individual, it was the collective views of the executive and the Board. I would say that, as we come out of that review, we were confident with our business plan and the things that we have available to us. And that value realization would be better served by continuing on and executing that business plan, rather than selling out for some amount of premium to whatever today's stock price is. So we remain committed to executing on our business plan, and as I've mentioned on previous calls, one of the outcomes from that review was we need to be better at executing. We need to deliver on the expectations that we have, and that's why that's been a pretty constant theme, both in these calls, but more importantly, through any conversations we have within the organization. And so the corporate sale is one that, I don't want to say never, but right now we believe the greatest value is created by executing our business plan.

Andrew Potter - CIBC World Markets - Analyst

Okay, perfect. And then just on the exploration side, can you tell us, what is the actual paying interest in Kakuna? I think your production interest is somewhere in the 50% range, but how much are you actually paying for this well?

Kevin Reinhart - Nexen Inc - Interim President and CEO

We have not disclosed that amount, because of the carries, and the Gulf of Mexico we continue to negotiate other farm-ins and farm-outs, and as soon as you start to quantify what those numbers are, people know what you're willing to take. So we just don't want to give up that competitive advantage that we have.

Andrew Potter - CIBC World Markets - Analyst

Okay. And can you just comment on what the pre-drill numbers were for Kakuna and North Uist?

Kevin Reinhart - Nexen Inc - Interim President and CEO

We haven't disclosed those numbers. And because there is such a wide range in these, I think it is fair to say that they both have the potential to be reasonably material numbers, but I'm not going further with ranges there.



Andrew Potter - CIBC World Markets - Analyst

Sure. And one last question just on the Gulf of Mexico. Knotty Head is an asset that we haven't heard anything on in quite a long time. What is the thinking there, and is that an asset that could be put up for sale at some point?

Kevin Reinhart - Nexen Inc - Interim President and CEO

Knotty Head, from the outside, would appear not to be making a lot of progress, but it is being worked pretty diligently within the company, and we have two challenges there. One was to get alignment amongst the four partners on our block, and alignment in terms of recovery factors, and what's the right development. And that just takes time to work through with four parties. We then have the complication of the block to the north of us wanting to unitize, and now we have to get them aligned with recovery factors, but we also have to agree on how much of the overall pie they get to keep. So there have been a lot of conversations taking place amongst the five of us on that front, and we are making progress, but it is slow. In terms of whether this is a keeper for us or not, I think this is one that goes into that category that I just talked about a few minutes ago. We need to assess as to whether this is an asset where we get better value from it by developing it, and producing it out, or whether somebody would be willing to pay us good value for it. So that one will be the next consideration.

Andrew Potter - CIBC World Markets - Analyst

Okay, perfect. That's great, thanks.

Janet Craig - Nexen Inc - VP of IR

Thanks, Andrew.

Operator

Your next question comes from the line of Mark Polak with Scotiabank. Your line is open.

Mark Polak - Scotiabank - Analyst

Thanks. Most my questions have been answered. Maybe just one, if you could comment on Angel Fire, and what the timing is for that well.

Kevin Reinhart - Nexen Inc - Interim President and CEO

The rig, after it's finished with Kakuna, the rig goes on a sublet to another company, and it doesn't come back to us until very late in the year, at which time we will give consideration to whether Angel Fire is the next well to put it to work to, but we need a little bit more work on progressing Angel Fire before we are ready to commit to spudding that well.

Mark Polak - Scotiabank - Analyst

Thank you.

Operator

Your next question comes from the line of Bob Morris with Citigroup. Your line is open.

Janet Craig - Nexen Inc - VP of IR

Good morning. Sarah, I think we can go to the next caller.

Operator

Your next question comes from the line of Robert Bellinski from Morningstar. Your line is open.

Robert Bellinski - Morningstar - Analyst

Good morning. I just had two questions. First, you mentioned you are making the efforts to execute better in when you were considering the sale of the company. I was just wondering, your communications are vastly improved, but I was wondering if you could point to some specifics operationally on how you are trying to execute better?

Kevin Reinhart - Nexen Inc - Interim President and CEO

Sure. One of the big areas is, obviously, that we always point to and talk about reliability is the Buzzard field, and we started an operational excellence initiative there just under a year ago, when we hired a new individual to come in and drive that initiative. And some of the examples of things that we are doing there, it seems like a small factor, but what is so important is communication, and better coordination of schedules and so forth, so when we go to do maintenance, everybody knows, so that the production engineers, the reservoir engineers, the mechanical engineers, all the geologists, and everybody that are somewhat engaged in management of that operation, they are aware of what is taking place. And it allows us to overlap work little better, rather than people not being prepared, and so it just becomes more efficient in doing that. The second one is understanding what is critical maintenance, and making sure that we do that, but also keeping a level of intensity around preventative maintenance.

And it's easy to say let's just focus on critical maintenance all the time, but then what we are doing is not preventing things from happening, and then we're always in react mode. So we need to get out in front of the preventive maintenance, and at the Buzzard field, we actually have temporarily increased the accommodations there, so that we can have more workers on the facility, so that we can get more work done that's preventative, get through the backlog. The other element -- so those are just two very specific elements. We do the same thing at Long Lake, looking at all of the pinch points, and where do we see potential problems, and let's get out in front of those. But a big part of this is just having a paradigm shift amongst all of the people in the organization, whether it's operational or a support function somewhere. It is just committing to achieve our best, and not accepting whatever happens, but it's driving to change outcomes. And I've seen a huge improvement on that in the organization, and that will pay off significantly.

Robert Bellinski - Morningstar - Analyst

Great. And one last one. I just was wondering if there was any acceleration in activity in the Horn River, given the joint venture, and what are your longer term development plans at this point?

Kevin Reinhart - Nexen Inc - Interim President and CEO

No. At this point, it would be the opposite, that given where price environment is right now, we have really slowed down our activity, and just finishing the work on the 18-well pad. And our potential partner that we're working towards closing with is aligned with that. So it's just slow down on that one, wait and see where prices go, and in the meantime, we are looking at what's the best way to monetize the value of that asset. And right now one of the more attractive options appears to be LNG, and so we are going through our work to assess where we fit in the LNG game, and how we might get access to the west coast. So that is all proceeding behind the scenes, but in the meantime, we are minimizing our capital investment into Horn River.

Robert Bellinski - Morningstar - Analyst

Okay, great. Thanks

Janet Craig - Nexen Inc - VP of IR



Thank you.

Operator

(Operator Instructions)

And your next question comes from the line of Harry Mateer from Barclays your line is open.

Harry Mateer - Barclays Capital - Analyst

Hi, guys. Good morning. Based on your answer to Arjun's question earlier, which I think indicated that you are comfortable with where your debt balance is. Should we take that to mean that no additional debt reduction is planned?

Kevin Reinhart - Nexen Inc - Interim President and CEO

No. I wouldn't go that far. I would say that at the end of the quarter we had, I think, close to CAD\$900 million of cash. We'll have, once we close the shale gas joint venture, another give or take CAD\$700 million. So at that point in time, we are sitting on a fair degree of cash, and what we will be doing is giving consideration to how comfortable are we with commodity prices, how is a capital program unfolding, how is Appomattox, in particular, unfolding, and what is the pace of drilling that we want to carry on here. So once we end up with all of that cash, we will sit back and say, what is the best use of that money? And that may well include some debt repayment, or it may mean that we hold the cash for some other purpose.

Harry Mateer - Barclays Capital - Analyst

Okay. And is trying to get that negative outlook at Moody's back to a stable outlook part of that decision process as well?

Kevin Reinhart - Nexen Inc - Interim President and CEO

Protecting our access to capital markets is important to us. The exact rating, and the words on the rating, we don't target a specific range. Clearly, we respect the investment grade rating that we have, and so we will continue to work with all rating agencies to make sure that they are comfortable with what we are doing operationally, and where we are going as a company, so that we can remain as investment grade. But targeting a particular rating or a particular outlook on a rating is not something that we spend a lot of time doing.

Harry Mateer - Barclays Capital - Analyst

So you're targeting investment grade, but not a specific rating within that category, is that fair to say?

Kevin Reinhart - Nexen Inc - Interim President and CEO

Investment grade is an objective of ours, but when it comes time to make decisions, we have to consider all factors, so investment opportunities, as well as impact on our balance sheet, and so forth.

Harry Mateer - Barclays Capital - Analyst

Okay. Thank you.

Janet Craig - Nexen Inc - VP of IR

Thank you.

Operator

Your next question comes from the line of Greg Pardy from RBC capital. Your line is open.

Greg Pardy - RBC Capital Markets - Analyst

Thanks. Good morning. Just one question around Colombia. So Kevin, now that you've been sitting in the CEO spot, how do you see Colombia fitting into the longer-term portfolio? It's not a big number, per se, but certainly others have made big things out of it. How do you feel about it?

Kevin Reinhart - Nexen Inc - Interim President and CEO

This business that we're in is one where, you all know that every day we've got less capacity, because production declines. So we always have to build for the future, and building for the future is exploration in the Gulf of Mexico, it's exploration in West Africa and the North Sea, it's shale gas, it's oil sands doing core hole drilling. So we are always trying to build for something that is out there in the future. The way I think about this is, we are only exposing -- let's just, for argument's sake, call it about CAD\$50 million, to test the shale potential of Colombia. CAD\$50 million is about the equivalent of a dry hole cost in our exploration business. And so the way we think about it is that we have this opportunity, and we have access to a potentially significant resource, and for a little bit of money, we can find out whether this is something that would fit into our portfolio in the future, whether we can create some value and sell it to somebody else, or whether it just doesn't have any prospectivity. So at this point in time, I would just summarize by saying that it's looking to see that if it's a potential asset to have in our portfolio for the future.

Greg Pardy - RBC Capital Markets - Analyst

Okay. And do you think that a lot of that delineation work, or exploration work will be completed this year, or is it something that would extend into '13?

Kevin Reinhart - Nexen Inc - Interim President and CEO

I think it will extend a bit into '13. We are drilling. I believe we are just starting our third well there, now, and we have, I believe, close to 2 million acres. And so when you put three wells into 2 million acres, there is a lot of land in between those holes. So we have a fair bit of geological work understanding to do, once we get the data from the three wells. So we may take a pause here, process the information that we have, and then figure out a strategy for moving forward. And that's likely to take us into next year.

Greg Pardy - RBC Capital Markets - Analyst

Okay, and the 2 million acres would have been a net number to you?

Kevin Reinhart - Nexen Inc - Interim President and CEO

We are 100% at this point in time.

Greg Pardy - RBC Capital Markets - Analyst

Okay. Thanks very much.

Kevin Reinhart - Nexen Inc - Interim President and CEO

Thanks, Greg.



Operator

And there are no further questions registered at this time, Ms. Craig.

Kevin Reinhart - Nexen Inc - Interim President and CEO

Excellent. I appreciate everybody's participation this morning. Again, some very good questions. And we look forward to any follow-up questions you might have with investor relations or the rest of us. So have a great day, and thanks for participating.

Operator

The conference is now ended. Please disconnect your lines at this time. And we thank you for your participation.

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