

HUSKY ENERGY

Q3 2015 CONFERENCE CALL & WEBCAST

TRANSCRIPT

Date: Friday, October 30, 2015

Time: 8:00 AM PT

Speakers: **Asim Ghosh**
President and Chief Executive Officer

Jonathan McKenzie

Chief Financial Officer

Robert Peabody

Chief Operating Officer

Robert Baird Sr.

Senior Vice President, Downstream

Dan Cuthbertson

Manager, Investor Relations

OPERATOR:

Welcome to the Husky Energy Third Quarter 2015 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, and 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, Manager of Investor Relations. Please go ahead, Mr. Cuthbertson.

DAN CUTHBERTSON:

Good morning and thanks for joining us on our third quarter results. I'm here with CEO, Asim Ghosh; COO, Rob Peabody; CFO, Jon McKenzie; and Senior Vice President, Bob Baird from Downstream. We will provide an overview of our business plan and third quarter results and then take your questions.

I will remind you that our comments today include forward-looking information. The various risk factors and assumptions are listed in this morning's news release, and are available in our annual filings on SEDAR, EDGAR and on our website. All numbers are in Canadian dollars and before royalties, unless otherwise stated.

Now, I'll turn the call over to Asim for an overview of our business plan and Q3 results

ASIM GHOSH:

Thanks, Dan. Good morning, everybody. It was around this time a year ago that we began to truly understand the makings of what could be an extended cycle in our industry. You may recall that oil prices had begun a gradual slide from summer highs based on the surplus of

supply. In November last year, we had stated it would not cut production to stabilize prices and basically, an ongoing decline became rather more dramatic.

We took the uncharacteristic step at that time of releasing our price planning assumption for 2015. As we said at the time, extraordinary times call for extraordinary exceptions. True to our nature, we took one of the more conservative positions amongst our peers. It was our view then, as it's our view now, that we were entering a lower for longer price environment.

Everything that you have seen to-date has not only reinforced that view, but in fact the outcome has turned out to be more protracted and more severe than even our then conservative assumptions.

Since the early '70s, we have lived in what has come to be considered a cartel (phon 02:42) dominated industry. During this period, OPEC has been able to restore order to all markets in times of supply and demand imbalance. It is becoming increasingly evident that there's an inherent instability in OPEC and going forward, its ability to manage price is not something we want to build a business plan on. In such an environment, market forces rule and it's equally evident that this current oil supply/demand imbalance will take time to correct itself.

Natural gas is a similar story, albeit for different reasons. This includes the abundance of gas in North America and a lack of outlets to get gas to international markets. This has contributed to the downward pressure on prices, which we believe has resulted in a fundamental structural shift in the North American gas market.

In light of these factors, Husky's continuing to fortify its business for a future not just of lower for longer but indeed of higher price volatility.

We have taken a number of steps over the past year to adjust to this new price environment, and looking back, you can see that these actions are an extension of our efforts at Husky starting way back in 2010.

At that time, you'll recall we set out a balanced growth strategy. Two key elements of the strategy were the decisions to stay diversified and integrated, and to deliberately transition towards a low sustaining capital production base. That strategy has stood the test of time and

continues to be the beacon by which we set our course. A low sustaining capital project in the Asia-Pac region, oil sands, heavy oil thermals and a downstream margin-based business have become even more strategic in the current environment.

By the end of 2016, more than 40% of our total production will come from low sustaining capital projects, compared to just 8% in 2010. Even more importantly, the breakeven for the Company as a whole, at the net profit level, is moving towards the low 40s US WTI. The result is we will spend less money to maintain production, and we will have more discretionary capital to invest in our profitable near-term growth projects.

As we continue to take the long view, we have set out several initiatives and taken action in support of our balance sheet. In regards to the mechanism announced today to deliver the dividend, this is a cash-efficient way to issue all shareholders a dividend with no effect on the balance sheet.

Further, it's a demonstration of Management's, indeed, the principal shareholders' long-term commitment to the business plan and confidence in our ability to grow profitably. The initiative will allow us to regain cash flow while still delivering a dividend.

The Board will continue to review the dividend policy on a quarterly basis as it always does. It carefully considers numerous factors, including earnings, commodity price outlooks, future capital requirements, and the financial condition of the Company.

Other financial objectives include maintaining a strong investment-grade rating with no new debt anticipated. Further, we are considering announcing our capital flexibility by divesting a selection of our legacy oil and natural gas properties in Western Canada and assessing the sale of some non-operated third-party royalty interests also in our Western Canada business.

Elaborating on Western Canada, our intent is to keep moving on a transition that is already underway. Our planned divestments will allow us to focus a much larger proportion of our capital investments that can earn the best returns.

We are continuing to reduce our cost structure and implement further efficiencies across the business. We began this process five years ago, and by the end of 2014 we'd achieved more

than \$1.3 billion in cumulative savings. Accelerating the program this year, we achieved the high end of this year's target of \$400 to \$600 million cost savings, actually, above \$600 million.

You've heard me say before that we jealously guard our human resources, however the circumstances sometimes require a bitter pill. As our plans and projects were paced, we reduced our workforce over the year by approximately 1,400 positions, including some full-time employees but mostly contractors. We will continue to manage our human resources to minimize impacts to our people, but we do expect further reductions in line with our anticipated activity levels.

The result of all of these efforts will take some time to be fully realized, but we are already seeing solid progress. Operating costs are coming down, SG&A expenses have been lowered by almost 30% year-to-date compared to the same time last year. As a result of the cost savings measures and the ongoing transition to sustaining capital projects, we have substantially reduced our overall sustaining and maintenance capital requirements. The bottom line is that we expect these to settle out in the range of \$2.4 to \$2.6 billion in 2016, almost 15% to 20% less than our historical average of \$3 billion.

With the decisive actions we have taken to date and with further steps on the way, we expect to emerge from the cycle as a much stronger, more resilient Company that can grow profitably. At Husky, we have a portfolio with numerous projects that can provide more than a 10% return with oil at 40 US WTI and \$3 Canadian, AECO gas. Indeed, a selection commands 20+ returns and we envision the breakeven mark for future investments for us, the new threshold we have set is \$30 US per barrel (inaudible 08:54) WTI for a 0% IRR.

So, let me give you some examples from this rich portfolio. Heavy oil thermals give us 10%+ return to 40 US WTI. Our Western Canada gas plays, 10%+ returns. US refining, several projects have a 15%+ returns. Atlantic region infills, 15%+ returns. Indonesia Gas, 20%+ returns. Offshore China, likewise 20%+ returns.

In short, we continue to be bullish on our profitable growth prospects even in this bearish market.

Now, I'll ask John to take a deeper look at our financials for the past quarter.

JONATHAN MCKENZIE:

Thank you, Asim, and good morning everyone. As Asim just stated, we are fortifying our business to be profitable through a highly volatile, lower for longer oil price environment, and in line with the structural changes we're seeing in the North American natural gas market.

As such, we are calibrating our balanced growth strategy with our planning assumptions of \$40 US WTI and \$3 Canadian AECO natural gas over the long haul. We also intend to maintain our strong investment-grade credit rating with no new debt anticipated over the near and mid-term. We are assessing several levers that could potentially add additional capital flexibility. The outcome of this and the other measures announced is that we will be a more profitable Company with a low-cost production base that will be resilient through the commodity cycles.

Now, I'll turn to the third quarter. As I go through our numbers, we will honor our convention of comparing year-over-year quarters, but keep in mind that this time last year our world was quite different than it is today. We recorded an adjusted net loss of \$101 million, excluding the charges for impairments and write-downs. This compares to an adjusted net earnings figure of \$572 million in the third quarter of 2014.

Including the one-time impact of the impairment in write-down related to the legacy Western Canadian oil and gas assets, the net loss was \$4.1 billion. These are non-cash charges stemming from a downward revision in our longer term oil and natural gas price outlook.

Natural gas prices remain under pressure due to abundant supply and are likely to stay depressed for some time. While we might like a different outcome, the prudent course is to assume that we will not see any recovery.

Cash flow from operations was \$674 million. This compared to \$1.3 billion in the third quarter of 2014. This is largely a reflection of the downward pressure on realized crude and North American natural gas prices during the quarter, but also takes into account other factors. These would include the shutdown of our upgrader at Lloydminster for eight weeks which impacted cash flow by about \$67 million; a realized FIFO impact of \$127 million; and a significant widening of the differentials due to industry refinery outages in the quarter-over-quarter basis.

Average upstream production was 333,000 BOE per day, compared to 341,000 BOE per day at this time in 2014. This also takes into account a 10 weeks maintenance program on the partner-operated Terra Nova FPSO. These impacts were partially mitigated by gains in production from the planned gradual ramp-up at Sunrise, the start-up of our Rush Lake heavy oil thermal project, and ongoing steady performance at Liwan. Production for the year remains within our guidance.

In terms of our cost structure, as Asim mentioned, we are seeing solid progress as cost savings continue to be realized, with SG&A and op costs on a continued downward trend.

Looking at pricing; the average price realized for upstream oil and gas liquids production was \$41.92 per BOE. This compares with \$83.73 a year ago and \$56.79 in the past quarter.

The current quarter continued to benefit from contracted gas prices at Liwan, where fixed price set volume contracts delivered \$15.51 Canadian per Mcf. This would compare with North American natural gas prices realized at \$2.81 per Mcf.

Chicago crack spreads averaged \$23.87 US per barrel, compared to \$17.41 US in the same period in 2014. The realized US downstream refining margin was \$8.10 US per barrel compared to \$17.88 last quarter and \$11.42 a year ago. I'll remind you, the US realizations were affected by the FIFO impact vis-à-vis Chicago cracks, as well as refinery outages and operating constraints experienced during the quarter. I'll ask you to visit the MD&A on our website for additional details about pricing.

A couple of items to note regarding our turnaround activity; maintenance at the upgrader that started in late June was completed in late August. As a result of this work, a turnaround plan for 2016 is no longer scheduled. Repairs are continuing on the isocracker at the Lima refinery and we expect to bring the unit back online following a planned six to eight week turnaround at the refinery in the second quarter of 2016, and we're continuing to realize insurance proceeds through this period.

We remain on track with our 2015 capital expenditure plan of around \$3.1 billion, about \$2 billion less than in 2014. While we will provide more details during our 2016 guidance in December, we expect our CapEx will stay in a similar neighborhood as this year.

A reminder that we have a number of planned turnarounds in 2016 as well. On the guidance call, we will also have further savings and efficiency initiatives for the coming year.

Now, I'll turn it over to Rob to talk about our operations.

ROBERT PEABODY:

Thanks, John. As you saw in the news release this morning, we're accelerating the rejuvenation of our Western Canada business to improve resiliency through the commodity cycles. Basically, we are transitioning from a business with a large number of small plays into a business with a focus on fewer but more material plays. We will update you as we work our way through assessing potential dispositions of selected legacy assets. Taking this action will allow us to focus our Western Canada capital expenditures on assets with the greatest growth prospects and the best returns in this environment.

Elsewhere, we continued to prudently advance our rich portfolio of near, mid and long-term opportunities in the third quarter. Our ongoing transition to a low sustaining capital business, with projects such as Liwan, Sunrise and our integrated heavy oil thermal advantage, means we are becoming a more resilient Company.

Before I get to the operational highlights for the quarter, I just want to pick up on Asim's point on how we're thinking about our investment priorities in 2016. Our number one priority, of course, will always be safe and reliable operations. The next priority in terms of our 2016 business plan is profitable operations. This means as capital becomes available, we will look to advance projects that provide more than a 10% return based on a \$40 US WTI oil and a \$3 Canadian AECO gas price.

We have many opportunities for potential investments, as Asim mentioned, and with such a diverse range of projects, we're able to pick and choose which areas to advance. The strength of our balance sheet will ultimately determine the pace of investments.

Now moving to our heavy oil business. We began production early in the quarter at our latest heavy oil thermal project at Rush Lake, which surpassed its 10,000 barrel per day design

capacity within four weeks of start-up. In fact, I spoke with Ed Connolly this morning and he mentioned that we hit about 13,000 barrels per day as of this moment.

On our recent investor tour, we were able to get a close-up look at a couple of our cookie-cutter thermal projects, including Rush Lake. We are continuing to build out our next two 10,000 barrel per day thermal projects at Edam East and Vawn, as well as our 4,500 barrel per day thermal at Edam West. All three thermals will come online earlier than planned, next year starting with Edam East in the second quarter. We've bumped up the timelines as we're able to move more efficiently managing construction of these copy and paste type projects.

Our resource estimates have identified a large inventory of potential new projects that can be developed down the line. As capital becomes available, we have a significant runway for future growth in this area. Our overall thermal heavy oil production has risen from 18,000 barrels per day in 2010 to about 55,000 barrels a day today. By the end of next year, we expect that number to rise to around 80,000 barrels per day as we add the additional barrels from the projects now under construction. At that time, thermals will represent about two-thirds of our total Lloydminster heavy oil production.

Turning to Western Canada, our overall resource play production averaged approximately 38,500 barrels of oil equivalent per day, up about 13% from this time last year, including impacts from turnaround activities that we saw this third quarter.

Ansell production was over 20,000 barrels per day compared to about 17,500 barrels of oil equivalent in the same period last year. In the downstream, we continued to build out our Saskatchewan gathering system. These pipelines are a key link in our Lloydminster heavy oil value chain as they provide increased capacity for our growing heavy oil thermal portfolio.

At the Hardisty Terminal where Husky has about 3 million barrels of operated storage capacity, we are expanding our pumping capability to take advantage of the higher pressure Enbridge clipper line. This investment will help increase Husky's volumes going into the line which will also improve the flexibility of our market access.

We also announced an innovative deal with Imperial Oil to create a leading truck transport network that truly covers Canada from coast to coast. Subject to regulatory approvals, this will both improve our own efficiencies from the business and provide better customer service.

In the Asia-Pacific region, the Liwan Gas Project continued its trend of reliable production over the quarter. Average gross sales volumes from 3-1 and the 34-2 fields held steady at 295 million cubic feet per day, while associated gross liquids were around 14,800 barrels per day for a realized netback of about \$74 Canadian per barrel in total on our production.

In Indonesia, our Madura Straits development continued to take shape with the wellhead platform and related infrastructure for the liquids-rich BD field more than halfway complete. The platform jacket and topsides were sailed out earlier this month and drilling is expected to begin in the coming weeks. Construction is being advanced on the FPSO that will be used to process the gas and liquids. We're anticipating the BD field will be brought on-stream in 2017 with a fixed price and volume sales gas contract. As mentioned in the release, we have several projects under evaluation in Indonesia that provide strong returns with our pricing assumptions.

Looking at oil sands, at the Sunrise Energy Project, the second of our two processing plants is now online and we're continuing with our deliberate ramp-up which is slightly ahead of our own projections. It's now in the 13,000 to 14,000 barrel per day range for the project, and this morning I gather it's at about 15,000 barrels per day. That's up from about 5,500 to 6,000 barrels per day in the second quarter.

The facilities are performing well and we have potential for further efficiencies as we continue to increase our production towards 60,000 barrels per day gross, 30,000 barrels per day net to Husky, around the end of 2016. Our production is being transported through our integrated heavy oil value chain to Toledo. The first crude shipment was received at the end of July and ran through the refinery in good order.

Finally, in our Atlantic region, we commenced production from the second of our two oil wells at the South White Rose extension drill center. The project to extend the life of the main White Rose field reached its net combined peak production of 15,000 barrels per day in early September.

Thanks. I'll now turn the call back to the Operator.

OPERATOR:

We will now begin the analyst question-and-answer session. Any analyst who wishes to ask a question may press star and 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 and two. One moment while we poll for questions.

The first question comes from Greg Pardy of RBC Capital Markets. Please go ahead.

GREG PARDY:

Yes, thanks, good morning. Just a couple of questions I've got, but the first one maybe is just on the write-downs that you took. Could you touch on those, just where you took them and perhaps even just the timing of doing it now versus waiting until the year-end calibration?

ASIM GHOSH:

Yes, I'll start off the answer, Greg, and then I'll hand it over to John. Timing-wise there were going to be some impairments that are going to happen this quarter anyway and we had been looking at this for some length of time. When I say some length of time, I'd say for several years we've been calibrating two price decks (phon 24:43) which were a hockey stick going up towards the tight end but in fact kept the hockey stick going backwards.

Basically, the timing now stands from our biting the bullet on that price deck. Basically it's a downward revision in our long-term commodity price outlook, as we have said. We are saying that we do not see price going up beyond \$3 AECO for some indefinite future.

In terms of specific write-downs, I'll hand it over to John to handle that.

JONATHAN MCKENZIE:

Sure. Greg, it's Jon. So, just in terms of the timing, what we did see through this quarter is we saw independent third-party price decks continue to come down along with spot pricing. One of the things that we undertook inside Husky was a longer-term view as to whether and how much of these downward revisions were structural versus cyclical. The view that we've taken is that

many of these factors causing the decline of prices are in fact structural, particularly as it relates to North American natural gas.

So, we've looked at all of our different upstream businesses as part of this valuation. The only area where we've taken an impairment is in our Western Canadian business and the impairment relates almost entirely to our conventional North American oil and gas assets, particularly, as I said, within Alberta, Saskatchewan and BC. That's the only area where we've taken the impairment, and the other areas we don't believe are impaired at this time.

GREG PARDY:

Okay, no, that's helpful. I know you're using a \$40 WTI price. I guess, for count (phon 26:39) 16 and count 17, could you share what you're using on a longer term WTI price or not?

JONATHAN MCKENZIE:

Yes, so what I'd say, Greg, and I don't want to get into the absolute pricing that we're using. But what we're using on a pricing basis is not necessarily what we're using on an asset valuation basis. They're not entirely delinked as well.

What we've done is looked at our price forecast that we're using for the asset valuations and compared it with the major banks, compared it with the engineering firms, and we're within a range of consensus. We are conservative but at the same time we're well within industry consensus in terms of what we would use to calibrate those assets.

GREG PARDY:

Okay.

ASIM GHOSH:

Greg, I want to amplify on one point, the \$45 WTI is a planning assumption, it is not a price forecast for us. Forty WTI, I should say.

GREG PARDY:

Yes.

ASIM GHOSH:

(Cross-talking) WTI is a planning assumption, not a price forecast.

GREG PARDY:

Okay, great, which is probably a good segue, then, into the decision on the stock dividend. So, I mean, you guys have done this before. I think in the past it was generally your major shareholder that took dividends in stock but there was also kind of growth attached to it. Could you just talk a little bit about how you weighed the decision to use stock as opposed to cutting the dividend? Particularly if, for planning purposes, if you're thinking 40 in 2017, you know, are the absolute requirements, in terms of dividend funding, just not simply going to get bigger over time?

ASIM GHOSH:

Look, let me give you first of all what's (inaudible 28:19) is true. The dividend is something the Board looks at on a quarter-to-quarter basis. Okay, so therefore while we have a planning assumption and we're telling what the planning assumption is, the world will not unfold according to a planning assumption, the world will unfold as it does. We will look at the world as it unfolds, and if the world should unfold in a better way, clearly we will play around—we as a Management group will recommend to the Board to consider variations of how much in drip and how much in cash dividend. So, this is not—this is a call for this quarter, this is not a call in perpetuity.

The dividend is important to us and we remain committed to return cash to our shareholders, which means we have to generate profit. Borrowing to cover cost distributions is not sustainable. While dilutive, the shares per dividend measure allows us to maintain dividend without impacting our balance sheet.

Now let me speak briefly to our position on the balance sheet, okay? Everybody believes we have a strong balance sheet. We do have a strong balance sheet. But from where I sit, a strong balance sheet is not good enough. We will always ensure that Husky's balance sheet is bulletproof, and that is also a strong priority for us.

GREG PARDY:

Mm-hmm.

ASIM GHOSH:

Okay, so, by looking overall, you know, our top three business priorities are balance sheet, dividend and growth and we will always strike at a balance of that.

The final thing, speaking to the growth point, I just want to amplify. We have a very rich portfolio of high return projects. There are not too many companies our size that can give you as long a list as I rattled off while I was speaking to you of stuff that delivers 10%+ returns at \$40 US WTI. We are going to preserve that. So, we are striking at a balance of keeping all three on a bulletproof balance sheet, preserving our ability to invest in these businesses and ensuring that Husky comes out of this cycle as one of the strongest Companies globally in this sector.

GREG PARDY:

Okay, that's very helpful. Thanks, Asim. Thanks, John. Thanks guys.

OPERATOR:

Thank you. The next question is from Benny Wong of Morgan Stanley. Please go ahead.

BENNY WONG:

Yes, thanks, good morning. In terms of the divestments in the conventional assets in Western Canada, is there a targeted timeframe you're hoping to get them done, and is there any early thinking of where the potential proceeds could be directed to?

ASIM GHOSH:

First of all, you know, think of Western Canada as not in a divestment play, think of the consolidation play. I mean, just—Rob alluded to that. I want to step back a moment and look at our overall business transcripts (phon 31:12) of the last five years. Every one of our businesses—and there's one particular analyst on this call I actually had this conversation with earlier. Every one of our businesses is focused. The one exception was Western Canada.

We have now bitten the bullet on Western Canada and with this change in Western Canada that is planned, we will also have Western Canada as the last leg of our business that's is focused.

Secondly, please understand whatever divestment we are planning, these are good assets, they're just not core to our business plan. So, it's an amplification to the consolidation play.

There are assets that make more sense in somebody else's hands than they do, and we are looking for a win/win outcome so that we emerge lean and mean in Western Canada, but some of our assets, which we're basically diluting our focus, go in somebody else's hands who is already focused on that particular area. That's the overall approach, but I don't want to start negotiating in public on a divestment play, that would not be prudent.

But overall you are looking at about 15% of our total Company production. We're not in a rush to do this. We will pace this over a couple of years and we will do it in a way that doesn't destroy value for Husky.

BENNY WONG:

Great, thanks for the color. Just switching over to the sustaining CapEx, the new guide. Just trying to get a sense of how much of that do you think is sustainable going forward if we see commodity prices rise past the two years that you guys—you know, would you get some of that back?

ASIM GHOSH:

No, I think much of it is sustainable because it's not coming from (inaudible 32:50) asking our suppliers to take cuts. It's coming from a structural change in our business. So, regardless, you know, we—if you look at the contribution of heavy oil thermals, Sunrise, our Asia upstream businesses, none of the reduction in sustaining CapEx is coming from the fact that, in a low price environment our suppliers are having to take a haircut. That's the first point.

In terms of downstream, of course the downstream business works through a different set of pricing dynamics and we've got a large margin exposure to downstream. That's also inherent, you know, sustaining capital. Okay?

BENNY WONG:

Great, thanks. I just wanted to dive a little bit deeper in Sunrise with a couple questions. In terms of the steaming of the wells that you—since you first started, can you provide some color around the performance you're seeing within the pads and across the pads and if there's anything that has surprised you so far?

ROBERT PEABODY:

Sure, this is Rob again. What I'd say very briefly is, you know, we actually have a very detailed subsurface model that we developed before we even started this project. We're really comfortable with how the ramp-up is going. In fact, Asim has in front of him every morning a chart of exactly where production is versus our prediction and so far, that—actual production continues to remain above the predicted ramp-up of the project. So, we're right where we want to be.

I would remind you that the one difference with Sunrise—every one of these, I think, as one of the analysts commented, every project has its own different characteristics, I'd call them. Sunrise is a little shallower than some of the other developments. There's pluses and minuses to that, actually, but one of the things that that means is that you have to steam at a little lower pressure than you would if you had a lot of overburden, a lot more overburden over the reservoir. As I say, that means we've always predicted a slower ramp-up at Sunrise.

What we think—you know, there's pluses down the road with that where we actually expect to see a positive impact on SOR and things like that because, again, you're actually going in and you're not losing so much heat to the surrounding rock as you steam the reservoir. So there's pluses and minuses but we're very happy with there we see the project today.

BENNY WONG:

Great, thanks. Then just in terms of the wells turning over to production, are you—can you speak to maybe the variability of the performance you're seeing, if any, and how they perform to your expectations? Just on the initial reaction when you make that switchover.

ROBERT PEABODY:

Well, maybe the—you know, clearly we expect variability well to well. In fact, we predict it. In fact, John can tell me which well—John Meyer who runs it—can tell me which wells he believes will be the best producers, which ones will be less best producers, and it's all to do with the reservoir characteristics for each individual well and we have a huge amount of data we've gathered on every single well we've drilled. So again, I just go back that our performance is in line with what we predicted overall and when we get down to the granular level of wells.

BENNY WONG:

Great, thanks for the color.

OPERATOR:

As a reminder, any analyst who wishes to ask a question may press star, and one to join the question queue.

The next question comes from Chris Cox of Raymond James. Please go ahead.

CHRIS COX:

Hi, thanks for taking my calls—my questions here. First question I have is just when you're—in Western Canada when you're kind of thinking about focusing on plays there, is it something you believe you can achieve organically or should we start to think of this as something that acquisitions are a likely logical way of—you know, (inaudible 37:03) seeing kind of consolidating and focusing your activities in this area?

ASIM GHOSH:

No, the principal play is organic. We have de-risked a number of the plays already around which our future plan is built and we will be giving more guidance on this in our December Investor Call. Clearly, the short answer to your question is organic. Obviously opportunistically if we find something that fits within our core structure we would do it. But we are being disciplined about acquisitions, you know, simply because we are in this unique position of luxury of having so much within our portfolio that we've been able to find very accretive opportunities even at these low benchmark price assumptions.

CHRIS COX:

Okay, great, that helps. Then maybe just shifting over to the dividend here. You kind of highlighted a concern there that not only is the outlook lower for longer, but also more volatile. I guess just tying this in with the change in dividend policy, how should we sort of think about the triggers that would result in a return to cash dividend or a suggestion from Management to the Board that you should return to cash dividend? Like, how much of a sustained rally in oil prices and confidence in the rally do you need to see?

ASIM GHOSH:

You know, the Board does review it every quarter. I think if you build up, you know, a substantial surplus in cash, the shareholders have a call on that. That's how we planned it. Basically, though, all I can say is we celebrated our 75th anniversary a couple years back and over the course of three-quarters of a century, we have learned many lessons and one of them is we have to prepare to survive and indeed thrive during the downturns. It's deep in our DNA not to put the Company at risk.

CHRIS COX:

Okay, and then just the last one for me here, and I suspect I probably know the answer to it. But in your planning the—you know, on a kind of \$40 oil price and \$3 gas price environment here, were there any concerns when you're putting together this to revise strategy that if you didn't revise the dividend, that maybe there'd be some sort of issue in maintaining an investment-grade credit rating or, you know, debt covenants?

ASIM GHOSH:

Actually, let me say that first of all, I do want to amplify—I can't say this often enough—we are not revising our strategy. Husky's core strategy has been unchanged for five years. Basically we are simply calibrating the strategy to the price and circumstance.

Secondly, yes, it's got the investment-grade rating is important to us but at no stage had we come up with a plan that we would put that rating at risk.

CHRIS COX:

Okay, maybe if I just pose it a different way. Like, if you didn't—if you kept the cash dividend, do you suspect that that couldn't have been at risk given all the other changes around spending...

ASIM GHOSH:

Too many variables. It depends on where the oil price shakes out. As I said, we've given you a planning assumption but it's not a look into a magic crystal ball as to what the price will be so you're asking me to speculate on a whole bunch of factors that are outside our control.

The important thing I want to point out is, with the changes we've talked about, not only do we have a range of projects that will return money to the—in the \$40 WTI range, but in fact as a Company—and I take the whole upstream, downstream into consideration—our breakeven price as a Company is trending rapidly towards the low 40s WTI.

So, this is the solution for now. It's an effective way to maintain the full dividend for now. The future will unfold as it will unfold, and, you know, if the future unfolds better in terms of commodity prices, we'll certainly contemplate a return to our measure of cash or full cash in our cash dividend.

CHRIS COX:

Okay, thank you very much.

OPERATOR:

The next question comes from Fernando Valle of Citi. Please go ahead.

FERNANDO VALLE:

Hi guys, thanks for taking my questions. The first one is just a cleanup. I see you moved the Contribution Payable to the Current Liabilities. Can you just give us an update on the timing for disbursement there?

Second, you're fairly low on cash and you've committed to not raising any debt. Is that on a yearly basis, is debt part of the commitment to the credit agencies to maintain your investment-grade? Can you just give us a little color on how you're going to handle the cash constraints in the short-term?

JONATHAN MCKENZIE:

Thanks for your questions. This is John. Just in terms of the Toledo payable, we now expect that we will be satisfying that payable within the next 12 months. We have moved that to current, and that's just part of our forecasting for the 2016 timeframe.

What I would say on the cash side is our debt has moved up to close to \$7 billion. We are not comfortable going higher than that, and with the cash flow forecast that we have at \$40 WTI and \$3 gas, we're committed to living within that constraint. So, we have and are looking at other

levers that we have to increase our balance sheet flexibility, and at the same time recognize that we have a high percentage of dividend investors, as well as a number of growth assets in that price range.

So, we're trying to triangulate the needs of the investors with the needs of our capital program with the needs of our balance sheet. The primary focus there is always going to be our balance sheet. We're never going to put that at risk, and we are going to put ourselves in a position where we have additional flexibility on a go-forward basis.

FERNANDO VALLE:

Okay, and are you comfortable that you can achieve those goals without any of the asset sales in the next 12 months?

JONATHAN MCKENZIE:

Yes.

FERNANDO VALLE:

Okay. Thanks, guys.

OPERATOR:

As a reminder, any analyst who wishes to ask a question may press star, and one now.

The next question comes from Mike Rimell of UBS Securities. Please go ahead.

MICHAEL RIMELL:

Hi guys, my questions have been answered. Thanks very much.

OPERATOR:

There are no more questions at this time. This concludes the analyst QA 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. We will now pause for a moment as we poll for questions.

The first question comes from Dan Healing of the Calgary Herald. Please go ahead.

DAN HEALING:

Good morning. I was just looking for some more detail on the 1,400 workforce reductions. It says about 20% are fulltime employees and 80% were contractors. Where were those jobs? Were they here in Canada, and were they in head office or out in the field?

ASIM GHOSH:

They were everywhere, okay? They were in head office, they were out in the field, they were in Canada and they were outside of Canada.

DAN HEALING:

So, in the international as well?

ASIM GHOSH:

Yes. Basically, it'll be—we've been exercising discipline everywhere, but I do point out that the vast—fulltime employees constituted a small proportion of this and of those, a number of those fulltime employees were actually early retirements that—you know, who took advantage of the packages that were offered.

DAN HEALING:

Hmm.

ASIM GHOSH:

The vast majority of them were contractors.

DAN HEALING:

Oh, okay. Can you tell me what the total employment number is now for Husky?

ASIM GHOSH:

Well, I'll put it another way. I mean, the reductions we've seen and a few more we have coming up in the last quarter comes to about 22% of our workforce.

DAN HEALING:

I'm sorry, it's 22%...

ASIM GHOSH:

Of our total employee and contractor base.

DAN HEALING:

Oh, okay, that is equal to the 1,400?

ASIM GHOSH:

Yes, that's right.

DAN HEALING:

So, we can reverse the math on that and figure out how many you have now.

ASIM GHOSH:

Exactly.

DAN HEALING:

Okay, and is it fair to say that most of Husky's employees are in Calgary?

ASIM GHOSH:

It would be the largest single base, yes. It will be the largest single base, but more Western Canada rather than Calgary.

DAN HEALING:

Oh, okay. Well, I'm—we're the Calgary newspaper so obviously I'm trying to get what the local impact of this might be.

ASIM GHOSH:

Yes, we can take that offline. I couldn't tell you the specific numbers in Calgary offhand.

DAN HEALING:

Okay. I guess my other question is kind of related to real estate in Calgary or Western Canada. Are you adjusting for the less space than needed because of this?

ASIM GHOSH:

No, actually, to be honest, we've always been very disciplined about watching our overhead so it's not as if we have taken on—we've been at kind of a boom bust cycle in terms of our Company and our cost structure. We've always been measured and we continue to be measured.

DAN HEALING:

Okay, and just one last question if I can. It looks like job trimming may continue. Is there any sort of target or are you looking at a certain timeline?

ASIM GHOSH:

I think the bulk of the pain has happened. There will be some more, but remember, also, as we said to Western Canada, these are not—these are jobs that may not stay with Husky but they would likely go with the asset to other people. Basically, on an ongoing basis, we'll continue to manage our business and workforce in accordance with our business plan.

DAN HEALING:

Okay. Great, thank you, sir.

OPERATOR:

Our next question comes from Chester Dawson of Wall Street Journal. Please go ahead.

CHESTER DAWESON:

Hi, thanks for taking my call. My question is about the operating environment. Obviously it's been very challenging for yourself and other energy producers in Western Canada and around the world, and I'd like to know whether you have any thoughts on the moves by the provincial and federal government to do things that are raising the cost burden?

Do you think that, in light of the most recent results and the workforce reductions, that the government should pause in these efforts, or is that something that you're not too overly concerned with at this point?

ASIM GHOSH:

Chester, I have two simple comments on that. We do what we do because it's right for the business and not because we want to please or displease any particular government.

The second thing is, we are committed to working constructively with all levels of government at all times in all areas of our operations. We don't select governments; the governments affect our destiny and we will work with them to ensure that our destiny goes on to the best interest of our shareholders.

CHESTER DAWESON:

Okay, and just to follow-up that quickly. Your submission to the royalty review or carbon panel seemed to indicate that you're not too excited about higher carbon taxes and cap on trade. Is that a fair assessment of your position on those issues?

ASIM GHOSH:

No, not at all. We actually took a very measured view. What we basically said was there's an underlying structure to the royalty which sort of shares risks, and we stay with that principle. We are all in favor of a simplification of the royalty structure, which seems to be a threat that seems to be emerging.

As far as carbon tax is concerned, frankly, if the political will exists to impose a carbon tax, we would be supportive of it. We are not—we've taken a very principled approach with respect to that. But it has to be across the board and Canada, as a jurisdiction, or Alberta, as a jurisdiction, cannot be disadvantaged.

Hand on heart, we will go with any—at least at a minimum, North American-wide change in that respect. But, it would be politically suicidal for us to do a mea culpa and hang our neck out in a way that disadvantages the industry here. That's all we are saying.

CHESTER DAWESON:

Okay, that helps. Thank you very much.

OPERATOR:

As a reminder, any media who wishes to ask a question may press star, and one at this time.

The next question comes from Kelly Cryderman of Globe and Mail. Please go ahead.

KELLY CRYDERMAN:

Hi there. I'm wondering if you can elaborate on how the fundamentals have changed how you see—this is not just lower for longer but that we're going to see increasing price volatility in oil and gas for—are you saying the long-term?

ASIM GHOSH:

I simply look at the same Bloomberg screen that you presumably do and I've seen their volatility and I've seen that volatility go up and down. But fundamentally, no, it's inherent in the nature of any commodity industry that has a high measure of volatility, unless there's a cartel enforcing a discipline to remove that volatility. If you just look at how every commodity behaves, you have a higher level of volatility than you've had in oil.

KELLY CRYDERMAN:

Thank you.

OPERATOR:

The next question comes from Ashok Dutta of Platts. Please go ahead.

ASHOK DUTTA:

Hi, morning. I had two questions, if I may please. The first one is, Asim, you mentioned about bringing forward the production timetable for the three heavy oil projects. What was the original schedule?

ASIM GHOSH:

It's coming forward by a quarter.

ASHOK DUTTA:

Just by a quarter, okay. The second question, Rob, maybe, it's just a takeaway from what you said about Hardisty and installing new pumping capacity for taking advantage of the Alberta clipper line. Can you just elaborate on that, please?

ASIM GHOSH:

Well, we've just upgraded our pumps at Hardisty so that we can inject into the Enbridge line and keep our flexibility to our markets for our production.

ASHOK DUTTA:

Okay, so obviously this is not your first entry into the Enbridge line. So, you're talking in terms of incremental capacity?

ASIM GHOSH:

That's correct.

ASHOK DUTTA:

Okay, and will I be too ambitious in asking what kind of capacity you'd be looking at?

ASIM GHOSH:

Well, we could take this offline and get back to you, because that's a competitive-type question.

ASHOK DUTTA:

Okay. All right, thank you very much.

OPERATOR:

There are no more questions at this time. I'll now turn the call back over to Asim Ghosh for closing remarks.

ASIM GHOSH:

Thank you everybody for your questions. So, a few summary thoughts. The ground continues to shift as the global oil dynamic undergoes this fundamental transformation we are into, which means understanding the moment we are in, a highly volatile and lower for longer price environment. With the steps we have taken and the initiatives already currently underway, we

are progressively building what we believe will be a stronger, more resilient business for both the near and the longer term.

Thank you for joining us today.

OPERATOR:

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