HUSKY ENERGY

FOURTH QUARTER 2015 CONFERENCE CALL & WEBCAST TRANSCRIPT

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Speakers:

Asim Ghosh
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Jonathan McKenzie
Chief Financial Officer

Robert Peabody
Chief Operating Officer

Bob Baird
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Dan Cuthbertson
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OPERATOR:

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

I would like to turn the conference over to Dan Cuthbertson of Investor Relations. Please go ahead.

DAN CUTHBERTSON:

Good morning and thanks for joining us today. I'm here with CEO Asim Ghosh; COO Rob Peabody; CFO Jon McKenzie; and Senior Vice President Bob Baird from Downstream. We will provide an overview of our 2015 results, update on current activities, and then open up the line for your questions.

Our remarks today will include forward-looking information. The various risk factors and assumptions are listed in this morning's news release and are described in our annual filings on SEDAR, EDGAR and on our website. Unless otherwise stated, all figures are in Canadian dollars and before royalties.

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

ASIM GHOSH:

Thanks, Dan. Good morning, everybody. We are now well into what has become one of the largest oil price slumps in history. Needless to say, the impacts have been dramatic and continue to unfold both here at home and, indeed, even globally.

It's been about five years since we set out our strategy, but really it's almost six years since our executing of it. Our business has been fundamentally transformed since that time, as our strategy continues to place us in good stead. Here's some context. In 2010, only 8% of our production came from low sustaining capital projects. In this second half of this year, more than 40% of our production will come from low sustaining capital projects. Our thermal developments are leading this charge, as we continue to roll out a steady lineup of long-life thermal projects and ramp up at Sunrise and Tucker. In 2010, we had three large thermal projects and by the end of this year that number will have grown to 10, and, of course, we also have a strong inventory of thermal projects that can be advanced as capital becomes available.

Back in 2010, we made the decision to retain our Asia-Pacific business. With the development of our the Liwan gas projects, we are realizing good returns for fixed price contracts, which are not exposed to oil price volatility.

Over the past five years, we have built out two distinct integrated value chains, the Lloyd value chain and the Sunrise value chain, which are allowing us to capture refined product pricing for our heavy oil and bitumen production. In addition, we have continued to build out our proved reserves, which for the seventh year in a row have outpaced production.

The net effect of all of these assets has been a step-change in Husky's resilience.

A couple of other significant outputs from our strategy improve our financial resilience and directly impact the bottom line. Our corporate earnings breakeven, which was in the mid-50s U.S. dollars, WTI, in 2014, will be lowered to the sub-40s this year. Based on what I can see, this is one of the lowest breakevens in our industry. In addition, we have reduced sustaining and maintenance costs by 15% to 20% below historical averages to about $2.5 billion, and that simply means we can do more with less.

In the face of strong headwinds, we continued to execute our business plan in 2015 and improved the overall strength of the Company. As we move into 2016, we continue to take further action to fortify our business, in line with several business principles we have established. I'll run through these quickly. First, capital spending balanced with cash flow at our US$30 WTI price planning assumption; second, continuing the transformation into a low-sustaining capital business; and third, most importantly, maintaining a strong balance sheet with no new net debt. So, let me speak to each in turn.

With regard to the first principle, you may recall that I've spoken in the past about the asymmetry of consequence and how it applies to managing our business. It may sound like an abstract concept, but it is of extraordinary relevance to our industry today. Simply put, you could make the case for a near-time price recovery and tailor your business accordingly, or you could create an equally plausible scenario that sees prices remaining low for several years and manage your business to that scenario. If you bet on a near-time price recovery and get the call wrong, the consequences could be, to put it mildly, severe for your company; or instead, if you plan your business for an extended lower-for-longer price environment and get that call wrong, all you're doing is foregoing some near-term production. At Husky, we continue to adopt a prudent stand and, indeed, manage our balance sheet in a world where prices and margins could possibly stay longer for a long time. As we say many times around our meeting table, we never bank on the promise of jam tomorrow.

In terms of the second principle, our transition into a low-sustaining capital business continues unabated, and our 2016 plan is purpose-built to further that progress. Once again, our primary objective isn't the number of barrels; it's the quality of every barrel. The structural shift in our asset base is helping us build greater resilience into every drop of our production. The outcome of this structural shift is lower earnings breakeven, as well as lower sustaining and maintenance costs.

Finally, the third principle, which is paramount, maintaining a strong balance sheet, our plan calls for no new net debt over the near and mid-term. Actually, we're taking steps to strengthen the balance sheet and reduce debt. We are making steady progress on several value creation initiatives, including a partial sale of select midstream assets and disposition of select oil and gas assets invested in Canada.

Finally, let me take a moment to speak to the dividend. Our Board understands that a dividend is important to our shareholders. These decisions are not taken lightly. The Board will continue to review the dividend on a quarterly basis with the objective of restoring a sustainable dividend. In making the decision, the Board will take a number of factors into consideration, including the commodity price environment and the overall health of the business. With regard to the commodity price environment, we will look for trend lines, not headlines, indicating the return of a balanced market.

So, to sum up, we are managing for the long term and the principles just set out will continue to guide our course. The decisions we made more than five years ago to preserve our diverse base and integrated nature and to begin our transition into a low-sustaining capital business have supported us greatly during this downturn.

Now Jon, you'll now pick up on the Q4 financials.

JONATHAN MCKENZIE:

Thanks, Asim. Before I update you on the quarterly results, I'll take the opportunity to speak to our financial strategy and objectives; namely, a strong balance sheet and financial flexibility.

First, we've set out our capital guidance for this year at $2.1 billion to $2.3 billion. I'll note that our capital program is largely loaded to the first half of 2016. At our price planning assumption of US$30 WTI, our capital expenditures will remain in balance with cash flow in 2016. We set a conservative debt target of under two times debt to cash flow at the bottom of the cycle and no new debt is anticipated over the near or mid-term, and there are no major bond maturities until 2019. We currently have about $2.5 billion of undrawn term credit facilities available which can provide ample liquidity if necessary.

We have spoken about several initiatives to potentially unlock considerable value; namely, the partial Midstream asset sale and disposition of select Western Canadian properties. Proceeds from these initiatives will be used to further strengthen the balance sheet.

With respect to our credit rating, we will maintain our investment grade with S&P and DBRS, and Moody's has recently reaffirmed our ratings with a stable outlook at Baa2.

In addition, earlier this month we announced a hedging program using a put-call structure for about 20 million barrels of our crude oil production. The objective of this plan is to support the delivery of our business plan and preserve the strength of the Company's balance sheet, while providing a measure of revenue certainty.

Finally, in terms of cost savings, we have had a program underway for the past five years and continue to make good headway. Last year, we reduced our SG&A by about 26%. With efficiency initiatives including procurement savings, we are further lowering our costs, and we are seeing steady reduction in per barrel operating costs, which are now more than 20% lower than at the start of 2014, obviously excluding Sunrise which is ramping up.

We remain focused on what we can control and the decisive steps we continue to take will allow us to emerge from this cycle as a stronger, more resilient company.

Now, turning to the Q4 results, let me start by saying our CapEx for the year was down to $3 billion and it's at the low end of our guidance range and down 40% from 2014. Average annual production was also within guidance at 346,000 BOE per day, up from 2014. For the fourth quarter, average Upstream production was 357,000 BOE per day. This included strong performance from our Lloyd thermals, the ongoing ramp up of the Sunrise energy project, and our two new wells at South White Rose.

Throughputs at our refineries and Lloydminster upgrader in the fourth quarter were 332,000 barrels per day. This takes into account reduced volumes in the Lima refinery related to the isocracker outage.

In terms of pricing, WTI prices averaged US$42.18 per barrel in the quarter, compared to US$73.15 per barrel in 2014. Average realized pricing for the total Upstream production was $34.89 per BOE and this compares to $55.53 in Q4 2014.

North American natural gas price realized in the quarter was CDN$2.43 per mcf compared to $4 per mcf a year ago. At Liwan, we received approximately CDN$15.75 per mcf over the fourth quarter.

U.S. refining, Chicago Market Crack spreads averaged US$14 per barrel in the quarter, which is comparable to the same period in 2014. The realized U.S. refining margin averaged US$4.51 per barrel compared to a loss of $6.62 per barrel in Q4 of 2014.

So, ~~just~~ in terms of our results, while our Upstream financial results reflect a challenging business environment, strong performance in the Downstream highlights the resilience of our integrated business. We realized cash flow from operations of $640 million, compared to $1.1 billion in the fourth quarter of 2014. This reflected the lower oil price environment, a wider heavy oil differential and a $72 million FIFO loss in the U.S. refining business.

~~Variance~~ Earnings for the fourth quarter in 2015 were a net loss of $69 million, impacted by the same items that affected cash flow, as well as a $14 million after-tax write-down of inventory to net realizable value, primarily in the U.S. Refining and Marketing division, and a $50 million after-tax insurance recovery for the Lima refinery isocracker outage.

In regard to our upcoming maintenance plans, I'll refer you to this morning's new release for our plan schedules. I will note that our Asia-Pacific land-based pipeline operator recently experienced a 2.5-week interruption that was addressed. While the repair time will be reflected in our Q1 production metrics, there is no impact to our cash flow as provided for in our Liwan fixed price gas sales contracts. In addition, a reminder that the first half of 2016 will not represent our usual steady-state condition, as our turnaround season is beginning. And as you're aware, crack spreads have further narrowed and crude benchmarks have softened since Q4 2015, as they usually do during these shoulder months.

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

ROBERT PEABODY:
Thanks, Jon. Asim and Jon have already talked about how we are improving our resilience on the corporate and financial fronts and now I'd like to speak to how we are improving our operations.

Turning first to the Heavy Oil business, our thermal production continues to grow steadily, ~~so~~ and we are on track to add about 25,000 barrels per day in the coming year from our trio of Lloyd thermals at Edam East, ~~Bond~~ Vawn and Edam West. Including Rush Lake, which came on line in the third quarter of 2015, we expect to exit this year with more than 80,000 barrels per day of Lloyd thermal production. This means thermal production will now comprise about two-thirds of our total Lloydminster production. In addition, we expect to add 5,000 barrels a day from the new Colony reservoir at the Tucker thermal project. This will bring Tucker thermal to about 20,000 barrels per day by about the end of this year. All of our Heavy Oil production is supported by our Lloyd value chain. This deeply integrated system includes pipeline capacity, as well as the Lloyd upgrader, the asphalt plant and storage.

On the operating costs side, our Lloyd thermals are continuing to provide us good bang for their buck. Operating costs in Q4 were about $7 per barrel, inclusive of energy, down about 25% year-over-year. At the same time, we have reduced operating costs at Tucker by more than

55% over the year to an average of about $10 per barrel in the fourth quarter. This is expected to further improve as we add more production through the existing plant and infrastructure.

On the capital costs side, it's worth noting the capital flexibility inherent in our Lloyd thermal projects. We have previously described their bite-sized 10,000 barrel a day and 5,000 barrel a day modular nature. Additionally, we have the flexibility to ramp down and up the sustaining capital for these projects from year to year, depending on pricing~~e~~ conditions. In 2016, we elected to reduce sustaining CapEx for new pads at our existing thermal projects. There is no impact on current production and this has no adverse impact on recoveries. In future years, production will be a little lower, until sustaining capital is restored.

In Western Canada, our objective with this business is to transition the portfolio into a lower cost, more efficient business, with a focus on fewer plays, and just a reminder that the potential divestments we've identified in Western Canada are in line with this game plan. Overall, resource play production averaged more than 39,000 barrels per day in 2015, compared with 34,000 barrels per day in the previous year.

In the Downstream, during the course of the year we had a couple of operational challenges. We responded by adjusting our production mix at Lima, and even with the isocracker out of commission, maintained throughputs in the range of 136,000 barrels per day, compared to 141,600 barrels per day in 2014.

Across the Downstream, we achieved a number of highlights in 2015, including building out additional infrastructure to handle our growing Lloyd thermal production. ~~Here, t~~The Hardisty terminal expansion was completed, which included increased pipeline connectivity, blending capacity and additional storage, and we are in the final stages of construction work on the Saskatchewan Gathering System, with volumes from Rush Lake now flowing through the expanded trunk pipeline.

Another bright light was our retail business, which notched up its second best year on record, benefiting from reduced operating costs.

Furthering our resilience in the Downstream, several plans are in the works for 2016. At the Lima refinery, we are expecting to commence work on the first stage of the crude oil flexibility project during our planned maintenance turnaround. Refinery equipment is being modified to improve reliability and allow for the processing of up to 40,000 barrels per day of heavy crude blend starting in 2018. We are also doing some upgrades at the Toledo refinery and will be completing some metallurgical work in the second quarter that will allow us to process an additional 35,000 barrels per day of high TAN crude oil.

Moving over to the Asia-Pacific region, we continue to benefit from our fixed price sales gas contracts at the Liwan field. Average 2015 gross sales gas volumes from the 3-1 and 34-2 fields held steady at about 286 million cubic feet per day, while associated gross liquids were approximately 14,600 barrels per day. Offshore Indonesia, we've been making good progress on the liquids-rich BD field. A platform jacket and top sides were installed in October and the wellhead platform and pipeline construction is now about two-thirds finished. Drilling of four development wells commenced last November and we're now about 50% complete on that work. Construction work is also about halfway complete on the leased FPSO, and a fixed-price gas sales contract is in place and we expect to begin operations in 2017. A gas sales agreement has also been signed for the combined MDA and MBH fields, which are in the pre-development process. Finally, the MDK field~~, which~~ will be tied into the infrastructure of the combined fields, those'll be all combined together and the three will then be tied into the East Java gas pipeline system.

Turning now to the Sunrise energy project, production continues to increase as per our plan. This month, sales have averaged about 22,000 barrels per day, with recent production peaks of more than 25,000 barrels per day. This takes into account the usual number of operational issues associated with a ramp-up of this size, including a couple of power outages.

As you know, Sunrise is a shallow low-pressure reservoir and the plan calls for a steady and deliberate ramp-up. As an aside, lower pressures are also associated with lower steam oil ratios over the long haul ~~inside~~ in SAGD~~the~~ recovery. We monitor a number of key data points daily that continue to increase our confidence in this reservoir, including the steam oil ratio that is trending towards our designed SOR of 3, the oil cut which is in line with our forecast range of 20% to 23% at this stage and continues to improve as per our plan. Both of these factors are consistent with a top-tier reservoir and indicate we are on track to achieve design capacity, and we have strong producers on all of our well pads, which shows good reservoir continuity.

As some of you are aware, it's typical to see an average well failure rate of around 10% in SAGD projects in our industry. We've not seen any failures due in large part to our stea~~u~~dy and deliberate operational approach. At 11 months into an 18-month to 24-month ramp-up, all 55 well pairs are now producing bitumen and we are continuing to see the steam chambers filled.

We have learned the lessons from other projects, and as such, my direction of the team continues to be for a steady ramp-up in accordance with our plan, and, again as an aside, it is also worth noting that in the current price environment there's little incentive to push the pace.

Finally, in the Atlantic region, the two production wells at the South White Rose satellite field continue to perform as expected, after reaching their net combined peak production of 15,000 barrels per day in early September. Like our successful North Amethyst development, the South White Rose wells are tied back to the SeaRose FPSO, and the SeaRose FPSO recorded a remarkable up time of about 97% last year. That's a big contributor in making our Atlantic region business uniquely competitive.

Meanwhile, we have signed a two-year contract for the Henry Goodrich drilling rig at much lower daily drilling rig rates, which reflect today's market and not the market of a couple of years ago. We expect the rig to arrive in the region around the middle of the year for ongoing development drilling. The mobilization schedule is just being finalized.

Finally, we resumed drilling late last year on our ongoing exploration and appraisal program in the Bay du Nord discovery area. The program will be wrapping up this summer and evaluation of results is continuing.

Thank you, and I'll now turn the call back to the Operator.

OPERATOR:

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

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

GREG PARDY:

Thanks, good morning, just three quick ones for me. These are mostly nitty, but what is your expectation just for the insurance proceeds with the Lima isocracker for 2016?

ASIM GHOSH:

Jon, you're going to take all the questions or shall I take them one by one?

GREG PARDY:

Yes, let's just do one by one.

ASIM GHOSH:

Okay.

JONATHAN MCKENZIE:

So, we'll be taking the Lima facility down for turnaround, which will mark the end of the insurance recovery period, in March. Crack spreads have been fairly weak through 2016 to date, so the insurance recoveries as it relates to the business interruption~~BI~~ will be fairly nominal in that period. What we do expect a full recovery on is the physical damage proceeds, which will come in, in 2016. So, up to this point, we've taken in about $235 million. I would expect that number to grow to about $275 million at the time that we conclude the process.

GREG PARDY:

Okay, great, so a little bit more to go. Jon, why don't we just stay with you? I know you guys had announced a put-call strategy with hedging, but can you give us any idea where the goalposts were on those hedges?

JONATHAN MCKENZIE:

Sure, and let me put that in context, Greg, because it really fits into what we're trying to do with the balance sheet, and we've been really clear, I think, for a number of quarters that the balance sheet is ours~~s are a~~ priority. So, obviously we've been working to maintain liquidity, and having just come through the ratings process with all three major rating agencies, we're really pleased about where we ended up, and having banking liquidity to support that puts us in good stead. The other piece that we're working hard on is the deleveraging and we'll talk about that, I'm sure, as the questions warrant.

But, just in terms of the hedging program, what we're trying to accomplish here is to give us some revenue certainty through the first half of the year. So, we have a particularly heavy refinery turnaround schedule through the first two quarters of this year and we're going to be exposed more so than we normally would be to the flat price of crude. So, what we're trying to do is put some hedges in place, and these are really downside protection oriented, that is the focus of what we're trying to do, in and around budget pricing, to ensure that we have the cash flow to execute our capital plan and our business plan through the first half of the year. So, you can assume—we're in the process of putting this on right now, so you can assume the downside of this is in and around budget assumptions. Then, in terms of the calls, we'll be much more opportunistic in terms of how we place those over the tops. The collars are being established now, but the downside protection is really in line with our budget.

GREG PARDY:

Okay. Can you just remind me, we're using 30 or 35 this year?

JONATHAN MCKENZIE:

Thirty.

GREG PARDY:

Thirty, okay. Okay, fantastic. The last question is just on Liwan 29-~~2~~1. Is there anything to say right now just in terms of ongoing negotiations with another party to bring that field into place?

ASIM GHOSH:

The negotiations continue. It'll be about 24 months from the time we sign a new contract ~~and~~ to get to~~the~~ first gas. But, at this point, we've outlined what our current CapEx priorities are.

GREG PARDY:

Okay, great. Thanks very much.

OPERATOR:

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

BENNY WONG:

Hi, good morning. I'm just wondering if you could provide an outlook of the Downstream this year. I know we're heading into spring turnaround season, but I'm just curious to see your views on the back half of the year in both the Canadian and the U.S. side for you guys.

ASIM GHOSH:

I'm not so sure I get the question.

ROBERT PEABODY:

Is the question about our kind of forecast for margins, Benny, or is it …

BENNY WONG:

Yes, yes, that's—yes.

ROBERT PEABODY:

I don't think we are experts on it, is what I would say, and while predicting oil prices is extremely difficult, predicting refining margins is maybe even more difficult.

JONATHAN MCKENZIE:

So, Benny, I think what we'll see over the course of the year is typically what we have seen through 2014, 2015. Obviously, we expect a tighter WTI Brent basis, but the Chicago Crack, we would expect to be sort of in line through the driving season with what we have seen in the prior years. Now remember, we don't get the entire Chicago Crack, in that we have transportation charges, and our product mix isn't identical to what's assumed within the crack. In Canada, we would expect another robust year. So, within the pipeline business, within the upgrader and our Canadian refining assets, we would expect to—and asphalt, expect to have results that are in line with what we've seen in 2015.

BENNY WONG:

Great, thanks, and just as a final question. Is there an update on the cost estimate out in your Indonesian projects that you guys are working on?

ASIM GHOSH:

I think it’s all pretty well on track, from the previous guidance that we have given, and I'll remind you that the FPSO actually is a leased FPSO, so that's OpEx not CapEx. Nothing else has …

ROBERT PEABODY:

If anything, our drilling costs have come down.

ASIM GHOSH:

Coming down.

ROBERT PEABODY:

Pretty substantially, 25% or so from our original budget, but what you expect in this environment.

BENNY WONG:

Great. Thanks.

OPERATOR:

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

KRISTINA CIBOR:

Good morning. This is Kristina Cibor in for Neil Mehta. Just a couple of questions. One is around does the Company see any risk around its long-term Asian natural gas price contracts at Liwan?

ASIM GHOSH:

No, look, we have a fixed price sales agreement in place. The provisions of the agreement also remain in place. Remember, the larger issue—this is a joint venture. We have a deep relationship with our partner. They are also our partner in Indonesia, so it's a larger relationship.

KRISTINA CIBOR:

Okay, that's helpful. Then, you also mentioned that you kind of have some CapEx flexibility in the thermal projects. How quickly could you see the production contribution ramp up and down with that incremental CapEx flex?

ASIM GHOSH:

So, I guess, basically, I'm speaking to the decline curve. So, in the early years of these projects, there isn't one. So, in the early years, we can afford to reduce sustaining CapEx and not see a massive dropdown. But, typically speaking, they come on in about 30 months from—so in the larger sense, as you know, from when we sanction them and get going on the projects, they come on at about 30 months from sanction.

ROBERT PEABODY:

Yes, and maybe on the broader message around decline curves, it might be just—I know this is a popular question at the moment, but if we look at our production forecasts over the next couple of years, at the current level of capital spend, which has clearly reduced significantly in the Upstream to around $1.2 billion a year, we actually, for the next two years, because of all the new thermals coming onstream, we really are seeing pretty stable production over the next two years for the Company as a whole, given that level of capital expenditure. Now, clearly, beyond those two years, we would expect Upstream capital to have to increase to be able to maintain production beyond that.

KRISTINA CIBOR:

Okay, that's helpful. Then, finally, if the Midstream and Western Canada asset dispositions are executed, how much flexibility do you have in terms of your capital spending and even operating cost reductions?

JONATHAN MCKENZIE:

Sure. Just in terms of the dispositions themselves, what we have indicated is that we will be using those proceeds to pay down debt, not to increase the capital program. That's first and clearly our priority in terms of what we intend to do. The capital decision is actually somewhat independent of that and depends more on the commodity price market and where we see the balance sheet at that point in time. So, I wouldn't put the two things together, but what we will look at through the course of the year is where we are and what we see in terms of the dispositions first and then the commodity price environment to determine where we go with the capital program.

KRISTINA CIBOR:

Very helpful. Thank you.

OPERATOR:

The next question call is from Paul Cheng from Barclays. Please go ahead.

PAUL CHENG:

Hey guys, good morning. I have a number of quick questions, so maybe I do one at a time. Jon, I just want to clarify that when we say you're going to live within your cash flow at $30 oil, I presume that's not including any asset sales proceeds, right?

JONATHAN MCKENZIE:

Yes, that's correct. So, at $30, I think we've said this, we would be around $2.1 billion to $2.3 billion of capital, and the cash flow would approximate that.

PAUL CHENG:

Jon, on the hedging—I mean, historically, Husky actually never hedged. So, should we look at this new program as a one-time deal or that this is a change in the philosophy and thinking of the Company?

JONATHAN MCKENZIE:

The way I think about hedging, Paul, is in the past we've run a very under-levered balance sheet and we have used that as a shock absorber for commodity price cycles, but I don't think you should assume that we would take that tool out of our tool chest and that we would put one arm behind our back and not use that if the situation warranted. As I said in a prior question, this is really sort of a three-pronged approach to managing the balance sheet in terms of making sure we have the liquidity, the deleveraging and the cash flow certainty.

PAUL CHENG:

Mm-hmm, and the other two questions are actually for Asim. Asim, on the asset sales, given everyone is trying to sell assets today, does it really make sense trying to push asset sales today, or that is if you really don't need it, is it better off for you to wait for couple of years until price recovery before you go for a more aggressive stand on that?

ASIM GHOSH:

The first point, Paul, is we are not pushing anything. These are quality assets. We were actually kind of ahead of the curve in announcing the availability of these assets, and I just want to remind you the reason we are doing it is that they just don't fit within our long-term portfolio. I'm just talking about the Western Canada assets particularly. Because they are not a fire sale, okay? So, if for some reason we find that the market is reflecting the sentiment of today's price rather than reflecting the sentiment of the fact that this is priced low, clearly, we're not going to sort of sell any of these at a distress price because they are quality assets. It's just that we've got other assets that will have a call on our capital within any reasonable price assumption that we are going to spend money behind.

As far as the Midstream assets are concerned, as I said, you know, we've had some constructive discussions. The dynamics behind Midstream assets is somewhat different from the dynamics behind Upstream assets, and from our point of view that's simply a question of unlocking value that we don't get credit for in our sort of Upstream-oriented valuation.

PAUL CHENG:
Mm-hmm, great. I think, given that you are planning for business activity based on a much lower oil price, like $30, for an extended period of time, when you're looking at your organization structure, you already have a bunch of layoff and trying to right-size it. At this point, do you believe that you're already finished the right-sizing or that there's still more needs to be done given the expected activity levels?

ASIM GHOSH:
Look, I mean, all I can say is whatever we have done so far, these have been very, very difficult decisions, hard to believe, but as much for us and ~~probably~~ even more so for those affected. We don't go into specifics, ~~-~~but the reductions are made across the organization and we'll continue to manage our business and workforce in accordance with our business plan.

PAUL CHENG:
A final one, and I think this is for Rob. For the Flemish Basin, the Flemish Pass, you're saying that you're going to be completing the appraisal program by the summer. So is there any kind of timeline from that point on when you're going to decide on the sanction of the project or that you have to really wait until the market conditions become better before you take those decisions?

ROBERT PEABODY:

Yes, thanks, Paul. I'd just ~~probably~~ say a couple things about Flemish Basin. One, I think it is interesting that even in this extremely difficult time for the industry this basin is getting a lot of attention from the largest oil companies in the world. We have essentially every one of the super majors and many of the majors just entering the basin recently. So, it's still—you can see this is an area that is, in the long haul, people think is going be important for the industry. But, in terms of the evaluation, at the moment our focus is just on finishing the delineation drilling, completing our evaluation, and then we'll sit down with our partner and see where we go from there, but in this price environment, I'm sure things will move along at an appropriate pace.

PAUL CHENG:

Okay. Thank you.

OPERATOR:

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

FERNANDO VALLE:

Hi, guys, thanks for taking my question. Just on the dividend, you mentioned that you're re-evaluating every quarter, but we're also seeing that you've cut CapEx at a level that we'll see some declines. So, I just wanted to understand, if and when we see a recovery, how do you prioritize scaling up the CapEx versus the dividend; and also, what signals are you looking for in terms of your leverage and your operating metrics in deciding to scale up CapEx and eventually to return the dividend? Thanks.

ASIM GHOSH:

I think I've said in the past, we have three priorities. Growth is a priority, balance sheet is a priority and dividend is a priority, and I think the circumstances determine where you put stress on in that triangulation at any point in time. At this point in time, frankly, what we are focused on is giving some incremental emphasis on the balance sheet. As I said while I was talking today, look, in terms of the commodity price cycle, we will not look for short-term headlines, we will look for established trend lines, but once we get to that, we benefit from the fact that our sustaining and maintenance capital levels are down, so the draw on future capital will be lower than historical levels, and that actually puts us in a good stead to really address all three corners of our triangle in a different way from how we have done it historically, but those three priorities continue to be priorities for us.

FERNANDO VALLE:

Thanks, but I mean, internally—aside from oil prices, but internally, is it just being within 1.5 times, that's EBITDA, that's really your main priority as far as the balance sheet, or is there anything else that you are looking for? I understand sustaining capital is down, but as we're seeing on your production guidance for '16, you're spending below sustaining capital at this stage, we're seeing some drop in production, so I just wanted to understand do you need to see net debt-to-EBITDA below 1.5 for you to raise that CapEx back to the levels where we would see a flat production profile, or is there anything else that we should be looking at?

ASIM GHOSH:

I really don't have a lot to add. The 1.5 times debt-to-EBITDA was not set at this price level, but it's a longer-term objective, and till we get a sense of what the new stable state price equilibrium is, it is premature to start discussing it. At this point in time, whatever conservative assumptions we've made in the past, it looks like I wish we'd been even more conservative even though we were conservative compared to the market.

FERNANDO VALLE:

Great, thanks. Then, on the investment rating process that you just went through, was part of the reaffirmation a commitment to the asset sales, or, as you said, do you have a bit of leeway in maintaining your investment grade without the asset sales?

ASIM GHOSH:

Jon, do want to speak to that?

JONATHAN MCKENZIE:

Sure. With all the rating agencies, we've gone through our business plan. I won't speak for them in terms of how they actually came to that. There is a public report, obviously, that gets put out by each of them at the end of the day, but the conversations that we've had with the rating agencies are obviously frank conversations where we speak very openly about our business plan.

FERNANDO VALLE:

Okay. Thanks, guys.

OPERATOR:

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

Thank you. Our first question comes from Jeff Morgan from Financial Post. Please go ahead.

JEFF MORGAN:

Thank you for taking my question. First of all, I wanted to ask—the Company had done some staff reductions over the course of, I believe, the last month. Can you give us any numbers on how many people that affected?

ASIM GHOSH:

Yes, look, I mean, as I said, these are difficult decisions, they are difficult for us, they're difficult for the employees, and we won't get into the specifics, but as I said, there are reductions across the organization.

JEFF MORGAN:

Okay. I also had a question about the asset sales. Does the Company have any royalty assets that it's planning to sell? Perhaps just a clarification, did I hear that right earlier that there was some royalty lands?

JONATHAN MCKENZIE:

Yes, so there's really three initiatives that we have as part of that deleveraging exercise. One is the Mid~~ain~~stream assets, which we have spoken to at length on this call; the second would be the producing assets, of which there's about 60,000 barrels a day; and then the third, which you just alluded to, are the royalty assets. I want to be clear, these aren't the fee simple lands in Lloydminster. These are typically a collection of gross overrides that we have on our conventional production in Western Canada. So, that's the third piece, or the third initiative that we have on that deleveraging exercise.

JEFF MORGAN:

Okay, and were you encouraged by—there were a couple of companies last year that sold off some of their royalty packages. Was that part of the reason for doing this?

JONATHAN MCKENZIE:

We're always optimistic, but guardedly so.

JEFF MORGAN:

Okay.

JONATHAN MCKENZIE:

We would expect to have bids in during the course of this month for those assets and we'll see where we end up.

OPERATOR:

Thank you. Our next question comes from Shaun Polczer from Mergermarket. Please go ahead.

SHAUN POLCZER:

Hi, thanks for taking my call. Going back to the asset sales again, do you have a target for the amount of funds that you are hoping to raise? You said this isn't a fire sale and that these are high quality assets, so what would be a good value on them, and based on what oil price?

ASIM GHOSH:

I think, basically, look, we've said we are working on a number of initiatives and the total amounts that come out will depend on how much we get from one and how much we get from the other, and also on the timing in the marketplace. At this point in time, I don't think that we're really boxed in within any specific targets, we actually have a fair bit of flexibility in our program.

JONATHAN MCKENZIE:

Shaun, it's Jon. We're in the process of going through a commercial process to negotiate these assets, so it really wouldn't do us a service to tell you what we think they're worth publicly, understanding that we've got a number of counterparties that may have alternative views.

SHAUN POLCZER:

Okay. Thank you.

OPERATOR:

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

JEFF LEWIS:

Hi. A number of your competitors have shut-in volumes in the Lloydminster area. I am just wondering whether Husky has taken similar measures.

ASIM GHOSH:

Jon, do you want to take that?

JONATHAN MCKENZIE:

Sure. We've had a very modest amount of production shut-in in the Lloydminster area. It's under 1,000 barrels a day. That's where we are at the moment.

JEFF LEWIS:

Okay.

ASIM GHOSH:

Sorry, just some context on that. Remember, our Lloyd business has gone through a material transformation. As Rob spoke to when he was talking, a huge chunk of our Lloyd business now comes from thermals and those have very different dynamics from what I'd call the legacy chops business in the Lloyd area.

JEFF LEWIS:

Okay. So, it's the chops production that has been shut in?

ASIM GHOSH:

That's right, and I think probably for the industry mostly so. The thermal projects keep going on.

JEFF LEWIS:

Okay. Just regarding Sunrise, there was a comment about the pacing of the ramp-up there and that there was little incentive, I think, to sort of press the gas pedal on that asset. Can you talk a little bit more about the timing of the ramp-up at Sunrise as it relates to the current strip?

ROBERT PEABODY:

Yes. What I was saying there is we don't want to take heroic measures on Sunrise to push production up faster, especially at the risk of damaging wells as we've seen happen in other operator operations, so we're just trying to take it up at the natural pace of the ramp-up as the steam chambers expand. We're seeing good month-to-month progress as we go through this, and as I say, we are taking advantage of the lessons that others have learned in the industry.

JEFF LEWIS:

But is that slower pace sort of tied directly to what you're seeing in the oil price today?

ROBERT PEABODY:

No. As I say, there's kind of a natural pace you take these projects up with as the steam chambers expand and that allows you to withdraw more oil out of the reservoir in a safe manner.

JEFF LEWIS:

Okay. Thanks.

OPERATOR:

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

ASHOK DUTTA:

Hi, thank you. I had two quick questions. I'm just wanting to find out if at all if you could help me with the operating costs for oil sands and the Atlantic costs? You've given us figures for Lloyd and for Tucker.

ROBERT PEABODY:

Yes, I guess what—this is Rob again. I'd just say—I mean, the costs at the moment for Sunrise are kind of irrelevant in the middle of the ramp-up. In the long term, we've said we're looking in that sort of $15 to $17 range, at least initially until we get everything really settled down.

The Atlantic region operating costs, I think they're actually covered in some of our disclosures and you can get those from some of our more detailed disclosures. I have a number in my mind, but I'm going to get it wrong by $0.10 or $0.20 and I don't really want to do that.

ASHOK DUTTA:

Okay, all right. The next question that I had, a couple months ago, I think—no, sorry, it was I think last month—you had announced that you were looking at shutting-in about 15,000 BOE per day over this year. Any further additions to that? Will that be 15,000 or will it be more?

ROBERT PEABODY:

I don't know, we've never talked about 15,000. I think we might have once mentioned a number of 1,500, but not 15,000, and we've kind of discussed what we've shut-in to date, which is within that 1,500 sort of number. We just keep looking at this month to month. The criteria is always we look at variable costs versus the revenue that we're getting for the production, and then we take into account things like shutdown/start-up costs, whether there'll be damage to the reservoir, whether you would lose the production because you lose the lease under the terms of the lease, so all those things are factored in, but we don't see—at this price level, we don't see a big wave of increase coming in there in terms of shut-in production …

ASHOK DUTTA:

Okay.

ROBERT PEABODY:

… because a lot of our production is pretty low cost, and as Asim mentioned earlier, with the transformation to thermal in Lloydminster, we are seeing $7 a barrel all-in operating costs on those.

ASHOK DUTTA:

Yes, exactly. All right, thanks. That's all that I had.

OPERATOR:

This concludes the media portion of the question-and-answer session. I would like to turn the conference back over to Asim Ghosh for any closing remarks.

ASIM GHOSH:

Thank you. Thank you, everybody, for joining us on the call and for your questions. I guess my summary takeaway would be we set out the strategy six years ago and we've had the luxury of seeing it unfold and not having to change it through these extreme variances in the cycles that we've had. So, thank you again for joining us.

OPERATOR:

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