HUSKY ENERGY

INVESTOR DAY WEBCAST

TRANSCRIPT

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DAN CUTHBERTSON:

Good morning everybody. Thank you for joining us today. I'm Dan Cuthbertson with the Investor Relations group. Just a couple of housekeeping items before we get started. If you could please set your phones to silent that would be appreciated. In the unlikely event, all the emergency exits are clearly marked.

We've got a pretty full agenda this morning and we also have multiple opportunities for Q&A. Copies of the presentation are on the tables and I'll remind you that today's presentation does contain forward-looking information which you can find in the back of the presentation.

Now I'll ask each of my colleagues to stand as their name is called. Asim Ghosh, Rob Peabody, Jon McKenzie. Ed Connolly is with the Heavy Oil group. John Myer heads up our Oil Sands unit. Bob Baird leads our Downstream team. Rob Symonds is in charge of Western Canada. Malcolm Maclean is here from the Atlantic Region. Kevin Moore is the head of our Indonesia operations. Darren Andruko is our Deputy CFO and Treasurer. And Sharon Murphy heads up the Corporate Affairs Department. Thanks and we'll now get started. I'll ask Asim to kick it off.

ASIM GHOSH:

Thanks Dan. Thank you everybody who made it here despite the subway fire and hopefully the ones who didn't are on the webcast. Metaphorically anyway, we've got a full house.

Somebody told me at breakfast a moment ago that they'd been hearing a lot from Husky lately. I'm not sure if that was an observation or a complaint, but heck, you know, there has been a lot to talk about, so thank you for joining us to hear about that.

I've been affectionately mocked, not once but many times, by some of my colleagues. They mock me all the time for referring to our thermal business as not your father's heavy oil business. Actually, the reason I wanted to get together today is because we want to communicate to you how this is not your father's Husky anymore.

In the fall of 2014, the first signs appeared of what has become a dramatic and extended commodity price rout; by now, actually, the most extended rout in OPEC history I believe. At Husky, you'll recollect at the time we acted quickly and decisively to fortify our business, to navigate the challenges in this lower-for-longer highly volatile price environment, and indeed the results of our actions have greatly enhanced our resiliency. We are now well positioned to progressively generate free cash flow at lower and lower price points.

While many of you would say that we are on the crest of a new oil era, we've actually remained on a steady course over the past six years. With our strategic transformation we've merely trimmed the sails as the conditions required but our course has stayed unchanged. Therefore, if in fact this is a new era, we are entering it from a position of great strength. My colleagues will take you through a deeper portfolio review but I'll just take a few moments to highlight the objectives and the results of the ongoing transformation within each segment.

I'll start with the Oil Sands. We had a successful winter start-up of Sunrise in 2015. I believe it was the only full winter start-up of any project ever, and we are seeing strong reservoir performance as we steadily ramp up production.

In Heavy Oil, back in 2010 we were basically a CHOPS company. It was a high-cost, high-decline asset base that was absorbing substantial amounts of capital just to stay afloat. Not only has the Heavy Oil business been completely transformed by thermal technology, it is now one of the most competitive global plays and the strongest growth engine for Husky. All of this production is supported by two integrated value chains, the Lloyd Value Chain and the Sunrise Value Chain. We need to build further capacity and flexibility in each of these chains to capture additional margins.

The Western Canada evolution is in full flight. The focus here, as we have said before, would be in fewer, more material resource plays. Coming to the Atlantic, our strategy has been to extend the life of the White Rose through satellite developments and in turn this will act as a bridge to our next stage of growth which will be the Flemish Pass.

Finally, we are continuing to grow a material business in the Asia-Pacific Region and have been making steady progress with our Indonesia developments.

A word on Liwan. As we reported last month, we didn't receive full payment in accordance with the terms of our take-or-pay contract for the first quarter. We also advised you that CNOOC had indicated changes in the Guangdong gas market and had asked our consideration for a natural gas price reduction. Discussions with CNOOC are ongoing. In fact, I was there to kick it off a couple of weeks ago and that's why Bob is not here today because he's actually handling the discussions out there. We do expect a further update during our Q2 call.

Looking at the overall picture, guiding our transformation has been the objective of increasing the percentage of higher quality production. Let me explain what I mean by higher quality. It's production that has lower op costs, improved margins, longer life. An important corollary of that is it requires less sustaining and maintenance capital, and to reduce cash flow variability through our integration. So this year we are on track to add some 55,000 to 60,000 barrels a day of such production. No small feat when you consider that the cash breakeven of this production is under US$30 WTI per barrel. By the end of this year, more than 40% of our barrels will come from these kinds of projects, up from just 8% in 2010.

On the reserves front, our reserves replacement rate for 2015 was 166%, while our three-year reserves replacement average—which is actually what we really measure on; we don't look at reserves on a year-to-year basis—was 151%. In fact, the seven-year average proved reserves replacement is 152%.

Top of mind for the market during this extended downturn has been how are you cutting costs? So we've made significant gains in this area, and Jon will speak more to this. The more important focus is the changes that we've made to lower our breakeven, which is structural. That's just not cyclical. Both our earnings and our cash flow breakevens are amongst the best in the industry globally with earnings breakeven at sub-US$40 WTI and cash flow breakeven even lower than that. That greatly contributes to the overall health and resilience of Husky in this new extended lower-for-longer oil price environment.

The other output of our focus of higher quality production is the reduction of the sustaining and maintenance costs. We have substantially reduced the amount of capital we need to keep the business running, just to keeps the lights on and keep the business stable. We expect to further reduce these costs going into 2017 with support from the ongoing transformation from our Western Canada business and the addition of more of what I called higher quality production. Our lower breakeven combined with improved sustaining and maintenance costs is not only increasing our resiliency; it is greatly enhancing our ability to generate free cash flow.

At a WTI oil price in the mid-30s, we can generate enough cash to maintain our production levels. As prices rise above that point we are into free cash flow territory. So for example, from $40 to $50 WTI we'd expect to generate about $800 million in incremental free cash flow.

To sum up, over the past six years Husky has been completely transformed, guided by the strategy we set out in 2010. The steps we've taken to reduce our debt have given us a balance sheet that will be the strongest within the Canadian industry. We will have one of the lowest oil breakevens globally and have significantly reduced our sustaining and maintenance capital requirements. As a matter of fact, we are one of the lowest cost producers outside of the legacy Mid East basins. We are poised to generate free cash flow at low oil prices and as the market rebalances we can focus on a measure of growth investment as well as establishing a sustainable cash dividend.

Husky is in a position to lead from its front foot as we enter this new oil era and on that note I'll ask Jon to take you through our financial plan.

JON MCKENZIE:
Thank you, Asim. And thank you all for joining us today. I understand there were some issues getting here but we certainly appreciate the effort that has been made to join us here this morning.

So the three business priorities that Asim just spoke to are the backbone of our financial plan. While we have responded to major challenges in the business environment, these priorities have not changed from the plan we established several years ago. Our plan consists of the following: one, managing the balance sheet; two, ensuring ample liquidity and financial flexibility; and three, lowering our cost structure in order to enhance our ability to generate better free cash flow over the long term.

Speaking first to the primary focus of the 2016 financial plan—and this will be a surprise to nobody—the balance sheet. We view it as a buffer in what appears to be a new oil era, one that is characterized by increased volatility and the potential for sustained low prices. As such, we've adjusted our capital structure accordingly. We established our 2016 CapEx plan to be in balance with cash flow at a price planning assumption of US$30 WTI. As we've mentioned, we'll not take on any new debt; rather, our aim is to significantly reduce it. We've targeted about two times debt to cash flow from operations.

In regard to paying down the debt, we're making great progress. As you've heard, we've reached an agreement in April to sell 65% of our interest in select Midstream assets in the Lloyd region of Alberta and Saskatchewan for $1.7 billion. We also completed the sale of royalty interest for $163 million, and in Western Canada a number of deals and signings have been announced with closings expected within the next few weeks. Aggregate proceeds as of today are about $900 million. Upon completing these deals, we'll be approaching $3 billion which will be applied to our net debt, bringing us in line with our debt to cash flow target.

We continue to take decisive actions to further enhance our financial flexibility. It's been a challenging year for some companies with numerous firms experiencing downgrades to their credit ratings, some to sub-investment grade status. Husky was one of the few companies to have its credit ratings reaffirmed and we continue to have strong investment grade credit rating with each of the credit rating agencies.

We have renewed our $2 billion revolving credit facility with our lenders and we've extended the maturity from 2016 out to 2020. We now have $4.6 billion in borrowing capacity of which $2.6 billion remains undrawn pending additional proceeds coming from the dispositions that I mentioned. And we don't have any material long-term maturities until 2019.

You've heard about the structural reductions in our cost base with the lowering of our sustaining and maintenance capital requirements. In step with these changes, we are lowering other costs as well. By reducing operating costs, SG&A and working capital, we're actually able to do more with less. Per barrel operating costs excluding Sunrise are now down more than 20% vis a vis where they were at the start of 2014. Our Lloyd thermal business operating costs are one of the lowest in the global industry, some as low as C$7 per barrel and that's about $5.30 in U.S. dollars.

We also have an active cost efficiency program underway for the past few years. This is not something new to Husky. This is something that we've been actively involved in over the last part of the decade. This has yielded over $2 billion in cumulative savings since 2010.

These savings combined with structural transformation are increasingly freeing up more cash to invest back into the business. One of the things that sets Husky apart is the capital-efficient nature of our portfolio. Taking into account corporate declines and the average capital efficiencies of new projects, current Upstream sustaining and maintenance capital requirements are around $1.8 billion annually. If you add average maintenance cost for the Downstream operations in the range of $600 million to $700 million per annum. This means total sustaining and maintenance requirements are about $2.5 billion per year and we expect the total amount to decrease over time in light of the continued improvement in the quality of our production.

This is not an environment in which one can establish clear and realistic growth targets. The focus for us has not been on headline production growth, but rather to grow the proportion of higher quality barrels. But as shown in this chart, I'll highlight that if we so choose, the quality of our portfolio enables us to set a positive growth trajectory with modest capital investment. This is but one of many metrics, but if you were to use average capital efficiencies of about $30,000 per flowing barrel, we could grow our annual production 5% with an incremental $500 million over and above the sustaining capital requirements. These would be long-life, higher margin, high quality barrels.

We set our 2016 CapEx at a price planning assumption of US$30 WTI so as to live within our cash flow. For the remainder of the year we expect to remain on track with this level of CapEx spending. In regards to production we will update our Q2 release reflecting the announced dispositions.

Planning is well underway for the 2017 budget and there are already a few stakes in the ground. Our sustaining capital will continue to trend downward which enhances our ability to generate free cash flow, and there will always be a focus on maintaining the strength of the balance sheet and our financial flexibility.

In addition, as we set out next year's guidance, we will continue to live within our means. Obviously we'll have more to say on this as we refine our assumptions and set our 2017 program.

I'll close out by saying that as you might expect we will continue to focus on disciplined financial management. We are strengthening our balance sheet and significantly reducing our debt.

Upon closing the dispositions, we will have the lowest net debt to cash flow ratio of our large cap Canadian peers. In addition, our lower cost structure means that we are poised to generate additional free cash flow.

Now I'll turn you over to Rob who will provide more insight into the suite of investment opportunities that we enjoy. Thank you.

ROB PEABODY:
For this session I'm going to start with an overview of our portfolio, and I'm confident you'll see, one, the focused diversity of our portfolio, and by that I mean we have a diverse set of competitively advantaged businesses, each with a deep set of investment options. But what really sets us apart from our competitors is the at we have a vast number of high-return projects, even at today's oil prices, with a healthy balance between short, medium and long wavelength type projects.

Before I get to that, I just want to comment on our process and occupational safety performance. This goes hand-in-hand with improving the reliability of our assets and our uptime of our assets. Over the past number of years we've made steady progress in these areas. In fact, last year we recorded the lowest ever total recordable incident rate in the Company's history. However, not all recordable incidents are the same and we put a lot of focus on the ones with the most serious potential. We had less than one incident with critical and serious potential for every 200,000 man-hours worked in the last year.

Even though our incidents are going down, we do understand that process and occupational safety is really just more than a line in a chart. We look at getting our maintenance right, getting our training right and building integrity into all of our assets. As we say at Husky, good safety is good business and good results flow through to the bottom line. Our work in this area is never complete and we are always going to be striving to improve.

Jon referred to Husky as a financially disciplined company. Another strength as I said is our focused diversity. Just like when you're managing your own investment portfolio, every component has to have a purpose. We want to strive for the right balance so as to maximize our risk-adjusted return. We manage our portfolio weightings by allocating capital to projects that have a variety of attributes, whether it be high rates of return, the highest rates of return, whether they're short and long cycle projects, and of course investing across our different geographies and product mixes. In the next couple of minutes we're going to look at our portfolio through a number of those lenses.

First, let's look at it from a pure rate of return perspective. This slide illustrates the size of our portfolio of investment opportunities, including our Downstream projects. Several projects are at various stages of maturity but you'll notice that the majority of our oil investment opportunities generate returns well in excess of 10% at today's oil prices. As I said in my introduction, this sets us apart as not too many companies have such a robust portfolio of options that generate returns in this extended low price environment.

Our challenge isn't to look for the next investment opportunities; we have plenty of them that are already defined. The real challenge is just to balance our pace of investments going forward. To put it in perspective, if we were to build everything here that is below the dotted line, which is essentially today's oil price, it would represent more than $20 billion of potential investment.

We're often asked if we're looking at acquiring assets. We look at all opportunities of course but they have to compete with this very strong organic portfolio of options.

Another way to assess our portfolio is to look at project cycle time. The downward shift in oil prices and the increase in volatility has caused the entire industry to reassess its willingness to invest in long cycle megaprojects. As a result, we've seen a trend towards directing capital to shorter and mid cycle projects. We share that view, and indeed, have a portfolio already heavily weighted towards these shorter cycle type of investments. These include our Lloyd thermals which can be brought online within two years of sanction and require capital investment of about $350 million each for a 10,000 barrel a day nameplate project. For those of you who have been watching closely, you'll realize that's down from over $400 million even just over a year ago in terms of the amount per project.

We have enormous runway of these bite-size projects as well as Downstream investment options to maintain our tight integration and capture incremental margins through our two integrated value chains. We now have partners in our Midstream infrastructure who have already committed the capital in support of our next eight thermal projects in Lloyd.

Finally, using the yardstick of Upstream product mix and geography compared to our Canadian peer group, I think I'm not exaggerating in saying we have one of the best mixes of investment choices. This has placed us in good stead when adverse events impact different segments of our industry.

Now I'll ask for John, Ed and Bob to join me and come up. Don't worry about Asim and Jon because once we finish the segment you'll have lots of opportunity to ask them questions.

Okay, in our next segment we're going to take a deeper dive into our integrated portfolio. John will speak to Sunrise; Ed will then take the reins to talk about our fast-growing thermal portfolio, including our Tucker project which we'll give you an update on. Heavy Oil is Husky's 80-year-old historic foundation and this business has re-emerged as a near and mid term growth driver. Ed will be followed by Bob Baird who will make the connection between our Upstream and our Downstream operations. Then we'll open the floor to your questions. After Q&A and a brief break we'll hear from Rob Symonds, Kevin and Malcolm.

Now, let's get started by showing you how all the integrated pieces fit together in our portfolio. First though, I just want to take a moment to briefly discuss the recently announced Midstream partnership and the strategic benefits that we got out of that from a Husky perspective.

The number one point that we want to emphasize is that we remain an equity owner in this asset with a 35% interest, and while we have that, we secured a transportation solution for our future production in the Lloydminster area. We also remain the operator which will provide a seamless transition along with the benefits of our proven track record of operatorship of the system. These assets are key to our growth plans in the Lloydminster area and this new partnership is completely aligned with our strategic thinking. The partnership has committed capital to de-bottleneck the system, and you'll note from this chart on the slide all those red lines and yellow lines. This system is actually operating right at capacity today, hence there was a significant need for investment to de-bottleneck it and allow it both for our own projects and other third party business we needed to de-bottleneck that system.

That pre-funding by this partnership, their commitment to pre-fund this going forward, this reduces our requirements for maintenance and growth capital obligations going forward.

Finally, we stand to benefit from the continued volume growth of these long, long life developments such as our additional thermal projects and ultimate Oil Sands. Essentially we've created a new investment vehicle with plenty of Midstream growth opportunities.

Some of you will have seen this slide, those of you who went on our Integration Tour last fall in the Lloydminster region. It's an important slide though so it's worth highlighting again. We have two deeply integrated value chains in Husky. These help us capture additional margins while insulating us from daily movements in the differentials. Through our Lloyd value chain our synthetic crude can be produced for about $16 per barrel, and that compares with about $25 per barrel for most producers in the Oil Sands. That is upgrading our heavy oil in our Lloydminster refinery.

Our bitumen production captures additional margins along the Sunrise value chain that are well above the current realized prices that non-integrated SAGD producers are receiving. Every company slices and dices their sustaining capital in different ways so I just want to point out that these are fully-loaded pictures of the cost including all our sustaining capital.

Not shown on the chart is the contribution made by our Lloyd asphalt plant which has consistently provided strong returns. We're looking at a few options to further grow the asphalt business going forward and Bob will get into more detail on those in his section.

The upshot is that when you combine all these complementary high performing assets together, you get a highly resilient business.

Now, I'm going to ask John Myer to provide an update on Sunrise.

JOHN MYER:

Thanks Rob. I'm sure you've all seen the coverage of the wildfires that affected the Fort McMurray area which resulted in about a million barrels per day of Oil Sands production to temporarily shut down, including Sunrise. In light of this, I thought I'd divide my Sunrise update into three sections. First I'll speak to how the project was performing against various key metrics before this disruption. Then I'll go into where we stand today and the path forward. Lastly, I'll talk a bit about optimization opportunities that we've already identified.

Many of you will recall that Sunrise was one of Husky's original pillars of growth when we set out the strategy in 2010. Our leases in Fort McMurray encompass high quality, long life reserves in the heart of the Oil Sands. They're an important element of our transition into a low sustaining capital business. When fully ramped up, we expect gross production to be around 60,000 barrels per day from Phase 1. With our vast resource in place, we could actually sustain 60,000 barrels per day for the next 170 years.

You will recall we have approvals in place for another 140,000 barrels per day. Our Toledo refinery is helping us realize full value for our bitumen. It's an important link in what we call the Sunrise Value Chain, which moves the molecules from Northern Alberta to Pad 2, and looking down the road, we are assessing opportunities to develop additional resources we've identified across our lease.

Since the first half of last year, Sunrise production has climbed steadily in line with our plan. The project was consistently hitting higher peaks in average production numbers. Volumes reached over 30,000 barrels per day in early May. Prior to this shutdown our best wells were exceeding 1500 barrels per day, with a dozen wells producing around 1000 barrels per day. As importantly, there are strong performers on each of the well pads, demonstrating good reservoir continuity.

Let's take a minute now for a quick look underground. We have a deep understanding of the Sunrise Reservoir. We monitor a number of metrics every minute of every day, and I'll touch on a couple. First, the steam-oil ratio, or SOR. We are targeting an SOR of 3.0 at full capacity. Before the shutdown we were in the low 4s, tracking very well towards the target. We also watch our water cut or the water-oil ratio. This represents the emulsion production from the wells and is a leading indicator of where the SOR is going. The water-oil ratio was in the 3.6 to 3.7 range, in line with our forecast range and continuing to be improving as per plan. We also track the height of our steam chambers as well as the overall temperature in the reservoir, which is still warming up. This indicates plenty of room to keep increasing production rates.

The performance of the 55 well pairs was in line with expectations, and just a reminder, 24 of these well pairs have been on production for less than 7 months.

All in all, the project has been performing as expected on all fronts.

Now let's look at where we are today. The wildfires in Fort McMurray have been completely devastating to more than 90,000 people. We are already seeing a measure of resilience as folks start to return back to their homes and work. As a result of the fires, we shut in production. This shutdown was completed in an orderly fashion and we took several measures to preserve the integrity of the plant and the reservoir. While steaming on the well pads was initially curtailed, it was resumed after a few days and oil production has just begun.

I want to remind you that we had a successful turnaround in March during which time the production was shut in, and the reservoir responded very strongly when we started back up. While this is not a complete analogue, as we now have a cold start-up, we do expect a consistent reservoir response. As you would expect, the wildfires have resulted in some disruption to our ramp up schedule, into 2017. We are looking forward to getting back on track.

While our attention is clearly on the successful ramp up of Phase 1, we've already identified several de-bottlenecking initiatives that can be pursued in time. These opportunities are low cost yet can make meaningful enhancements to the overall project by improving efficiencies and plant operations or increasing incremental production.

One example is a re-rating of our steam generators. This will enable us to produce more steam from the existing plant, which could be used to bring on additional production. Another would be capitalizing on the experience we've gained from our operations that will lead to faster and more efficient well starts in the future. As we showed you one the tour last fall, we've already drilled two sustaining pads that have a total of 14 well pairs drilled and ready. When both Plant 1A and 1B are back to full operations, we will begin performance testing of the facilities. We expect this testing to confirm we have additional opportunities for de-bottlenecking.

Several new technologies have given us a leg up on reducing costs and optimizing our production. This includes a walking rig. This drilling rig was custom designed to place wellheads much closer together, reducing capital costs and giving a more compact field facility. We used it to drill two sustaining pads that are about half the size of the original pads. The wells were drilled in five days compared to our original wells of nine days. We're also using multiphase metering so we don't need separators on each pad, further reducing costs. All in all, the total cost of a sustaining pad is now 70% of the cost of original Phase 1 well pads. I'll remind you that sustaining capital is usually about two-thirds of the total project lifecycle costs.

Looking ahead, as we move away from the megaproject model and apply the lessons learned from our Lloyd thermal projects, future phases will likely be built out in smaller 20,000 to 30,000 barrel per day projects. We have more than 1000 strat wells with 800 cores and 1000 logs. We also have significant 3D and aeromag data covering 95% of our property, so we have a good understanding of the entire subsurface. Using our current infrastructure, we have capital efficient opportunities for future development across the lease.

Finally, a reminder that our bitumen has a home as we are physically integrated right through to Toledo. Being able to close this loop on the Sunrise Value Chain is the key advantage for us today and in the future as it increases our market access options and improves our margins.

Now I'll pass the baton over to Ed.

ED CONNOLLY:

Thanks John. Before I get onto the Lloydminster portfolio, I just want to take a minute or two to talk about what we've been doing at our Tucker thermal project. New life has been breathed into Tucker. At the end of 2010, we were just producing over 4000 barrels a day, not exactly setting any production records. But we didn't walk away from the problem. Instead we decided to work the issue, so we expanded our expertise, worked towards a much deeper understanding of the reservoir, and applied our knowledge. As a result, we have improved our well placements and our drilling operations. We've achieved higher per well production rates. Our steam-oil ratios are improving, significantly improving. We discovered new oil zones including the Colony Formation. We reduced our operating costs down into the $8 per barrel range. And we've made some enhancements to the existing facility with some low-cost modifications.

In terms of results, we're now producing over 20,000 barrels a day. That's a significant improvement from where we were just five years ago. Looking forward, we've got plans to further increase production which will further increase our efficiencies, and it's important to note that Tucker has reserves for another 40 years.

Moving now to Lloydminster, six years ago, as Asim said, our Lloyd heavy oil production had a declining legacy base with the primary focus on cold CHOPS technology. Today, thermal technology has fundamentally transformed this 80-year-old oilfield and it's now become our biggest growth engine for Husky. We have a remarkably resilient globally competitive resource that's well suited for thermal exploitation. Our thermals are long life and low risk investments, and these projects can be brought on within two years of sanction, and by the end of this year our thermal, which includes Lloyd and Tucker, will reach over 100,000 barrels a day.

Underpinning this growing business is an unmatched land and infrastructure position and that provides several advantages. Our 2.2 million acres of land holdings includes a major fee simple lease covering 1.1 million acres with no royalties payable, which provides a 40 to 50% reduction in royalty costs compared to Crown lands.

We now have a very extensive digital geological database that enables us to target and exploit reservoirs in a very efficient manner. There's over 17 billion barrels of oil in place in our leases and to date we've only produced 1 billion barrels.

This oilfield contains a massive amount of oil. All is located in very tight geography and all of it feeds into Husky's existing infrastructure. We believe we can deliver another billion barrels just using current technologies. Beyond that, we're field piloting some follow up enhanced recovery processes to utilize our existing CHOPS inventory of wells.

As Asim said, our thermal projects continue to lead the transition into a low sustaining capital business. These capital efficiencies are as good as they come anywhere in the world. Our modular build approach combined with our sequential build program has reduced our costs down into the range of $24,000 to $28,000 per flowing barrel. Our build timelines are now 24 to 28 months and sustaining capital for our thermals is between $5 and $7 a barrel. In terms of operating costs, we've reduced by 47%, as low as CA$7 a barrel including energy and that positions us amongst the lowest in this industry, and it certainly helps provide value, particularly in a low oil price environment.

We recognize that the procurement savings, as Rob said, fluctuate with oil price, but our lower costs are sustainable because most of our reduction is the result of our transition to thermals and the operating structural changes that we made.

Important to note that thermals also provide a much higher recovery rate than conventional technologies. Our older projects are now seeing recovery rates in excess of 70%, and a reminder that Bob's Downstream team makes sure that we have the means to get all of our thermal production to a downstream home which further minimizes risk and maximizes our capture, our margin capture.

This slide shows how Lloydminster thermal projects are improving the quality of our production base. Our thermal production is expected to reach 80,000 barrels a day as we're adding another 25,000 this year from a trio of thermals. We brought the 10,000 barrel a day Edam East project online at the start of March, which is currently ramping up, and it's already producing its nameplate capacity today. These projects typically produce 25% above nameplate.

Steaming is underway in our 10,000 barrel a day Vawn project, and at Edam West, a 4500 barrel a day project, steaming is on track to start up in two weeks and we'll have our first oil in the third quarter.

We now have 10 projects under our belt and looking ahead we have plenty of runway to further grow our thermal portfolio. We have identified four 10,000 barrel a day Lloydminster projects which are now ready for sanction, including Rush Lake 2 which is already approved.

Beyond these four, we have identified another 8 x 10,000 and 6 x 5000 barrel a day projects. All together that's another 150,000 barrels a day of growth potential in our inventory that can be developed as capital becomes available.

This next slide is a busy slide so I ask everybody to look up at the screen now to walk you through this for a minute. This is a Wood Mack benchmarking slide and it compares the cost to develop to get a 10% return on major oil plays worldwide. The bars show a range in costs but if you look at the blue dot it's the weighted average, and if we move from the left to right what you see is on the very left you see low cost, $20 a barrel, OPEC onshore developments. As we work from left to right, progressing through we progress through to liquids-rich gas and our shale oil plays, then the Canadian Oil Sands, then the shallow water developments, Bakken oilfields and on the very right you see the highest cost deepwater developments in the $80 a barrel range. There's a general impression that the Canadian heavy oil is amongst the costliest in the world but if you look at the slide now you'll see a gold line and that shows the breakeven price on our thermal projects at a 10% return and you can see from that that Husky's Lloyd thermals stack up against any play in the world. This reflects the low build costs and very low sustaining capital costs and recall the operating costs are running as low CA$7 a barrel, and as Jon pointed out, for our friends south of the border that's $5.30 in U.S. dollars. Looking at this on a risk-adjusted basis, on a risk-adjusted basis when accounting for the high degree of cost certainty to build and our integrated value chain, these really are amongst the best projects in our industry.

To wrap up, thermal production has become the heart of the Heavy Oil portfolio. Our proven formula has given us a significant and sustainable competitive advantage. These thermal projects are pushing all the right buttons in terms of operational and sustaining costs, project life and growth potential.

Now, Bob will update you on the benefits of our extensive Midstream and Downstream business.

BOB BAIRD:
Thank you Ed. You've heard us talk about our Sunrise and Lloyd value chains. Our job in the Downstream is to maximize the margins from every barrel we produce to these physically and financially integrated chains. We are doing this through improving our refinery feedstock and product flexibility, expanding our pipeline and storage capacity to enhance marketing capability, increasing and diversifying our market access and reducing costs to improve uptime and reliability of our assets. This helps us improve our overall profitability and de-risks our thermal businesses.

I'll start with refining and upgrading. We have ownership in a strong suite of assets from which we produce, transport, store, upgrade, refine and sell our products. The storage complex at Hardisty stores third-party crudes and blends Western Canada Select. The Lloydminster complex includes the upgrader and the asphalt refinery and together these assets process about 110,000 barrels per day including our own heavy oil blend.

In the U.S., our refineries have a combined net throughput capacity of 230,000 barrels per day. At Lima, which takes some of the synthetic crude from our upgrader, we are in the early stages of a crude oil flexibility project that will give us the ability to convert about 40,000 barrels of capacity from light to heavy oil feedstocks. This project, which is coming onstream in the 2018/2019 timeframe will help us accommodate our growing Lloyd thermal production while providing for increased margins. Using average historical pricing, this project will increase Lima refinery margins by an estimated CA$2.50 per barrel. That's over $100 million per year. At Toledo, which is operated by our partner BP, we can take the full production from Sunrise. We are currently doing some upgrades there to be able to process an additional 35,000 barrels per day of Hi-TAN crude to improve profitability, and in 2015 Hi-TAN crude had a $16 barrel price differential to WTI. Net to Husky, this could again result in improved margin capture of about $100 million per year.

Now, let's take a closer look at our asphalt refinery in Lloydminster. This refinery vastly outweighs its profile in terms of our cash flow. It turns out that the Lloydminster crude is the perfect feedstock for making high-quality asphalt. It's of such high quality that other asphalt producers actually blend our product with their own to improve their specifications. This is an additional 30,000 barrels per day that does not require pipeline capacity. Across North America, demand is growing to renew an aging infrastructure like roads and bridges. Currently, we are the largest producer of asphalt in Western Canada and we make 5% of all the asphalt used in North America. This is a lot of paving, and we recently announced a contract to sell 44,000 tonnes of asphalt to build the ring road around Regina, Saskatchewan.

The economics are solid. Over the past four years, the annualized realized asphalt margins have consistently ranged between $20 and $25 a barrel. Our plant operates at nearly 100% capacity throughout the year and over the past five years has had an annual average utilization rate of more than 95%. Needless to say, this is a value chain that is ripe for expansion, as we grow our Lloyd production through additional thermal plants, and what I really like about this industry, it doesn't matter what kind of car you drive, even a Tesla has to run on asphalt.

Our Upstream production is linked to our downstream facilities through an extensive network of storage and pipelines that can carry our barrels to Pad 2. This strategic network provides us with the optionality to capture the maximum value of our products. As you heard earlier, our midstream agreement included the retention of 35% equity ownership and full operationalship. This preserves the tight integration between our heavy oil production, refining and marketing assets. Beyond our own infrastructure, our third-party pipeline commitment strategy takes a cocktail approach. This means we have a good mix of takeaway capacity for our products and multiple connections to all the key export markets.

This slide shows how all our pieces fit together. In the typical model of Downstream, business units are pitted against each other. Today, in many cases, our biggest supplier or customer is ourselves. This permits us much greater flexibility to optimize our operations and results in a greater return for Husky. We like to call this the Husky First approach. While we don't control product prices, between our low-cost feedstock and our flexibility, we are well positioned to capture the margin in-between. Basically, integration is a strength and having flexibility across our system adds to that strength.

You just saw the extensive growth opportunities from John at Sunrise and a massive runway of projects in Ed's thermal portfolio, and Downstream is growing with it. The new Midstream partnership provides for infrastructure funding to support our next eight thermal projects. We have numerous high-return projects in our downstream portfolio, including the Lima Crude Oil Flexibility Project, the new asphalt refinery, and the Hi-TAN Project at Toledo. Simply put, the objective of our two integrated value chains is to maximize the margin capture from each barrel of our production, and our investments in these projects will keep pace with our thermal expansion as capital becomes available.

Now, I'll turn the stage back to Rob for the Q&A. Thank you.

ROB PEABODY:
I'll turn it over to Dan.

DAN CUTHBERTSON:
So, we'll do our first Q&A, so any questions that are kind of directed towards the business units that were just discussed, and then we'll have plenty of opportunity for the larger strategic context at the end of the presentation.

Just for the benefit of those who are on the webcast, if you could please state your name and the firm you are with prior to asking your questions. Caitlin and Rob will have microphones and will be circulating the room, so just please put your hand up if you have a question.

Also, after the Q&A, we'll go to a short break.

GREG PARDY:

Thanks. Greg Pardy, RBC. A couple of questions for—I guess the first one is for John. Just given what's gone with the wildfires, what is your best estimate now in terms of achieving full rates at Sunrise?

JOHN MYER:

Yes. So, I'd just like to remind you again that before the fire, we actually were on track on our production growth. I'm very encouraged when I see—saw the SOR and the water-oil ratios respond. They're coming down as per planned, so I'm pretty excited about doing that, and I feel good about coming back from the fire. Our turnaround that we did in March, the reservoir really responded well and I was pleased about that. So, when I put it all together, I still believe that we'll hit our 60,000 barrels a day sometime in '17.

GREG PARDY:

Early '17, I'm assuming.

JOHN MYER:

Yes, early '17, yes.

GREG PARDY:

Okay. The same question, a little bit broader, but you talked about $2.5 billion—I think it was Jon who talked about $2.5 billion in terms of sustaining CapEx for this year. How much does that number come down next year, or is it too early to tell? Thanks very much.

JOHN MYER:

So, the $2.5 billion that we talked about will come down next year as we add the thermals through this year and we complete our disposition program. So, incrementally, I would expect it to come down—I'd be guessing if I told you right now, but we'll go through the exercise, but probably $100 million, $150 million, based on where we are today.

DAN CUTHBERTSON:

Looks like a question at the back.

MALE SPEAKER:

Good morning. I have a quick question for Bob. Can you talk a little bit more about the asphalt refinery? You alluded to an expansion plan. So, can you maybe touch on what kind of payback period would that be and what time or framework should we expect that to come onstream?

BOB BAIRD:

The asphalt refinery, present day, generates about $200 million EBITDA per year. We're just in the early stages of looking at the design basis right now before we can put a case forward to our internal Investment Committee for consideration. Looking at this now, payout might be in the order of about three years or less.

MALE SPEAKER:

So, assuming that you get approval for this, what timeframe would we be looking at? A best guess would be fine.

BOB BAIRD:

Yes, probably in the 2020 range.

MALE SPEAKER:

Thank you.

DAN CUTHBERTSON:

There's a question over here.

FERNANDO VALLE:

Fernando Valle from Citigroup. Just a quick question on the JV for the Midstream. You spoke about that system being at near capacity. Can you just speak as to the plans to increase capacity and how that will match up with your growth in Lloyd thermals, will there be at any point a bottleneck and how that would affect your margins? Thank you.

ED CONNOLLY:

Yes, I'll speak to that just briefly. I mean, there's two components to the capital funding coming through from the joint venture, effectively. One is clearly the tie-ins to all our thermal projects going forward, each project requires tie-ins, and then it's de-bottlenecking the system in general. So, there's a line on that slide, I think it was identified on the slide as LLB Direct, which is a new pipeline that adds capacity through the central part of the system that then de-bottlenecks all the legs. So, that's the capital that's being funded, to de-bottleneck the system.

BOB BAIRD:

Yes, I'll just add to that. As most of our thermal capacity comes on in Saskatchewan, in addition to the LLB Direct, which takes our offloads crude from the Main Line, which goes from Lloydminster down to Hardisty, there's also another de-bottlenecking exercise going on in the Saskatchewan gathering system, which also ties into where Ed's thermals are coming on. So, there's two projects, LLB Direct, as well as the growth that we see on the Saskatchewan Gathering System, that together make up the $750 million that we talked about, but that should provide ample capacity right across the system to support those eight phases, or next eight phases of growth that we see in our thermals.

DAN CUTHBERTSON:

There's a question over there.

FEMALE SPEAKER:

(Inaudible 01:00:34), and I guess the second part of that is when you look at Slide 22, you talk about the oil price at which you get a 10% IRR. So, these new projects seem to have a higher breakeven than the existing thermals which you show there. I wonder is that a reflection of the quality or is it just early stage?

ED CONNOLLY:

First, on the plays, if I understood that right, we've analyzed in tremendous depth about 65,000 wells and we've looked at—sometimes there's one zone and sometimes there's 10. We've looked at every oil zone inside of those wells, and across the block, which is about 100 kilometres by 100 kilometres, we've identified where we see all of these thermal plays. We're in a place now where we have quite good definition because of all of the seismic and the logs on those 65,000 wells, so we know where the plays are and we know pretty much what the size of the plays—the size of each play. So, those are fairly certain in terms of our knowledge of—when I say we now have—we have 12 more 10,000 barrel a day plays to develop and another six, and that's just in the Lloydminster block. That's fairly—if I understood that question. The other part …

FEMALE SPEAKER:

I guess I was just asking, is the acreage for those all in-hand?

ED CONNOLLY:

Oh, yes, absolutely, yes.

ROB PEABODY:

I can address your question on the chart. The future ones that we show are based on assumption of nameplate capacity of 10,000 barrels a day. These have a history of coming on about 25% above nameplate for the first few years. That's why you're seeing the delta.

DAN CUTHBERTSON:

There's a question here from Paul.

PAUL CHENG:

Thank you. Paul Cheng, Barclays. I have several questions. I think the first one is for Bob. Asphalt, in your basic analysis, do you concern building a new asphalt refinery? Given that it's still a relatively small market, are you going to over the top and end up then crashing the margin?

BOB BAIRD:

No. We right now are growing market. We now sell asphalt into the U.S., into the Pad 4 and Pad 5 areas, so we see a tremendous potential there, as well. So we intend to look at those markets for our asphalt product, as well.

PAUL CHENG:

How do you ship it down?

BOB BAIRD:

Rail.

PAUL CHENG:

Are you going to be cost efficiently? Because, I mean, those two markets, Pad 4 is also pretty small, so …

BOB BAIRD:

Yes, the Pad 5 area, we're still pretty—we've got ourselves some internal access, we're doing retailing down there. We have been railing down there at present and doing it very efficiently.

PAUL CHENG:

Mm-hmm. For the upgrader, is there any opportunity for low-cost de-bottleneck there?

BOB BAIRD:

Low-cost?

PAUL CHENG:

De-bottleneck.

BOB BAIRD:

We've done quite a bit of the low-cost de-bottleneck. I'll remind you, when the upgrader was first built, it was built at 52,000 barrels a day. We're presently running it at 82,000 barrels a day. We're coming pretty well close to the limit of what we can do de-bottlenecking. Now, it's a matter of seeing if we can do something with the existing pots and pans. Any large-scale de-bottlenecking would be very costly.

PAUL CHENG:

The next one is for John. John, for the Sunrise, you lay out a number of improvements that you're looking at. So, from a company standpoint, when you're looking at the next quarter you're going to sanction, is it a function that you're going to need to see oil price go to a certain level or is a function that you need to see the costs down to a certain level before you would do it? Can you just elaborate a little bit what's the decision-making?

JOHN MYER:

Yes. Certainly, the decisions, we have a very robust Investment Committee that actually takes it all through there. What drives it is going to be around the free cash flow and all the rest of it, but as far as the hurdles, when we do our plant performance test, that's going to verify the de-bottleneck opportunities that we think we have in the plant. So, as we get 1A and 1B back going again, it'll give us a chance to do a performance test of all the units, but everything we've seen so far matches some fairly detailed process work we've done in the plant, and so we'll just need to kind of verify that work itself, but those tend to be very cost-effective expansions when you do the de-bottleneck work.

ROB PEABODY:

Yes. Paul, just one thing I'd add to that, and I'm sure we'll have a chance to touch on this again, but a key determiner on all these—I don't want anybody to take away from this—we have a tremendous amount of excellent investment opportunities, but we still are going to balance how we move forward in terms of the balance sheet, which is largely getting closed to fixed, growth and the dividend. So, we'll come back to that, but one of the key things is there's going to be balance here. We're not going off to the races on growth here. We're going to balance those priorities with this free cash flow that Jon described, that we think we can generate at numbers like $50 a barrel.

PAUL CHENG:

The last one for me is for Ed. It's already extremely efficient in the thermal heavy oil, great projects there, but is there any real opportunity to substantially further reduce the costs, whether it's in the development costs or the operating costs? If there is, what type of opportunity are we talking about, and what is the scale? Thank you.

ED CONNOLLY:

There's a couple of things there, Paul. The first thing to keep in mind is—I talked about Husky's land and infrastructure position, and I talked about the number of plays that we see that we can develop, and I commented that we have 10 under our belts now, so we have a fairly standardized design that we can replicate over and over, but to really be efficient, you need to be in the place that Husky's in. So, you need to be able to build one after another after another and after another, so you have to have that inventory of plays there. Husky is the only company that has that; we have that number of plays in front of us. Secondly, you have to be in a place to where you can sequentially keep them going one after another. There's still some scope to work with our advocators, our contractors, our mod-shops. We've come a long way there and I do believe that there's more room there to see some further pressure, some downward pressure on the capital efficiencies. But where we are today, I think is substantially below to where anybody else could get. While I think there's a little bit of room, there's not a step—I don't see a step-change of room, if you're looking for that in terms of for Lloydminster. Our bigger challenge, I think, right now is taking this model into all of the other portfolio that we have in other parts of Alberta.

DAN CUTHBERTSON:
Any more questions? Okay, with that, we'll take a short break. There's refreshments and coffee out in the hallway, and we'll reconvene here at 10:25.

(COFFEE BREAK)

ROB PEABODY:
In this next segment, we'll look at the transformation that's taking place within our Western Canada business, with a growing focus on fewer, more material resource plays and higher quality production. This will be followed by an update on our Asia-Pacific Region from Kevin Moore, who heads our Indonesian business, and finally Malcolm will take us through our Atlantic operations.

Both our Asia-Pacific business and our Atlantic Region businesses, these are essentially offshore businesses and they're excellent examples of our focused diversity of our production, and they share a few common traits. Both of those businesses deliver our products into both regional and global markets, they both get tidewater pricing for their production, and that results in higher netbacks for our liquids. Both benefit from the efficiencies of shared infrastructure and high reliable operations. Both have a record of successful project execution, and a good example of that is the largest platform in Asia, Liwan, that was completed both on time and on budget. Finally, we have a strong track record in exploration success in both regions, opening up significant opportunities for future growth in both regions.

With that, I'll turn it over to Rob.

ROB SYMONDS:
Thanks, Rob. So, Western Canada is the last segment of our businesses to undergo a transformation. Last year, we told you we'd accelerate that transformation through the

disposition of select legacy oil and natural gas properties. I'd like to remind you that that was a strategy-driven choice. The improved balance sheet is an output, it is not the main driver. This rejuvenated portfolio allows us to have a much more focused capital program, one in which we can deploy capital very efficiently. This is freeing up funds that previously were required for some of those legacy assets for investment to be available elsewhere in the portfolio for the high-return opportunities that you've seen highlighted so far today.

Jon did speak earlier to the sale of the royalty interest and the signed purchase and sale agreements covering some 22,000 barrels a day for some $900 million. I can actually give you a real-time update on that. We have actually, as of last night, signed an additional purchase and sale agreement for the Dodsland asset for something in excess of $100 million. So, that will bring us to about a billion dollars of proceeds to this point, and we are still negotiating on an additional about 10,000 barrels a day of production. Beyond that, we will certainly have some additional portfolio tidy-up that will be considered once the time is right.

As a result of that transformation, we have created a new business segment. This segment will require less sustaining and maintenance capital, it will have lower operating costs, it will have fewer future abandonment liabilities, and it will also have lower administrative costs. The focus of this new business is on fewer, more material resource plays that will provide competitive short cycle and, most importantly, lower cost higher quality production than that it is replacing. The business is predominantly a gas producer, much of which of course will be used to support our growing Thermal and Downstream businesses.

One of the key material plays has been, and remains, in the Ansell region, which has proven itself to be a real workhorse within our portfolio. This is a very attractive area that has delivered good returns in the past. It's also one of the most flexible assets in the portfolio in terms of capital allocation, where activity can be dialed up or dialed down, as required, by the rest of the portfolio. We're currently in the Ansell area producing about 23,000 boe a day, primarily from the Wilrich and Cardium zones, and with some 650 additional locations in multiple zones, this is a fully scalable asset and has significant room for future growth. Recently, the production adds have come predominantly from the Wilrich; however, there are other zones in the Spirit River group that are also highly productive.

As you can see on the slide here, expectations for Ansell/Wilrich have increased somewhat from what we've shared with you back in 2014. Recent well results have supported increasing our tight curve by about 25%. We've also driven well costs down by almost half, and we're certainly continuing to work on driving costs down further. We will continue to move forward with Ansell and other productive resource plays when capital is available and the price environment for gas is perhaps a little more positive than it's been recently. In addition, we will maintain that diversity in that Western Canadian portfolio.

So, that's a quick summary of where we are in Western Canada and now you'll hear from Kevin Moore, who's going to bring us up to date on our Asia-Pacific business.

KEVIN MOORE:

Thanks, Rob. We have a number of projects throughout the region, including our near-term developments offshore Indonesia and future exploration prospects. Going forward, these projects require relatively low levels of capital to build while offering solid netbacks and less exposure to commodity price volatility.

I'll start with offshore China, where we continue focus on the Liwan Gas Project. We've seen steady returns from our China gas sales since commissioning Liwan. We recovered our exploration expenses, approximately CA$950 million, within six quarters of first gas. Current sales from Liwan, which includes the Liuhua 34-2 field, are running at about half capacity, with gross sales volumes of 150 million cubic feet per day and an additional 8,000 barrels per day of liquids. Meanwhile, negotiations for a gas sales contract for Liuhua 29-1 are continuing and once completed, the field can be tied into existing Liwan infrastructure, further improving the project's cost efficiency. We also have a 40% interest in two shallow water fields at Wenchang in the western Pearl River Mouth Basin. These fields initially began production in 2002, and have been very successful for Husky, with our cumulative share of production exceeding 60 million barrels. This PSC will expire in mid-2017, and there are no outstanding residual obligations to Husky on this PSC as the asset retirement obligations had previously been provided for.

Turning to offshore Indonesia, we're making good progress in advancing our Madura Strait gas developments. We have five projects in flight, representing more than 100 million cubic feet per day of gas and 2,400 barrels per day of liquids net to Husky. Each of these projects can share infrastructure and most are conveniently located along the existing East Java Gas Pipeline, allowing for a very capital-efficient tie-in. The BD field is an exception to that, as there is a direct subsea pipeline to shore which we're constructing. We plan to develop the fields in succession, beginning with the BD field, which I'll talk about in more detail in the following slide. Following BD will be the combined MDA-MBH field development, then MDK, and then the MAC field. These are all shallow water projects farther east in the Madura Strait. The fields are being developed in tandem and, like the MDK field, which we brought onstream in the same timeframe, we will use wellhead platforms supported by a leased floating production vessel.

The EPCI contract for the combined MDA-MBH field was awarded and is about 10% complete and the floating production unit tender is nearing completion. Tendering is also underway for the MDK field, the EPCI, and the MAC field plan of development has been approved by the government. We have a contract in place for the first tranche of gas from MDA-MBH and negotiations are continuing for the remaining available gas from the remaining fields. Husky owns a 40% interest in the joint venture company that owns this PSC for the Madura Strait block. Looking beyond 2019, we have three additional discoveries in the block.

Let's take a closer look at the BD project, which is the nearest to the finish line. This is a liquids-rich gas development and it's on track for first gas in 2017. The wellhead platform and pipeline infrastructure is over 75% complete and we're currently completing four wells as part of the development plan. We'll be using a leased FPSO to develop the field and construction of that vessel is about 80% complete. We have fixed-price gas sales contracts in place that will give us a very good rate of return from this field.

Looking longer term in the Asia-Pacific Region, we have several exploration blocks. While assessment is still in the early stages, these prospects represent attractive mid- and long-term growth potential. To the east of Madura Strait discoveries, we hold a large exploration block called Anugerah. We have 2D and 3D seismic over the block, which is currently being evaluated. Offshore Taiwan, we have a 10,000 square kilometre block where we've identified several significant structures, and we'll be acquiring 3D seismic there over these structures in 2017. Lastly, our newest asset is Block 15/33 in the Pearl River Mouth Basin. This area is similar to Wenchang, so we are very familiar with the geology. Husky will act as the operator on this block during the exploration phase.

So, to wrap up, we're continuing to advance a rich portfolio of projects and opportunities in the Asia-Pac Region. These include the Liwan Gas Project and our near-term gas developments in the Madura Strait offshore Indonesia. Essentially, we have resources on the doorsteps of the customers that need them and we are plugged directly into those markets. Our Liwan and Madura projects are both low-cost and capital-efficient with shared infrastructure, and we have plenty of stretch room in the coming years to build on our decades-long track record in the region.

Now, Malcom will take us through the Atlantic Region.

MALCOLM MACLEAN:

Thanks, Kevin. When the White Rose field was originally sanctioned, it was on the basis of 220 million barrels of recoverable oil, which we've long since surpassed. With development of the West White Rose extension and further step-out opportunities, we could expect to see an eventual doubling of that volume. Our Atlantic production offers advantages that include the ability to sell our oil anywhere in the world and receive a premium to Brent. New production can be tied back in a capital-efficient manner to the SeaRose FPSO, which had a strong uptime of 97% in 2015. This production delivers some of the highest netback barrels in our portfolio.

In the Jeanne d' Arc Basin, we are maintaining production and extending the life of the White Rose field, until the West White Rose extension comes on stream, through a program of near- and mid-term development wells. At North Amethyst, which was the first major subsea tie-back in Canada when it came online in 2010, we are currently developing the deeper Hibernia formation underneath the main field. The Henry Goodrich drilling rig is now on location and we anticipate first oil from the Hibernia formation in the third quarter. We expect this well will yield around 5,000 net barrels per day at peak production.

At the South White Rose extension, which is our second major subsea tie-back in the region, we brought on two wells last year. They reached their peak net production of 15,000 barrels per day in the third quarter. Production from these wells is tied back to SeaRose through a network of manifolds and flow lines. To further support White Rose production, until West White Rose starts up, we have five more infill wells planned and see potential for another five beyond them. I'll point out that these wells can generate returns in excess of 10% at a WTI price of less than US$15 per barrel.

We continue to evaluate the best way to develop the West White Rose extension. We see West White Rose as a bridge between White Rose production and our longer term opportunities in the Flemish Pass Basin. The most promising is a wellhead platform. It requires a higher initial capital outlay, but offers lower drilling costs and the potential to recover over twice as much oil. The second option is another subsea tie-back development, which is initially less capital-intensive and can be pursued in phases, but would ultimately unlock much less oil. Regardless of the final development decision, all production will be tied back to SeaRose, maximizing the use of our existing infrastructure and making this a more capital-efficient project than a greenfield development. The West White Rose extension is a key project in our mid-term portfolio and, subject to ongoing project review and final approvals, it is expected to begin production in the 2020-plus timeframe.

We recently wrapped our appraisal drilling program in the Flemish Pass and are evaluating the results with Statoil, with an eye to potential future developments. I'll remind you that we have a 35% working interest in the discoveries at Bay du Nord, Mizzen and Harpoon. Right next door, we moved quickly to farm-in for a 35% interest in the 1143 Exploration Licence that was recently awarded to Statoil. We also participated in the Baccalieu well that was just drilled on it. The Baccalieu well was the last well in our current program. We and our partner will have more to say on the results in the coming weeks.

Husky has been active off the east coast of Canada since the early 1980s, and we produced our first drop of oil from the White Rose field in 2005. There's a good reason we've gone the distance with White Rose. It's a high netback, cost-competitive business with low operating costs, and we consistently realize a premium to Brent pricing. Since it's already on the water, we can get our oil to the best markets around the world. Looking ahead, our Atlantic Region business offers some great opportunities through further satellite step-outs from the White Rose field and in new basins, like the Flemish Pass.

Thank you. Dan will now lead us in a Q&A. Thank you.

DAN CUTHBERTSON:

Thanks, Malcolm. So, we'll move into our second Q&A segment, to focus on the business units that you've just heard from, then Asim will have some summary comments and then we'll move into our final strategic Q&A with Asim, Jon and Rob back up on the stage. So, again, Rob and Caitlin will be circulating with the microphones, and also, again, please state your name and firm before you state your question. Do we have any questions?

Okay. With that, I'll turn it over to Asim for some closing remarks.

ASIM GHOSH:
So, I'm going to go back to some basics. We've spoken about our balanced growth strategy, which I outlined at our first ever Investor Day in December 2010, and that's been the beacon by which we set our course. As I mentioned this morning, we've adjusted our sails from time to time to take advantage of the prevailing winds, but basically the course has been unchanged for that entire period of six years, and as a result, what you see before you today is fundamentally a stronger, more resilient company. To wit, we can be breakeven at an earnings level at an oil price than less US$40 WTI across the cycle. That would place us amongst the best in the global industry outside of those legacy Mid East Basins that you saw. Our ongoing sustaining capital needs are declining year to year, as we increase the percentage of what I call our higher quality production. We are now in a better position to generate free cash flow because even at prices in the mid US$30 WTI range we meet our sustaining and maintenance capital requirements. So, that cash will be earmarked for three priorities.

The first is job pretty well done. It's to further strengthen our balance sheet. We've made great progress on this and in swift order. I will say we do not want to use cash flow from operations to strengthen our balance sheet. That's a separate set of activities that have taken place. When we announce our—close out our already announced dispositions, we will be well within our comfort zone. That's more of a hygiene factor for us.

The second priority is to invest in our portfolio of what we call our higher quality projects, and even at today's prices, most of these developments can deliver returns well in excess of 10%. That's an enviable position for Husky to be in. That's Upstream, Downstream and across our diversified Upstream base. That includes us growing inventory of large thermal projects, which is a great differentiator for Husky. This business has some of the most compelling economics to be found anywhere in the industry, and is uniquely integrated over our Midstream and Downstream assets, but it is not the only area of focus for investment. We will remain diversified. But, it's these types of capital-efficient opportunities that will help us capture incremental margins for new production and, basically, as a company, we continue to remain focused on capturing incremental value, not growth for growth's sake. So therefore, when we talk of reinvesting in growth, it's reinvesting in improving the quality of our asset base.

Finally, we recognize the importance of establishing a sustainable cash dividend. That remains front of mind for Husky. At the end of the day, over these six years, we are a company transformed and now one better positioned to grow profitably.

Thank you, and on that note, we will take questions.

DAN CUTHBERTSON:
Okay, we have Rob and Caitlin ready to take any questions. There's one here.

GREG PARDY:
Thanks. It's Greg Pardy from RBC again. It's really I guess a question for you, Asim. One of the big questions on Husky that always comes up is this alignment between your major Shareholder and your minority interest. It came up in the elevator as I was kind of coming up today. How do you think about the dynamic, I guess, particularly in light of the last six to 12 months, including the Midstream deal, including dividend policy, and so on? Thanks very much.

ASIM GHOSH:
I think about the dynamic over the past year just as I—or the six months, as much as I thought about the business in the past six years, and I think about it in much the same way I believe our principal shareholders do, and I think all our long-term shareholders do. They're basically business fundamentalists. If you look at the basis of business fundamentals, okay—in short terms, you chase the fashion of the day. In the time I've been here, there's a fashion of the day being de-integration, a fashion of the day of growth/growth, which is kind of dot.com. We've always said we'll be balanced. I believe our principal shareholders are also business fundamentalists and, therefore, there's complete alignment between them and any shareholder who takes a fundamentalist view of the business.

DAN CUTHBERTSON:
There's a question here in the middle.

PAUL CHENG:

Thank you. Paul Cheng, Barclays. I have two questions. I think the first one is probably for Jon. Jon, you target your net debt to maybe operating cash flow at a certain ratio. One would argue that in a high oil price environment that they may be relatively easy to achieve, and given that I think history proved that no one really had the ability or the crystal ball to really predict when is the next downturn. So in the sense that should the Company target a much lower net debt ratio or net debt label as oil price is higher so that you position yourself in the event when unexpectedly that you see the downturn, you will be able to take advantage of that. Because, I mean, your ratio is good when oil prices is reasonably high, but as they go down, all of a sudden everyone gets into trouble.

JON MCKENZIE:

Yes. I think, Paul, you know, if you go back and actually look at the history of Husky, it's been relatively under-levered related to its peer group, through its history, and that changed a little bit as we finished off a couple of megaprojects in 2014. But when we speak to the debt levels that we have and that we're targeting today, at two times debt to cash flow, that's at a pricing assumption of $30 WTI, and I think what you can expect to see from us, as we potentially move up in commodity price on a go-forward basis is we'll still target that two times debt to cash flow at what we call the bottom of the cycle which is the $30 WTI. So, don't expect us to change the capitalization of this company on a go-forward basis as we move through a commodity cycle. What we believe will happen on a go-forward basis is that we'll see continued volatility and the potential for lower prices for a longer period of time. So the number that we put out is really where we are going to target our debt on a go-forward basis, not two times at higher prices, if they should materialize.

PAUL CHENG:

Thank you. The second question is for Rob. Rob, when you finally decide that it's time to make growth investments, the incremental investments, what's the criteria to dictate? Because if it's purely based on return, given that the Thermal Heavy Oil has the best returns, so does that means all the new investment would just go to the Thermal Heavy Oil, or that you would look at, from a portfolio diversification, also the need to take into consideration, and as a result even though some projects may have a lower return, but you still would get the investment dollar? I just want to see what is the thinking behind it. Thank you.

ASIM GHOSH:
Yes, Paul, since I'm sitting in the middle of what we call our Executive Investment Committee, let me take that one, okay? So, we do not take a linear view of our investment. There's some broad principles that we put through our filter. Return, of course, is one of them. The nature of the return, short-term versus long-term, is a very important one. Maintaining the diversification of the Company between various geographies and play types in Upstream is a very important one; and finally maintaining a balance between Upstream and Downstream is very important. Okay? So we take all of these factors into account.

The one thing I always to keep in mind is we don't ever want Husky become a one-string banjo because we have found that external circumstances change and what looked like gold at one point, three years out is suddenly looking like floss. So therefore, we have now got Husky to the stage where we are not defined by any single project or any single asset, and we are definitely not going to let that strength go away. The global events over the last few years, last two years, year-and-a-half, and indeed some events in various businesses around the world have only reinforced our commitment to maintaining that resilience. That's an important part of our resilience.

DAN CUTHBERTSON:
Any more questions? There's Fernando over there.

FERNANDO VALLE:
Fernando Valle from Citigroup. Just following up on that answer, is there a rate at which you are comfortable with growth for your upstream production, considering the balance that you talked about? You had $20 billion in backlog for production growth. So I'm just wondering, if your second priority is low-cost investment, how long is that going to go? How much room do we have until we see dividend being restored? Thanks.

ASIM GHOSH:
Well, first of all, I want to say that while historically we have talked about balance between returning cash to shareholders and growth, we are defining growth more tightly because we do want to keep improving the quality of the barrels, the lower sustaining capital which happens to equate also to lower breakevens.

The second point is that with this transformation taking place, we progressively free up more discretionary cash flow, and by discretionary, you've got the maintenance and sustaining capital and the discretionary is the balance between returning money to shareholders, dividend, and investing for continued improvement and quality of balance sheet, which we'll keep doing.

As to when that happens, all I can say is we are on a journey, you can see the journey is positioning us in a better and better place, but we do not have any confidence that we have discovered a sustainable price level in the industry yet. We watch the commodity prices of course, but we also watch fundamentals such as the market returning in balance. Some of you would have read the comments of the UAE Oil Minister Mazroui yesterday. OPEC itself is saying now, "Look, we don't have a role to play anymore. Our strategy of doing nothing is working, but we are getting towards balance but we're not yet in balance." So, those are the sorts of fundamentals. As business fundamentalists, we are looking at those fundamentals rather being seduced by what happens across a trading desk on a day-to-day basis.

DAN CUTHBERTSON:

Okay. With that, I'm sure we can continue many conversations over lunch, so we'll take a break for lunch. It should be close to being set up out there, and we'll make sure that Management circulates around to have some good interaction. Thank you all for coming.