HUSKY ENERGY

THIRD QUARTER 2020

CONFERENCE CALL TRANSCRIPT

Date: **Thursday, October 29, 2020**

Time: **10 AM MT / 12 PM ET**

Speakers:

Robert Peabody
President and Chief Executive Officer

Jeff Hart
Chief Financial Officer

Jeff Rinker
Senior Vice President, Downstream

Leonidas Villegas
Director, Investor Relations

Operator:
Welcome to the Husky Energy Third Quarter 2020 Conference Call and Webcast.

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

I would now like to turn the conference over to Leo Villegas, Director of Investor Relations. Please go ahead, Mr. Villegas.

Leonidas Villegas:
Hello, everyone, and welcome to our third quarter conference call.

I'm joined by CEO, Rob Peabody; CFO, Jeff Hart; and other members of our Senior Management team. They'll provide an overview of our third quarter results and take your questions.

Today's call has forward-looking information and includes non-GAAP measures. The identification of the forward-looking information and non-GAAP measures, the risk factors and assumptions pertaining to the forward-looking information and additional information pertaining to the non-GAAP measures, are in this morning's news release and in our annual filings on SEDAR and EDGAR. Unless stated otherwise, all numbers are in Canadian currency and before royalties. You are welcome to contact our Investor Relations team after the call to answer any modeling questions.

Now, I'll turn it over to Rob.

Robert Peabody:
Thanks, Leo, and good morning, everyone.

A few days ago, we announced that we have entered into an agreement that will see Husky and Cenovus combined in an all-stock transaction. This is a great opportunity to join with Cenovus to create a new integrated energy company. Upon closing, this will be the third largest oil and gas producer in Canada and the second largest Canadian based refiner and upgrader.

It will have an integrated upstream and downstream portfolio that will provide for enhanced free cash flow generation and superior return opportunities for investors. This combination integrates Cenovus' best in class in situ oil sands assets with our extensive upgrading, refining and transportation network and high netback offshore gas production. This creates a low cost integrated competitor with a long-life reserve base and a commitment to leading ESG performance.

I'll now turn to our third quarter results.

In the third quarter, we took a large noncash impairment. Jeff will speak to the drivers for the impairment shortly. Over the quarter we remain focused on reducing costs and limiting growth investments in order to generate free cash flow. Just a quick reminder of our action so far this year. Capital spending has been lowered by more than $1.8 billion, that's about $200 million lower than the last time we spoke with you. We continue to deliver on $150 million in identified cost savings. In the third quarter, we completed a $1.25 billion public notes offering at 3.5%, which has further enhanced our liquidity.

To increase free cash flow, we started up to 10,000 barrel per day Spruce Lake Central thermal project in Saskatchewan at the end of August. It is already producing above 9,000 barrels per day. We have also increased our overall thermal production, and Sunrise production is also being increased towards full capacity. In Asia, the new 29-1 field at Liwan will begin providing natural gas to customers in southern China within the next few days. Both 29-1 and Spruce Lake Central were completed safely ahead of schedule and within or below our original budgets, and both will generate immediate free cash flow at current pricing.

Turning to the downstream. . . Throughput at the Lima Refinery was about 154,000 barrels per day in the quarter, up from around 130,000 barrels per day in the second quarter. Demand for refined products has been on a slow and uneven trajectory. We continue to optimize our refining rates and yields for changing market conditions. At Lloydminster, we have wrapped up a major turnaround at the Upgrader. Following the turnaround, we have increased our diesel capacity from 6,000 barrels per day to nearly 10,000 barrels per day. We also saw strong demand for asphalt in the quarter. It's allowed us to run the Lloyd refinery at full rates. And at the Superior Refinery, the repairs are continuing with a planned restart in 2020.

Moving to the offshore. We had another strong quarter in the Asia Pacific region, which delivered an overall operating margin of $227 million, and that will increase, of course, as we bring the 29-1 field online in the next few days. In the Atlantic region, along with our partners, we have canceled the 2021 construction season at the West White Rose Project. The project is now being placed into safekeeping mode. The project will continue to be assessed as the external environment evolves.

Turning to ESG . . . We released our annual ESG report in early August. It included clear and achievable targets to reduce our greenhouse gas emissions intensity by 25% by 2025. Ultimately, we aspire to achieve net zero emissions by 2050. We also set a target to achieve 25% female representation in senior roles in the Company. In the context of the Cenovus-Husky transaction, the commitments of both companies to world class safety performance and ESG leadership, will remain core to the combined company.

Now I'll turn the call over to Jeff.

Jeff Hart:
Thanks, Rob.

I'll start with an overview of our financial results.

The net loss of $7 billion was impacted by an after tax impairment of $6.7 billion. This was related to lower long-term commodity price assumptions, reduced capital investment and higher discount rates based off of recent market indicators.

Funds from operations were $148 million, up from $18 million in the second quarter. And while this reflects gradual improvement in headline crude prices, it was offset by much lower realized U.S. refining margins. Capital spending was $354 million, which included $79 million related to the Superior Refinery rebuild. Net debt at the end of the quarter was $5.4 billion compared to $5.1 billion at the end of Q2. This was driven by negative free cash flow and the effects of foreign exchange on U.S. dollar denominated debt.

Liquidity at the end of the quarter was $5.5 billion, made up of approximately $1 billion in cash and $4.5 billion in available credit facilities. As mentioned earlier, we used $1.25 billion in notes. The net proceeds were used in part to repay our $500 million term loan in early October. And with the completion of Spruce Lake Central, the 29-1 field and the Upgrader turnaround, our 2020 capital expenditures are trending towards $1.4 billion, excluding the Superior rebuild.

Meanwhile, average overall production in the third quarter was just north of 258,000 BOE per day Husky working interest. This takes into account planned maintenance work on the SeaRose FPSO and at Tucker and an outage on a to third party diluent pipeline to Sunrise, which had an impact of about 7,000 barrels per day for the month of September. Downstream throughput averaged just over 300,000 barrels per day, which included a turnaround at the Lloydminster Upgrader.

Thanks. We'll now go back to the Operator for questions.

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.

Our first analyst question is from Prashant Rao with Citigroup. Please go ahead.

Prashant Rao:

Hi, good morning. Thanks for taking the question. I wanted to start with the offshore performance. Pricing obviously was held up pretty well. Just wanted to understand - a lot of that is Liwan, I would imagine - how the strength of that margin contribution has held up and how you're thinking about that? I know you said on an absolute margin basis what we should be expecting, but in terms of pricing with contract expirations coming up, what is that—how should we be thinking about the puts and takes there to the going forward, the through cycle profitability on that project? It seems quite a handsome and accretive segment for you and for the combined entity, assuming the merger goes through. Just wanted to get your thoughts there.

Robert Peabody:

Sure. This is Rob Peabody. First of all, it's important to understand that the contracts are not expiring soon. The only thing that's happening in 2021 is there is a price adjustment that is implemented under the contract. The price adjustments in the contract have to happen within a very narrow range, plus/minus 10% of the current pricing, and they're attached to Guangdong city gate prices but there's a floor under that. The actual gas contracts for the field are for life-of-field essentially. They continue for the rest of the decade.

I hope that helps to understand that in terms of the potential variability there.

Prashant Rao:

Yes, thank you and I apologize. I should have said adjusted to the pricing mechanism, not the expiration of contracts. The other question I had, Rob, and more broadly speaking, we'd obviously heard you on the call on Sunday but now that we have you alone, it's been an interesting 12 months, from the bid for MEG to now, the perspective merger with Cenovus. Just, if you could take us through a bit of narrative, how this developed, how are you thinking now that we have a deal on table of Husky as we went through the past 12 months and through the pandemic, the broad strokes of how your thinking might have changed in terms of being bought versus acquiring someone, and maybe a little bit more background on when the conversations really started between you and Cenovus and picked up, would be helpful, just to give us a bit more of a timeline.

Robert Peabody:

Sure. I mean, what's in common with both transactions, they're all driven by a sense of consolidation needs to happen in the industry overall. Certainly that was a big driver and of course, the consolidation needs to happen in order to lower the cost base for the industry, but more particularly for us. In the case of Cenovus, they have the same driver. Again, we see oil prices are a little further down today, we don't know where they'll be going tomorrow or the day after. But what we do know is the $1.2 billion of synergy that we can deliver makes more and more difference as the oil prices lower. That desire to create a resilient integrated energy leader with a real low-cost upstream platform, and really extensive midstream and downstream network to allow it to be totally integrated was a real strong driver on the part of both companies.

I think that kind of conversation’s been going on for a while. Of course, there's a lot of people between Cenovus and ourselves and we know each other quite well. Some of those discussions went on for a while. But I would just go back to the driver here is, we need to consolidate more in this industry. I've made that point a few times before, and both of those moves were in that direction. In the case of MEG, clearly, in the end, there wasn't a lot of desire to complete the transaction on their part and so we didn’t. In the case of Cenovus right from the start, both companies could see the compelling logic of putting this thing together. It was a great place to go.

Prashant Rao:
Thanks, Rob. Appreciate the colour. I’ll turn it over.

Operator:
The next question comes from Matt Murphy with Tudor, Pickering, Holt. Please go ahead.

Matt Murphy:
Thanks. Good morning. Just wondering if you could talk about how Superior is progressing. Given we've now had some progress as you guys have disclosed on outlaying capital with appreciation, as you've said many times, this will be largely covered by insurance. Have you started to see some dollars trickling in on that yet? Apologies if it's in the disclosures, it’s been a bit of a busy morning.

Robert Peabody:

Yes, no, I'll turn it over in a minute to Jeff to talk a little bit more. But one thing I did want to point out in the quarter was when it came to Superior, actually it's going well, slower than the original plan because of COVID. We've had to recognize in the construction program but actually it isn't affecting productivity, it's just slowed up the pace a little bit. I'm pretty pleased with that. Again, the insurance—the relationship discussions are going fine. But in this particular quarter, this was a quarter where the difference between the money we put out in Superior and the money that came back was in the order of $120 million. One of the reasons you see a little less funds from operations here in aggregate is a difference between inflows and outflows on Superior. But overall that's going pretty well. But Jeff, do you want to add…

Jeff Hart:

Yes, no, I think Rob hit on it. We spent about $79 million in CapEx for the Q and then just ongoing cost in and around the facility for the quarter was about $30 million. To Rob's point, we didn't have insurance proceeds this quarter. We do expect that as activity levels really start to ramp up on site, to really in line with that to start to see insurance recoveries come in, and we've collected I think over $300 million on business interruption to date and a little under $200 million on property damage to date. We'd expect that recoveries to ramp up with the project. To Rob's point, this quarter we didn't and net-net a little over of $100 million outflows in and around Superior.

Matt Murphy:

Yes, I appreciate the colour on that. Maybe on the path forward for West White Rose. Just wondering if you could talk from a high level what sort of cost might be necessary if the decision ultimately is taken going forward not to proceed with it. Deconstructing, if you will? What has been constructed to date or maybe perhaps if you can keep that incubated for some time without having to rush into anything on the cost front?

Robert Peabody:

Yes. I think what I would say there is, first we canceled the construction season for next year. Of course, you have to do this on a seasonal basis, because you can only do the installation on a seasonal basis. You get a chance once a year to decide whether or not you're going to try to

keep it on schedule or defer it a year. The other point I'd make, again, is that, looking forward on the project, the project has reasonable economics at quite low oil prices to go forward with. However, with quite low oil prices, you just only have so much money coming into the Company and we need to—we're always conscious of protecting the balance sheet and ensuring we continue with the investment grade credit ratings. We just want to pace capital spending very carefully.
Looking forward on West White Rose, we're putting the project into safekeeping mode; that means with the desire to move it forward again sometime in the future. We're also talking to the Newfoundland government about ways that they could help to ensure that this project ultimately moves forward.

I'm optimistic we'll eventually get going again. As far as in the case where that doesn't happen, we can—we haven't gone into all the—I don't want to get into all that scenario at the moment. Certainly, we've modeled it and we're happy with it.

For the purposes of this transaction, I know that we took a very conservative case on this and assumed almost the worst case on West White Rose. Still, we were able to show in the transaction, again, with the synergies and everything else, that under all price scenarios for both companies, the transaction would result in higher funds flow per share and higher free cash flow per share than either company could generate on its own.

Matt Murphy:
Thanks, guys.

Operator:
The next question comes from Greg Pardy with RBC Capital Markets. Please go ahead.

Greg Pardy:
Yes. Thanks and good morning. I guess, first is, guys, this is probably the last call we're going to be doing for a while. It's been a lot of years and it's been great to work with you and all the very best as you go forward.

Robert Peabody:
Thanks, Greg.

Greg Pardy:
Really, it was just an operations call and wondering if we can maybe just dig into Liwan a bit. If you can just remind us on 29-1, just maybe a bit more on—we know it's ramping up as you go into the quarter or is that going to be additive, do you think, to the production profile, not going too crazy but just want to better understand Liwan? Then also fully recognize there's a merger coming down here. But the other piece of the equation would just be getting a sense as to what's locked and loaded with respect to offshore Indonesia development? Thanks very much.

Robert Peabody:
Okay. Thanks, Greg. I think the good news is 29-1, of course, as we say, it actually came in a reasonable amount under budget and on schedule, and it is expected to start up production. It's all ready to go, everything's been clean. It's just actually the offtaker taking the gas on the first day and the contract kicks in on November 1 and we expect them to start lifting gas on November 1. It will be incremental in the near term to the base Liwan production. Of course, over the longer haul over—as we move forward and Liwan starts coming off, this starts being more of an infill. But certainly in the next year or so, it's going to be incremental to the base load on Liwan. That's great to see and it's been a really, really solid project and we're in a really good place.

On Indonesia, again, it actually feels like we're—Indonesia is always a place where you have to be patient. As Bob Hinkel, who runs that area for us, of course, says Indonesia moves slow until it moves really fast. We are getting some very positive indications right now on the next two fields. It looks like there were issues with some of the contractors involved in putting the FPSO in place and getting all their proper financing in place. It looks like that's essentially been all tied up now, all the permits are in place to move forward, the gas contracts are in place. That's looking like—we're now looking much more confident about a startup in about 2022 for the next two developments in Indonesia.

Jeff Hart:

It's fairly low CapEx, you're talking it's going to be your $60, $70 million just from drilling expenditures, Greg.

Greg Pardy:

Okay. Sorry, can you just remind us on pricing. It's pretty good as I recall, gas pricing.

Jeff Hart:

Yes. Typically what we see in Indonesia is you're at that $6 inflating and we sell into industrial users, and this is I think more in line closer to $7. It's right in the range of…

Robert Peabody:

That's U.S.

Jeff Hart:

Yes, that's U.S.

Robert Peabody:

That's U.S. dollars.

Greg Pardy:

Okay. Terrific. Thanks very much, guys.

Operator:

The next question comes from Mike Dunn with Stifel. Please go ahead.

Mike Dunn:

Hi Rob. It might not be an overly topical question with the quarter, but just thought I'd look for the detail while I can get you on the phone here. But the Superior Refinery coming back online in 2022 versus I guess the refinery design pre the fire, I think there's some enhancements being added. Can you maybe just frame for us what you might expect, I guess on a gross margin or operating margin basis, where the 2022 new refinery will be expected to stack up relative to Toledo and Lima in terms of margin? It's a smaller refinery so I'm assuming the operating cost per barrel would be higher, but you're less pipeline tolls and etc. Maybe if you could just frame that for me that would be helpful. Thank you.

Robert Peabody:
I'll let Jeff Rinker talk to the capabilities of the refinery. Then of course, it all depends on the margins on the day and things like that. Go ahead, Jeff.

Jeff Rinker:
Yes. Thanks, Rob. The main thing that we're doing differently with the configuration of the refinery when we start it back up again is the refinery will be able to run in continuous mode. In the past, this is a refinery that swung back and forth between heavy mode and light mode. When you're constantly swinging back and forth between slates like that, you get lower utilization. The new refinery, same configurations, same process units, roughly the same product slate, but it will be able to run in continuous mode at higher utilization. We'll get the same—we'll get more throughput on an annual basis through roughly the same sized kit—so that's the main difference.

In terms of what the margin performance is going to be, we like the strategic location of the refinery, we always have. It's the first refinery on the Enbridge mainline when you go into the U.S. It's really a good location for both, for access to crude and also for a company that likes trading along integrated value chain like we do, it's really a very valuable asset. In terms of margin performance, it is going to depend of course on what kind of heavy spreads we get. The refinery will be able to run about 25,000 barrels a day of heavy out of a total throughput of about 45,000 barrels a day.

In terms of just being a heavy refinery, it's in the range of Toledo in terms of percent-heavy in the feed and more heavy than Lima is. Of course, it's not a fully upgrading refinery, it is an asphalt-making refinery not a coking refinery. It's a little bit lower margin than if it were a fully upgrading refinery.

I hope that gets—that's broadly how we're thinking about it. The other thing about Superior, the value it creates is not just inside the refinery gates, but also its location in the value chain and what that allows us to do as well.

Robert Peabody:
Yes. It's also a great addition for our asphalt business, which is a very consistent earner for us, much less variability in the margins there. We're, I think, as a Husky standalone we're around 5% of the North American asphalt business, and this will get us up to 7% or something in that range. It's a nice extension to that business.

Mike Dunn:
Understood, thanks, that's helpful. You can probably understand, it's always tough for us in our chairs to model a lot of those logistical synergies outside of the refinery itself. But we certainly understand that they exist, even if our models might not be forecasting them. Thank you.

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

Benny Wong:
Hey, good morning, guys. Thanks for taking my question.

Robert Peabody:
Good morning.

Benny Wong:
Just had a quick question around the synergies, I know you guys have the $1.2 billion target as a combined basis and there's potential for upside. One of the things was indicated was potentially running some of the SCCL barrels through your upgrader at Lloydminster. Is there any high level way to think about the benefits of that? Is it just really hedging out the differential

volatility, or is there any yield benefit or product benefit that might come from running those barrels through that system that we should think about?

Robert Peabody:
Yes. Benny, Jon and I have had many chats on this, Jon McKenzie of Cenovus, and of course he knows our assets very well, too. He's got some pretty clear ideas. Now, some of them are longer term and will require a bit of capital as well. They're not short-term things that we're doing. That's one of the reasons we didn't include them in any of the initial synergies for the 600 and 600.

But looking forward, a lot of them have to do with the ability to shorten the diluent loop in North America. He's very conscious of just how much diluent he has to truck all around North America. He sees that Lloydminster site and the equipment there, plus potentially some additions, as a really great opportunity to shorten that diluent loop and take a whole bunch of money out of the cost base over the long haul.

I think that's how I would summarize it. There's lots of other ideas that they have but that's one of the big ideas I think that comes into the thinking.

Benny Wong:
Great. Thank you very much.

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

Robert Peabody:
Well, thanks very much. I really appreciate everybody who's tuned in. We're certainly looking forward to working with Cenovus on the planning to unite our people and the complementary suite of assets to deliver on the full potential of this resilient new company. This is a new chapter for all of us. I look forward to working closely with the team in the coming months to complete

this transaction so the combined company can continue to responsibly provide essential energy to North America and the world. Thanks, again, for joining us today.

Operator:

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