Husky Energy

HUSKY ENERGY Q3 2010 CONFERENCE CALL TRANSCRIPT

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Speakers:

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Chief Financial Officer

OPERATOR:
At this time I'd like to turn the conference over to Rob McGinnis Manager of Investor Relations. Please go ahead, sir.

ROB MCINNIS:
Thank you. Good morning, everyone and thank you for joining us today to discuss our 2010 Third Quarter results.

I would like to take a second to introduce myself. My name is Rob McInnis and I am the Manager of Investor Relations for Husky Energy. With me today our CEO, Asim Ghosh; CFO, Alister Cowen; COO, Rob Peabody and Vice President of Midstream and Refined Products, Terrence Kutryk

In today's call Asim will provide an overview of Husky's strategic direction. Alister will discuss the Company's performance and Rob will provide an update on our Upstream operations while Terrence will provide an update on the Midstream and Downstream activities.

Please note that today's comments contain forward-looking information. Actual results may differ materially from the expected results because of various risk factors and assumptions that are described in our quarterly release and in our annual filings which are available on SEDAR, EDGAR and on our website.

I'll now turn the call over to Asim.

ASIM GHOSH:
Good morning. Thanks for being on the call.

I guess before I get into the quarter, I just want to recap very briefly to what we said at -- when we released our second quarter results which was my first call with you guys.

Basically, the simple theme I spelled out at the time was where I saw Husky was, we were long on long-term opportunities but we needed tweaking to correct the fact that we were short of short-term opportunities.

In summary, in the long-term opportunities we are extremely well positioned for the long term, with our growth pillars which are identified as the oil sands, Canada's offshore, East Coast properties and Southeast Asia.

But we recognize that we need to take action to stabilize that production in the short term and that would come through both organic and inorganic, i.e. acquisition opportunities.

And if I now were to summarize the quarter I would basically say, from our perspective, we executed a solid quarter and delivered on the early milestones on the plan we charted out for you.

So just let's get into some of the actions that we did take. So just get into some of the action that is we did take so start with the acquisitions.

And again, I'll refresh your memory on something that I said, I believe it was during the quarterly call, it might have been subsequent analyst meetings, but we are not -- as we execute our acquisition plan, interested in trading dollars for barrels. In other words, I'm not interested in just getting production for the sake of headline production.

We are interested in financially accretive production, acquisitions that offer an attractive rate of return. And I believe I use the words "strategic contiguity" i.e. we already can leverage our existing infrastructure, our existing human resources. And set the Company up through the repositioning of Western Canada with resource plays. So to that point we had announced that we signed a purchase agreement in Sepember to acquire natural gas properties in West -- Central Alberta which adds about 65 million cubic feet a day of natural gas production, about 11,000 a year [Epd].

It's adjacent to our -- it is part of our core Ram River gas operation where we actually have an existing gas plant. So it -- both in terms of metrics and in terms of the basic qualitative criteria we set out, it's an acquisition bang-on-strategy.

I am, unfortunately, not in a position to comment on the purchase price, but I can assure you that we have a rigorous set of criteria for evaluating these acquisitions and this acquisition will earn us returns on par with some of the best gas oil plays that are out there.

So it's a underlying theme of financial discipline that I hope you will continue to hear from us as we roll this canvas out.

We are not done on this theme by the way. We are looking at some other opportunities and we will move forward on those in a disciplined manner provided, always, that they meet our rigorous criteria which I just outlined.

Now, the second thing is on the inorganic part. We topped of a measure of reprioritizing our capital to meet the -- meet our strategic needs both of shorter-term production and of holding critical mass as we reposition Western Canada for resource plays. So to that end we did increase our capital expenditure for the year from $3.1 billion to $4 billion.

A significant portion of that increase has been targeted at accelerating projects that can deliver near-term production and returns in excess of that. And really, by near term I mean stuff that we will see results from in the next 12 to 18 months not in the next, I'm characterizing as two to five years as medium term, anything past five years as long term. So really I'm talking stuff that's in the next 12 to 18 months.

And very specifically all of this increased investments, that I'm talking of within this context are our bread and butter operations in Western Canada, where we have a rich portfolio of oil, heavy oil and gas assets, and Rob, later in the call will be telling you more about this investments.

The bottom line is that we have made significant progress towards stabilizing production and production was almost 289,000 barrels per day in the quarter up from 284,000 per day, in the second quarter. But I'll again emphasize, you know, we don't want to overstate our case, this is the beginning of our journey.

We are pleased that we met the early milestones but we also recognize there's more work to be done.

I will be remiss if I just spoke of the short term and did not tell you that we have not taken our eye off the fundamental longer-term task, that's why we're here which is the growth pillars. So while we have increased our focus on boosting the near-term production, we continue to make good progress on our mid- to long-term growth opportunities. And, again, Rob and Alister will provide more detail later in the call.

But I just wanted to take a minute to update you on a couple of our growth interests, Sunrise and Southeast Asia. On Sunrise we've made substantial progress on advising on -- advancing the Sunrise Energy project. We believe, based on our bid process so far, it remains on sanction, for our project sanction, in the fourth quarter of this year.

On Southeast Asia, as well, we've made substantial progress. We've received a 20-year extension to the BSC in Madura, which is -- those of you who have been following our Southeast Asia business, its offshore Indonesia.

We've also made progress in advancing the Liwan gas development project in South China Sea, which is offshore China. And we are tendering equipment and installation contracts for the project as we speak.

I think I should speak to one other point on Southeast Asia. We told you earlier in the year that the Board is evaluating whether a separation of our Southeast Asia assets is the best way to maximize shareholder value for the Company. That is an important decision, a strategic decision for the Company and the work of the Board is still underway. And following -- when that rigorous review is done we'll been in position to share the results with you. But you'll recollect I said that there are pros to a separation and there are cons to separation, so it's a complex decision. We don't have a decision yet, but as soon as we do we'll be in the position to share that decision with you.

So as we move forward with our business plan we remain focused on business fundamentals. I am very clear in my mind that this is not the old economy equivalent of a dot-com business. This is -- we are in this business to get a return on capital.

So, therefore I just want to refresh your minds on stuff that I've said in various meetings with some of you, on what drives our thinking of the business. We're not interested in trading barrels for dollars; we're interested in financially accretive production, whether it's organic or whether it's through acquisitions. We are focused on capital productivity and all of it within the context of safety.

I know this is a quarterly conference call and we will have opportunity to get into more detail very soon. We are in the midst of a rigorous planning process for 2011 and out years. And I guess we have set up for an investor call, which we have advised many of you of, on the first of December, and I do hope we'll be -- that as many of you who can attend will be there. So, we'll be able to give you -- flesh out more details on our direction for the future at that time.

But I just want to give you a reassurance that in all of our thinking, at the end of the day, capital productivity in the context of safety is what our mantra is.

On that note, I'll hand you over to Alister to take a closer look at the quarter's financial results.

ALISTER COWEN:
Thanks. Asim. What I'm going to do is make a few comments of the highlights for the third quarter and then discuss the increase in the capital spending program for the year.

In looking at the overall results, we felt they were a solid achievement particularly in light of the economic environment and the impact of the Enbridge line breaks. The results also did reflect our product mix, which many of you know is approximately 70% oil and 30% natural gas.

During the quarter our production was 288,700 Boe per day, which was up from 276,200 Boe per day in the third quarter of 2009 and slightly up from Q2, 2010. This production was in line with our guidance that we laid out last month, or in the second quarter.

Our cash flow for operations in the third quarter was $811 million. That was significantly higher the last year's $452 million and comparable to Q2 2010.

Net earnings of $257 million were comparable to the last quarter, even with an estimated negative impact of $36 million after tax, relating to the Enbridge shutdowns of lines 6A and 6B.

When I look at our pricing; in Upstream, realized pricing improved slightly compared to last year and was comparable to Q2 2010. However, our realized pricing for medium, heavy oil and bitumen production was adversely affected by the significant increase in differential for most of the third quarter as a result of the Enbridge shutdowns.

And we do expect that there's going to be some continuing, lingering pricing impact of that shutdown into the beginning of Q4.

In our US Downstream business, the weak economic climate continues to impact market crack spreads with New York Harbor 321 at $8.62 per barrel in the quarter compared with $10.44 per barrel in the second quarter of 2010.

Our realized refining margins did improve slightly quarter-over-quarter as a result of FIFO accounting impacts on crude oil and purchases notwithstanding the market crack spreads.

On capital spending, as Asim noted earlier, and in support of our strategic direction, we've increased capital spending for 2010 to $4 billion from $3.1 billion. The majority of the additional funds have been dedicated toward upstream organic projects and acquisitions that will deliver production over the next 18 months.

These organic projects are primarily oil, heavy oil developments and liquids rich gas resource plays and Rob is going to talk a bit -- more about detail about these later in the call.

As Asim mentioned earlier, the acquisition we recently announced offers synergies with our existing operations, provides immediate production and rates of return on a par with some of the best shale gas plays.

We did also make some strategic lines acquisitions in the areas that provide the opportunity to expand our existing line positions in those areas. And that will allow us to create some additional value from having a larger contiguous position.

From a balance sheet perspective in funding, we have been, and will continue to be financially disciplined, that's a hallmark of Husky. Our debt-to-capital of 22% to debt-to-cash-flow of 1.3 times remains below our targeted ranges and amongst the lowest of our peers.

We -- in return we generated cash-flows, as we mentioned earlier, along with our strong liquidity position, and lower leverage provided the flexibility to continue to prudently invest in growing our production, as Asim has outlined.

Finally, our Board of Directors approved a quarterly dividend of $0.30 per share for the quarter.

Now, I'm going to hand you over to Rob to talk about our Upstream operations.

ROB PEABODY:
Thanks Alister. First, as always, I want to start with safety. We've just completed an extensive series of plant turnarounds, including the SeaRose; the Upgrader and we're just about finished at Lima. In total, these involved an additional 4,000 contractors working on our sites. Turnarounds require careful planning and execution, and always involve heightened risk compared to normal operations.

I'm pleased to say that with our strong focus on contractor selection and training, as well as strict adherence to process and procedures, this work scope has been done without any major incidents. This is also reflected in our recordable rate, which remains at our target of one for the year.

On the production side, I'd like to share with you where we are investing capital to boost short-term production. In accordance with the strategy that Asim talked about at the start of the call and laid out in Q2, we have taken action to rebalance our portfolio from one that is long on long-term opportunities but short on short.

In Western Canada we have a rich inventory of heavy oil, oil resource and gas resource properties in our portfolio and plays where new technologies such as horizontal multi-stage frac'ing are having a dramatic impact on our ability to economically retrieve more production from our reservoirs.

Just to put some perspective on this opportunity; we have a heavy oil resource base in Lloydminster -- in the Lloydminster area, of around 10 billion barrels, in place. Using traditional cold heavy oil production with sand or chops, we've recovered about 700 million barrels of this to date. Using new technology such as horizontal wells and thermal processes, as well as chops, we expect to potentially increase the recovery rate from 7% to about 12%, for an incremental 500 million barrels.

So, we're confident about our ability to create more value from heavy oil, going forward, and this is one of the areas where we're investing additional funds this year.

To put some numbers on it, in 2010 we plan to drill 291 chops wells and over 100 horizontal wells compared to 175 chops wells and 27 horizontal wells in 2009.

Looking at our gas resource play activity; Husky continues to accelerate its resource play work. We have expanded exploration in development drilling in the natural gas liquids rich area of Ansell. And we drilled seven exploration wells during the third quarter with five of these wells soon to be brought on stream.

We're also accelerating drilling in the Bivouac and Galloway areas, with an additional six Bivouac wells and four Galloway wells to be completed by the end of 2010. Production is expected to come online in 2011.

In terms of our oil resource play, evaluation and testing activity in Western Canada in the third quarter, three Viking wells were placed on production in Southwest Saskatchewan. Eight Viking horizontal wells were drilled at Redwater, Alberta and an additional seven wells were planned -- are planned for the remainder of the year.

Additional oil resource play wells are planned for the lower in Shaunavon in Southwest Saskatchewan, the Bakken in Southeast Saskatchewan and evaluation wells are underway to assess the Cardium Zone at Lanaway, Alberta.

Looking at the East Coast now, we continue to ramp up our production in the third quarter at the North Amethyst satellite oil field, with the completion of the second horizontal producer. That well is now on-stream, producing about 3,000 barrels a day without any water injection support. An additional injection well will be on schedule -- should be on-stream in December and then we'll be able to ramp up production from the -- that second production well to about 20,000 barrels a day.

A total of 11 wells are planned for North Amethyst, with drilling continuing through 2010 and 2011. And it continues -- North Amethyst continues to be a good story for Husky and we expect production to reach gross peak rates of around 37,000 barrels a day by the end of the year.

We also receive regulatory approval and have commenced, have already commenced, drilling the first well on the -- on a two-well-pilot project into the West White Rose reservoir during the quarter. These wells are drilled from the existing infrastructure at the main White Rose Field, and information from these wells is going to help us develop the long-term development plan for West White Rose. But these initial -- the initial production well will also come on-stream in early 2011. The impact on production of the activity I've just described about is -- will become more evident by about mid-2011 and accelerate over an 18 to 24-month period.

During to 4Q production there are just two events I'd want to give you a heads-up on, and the first of those being the October turnaround of the SeaRose. That actually was -- is already complete now, it was planned for 16 days and it was completed on schedule. The impact on the month of Octobers' production was about 10,000 barrels a day.

And then the second event is just we expect to close the Ram River acquisition sometime in the fourth quarter and when we close that acquisition that will add about 10,000 barrels a day to our production, immediately.

So turning back to some of the medium- and long-term projects that Asim referred to earlier in the call as well; at the same time as we've been putting our effort on accelerating these near-term opportunities we still are working on advancing the medium- and long-term opportunities. In heavy oil, construction of eight -- of the 8,000 barrel per day South Pikes Peak thermal heavy-oil project is progressing on schedule and we expect first production in the first half of 2012.

In the quarter we also received approval for a SAGD pilot project at Rush Lake, and this is a follow-up project to South Pikes Peak, and the next stage of our heavy-oil thermal development.

On Sunrise, tenders for major engineering and construction contracts for the project were received and are under review. We are focused on ensuring that the delivery of Sunrise will come in on budget. And to that end, our contract strategy is to secure very high levels of lump sum and unit rates within our key contracts. This removes the exposure to Husky for labor rates and productivity during project execution. And we're making excellent progress of meeting that goal.

In addition, progress was made on Madura and Liwan as Asim described earlier. As you can see, it's been a busy quarter on the development front.

Now I'd like to turn you over to Terrence for update on Midstream and Downstream.

TERRANCE KUTRYK:
Thanks, Rob. As Alister mentioned earlier, a significant factor in our third quarter results were the effects of the Enbridge pipeline disruptions.

Now, notwithstanding those challenges, it was a healthy quarter for our segment, with our Midstream business providing a means to mitigate some of the impacts to the Company. And despite these issues, throughput was stable at 236,200 barrels per day, compared with 235,500 barrels per day during the same period of 2009.

Now without these disruptions, throughput would have been higher by approximately 12,000 barrels per day. Quarterly Downstream earnings were reduced by $20 million as a result of the Enbridge Line 6A and 6B breaks.

In our Midstream segment, the Lloydminster Upgrader began its planned five-year turn around at the start of September. Now, this is the largest turn around in the facility's history, and it was completed on budget and on schedule.

During the quarter we also finalized agreements with Enbridge, [Kierra] and Inter Pipeline Fund for pipelines dealing with the terminal services for the first phase of the Sunrise Energy project.

In the Downstream, a 40-day turnaround recently commenced at Lima as part of the five-year maintenance schedule they have with the facility, and only about the third of the refinery will be involved with a modest impact on flowthrough volumes anticipated.

On the retail front, we continue to make steady progress in converting the 98 stations purchased in the Southern Ontario market over to the Husky brand, and we have currently rebranded 73 of the sites, with the remainder to be completed in the fourth quarter of the year.

At this time I will like to turn the call over to Asim for closing remarks.

ASIM GHOSH:
Thank you all. So just let me again, summarize where I think we were in the quarter. There were a number of external challenges in the quarter which you already mentioned, Enbridge being notable among them. And notwithstanding these factors, we executed a solid quarter, we stabilized production, we are on our way to executing on our strategy to accelerate near-term production both through acquisitions and through organic investments.

And we have prioritized our capital so as to effectively manage this portfolio, both for production as also to gain critical mass on certain critical properties. And we have made progress in advancing our medium- to long-term growth pillars in the oil sands, the East Coast and in Southeast Asia.

So, I guess the best the description I can give of where we are is that the course has been set and work is underway to deliver on this growth strategy.

Rob, you want to -- set the scene for us.

ROB MCINNIS:
Sure. That concludes the opening part of the call. We'd be pleased to answer any questions you might have.

I'll now turn it back to the conference operator for questions from our participants, starting with analysts and then from the media.

OPERATOR:
Thank you, sir. We will now begin the question-and-answer session.

The first question is from Andrew Potter of CIBC. Please go ahead sir.

ANDREW POTTER:
I was just looking for a little bit more color on Liwan. In terms of what are the next steps that we're looking for here? It looks like you're pretty far advanced in terms of defining the scope and scale of the project. So what -- maybe you can give us a little bit more color in terms of what you're seeing right now in terms of project costs and what you're envisioning in terms of size for the first phase of development?

ASIM GHOSH:
Alister, you want to take that?

ALISTER COWEN:
Thanks, Asim. That's a good question. We're currently completing all the work around those questions that you asked us. As I said we're out to tender on some of the major pieces of equipment. Once we have those I tend to think we will be in a much better position to talk about cost, and -- once we get through project sanction.

So our intention will be to give you all an update on that once we've been through that process. It's a little bit early for that at this point in time.

ANDREW POTTER:
When do you expect that process to wrap up? Like is this something we can see before year-end 2010, or is this more or a 2011 thing?

ALISTER COWEN:
It probably -- it -- I would say probably more likely in the beginning of 2011.

ANDREW POTTER:
Okay. And just one other question on the unconventional gas side. I just wanted to confirm that you guys have drilled shale well, and I don't know if you have any results you want to share on that?

ASIM GHOSH: Rob, how about you take that one.

ROB PEABODY:
It's an interesting question. I think the answer to that is still "confidential."

ANDREW POTTER:
All right. We'll leave it there. Thanks.

ASIM GHOSH:
At least you have the knowledge that the question is not confidential.

OPERATOR
Next question comes from Mark Polak of Scotia Capital. Please go ahead.

MARK POLAK:
Good morning, guys. First question on Sunrise, as we look for sanction coming this quarter, I think the most recent numbers we have there is $2.5 billion for 60,000 barrels a day. Is that still a reasonable number for us to be thinking about on that project?

ASIM GHOSH:
I think those were 2009 dollars. So I think when we actually get to announce it you will have to judge us versus the benchmark of 2011. But I would simply say, it's fair to say that you're in the ballpark.

MARK POLAK:
All right. Thanks

ASIM GHOSH:
So we will be in a position to announce it, yes.   We are well into the quarter already so you won't have to hold your breath for too much longer.

MARK POLAK:
That's great. The other question I had was with the extension of the Madura PSC, would that allow you to move those resources back into the reserves category at year end? And can we expect a sanctioning decision on that sometime next year? And I think in the past it had been thought sort of three to four years after government approval that would be coming on-stream?

ALISTER COWEN:

Yes. I would assume that we would be, with the -- receiving extensions for the PSC, we'll be looking at getting some reserves on Madura. And timing wise we're probably looking at about 2014 for that to come on-stream.

MARK POLAK:
Thanks a lot.

OPERATOR:
Next question comes from George Toriola of UBS. Please go ahead.

GEORGE TORIOLA:
Thanks. The question is around the -- Asim, you've talked about your focus on near-term production growth. So just wondering if you can speak too, broadly, the types of opportunities you're seeing that would allow you to both grow production and grow production in a profitable manner?

ASIM GHOSH:
Well, I think as I said, there are two broad planks. There's an acquisition plank, an acquisition that is strategically contiguous, I think it's basically, completely synergistic to what we've got. And there's a -- the old bread and butter hard work of drilling more wells and applying new technologies. So those are the broad areas.

Now, on the acquisition part we already outlined a gas acquisition at very financially attractive metrics. And I think there is one portion of that confidentiality agreement precludes me from giving you the specific figures. But I would say as I said, it's on a par with the best shale gas plays that are out there.

We are looking at a couple of other opportunities which meet similarly attractive financial criteria.

On the inorganic front it is really not a simple broad brush answer, it is a whole bunch of very, targeted high-return, rifle shot, opportunities we are looking at in terms of infills, in terms of applications of new technologies in heavy oil as we move from chops to some SAGD projects, some horizontal wells, in terms of new gas resource plays. And that is my overall description of the quality concerns. And I think Rob already turned on -- touched on some of the specifics in his part of the conference call. But I'll let Rob speak further to that.

ROB PEABODY:
Yes, I'd just add a couple of points, really and that is, I think the Western Canada Basin is a mature, conventional basin. What we're seeing in the Western Canada Basin, as I'm sure you're all aware of, is new technologies that are really making a difference in terms of both the returns -- well, the returns you can earn and the opportunities available. And Husky has a good land position over the whole Western Canada Basin, clearly. And we have actually also been acquiring lands where we think there's a lot of prospectivity with the new technology.

So, in broad categories, I do go back to Lloydminster first, there's a big resource there. Horizontal wells are a new technology that we've only really been applying there for the last couple of years. They're opening up new horizons in Lloydminster, some of the thinner sands that you couldn't get after with traditional chops methodology but have extensive resources in those horizons. So, we can apply that technology to earn good returns in Lloydminster.

Again, gas resources plays; our focus there we feel we have a pretty good portfolio of liquids-rich gas resource plays in Western Canada, enough to keep us going for quite a while here. And our economic return gas prices because of the liquids components in them, although clearly we'd like to see higher gas prices going forward.

So just -- that's just a little more color on Asim's point.

ASIM GHOSH:
I just want to make one point. There's sort of a theme running through my part of the spiel on financial discipline. And one of the things that we have started to do as we value projects, is we are not simply looking at IRRs, but we're looking at return on capital employed on a year-by-year basis. So if I can get an IRR coming out of a hockey stick, or I can get an IRR coming out of more immediate returns.

So we have put our various projects in various baskets. So clearly if I want to look at a long-term project like Sunrise or the East Coast, I have to look at an IRR, and I know I'll have negative returns in year one, and maybe breakeven in year two on a Sunrise -- that might extend out to two or three years on the breakeven. But on a Western Canada type of what I call, incremental activity, we want returns in the first year itself or at most, in certain cases like horizontal drilling or the thermal project, no more than year two. And we're starting to apply that financial discipline and are changing our planning processes to reflect the demands of specific capital profiles.

ROB PEABODY:
And just to add one specific example of that, that's one of the reasons why Ansell is very attractive to us, as a gas resource play, because the infrastructure is already in the area and we can tie it in quickly and bring production on quickly.

ASIM GHOSH:
So when we are looking at projects at some of these infill projects, we are looking at -- we are demanding ROAs that are in the high teens or in some cases even 20%, at today's pricing, in the next couple of years. And, remember, this is only part of our capital; I don't want to mislead you that we're going to get that kind of return on the entire capital. That's not the

intent either, but I just want you to get a sense of how we are approaching this problem solving.

GEORGE TORIOLA:
Okay. Thanks a lot then. So when I look at the $590 million of incremental capital that you're deploying, so it's fair to say that we'll see the returns on that capital in terms of production growth and all that within the next 12 months, so to speak?

ASIM GHOSH:
Well you know that capital is about half-and-half. Okay, I mean about half about of that is immediate production and half of it is to fill-out gaping holes in a particular existing land bank. And then once we get that land bank complete, that gives us something to work with in terms of monetizing.

So basically you got to look at it half-and-half, half of it is actually to flesh out the portfolio. That gives us currency to work with in the future in terms of when we can start to develop it, we can -- whatever. So I think we'll have more color on that in the Investor Day presentation in the beginning of December.

GEORGE TORIOLA:
Okay. Thanks a lot.

OPERATOR:
The next question is from Greg Pardy of RBC Capital. Please go ahead.

GREG PARDY:
Hi, good morning. I just wanted to dig in a little bit more into Liwan and I guess, to some extent just the gas in place numbers, you're talking 2.6 to 3. Is that still related to the greater Liwan area, or is that somewhat more ring fenced to some of the drilling you've done so far? I'm just curious.

ALISTER COWEN:
Greg, I'll take that one. The earlier answers that we had that were out there -- were all based on some very limited drilling. So as you know, over the last couple of years we have done extensive exploration, delineation and appraisal drilling on the whole Block 2926. We will be keeping the market apprised of the results of that through our quarterly report.

The current asset we've got of 2.6 to 3 Tcf of petroleum initially in place, now it's based on those drilling we felt we would have had complete. It's really for the Block 2926 and that covers three fields and the Liwan C1 the Huron 342 and the Huron 291.

GREG PARDY:
Okay. No, that's great. And just to come back to the phase in terms of Sunshine, then just -- BP will fund the first $2.5 billion of this, what are the next steps you need to take? And how much do you plan to talk about this; I think you've kind of answered, in addressing Mark's question, you're sort of alluding to the fact that you'll probably talk about it on December 1st. But what are the next steps we need to see to get some more granularity on what the project looks like?

ASIM GHOSH:
Well, I think the first immediate step is to complete the negotiations which we're down to the very short strokes of. And then get the approvals of the respective joint venture boards. So there are two separate agreement channels involved there. And then announce it to you guys.

ROB PEABODY:
We're -- just to -- I mean that project is right at the starting line. I mean, clearly you've seen the announcements around the midstream. We've got all the agreements in place in the midstream to support the project. As Asim said, we're very, very close to the award points on the central facilities and field facilities contracts.

We have a very clear project schedule. So before the end of the year I expect to be able to share an extremely detailed schedule of just how the whole project will be executed.

GREG PARDY:
Okay, fantastic. And I guess just a clean-up question then. On December 1st, do you also expect then to release your 2011 guidance? You may have answered that already, but --?

ASIM GHOSH:
Yes, I believe we will.

GREG PARDY:
Okay. Thanks very much.

ASIM GHOSH:
I guess if we don't, you'll ask us for it any way. So we might as well give it to you before you ask us for it.

OPERATOR:
The next question comes from Kam Sandhar of Peters and Company. Please go ahead.

KAM SANDHAR: I have a couple of questions. First of all, wondering if you can walk us through how you plan to prioritize production growth? And then, obviously, the results of that would be higher capital spending and how you would balance that with your dividend?

And then related to that is, have your maximum debt target levels changed when you take that into account?

And then, when you're looking at that and you're looking at capital associated with Sunrise and some other longer-term projects are there any plans to do any sort of hedging going forward?

ASIM GHOSH:
Let me take the first part of it first. So, really on the dividend issue it is something we -- as we have told you before, we actually look at it every quarter. Okay, we look at it quarter-to-quarter, and every time we make a decision, we believe we make decision because it is affordable at that time.

But, let me put a larger perspective on that. While we've increased the capital it's because we have a conservative balance sheet and that balance sheet allows us to do that and Alister in his part of the conference call alluded to some specific metrics around that.

The second part of the balance sheet, we didn't talk about as explicitly during this call, but I did talk to every one of the analysts I've met over the last several months, is that we have a very, very rich resource portfolio. And so, yes, we have a financial balance sheet, but we also have a resource balance sheet. And that in terms of -- so the extra capital we've been able to do so far, we've been able to do comfortably within our existing balance sheet because we were underleveraged. And it was a very conscious part of our taking on more leverage to improve our RAC. Everyone would be crazy not to take advantage of the present borrowing environment, to take advantage by taking on more leverage, well within the realm of financial discipline.

But going forward we also believe we have the opportunity to modernize some of our resource base to bring in partners to be able to mobilize -- development capital.

KAM SANDHAR:
Okay. And then I guess a follow up to that would be, when you say “monetize the resource base,” I'm assuming you're referring to potentially looking at JV’ing some of your opportunities --?

ASIM GHOSH:
I think that would be one of the strategies. I think there's a broader strategy of monetized resource base, but a specific sub-strategy would be JVs. There could be others. We may have properties that are more valuable to others than they are to us. So, it could be some minor divestments, et cetera, etcetera.

So I don't want to box myself into a corner at this specific approach. But broadly speaking, it's basically a property is more valuable if it's developed earlier than later. It's a simple NPV calculation. And there's no point sitting on what you consider family silver in the vault if it's just locked up in a vault and tarnishing.

KAM SANDHAR:
Okay. And then just another question on when you're looking at acquisition opportunities; is your plan to continue to focus on Western Canada, or do you view the US as an area where you would look to expand that resource base?

ASIM GHOSH:
I spoke -- I used the theme of strategic contiguity in the last call, let me amplify on that, and then I'll give you a bit more color on this.

By strategic contiguity, the simplest explanation would be something adjacent to what you have, something that uses your existing facilities, existing -- it uses your manpower resources, etcetera. So, that would be the tightest (inaudible) strategic contiguity.

But the reason I use the words “strategic contiguity”, as opposed to synergy, was because if you have a very specific knowledge base that you think you can use gainfully elsewhere, we would do that. So, therefore if there was something we have a very specific area of expertise, such as, for example, as we do in chops technology. And if you were to find a chops field in the US where we can apply chops technology then that would fit our criteria.

But, having said that, clearly, the tighter the better. But I don't want to rule out something that really builds on a very exist -- very -- on a competitive core competence of ours. But broadly, I would say the prime focus is Canada.

Now, there is a caveat to that, if I were to get something -- this is in the area of incremental investments, and that's all we're looking at and that's all we're focusing on. So at this point in time we're sticking to the knitting, because we've got a job to do here, now.

I don't in the longer term want to rule out something defining and something bigger and that -- then the rules change because it would have to have a different set of strategic criteria, but that is not the intent at this point in time. Okay, so I hope that answers your question.

KAM SANDHAR:
One other -- just -- I wanted to get your comments on hedging and what your view is on that going forward?

ASIM GHOSH:
Broadly, we have not been, historically, been hedging oil, and we believe that if you're in the business you ride the cycles of the business because you -- at the end of the day hedging is a cost. Okay, and -- so you have to -- somehow you have to assume that you're smarter in terms of predicting the future than somebody else is.

So that's a broad answer. Having said that, there are some specific exceptions and we have an open mind to that. But we haven't done that yet, and that's to do with things like forward steps on gas, etcetera. But clearly, this is the wrong time to do that.

So I would broadly say that we are inclined not to hedge, but if there was some very specific -- our refinery strategy and our upgrader strategy is our way of hedging on differentials for example.

But that's an operational hedge as opposed to a financial hedge. If the -- we would consider hedges in some specific instances, for example, we consider hedging in the context of a major acquisition to assure returns for the short term. And we would -- when the strips are right on gas we will consider it, but at this point our broad strategy is hedging has too many exceptions now, to the general rule.

Alister you want to speak further to that?

ALISTER COWEN:
No, I think that's a fair statement. You know, clearly, if we were, as Asim said, if we were embarking on a major acquisition, then we would look to try the initial reserves of the cash that was coming in, in the first few years. So that would be the general feeling. It's not something that we would typically do. It's an exception to the rule.

KAM SANDHAR:
Okay. Thank you.

OPERATOR:
The next question is from John Kohler of HSBC. Please go ahead.

JOHN KOHLER:
Good morning, guys. Three quick questions. The first one is, you identified that again your leverage was currently below your target and that you wouldn't mind considering increasing your leverage. Could you just remind me what your leverage target is at this point?

ALISTER COWEN:
We're looking at targets of leverage as 25% to 35% debt cap. And for a debt to cash-flow it's 1.5 to 2.5 times.

JOHN KOHLER:
Great. And the second question is, would you be willing to sacrifice your current debt ratings as you pursue your acquisition strategy?

ALISTER COWEN:
I think as we have said before and we'll say it again; that we are very conscious of the benefits of having a strong balance sheet and credit ratings, solid investor grade credit rating. It's, clearly, a delicate balance that we have to place. Certainly, from our perspective, it's preferable to retain the strength that we have today.

JOHN KOHLER:
Okay. And in the third question is you identified that you still are considering the disposition of the Southeast Asia assets.   And in that process are you considering in the either spin-off or IPO or whatever form it takes, disposing of those assets with leverage or without leverage on a playing basis?

ASIM GHOSH:
I think what I said was, it is a subject the Board is considering. That there are pros and cons, and when the Board has a point of view, we will let you know.

So I think to say the Board is considering the pros and cons, is different to us from saying that they're considering the spin-off. Because that implies that we have our mind made-up and are predisposed to an answer. The real situation is it is simply a matter of examination. We're not predisposed to either answer at this point in time.

JOHN KOHLER:
Right. But either -- whichever direction you go, would it be on a leveraged or unleveraged basis? Or is that decision hasn't been --?

ASIM GHOSH:
It's academic at this point in time. We're preempting an outcome which we don't know what it will be.

JOHN KOHLER:
Great. Thank you.

ASIM GHOSH:
Thank you.

OPERATOR:
Your next question is from Eric Busslinger of Marret Asset Management. Please go ahead.

ERIC BUSSLINGER:
My question has been answered. Thank you very much.

OPERATOR:
The next question is from Pat Roche of Daily Oil Bulletin. Please go ahead.

PAT ROCHE:
Hi, EOG Resources has said that it has reached agreements to sell a substantial amount of shallow gas assets to three different companies. I was just wondering if Husky is one of the buyers, and if so, if you could share some of the details?

ASIM GHOSH:
Well, when we make a material acquisition, we will make an announcement. And we will not comment at any point in time, as a matter of general policy of work, on any work in progress, anyway.

So, basically all I can say is you know what we know and what we're in a position to tell you.

PAT ROCHE:
Okay. Thanks.

OPERATOR:
The next question is from Shaun Polczer of Calgary Herald. Please go ahead.

SHAUN POLCZER:
Hello, I was wondering in terms of the extra capital spending that you have for 2010, how much of it is related to additional growth, and how much is related to higher costs, if that is indeed the case?

ASIM GHOSH:
Sorry, I missed the last part. How much is related to what --?

SHAUN POLCZER:
Cost, higher costs.

ROB PEABODY:
It's I mean the short answer is, it's all related to growth. We haven't seen any escalation in the cost, our unit cost of doing things. There's pluses and minuses in that, but overall --

ASIM GHOSH:
Grand balance, none of it is related to higher costs.

SHAUN POLCZER:
Okay. Thank you.

OPERATOR:
We have no further questions. I'll turn the call back over to Rob McInnis.

ASIM GHOSH:
Well I just, before Rob -- before -- I just wanted to thank you for joining us on the call. And thank you for your questions, good questions and we remain available outside of this call.

You guys know whom to call and we're always available to clarify where we stand. Thank you.

ROB MCINNIS:
Thank you everyone. And as Asim, mentioned, if there are any additional questions or comments, please do not hesitate to follow up with myself offline. I'd be happy to help you out. That's all we have.

OPERATOR:
Ladies and gentlemen, this concludes today's conference call. You may disconnect your telephone. Thank you for joining and have a pleasant day. Good-bye.