FINAL TRANSCRIPT

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CORPORATE PARTICIPANTS

Robert Peabody
Husky Energy - COO - Operations and Refining

Alister Cowen
Husky Energy - VP, CFO

Terrance Kutryk
Husky Energy - VP - Midstream & Refined Products

Rob McInnis
Husky Energy - Manager - IR

Asim Ghosh
Husky Energy - President, CEO

CONFERENCE CALL PARTICIPANTS

Greg Pardy
RBC Capital Markets - Analyst

Mark Polak
Scotia Capital - Analyst

Paul Cheng
Barclays Capital - Analyst

George Toriola
UBS - Analyst

Menno Hulshof
TD Securities - Analyst

Garland Buchanan
Babson Capital Management - Analyst

Mike Dunn
FirstEnergy Capital Corp - Analyst

Harry Mateer
Barclays Capital - Analyst

Carrie Tate
Globe and Mail - Media

Justin Amoah
Argus Media - Media

Gene Laverty
Bloomberg - Media

PRESENTATION

Operator

Hello this is the Chorus Call conference operator. Welcome to the Husky Energy fourth-quarter 2010 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. (Operator Instructions).At this time, I would like to turn comfort over to Rob McInnis, Manager of Investor Relations. Please go ahead, sir.

Rob McInnis - *Husky Energy - Manager - IR*

Good morning, everyone. Thank you for joining us to discuss our 2010 fourth-quarter and year-end results. As before, with me today are CEO Asim Ghosh, CFO, Alister Cowen, COO Rob Peabody, our Vice President of Midstream and Refined Products, Terrance Kutryk, and our Vice President of Downstream, Bob Baird. In today's call, we will provide an overview of Husky's business strategy and results. Please note that today's comments contain forward-looking information. The actual result may differ materially from our expected results because of various risk factors and assumptions that are described in our quarterly release and in our annual filings. These are available on SEDAR, EDGAR and on our website. I'll now turn the call over to Asim.

Asim Ghosh - *Husky Energy - President, CEO*

Good morning. Thank you for joining us. This is my third quarterly conference call with you. And in that short time, we have had a significant amount of news to share. Basically, our position as a bearer of transition and of heightened activity for Husky and the Company is quietly pleased that we have accomplished a number of financial and operational goals that we set out to achieve.

Just to recap on some of these, on my first conference call with you, I said we need to take immediate action to stabilize production and accelerate value for market opportunities, and on that front, since that time, we have executed CAD1.2 billion in acquisitions that add immediate deploying barrels and added deliver immediate value to our shareholders. Refresh your memory, on September we announced the purchase of Natural Gas Properties in West Central, Alberta, near our Ram River Gas Plant. That purchase was completed and began contribution of production in December. We followed that deal with an announcement that we reached an agreement to purchase CAD860 million of oil and gas properties from ExxonMobil. That deal closed earlier this month. Together, on a full run-rate basis, these acquisitions add about 33,000 barrels of oil equivalent per day and most importantly, given the oil component in particular, they have an attractive rate of return, even at today's prices. So much for the inorganic side.

On the organic side, we increased our capital spending during the last year by about CAD500 million to bring forward some of the most attractive and immediate accretive production opportunities to invest in Western Canada. The end result of that is we have succeeded in stabilizing production, which was our near-term goal. Our proof of this would be December production which is 292,000 barrels to be specific a day in December and as we go into the next quarter, I do flag to you that the quarter was affected by a number of scheduled turnarounds and a couple of factors outside of our control in terms of third-party processing plants and the like, but December would be good representative of where our run rate is today. As the acquisitions close, and the organic investments kick in, to show growth from here on in into the next few quarters.

We also have an Investor Day conference in early December where we outlined our five year plan with you, which sets out very clear financial and operational metrics. Just to refresh your memory, it caused steady production growth, coming from a base of stabilization, and major investments in the pillars of the oil sands, the planned accretion in southeast Asia. It caused the continuation of our attractive dividend yield, and as part of the strategy, we brought forward a comprehensive financing plan, which insures that we have the capital to require to fund these initiatives while maintaining our investment grade rating. In addition to the CAD816 million Exxon acquisition, the acquisition closed last year, so that's expected last year, it calls for a CAD4 billion capital program in 2011, which will allow us to build on the momentum that we had achieved so far in (inaudible) near-term production.

Other developments in the quarter include the sanction of the Sun Right Energy Project. The successful conclusion of negotiations with our partners in their Terra Nova project, which will see us increasing our ownership 12.5% to 13%. Advancement of the Liwan Deepwater Natural Gas Project in offshore China, and the sale of a small non-core oil sands lease in line with our overall strategy of looking at non-core assets, which will allow us to deploy capital into hybrids and opportunities with our off stream portfolio. So, in summary, I think we have achieved a lot in the last eight months but I do hope to show you we have not finished, we see it as a work in progress, and we are at the stage where the work has just begun.

Alister, in a moment, after me, will get into the details of our financial and operating results for the fourth quarter and the year, but I just want to highlight a couple of headline metrics. For the year, cash flow increased by 42% to CAD3.5 billion, and in the quarter, it grew by 58% versus the same period last year. Net earnings in the quarter were CAD305 million, a19% improvement over the previous quarter. Production for the year was 287,000 barrels of oil equivalent per day, which was in line with--which was within our guidance. But more importantly, this was not a representative quarter if you look at the quarterly production, because we did have some significant turnarounds and perhaps we believe December would have been the one month not effective by turnaround, and that was 292,500 barrels per day. The picture you see is one of steady improvements on key financial and operational fronts.

Now that I have worked with the team for eight months, I'm in the position to express confidence in our ability to execute on our strategic plan and the corollary of that is to deliver on shareholder value. Over the last eight months to summarize, we have set out clearly-defined costs and successfully completed the first key steps. I will basically say that everything we said to you that we would achieve in the first eight months, we have achieved. The projected increase in production, we believe, that the projected increase in production under the term capital deployed, combined with our attractive dividend yield, represents a compelling, relatively uniquely positioned balanced growth story for our shareholders, and on that note let me hand over to Alister to take you through the quarter's financial results.

Alister Cowen - *Husky Energy - VP, CFO*

Thanks, Asim. I'm going to comment first on the financial highlights for the fourth quarter and then I will make a couple of comments on the annual results. Overall, the fourth quarter results were strong, considering there were a number of offsetting external factors. On crude oil and gas pricing, higher realized light crude oil prices were offset by continued weakness in natural gas pricing, and a stronger Canadian dollar. We do continue to benefit from a product mix which is approximately 70% weighted to oil production.

We did have lingering effects of the Enbridge pipeline disruptions, which continue to have an impact, mainly in respect of higher heavy oil differentials. And other results in the quarter medium, heavy and bitumen realized prices were actually lower than Q4 2009, and the impact on net earnings is estimated at CAD70 million in the quarter, or CAD53 million for the year. Our midstream team was able to mitigate the adverse effects to a large degree by moving volumes to different pipelines, thereby avoiding shut-in production in upstream and upgrader production slowdown's. However, as a result, our crude oil inventory in transit increased by 3 million barrels in the quarter. That was about CAD268 million worth. We will realize that as we sell that inventory down over the next few quarters.

The downstream business benefited from a number of positive factors in the quarter, including higher market crack spreads in both Canada and the US. A strong national pricing and higher sales volume, and an improved upgrading differential. The settlement of the Terra Nova predetermination resulted in an after tax gain of CAD32 million, which was recorded in the upstream segment. Looking at production, during the quarter, production averaged 280,500 BOE per day, which was in line with our forecast for the year of production average 287,100 BOE per day. The production in the quarter was impacted as Asim said, by a scheduled turnaround at White Rose and North Amethyst, and that production is now back up and running in December. We did have some unexpected outages at the Caroline gas processing plant and some pipeline restrictions in the federal area which reduced our gas productions during the quarter. With the addition of the Ram River properties at the beginning of December and increased production and return, White Rose, we exited the year at 292,500 BOE per day.

The financial highlights for the quarter were our cash flow from operations increased 41% to CAD1 billion, CAD1.21 per share in the fourth quarter, compared to CAD667 million or CAD0.77 per share a year ago, and CAD811 million in the third quarter. This is partly due to the normalization of cash taxes in 2010, and earnings of CAD305 million or CAD0.35 per share compared to CAD334 million or CAD0.38 per share in earnings in Q4 2009. And the fourth quarter earnings showed an improvement on the CAD257 million in net income which we reported in the third quarter of 2010.

For the year as a whole, our financial results benefited from stronger oil prices. These were offset by weak natural gas prices, the stronger Canadian dollar, weaker refining margins and the Enbridge pipeline construction. Production was lower than in 2009, but as I said, we did end the year with production stabilized at 292,500 BOE per day and is now on an increasing trend. Net earnings for the year were CAD1.2 billion compared to CAD1.4 billion dollars in 2009. Total sales and operating revenues, net of royalties, were CAD18.2 billion up from CAD15.1 billion a year earlier.

From a balance sheet perspective, we continue to operate with a strong financial position, and are well-positioned to support the growth strategy that Asim has outlined. Our total debt at the end of 2010, net of cash and cash equivalents, was CAD3.93 billion, but more importantly, our debt to cash flow and debt to capital deployed ratios at December 31, 2010 were 1.2 times and 20.3%, respectively. As part of the comprehensive financing plan that Asim mentioned earlier, a special meeting of shareholders will be held on Monday, February 28. At the time, shareholder approval will be sought to modify the terms of the Company's common shares to allow shareholders to receive dividends in cash or in shares of their option. This proposal will free up additional cash during a period of substantial growth, and has the support of the Company's principal shareholders. The dividend for the fourth quarter is expected to be declared by the Board, following the February 28 shareholder meeting. Now, let me turn you over to Rob to comment on our upstream operations.

Robert Peabody - *Husky Energy - COO - Operations and Refining*

Thanks, Alister. We continue to put a major focus on process safety at Husky. As part of this effort, we track a number of process safety metrics across the company. Something we watch closely is the status of all of the required inspections on pressure equipment. In 2010, almost 5,000 separate pressure equipment inspections were identified and completed in order to assure us we were in compliance or even beyond compliance with regulatory requirements and good operating practices across our facilities. In terms of occupational safety, we ended 2010 with a recordable injury rate of 1.1 just slightly above our target of one. During the year, we also completed large turnarounds at the Upgrader, the Lima refinery and on the SeaRose without any significant incidents.

Turning to production, 2010 marked a year of heightened activity. In addition to starting production from our North Amethyst field, we took definitive action to increase near-term production in western Canada through acquisitions and organic growth as Asim described earlier. At the same time, we achieved significant milestones on the road to delivering our mid- and long-term growth plans.

Looking first at the foundation in western Canada, in the first quarter, we drilled 357 exploration and development wells,more than double the 170 wells we've drilled in the same period of 2009. In our gas resource play activity, and just reminding, a big focus on our gas resource play activity is to focus on our liquids-rich gas resource plays in order to focus on improving netbacks going forward, we continue to accelerate the development of the Ansell Galloway play, which is liquids-rich, six drilling wells were active in the fourth quarter, and 12 Cardium formation wells drills were drilled and a further six exploration wells drilled to test the deeper multi-zone potential in the area. At Kakwa, another liquids-rich resource play, the first well in a three-well program was started at the end of the year. This program is aiming to test the same formations as our exploration and development program at Ansell. We also continue to selectively add to our land base to support our gas resource strategy, and we also initiated 3D seismic programs at Ansell, Komie in the Horn River, and in the Sierra area.

Just want to move on now to our activity in terms of going after oil resource play areas on our existing land base. This is an exciting area for us, given that we've identified a number of these plays on our existing land base. We also established a dedicated team to drive this work within the Company. Among our activities in the fourth quarter, three Viking wells were placed on production in the Dodsland/Elrose area of southwest Saskatchewan, bringing the total number of producing wells to 14. Seven Viking wells were also drilled at Red Water, Alberta, in the quarter, bringing the total number of wells drilled in 2010 to 23.

The Company also continues to be an active operator in the lower Shaunavon and Bakken zones of southern Saskatchewan. Three horizontal wells were brought on production in the lower Shaunavon, with three additional wells planned for the first quarter. In the Bakken zone, four successful horizontal wells were drilled, with two brought on production and two more expected to be producing in the first quarter. Moving to our heavy oil activities in the Lloyd area, we continue to expand the use of horizontal drilling. This technology greatly increases our ability to exploit thinner horizons. 47 horizontal wells were built in the fourth quarter bringing our total in 2010 to 101. A little over 100. This is triple the number of horizontals drilled in 2009, and we have plans to drill up to about 140 in 2011.

While I'm talking about our business in Lloydminster, let me update you on the status of our operations at the Lloydminster Upgrader. As reported, we experienced a small fire on February 2nd in a unit which supplies product to the coker. The incident was immediately and effectively managed, and there were no injuries or environmental impacts. Following an investigation, the cause of the fire was determined, a fuel pipeline froze and burst, and fuel was sprayed onto some hot equipment. The damage is not extensive, generally instrumentation and valves, and orders have been placed for the replacement equipment. The Upgrader is currently operating at between 40% and 50% of capacity, and based on our current schedule for this repair, we expect the Upgrader to return to full capacity in early March.

Moving on to oil sands. The first of our growth pillars, the Sunrise energy project was formally sanctioned in the fourth quarter, and approximately CAD1.5 billion worth of contracts were awarded. These contracts covered the central facilities, the field facilities, and the drilling and completion of wells. Both the central facilities and the field facilities contracts include a large proportion of lump sum and unit rate elements.

We continued to make progress in addressing production challenges at the Tucker Oil Sands project. We drilled 16 well pairs in 2010 and three new-design well pairs were brought on production. Five additional well pairs commenced steaming in 2011. Tucker exited the year at 6,100 barrels per day, and just to put this into perspective again, when we originally sanctioned Tucker, we were looking at bitumen prices that were half of what they are today and gas prices that were forecasted to go to double what they are today or beyond, and so we needed about 30,000 barrels a day of production in order to make a reasonable rate of return. Looking at the project today, a production rate less than half of that would give us the same return that we were originally looking for. So, we are on the road to moving this project forward, and hopefully to the point where we can achieve the returns we originally set out to achieve.

Moving onto the Atlantic region, production continues to ramp up at our North Amethyst field, our first White Rose satellite project. Production averaged 18,160 barrels per day gross in the fourth quarter and since that time, production has increased to more than 30,000 barrels per day gross and with the addition of our second injection well, early that came on production early this year. At Terra Nova, we successfully concluded the negotiation to increase our interest from 12.5% to 13.5% as we noted earlier -- 13%. Okay. In southeast Asia, we signed an agreement during the quarter with [Sinoc], specifying key principles of cooperation for funding and operating the Liwan 3-1 deep-water gas development and shallow water facilities. First gas is anticipated in late 2013, and ramping up to 2014.

During the quarter, we also received approval from the government of Indonesia for a 20 year extension to the existing Madura Straits production sharing contract. Husky and its partners are moving forward with plans to develop the Madura BD gas field with the engineering tendering process expected to begin in early 2011. So in summary, we made substantial progress on the production front in 2010, and we continue to advance the medium- and long-term projects that underpin our 3% to 5% growth target.Now I would like to turn you back to Rob McInnis, who will ask for questions.

Rob McInnis - *Husky Energy - Manager - IR*

Thank you. Operator if we can first open it up first for analyst questions and afterwards for media questions?

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). First question is from Greg Pardy of RBC Capital Markets. Please go ahead.

Greg Pardy - *RBC Capital Markets - Analyst*

Good morning. Just a couple of questions. With respect to western Canada, Rob, you mentioned a number of different plays you're involved with. Which ones do you see as really being key in terms of moving the needle production-wise and what do you think the timeline looks like. That would be question one, and secondly with respect to Liwan, there's details outstanding, what kind of gas price you're getting and what are the fiscal terms. Will the development plan then that you'll be filing in the first quarter really address those missing pieces?Thanks very much.

Robert Peabody - *Husky Energy - COO - Operations and Refining*

Let me just tackle first one on western Canada. A number of key plays clearly. I think the first one I would really point out that we think can move the needle is the Ansell play. This is a liquids-rich multi-zone play. We see a lot of potential there, moving forward. So, that one has definitely the potential to move the needle on gas production, and liquids production in fact.

In the oil resource area, there's a number of plays, and some that I'm not going to discuss today, but clearly you can see our activity in the Viking, the lower Shaunavon, the Bakken. I think in total, these all have the potential and certainly an aggregate to move the needle on our oil production in western Canada, and as I say, we're getting, as we've kind of gone down this road, we're seeing more potential. We've assembled a team to really focus on this, and I think we'll able to drive this activity forward strongly over the next couple of years.

Greg Pardy - *RBC Capital Markets - Analyst*

Rob, when you say move the needle, is that 5,000, 10,000 barrels a day, 15,000 barrels a day?

Robert Peabody - *Husky Energy - COO - Operations and Refining*

More than that.

Greg Pardy - *RBC Capital Markets - Analyst*

And what about timelines? You guys have -- it looks as though you have a fairly conservative guidance outlook just given the acquisition from Exxon did include some liquids production. I guess we're struggling with the numbers as to whether you're sandbagging us, based on the other plays that you have going. I want a better handle as to what would we expect to see out of Canada, maybe from o the standpoint of even an exit rate.

Asim Ghosh - *Husky Energy - President, CEO*

To be fair, Greg, you have to keep in mind that there is an underlying decline rate in western Canada. And I've heard all kinds of numbers around in the industry, among industry experts, but certainly the underlying decline rate is somewhat in excess of 20%. Think of it in excess of 20%. Our objective frankly, is to give you realistic guidance. It's not to either overstate or sandbag, and those are the two factors you have to keep in the cards. We have new deposits coming on board, that could give us upside, to find the acquisitions but it's offset by a decline rate.

Greg Pardy - *RBC Capital Markets - Analyst*

Okay, thanks, Asim.

Asim Ghosh - *Husky Energy - President, CEO*

You had a question on Liwan? You said there are number of factors, but Rob, why don't you take that one as well?

Robert Peabody - *Husky Energy - COO - Operations and Refining*

Okay, Greg, just on Liwan. Clearly there's a number of outstanding issues there. There's a gas sales agreement. There's the development plan to be filed, and then the formal sanctions by both partners. Meanwhile, quite a lot of activity, of course is moving ahead, including the drilling of some of the development wells, which our partner is also helping to fund. So all of those things are going to come together this year, hopefully in the first quarter, and that's all being kind of worked towards completion, but you can imagine in the final throes here, whether it's one week or one month or the other, there's a number of moving pieces to be brought together.

Asim Ghosh - *Husky Energy - President, CEO*

I just want to point out one thing, Greg, in the particular Asian contest compared to what you are used to. Here there is the sequential sanction and work progresses and out there, there is a more formal relationship and some of the work is progressing even though we have not announced formal sanctions. So, it's not as sequential as we are used to seeing. It's something to keep in mind.

Robert Peabody - *Husky Energy - COO - Operations and Refining*

Just to add to that. The work is still on track for first gas. So, nothing is impeding that so far.

Operator

The next question comes from Mark Polak of Scotia Capital. Please go ahead.

Mark Polak - *Scotia Capital - Analyst*

Thanks, just a couple of follow-ups on that. I was wondering specifically on the Liwan sales contract negotiations, if you could give us any kind of update or color on that in terms of timing, are you thinking that's going to be oil linked prices or basket of different contracts for those sales?

Alister Cowen - *Husky Energy - VP, CFO*

Mark, I'll answer that one and clearly, we're progressing those discussions. They will be oil-linked pricing and we would expect to be hoping to close those in the next couple of months, and as we get the details of those, we'll clearly be telling market what they are, but a sensitive time for negotiations, should be oil-linked.

Asim Ghosh - *Husky Energy - President, CEO*

That's about all we can say at this point and time.

Mark Polak - *Scotia Capital - Analyst*

That's helpful, thank you. In terms of now that you have a number of wells into the Viking, wondering, Rob., if you can provide any update on what kind of production rates you're seeing both at Dodsland and at Red Water?

Robert Peabody - *Husky Energy - COO - Operations and Refining*

Just in general terms. I won't get too specific but in general terms, these wells tend to come on. Now they're quite variable. One of the things -- and I say they're quite variable, as they're very dependent on the completion technology, and one of the things -- one of the steep learning curves in this area is actually the completion technology for the individual formations, but what we've seen is where we bring these on, is they tend to come on between 150, 300 barrels a day, even higher. They do decline rapidly in the first month, and by the end of the first month, you're often down 40%, 50% of your production and then they stabilize. So.

Mark Polak - *Scotia Capital - Analyst*

That's great and like you said, you're still fine tuning the completion there, the number of fracs and so on. Is that a fair assessment?

Robert Peabody - *Husky Energy - COO - Operations and Refining*

Absolutely. We say there's a good learning curve there and we're seeing better and tomorrow recalls as we go along.

Mark Polak - *Scotia Capital - Analyst*

Thank you.

Operator

The next question comes from Paul Cheng of Barclays Capital. Please go ahead.

Paul Cheng - *Barclays Capital - Analyst*

Thank you. Gentlemen, a couple of quick questions. Can you guys share with us what is the current CapEx outlook for Liwan and the gas project?

Asim Ghosh - *Husky Energy - President, CEO*

CapEx outlook for Liwan and gas project.

Alister Cowen - *Husky Energy - VP, CFO*

I think we're -- that's something, Paul, that when we announce the formal sanction, and we'll be bringing together the gas prices, the CapEx and that. At this point we're still finalizing it.

Asim Ghosh - *Husky Energy - President, CEO*

I don't think we've given guidance on that, Paul, in a position to get back to us on that at this point in public disclosure, at this time.

Paul Cheng - *Barclays Capital - Analyst*

Okay, and I think earlier that you mentioned in some of the view without CapEx the underlying decline curve maybe in the cost of 20%. What is the base decline curve that you are kind of using in your model after the substantial capital but before new projects? Are we talking about 5%? 10%? Or 7%. Is there any kind of run rate that you can share with us?

Robert Peabody - *Husky Energy - COO - Operations and Refining*

Okay, Paul. It's clearly a difficult question because I think you're kind of putting a number of things together. The 20 to 25% decline rate curve, as Asim referenced earlier, was a typical western Canada decline rate curve, and now -- I mean there's a sustaining amount of capital to spend and there's well optimizations that we do which do cost capital which allow us to get lower decline rates out of individual curves, and a good example is in Lloydminster where we do lots of optimization to mitigate the underlying decline rate of a typical heavy oil well, which is again, between 20% to 25% but by going in and doing optimizations and recompletions we can keep those decline rates at lower levels. So it's a bit a combination across the portfolio of optimization, et cetera. It's hard for me to give you a blanket number or something exactly.

Paul Cheng - *Barclays Capital - Analyst*

If that's the case, can you give us a number, say what is the conventional oil and gas in western Canada and what is in the eastern and what is in the heavy oil?

Robert Peabody - *Husky Energy - COO - Operations and Refining*

You mean production volumes?

Paul Cheng - *Barclays Capital - Analyst*

No, in terms of the decline curve --

Robert Peabody - *Husky Energy - COO - Operations and Refining*

As Asim said earlier, decline rates are in western Canada, and this is industry data, not just Husky. You'll find it pretty consistently across the industry between 20% and 25% --

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Paul Cheng - *Barclays Capital - Analyst*

I understand but I'm talking about after the sustainable capital. After your optimization -- can you share with us what may be the base decline curve after your optimization, in sustainable capital say in western Canada. --.

Robert Peabody - *Husky Energy - COO - Operations and Refining*

Okay, Paul. Let's maybe take this offline. I think this is going to be a very long answer.

Paul Cheng - *Barclays Capital - Analyst*

Okay. Sounds good and can you tell us in Sunrise, what is the percent of the engineering work that has already been completed at this point?

Robert Peabody - *Husky Energy - COO - Operations and Refining*

We have just started the detailed engineering work that started over the Christmas period, like the feed engineering is complete. This is the E in the EPC. So this is the main detailed engineering and that started over the holidays, and so it will be at a relatively low end at the moment. I don't have the precise number --

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Paul Cheng - *Barclays Capital - Analyst*

You think you already have contract out $1.5 billion of the contract?

Robert Peabody - *Husky Energy - COO - Operations and Refining*

Yes, and that's the contracts for the central plant, which was -- which went to Sam Ferret, and that was in that $1 billion range and that's for the complete engineering procurement construction of the central plant. And a similar contract for the field facilities, and then finally the contracts for the drilling and completion and we have started drilling the wells at Sunrise now.

Paul Cheng - *Barclays Capital - Analyst*

Is there any risk given the detail engineering is only at the beginning start and you already have sort of fanned out $1.5 billion of the contract. And also, it seems in the oil sands industry we started seeing some emergence of the cost inflation pressure. Wondering if you guys can share with us what initiative that you are taking to control the costs in this case?

Robert Peabody - *Husky Energy - COO - Operations and Refining*

Just very briefly and we pointed this out before. The contract includes a very high -- these contracts, the central facilities and field facilities include high elements of fixed price and unit rate components, and unit rate just means that the productivity issue is left with the contractor, not with Husky. So we'll pay for certain numbers of wells. It's all based on quantities, and again, I would just point out that we did a very thorough job on the front-end engineering design so that we had a very good fix on quantities at this plant.

Paul Cheng - *Barclays Capital - Analyst*

Okay, very good. Two final questions. One Enbridge pipeline problem. The impact of you guys continue the backlog, or is it pretty back to normal?Second one, is there guidance you can share with us in terms of topic expense per quarter going forward, what would be a normal run rate that we can use? Thank you.

Asim Ghosh - *Husky Energy - President, CEO*

We don't we answer the Enbridge question, Terrance, and I'll request on that note that we move on because we've got a number of other callers in line. To be fair to them, why don't you answer this one first, Terrance and then we move on?

Terrance Kutryk - *Husky Energy - VP - Midstream & Refined Products*

Enbridge has a remediation program in place now. So a period of several weeks, and so those are relatively minor in nature.

Asim Ghosh - *Husky Energy - President, CEO*

Okay, next question?

Operator

The next question comes from George Toriola of UBS. Please go ahead.

George Toriola - *UBS - Analyst*

Okay, thanks. Good morning, guys. Two questions. The first is, this sort of follows up on the decline question that had been asked before, but I'll ask this differently. So essentially, the question is the combination of the acquisition from ExxonMobil and the activity that you are going to take on this year. Are you confident that model offsets declines your western Canadian production base?

Robert Peabody - *Husky Energy - COO - Operations and Refining*

One, the answer to that is yes, and the second one is we did give out guidance for this year, and we feel we're tracking guidance very well.

George Toriola - *UBS - Analyst*

Okay. Thank you. And then the second one is just, again it's a bit of an expansion of the earlier comment. Now, just in terms of the ramp up of activity just in the heavy oil business in general,clearly, there's inflation on the horizon here. So broadly speaking, what's the strategy here? Are you going to look to contract early. Are you going to look to fix the price contracts? What is the strategy that you're going to deploy in containing inflation here?

Asim Ghosh - *Husky Energy - President, CEO*

Okay. Good question. CapEx efficiency is something they're very focused on, and obviously, I can't really conduct my recommendations on an open line, but the short answer is, we look at everyone of the items we mentioned and there are different tactics for different projects but broadly speaking, we are interested in pursuing CapEx spend efficiency aggressively.

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We require senior level work teams, in fact, I've got a meeting with my senior management planned, tomorrow, a start of an ongoing process of this very subject.

And broadly, if you look at CapEx, there are a few standard principles that go across industries. There are some basic principals of purchasing. There are principles of aggregation, there are principles of competition. There are principles of risk management through a combination of fixed price and unit price, and we get to take all of them.Okay. So, in a nutshell, this is high priority project for us. High priority focus area for us.

Operator

The next question comes from Menno Hulshof of TD Securities. Please go ahead.

Menno Hulshof - *TD Securities - Analyst*

Good morning, gentlemen. I have a two-part question on Mizen, off of the east coast. I understand that Statoil hasn't released anything on the discovery, but can you talk us through the appraisal program for the next couple of years, and if there's any regulatory issues that we need to concern ourselves with, and the second part of that relates to geography. Given that it's 500 kilometers off-shore, would you have any thoughts how that ultimately gets developed, assuming it's even big enough? Thank you.

Robert Peabody - *Husky Energy - COO - Operations and Refining*

Okay, Menno, just quickly on Mizen, the appraisal program that we're going to drill a well are -- or the plan is to drill a well in later this year for Mizen, and this will be a delineation well for Mizen, after the original discovery of course, we were awarded the discovery license last year. It was the largest SDL ever awarded in Newfoundland. Clearly, we won't be moving forward if we weren't, both Statoil and ourselves, if we weren't feeling that this project would be commercial if we get the results we're expecting.

Operator

The next question comes from the Garland Buchanan of Babson Capital Management. Please go ahead.

Garland Buchanan - *Babson Capital Management - Analyst*

Thank you for taking my question. My question regards your guidance around CapEx. You're looking for just under $4.5 billion in the upstream. Can you give any update on the downstream with respect to Toledo, and whatever guidance you have around the midstream for 2011?

Terrance Kutryk - *Husky Energy - VP - Midstream & Refined Products*

The Toledo repositioning project is currently well advanced and well underway, and it's basically progressing in accordance with what we're expecting it to be this year. With respect to other elements, the majority of the work that's going on in our midstream and downstream areas is associated with ongoing maintenance and sustainment activities and that forms the fundamental basis for that.

THOMSON REUTERS

Asim Ghosh - *Husky Energy - President, CEO*

I just want to refresh your memory on what I said at the investor day, to position to various parts of our business in context, and the first point I would like to make is that we do not see ourselves as an integrated company in the conventional sense of the term, but our Midstream and Downstream assets exist to support those specialized areas of the upstream, which requires specialized support. Namely, the fact that we have heavy oil and the fact that we are going to be in oil sands to require certain specialized capabilities.

The second point I would like to make is in terms of that, the investments that were made, we are basically in the near term concentrating on high-return projects to keep the optionality of the upgrading right and the right timing. In the context of this immediate five-year time frame, we do not -- we have enough capacity at Toledo to handle material part of phase one of Sunrise. So those two factors I would like you to keep in mind, to understand the picture going forward in the project time frame.

Garland Buchanan - *Babson Capital Management - Analyst*

So just to be more specific then, in between the downstream and midstream, what's your expected CapEx for 2011?

Alister Cowen - *Husky Energy - VP, CFO*

The extended CapEx for mid and downstream is just under $500 million for 2011.

Garland Buchanan - *Babson Capital Management - Analyst*

Okay. And then so that takes you to a total of around $5 billion. Can you just bridge that between --

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Asim Ghosh - *Husky Energy - President, CEO*

Sorry, $4.5 billion.

Terrance Kutryk - *Husky Energy - VP - Midstream & Refined Products*

$4.8 billion.

Asim Ghosh - *Husky Energy - President, CEO*

$4.8 billion including --

Garland Buchanan - *Babson Capital Management - Analyst*

Okay, so the $4.8 billion. Can you just bridge how you're going to get to that between where you expect cash flow from operations to be and any kind of asset sales?

Alister Cowen - *Husky Energy - VP, CFO*

So as we laid out in our investor conference in December, we developed a fairly comprehensive financial plan, and that's going to be a combination of cash flow from operations and some hybrid-type issues. Some asset sales, as we announced in the first quarter. We had some asset sales from potential value acceleration projects and joint ventures with some of our projects and as you know, we did the $1 billion equity offering in December and we'll be -- subject to shareholder approval at the end of this month, allowing the shareholders to take stock instead of cash as a dividend to reduce their cash outflow from a dividend perspective and we do have the support of our principal shareholders in respect of just over 70% of the dividend.

Asim Ghosh - *Husky Energy - President, CEO*

I think when you take all of these various initiatives in some combination or the other, we are in a comfortable position in terms of funding the capital and staying well within our debt service and covenants.

Operator

Next question is from Mike Dunn of FirstEnergy Capital Corp. Please go ahead.

Mike Dunn - *FirstEnergy Capital Corp - Analyst*

Good morning, gentlemen. Two questions. First, just wondering if you can talk to what you might expect for current taxes in 2011. Should we still be thinking about this in terms a one-year lag with your operating results? And secondly, on McMullen, you just maybe provide an update on what your thinking is there in terms of a thermal project and I noticed you mentioned an air injection pilot there. If you could just talk to what that might look like? Thanks.

Asim Ghosh - *Husky Energy - President, CEO*

Alister, did you want to take the tax one first and then Rob will take the follow-on?

Alister Cowen - *Husky Energy - VP, CFO*

Yes, the tax one, Mike, yes, we still have that one-year lag for cash taxes, and if you look at 2010, that will tell you what our 2011 cash taxes are going to be.

Asim Ghosh - *Husky Energy - President, CEO*

On McMullen, Rob?

Robert Peabody - *Husky Energy - COO - Operations and Refining*

On McMullen, this is an interesting lease, which we believe has a lot of potential and we're doing a number of different things on it. Since we acquired the lease, we actually have been building up coal production from the lease, because in this lease, the bitumen is just about able to flow, and we're looking to get production up into the 4,000 barrel a day range in this year, on the coal production front. We've also got approval and are going to do, as you noted, a gas over bitumen, sort of ignite the gas pilot. That's a fairly small pilot in a couple of wells and we're looking for that to commence in the field, sort of in the middle of this year.

There's also the potential for conventional SAGD thermal project on the lease. Now the reason for the different development schemes of different parts of the lease is the geology is a little different as you move across the lease. So, again, we see a lot of potential from the lease. We think it can be very material, and the work we're doing right now is just to understand the best mechanism production each type of geology we see on the lease.

THOMSON REUTERS

Mike Dunn - *FirstEnergy Capital Corp - Analyst*

Thanks, Rob, and the thermal potential. Would that be targeting Grand Rapids?

Robert Peabody - *Husky Energy - COO - Operations and Refining*

We are -- it's not targeting the Grand Rapids on the thermal side.

Mike Dunn - *FirstEnergy Capital Corp - Analyst*

Okay, thanks a lot, guys.

Operator

Next question is from Harry Mateer of Barclays Capital. Please go ahead.

Harry Mateer - *Barclays Capital - Analyst*

Hi, guys. Just looking for a little more color on the balance sheet. Can you give us a sense now following the close of the acquisition where your bank facility borrowings stand?

Alister Cowen - *Husky Energy - VP, CFO*

Yes, Harry, it's Alister here. We're currently sitting on the total debt after the close of the acquisitions of $4.5 billion.

Harry Mateer - *Barclays Capital - Analyst*

Okay and I know you ran through some of your funding options in response to an earlier question, but what are your current thoughts on tapping the capital markets for some senior unsecured debt?

Alister Cowen - *Husky Energy - VP, CFO*

I laid out the options we have and I'm not going to indicate to the market when I may or may not be coming. But if you look at the options I laid out, you can anticipate at some point over the next 18 months, we'll be tapping the markets.

Harry Mateer - *Barclays Capital - Analyst*

Okay, thanks very much.

Operator

(Operator Instructions).We have a question from Carrie Tate of the Globe and Mail. Please go ahead.

Carrie Tate - *Globe and Mail - Media*

Hi, thanks for taking my call. Wondering if you could explain more on how Enbridge's pipeline is affecting you and when you expect to have that cleared up?

Terrance Kutryk - *Husky Energy - VP - Midstream & Refined Products*

Hi, Carrie, this is Terrance here. The Enbridge situation is complicated by the fact that it's a multi-stage remediation process. In terms of actual details of what Enbridge will be doing, it is probably best you address that with them, but I think it's fair to say that we believe that they have it well in hand at this juncture.

Carrie Tate - *Globe and Mail - Media*

Go ahead.

Asim Ghosh - *Husky Energy - President, CEO*

You have to remember that we have probably one of the more comprehensive pipeline then various oil companies in Canada. It's one of our core strengths and the fact we have access to Keystone is helping us remediate some of those issues. In Alister's spiel earlier today, he spoke about the fact that we had an inventory build on the Keystone pipeline, and that was part of our remediation activity. So, because of Enbridge, our production is not being shut-in, and upstream is also not being effective as a result because of that optionality that we have.

Carrie Tate - *Globe and Mail - Media*

So you still have capacity. It's not as though you're going to get to a point where you're maxed out? Because of Keystone, right?

Asim Ghosh - *Husky Energy - President, CEO*

That is correct.

Carrie Tate - *Globe and Mail - Media*

Okay. That's all I have, thanks.

Asim Ghosh - *Husky Energy - President, CEO*

That's the simple answer to a complex question. You have to lay out what could happen to Enbridge, but in the context of what we know today, we're not maxed out.

Carrie Tate - *Globe and Mail - Media*

If you didn't have Keystone would you have hit a storage capacity?

Terrance Kutryk - *Husky Energy - VP - Midstream & Refined Products*

I think, Carrie, you're picking up a point that is actually quite material, and that is that Keystone did have an impact, a beneficial impact, for the entire industry, and the timing of Keystone line fill and Keystone operation was fortuitous, given to what happened to Enbridge.

Operator

Next question comes from Justin Amoah of Argus Media. Please go ahead.

Justin Amoah - *Argus Media - Media*

Hi, thanks for taking my call. Going back to your last comment, does that mean Husky is a committed shipper on the Keystone pipeline?

Terrance Kutryk - *Husky Energy - VP - Midstream & Refined Products*

Justin, thanks for the question. One of the things we have to be mindful of is we have indicated that Husky has been shipping barrels on Keystone, but the actual contractual arrangements on that pipe aren't publicly released.

Justin Amoah - *Argus Media - Media*

Okay, and I had a question about Lima. You mentioned earlier, a staged repositioning approach pending light heavy differentials. Can you just elaborate about what that means exactly?

Terrance Kutryk - *Husky Energy - VP - Midstream & Refined Products*

The Lima reconfiguration is something that's being evaluated on a continuous and ongoing basis. Given what we see right now, those evaluations have not suggested that we proceed expeditiously with that reconfiguration at this time, at this time but it is absolutely dependent upon what we see in the differentials going forward.

Robert Peabody - *Husky Energy - COO - Operations and Refining*

This is Rob Peabody. I just had one point and that's clearly we have a little bit of time here from a Husky point of view because Sunrise phase one is really essentially handled by Toledo as it's currently configured, so as we look at sort of the timing of these investments it's really driven by upstream in production volumes and potential places we can get this stuff from.

Asim Ghosh - *Husky Energy - President, CEO*

Sunrise alone is in vision of the 25-year project, so I don't think you can take the link to our downstream versus our upstream on a quarter-by-quarter, or for that matter, even a three-year by three-year basis. This is the grand strategic plan, looking at a 25-year timeframe in terms of this integration. Putting that in perspective.

Justin Amoah - *Argus Media - Media*

Okay, and the repositioning would entail processing more heavy crude if you were to do that, is that right?

Terrance Kutryk - *Husky Energy - VP - Midstream & Refined Products*

Yes.

Justin Amoah - *Argus Media - Media*

And my last question was besides the ISO cracker work at Toledo, is there any other planned turnaround work at that facility this year?

Terrance Kutryk - *Husky Energy - VP - Midstream & Refined Products*

Just to put it into perspective, there will be some minor turnaround activity that will be going on at that plant, but Husky is not the operator and those would probably be best --

Asim Ghosh - *Husky Energy - President, CEO*

Are you talking Toledo or Lima?

Terrance Kutryk - *Husky Energy - VP - Midstream & Refined Products*

Toledo. That would probably be best addressed through BP.

Justin Amoah - *Argus Media - Media*

Thanks for your time.

Operator

Next question comes from Gene Laverty of Bloomberg. Please go ahead.

Gene Laverty - *Bloomberg - Media*

All my questions were answered, that's the benefit of coming in last.

Operator

There are no more questions at this time. I'll turn the conference back over to Rob McInnis.

Rob McInnis - *Husky Energy - Manager - IR*

Thank you. I think -- Asim, did you want any closing remarks?

Asim Ghosh - *Husky Energy - President, CEO*

Well, yes, I'll just summarize. We did, basically we've given you a big picture to look at the actions that we've taken over the past year. We outlined our strategy in December. We have outlined the immediate steps we have achieved, and I think that's what I provided you with an earlier example of our ability to execute. As we go forward, going into 2011, what we see is we are reasonably confident about executing further steps on those plans, and build on the momentum, the early momentum we've achieved so far. Okay. And thank you for joining us.

Operator

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