HUSKY ENERGY

2017 PRODUCTION GUIDANCE & CAPITAL EXPENDITURE PROGRAM CONFERENCE CALL & WEBCAST TRANSCRIPT

Date: **Tuesday, December 13, 2016**

Time: **10:00 AM MT**

Speakers:

Robert Peabody
President and Chief Executive Officer

Jonathan McKenzie
Chief Financial Officer

Rob Knowles
Manager, Investor Relations

OPERATOR:

Welcome to the Husky Energy 2017 Production Guidance/Capital Expenditure Program Conference Call and Webcast. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, and zero.

I would now like to turn the conference over to Rob Knowles, Manager, Investor Relations. Please go ahead.

ROBERT KNOWLES:

Hello and thank you for joining us this morning. I'm here with CEO Rob Peabody, CFO Jon McKenzie, and other members of our Executive Team, who will present our production guidance and spending plans for 2017. Then, we'll open the line for questions. A reminder to please direct any detailed modeling questions to our Investor Relations Team following the call.

Today's call includes forward-looking information. I'll direct you to the advisory included in this morning's news release that outlines the various risk factors and assumptions. These are also available in our annual filings on SEDAR, EDGAR, and on our website.

As usual, all figures referenced during this call will be in Canadian dollars and before royalties, unless otherwise stated.

I'll now turn the call over to Rob.

ROBERT PEABODY:

Thanks, and good morning, everyone. We've made great gains over the past several years in transforming our business and dramatically improving our resilience. Our vitals have never been stronger. We have a solid balance sheet. In total, we have reduced our debt by 40% to $4 billion, which has positioned our debt metrics amongst the best in the industry. We have structurally transformed our cost basis. We achieved, ahead of schedule, our target of generating more than 40% of our production from low sustaining capital projects. This has resulted in two outputs. It has significantly lowered our sustaining and maintenance costs and it has helped reduce our overall op costs by about 20% since 2014. We have also built a deep portfolio of resilient investment opportunities that will continue to improve our cost structure in the years to come.

As you consider our 2017 program, it helps to think of it as part of a free cash flow cycle. For every new investment dollar we spend, we generate higher margins, which further lowers our corporate breakeven, thus increasing our free cash flow. The free cash flow generated within this cycle, in turn, can be used to establish a sustainable cash dividend, as we see the markets rebalance, and invest in more high return projects.

In regard to our strategic objectives for next year, we will maintain our strong balance sheet. This means keeping spending within cash flow. Second, we'll also continue to grow our high return production base and we will be adding about 45,000 barrels per day of this production throughout the year. This will more than replace declines in our legacy businesses and provide for new growth. The depth of our portfolio allows us to choose from a wide range of investments to improve our resilience going forward. The third objective is to lower our cost structure. Our overall sustaining and maintenance costs are expected to be in the range of $2.2 billion to $2.3 billion, down about 25% from a couple of years ago. The final objective is to enhance our ability to generate free cash flow.

Several years ago, we set a hurdle rate for all new projects that had us realize a 10% IRR with oil prices in the low 40s U.S. WTI and a breakeven in the low 30s. We identified more than $20 billion worth of projects that clear this hurdle. This includes 18 more Lloyd thermal projects, representing more than 150,000 barrels per day of long-life, low-cost production. In other words, investing a portion of our free cash flow in these types of high return projects supports the free cash flow cycle I talked about before.

Now, I'll turn the floor over to Jon to speak more to our plan and then I'll walk you through our operational objectives.

JONATHAN MCKENZIE:

Thanks, Rob. We've set our production target next year in the range of 320,000 to 335,000 boe per day, which doesn't reflect any further dispositions in Western Canada. Overall production from thermal operations will increase more than 30% year-over-year to an average of 125,000 barrels per day, which will be more than half of our crude oil production in 2017. Net capital spending will land between $2.6 billion and $2.7 billion, and we'll stay within cash flow at our price planning assumptions. Our net debt will remain around CAD$4 billion. We have about US$300 million in maturities coming due next year and no major long-term debt maturities until 2019.

Rod talked about how we've reduced our debt by 40% in 2016. This is, in large measure, due to the new midstream partnership, which not only contributed $1.7 billion in cash, but has unlocked significant strategic value. Specifically, our partner has committed to expanding takeaway capacity for the next eight thermal projects, and we've maintained operatorship of this extensive portfolio of assets while preserving our tight integration with our downstream business.

In terms of cost savings, our supplier program that started six years ago, continues to deliver results. Through this program, we've realized about $2 billion in cumulative supply and procurement savings. Combined with our ongoing transition to higher return barrels, this has resulted in a lower cost base, which, in turn, has driven down our overall corporate breakeven, and this breakeven will trend lower in 2017. We'll continue to work with our suppliers to find additional opportunities to bring down costs and free up working capital, and we'll keep investing in projects that will further improve our cost structure.

The output of all of this is that we are continuously enhancing our ability to generate free cash flow. This cash flow will be earmarked for three specific priorities; namely, maintaining the strength of our balance sheet—and as I've mentioned, we've already met our target there—continuing to invest in projects that will grow our higher return production base, and we'll look to establish a sustainable cash dividend as the market returns into balance. This remains a clear priority for us and is reviewed every quarter by the Board.

In terms of scheduled maintenance work in 2017, we have a few turnarounds on the calendar. In the Atlantic Region, both the SeaRose and Terra Nova will undergo three-week turnarounds in Q3 2017, and in the downstream, a four-week turnaround is planned at the Lloyd Asphalt Refinery in the second quarter. There will be a seven-week turnaround at the Lloyd upgrader, also starting in the second quarter of 2017. At the Lima Refinery, we will run a partial turnaround over five weeks in the fourth quarter of 2017. At Liwan, I'll remind you that we continue to receive full payment for our take-or-pay gas. Overall contract volumes at Liwan in 2017 are in the range of 300 million to 330 million cubic feet per day, of which the undelivered portion will be booked annually as deferred revenue.

In terms of how we're tracking in 2016, full-year average production this year will be about 318,000 to 320,000 boe per day, and this is within our 2016 guidance range, which was not adjusted for the sale of more than 30,000 boe per day of assets in Western Canada. It also does not include about 46 million cubic feet per day of deferred production at Liwan. Our CapEx is on track to come in at around $2 billion, about $100 million less than the lower end of our guidance range. Not only did we come in lower due to our cost savings program, but we also managed to increase the scope of work that was executed.

Now, I'll turn the call back over to Rob.

ROBERT PEABODY:

Thanks, Jon. I've talked about our strategic approach for 2017. Now, I'll lay out the operational objectives across our portfolio.

On the top of our priority list is expanding our thermal business.

The three newest Lloyd projects, at Edam East, Vawn, and Edam West, are going full lilt. With a nameplate of 25,000 barrels per day, collectively, they are producing about 30,000 barrels per day, and they have a bit more in the tank going into the first part of next year.

We are also advancing construction of Rush Lake 2, a 10,000 barrel per day project that is on track for first oil in the first half of 2019, and we just sanctioned another three Lloyd thermal projects at Dee Valley, Spruce Lake North, and Spruce Lake Central. Subject to regulatory approval, these will add an additional 30,000 barrels per day, with first production from all three expected in 2020.

Meanwhile, production from the new pads at the Tucker thermal project, starting next year, will bring volumes up to the plant capacity of 30,000 barrels per day in 2018. Tucker is expected to have a production life of about 40 more years. Tucker is a good example of how we are applying the expertise we have developed in our SAGD thermal business.

At the Sunrise energy project, current production is about 35,000 barrels a day. The ramp-up will continue through the coming year and we expect annual average production numbers to be between 40,000 and 44,000 barrels per day gross in 2017. We expect to see average production for the 55 well pairs to be around 800 to 900 barrels per day, once ramped up, with about 30% of the wells already above 900 barrels per day today. The expected reserves recovery from individual wells remains the same.

As you're aware, we previously drilled 14 well pairs in 2015. For capital acceleration of about $50 million net, we will complete and tie in these wells next year. We will utilize the existing plant steam capacity and we expect to see the top-up in production in 2018. This accelerated investment will be more than offset by savings we've achieved in our sustaining capital programs.

Another priority is capturing margins through our integrated downstream business. This is a key component in improving our resilience. Through these value chains, we are able to maximize margins for our Lloyd and Sunrise production, while at the same time insulating us from what can be large movements in heavy oil differentials. At Lloyd, engineering is progressing on a project to double asphalt capacity by 2021. The project, which will be considered for sanction next year, will provide another home for our growing thermal production without the need for more pipeline takeaway capacity.

At the Lima Refinery, we are continuing work on a project that will expand our ability to process up to 40,000 barrels of heavy crude by the end of 2018. This will increase our flexibility and improve our competitive position in Pad 2. The first phase complete and we can now run about 10,000 barrels per day of heavy at Lima.

At Toledo, we will reap the benefits of the recently completed project that increased high-TAN processing capacity to 65,000 barrels per day for a full year.

Overall, our total heavy oil processing capacity will surpass 210,000 barrels per day by the end of 2018, or about two-thirds of the 340,000 barrels per day of refining and upgrading total capacity.

Our next priority is further developing our fixed price gas business in the Asia-Pacific Region. We are continuing to build projects that have long-term fixed price contracts that further reduce our exposure to commodity prices. At the BD field, offshore Indonesia, we expect to ramp up to the full gas sales rate by the second half of 2017, with a net production target of 40,000 million cubic feet per day of fixed price gas and 2,400 barrels per day of liquids. By the end of next year, with nearly 200 million cubic feet per day of gas will be sold through fixed price gas contracts, and we are advancing three additional Madura Strait fields through the tendering process, with start-ups in the 2018/2019 timeframe.

Our final priority is to rejuvenate both the Western Canada and Atlantic Region businesses. Within these regions, we have a balance of short- to long-term opportunities, and we are advancing higher return production growth opportunities in both segments.

In Western Canada, as a result of the ongoing disposition program, we are moving this business forward in a more capital-efficient manner, with a lightened load in terms of our asset retirement obligations. We have completed about 80% of our planned dispositions and surpassed our proceeds target. We will tidy up the rest of the portfolio in due course. As we've maintained, this is not a fire sale and we will continue to be opportunistic with further transactions. Going forward, we will be focusing on short-cycle projects that allow us to quickly adjust investments, depending on market conditions.

In the Atlantic Region, we are continuing to extend the life of the main White Rose field through a series of high netback satellite extensions and infill wells. These projects, which all benefit from the SeaRose FPSO, give us some of the best economics in the portfolio. We will bring two infill wells online over the course of the next year, with a combined net deep production rate of about 15,000 barrels per day. These wells will help us mitigate natural declines, with year-over-year production in the region remaining steady. At West White Rose, we're looking at the best ways to improve efficiency and resource capture. We've made quite a lot of progress here. We'll be making a decision in 2017 on the development of this project.

That's our plan for 2017. Now, I'll turn the call over to the Operator to take your questions.

OPERATOR:

We will now begin the question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you're using a speaker phone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

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

GREG PARDY:

Good morning. Three questions for you, but maybe just the first one is with respect to Wenchang. I believe the PSC there comes to an end in mid '17, but is that the case, or do you expect it to produce longer than that?

ROBERT PEABODY:

Yes, thanks, Greg. Wenchang will continue to produce for us until November 2017.

GREG PARDY:

Okay, perfect. The second thing is, just with respect to Liwan, so the volumes certainly look more than—or above what we were expecting. Could you just comment on the physical takes that you're seeing at Liwan?

ROBERT PEABODY:

So, at the moment, we have seen an increase in physical takes there, and so we are—you know, the guidance, we kind of guided towards around 300/330 gross production next year. We're currently, actually, off-taking a little bit above that level at the moment, but I'd just also remind you that we get paid kind of regardless of what the actual physical liftings are.

GREG PARDY:

Okay, no, thanks for that, and then the last question for me, it's probably a question for Jon, but just with respect to cash taxes—I know you're framing your budget at a, I think, $48 WTI price—could you give us any idea where you think cash taxes would shake out roughly; and then, secondarily, how sensitive that cash tax number might be to changes in oil prices?

JONATHAN MCKENZIE:

Yes, I'll answer the—thanks, Greg. I'll talk to the first piece in this, and I'll remind you that we operate in three jurisdictions. We operate in Canada, the U.S and then in China, and soon to be Indonesia, so I'll wrap that into sort of the Asia-Pacific Region. Using the price planning assumptions that we've put inside the guidance, we don't anticipate being cash taxable in Canada, nor the U.S., in 2017. We will be cash taxable in Asia-Pacific, and you'll remember that the effective rate, or the statutory rate in China is 25%, and you should be using probably an 80/20 split in terms of cash versus deferred taxes in that region.

In terms of our sensitivity in 2016 to cash taxes to the oil price, it's difficult to look at the oil price and into gas independent of refining margins and the downstream contributions, so suffice it to say, I think, at these levels, we don't anticipate being cash taxable, and at higher oil prices, $60/70, we wouldn't be cash taxable in our Canadian production in 2016.

GREG PARDY:

Okay. So, Jon, maybe I'll push a little further, but if I did that math quickly, we'd be probably talking about something well under $100 million in cash tax?

JONATHAN MCKENZIE:

Yes, that's what we're anticipating, again, based on those pricing assumptions.

GREG PARDY:

Okay, terrific, guys. Thanks very much.

ROBERT PEABODY:

Thanks, Greg.

OPERATOR:

The next question comes from Neil Mehta with Goldman Sachs. Please go ahead.

KRISTINA CIBOR:

Good morning. This is Kristina Cibor in for Neil Mehta. I have two questions. One, you highlighted the importance of your downstream business, particularly in 2017, and beyond. Could you maybe talk a little bit more about the expected operational improvements and ways you can kind of improve margins and then integrate that business with your upstream business? Then, I have a follow-up question.

ROBERT PEABODY:

Okay, well, I guess the two—you know, clearly, what we're doing in the downstream business, anyways, is we have a number of projects that are allowing us to take heavier feedstock into that system, so you get increasing margins on that heavy feedstock. We're also doing a little bit more real-time management of the value chains from Sunrise and from Lloyd down through to our refineries in Pad 2. So, those are kind of key elements—I could go on, but I don't think I will—that we're doing in order to pull more margin out of each barrel we run through those value chains.

KRISTINA CIBOR:

Okay, that's helpful. Then, my follow-up question actually pertains to the exhibit on Slide 6, the different sensitivities to your free cash flow at different oil price environments. Could you maybe talk a little bit, what you would need to see to ultimately resume your dividend? I know, in 2017, and beyond, your key focus is balance sheet growth, production growth, but how does the dividend become a part of the value proposition for investors?

ROBERT PEABODY:

Yes, okay. Well, you know, as free cash flow becomes available—as I've said, our priorities go to growing margins and higher return production, and establishing a cash dividend, which, as we said, remains a priority for us and something that the Board reviews every quarter.

KRISTINA CIBOR:

That's very helpful. Thank you, guys.

OPERATOR:

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

PAUL CHENG:

Hey, guys, good morning. I have to apologize first, because I'm coming in a little bit late, so you may have already addressed it. If that's the case, please let me know, I can take it off line. Rob, on Sunrise, maybe my recollection is wrong, but in the second quarter conference call, after the WiFi, I think the indication is that by now, or that by early 2017, we should be ramped up to the full production, about 60,000 barrels per day, and also that I don't recall we had any indication that per well productivity will drop to about 800/900 barrels per day. Over the last six months, what may have changed that you're coming out with a different view?

ROBERT PEABODY:

Yes, Paul, thanks. Yes, that is what we said on the last conference call, so your recollection is correct. What we've been doing over the last quarter is really looking at the performance on a well-by-well basis and kind of rebasing everything. As I said, our current production is about 35,000 barrels a day. We expect it continues to ramp up. We've said now, after looking at all those data, we expect to see average production from the 55 well pairs to be between 800 and 900 barrels per day.

I mean, it's interesting. You've got to realize there's quite a distribution here. We have some wells, a couple of wells that are producing up at around 1,500 barrels per day, we have 30% of them producing over 900 barrels per day, and we have a small—we have a certain number that are producing at the lower levels, which we still think have quite a lot left in the tank. But, when we put that all together and looked at statistically, we just came up with a view it was more like 800 to 900 would be the average.

But, one thing I really want point out, and it's a really important point, is nothing in this data is suggesting we won't actually recover the same amount of oil per well. So, the total number of wells in the total development over the life of the project will be the same as it has always been. What this is suggesting to us is it's worth accelerating some of the wells in order to hit the plant capacity sooner, or even hit it and make full utilization of the plant capacity.

As we said in the script, and you might have missed it, I think—well, I know that the cost of this acceleration of $50 million forward faster than it would have been otherwise is going to be more than offset by the fact that we're actually seeing sort of 30% plus reductions in our overall sustaining capital looking forward for the rest of the life of the project, so that will kind of swamp that number.

So, your recollection is correct, but this is kind of as the result of a lot of work done over the last quarter.

PAUL CHENG:

Just out of curiosity, I understand that (inaudible 25:56) per well is not changing, and all that, but that the (inaudible 26:02) have changed, given that it would take a longer time to fully recover. So, does that mean that it's further pushed down, the future expansion of Sunrise, in the pecking order within your portfolio?

ROBERT PEABODY:

Well, I think the answer at the moment is, well, we have really strong inventory of thermal projects in Lloydminster, which are inherently have a higher netback than any Fort McMurray project, regardless of the operator. Clearly, those are getting prioritized in the near term, in any case.

PAUL CHENG:

Mm-hmm. For 2017, for your budget, if we have a substantially difference in oil price, and comparing to your budget assumption of $48, how sensitive is the 2017 budget number? If you end up at, say, call it $65/70 oil price, does that change how much you're going to spend?

ROBERT PEABODY:

Well, Paul, I don't think it will. I think we're quite satisfied with the capital budget we have for this year, given the opportunities and their current status, and what we can fund. So, I don't think you'll see that capital budget number changing much, regardless of the oil price over the next year.

I guess the only other thing I'd emphasize on the downside, we'll also be a little reluctant to cut it back much, unless we saw a major decrease in oil price, because as I was explaining, one of the key features of our plan going forward is to continue to drive down the breakeven Brent price of the Company, and this capital is helping us to continue to bring it down from the current level of somewhere in the order of $45 Brent to lower levels going forward.

PAUL CHENG:

Jon and Rob, if we exclude the impact from cost inflation or deflation in the sector—I mean, more likely it's inflation—your activity level that you demonstrate in 2017, should we assume this is the sort of kind of activity level that you're going to go forward in 2018 to 2020? In other words, if we have no inflation or deflation, is the CapEx number going to be pretty steady at around this $2.55 billion to $2.7 billion range going forward?

ROBERT PEABODY:

Paul, we're going to—I'm not going to answer that question, because I want you to come to our Investor Day in May, and I'll tell you all about that.

PAUL CHENG:

Okay, and then a final one. The (inaudible 28:49) program that you indicated this year, should we view it as a steady program, every year that you will be about the same activity level and have a similar benefit in your production, or that this is really just one-off, you're looking at a small set of opportunities and you're going to drill (inaudible 29:07)?

JONATHAN MCKENZIE:

Yes, Paul, again, the activity level can come up or down, but what we want to do is lay out our full five-year plan for you at our Investor Day in May. So, rather than give you the answer to that question now over the phone, our intention is to set the table for 2017, and then for the rest of the five years, in May at our Investor Day.

PAUL CHENG:

All right. Thank you.

ROBERT PEABODY:

Thanks, Paul.

OPERATOR:

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

FERNANDO VALLE:

Hi, guys, good morning. Just to follow up on an earlier question, the Board meeting, when they're considering growth spend versus dividend, what's the rational to spend on growth today versus funding the dividend? How do you make that decision? Again, we harp on this constantly, but what signs do you need to see to resume the dividend, externally and internally, now that the balance sheet is more or less important?

ROBERT PEABODY:
I'll have Jon answer that.

JONATHAN MCKENZIE:
Yes, no, good to hear from you, Fernando, and you're quite right. We set out three priorities and we've been very clear on that balance sheet, capital investments in the assets, and then the dividend. As I mentioned in my portion of the program today, the balance sheet work is done and we're quite happy with our level of net debt being CAD$4 billion.

In terms of the capital investment that Rob talked about, we see our capital program as being absolutely core to driving down our breakeven and driving down our cost structure. So, as incremental capital became available in 2017, we had the priority of the capital and the dividend to consider. Now, we certainly recognize the dividend is a key value objective of our investors and a key value driver for the Company, and we continue to look at bringing back a cash dividend on a quarterly basis with the Board. So, as we continue to see the oil market stabilize and continue to see the supply/demand balance come back into balance, we'll take a look at what kind of pricing that means on WTI and Brent, and then, again, on a quarterly basis, we'll think about bringing in a sustainable cash dividend.

ROBERT PEABODY:
I think the only thing I would add to that is just—and it's all in the numbers you've seen, but, you know, our budget is based on $48 WTI. Our capital program is fully funded within that program. So, if you see oil prices looking like they're stabilizing substantially above that in any way, that gives us more room to look at the sustainable dividend.

FERNANDO VALLE:
Great, thanks for that, guys. As a follow-up, just on Liuhua, now that you're actually getting incremental volumes there, has there been any advancement on the negotiations for Liuhua 29-1? Do you have any expectation of timing and when you might sign an additional contract on…?

ROBERT PEABODY:
Yes, I'll let Jon answer that one, too.

JONATHAN MCKENZIE:

Sorry, Fernando, did you say Madura, we're getting volumes?

FERNANDO VALLE:

No, Liuhua, sorry.

JONATHAN MCKENZIE:

So, 29-1, we are working with our partners, CNOOC, to work through the gas purchase agreement, which is kind of the final piece that we need to get across the goal line in order to get that project moving forward. So, we expect that to continue through 2017, the early part of 2017.

FERNANDO VALLE:

Great, thanks. Lastly, as a toss-up, do you have a date for the Analyst Day in May, preliminary date?

ROBERT PEABODY:

May 30, I think, I'm being told. Yes, May 30.

FERNANDO VALLE:

Great. Thanks, guys. Have a good one.

JONATHAN MCKENZIE:

Thank you.

ROBERT PEABODY:

Thanks.

OPERATOR:

The next question comes from Nima Billou with Veritas Investment Research. Please go ahead.

NIMA BILLOU:

Good morning. I think that's one thing that you guys need to promote more and more. People aren't well aware within your integrated peer group how much work you've done to progress the balance sheet, so well done on that front. I think it discounts your name and there's a repression of value, because people still perceive the entity and the Company as risky.

The second note is please don't succumb to the pressure of the remainder of the sell side to hike the dividend. In a rising commodity price environment, you're more rewarded for reinvesting your cash flows at a higher rate. So, I don't understand these questions about reinstating a dividend, because if the commodity price environment proves volatile, having to ratchet it back down is going to impair the Company tremendously. So, I'm very happy to see you lay out your growth and reinvestment program.

There's one comment, though, I found a little bit confusing. You mentioned that beyond this initial $300 million in growth capital, if prices stabilize higher, you didn't want to give any guidance on potential increases, at least for 2017, so can you lay out—you've already laid out another $300 million to $400 million. Is there an opportunity to expand that further if prices stabilize at the $55 mark? Is there a commodity price at which that 2017 budget, not the five-year one, can be expanded further?

ROBERT PEABODY:

What I'd say there is the reason why we wouldn't be looking to expand 2017 significantly with higher oil prices is just because it's all about capital efficiency. We're geared up, we have the programs in place, but if we all of a sudden, sort of halfway through the year, start ratcheting up capital in a big way—we've seen this many times in our industry and capital efficiency kind of goes into the tank. So, we're very comfortable about that. But, as I say, when you come to the Investor Day in May, if you can, I think we'll give you a good sense of what we think we can do over time in a reasonable oil price scenario.

NIMA BILLOU:

That's a great response. I appreciate the clarity on that. I know you can't give, obviously, detail, but I just want to understand your strategic imperative for the next few years. So, effectively, you've sold a lot of conventional assets, giving up some of that upside, and I understand that's cleaned up the balance sheet, like the sale of the Whitecap, but, effectively, you're taking these proceeds, you're taking your balancing cash flow and investing in growing your low-cost thermal operations. That's really the growth engine going forward; is that correct?

ROBERT PEABODY:

Well, let me just back up and I'll just give you, you know, just where are we going and where we have been. Over the past several years, we've been transforming the Company.

First, we're going to maintain a strong balance sheet, because this is a volatile industry. Our debt is now under two times cash flow and we're going to maintain that strength going forward.

Second, we have a low-cost structure and it's only getting lower. I mean, I think in Wood Mac, it publishes a table, they show us as sort of number seven in terms of having the best cost structure of 51 companies that they look at. So, we're going to continue to transform our assets and we're going to continue to work to reduce the amount of—to improve that breakeven going forward.

Third, we have a large inventory of high return projects that enables us to keep driving that breakeven lower as we go forward. You've talked about the 18 Lloyd thermal projects, we're going to continue to move that program ahead as we go forward over these years, but we also have a number of other projects both in Asia and in the Atlantic Region, and actually even in Western Canada, in some of our resource plays, and still looks like they will work to drive our breakeven down even more over time.

So, we're going to remain conservative, in that we're going to keep our balance sheet in good shape, but we're going to invest to keep driving that breakeven cost down. That's kind of our overall framework.

NIMA BILLOU:

I appreciate that. You also mentioned on the refining side. Can you just give me an idea of the amount of capital available to invest, because you're probably seeking to match your refining complexity and the ability to draw those heavier feedstocks? So, can you invest on the order of $500 million, is it another billion that you can invest, in order to be able to receive and process these heavier feedstocks? How much can you invest on that side, on the refining side, to sort of match your refining assets with what your production profile is, your heavier production profile?

ROBERT PEABODY:
Yes, I'll let Jon talk to that.

JONATHAN MCKENZIE:
I'll take on that question. One of the interesting things about our refineries in the U.S. is that we don't need to make major investments in terms of big facilities and big plants to come on, like cokers, in order to increase our capacity or takeaway capacity for heavy oil. So, we are increasing our ability to process the heavy oil that we produce in our thermal programs both at Lima and Toledo, as well as the production that comes out of Sunrise. It's about 105,000 barrels a day, so 65,000 at Toledo and 40,000 at Lima. That's relatively cost-efficient, to having to reconfigure one of these refiners into being a big coking complex. So, that's all about metallurgy, it's all about pumping capacity, and those kind of things.

The other thing that we are looking at, and continue to look at, and we've telegraphed to the market, is we still believe that asphalt, for us, is a natural business that we need to be a leader in and that we need to make additional investments in. One of the things Rob talked about during this part of the presentation today is our ability to double the size of our asphalt complex in the Lloydminster area, which is right where those thermal plants are located, so a very tight value chain in terms of upstream production and downstream processing capacity. But, with all that, we'll be well over 200,000 barrels a day of heavy oil processing capability in our downstream at a fairly modest cost.

NIMA BILLOU:
Can you not communicate that cost or can you give a ballpark as to what the CapEx involved will be?

JONATHAN MCKENZIE:
We really looking forward to seeing you at our Investor Day in May. I understand everybody is looking for guidance beyond 2017, but what we have is a well-constructed capital plan that we'll lay out exactly where we're going over the next five years, with a lot of transparency for the market.

NIMA BILLOU:

Yes, and I appreciate you guys taking a prudent approach, because an immediate dividend reinstatement acts more like a sugar high. It would be better to wait until those prices provide you with the excess free cash flow necessary, and your order of priority is protecting your balance sheet before going ahead with that. That dividend reinstatement will be part and parcel for servicing value. It won't be the single factor in servicing value.

Anyway, good job. Thank you very much, and, yes, we look forward to seeing you later on in 2017.

ROBERT PEABODY:

Thanks.

OPERATOR:

The next question comes from Jacob Bleacher with Carr Wealth Management. Please go ahead.

JACOB BLEACHER:

Hi, guys. Thanks for taking my call. I heard the focus on shorter cycle projects. Does that imply you might direct capital towards like a Western Canada asset rather than sanction another thermal project over the next several years?

ROBERT PEABODY:

Well, of course, we—in the release, you'll note that we've actually just sanctioned three thermal projects and we have one under construction, but one of the things about our thermal projects, which is a little bit different than most, is that we're able to go from sanction to on stream of our thermal projects in about 30 to 36 months. So, that compares with more like five years plus for most projects that people are building in Alberta. Most of these ones are in Saskatchewan. So, we don't really consider those long wavelength projects, especially when you look at the time between the majority of that capital spend and first production, it's relatively short. So, those ones, we're very comfortable with, and as I say, we consider them more short-term. Western Canada is relatively short-term, and of course most of the—Asia and the Atlantic can be a little longer term, but the production coming on there in the next year is so is all as the result of investments we made a while ago.

JACOB BLEACHER:

I guess what I'm getting at, though, is that to mean you're focused on directing capital towards growing production in '18 and '19 versus having a bigger jump in 2020 with a higher margin project instead?

ROBERT PEABODY:

No, we actually see—and we'll come back to this at Investor Day, but the plan we have overall is for kind of steady growth over a long period of time.

JONATHAN MCKENZIE:

Yes, and if I could just pile onto that, I guess. One thing you need to understand is that all of our growth, whether it be short, medium or long cycle growth, is all screened at low $30 WTI, low $40 WTI, to make sure that it gives us a zero percent return in the low 30s and a cost of capital return in the mid-40s. Now, some of the projects that we've got in Western Canada and on the East Coast are, by their nature, shortwave projects, and we intend to stay balanced across our portfolio and that we're going to invest across the portfolio, while at the same time we recognize that our thermals are a key part of our growth going forward. So, some of our short-range projects are going to get funded, as well. As Rob mentioned, we've sanctioned three more thermals to come into the queue which are more medium-term.

JACOB BLEACHER:

Okay. Then, I agree with the conservative approach to raising the dividend again, but is there any desire to repurchase shares if there's extra free cash flow in the short term?

JONATHAN MCKENZIE:

I'll take that one, as well. As I say, we have the three priorities that we've talked about, balance sheet, reinvesting in the portfolio, and the dividend. Right now, we've got a portfolio of capital projects that's unfunded at the moment, and you'll see how that translates into future growth when you come to our Investor Day in May, but we've certainly got a portfolio there of places to put capital, and we recognize we need to put the dividend into place at some point in time, as well. So, buying back shares or doing a one-time dividend isn't on our plan today.

JACOB BLEACHER:

Perfect. Thank you very much.

OPERATOR:

We will now begin the question-and-answer session for the media. If you have a question, please press star, then one.

The first question comes from Jeff Lewis with The Globe and Mail. Please go ahead.

JEFF LEWIS:

Hi, thanks for taking my question. You've outlined a lot of growth opportunities. I'm just wondering where do the oil sands rate in your mid- to long-term portfolio. The prices between low 30's and 40's, does that apply to oil sands, or where do you need to see prices before you start to contemplate additional Sunrise expansions?

ROBERT PEABODY:

First of all, it's always—I think of oil sands a lot like LNG projects, by the way, in that you're generally dealing with massive resource, and that's what sets them apart from other types of oil and gas investments. Normal economics, where you just look at pure IRR, you've got to be a little careful of when you're looking at a project that could run 60 or 80 years, because they're not really well reflected in those sort of economics. They still have to be competitive, but they get a little bit of a bonus around that, for the fact that they're going to be producing for such a long period of time.

We do think, specifically to your question, that some of the debottlenecking—once we get the project up to sort of 60,000 barrels a day, we think some of the debottlenecking investments and some of the modular sort of growth options can compete in a world of $55/60 a barrel oil.

JEFF LEWIS:

Okay. Thanks.

OPERATOR:

The next question comes from Geoffrey Morgan with Financial Post. Please go ahead.

Geoffrey Morgan:

Good morning, and thanks for taking my question. You mentioned in the call quite a bit of information about how your costs have fallen. Specifically, my question is how you're going to keep those costs low. After the last downturn, in 2008 and 2009, there was a lot of talk at multiple companies about keeping costs low, and then oil prices rebounded quickly, and so did prices, and so did costs. How are you going to keep your costs low if activity levels across the Basin pick up next year?

ROBERT PEABODY:

Okay, thanks. I think the main thing, Geoffrey, is just that the majority of the work we've done in driving our costs down over the past six plus years has been structural as opposed to just driven through procurement. While we've realized a lot of procurement savings, it's more moving to projects with lower F&D costs and lower operating costs. I mean, the most extremely good example of that, I'd just say, is in heavy oil. Where the majority of our production used to come from CHOPS, or cold heavy oil production with sand, we've moved that to thermal, and in doing that, we've moved our F&D, our finding and development costs. Where they were sitting in the range of the upper $20 a barrel in F&D costs, we've moved that down to about $12 a barrel in terms of F&D costs, and our operating costs that were approaching $20 a barrel, we've moved that to around $10 a barrel. So, in both cases, we've done kind of a 50% plus cost reduction. That has nothing to do with procurement. That's because of the technology we're deploying in developing that oil. We're doing the same sort of things in Western Canada, by moving to resource plays where we're able to use this manufacturing approach to our production.

So, while I absolutely anticipate there will be cost pressure as we see oil prices go up, because I do think the service industry is probably, on balance, in aggregate, underwater at the moment, I think we'll be in a good position to be on the right side of the curve when that happens, because most of these have been structural cost savings.

GEOFFREY MORGAN:

Thank you.

OPERATOR:

This concludes the time allocated for the question-and-answer session. I would like to turn the conference back over to Rob Peabody for any closing remarks.

ROBERT PEABODY:

Well, thanks for your questions. I'm looking forward to sharing our detailed five-year plan at our Investor Day in May, and how we plan to grow our higher return production. Thanks, everyone, for joining us today and have a great Christmas.

OPERATOR:

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