HUSKY ENERGY

Q2 2015 CONFERENCE CALL & WEBCAST

TRANSCRIPT

Date:	**Tuesday, July 28, 2015**
Time:	**9:00 AM MT**
Speakers:	**Asim Ghosh** President and Chief Executive Officer
	Jonathan McKenzie Chief Financial Officer
	Robert Peabody Chief Operating Officer
	Robert Baird Sr. Senior Vice President, Downstream
	Dan Cuthbertson Manager, Investor Relations

OPERATOR:
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. Joining me today are CEO, Asim Ghosh; COO, Rob Peabody; CFO, Jon McKenzie; and Senior Vice President, Bob Baird from Downstream. We will provide an overview of our second quarter results and then open the line for questions.

A reminder that our comments today will include forward-looking information. The various risk factors and assumptions are listed in this morning's news release, and you can also find them in our annual filings on SEDAR, EDGAR and our website. All figures stated today are in Canadian dollars and before royalties, unless otherwise stated.

Asim will now start us off with the look at our Q2 results.

ASIM GHOSH:
Thanks, Dan. Good morning, everybody. As you can see from our second quarter results, we continue to maintain a good foothold in this current market environment.

Before we dive into the details, a question that's been on the minds of many investors in this unsettled time is "What are you doing to weather the storm and indeed grow your business," and to properly answer that question I need to provide the context for the actions we took several years ago to improve Husky's resiliency.

In 2010, we planted three stakes in the ground. We set out a balanced growth strategy, we strengthened the diversity of our portfolio, and we began to transition Husky into a low sustaining capital business.

Let me speak first to the first stake, which is a balanced growth strategy. That has not changed in this pricing environment, rather is being paced. We are advancing our near-term growth catalysts while providing for a strong dividend and maintaining a healthy balance sheet. This growth is indeed profitable growth even at today's pricing.

In terms of the second stake, delivering that strategy, we deliberately didn't put all our eggs into one basket. Instead, we drew strength from the diversity of our portfolio. Let me give you a couple of examples.

Our Asia-Pacific gas business is not exposed to commodity price volatility and is delivering great value through fixed price contracts. In the last quarter, Liwan gas was fetching about Cdn$14.50 per Mcf at fixed volumes, and we are building a suite of similar opportunities offshore Indonesia.

In heavy oil, we've had a series of bite-sized thermal projects in Saskatchewan that are built on our proven thermal formula, and we have plenty of running room for new projects and we'll soon be in position to provide more details on additional thermals in the pipeline.

A third example is how our land-based crude production in Western Canada is integrated from the wellhead to the refinery.

The third stake to transition Husky into a low sustaining capital business is comprised of a couple of factors.

Back in 2010, only about 8% of our production was from low sustaining capital projects. In this context, as I've said before, we define low sustaining as the type of plays where we can reduce capital spending at low points in the commodity cycles and not have the business fall out of bed. At that time, we deliberately made a number of strategic investments to grow our production mix with lower sustaining capital requirements, and as a result, by the end of 2016, more than 40%

of our production will come from such low sustaining capital projects. That helps us free up additional capital by delivering projects that can provide value through and beyond this low oil price environment.

The other factor in this transition to lower capital is our ongoing efficiency and cost savings programs. We actually began this program five years ago and since that time we've already realized more than $1.3 billion in cumulative supply and procurement savings. Building on this effort, we accelerated the program this year and established a $400 million to $600 million goal, and about $575 million of that is now locked in on a run rate basis. In tandem with this, we are working with our vendors to achieve a number of additional efficiencies we've identified in the process.

Now, taking a look at our numbers for the quarter, cash flow from operations was $1.2 billion, which compares to $1.5 billion a year ago, when Brent was nearly $110. Net earnings were $120 million, which takes into account a one-time charge of $157 million from the Alberta corporate tax increase. Our overall average production came in this year at 337,000 barrels per day.

Operationally, we achieved three significant milestones in the second quarter, the start-up of steaming at Rush Lake, which is now in production, first oil at South White Rose, and a steady ramp-up at Sunrise.

Rush Lake is our seventh thermal project and we have three more in the pipeline that are at advanced stages of construction.

In the Atlantic, the South White Rose extension is the second major subsea tieback, after North Amethyst, which came on line in 2010. South White Rose production, which has improved with gas injection into the field, will help extend the life of White Rose.

Over at Sunrise, production is climbing ahead of plan and we are pleased with the results we've been seeing since first oil in late March. All in all, we remain on track to add about 85,000 barrels per day of new production by the end of next year. Approximately 75% of those barrels will be sourced by low operating and sustaining cost heavy oil thermal projects and Sunrise.

So, to sum up, it's clear we have a persistent supply/demand imbalance in the global oil market in a period of heightened volatility, where we'll likely encounter low oil prices for an extended period of time. As I've said before, it's not our job to prepare for a price turnaround. Instead, it is to use all the levers at our disposal, and Husky has many, to grow a more resilient low sustaining capital business in line with wherever the new price equalization point settles out.

Now, I'll hand you over to John to review our Q2 numbers.

JONATHAN MCKENZIE:
Thanks, Asim. Our results this quarter reflect steady consistent progress as we continue to improve the underlying margins in all areas of our business. Total upstream production was 337,000 boe per day, compared to 334,000 boe per day a year ago. Production in the quarter was impacted by several scheduled turnarounds. Liwan delivered solid gains to overall production. Average gross sales gas volumes from the 3-1 and 34-2 fields were 295 million cubic feet per day, which was up 13% from the first quarter. Associated gross liquid sales from those fields were 15,000 boe per day. A reminder that our equity interest in Liwan is now back to 49% since we completed the recovery of our exploration costs in May.

Cash flow from operations was $1.2 billion, as compared to $1.5 billion a year ago. This reflects lower realized crude oil prices and North American natural gas prices, partially offset by high netbacks from Liwan and the weaker Canadian dollar. In addition, we benefited from strong downstream cracks and good results from our refining business, albeit reduced realized margins in Lima due to the ongoing isocracker outage.

Net earnings were $120 million, compared to $628 million in Q2 of last year. As mentioned earlier, this reflects a one-time provision of $157 million for the Alberta corporate tax rate increase. Q2 earnings were also impacted by the write-off of the isocracker unit at the Lima refinery. These items were partially offset by recoveries from US and Canadian tax provision releases and realization of business interruption insurance from Lima.

In terms of pricing, the average realized price for upstream oil and liquids production in the second quarter was $56.79 per boe. This compares to $90.33 a year ago and $43.43 in the past quarter. Our natural gas portfolio had an average realized price of $6.09 per Mcf, which was bolstered by fixed-price contracts in Asia that delivered about $14.50 per Mcf. This compared to $6.42 a year ago and $5.96 last quarter, despite continued downward pressure on the benchmark. Chicago crack market spreads averaged US$20.30 per barrel, compared to US$19.40 over the same time period in 2014. The realized US downstream refining margin was US$17.88 per barrel compared to $14.40 a year ago.

The MD&A on our website contains additional information about pricing.

In the news release this morning, we included a list of planned turnarounds coming down the pipe in the third quarter. I'll note a few areas. We have an 18-day turnaround coming up on the SeaRose FPSO next month, and I'll remind you that maintenance is underway at the Lloyd Upgrader and we expect that to start up in mid-August. At the Lima refinery, repairs are in progress on the isocracker. As we stated last quarter, insurance is in place both for equipment and business interruption. As the isocracker is repaired, its carrying value on the balance sheet will increase and insurance proceeds will be recorded as other income as they are received. In the second quarter, we recorded insurance recoveries of $58 million after tax for business interruption.

Finally, 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 28, 2015.

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

ROBERT PEABODY:

Thanks John. We continue to track against our strategy. On the operations side, this includes an ongoing bias towards repeatable bite-sized projects that help minimize our cost and execution risks. We spoke earlier about our efforts around cost efficiencies and I'll touch on a few examples as we go through. I'd like to point out that our suppliers have really stepped up to the plate with some innovative cost-saving ideas, and we'll continue to highlight some of these initiatives throughout the year.

Turning now to our business units, starting first with heavy oil, the 10,000 barrel per day Rush Lake project is up and running as scheduled, coming on production just eight weeks after the start of steaming. Production is expected to ramp up over the coming quarter. On deck are two more 10,000 barrel per day thermal projects at Edam East and Vawn, as well as the 4,500 barrel per day thermal at Edam West. All three projects are on track for the second half of 2016, starting with Edam East in the third quarter, and together they will add nearly 25,000 barrels per day to our thermal production. Our overall heavy oil thermal production averaged around 41,000 barrels per day in the second quarter, and this takes into account planned maintenance during the quarter.

We're also keeping our thermal operating costs in check at $10.40 per barrel, including energy. This slight increase from the last quarter reflects our series of thermal turnarounds in Q2, and all of these projects have since ramped back up to full production. It's worth noting that our thermal production cost per barrel—that is operating cost plus F&D—are about half the industry's average for conventional heavy oil production, and by the end of 2016, about two-thirds of our heavy oil production will come from thermals, which is a remarkable transformation in the cost base of this business over a relatively short period of time.

While we have dialed back and high graded our heavy oil chops and horizontal drilling programs, we have been realizing efficiencies on how we produce these wells. A key component of this has been increasing the amount of real-time financial information our frontline staff get on operations for which they are accountable. This gives them the tools they need to make the right decisions balancing increasing revenue against costs. We are continuing to implement these tools across Western Canada, but where we have implemented them, we've seen savings in the 10% range.

Moving now to Western Canada production, Ansell is coming back online following scheduled maintenance in the second quarter, with production averaging around 19,000 barrels of oil equivalent per day. Resource play production was approximately 40,000 barrels of oil equivalent per day, up from some 32,000 barrels per day a year ago. Strong contributions from Strachan, Kakwa and Wapiti complemented our Ansell production. Few stones are being left unturned in our effort to identify and implement cost efficiencies across our Western Canada portfolio. Our focus remains squarely on those factors within our control; namely, our capital spending in operating costs, as well as implementing new approaches to our day-to-day business.

Moving to the downstream, in terms of resiliency, of course, the downstream business, which includes the midstream, is predominantly a margin business, it's not directly impacted by the absolute price of oil. In terms of the value chain, Husky is configured to squeeze the maximum margin from every barrel we produce. At the top of this heavy oil value chain is our vast resource in Lloydminster. As well, we have the Sunrise Energy Project in Northern Alberta, which is another long-life, low-low decline project with low sustaining capital requirement.

Our heavy oil production makes its way to our Lloydminster complex through our Saskatchewan gathering system, where we're currently building more capacity to accommodate our growing thermal production. The Lloydminster complex includes our upgrader, where we turn our heavy oil into higher value synthetic crude, as well as our asphalt refinery. This refinery consistently provides strong returns and in the second quarter benefited from rising sales and lower feedstock costs. Our infrastructure, which includes increased storage capacity at Hardisty, is further supported by our pipeline network, both our own and our long-term capacity commitments. Our pipelines feed directly into our pad 2 refineries, as well as providing for third-party transportation opportunities.

Finally, we control our value chain. This gives us tremendous flexibility to adapt to changing market conditions by optimizing feedstock blending, the products we produce and the markets into which we sell.

Looking at our Asia-Pacific business, as John mentioned, production volumes at Liwan have risen about 13% since Q1, and combined gas sales are now averaging 295 million cubic feet per day. In Indonesia, our projects in the Madura Strait are another example of developments that require relatively modest initial capital investment. Construction of a wellhead platform at the BD field in the Madura Straight is about 45% complete. An FPSO vessel is being built to process the gas and liquids from the field. At the MDA and MBH fields, a tendering process is underway for a floating production unit, and other equipment related to the wellhead structure, we'll be building there. We expect to progressively bring the fields on production in the 2017 through 2019 timeframe. A plan of development has been approved for the nearby MDK field, which will be tied into the other two fields and begin production in roughly the same timeframe.

Turning to oil sands, steaming is underway now on 43 of the 55 well pairs at Sunrise, with 25 well pairs on production. Our volumes continue to be a little ahead of our plan and have increased to the range of 5,500 to 6,000 barrels a day. Typical of projects such as these, it's takes about six to eight months to get the wells up to an optimum temperature for production. Sunrise is on track to be producing about 30,000 barrels per day net to Husky around the end of 2016. A large group of our analysts and investors will have boots on the ground at Sunrise in September, when we will be providing a front-line look at the project. We'll also be going down to Lloydminster to look at our thermal operations there.

In the Atlantic Region, we captured netbacks of about $47 per barrel, which is good in today's market. As you heard earlier, the first South White Rose well has started production and we plan to bring the second well on line later this summer, as we move towards our anticipated net peak production of around 15,000 barrels per day from the South White Rose project. We will then move to our Hibernia well beneath the North Amethyst field, which is set to start up in the fourth quarter. In regards to cost efficiencies, we are participating in a new tanker transportation initiative in the Jeanne d'Arc Basin. It will use a common transportation service provider instead of the two dedicated tankers that we've been chartering to date. We expect this single system will help eliminate overlap between operators. Most importantly, it'll save Husky in the neighborhood of $23 million in 2016, and up to $250 million over the 15-year lifecycle of the contract.

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

OPERATOR:

Thank you. We will now begin the analyst question and answer session. Any analyst who wishes to ask a question may press star and one on their touchtone phone. You will hear a tone to indicate you're in queue. For participants using a 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, please, while we poll for questions.

Thank you. Our first analyst question is from Greg Pardy from RBC Capital Markets. Please go ahead.

GREG PARDY:

Yes, thanks, good morning. So, this question is really for Rob, but more on the operations side. I'm wondering if you can talk just little about Ansell right now, in terms of the activity levels, what we should be thinking about in terms of drilling and completion costs there right now, and a sense as to how economic that project would be in this environment; and then I'm wondering if you can go back to Indonesia a little bit, just in terms of talking about CapEx, and then just the price you're expecting to get on the gas you'll be selling?

ROBERT PEABODY:

Okay. Thanks, Greg. Ansell, just in terms of the current level of activity there, we're running one rig basically full-time at Ansell right now, and, again, in terms of drilling and completion costs, we continue to see efficiencies there. I can get back to you with the precise numbers.

Indonesia CapEx, I think the main thing I'd say there is, clearly, the FPSO that we're putting in place there is a leased FPSO, so hence the lower upfront capital involved there, and in terms of gas pricing in Indonesia, the BD field, the gas price is about US$6.50 an Mcf, and then we subsequently did a contract for MDA and MBH and that price is a little bit higher than that.

ASIM GHOSH:

I think just two points in perspective. One point that Rob already made is that the FPSO is an OpEx item, so there's no CapEx going in to FPSO, but, finally, also, all of this ties into the existing distribution infrastructure, so there isn't a lot of investment going into infrastructure, either. It's a very, very capital-efficient project.

GREG PARDY:

Okay, thanks for that, and can you give us maybe just an idea—I don't want to dig too far into Indonesia today, but just an idea as to where you would expect OpEx run rates to be, and then just what the capital you expect to spend on those projects.

ASIM GHOSH:

We will get back to you with the details offline, Greg.

GREG PARDY:

Okay, no, that's perfect. Thanks very much.

OPERATOR:

Thank you. The next question is from Neil Mehta from Goldman Sachs. Please go ahead.

NEIL MEHTA:

Good morning.

ASIM GHOSH:

Good morning.

NEIL MEHTA:

Good morning. So, a quick question here. In terms of thinking about the cost savings, the Company's targeted $400 million to $600 million. It looks like you guys have locked in $575 million already. So, is it fair to say there's potential upside to that base case, and if so, what would the levers be?

ASIM GHOSH:

Rob, why don't you take that?

ROBERT PEABODY:

Sure, okay. Just let me recap a little bit on this. First, just to remind you that it's not a new focus on savings, and coming into this year we've already—we had already over the past several years realized about $1.3 billion in savings. In 2015, as a result of a variety of initiatives, including procurement and G&A, those are the savings that we're talking about at the $400 million to $600 million. Procurement savings are on a run rate basis, and you've seen some of those start to come into our results, but we'll see more of those coming in as we go through the next few quarters. Just as important is our transition to a low sustaining capital business, I don't want you to forget that when we talk about the specific savings. More than

40% of our production, as Asim mentioned earlier, will be coming from low sustaining capital by the end of 2016, which is structurally important as we look forward.

Just a little bit of detail on the $400 million to $600 million. I think, so far, you know, that's a mixture of procurement savings and also our corporate and IT and workforce adjustments, and about 70% of the savings come from procurement and about 30% come from that second category, and the majority of these savings are either permanent or they are sustainable over the foreseeable future, I would say.

In terms of where we are at the $575, we're not finished, I think that's clear. What we've focused on on the procurement side so far is rate reductions. What we're now in discussions with our suppliers on a whole bunch of ideas they brought forward when we wanted to discuss rate reductions about how we could actually do things more efficiently, and we're going through a very structured process of following up on all those ideas. So, in a long answer to your short question, we still believe there is upside.

NEIL MEHTA:
Thank you, Rob, and the follow-up is on the political environment in Alberta, obviously very dynamic, but any insights on just where we are in the process, what's at stake on both the royalty front, the tax front, and then on the carbon front?

ASIM GHOSH:
Well, look, I mean, whatever is there is in the public domain, but as far as we are concerned at Husky, we are committed to working constructively with the Alberta government, just as we do with every government where we have operations, but I want you to keep in perspective that our strength is our diverse portfolio and our financial discipline, and that a large percentage of our significant growth assets reside outside the province, and we have a rigorous investment decision-making process, we take a long view and consider several factors for project investment decisions, the IRR, our product mix, and maintaining a diversity across structural execution with all of those elements. So, the fiscal regime on that is just one more input. I don't want you to think that that is—we factor that into our analysis, but having a great resource that you can develop by at a low F&D and low OpEx comes way before that.

NEIL MEHTA:

Helpful colour. Thank you very much.

OPERATOR:

The next question is from Paul Chang from Barclays. Please go ahead.

PAUL CHANG:

Thank you. Good morning, guys. A number of questions. Asim, is there any revision to the 2015 budget at this point, and if not, do you have any early view of what's the 2016 budget for CapEx, whether it's trending up, flat, or trending down?

ASIM GHOSH:

Well, let me speak to 2015 first. We expect CapEx to track to guidance. The second thing is, no, we have not taken a view on 2016 yet, because we'll still be in a state of commodity price volatility and it's difficult to take a view on where to peg the tent. However, what I will say, it is becoming clear that we have a persistent supply demand imbalance in the oil market, and if I were to borrow some words from a very well respected energy CEO, who has now got the moniker of LL, I'm a member of that LL camp, which is the lower-for-longer camp.

I'll just remind you Husky is purpose-built for these cycles and, indeed, we have been steadily increasing the resiliency of the business since 2010. So, certainly, when we do get to the point of having an outlook for 2016, we're not going to build it around any dramatic increases in the oil price. We'll be giving our guidance disclosures, I guess, what, the November/December timeframe, and we remain focused on remaining well positioned at the time of these volatile conditions.

PAUL CHANG:

Maybe John can help, if I could—if you don't mind, I want to ask in a slightly different way. Some of your major projects, like some Sunrise, those that are complete, so your capital flexibility has improved, and with the cost savings on that. So, John, if I'm looking at 2016, what is the minimum CapEx that you need to spend to fulfill all your commitments and everything?

JONATHAN MCKENZIE:

Yes, so, what I would say, Paul, is, on a full-cycle basis, the guidance that we've given in and around our maintenance capital in the upstream is about $2.5 billion, and then about another $500 million for the downstream, so about $3 billion on a full-cycle basis, and obviously, with these assets, we have the ability to stage and pace them a little bit differently, depending on the commodity cycle and other capital balance sheet priorities that come up. That's typically a pretty good number to use on a full-cycle basis.

PAUL CHANG:

Okay, and, John, in your press release you're talking about there's mark-to-market loss in the I&M. How big is that number?

JONATHAN MCKENZIE:

I think that number was about $21 million.

PAUL CHANG:

Pre tax or after tax?

JONATHAN MCKENZIE:

After tax.

PAUL CHANG:

In the second quarter, your cash unit costs ended up to be higher than the first quarter due a number of the operating downtime. Should we assume that in the second half you're going to have lesser downtime, so as a result, the runway of the unit costs is going to go back down, and a rough estimate what is the second-half cash unit costs runway may look like?

JONATHAN MCKENZIE:

Yes, Paul, maybe just a tad. You're right, op costs for Q2 were affected by several turnarounds, as well as, of course, the decrease in our share of Liwan production, as the exploration capital was all paid back to us, so that was a little bit of the structural adjustments you saw in Q2. In absolute terms, when you factor in the incremental cost of maintenance turnarounds in our upstream, op costs have remained about the same, and looking forward, it's always hard to predict clearly, but, overall, we expect to see the savings, as we said, on a run rate basis, come through. Those are split between CapEx and OpEx, but as those come through, they'll start pulling down the unit operating costs.

PAUL CHANG:

Rob, the cost saving, that 400 to 600, or closer to probably 600 now, can you remind me how much of them is showing up directly on the P&L and how much is on the—or what percentage is in the CapEx side?

ROBERT PEABODY:

We do have that split. I'm trying to remember the exact side of it. I think it was—yes, okay, we'll get back to you on the precise split. I could give you a number, but I might be a little bit out.

PAUL CHANG:

Okay, and also, when you get back to me, that if you can have someone also tell me what is your current run rate in the second quarter on the savings and what is the run rate you're expecting in the third and the fourth quarter?

ROBERT PEABODY:

Certainly, Paul.

PAUL CHANG:

From an operational standpoint, the isocracker, it looks it's going to be done into the second quarter of next year after you finish the turnaround. Should we assume the operation of it in your Lima refinery for the next nine months is going to do anything different than what we have seen in the second quarter, or the second quarter will end up that to be a reasonable base case?

ROBERT BAIRD:

Yes, Paul, this is Bob here. You can assume that the run in the third quarter will be similar to the one in the second quarter.

OPERATOR:

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

BENNY WONG:

Thanks, guys. Just I want a little more color around the ramp-up at Sunrise. Just seeing the current rate doesn't seem to be too much different from the update from July, is that just a matter of timing of the wells turning over or are some of walls taking little longer, or is there any other factors kind of contributing to that? Thanks.

ASIM GHOSH:

I'll make an overall comment. We have a planned ramp-up schedule and basically we are tracking to that ramp-up schedule. So, it is not a question of is this taking longer than expected. No, it's taking—we are tracking in line with where we want to be and we had fully planned a measure of time for the wells to warm up and start producing.

BENNY WONG:

Okay, thanks, and just as a follow-up, just when you're looking at the West White Rose extension, can you remind me, when you look at the pros and cons of deciding between the two development approaches, is it just a matter of cost, or is there any other factors that you guys are kind of weighing? Thanks.

ROBERT PEABODY:

Hello, this is Rob here again. We do continue to assess the potential development options. One of the two concepts being assessed is a fixed well head platform and, as you've probably seen, that's received government and regulatory approvals. The second development concept we're looking at is a subsea development and it's also being evaluated. Clearly, ultimately, it's looking at the economics of one option versus the other, and we take into account views of the executability and the risk around each project, the recovery, et cetera, to come up with the view of which one is preferred from a risk economic standpoint.

BENNY WONG:

Great. Thanks.

OPERATOR:

The next question is from Fernando Valle from Citi. Please go ahead.

FERNANDO VALLE:

Hi, guys, thanks for taking my question. My first question was—the industry has struggled a little bit with getting ROE above cost of equity, and you mentioned you're in the camp of the lower-for-longer, so I'm just wondering do you think we need more supply deflation at this level with current oil prices, or is your view that even in this environment and at current supply run rates you can still bring ROE up by delivering your projects on time?

ASIM GHOSH:

Well, on time is one element, but cost is the other element, and cost is related to where you choose to deploy capital, because some places are inherently more efficient than others. But, broadly, as I said, I'm not here to solve the issues of the industry, I'm here to make sure that Husky survives regardless of where, within reason, the price will settle out, and I think what we have said is the transition to having a larger proportion of our business as low sustaining capital is important. So, we've got our heavy oil thermals, we've got our oil sands, we've got our Liwan locked in, which won't require capital for the next several years, Indonesia is very productive at these low price environments, and overall, I mean, because of our diversity upstream and downstream, we have a number of options that are accretive at the sort of price levels, even at the sort of price levels we are seeing today.

FERNANDO VALLE:

Okay, and the second question was—you raised a considerable amount of preferred shares this quarter. I'm just wondering should we expect more preferred offerings in the coming quarters, or are you comfortable with the leverage the way it is right now, just a little colour on the capital side.

ASIM GHOSH:

Well, look, we've got our priority to maintain a healthy balance sheet. Debt-to-capital is around the 20% range right now, and getting that investment-grade rating, maintaining liquidity, it needs to be a priority for us.   You've got to then draw your conclusions based on those overall priorities for the Company, which I've stated often.

FERNANDO VALLE:

Okay. Thank you.

OPERATOR:

The next question is from Paul Chang from Barclays. Please go ahead.

PAUL CHANG:

Hey, two additional questions. I think that one of your peers has recently sold their land, their fee-based land portfolio, their business, and I'm wondering that—you guys have in the past saying no—is there any change in that decision?

Secondly, if we are looking at your resource play in Canada, it looked like that you're focusing primarily in Ansell. So, for the rest of your portfolio, is there any need for you to keep those or that they could be a candidate for divestment? Thank you.

ASIM GHOSH:

Paul, speaking to the capitalization of the royalties, look, it is one tool in the toolbox, and at Husky we have posted that we've got lots of tools, and, overall, we are maintaining a conservative balance sheet even without needing to pull such levers, but we look at all our options constantly and we will continue to do so.

On the second question, again, we look at our portfolio, overall, we like our assets—and remember Ansell's been around in the Company for a long time, and if I'd taken the simple cut-and-paste approach to doing business, we might have got rid of Ansell many years ago and not have the benefit of that today. Many years ago, people thought our heavy oil business was completely mature because of chops and the depth technology, and yet with the same lands it has resurrected with thermal. So, our general approach is we don't take simple measures as to cutting and pasting, rather we try to sweat the assets, and in order to be able to do so, I need to have a bias towards preserving the assets.

PAUL CHANG:

Thank you.

OPERATOR:

Our next question is from Menno Hulshof from TD Securities. Please go ahead.

MENNO HULSHOF:

Thank you and good morning. Most of my questions have been answered, but could we get an update on appraisal drilling activity in the Flemish Pass and when we can expect the release of some of those results?

ASIM GHOSH:

Rob, do you want to take that?

ROBERT PEABODY:

Yes, Menno, thanks. Yes, you'll probably be disappointed, because my answer will remain the same. With our partner Statoil in the Flemish Pass, we both decided let's finished the delineation program before we get into announcing results, and we decided that right from the beginning. So, the program is continuing, good progress is being made, and we will update you as appropriate. I see that coming later in the year, towards the end of year, probably, because that's when we'll have sort of the wells done and the analysis finished off. So, that's kind of the status where we are right now, Menno.

MENNO HULSHOF:

How many wells are getting drilled.

ROBERT PEABODY:

In total, we're doing—I think it's five wells in the program.

MENNO HULSHO:

Okay, thanks, Rob, and then just go back to the cost structure improvements really quickly, are there any regions that really stand out as right-sizing a lot faster than others?

ROBERT PEABODY:

I would say there's nothing specifically. Every business is a little different. Clearly, the downstream and midstream is very different from the upstream, and it's kind of a margin business, and nothing has really changed there for them. That doesn't mean they escape scrutiny, but, certainly, the business imperative isn't quite as immediate as some other areas, and across the upstream, we are looking across all the whole business for savings.

MENNO HULSHO:
Okay. Thank you.

OPERATOR:
As a reminder, any analyst who wishes to ask a question may press star and one on their touchtone phone. There'll be a brief pause as we collect any other analyst questions.

There are no more analyst questions at this time. We will now take question from members of the media. As a reminder, please press star and one on your touchphone to ask a question. If you wish to remove yourself from the question queue, press star and two. We will briefly hold as we collect questions from the media.

Thank you. Our first media question is from Jeff Lewis from Globe and Mail. Please go ahead.

JEFF LEWIS:
Thanks for taking my question. What's your thinking around M&A in the current environment and would you consider an acquisition given your financial position relative to some of your peers, as well as your view of oil prices? Thanks.

ASIM GHOSH:
Look, our view of M&A hasn't changed, we look at all opportunities, but then those opportunities have to compete with the portfolio of high-return projects we have organically. Clearly, we haven't found something yet that beats what we can do organically. Organic takes longer, it's boring, but it's more accretive, and if something should change, we come across something that beats that, we will change course.

JEFF LEWIS:
Okay, and just on the Alberta carbon regulations, how are you preparing the business here in anticipation of sort of more stringent environmental and carbon policies?

ASIM GHOSH:

Recent changes are an incremental cost to our business, and that fall in line with our frame of scenario planning. Our Alberta assets that are subject to the current and amended carbon dioxide at Tucker, Ram River, Sunrise, I'll remind you that these are variety of initiatives, so these are emissions throughout the business, and we've got carbon capture initiatives in all facilities, and other pilot projects, we participate in waste gas to power projects, and we are in the process of submitting applications of participation in the Tech Fund for emissions projects. We are focused on efficiency in the business and reducing fuel use, thus reducing emissions intensity. So, there is a whole host of stuff going on and the Alberta stuff is just part of the overall mix.

JEFF LEWIS:

Okay. Thanks.

OPERATOR:

The next question is from Rebecca Penty from Bloomberg News. Please go ahead.

REBECCA PENTY:

Thanks for taking my question. As you know, Total is looking at selling a stake in its only US refinery on the Gulf Coast and I'm wondering whether Husky would be interested in this or in any other downstream assets to balance off any of the upstream growth?

ASIM GHOSH:

No, Rebecca, it's not on our radar screen. If we find a compelling opportunity, we'll look at it, but this one is not on our radar screen.

REBECCA PENTY:

Thank you.

OPERATOR:

The next question is from Tracy Johnson from CBC. Please go ahead.

TRACY JOHNSON:

Hi, thanks for taking my question. My question is about the $157 million impact from the corporate tax increase. I'm just wondering, because the tax increase took effect in the third quarter, how long a period is that sort of intended to capture? Is it for number of years or is it an indefinite period? I'm just trying to sort of understand better what that indicates.

ASIM GHOSH:

John, do you want to take that?

JONATHAN MCKENZIE:

Sure. Thanks, Rebecca—or sorry, it's Tracy. Sorry, Tracy. So, as you know, we carry a deferred tax liability on our balance sheet, and to the extent that that relates to future Alberta taxes to be paid, we're required to revalue that liability with the announcement of the increased tax rate. So, what I would say is this will unwind itself over a period of years, and it's really depends on economic conditions and future commodity prices, and so there isn't a determinant period, but it will happen sort of over a short/medium timeframe on a go-forward basis.

TRACY JOHNSON:

Okay. Thank you.

OPERATOR:

The next question is from Jeff Morgan from The Financial Post. Please go ahead.

JEFF MORGAN:

Hi, thank you for taking my questions. I just wanted to clarify a statement earlier in the call, talking about repeatable smaller size projects. Is there a timeframe when Husky might return to some of the larger projects or perhaps greenfield projects, and if you can just help me to understand better whether or not you meant that in the short to medium term the Company was going to be looking at perhaps brownfield and smaller developments? Thank you.

ASIM GHOSH:

No, we will maintain a balance, and I think Rob used the words "advisedly." We have a bias towards bite-sized projects. So, a bias indicates exactly what it is. It's a bias, it is not a full one way or the other. We will remain diversified in terms of portfolio, we will remain diversified in terms of project execution risk, because at the end of the day we also want a mix of higher return projects which certain types of projects give us.

JEFF MORGAN:

So, a larger project then isn't completely out of the question in the short to medium term, but not a priority perhaps?

ASIM GHOSH:

I think that's a good summary.

JEFF MORGAN:

Okay. Thank you.

OPERATOR:

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

ASHOK DUTTA:

Good morning. I have two very quick questions. Are you guys looking at bidding for the parcels that have been tendered out and for which bids are due in November in offshore Newfoundland?

ASIM GHOSH:

No, we never comment on such matters. As we don't comment specifically on M&A, we certainly don't comment on potential bids.

ASHOK DUTTA:

Okay. I have a second question related to that, but that's going to be irrelevant now. Thanks.

ASIM GHOSH:

Okay. Thank you for your question. So, thank you, everybody, for your questions.

OPERATOR:

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

ASIM GHOSH:

Yes, so let me leave you with some closing thoughts. As I said earlier, our balanced growth strategy remains intact, as we continue to balance our profitable near-term growth projects. We do draw strength from our portfolio diversity. Our heavy oil projects in Saskatchewan, the thermal projects, the fixed prices we get for high our netback gas in Asia, and our margin-driven downstream business, all of these are providing additional resilience in these times. Finally, our ongoing transition to a low sustaining capital business is helping us build an even more resilient company, more than 40% of our productions coming from such projects by the end of 2016. Thank you all for listening in.

OPERATOR:

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