



# **HUSKY ENERGY**

## **FIRST QUARTER 2016**

### **CONFERENCE CALL & WEBCAST**

#### **TRANSCRIPT**

**Date:** Tuesday, April 26, 2016

**Time:** 8:00 AM MT

**Speakers:** **Asim Ghosh**  
President and Chief Executive Officer

**Jonathan McKenzie**  
Chief Financial Officer

**Robert Peabody**  
Chief Operating Officer

**Dan Cuthbertson**  
Director, Communications and Investor Relations

**Bob Baird**  
Senior Vice President, Downstream

**OPERATOR:**

Thank you for standing by. This is the Chorus Call Conference Operator. Welcome to the Husky Energy First Quarter 2016 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, simply press star and one on your touchtone phone. Should anyone need assistance during the conference call, they may signal an Operator by pressing star and zero on their telephone.

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

**DAN CUTHBERTSON:**

Good morning and thanks for joining us. With me are CEO Asim Ghosh; COO Rob Peabody; CFO Jon McKenzie; and Senior Vice President Bob Baird from Downstream. We will review our first quarter results and then take your questions. Following the call, we will be holding our annual meeting of shareholders in Calgary starting at 10:30 a.m. Mountain Standard Time. I'll direct you to our website at [huskyenergy.com](http://huskyenergy.com) for more information and a webcast of the meeting.

Today's call will include forward-looking information. The various risk factors and assumptions are outlined in yesterday's news release and are included in our annual filings on SEDAR, EDGAR and on our website. All figures are in Canadian dollars and before royalties unless otherwise stated.

Now, I'll give the call over to Asim.

**ASIM GHOSH:**

Thanks, guys. We continued to deliver against our strategy while positioning Husky as one of the most resilient companies in the industry. You've often heard me talk about the decisions we took six years ago when we established that strategy which included maintaining a diversified portfolio, developing the Lloyd and Sunrise value chains and transforming it into a low sustaining capital business. The output of these decisions has created a pathway to higher quality production, to improving margins, reducing cash flow variability and mitigating exposure

to commodity price volatility. It's also bringing down our earnings breakeven and sustaining and maintenance costs.

Our business principles include transitioning into a low sustaining capital business and further strengthening the balance sheet. I'll speak to the latter point first. During these volatile times, a strong balance sheet is paramount, as prices could stay low for an extended period. Coupled with this unprecedented commodity rout is increased volatility in daily oil trading, the likes of which this industry has not experienced in more than a decade. In response, we have set out to reduce our debt levels to about two times debt-to-cash flow at a current price planning assumption and identified several potential levers to get us there.

In very short order, we've made significant progress against this objective with the announced sale of a portion of our Lloydminster Midstream assets portfolio. We set a high bar for this transaction. It was important to maintain operatorship and an equity interest in order to preserve the tight integration between our heavy oil production and our refining assets.

We have an agreement with aligned partners who share the view that this midstream business has considerable growth potential both from our expanding Lloyd thermal production and by adding to our existing third-party business. This will support takeaway capacity for an additional eight Lloyd thermal projects. This transaction is the first of several value creation initiatives underway and we expect to make further announcements in due course.

With regard to our ongoing transition into our low sustaining capital business, we continue to advance a rich portfolio of projects resilient to a low oil price environment. In fact, this year will be a pivotal year in realizing this objective as about 40% of our overall production will come from these types of projects in 2016 compared to just 8% in 2010. This has already delivered two significant outputs, the lowering of earnings breakeven and continuing to reduce our sustaining and maintenance costs, allowing us to do more with less.

So in summary, the objective isn't simply to grow the number of barrels produced; it's to improve the profitability of every barrel. Case in point, the Lloyd portfolio has undergone a material transformation over the past six years. If you remember, this was a business that was on a treadmill. Today, we have an unmatched land position, infrastructure position, which will allow us to keep growing the thermal part of the business. Using this thermal technology, we've been

able to turn our heavy oil business to one that was essentially in decline into one of our strongest growth engines. These thermal developments represent low risk, short cycle investments with much higher recovery rates than conventional technologies, and we have gained substantial expertise in how to develop these projects.

Still in the low sustaining capital bucket, a quick comment on Tucker and Sunrise. We've been making good process at the Tucker Thermal Project where total production averaged more than 16,000 barrels a day in the first quarter. With the recent tapping of the Colony reservoir, we are well on the way to achieving about 20,000 barrels a day towards the end of 2016.

Meanwhile, production at Sunrise continues to ramp up. As we further develop our thermal businesses at Lloyd, Tucker and Sunrise, we continue to lower costs, grow higher quality production and look to maximize the margins we capture along with every step of our integrated value chains.

To sum up, six years on, our strategy stood the test of time by improving Husky's resiliency in this low oil price environment by unlocking value and strengthening the balance sheet, and we have plenty of running room with a rich and diverse portfolio of high quality opportunities in which to invest. I look forward to seeing all of you at our Investor Day on June 1 when we'll be doing a deeper dive into this high quality portfolio.

Now Jon, do you want to take over on the Q1 financials?

**JONATHAN MCKENZIE:**

Thanks, Asim. We continue to make progress against our two main financial objectives. Asim spoke to strengthening our balance sheet, and I'll talk on how we are improving our financial flexibility, which gives us more than adequate room to execute our business plan.

Last month, we renewed a \$2 billion credit facility with our existing lenders, extending the maturity date to 2020. Overall, we have \$4.6 billion of borrowing capacity of which \$2.6 billion remains available. We have no major long-term debt maturities until 2019, and the Midstream deal will bring in about \$1.7 billion with the proceeds being directed towards that. Finally, our investment grade credit rating was recently reaffirmed by all major rating agencies without any downgrades.

Back to the Midstream transaction for a moment, the sale proceeds reflect about 13 times expected 2016 EBITDA. As a matter of fact, this new joint venture infrastructure company of which Husky is the operator and owns about 35%, is a material business. It will be comparable in size to several North American infrastructure peers from a market cap perspective. We're very fortunate to have partnered with two investment grade global infrastructure companies, CKI and PAH will bring a great deal of commercial acumen to the table. In addition, the new entity is funded with enough financing and distributable cash flow to take care of infrastructure costs and takeaway capacities for the next new—or next eight new thermal Lloyd projects.

Now looking at our Q1 results, I'll start with CapEx, which was \$410 million in the quarter. In accordance with the principle of keeping capital expenditures aligned with operating cash flow that we spoke about in our guidance, cash flow for the quarter was \$434 million, slightly above CapEx. As previously mentioned, our spending is weighted to the first half of this year as we complete construction on three thermal projects, turnarounds and other activities, but we expect to remain within our guidance range of \$2.1 billion to \$2.3 billion for capital spending.

Average Upstream production was 341,000 boe per day, reflecting strong results from our Lloyd thermal projects, added production from Tucker, and ongoing ramp up at Sunrise. Throughputs at the refineries and the Upgrader averaged 314,000 barrels per day, which takes into account an eight-week turnaround at our Lima Refinery that is just now wrapping up. We are continuing to see strong financial results from our Asphalt Refinery, and particularly good margins from our Upgrader where we averaged \$20.21 per barrel over the quarter compared to \$14.95 a year ago. Overall operating costs continue to come down in our ongoing focus in higher quality barrels and cost saving initiatives.

In the first quarter, op costs were \$13.31 per barrel compared to \$14.87 per barrel in the first quarter of '15.

In terms of cash flow from operations, we realized \$434 million compared to \$838 million in the first quarter of 2015. Now this takes into account some of the lowest Chicago crack spreads that we've seen in six years, and, as a result, lower realized U.S. refining margins and a FIFO loss of \$21 million after tax. Other items affecting cash flow in this quarter included persistently low commodity prices and the start of the Lima turnaround. Cash flow was positively impacted

by the current income tax recovery of \$92 million and insurance proceeds of \$123 million before tax related to the Lima Refinery isocracker. A note on the Lima isocracker, our first quarter results included that CDN\$123 million pre-tax that I mentioned in insurance proceeds and we have recorded a total pre-tax number of CDN\$358 million in insurance proceeds to date.

Earnings were a net loss of \$458 million. This included a \$50 million impact related to the mark to market of the hedging program, an after-tax FIFO loss of \$21 million, and an income tax expense of \$75 million related to prior years.

Now looking at pricing, WTI prices averaged US\$33.45 per barrel compared to US\$48.63 per barrel in the first quarter of 2015. Average realized pricing for total Upstream production was \$25.02 per boe compared to \$40.84 in Q1 last year. U.S. refining Chicago crack market spreads averaged US\$9.23 per barrel compared to \$16.14 in the first quarter of 2015. The realized U.S. refining margin averaged US\$3.76 per barrel compared to \$10.04 per barrel in the prior year's quarter.

As previously disclosed, natural gas sales from the Liwan Gas Project were impacted due to a temporary land-based pipeline outage within the customer's pipeline network. A temporary land-based pipeline has been put in place while the permanent pipeline repair is underway. Liwan gross gas sales averaged 207 million cubic feet per day in the first quarter and associated liquids were about 9,050 boe per day. Current gross sales averaged about 150 million cubic feet a day and 8,000 boe per day of associated liquids.

During the first quarter, full payments were made to Husky for the gas liquid sales, however, payments for natural gas sales were received from the customer only for the actual volume sold rather than for the full take-or-pay contract volumes. We are pursuing full payments in accordance with the take-or-pay contractual arrangements.

Concurrently, CNOOC officials indicated changes in the Guangdong gas market in consideration for a natural gas price reduction. Husky has an enforceable contract, and our position is that a change in any terms, if any, must be value neutral. We are in discussions with CNOOC to find a solution and will take legal action if necessary if a satisfactory outcome is not obtained. We will update you on the progress next month at our Annual Investor Day.

Meanwhile, we are well into our busy turnaround season. Of particular note is the planned maintenance at Lima, which is just wrapping up and coming back online with a full suite of process units. We are also beginning work on the first stage of the crude oil flexibility project. A turnaround will commence at the Toledo Refinery in the second quarter, and we expect throughput capacity to be reduced to about 25% for the planned 11-week duration. I'll refer you to yesterday's news release for details on other upcoming turnaround work.

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

**ROBERT PEABODY:**

Thanks, Jon. We are continuing to deliver on the transformation that has occurred over the last few years throughout our businesses. Looking first at Heavy Oil, we were recently at Lloydminster to mark the start of steaming operations at Edam East, a 10,000 barrel per day thermal project in Saskatchewan. Just a few weeks later, the project is on production and ramping up. We have two more thermals coming down the pipes at Vawn and Edam West.

Once online, these projects are expected to boost our overall Lloyd thermal production to more than 80,000 barrels per day by the end of the year. Including Tucker, which now has similar economic characteristics to our Lloyd thermals, our Heavy Oil business unit thermal production will be in the range of 100,000 barrels a day by the end of the year. Our Lloyd thermal business is proving to be remarkably resilient in a low oil price environment. It has some of the lowest operating costs in the industry, advantaged logistics and infrastructure, as well as the higher oil price realizations associated with Heavy Oil compared to bitumen. In fact, in March, the thermal business was essentially earnings breakeven despite the current oil price and relatively wide differentials.

Last year, our Lloyd thermal operating costs were CDN\$9.53 per barrel. Today, that has been reduced to CDN\$6.63 per barrel. As an aside for those south of the border, that's just over US\$5 a barrel, including energy. Inclusive of S&D costs, we are at about US\$15 per barrel. Hopefully, this will put to rest the myth that all Canadian thermal crude production is amongst the highest cost crude production in the world. Actually, we are realizing significant savings in operating costs across the entire Heavy Oil business through a variety of initiatives. These include ongoing work with our suppliers, lower trucking costs, and most importantly, challenging the economics of every single decision we make. We've also seen an improvement in our total

Heavy Oil operating costs, which are currently around \$10.80 per barrel, including energy, compared to about \$15.30 per barrel a year ago.

Our Lloyd thermals are further supported by our tightly integrated Lloyd value chain, which maximizes the value of our Heavy Oil barrels via the asphalt plant, the Upgrader, and, ultimately, our refinery at Lima. Asim spoke up to the steady progress we made at Tucker that will see us reaching the 20,000 barrel per day mark by the second half of this year. Operating costs at Tucker are now \$7.41 per barrel, about 60% lower than this time last year. These are expected to further decline as production grows.

In Western Canada, we continue to translate this portfolio into a lower cost, more focused and efficient business. Total resource play production in the first quarter was 40,300 barrels of oil equivalent per day, and so continues to be a workhorse in our resource play portfolio, producing about 23,000 barrels of oil equivalent per day compared to 17,000 barrels a day a year ago.

Moving to the Downstream, the Upgrader and Asphalt Refinery continue to make a strong contribution to our business. At the U.S. refineries, our main task in the first quarter was preparing for the major planned turnarounds at Lima and Toledo. At Lima, work is getting underway on the first stage of the crude oil flexibility project. Refinery equipment is being modified to allow for the processing of up to 40,000 barrels per day of heavy crude blend starting in the 2018 timeframe. We are also on track to bring the isocracker back into service following the turnaround.

We continue to build our capability to capture additional margins along the Lloyd and Sunrise value chains. Work on expanding the Saskatchewan Gathering System is now about 80% complete and on track to wrap up in Q3. This network is a key component in transporting our Heavy Oil thermal production to our refining and upgrading hub in Lloydminster, and as part of the Midstream deal just announced, we and our partners are expanding this system to accommodate Husky's future thermal projects and third-party business in this area.

In the Asia-Pacific region, as mentioned earlier, work is underway on the second deepwater pipeline at the Liwan Gas Project. This line will provide additional flow assurance to maintain reliable production later in the field life. Offshore Indonesia, we're making good progress in advancing several projects in the Madura Strait. We are currently drilling four development



wells at the liquids rich BD field. Construction work on the wellhead platform and pipeline infrastructure is about 70% complete, and we remain on track to start up operations in 2017. The combined MDA and MBH fields are in the pre-development process as is the MDK field, which will be tied into the infrastructure of the other fields and brought online in the 2018/19 timeframe. In total, these four projects will add about a hundred million cubic feet a day of gas and 2,400 barrels per day of associated liquids. This is expected to generate a stable long-term cash flow stream.

At the Sunrise Energy Project, maintenance on a third-party pipeline was undertaken and completed in late March. As a result, the 10-day planned turnaround for the Sunrise 1A plant was brought forward and completed at the same time. During this period, production volumes were temporarily reduced and averaged about 19,700 barrels per day in March. The plan is to resume full operations as scheduled and production has averaged around 26,700 barrels per day in April to date, with recent peaks at 30,000 barrels a day plus.

Finally, in the Atlantic region, we saw steady production from the White Rose complex over the quarter. The Henry Goodrich rig is in transit to the region to begin a two-year drilling program. We will be using this rig for further development drilling at the South White Rose extension and to complete the Hibernia formation production well at North Amethyst where first oil is planned for the fourth quarter. In the Flemish Pass Basin, our exploration and appraisal program in the area of Bay du Nord, discovery is moving forward as planned and is expected to wrap up this summer.

Thanks, and I will now turn the call back to the Operator.

**OPERATOR:**

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

The first question comes from Neil Mehta of Goldman Sachs. Please go ahead.

**NEIL MEHTA:**

Good morning, guys. So I wanted to kick it off on the asset sales. Congrats on the \$1.7 billion that was announced yesterday. Just can you provide a little bit of update in terms of what you think is left in terms of the residual portfolio, if there are incremental asset sales, how we should think about any tax impact, if any, and then just in terms of the impact on capital or earnings from this. Just trying to model out the impact here going forward.

**ASIM GHOSH:**

Jon, I think that's one for you.

**JONATHAN MCKENZIE:**

Sure. Thanks, Neil. It's Jon. So just in terms of, you know, there's a lot to that question, but just in terms of how you should think about this business, this business currently generates about \$180 million per year of EBITDA, and we're obviously retaining 35% of that, so the intention is to start the joint venture with the two other companies and expand and grow this Midstream business.

Just in terms of tax efficiency, I caught that at the end of your questions. One of the key pieces for us was that this was a tax efficient transaction, so without getting into the details, the proceeds of \$1.7 billion are almost entirely sheltered.

Now in terms of the other pieces that are coming down the track, we did mention this was the first step in our monetization efforts and then we have two more pieces that we've been working on. This was by far the most material to us. The next piece of business that you'll hear from us is around the royalty, and we did receive our bids for that mid last month and we're working through that process, so that would be the next piece of business that we'll turn to and you'll hear from us in the near future, and then following that, we've got some other dispositions in our conventional Western Canadian business that are entirely unrelated to the business we're undertaking here at Lloyd.

**NEIL MEHTA:**

Got it. No, that's super helpful, and then recognize that it's an ongoing process, but can you provide more background on the source of the dispute with CNOOC around the pricing of Liwan, and specifically, what is the difference between the payments that you're getting for what

you sell versus the take-or-pay payments, and then just the path forward in terms of timing of a resolution around the dispute?

**ASIM GHOSH:**

So let me address the second part first, but basically, the take-or-pay volumes are 330 mmcf a day. After the pipeline breakdown, they've been able to take 150 mmcf per day and there was 80MM owed dollar terms as of the end of the quarter.

Now overall, so the first part of your question, it's early days. You know, they have indicated a more difficult market in China, and our view is that there's no contractual basis to change the price unilaterally. We have a legally binding take-or-pay contract in place and any change in contract terms, our view is that it must be value neutral. So the macro picture, of course, is while there may be short-term hiccups in China demand. Overall, gas demand will continue to grow in China as it moves towards this economic and, importantly, emissions targets. The other context I'd like to place around this whole thing is, look, we have a longstanding partnership with CNOOC. We are confident we'll get to a satisfactory outcome, and as with many partners, we are talking, but we have outlined our principles that any change in terms must be value neutral.

**NEIL MEHTA:**

Yes, that's very helpful guys. Thank you. I appreciate the colour.

**OPERATOR:**

The next question is from Benny Wong of Morgan Stanley. Please go ahead.

**BENNY WONG:**

Great, thanks, good morning. Just over at Lloydminster, can you give me a sense of how much running room is there before the Midstream capacity needs to be expanded, and does this deal pre-fund any of that spend?

**JONATHAN MCKENZIE:**

Yes, that's a great question Benny. It is Jon McKenzie here. So just in terms of the throughput capacity, now there are segments of that line that are operating at capacity and there is sort of minimal spare capacity across most of the system. As Rob mentioned, we're in the process of

expanding the southern leg of the Saskatchewan Gathering System to facilitate the thermals that are coming on later this year.

Embedded in this transaction is funding and commitment to expand the northern leg of the Saskatchewan Gathering System as well as what we call LLB Direct, which is a line from Midway down to Lloydminster. That's got about \$750 million of capital cost between the two. So the partners have arranged for financing as well as equity contribution to pre-fund those two growth initiatives, which will really give us capacity or takeaway capacity for the next eight phases of our thermal program as well as additional third-party business.

**BENNY WONG:**

Great, thanks, I appreciate that colour. Then just jumping over to Tucker, is there any more upside to that project beyond the 20,000 barrels per day? By the end of the year, do you see eventual potential to get the volumes up to the plant capacity, which I think is 30,000 barrels per day, if I recall correctly?

**ASIM GHOSH:**

Rob, you'll take that?

**ROBERT PEABODY:**

Yes, thanks Asim. Yes, as we said, our plan is to get it up to 20,000 barrels a day by the end of this year. As I've said before, we're a pretty tenacious bunch and we still know that 30,000 capacity is on the plant and we do think we have a roadmap to get there in time.

**BENNY WONG:**

Great, and just a final question, just over at Liwan, so how are you guys thinking about volume and revenue for the remainder of the year, and I guess an extension of that, like when do you expect volumes to be back up to full volumes post a turnaround and maybe the remedy of the curtailment?

**ASIM GHOSH:**

Well, as I said, in terms of the long-term outlook, it's early days. We are in active discussions and we've outlined our principles, okay, which is that, hey, any change should be value neutral. So the long-term modeling point of view, I would just model it as value neutrality, but in the short

term, basically we are receiving 150 million cubic feet a day, and I would basically model it around that, but we're getting the full amount of the liquids. So say for the year, I would kind of model it around that, I guess.

**BENNY WONG:**

Great, thank you.

**OPERATOR:**

Our next question is from Paul Cheng of Barclays. Please go ahead.

**PAUL CHENG:**

Hey guys. Good morning.

**ASIM GHOSH:**

Good morning.

**PAUL CHENG:**

A couple quick ones then. I seem just curious that if oil indeed has bottomed as some of us hope and is moving upwards, how that may change your CapEx spend and your overall view for 2017 and 2018 comparing to where you are today. You guys have been trying to manage the business at \$40 oil, which is commendable, but that if indeed that the price is rising, how that is going to shift your business?

**ASIM GHOSH:**

Just a couple of points. So the nitpicky point, Paul, would be, remember for those of us who are Canadian dollar reporters, about half of the oil price increase has been used up by the exchange rate move. So while oil has moved favourably, exchange has moved unfavourably. It's just a point to bear in mind, the back of one's mind, that we mustn't be—we mustn't get seduced just by the headline U.S. dollar figure in Canada.

The second point is, honestly, I mean this is a serious comment, okay? We take every input into account including reading about Prince Mohammed bin Salman's massive reshaping of the Saudi world. So as I'd used the words earlier, permit me to repeat it, you know, we really do want to look at trend lines and sort of an underlying state of solidity rather than just short-term

headlines. But having said that, so once we do get a confidence level that, look, we are into a new equilibrium and we are in a—and the balance sheet repair, which we've given you the targets of, is fully complete, and for that we are really targeting two times debt-to-cash flow at the sorts of assumption levels we'd seen at.

So really, from our point of view, we will—we have told you that our priorities are growth, accretive growth at low oil prices, dividend, all in the context of maintaining a strong balance sheet, and I think at the Investor Day, we will have a fuller update on the portfolio possibilities—the Investor Day, you know, it's the 1st of June, I believe?

**MALE SPEAKER:**

Yes.

**ASIM GHOSH:**

First of June, so it'll be all parts of our Upstream asset portfolio allows room for investment and our Downstream portfolio has very large room for investment. So, we will give you a picture on that on the 1st of June, Paul.

**PAUL CHENG:**

Mm-hmm. Asim, when you say that you need to have the confidence, does that mean that you want to see oil price reach a certain level for X amount of time, or is there anything that you can quantify for us or not really? I mean it's just an overall—

**ASIM GHOSH:**

I would really like to see the market return into balance, okay? The market is not yet in balance, okay? Right now, there's a forecast for balance, but there isn't visibility of balance having returned, and I'd like to see some of the surplus inventory that has been built up used up. I think that's when we'll say, look, we are at a safe stage.

**PAUL CHENG:**

Okay. Maybe this is either for Jon or for Rob. If we're looking at from the first quarter as a baseline, is there much room to improve or bring down your Upstream unit cost from here or that you're already pretty efficient?

**ROBERT PEABODY:**

I'll take—we're never efficient enough, Paul, and we will continue to see further efficiencies. I mean, just for example, in Lloyd, as we continue to ramp up all the new thermal projects, we're carrying some of the costs of those, but have yet to—they have yet to ramp up, and, again, at Tucker, we've seen some great improvements as a result of all our procurement efforts, but as we've been ramping up production, we've also seen big unit cost decreases, and so clearly, as we continue to ramp that up to 20,000 and beyond in the future, we'll see big improvements there.

Also, I guess the last thing I'd add is, you know, and just remind you about the strategic context for our Western Canada disposition. Ultimately, that's all aimed at getting to a business with a smaller number of more focused, more material profit centres where our target again is higher efficiency and lower operating cost. So that's just a few examples, but we think —

**PAUL CHENG:**

Right. Rob, is it possible—let's say if we ignore the potential impact after you divest some of those small pocket of outset, and just based on existing portfolio, are we seeing potentially another 10%, 20% or 5% of the potential improvement for the next 12 months or next six — is there anything that you can help us in terms of helping quantify it?

**ROBERT PEABODY:**

Well Paul, what I would say is, again, a lot of our focus—clearly we've worked with suppliers and we've driven costs down. That area, as I think you'll be aware, many of the suppliers in the industry have probably given just about as much as they can on rate. Our focus then shifted to more efficient operations going forward and we made good progress there, but again I'd bring you back to this, the kind of strategic thing. The big, big cost reductions you're seeing coming through on our operating costs are really coming from structural changes to our portfolio, and that's where we're going to continue to focus.

**PAUL CHENG:**

Okay. A final one, maybe I missed it. Are you saying that Lima turnaround is done, right, and you are in the process of bringing the isocracker back up? When that the isocracker will be up and running in full?

**ROBERT PEABODY:**

Well, yes, right now we are in the process of starting up the Lima Refinery after turnaround, so we're in the safety process startup, and after the refinery has started up, we will then proceed to commence to start up the isocracker right after.

**PAUL CHENG:**

Oh, okay, so you are not starting it concurrently. You're going to start up after the turnaround and then you bring on the isocracker. So we should not assume the isocracker will be back up probably until say the second half of May, if that's the case?

**ROBERT PEABODY:**

Yes, around that time Paul, about two, three weeks from now.

**PAUL CHENG:**

Okay, very good. Thank you.

**OPERATOR:**

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

**FERNANDO VALLE:**

Hi guys, thanks for the call. Just a quick follow-up on previous questions. The two times debt-to-cash flow target, it's net debt or gross debt? Then a second question is, in light of what's going on in Liwan, how are your negotiations for Liuhua and the extension of the gas supply contract? Thank you.

**JONATHAN MCKENZIE:**

Okay, so, Fernando, I'll take the first part of that question with regard to debt. So we would anticipate following these monetization opportunities that we'd be carrying cash on the balance sheet, so what we talked about in getting down to two times debt-to-cash flow is net debt.

**ASIM GHOSH:**

On Liuhua, yes, basically negotiations are ongoing.

**FERNANDO VALLE:**



Okay, so there's no impact from the current situation in Liwan on that contract negotiation.

**ASIM GHOSH:**

No, no, no.

**FERNANDO VALLE:**

Okay, thank you.

**OPERATOR:**

The next question is from Nima Billou of Veritas Investment Research. Please go ahead.

**NIMA BILLOU:**

Good morning. Can you just talk about the interest savings, like the average cost of debt right now that you expect from these proceeds, just to get a sense from a modeling perspective?

**JONATHAN MCKENZIE:**

So are you speaking to the debt in the portfolio or are you speaking to debt at—

**NIMA BILLOU:**

Yes, the proceeds, yes. With the debt in the portfolio right now, and you're going to apply \$1.7 billion in proceeds to debt, so just what the cost is on that debt and what savings you expect.

**JONATHAN MCKENZIE:**

So the net interest cost across the portfolio of long-term debt is about 5%, 5.5%, and what we're going to do with these proceeds when they come in the door, assuming we get regulatory approval, would be to pay down a substantial portion of our commercial paper program.

**NIMA BILLOU:**

Mm-hmm.

**JONATHAN MCKENZIE:**

We would keep some of that commercial paper program live and then we'd pay down a substantial portion as I mentioned and the residual cash would go to the balance sheet. We do

have about US\$200 million maturities coming in the back half of the year that would also be funded through the cash proceeds from this and other monetizations.

**NIMA BILLOU:**

Okay, thank you. The other question, can you just refresh on potential asset dispositions in terms of operating properties? These were assets in Western Canada and what the mix was between oil and gas and rough production?

**ROBERT PEABODY:**

Yes, so what we've done is we've divided the assets for disposition into three packages. There was one in Southern Saskatchewan, one Southern Alberta and the other, Northwestern Alberta, Northeastern BC. The overall mix of those total assets is about 50-50 gas-oil.

**NIMA BILLOU:**

The total production from these assets?

**ROBERT PEABODY:**

Total production of about 55,000 barrels a day.

**NIMA BILLOU:**

Barrels a day. Okay, and do you think that you're still getting obviously positive reception in the market? Do you figure there is a lot of companies trying to sell assets at the same time, but the market isn't necessarily saturated because you have partners that may be looking for contiguous lands or the ability to drive down costs? I guess the question is if there is still a positive reception for these assets.

**ROBERT PEABODY:**

Yes, we're still very positive on the initiative and we're working through the process now that we've received the bids and we'll have more information in due course on this.

**NIMA BILLOU:**

Okay, and finally, just progress on Sunrise. Is it tracking according to plan, up to roughly I guess 28,000 barrels a day, 14,000 for Husky, net to Husky? Are you still on track for that 60,000 by end of the year?

**ROBERT PEABODY:**

Yes, this is Rob again. Just—so I think, again, I'll just summarize by saying we're seeing good month-to-month progress with production and we're actually very pleased with the reservoir performance. Of course, we look at a lot more than just production, and we've learned from other operations and have always planned for this steady ramp-up. We don't want to damage any of the other wells and we've seen that in some other operations. Sunrise production has averaged, as I said, about 19,700 barrels a day in March and that did include the impact of about a 10-day outage in late March.

Just a couple of those other things we monitor, just to give you a sense of it, we monitor a number of other parameters at Sunrise and all of these are kind of confirming strong reservoir performance. So we look at both the steam-oil ratio, the oil cut, and these are both consistent with the characteristics of a very good reservoir. The steam-oil ratio continues to steadily improve towards the design SOR of three. It's now below five and the oil cut is in line with the forecast range of about 20% to 23% and is continuing to improve as per plan.

Also, another thing we look at is just the individual well performance across the field and we've got some great wells on pretty much every pad out there that are performing very well, so—and that's what we'd expect. We expect to range and everything is coming in line with our models for the project.

**NIMA BILLOU:**

Okay, so at worst, it may be deferred, but there's no broad concern surrounding the quality of the asset. That's what you're trying to say.

**ASIM GHOSH:**

Correct.

**ROBERT PEABODY:**

Correct. Yes.

**NIMA BILLOU:**

Okay. Now Asim, final question. I have taken your time, but you said you wanted to wait for the market to balance. Do you feel that other large producers are behaving in the same manner, almost waiting for the evidence of that balance first before bringing oil to market ahead of time? Do you feel that the industry has kind of gotten religion, if you will, with respect to CapEx discipline?

**ASIM GHOSH:**

Yes, right now, I have not been invited to run those other large producers, so I really can't comment on them. I am just doing the boring job of running Husky. I have basically given you our operating principles. I should go back to a comment I made in an earlier call about the asymmetry of consequence and really, we have the portfolio. We know that when the cash flow is available, we can turn on investment possibilities. So I don't have to be in a panic in getting Husky into high risk, pump the company sorts of situations. So that's kind of a view of our underlying philosophy if you will.

**OPERATOR:**

This concludes the Analyst Q&A portion of today's call. We will now take questions from members of the media. As a reminder, please press star, one on your touchtone phone to ask a question. If you wish to remove yourself from the question queue, press star and two. We will pause for a moment to poll for questions.

The first question is from Jeff Lewis of The Globe and Mail. Please go ahead.

**JEFF LEWIS:**

Hi, thanks for taking my question. I just wondered if the transaction announced yesterday requires Investment Canada Review, or how are you thinking—or whether the approval process, whether you foresee it being onerous at all. Thanks.

**ASIM GHOSH:**

Yes, the transaction does require Investment Canada Review. I'll point out to you that it is money coming into the oil sector at this time, and so will it be onerous? I don't know. We will go through the process.

**JEFF LEWIS:**

Okay, thanks.

**OPERATOR:**

The next question is from Nia Williams of Reuters. Please go ahead.

**NIA WILLIAMS:**

Hi, thanks for taking my question. I want to ask you about cost savings. I know you said a lot was to do with structural changes in your portfolio, but aside from that, the savings made through renegotiation with suppliers, lower trucking costs, do you think they can be maintained when the oil price starts to rise or are they cyclical rather than structural savings?

**ASIM GHOSH:**

So there are three parts to the saving, okay? The simplest part, that's easy to say, look, a cyclical is a haircut in rates. But more importantly, there are two parts; one is, as you said, structural to our portfolio, and the second part is structural to how we do business. Two of those parts are sustainable and longer term.

**NIA WILLIAMS:**

Okay, thanks.

**OPERATOR:**

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

**REBECCA PENTY:**

Thanks for taking my question. I have a question about Liwan. When the project was opened, Husky talked about getting gas prices around \$11 to \$13 per mcf, and I'm wondering as you look at what's going on right now in the Liuhua expansion, how are you looking at the long-term price potential in that market?

**ASIM GHOSH:**

So as I said, this is a work in progress, but our overall principle is clear that we have a contract and any change must be value neutral and we have a number of plus points in the relationship, so we are confident that we'll get to a satisfactory outcome on this. But the macro—you've just got to remember the macro context of the Chinese market, which is longer term, they have an

issue with their emissions targets that they are bent on addressing, and so natural gas is fundamentally longer-term a growth part of the energy mix in China.

**OPERATOR:**

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

**CHESTER DAWSON:**

Yes, thanks. My question is about the divided policy. Can you discuss your plans for resumption of that? Especially now that oil has gotten back into the \$40 range, is that something that—I mean at what price point would you consider reinstating it at this point?

**ASIM GHOSH:**

Well, just as I—the first point I want to make is paying a cash dividend through debt is not sustainable, and therefore, we do not believe is a good policy, but the overall context is we are focused on strengthening our resiliency. That includes a structural change in the business. That is progressing our pace and will continue to progress our pace. That includes reducing our earnings breakeven, reducing sustaining capital, and we believe the steps we have outlined do precisely that, but we do need to be comfortable that prices have stabilized and that our debt strengthening efforts have taken place. Once we get that, then we will take a call on our priorities on a measure of growth and a measure of dividend and we continue to run a balanced view on that. As to the specifics, let's get to that position of balance in the market to address that. We believe it's premature to address that at this point in time.

**OPERATOR:**

This concludes the time allocated for questions on today's call. I would now like to turn the call back over to Mr. Asim Ghosh for closing comments. Please go ahead.

**ASIM GHOSH:**

Thank you, and thank you all for joining us. I'll just sort of summarize. The changes we're seeing in the business today didn't start yesterday. They're not a reaction to the fact that we hit a negative patch, slippery patch on the oil price. Really, we have kept on the same strategy over six years now on a pathway to improving the quality of our production and that fundamental, the biggest single part of that quality is a lower sustaining CapEx relative to our portfolio. We are improving margins, reducing cash flow variability and mitigating exposure to

commodity price volatility—we can control that, and at the same time, we are bringing down our earnings breakeven and sustaining and maintenance costs, and as Jon outlined today, we are making substantial progress, very material progress towards strengthening our balance sheet.

Just a reminder, we will be holding our AGM later this morning in Calgary, and the presentation will be webcast live on our website. So thank you all for joining us. I appreciate that.

**OPERATOR:**

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