HUSKY ENERGY

Q2 2014 CONFERENCE CALL & WEBCAST TRANSCRIPT

Date: **Thursday, July 24, 2014**

Time: **9:00 AM MT**

Speakers:

Asim Ghosh
President and Chief Executive Officer

Darren Andruko
Treasurer and Acting Chief Financial Officer

Robert Peabody
Chief Operating Officer

Dan Cuthbertson
Manager, Investor Relations

OPERATOR:

At this time, I would like to turn the conference over to Dan Cuthbertson, Manager, Investor Relations. Please go ahead, Mr. Cuthbertson.

DAN CUTHBERTSON:

Good morning and thanks for joining us for our second quarter results. Around the table we have CEO, Asim Ghosh and COO, Rob Peabody, as well as our Treasurer and Acting CFO Darren Andruko and Bob Baird from Downstream. We will review our second quarter results and then follow up with any questions.

Our comments today will contain forward-looking information. The actual results may differ materially from expected results because of various risk factors and assumptions that are outlined in our quarterly release and in our annual filings. You could find these on SEDAR, EDGAR and our website.

Asim will now lead off with a look at our Q2 results.

ASIM GHOSH:

Thanks, Dan. Good morning everybody. We've had another quarter of steady, consistent performance and we continue according to plan. Net earnings for the quarter were $628 million, up about 4% from $605 million a year ago. Cash flow was $1.5 billion, up a touch from a year ago. Total Upstream production was 334,000 barrels per day, up 8% from the second quarter of 2013. Rob and Darren will take you through the details of the second quarter from an operational and financial perspective in a moment. I'll start, as I usually do, with an overview.

Starting with the bedrock of our foundation, Heavy Oil, we are seeing exceptionally strong performance from our latest thermal project at Sandall. We brought this development online ahead of schedule in the first quarter to design capacity of 3,500 barrels a day. It passed that mark shortly there afterwards, as these projects generally do initially, and has been averaging around 5,300 barrels a day. Sandall is part of a long line of thermal projects either in production or in planning that have a lot of running room with very attractive metrics. As I mentioned at Investor Day, these are longer wavelength projects that underpin the rest of our portfolio by providing a steady production base and more predictable cash flow.

Turning to Western Canada, as we continue to transform this business, we are advancing our best oil and liquids-rich gas resource plays. We have the flexibility to dial up or dial down capital and resources to accelerate or slow down these plays as needed.

We have a strong set of options and our approach to portfolio management includes a disciplined capital allocation process, which means advancing those projects that can deliver higher returns first. We have grown our production from our resource plays from around 14,000 barrels a day in 2010 to about 32,500 barrels a day today and Ansell has been particularly important to us and Rob will elaborate on this in a bit.

Overall, our target is 50,000 barrels per day from resource plays by 2017, so we're nearing the three-quarter mark on that journey.

Excuse me; I'm struggling a bit with hay fever.

Looking now at our Downstream business, our task there has been two-fold: to support our Upstream business in Western Canada to make sure every one of our barrels ultimately gets Brent-like pricing. In light of that strategy of focused integration, we are continuing to build out our Midstream and Downstream infrastructure with projects that aim for the sweet spot in terms of returns, and that is all designed to further improve the flexibility of our feedstocks, our product range and market access.

The Lima refinery has become a key part of our operations; as Bob Baird likes to say, it really is beachfront property for us because it provides an outlet for our landlocked barrels.

We are building additional flexibility at Lima so we can swing between light and heavy crude to ride out the volatility in commodity markets and capture the best market prices for our heavy barrels.

Turing now to our growth pillars, I'll remind you that these projects are helping drive our compound annual growth rate target of 5% to 8% over the 2017 timeframe, and I'll start with the Asia-Pacific. Our deep water wells at Liwan 3-1 continue to perform well and they're supported by shallow water facilities at the onshore gas terminal. Gas sales are currently in the range of

180 to 200 million Mmcf per day gross as several third-party power plants proceed through their commissioning phase.

Looking at the next growth pillar which is Sunrise Energy Project, we are moving closer to first steam at Sunrise Phase 1 which remains on track for the second half of this year, and the last bits and pieces of work include finishing the electrical instrumentation and insulation work. Pre-commissioning work has also started.

Finally, continuing to the Atlantic Region, we continue to make good progress with our extension projects as we build out the mid- and long-term potential of the White Rose field. South White Rose is already on deck and scheduled to come on production around the end of the years and that will be followed by West White Rose, where we're looking at first oil in the 2017 timeframe.

On the Exploration front, we started shooting a 3D seismic program in the Flemish Pass with our partner and we'll be following up later this quarter with further appraisal drilling in the Bay Du Nord discovery.

So, to sum up, we had a good quarter. Our performance was fully in line with our strategy of balanced growth and consistent execution to deliver reliable, repeatable results.

Let me turn you over now, to Darren.

DARREN ANDRUKO:

Thanks, Asim. We saw strong performance in the second quarter from our heavy oil thermal projects and resource plays in Western Canada. These steady results reinforce the value of our physically integrated portfolio of assets. In turn, this integration and diversity helps to moderate the impacts of commodity price volatility and improves the predictability of our earnings and our cash flow.

Net earnings were $628 million for the quarter compared to $605 million at the same time last year. Cash flow was $1.5 billion, a slight increase from a year ago. These numbers reflect a few factors including higher upstream realized prices for both crude oil and natural gas, lower US crack spreads and a weaker Canadian dollar than the same period last year. As well, we saw commencement of production from Liwan and higher heavy oil thermal volumes, and some planned and unplanned Downstream outages at Lima, Toledo and at the Lloydminster Upgrader.

I'll point you to the MD&A on our website for specific pricing information but I'll touch on a few points. The average realized price for our total Upstream production, both crude oil and natural gas, was $74.70 per boe, up from $62.88 last year. The realized US Downstream refining margin was $14.40 per barrel compared to $20.24 a year ago. Chicago market crack spreads averaged $19.40 compared to $30.78 in the second quarter of last year. As expected, the narrowing of crack spreads this quarter was offset by higher realized prices in the Upstream business.

Looking at net earnings, our Upstream business generated net earnings of $570 million compared to $344 million a year ago. Within the Upstream portfolio, we saw strong results from Western Canada and Heavy Oil in addition to the start-up at Liwan.

Net earnings from US Refining and Marketing operations were $56 million compared to $163 million in the second quarter of 2013. This reflected lower market crack spreads and partial outages at Lima and Toledo during April and May of this year.

The Lloydminster Upgrader contributed $49 million to net earnings in the second quarter compared to $88 million a year ago. This takes into account, a longer than anticipated ramp up in April as well as lower upgrading differential driven by higher feedstock costs. This higher heavy oil price was, in turn, captured in the Upstream business.

As we look ahead to the second half of 2014, we're keeping an eye on a few items. In the Upstream, we're expecting third-party turnarounds to impact production at Ansell for several weeks in the third quarter. A five-month-off station at the Wenchang field began in early April and we anticipate production impact of 3,300 boes per day over the year. At Liwan, we're expecting to increase our sales volumes as the power plants finish commissioning and begin the start-up process.

A reminder that we will be bringing the Liwan 3-1 field offline for a six- to eight-week period starting in the fourth quarter to tie in the second deep water production pipeline.

In the Atlantic region, we're planning a week-long maintenance program for the SeaRose in August with an expected impact of 42,000 barrels per day over the seven days.

Finally, our partner has scheduled a four-week turnaround on the Terra Nova FPSO beginning in August.

In the Downstream, the Lloydminster Upgrader has a partial 42-day outage scheduled for this fall and we expect to maintain operating capacity at about 80%.

Finally, there is an ongoing curtailment on the Mid-Valley pipeline which brings crude into Lima. This is anticipated to impact throughput at that facility by about 15,000 barrels per day until the end of the year.

With respect to the common share dividend, the Board has approved a quarterly dividend of $0.30 per share for shareholders of record at the close of business on August 28th of 2014.

Now, Rob will talk about our operations over the second quarter.

ROBERT PEABODY:

Thanks, Darren. Let's begin with a look at our Heavy Oil business. Our suite of thermal projects continued to build momentum over the second quarter with production reaching about 44,000 barrels per day. As Asim mentioned, Sandall is now exceeding its nameplate capacity. At the 10,000 barrel-a-day Rush Lake project, which we sanctioned in early 2013, construction is now about 55% complete. We've completed drilling the first two pads and have confirmed the excellent quality of this reservoir as we work towards its first oil in the second half of 2015.

Beyond Rush Lake, we have three additional thermals on-deck. Site clearing and module fabrication is underway at two 10,000 barrel-per-day projects at Edam East and Vawn. We are also advancing Edam West, a 3,500 barrel-per-day project that is being built using the same modular template as Paradise Hill and Sandall. All three of these projects are scheduled to start up in 2016, starting with Edam East. As a result, as we said at our Investor Day, we have raised our production target for Heavy Oil thermals to 80,000 barrels per day by 2019.

Elsewhere across the Heavy Oil portfolio, we drilled four horizontal wells in the second quarter bringing us to 27 wells to-date for 2014, and also drilled two CHOPS wells and now have 75 under our belts for the year.

Looking now at our Western Canada operations; we actually had a very good spring break-up this year with no major production issues. As we continue to shape our resource play portfolio, we are striking a balance between risk and returns. Overall, production from resource plays in the second quarter averaged about 32,500 barrels per day compared to 24,700 barrels of oil equivalent per day in the same period of 2013 and Ansell continues to perform well. We have more than 800 well locations left to drill in this multi-zone play and in the second quarter, we made a small dent in that with 11 wells drilled and five completed. Average production from Ansell was 17,000 barrels of oil equivalent per day as we continue to grow production at the asset.

At the Kaybob Duvernay, we are encouraged by the results from our two- and four-well pads and continue to watch their progress. We have about 20,000 net acres in this play.

At our partner-operated Wilrich liquids-rich gas play at Kakwa, three horizontal wells were drilled and three completed over the quarter. Plans call for five wells at Kakwa this year.

In the Strachan Cardium play, we completed two horizontal wells and further development drilling is scheduled in the coming months.

Overall, we drilled 14 wells and completed 10 in the second quarter across our liquids-rich gas play portfolio.

Turning to our oil resource plays, we drilled three horizontal wells and completed three in the second quarter with a focus on the Viking and Cardium plays. We've been seeing particularly good results at Wapiti Cardium and we have recently added three sections to our land base there. We're also seeing some encouraging results at our Oungre Bakken asset, where we picked up an additional six sections of land.

At the Rainbow oil and gas facility, we wrapped up our four-week planned turnaround as scheduled and we are back at full production now.

Moving to our Downstream business, we are continuing with several initiatives to further build flexibility into our feedstocks, product range and market access. We are beefing up our pipeline and terminal capacity at Hardisty and this includes a couple of new 300,000 barrel storage tanks and pipe interconnections which are all scheduled to be completed in 2015. We are also extending our South Saskatchewan gathering system to accommodate our growing heavy oil thermal production in the region.

South of the border, we are continuing to implement equipment upgrades at Lima to allow us to process up to 40,000 barrels per day of heavy crude oil feedstock and that project is scheduled to come online in 2017.

We've been making good progress with our partner at the refinery in Toledo where a new recycled gas compressor is coming online later this year to help improve plant performance.

Looking now at our growth pillars and starting in the Asia-Pacific region; our Liwan wells and facilities continue to perform as expected. We hit a couple of important milestones over the quarter. We shipped our first load of NGLs from the Liwan 3-1 field into the Mainland China market and condensate sales are also underway. We are completing work on the second deep water production pipe that will run from Liwan – from the Liwan 3-1 field – to the central platform. We plan to hook up the new Liuhua 34-2 well later this year.

Finally, we have an important development at our BD field in Indonesia in the Madura Straits. We recently received regulatory approval for the contract award for the FPSO. Platform construction is already well underway on this field and we're planning for first gas in 2017.

Turning to the Sunrise Energy Project, we are on pace for start up later this year. All major regulatory approvals are now in place for Phase 1 including the Maximum Operating Pressure Permit, which was in line with what we requested.

As Asim already mentioned, our Oil Sands team has been very busy getting ready for start-up. We are completing commissioning of all the well pads. The pipelines and third-party infrastructure are complete. Major electrical systems for Plant 1A have been installed and energized and we are now into pre-commissioning and commissioning activities in Plant 1A.

In line with our plans for a staggered start, we expect to start up Plant 1B about six months after Plant 1A is up and running.

A reminder that the refinery in Toledo has also been primed to take our bitumen from Sunrise. We're planning an 18- to 24-month ramp-up to get to our full 60,000 barrels per day capacity with 30,000 barrels of that net to Husky.

Turning to the Atlantic region, drilling has resumed at our North Amethyst field where we are targeting the Hibernia formation beneath the main field. First oil is planned in the coming months.

At South White Rose, we are preparing to install oil production equipment later this year in preparation for first oil around the end of this year. This is really the second phase of the project following the start-up of gas injection in the first quarter.

At West White Rose, we are working with the regulator on approval of the development plan prior to expected sanction later this year. The graving dock at Argentia is taking shape and once the project is fully approved, we'll start building the wellhead platform and we continue to expect first oil from this project in the 2017 timeframe.

Meanwhile, we have started a 3D seismic program in the region of the Bay du Nord discovery in the Flemish Pass. The West Hercules rig is scheduled to arrive in the region this fall to begin an 18-month long drilling program. This will help us and our partner to get a better handle on the scope of Bay du Nord and other possible potential developments.

To wrap up, we're continuing to advance a strong pipeline of near-, mid- and long-term projects in a very deep portfolio.

Now, I'll turn you back over to the Operator.

OPERATOR:

Thank you, sir. We will now begin the analyst question and answer session. Any analyst who wishes to ask a question may press star, and one, on their touch-tone phone. You will hear a tone to indicate you're in queue. For participants using a speaker phone, it may be necessary to pick up your handset before pressing any keys. If you wish to remove yourself from the question queue, you may press star, and two. One moment while we poll for questions.

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

GREG PARDY:
Hi, good morning guys. Just a couple of quick ones for me. With Liwan, the liquids number looked a little bit low. I'm just wondering if that reflected just the timing of liftings and just wanted to confirm that you're still looking for 10,000 to 12,000 barrels a day gross along with gas. Then Rob, I'm just wondering with Madura, I mean we'd taken that out of our outlook just given the issues going on in Indonesia, but I'm wondering if you can frame Madura just in terms of production and pricing in that 2017 timeframe. Thanks very much.

ASIM GHOSH:
On Liwan first, the liquids number is about where we expect it to be, and yes, there would have been a timing issue particularly in the early stages. Madura, Rob, do you want to take the Madura one?

ROBERT PEABODY:
Yes. Yes, okay. So Madura, I mean just overall framing it, the FPSO tender approval of course was the last major regulatory approval we needed to move forward with this project and we're looking for about 40 – net to Husky – we're looking for about 40 million standard cubic feet a day from that project and about 2,400 barrels of oil equivalent per day of liquids in that, you know, starting in 2017. Probably see those full rates in '18 for annual average.

GREG PARDY:
Okay, and Rob, what about pricing? I'm assuming the liquids in general it's light; it'll be Brent-linked. What about the gas though?

ROBERT PEABODY:
Yes, the gas is $7 an Mcf. That's the price.

GREG PARDY:

Okay.

ROBERT PEABODY:

It's actually—we've been a bit paid for waiting here because the gas price has risen.

ASIM GHOSH:

It's risen from around, you know, mid-5s, $5.50, thereabouts, to $7.

GREG PARDY:

Okay, so $5.50 to about $7 US an M on the gas?

ROBERT PEABODY:

Yes, so the price now…

ASIM GHOSH:

It was $5.50; now it's $7.

GREG PARDY:

Oh, I'm sorry. Okay. Okay great, thanks very much.

ASIM GHOSH:

Thank you. Just an important point I'd like to make. Okay, my hay fever is now under control so the destiny of Husky is again in good hands.

OPERATOR:

The next question is from Paul Cheng of Barclays. Please go ahead, sir.

PAUL CHENG:

Hey guys, good morning. Rob, in Duvernay, given that you guys only have 20,000 net acres, do you think that that actually is sufficient size to be a – even if we prove that the well is good – to be sufficient sized as a working program for you guys, or that the choice is that if they are good that you really need to do some acquisition to make it bigger or to get out?

ROBERT PEABODY:

Okay Paul. Yes, we do think it's a useful position. We think it's right in the sweet spot of the play. We're getting great results there and I think, as you've seen in other areas which we continue to operate in, we do find, over time, opportunities to expand our land position. So, we're still very comfortable with it.

PAUL CHENG:

Mm-hmm, and Rob, in Sunrise it seems like everything is moving fine on the—according to plan. Is there any—if you have to single out one or two potential risks that the start-up could see a say, six to 12 months slippage, what may be those risks?

ROBERT PEABODY:

So, things are progressing well at Sunrise. I don't—I can't single out one. It's just the start-up of a major facility. It's—there's nothing particular. I think one of the nice things for the people actually starting up the plant is that with the central plant being a little bit late, we actually have done a very thorough job of commissioning all the field facilities. So, that actually maybe spreads the load a little bit out there.

PAUL CHENG:

In your Analyst Day, you had indicated that the final budget for Sunrise is going to be higher. Do you have a more definitive number that you can share by now?

ROBERT PEABODY:

Well basically, just to reiterate what I said at the Analyst Day, you know, three of the four legs of the project have gone well and are on schedule and budget. We are seeing some cost pressure on the central plant, which we're continuing to evaluate, so we aren't going to provide any further data on that on this call but we will in future, as soon as we get it nailed down.

I think the one thing I would point out though, is just as we look at the whole project at the moment, you know, as you know Paul, about two-thirds of the costs of the project ultimately are going to be in the sustaining costs like they are in most of these in situ projects. We have a lot of other initiatives underway including, you know, the use of vacuum-insulated tubing, things like moving to a walking drilling rig that's all electrified, smaller well pads because we'll be using ESPs in future, which takes quite a lot of steel off the pads, and things like multi-phase flow meters that which—they'll also allow us to take a lot of facilities off our satellite facilities. So, when we combine all that plus any sort of potential outcomes we can envisaged in the central plant at the moment, we still see our return on the project meeting our original expectations.

PAUL CHENG:
Okay, that's great. Rob, any – or Asim – that any preliminary outlook for 2015 CapEx and production?

ASIM GHOSH:
No. No, I think we will have a call end of the year to give you that guidance but broadly, for modelling purposes, the indication we've given you in the $5 billion range continues to be good.

PAUL CHENG:
Okay. A final two quick one. One is that on the—is there any quick rule of thumb you guys can share in terms of the stock-based compensation as relative to your share price movement? For every $1 move, how much of that we should assume they're expense? And secondly, that on the FIFO impact this quarter, should we assume that the reason why you have a FIFO loss is mainly because of the inventory change given that oil prices have gone up?

ASIM GHOSH:
Okay, we'll get back to you on the stock comp after the call. Okay? We do have that figure but we'll just handle that with you. On the FIFO, what was the questioning on the FIFO again, please?

PAUL CHENG:
The FIFO; given that the oil prices have gone up sequentially from the first to the second quarter, we were expecting there to be a FIFO gain but you recorded a loss of $13 million, so should—is that primarily driven just because you've been ramping up from the turnarounds so as a result that you drive down the inventory and that's why you have a FIFO loss?

DARREN ANDRUKO:
Okay. I think, Paul, what we're really just looking at is some timing of the refining product sales from the time it's, you know, moving down the system into the refinery. So, we're really just talking about a timing issue here.

PAUL CHENG:

Mm-hmm, all right. Thank you.

OPERATOR:

The next question is from Phil Skolnick of Canaccord Genuity. Please go ahead.

PHIL SKOLNICK:

Yes, thanks. Just one question. With the timing of the tie-in at Liuhua, it looks like it's—I guess it's later in the year. Is there any weather risk associated with that with the typhoon season and all that?

ASIM GHOSH:

No. We budget for typhoons and we've only had a major one, as you know, but nothing untoward.

PHIL SKOLNICK:

Okay. Is there any pressure on the timing of that at all that could push it further?

ASIM GHOSH:

No. No, it's on track. The pipe's been largely laid and now it's a question of connecting up with the spools and the like. So, we've actually made progress on it over the last few months.

PHIL SKOLNICK:

Okay, great. Thanks.

OPERATOR:

As a reminder, any analyst who wishes to ask a question may press star, and one, on their touch-tone phone. The next question is from David McColl of Morningstar. Please go ahead.

DAVID MCCOLL:

Thank you and good morning everyone. Asim, earlier this year you indicated that once Energy East is up and running that India could become a cost-competitive destination for Canadian crude, and I'm kind of wondering in that context about your ongoing plans for near-term volumes going to India, so view that as kind of before Energy East comes online. Related to that, I'm wondering if you can provide any information as to how much of Husky's Canadian production went to India or really other markets outside North America during the quarter, and I would assume most of that's Atlantic Canadian if not all of it. Thank you.

ASIM GHOSH:
So, first of all the Energy East context has to do with Western Canada. What we have said so far is that where we continue to dip our toe in the water is really from the East Coast, so they are two different strategic objectives. Now, as far as—I stand by the statement that once Energy East is up, Western Canada will be connected well with India. As far as the East Coast is concerned, our objective here is really to prove our crude for various refining markets and it's with that intention that we've had, you know, some successes to India and to Italy, but, you know, they are not material in the total scheme of things in terms of volumes but they are material in terms of having us proved up for that market. We will continue to do these opportunistically but as long as we can sell at our present modest premium to Brent in our present market, that will continue to be our principal target.

DAVID MCCOLL:
Okay. So, right now it's more proving up the market…

ASIM GHOSH:
Exactly

DAVID MCCOLL:
…and we'll see what the future holds.

ASIM GHOSH:
Exactly.

DAVID MCCOLL:
Thank you.

OPERATOR:

This concludes the analyst question and answer portion of today's call. We will now take questions from members of the media. As a reminder, please press star, and one, on your touch-tone phone to ask a question. If you wish to remove yourself from the question queue, press star, and two.

The next question is from Chester Dawson of *Wall Street Journal*. Please go ahead.

CHESTER DAWSON:

Yes, hi. Thanks for taking my question. I just wanted to get a little more clarity on the Sunrise cost issue in terms of, I think you said you'd be providing an update down the road, but is that going to be well beyond that $2.7 billion budgeted, or what are your—can you give us any guidance on that? Thank you.

ROBERT PEABODY:

I guess I'd just reiterate what I've said before on this is, you know, I guess I'll start with where I finished last time saying overall for the project, we don't see this affecting the returns that we've planned for the project in—over the life of the project.

In terms of the other things, we're just—we have to finalize details with the contractor, so I can't give any update on that.

CHESTER DAWSON:

Thank you.

OPERATOR:

As a reminder, questions from the members of the media, if you wish to ask a question, please press star, and one, on your touch-tone phone.

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

ASHOK DUTTA:

Hi, morning. (Inaudible 31:51). Had a very quick question just trying to confirm something that I have been hearing. Is it true that you guys are in negotiations in some form to sell one of your fields in Eastern Canada to India—to an Indian company, namely ONGC?

ASIM GHOSH:

No. We don't respond to any speculation and if there should be any material development we'll make an announcement at the time. Having said that, I just want to reiterate that overall, we see our business in a position of, you know, of a core portfolio. There isn't any fundamental amputation that I see in this—happening in this business in the foreseeable future.

ASHOK DUTTA:

Okay, thank you.

OPERATOR:

This concludes the time we have for questions for today's call. I will turn the conference back over to Mr. Ghosh.

ASIM GHOSH:

Okay. Well thank you all for joining us. So, our balanced growth strategies continue to provide its salt by delivering higher quality returns and more predictable results for our shareholders. Across the board, we are focused on reliable, repeatable performance and that the important part of that is we will keep working to make big projects smaller through staged, modular development. We remain on pace to meet our targets. Thank you for joining us.

OPERATOR:

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