



# HUSKY ENERGY

## THIRD QUARTER 2017

### CONFERENCE CALL TRANSCRIPT

**Date:** Thursday, October 26<sup>th</sup>, 2017

**Time:** 9:00 AM MT / 11:00 AM ET

**Speakers:** **Robert Peabody**  
President and Chief Executive Officer

**Jonathan McKenzie**  
Chief Financial Officer

**Rob Symonds**  
Chief Operating Officer

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

**OPERATOR:**

Welcome to the Husky Energy Third Quarter 2017 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 telephone. 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 Dan Cuthbertson, Director, External Communications and Investor Relations. Please go ahead, Mr. Cuthbertson.

**DAN CUTHBERTSON:**

Thanks, and good morning. I'm here with CEO Rob Peabody, CFO Jon McKenzie, COO Rob Symonds, and other members of our Senior Executive Team. We will discuss our third quarter results and then take your questions.

Forward-looking information will be provided in today's call. Risk factors and assumptions are included in this morning's news release, on our website and in our annual filings on SEDAR and EDGAR.

All figures are in Canadian dollars and before royalties, unless otherwise stated.

Please contact our Investor Relations Team directly if you have specific modeling questions. Rob will now begin this call.

**ROBERT PEABODY:**

Thanks, Dan. Good morning, everyone, and thanks for joining us today. It's been an active quarter with several highlights, and I'll touch on a few. We agreed to acquire the Superior Refinery in the United States Midwest, and in Indonesia, first production was achieved at the BD Project, we received regulatory approval for two previously sanctioned Lloyd thermal projects, we saw record production at Tucker, Sunrise and Liwan, and we realized record throughputs on the Downstream segment.

Stepping back for a moment, we are continuing to invest in our high-quality portfolio in order to lower costs and increase margin capture across the business. Over the past six quarters, we

have steadily increased funds from operations against the backdrop of a similar business environment. The structural changes that we have put in place are fundamentally improving the cash generating ability of our asset base. For example, since the beginning of last year, we have sold about 35,000 boes per day of higher cost legacy production in Western Canada. This production had an average operating cost of about \$17.60 per boe. At the same time, we've added more than 45,000 barrels per day of new oil production across our thermal businesses. Those barrels, by comparison, have an average unit operating cost below \$10.00. The result has been a reduction in our year-over-year Upstream operating cost from \$15.15 to \$14.12 per barrel today. This, along with a higher contribution from the Asia Pacific region, is helping drive higher Upstream margins, with operating netbacks up about 48% over the third quarter of 2016. We are also continuing to match our Upstream heavy oil growth with increasing heavy oil processing capacity.

Our recent agreement to acquire the Superior Refinery in Wisconsin has checked several boxes. First, it will increase our total upgrading and refining capacity to about 395,000 barrels per day, including 190,000 barrels per day of heavy oil processing. This will further reduce our exposure to heavy oil differentials and, of course, help meet our rising heavy oil production as we move forward. Second, it will contribute to increasing earnings and funds from operations from day one. In total, we expect free cash flow to increase by about \$500 million over the five-year plan we set out at our Investor Day in May. This deal also links our heavy oil production at Lloyd directly to the U.S. Midwest through our pipeline terminal at Hardisty. It takes advantage of our existing U.S. product marketing operations and increases our storage capacity, and it expands the scale of our core asphalt business, better positioning us to take advantage of growing demand across North America.

Now, turning to our operations, along the Integrated Corridor, production from thermal projects, including Lloyd, Tucker and Sunrise, has grown 14% year-over-year to 118,000 barrels per day. At Tucker, production is at the highest level yet, at around 24,000 barrels per day, and is on its way to our target of 30,000 barrels per day next year. As it ramps up, we will continue to see an improving SOR, which is currently running around 3.5. Operating costs also continue to trend lower at Tucker. They were \$8.97 per barrel in 3Q.

It was also a good quarter for the Downstream. Initiatives undertaken to improve reliability contributed to a record U.S. refinery utilization of 99%. At the same time, we saw improving

margins. The reasons for this are twofold. We saw stronger crack spreads related to supply disruptions and weather, and we're starting to see the benefits of our integrated planning. We've been increasingly focused on responding quickly and capturing market opportunities, in order to increase profitability.

Moving to our Offshore business, we saw record production volume at the Liwan Gas Project during the project. Gross sales averaged 344 million cubic feet per day, plus 15,500 barrels per day of liquids. This production contributed to an overall average netback in the Asia Pacific region of \$61.81 per boe. Meanwhile, a gas sales agreement has been reached for the 29-1 field. The agreement provides for pricing that is about 90% of what we currently receive at the other two fields at Liwan. We continue to work towards getting all final approvals in place and we expect the Board to be in a position to consider greenlighting this project later this year. Production from the third field will be tied directly into the existing subsea infrastructure at Liwan, providing for additional efficiencies.

In Indonesia, we began commercial gas sales from the liquids-rich BD Project in the Madura Strait. Combined with the ongoing production from offshore China, BD is moving us closer to increasing our net daily production from the Asia Pacific region to about 44,500 barrels per day—that's where we are today—to about 60,000 barrels of oil equivalent in 2021. Our BD gas sales gave us a realized price of CA\$9.39 per mcf in the third quarter. We also started lifting liquids in the past couple of weeks. Net sales in October are about 19 million cubic feet per day of gas and about 1,500 barrels per day of liquids. Once ramped up, we expect full gas sales rates to be 40 million cubic feet per day net to Husky, with 2,400 barrels per day in associated liquids.

To sum up, investments in our large inventory of low-cost projects are improving our cost structure, driving down our breakevens and generating increased funds from operations, all while we still grow production and throughputs. Over the past 12 months, our lowest cost production from our thermal and Asia Pacific operations has grown 20%, funds from operations have increased over 40%, and we've generated over \$1 billion in free cash flow. We will be providing a further update to our plans in early December during our 2018 guidance conference call.

Jon will now give an update on how we're tracking against our 2017 guidance and also run us through our financial performance from this past quarter.

**JONATHAN MCKENZIE:**

Thanks, Rob, and welcome everybody. Despite the sale of about 2,000 barrels per day of production as part of our Western Canadian asset disposition program, which was not included in our original guidance, annual production is still on track to land within our expected range of 320,000 to 335,000 boe per day. This is due to strong performance in the Atlantic region and our resource plays in Western Canada, combined with lower than expected declines in non-thermal heavy oil production.

In terms of where we stand year to date, funds from operations are \$2.3 billion, more than what we realized over the entire year in 2016, with free cash flow of more than \$792 million over the first nine months of 2017. Funds from operations are on track with the estimate we provided at the Investor Day last May, and year to date, free cash flow has already exceeded our annual projection.

We are further lowering our 2017 capital spending guidance by an additional \$300 million, to the range of \$2.2 billion to \$2.3 billion. This doesn't include the pending acquisition of the Superior Refinery for about US\$435 million, plus closing adjustments. Since last December, our total capital budget has come down by about \$400 million. Half of this reduction is due to an improvement in our capital efficiency of about 10% across the business, over our original forecast.

Even with this reduction in spending, we have expanded the scope of our planned work for the rest of the year. This includes accelerating Rush Lake 2, with first oil now anticipated in the first quarter of 2019. We're moving up the timetable for two Atlantic infill wells, and Rob will provide some details on that in a moment. Against this backdrop, our operating costs have been improving. You will recall we guided to overall op costs of CA\$14.00 to CA\$15.00 per barrel in 2017. We expect to come in at the low end of this range, with year-to-date operating costs now averaging \$14.17 per boe.

Looking at our results for the last quarter, net earnings and adjusted net earnings were \$136 million. The adjusted net earnings are up from \$10 million last quarter and the loss of \$100 million a year ago.

Upstream production was 318,000 boe per day, up from 301,000 boe per day in Q3 2016. This is, in large part, due to increased production from our thermal and Asia Pacific operations. It also factors in, however, turnarounds at the SeaRose and Terra Nova FPSOs during the quarter, seasonal maintenance at Tucker, Sunrise and Lloyd thermal projects, and the impact of dispositions since the end of the third quarter of last year, representing about 7,000 boe per day. Total Upstream operating netbacks were \$23.25 per barrel, and this compares to \$15.70 per barrel in the year ago period. Now, as Rob mentioned, the improvement in our netbacks is, in part, indicative of the changes that we've made to our underlying asset base.

In the Downstream, throughputs averaged 374,000 barrels per day, up from 320,000 barrels per day a year ago. Asphalt margins were \$21.77 per barrel, and we continue to like the outlook for the North American asphalt business and are looking forward to growing our market share through the acquisition of the Superior Refinery. At the Lloyd Upgrader, we saw strong synthetic crude prices of \$60.43 per barrel. Margins were \$12.32 per barrel, compared to \$17.00 in the year ago period, reflecting the tightening of the heavy oil differentials on a year-over-year basis. This was offset by stronger heavy oil realizations in the Upstream.

The Chicago 3:2:1 crack spread averaged US\$19.30 per barrel, compared to US\$14.29 per barrel in the third quarter of 2016. Our average realized U.S refining margins were US\$13.38 per barrel, which included a pre-tax FIFO adjustment gain of US\$1.74 per barrel.

At our Investor Day last May, we talked about the value being captured through our integrated value chains. Our heavy oil barrels, after making their way through the Lloyd complex, realized a full value chain operating netback of \$37.83 in the quarter. That's more than \$15.00 per barrel in additional margin as a result of being integrated versus selling at the wellhead.

I'll point out that this information, along with our guidance table and corporate presentation, is regularly updated on our website. You can see our progress against the targets of our latest five-year plan, which we set out at Investor Day in May.

Meanwhile, record throughputs and widening margins have led to an overall Downstream EBITDA of \$393 million, an increase of 68% over Q3 2016. Across the business, funds from operations were \$891 million. Funds from operations have steadily increased over the past six quarters, and this is the fifth consecutive quarter of delivering positive free cash flow, which came in at \$380 million. Meanwhile, net debt at the end of the quarter was just below \$3 billion. Following the closing of the Superior Refinery acquisition, we expect net debt to be about one times debt to funds from operations. In addition, we retired a US\$300 million maturing bond issue in the quarter. In terms of liquidity, we have \$2.5 billion in cash and \$4.1 billion of unused credit facilities.

Rob Symonds will now provide details on our third quarter operations.

**ROB SYMONDS:**

Thanks, Jon. I'll start with the Integrated Corridor. Overall, thermal production from Lloyd, Tucker and Sunrise was 117,700 barrels a day in the quarter, compared with 103,600 at this time last year.

At Lloyd, thermal production averaged 76,400 barrels a day. This takes into account some routine maintenance that occurred over the summer. At Rush Lake 2, we're currently drilling 12 well pairs and construction of the central processing facility is about 50% complete. We're moving this project along faster than expected and now plan to bring it online in the first quarter of 2019. That's a quarter earlier than the timeline we set out at the Investor Day. Our next thermal project is on deck. Site clearing has commenced at Dee Valley and we'll begin at Spruce Lake North and Spruce Lake Central in the coming months. Combined with Rush Lake 2, these projects will add another 40,000 barrels a day of capacity when they come online in 2019 and 2020.

At Tucker, average production for the quarter was 21,100 barrels a day. Current production is around 24,000 barrels a day, the highest to date. We finished drilling the new 15-well pad, with steaming expected to begin by the end of the year. We are closing in on our target of 30,000 barrels a day, which we will achieve by the end of 2018.

Turning now to Sunrise, production averaged 40,500 barrels a day in the quarter, up from 38,300 in Q2. We began steaming the next 14 well pairs early in the quarter. The tie-in work for

these additional wells and the associated redirection of steam during their original production phase resulted in the original 55 well pairs holding flat for much of August and September. They have since returned to their growth trajectory. The original 55 well pairs are currently averaging just over 800 barrels a day and are now within our target range of 800 to 900 barrels a day. We expect this average production rate to continue to increase over the coming year. Month-to-date production at Sunrise is about 44,300 barrels per day. We have now started production with 10 of the new well pairs and we expect the remaining four to be on production by the end of the fourth quarter.

Looking next at our resource plays, we continue to focus on larger, more material resource plays in Western Canada.

In the Wilrich formation, we now have nine wells online as part of our 16-well program this year at Ansell and Kakwa. Since restarting our program at Ansell last January, we've been able to realize some very good capital efficiencies at the drill bit. Our drilling times have been reduced by 30% to about 15 days per well, which, in turn, has cut our drilling costs by 22% to \$1.8 million per well.

At Montney, we're continuing our work in the Wembley and Karr areas. We have drilled two liquid-rich gas wells at Wembley this year. The first is now on production. It's producing at a restricted rate of about 770 boes per day, and its performance is in line with our pre-drill estimates. At Karr, we've drilled two wells. Production has just started on the first well and the second will be tied in later this quarter.

In the Downstream, as we bring on more thermal production from Lloyd, Tucker and Sunrise, we are growing the Downstream portion of our Integrated Corridor by increasing our heavy oil processing capacity in the United States, at Lima and Toledo, and, after the transaction closes at Superior. At Lima, the Crude Oil Flexibility Project to increase our heavy capacity from the current 10,000 barrels a day to 40,000 barrels a day is continuing. In line with our growing processing capacity, we saw very strong throughputs this quarter, with record utilizations at both Lima and Toledo. Our U.S. refinery throughputs were about 256,000 barrels a day, compared to 245,000 barrels a day last quarter and 214,000 barrels a day a year ago. Overall, U.S. capacity utilization is running about 99%, reflecting improved reliability at both Lima and Toledo. Lima throughputs were 108% of nameplate capacity this past quarter. At the Lloyd Upgrader, we

achieved capacity utilization of 95%, on the heels of a successful turnaround in the second quarter. Throughputs at the Upgrader averaged 77,000 barrels a day, with 58,000 barrels a day of synthetic crude oil being produced.

In the Midstream segment, the Partnership is continuing to build out the LLB Direct Pipeline which runs from Midway to Hardisty. This is a 100,000 barrel a day expansion that will take Cold Lake blend directly to Hardisty. It will come online next year. We're also working to complete the north leg of the Saskatchewan Gathering System, and that work is expected to be wrapped up in 2020, and this lines up with the start-up of the next tranche of the sanctioned Lloyd thermal projects.

Turning to our Offshore business, and starting with Asia, as I stated earlier, gross gas sales at Liwan averaged 344 million standard cubic feet per day over the quarter, with the Husky net of 169 million standard cubic feet per day. This increase is in line with what seems to be growing consensus toward a more constructive view of gas demand fundamentals in China. The average realized sales price at Liwan was CA\$13.05 per mcf, which contributed to an overall Asia-Pacific netback of CA\$61.81 per barrel of oil equivalent.

Meanwhile, I'll remind you that the Production Sharing Contract at Wengchang will come to an end in mid-November. Our 40% share of oil production here averaged about 6,000 barrels a day during the third quarter. This has been an excellent asset and a great example of how Husky and our long-term partner, CNOOC, are working together to achieve results. Net to Husky, Wengchang has produced more than 65 million barrels and generated \$2.2 billion in funds from operations over the 15-year contract. There are no abandonment or reclamation costs associated with the expiration of this PSC, as these have been funded during the course of operations.

Moving to Indonesia, gross production at the BD Project was about 38 million standard cubic feet per day in the quarter, or 15.3 million net to Husky, as we continue to ramp up to full sales gas. With BD up and running, we're now focused on bringing on the next stage of our developments in the Madura Strait. The combined MDA/MBH field continues to advance. We now have a signed contract for the floating production unit. Plans are underway to begin drilling seven production wells during the first half of 2018.

Moving now to the other half of our Offshore business, the Atlantic, preparations are underway to begin construction of the concrete gravity structure that will be used for the West White Rose Project. I was out in Newfoundland two weeks ago and was really impressed by the progress being made at this very early stage. We have signed engineering, fabrication and installation contracts related to the topsides and platform, and work is moving on all other fronts, as well, which include marine and subsea infrastructure. The platform will be installed and connected to the SeaRose through a subsea tie-back. The project is scheduled to start up in 2022, with peak production of 75,000 barrels a day in 2025, which will be some 52,500 barrels a day net to Husky.

In regards to our ongoing Atlantic operations, the South White Rose extension, we completed an oil well, that we expect to ramp up to net peak production of 4,500 barrels per day. Due to drilling and installation efficiencies realized on this project, it came in ahead of schedule and about 40% under budget. As a result, we've been able to get an early start on the drilling of the next two infill wells. The first of these, at the main White Rose field, was originally scheduled for first oil in early 2018. It has been moved up to the fourth quarter of this year. The second infill well is at North Amethyst, with first production now expected in early 2018. Combined net peak production from these wells is anticipated to reach 8,800 barrels a day once fully ramped up. This ongoing infill program is part of our plan to maintain production in the Atlantic region until the start-up of West White Rose in 2022.

Thank you, and now I'll turn the call back to the Operator, so we can take your questions.

**OPERATOR:**

Thank you. 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 telephone. You will hear a tone to indicate you're in the 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.

Thank you. Our first analyst question is from Phil Gresh of JP Morgan. Please go ahead.

**PHIL GRESH:**

Yes, hi, good morning. The first question here is just on the capital spending reduction. You talked about some of the efficiencies. I'm just curious how you would think about carrying this forward into future years. Obviously, from your Analyst Day, there is a step-up expected in 2018, but I'm just wondering if some of these underlying drivers would be potentially sustainable.

**ROBERT PEABODY:**

Yes, thanks, Phil. I think the short answer to that question is, yes, we think we're seeing some improvements. A lot of these are driven through productivity enhancements. So, if we look at—you know, versus our original guidance for the year, there was about \$2.6 billion to \$2.7 billion, we're down now about \$400 million. If you look at that, we think about \$250 million of that is really efficiency, and I would really stress the productivity improvements and the capital efficiency that we're seeing, and about \$150 million of that is stuff that's been just deferred, although we have actually added scope, as well, at the margin to enhance next year's sort of results. So, I think we are looking to see those efficiency gains move forward and, hopefully, as we get into next year, we'll look again at what we think our real sustaining level of capital is, but I think this has the potential to move it down a bit.

**PHIL GRESH:**

That was just going to be my next question. I mean, the \$1.8 billion to \$2.0 billion that you talked about for the Analyst Day for sustaining, I mean, I guess it feels like some amount of that \$250 million might be something you could carry forward.

**ROBERT PEABODY:**

Correct.

**JONATHAN MCKENZIE:**

Yes. Phil, it's Jon McKenzie. I think you're right, it wouldn't be imprudent to move some of that forward. One of the things we're looking at, Phil, and we're just recalibrating right now, is what 2018 is going to look like, and we'll be out with guidance in early December, but for modeling purposes, it wouldn't be imprudent to carry some of that, on a percentage basis, forward through the capital plan.

**PHIL GRESH:**

Okay, great, and, then, I'll be master of the obvious and ask the next question just around dividend. I mean, you've had a couple quarters this year of positive earnings, I think that was one of the factors you're looking for, and the oil price seems to be doing a little bit better, so just latest thoughts there. Thanks.

**ROBERT PEABODY:**

Thanks, Phil. Yes, I think—I mean, again, I'll go with the script. I've had a chance to rehearse this once or twice. First, and obviously, this is a Board decision, and we've been pretty clear about the criteria the Board is looking at on ongoing basis in order to establish the dividend. Our role as the Leadership Team of the Company is really to prepare the Company to be in a position to pay a dividend, I think we've done a reasonable job, and, really, that's all about just continuing to bring our cost structure down and lowering our breakevens, as we set out at the Investor Day, and we feel we're still on track with the programs that we set out at the Investor Day. I think the next time there's a full Board meeting and a chance to consider this is in February.

**PHIL GRESH:**

Okay, got it. Thank you.

**OPERATOR:**

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

**NEIL MEHTA:**

Hey, guys, how are you? Good morning. Thanks for taking the time.

**ROBERT PEABODY:**

Good morning, Neil.

**NEIL MEHTA:**

Good morning. I just wanted to follow up on some of the commentary on the thermal projects, which I'm sure is going to be a key driver of production growth here. Can you just rattle through again sort of where you stand at Rush Lake 2, Dee Valley and Spruce Lake in terms of

execution? It sounds like Rush Lake is actually tracking a little bit ahead of schedule. So, what's driving that?

**ROB SYMONDS:**

Neil, thanks. This is Rob Symonds. Yes, Rush Lake is about 50% complete at the site. We've started drilling the wells and we have, indeed, accelerated our expected start-up from the middle of '19 to the first quarter of '19. I think what you're seeing here are some of the things that Rob highlighted and why our capital costs are coming down. We're getting really good productivity on those sites. This is a process where these guys really know how to do this. We've been building the same plant many times and, as a result, we're seeing those improved efficiencies and that's being reflected in our acceleration.

Dee Valley is up next in the construction sequence. We've started site clearing there. The two Spruces will begin right after that, and then construction crews will roll in behind that. We're not, certainly, saying there's any acceleration on those two, but if we continue to see the kind of performance, they may move forward a little bit, as well, once we get there.

**ROBERT PEABODY:**

Yes, I would just add—this is Rob again. I had a chance to visit the Rush Lake 2 site about a month ago and it was just—I've never seen such an organized site. It really shows what happens when you can do something seven times in a row. I mean, literally, right down to where they place all the equipment on site to construct the facility, they know exactly where each piece goes at any given moment to achieve the maximum productivity. So, if you ever have a chance to get up there and look at it, it's quite an amazing thing to see.

**NEIL MEHTA:**

Thanks, guys. To follow up on the dividends, as CapEx has been trending lower and it looks like we're finding margins and oil prices have firmed up here, can you just talk about how you think about share repurchases versus dividend growth, potentially, as share repurchases can provide a little bit more flexibility, recognizing they have their limitations given the liquidity of Husky to begin with, but any thoughts there?

**JONATHAN MCKENZIE:**

Our priority right now, Neil, is really around the dividend, and we don't look at that to the exclusion of share repurchases, but I think the way we think about share repurchases is really, you know, those are really allocated to windfalls, where we look at dividends as being a more structural part of the way we capitalize this Company. We've said all along we recognize that dividends are important to our shareholders and the Board considers that every quarter, and we would anticipate at some point you will see the reintroduction of the dividend. Share repurchases, we also look at, but we also have to consider the float that we have in the public market and how that plays into the long-term liquidity of our share base. Both are always under consideration, but the priority right now is with our dividend.

**NEIL MEHTA:**

The last question for me is just around the acquisition of Superior. Can you just talk about how that fits strategically into the go-forward for the Company? As you think about the Downstream business, what about that asset did you feel was most advantaged, including, potentially, the high Canadian crude access, and do you see the potential to do incremental Downstream deals in the future in North America?

**ROBERT PEABODY:**

Yes, okay. This is Rob. I think, strategically, it was a replacement for something we outlined at Investor Day, which was actually building the HLR 2, the asphalt refinery in Lloydminster. This opportunity became available, which largely achieved the same purpose, but actually would generate funds right from the start. So, as I outlined in the script, it kind of achieved the same strategic purpose, but at the same time, over the next five years, added about \$500 million of free cash flow to the plan, relative to the other investment.

The other thing that made it attractive is, frankly, you know, through the next five years, we see there being more likelihood of the differential kind of widening, relative to once a number of pipeline projects, hopefully, are on-stream in the early part of the next decade, so having it now was even more valuable than having it in the future, from a control the heavy/light sort of differential sort of issue. So, that made it quite attractive to do that now, as well.

So, you know, you could say it was right on strategy, it was a little opportunistic, in that we didn't know it would be available a year ago, but when it became available, it was clear it was a very good substitute for that project in the medium term, near medium term.

**JONATHAN MCKENZIE:**

It's Jon, and I'll just follow on to your question. In the Lloydminster, if you look at sort of the molecular basis of this, as well as the logistics channel, this is a really nice fit for us. Today, we produce about 150,000 barrels of Cold Lake and Lloyd blend that is an ideal feedstock for this refinery, and as you know, we own all the pipeline infrastructure from our facility in Lloyd down to Hardisty, and then it's a straight shot on Enbridge to this refinery, and that front end of the refinery has a lot of storage capability. So, if we do get into a world where we do start to see some cut-backs on Enbridge, we've got the ability to manage that through the storage that we've got. So, it's a really nice fit strategically, it's a really nice fit molecularly, and we really like the logistics channels.

**NEIL MEHTA:**

Thanks, guys. I appreciate the time.

**OPERATOR:**

Our next question comes from Tom Callaghan of RBC. Please go ahead.

**GREG PARDY:**

Thanks. It's actually Greg Pardy standing in for Tom, but—

**ROBERT PEABODY:**

I wondered.

**GREG PARDY:**

Just a couple of questions. So, just on Madura, could you lay out what the ramp-up to full rates is; and then, still on Asia, but switching gears a little bit, on 29-1, just to be sure, then, is pricing kind of consistent with Liwan? Thanks very much, guys.

**JONATHAN MCKENZIE:**

Greg, just on the ramp-up, we are ramping up, we're doing about 40 million cubic feet today as a joint venture, on our way to 100. So, really, with the nominations, we're starting to pick up and we think that's on track to reach full rates maybe a little bit after year end, but it'll be not that far afterwards. It's really tracking as we would have expected and, as Rob mentioned, we're starting to move liquids in October, so we're quite pleased with the way that's developing and we do expect nominations to continue to increase going forward. As we mentioned, that's kind of sort of US\$7.00 gas and CA\$9.00, so that the economics of that are pretty robust, and then we get sort of local prices for the liquids associated with that.

On 29-1, you're quite right, we did agree on the Gas Purchase Contract in Q3, and we telegraphed that as part of, I think, our discussions last year, as we were developing this project. The gas price is about 10% less than what you see with 3-1. So, if you think of gas pricing being today at about \$13.50 and you reduce that by 10%, you're going to be very close to the gas price for 29-1.

**GREG PARDY:**

Okay, very good. Yes, thanks very much.

**OPERATOR:**

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

**PAUL CHENG:**

Hey, guys. Good morning.

**JONATHAN MCKENZIE:**

Good morning, Paul.

**ROBERT PEABODY:**

Hi, Paul.

**PAUL CHENG:**

I have several questions. On the M&A front, Rob, just curious, do you think in the Upstream, the bid cost today is still more in favor of the seller, or you start to see that shift?

**ROBERT PEABODY:**

So, just in terms of, you know, I think there are—I think I'd answer that just by saying there are a number of assets out there that wouldn't normally be on the market in times when there was less, say, distress overall in the market. So, we're seeing more good quality assets on the market at prices that are not horribly inflated, I guess is what I'd say.

**PAUL CHENG:**

Yes, because you've been reshuffling your portfolio and you have been more of a seller, until now, with the Superior—now, of course, that's on Downstream—so should we assume that over the next couple of years that, if there's any M&A activity from you guys, you would be more of a buyer than the seller?

**ROBERT PEABODY:**

I think the answer is we're getting quite close to the end of things that we were interested in selling, which I think we've said before, as well. Certainly, with the Ram River sale, or almost sale that, hopefully, we'll close this quarter, that largely brings to close our Western Canada sales program. So, I think you're right in saying, to the extent we'll do anything in M&A, it's probably more on the buy side now.

**PAUL CHENG:**

Mm-hmm, and on the BP two joint ventures, Sunrise and Toledo, what is the longer term plan, both operationally, as well as from a ownership structure, we should expect, or it is just status quo, nothing change and stay as where they are?

**ROBERT PEABODY:**

Well, we're still very—you know, we're very happy with the way Sunrise is progressing now and we're very happy with the way Toledo is performing. BP's our partner in both of those and BP's been an excellent partner to work with over the last number of years. So, you know, it's a good partner, both assets are working well for us, so we're pretty pleased with the status quo.

**PAUL CHENG:**

Yes, I'm just curious, because, I mean, we have seen a number of—actually, most of the major oil companies are exiting on the Canadian Oil Sands, so I was just wondering have you guys talked to your partner in here, how much is the commitment that they have on the Canadian Oil

Sands, and also, that given their weighting with refinery exposure, that whether Toledo is really strategic or core properties for them?

**ROBERT PEABODY:**

Well, I guess, number one, I'd just say you're probably talking to the wrong person. I think those are really questions for BP. In terms of any specific discussions we'd be having with BP, we don't really comment on those one way or another.

**PAUL CHENG:**

Okay, that's fair. Two final questions for me. One, in terms of the pipeline availability of what you have today, given your production outlook, by 2019 or 2020, will you still have sufficient pipeline take-or-pay contracts, more than you have, or that you may end up that we need to start shipping oil through rail?

**ROBERT PEABODY:**

The answer is, I think, is we have a portfolio of pipeline commitments through the various lines that leave Western Canada and we feel we're well covered through to the end of the decade.

**PAUL CHENG:**

Okay. A final one on the refining side. With the upcoming IMO 2020 rule, is there any plan to launch a CapEx investment program in your refining that you guys have in mind?

**ROBERT PEABODY:**

Yes, this is the bunker fuel sulphur spec reg, isn't it, and—

**PAUL CHENG:**

That's correct.

**ROBERT PEABODY:**

Yes, and we've looked at that. We don't believe we have any need of a significant investment in order to meet that regulation. We think we're pretty well positioned, actually, to deal with it. Bob, did you want just add—

**BOB BAIRD:**

No, we have a very strong position in our asphalt business, so we feel confident we're in a good position.

**ROBERT PEABODY:**

Yes, asphalt is a good place to put a lot of that sulphur.

**PAUL CHENG:**

Thank you.

**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 and one on your touchtone phone to ask a question. If you wish to remove yourself from the question queue, press star and two. We'll pause for a moment as callers join the queue.

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

**JEFF LEWIS:**

Hi. Just a question on M&A and what you're seeing in the market. You alluded to it a bit there earlier, but can you just comment on the type of assets you're seeing on the market. You mentioned that some of these assets aren't the type of properties that would attract sort of premium valuations, or anything like that. Are those typically sort of, you know, with high associated liabilities tied to them?

**ROBERT PEABODY:**

Jeff, thanks for the question. No, what I was just getting at was that, actually, on balance, we're seeing assets that you normally don't see on the market in kind of what you would call really good times. There's companies that are repositioning their portfolios more aggressively and what we're seeing is some higher quality assets out there. That was the point I was trying to make. Sorry, if I got that—

**JEFF LEWIS:**

No, the misunderstanding could have been mine. Just how are you thinking, though, about as you look at getting—you've been sort of repositioning the portfolio for a few years. As you think about sort of your Western Canadian conventional legacy assets, are those—when you've been disposing of those, is that sort of—are liabilities a big issue in terms of you looking to get those off the books?

**ROBERT PEABODY:**

I'd say that this really a portfolio reorganization to allow us to focus on where we see our long-term future, and that's what's been going on. The only thing I would add on the whole liability side of it, is one of the things we're very careful about when we sell assets in Western Canada is to ensure the creditworthiness of whoever we're selling them to, and of course the Alberta government has a role there, because they actually do some of their own checks on that transfer of assets. So, it's not of case of, you know, moving assets to people that don't have the kind of credit and the balance sheet in order to deal with any ongoing obligations that are ultimately down the road. Of course, most of the people who buy them are planning to invest in them, because they become sort of core assets for that company.

**JEFF LEWIS:**

Is the concern there because the properties revert back to the seller if the purchaser, for whatever reason, you know, can't—is financially insolvent?

**ROBERT PEABODY:**

Well, that's the reason why we always just make sure that whoever we're selling them to is a creditworthy person.

**JEFF LEWIS:**

Okay. Thanks very much for your insights.

**ROBERT PEABODY:**

Thanks, Jeff.

**OPERATOR:**

Our next question comes from Geoff Morgan of Financial Post. Please go ahead.

**GEOFF MORGAN:**

Hi, and thanks for taking my question. I've got a clarification and then a question. I thought I heard earlier on the call that the next time the Board would have a chance to have a deeper conversation about reinstating the dividend was February. Do I have that right? Is that the timeline to expect a dividend potential reinstatement?

**ROBERT PEABODY:**

Yes, that's the Board meeting associated with, you know, 4Q results, where everything is reviewed in 4Q, and they will review, as is normal in those regular Board meetings, the dividend policies.

**GEOFF MORGAN:**

Okay, thank you. Then, secondly, I had a question about the asphalt refinery. I wanted to ask about timelines, whether or not the Company would come back to that. I know that you bought the refinery in Ohio in this quarter, but do you have any plans to revisit this asphalt refinery in Lloydminster, and if so, when would you do that and what would cause you to reconsider an investment decision there?

**ROBERT PEABODY:**

Okay, thanks, Geoff. Yes, I mean, just to kind of restate kind of what we've been saying about this, is that, first, this is a deferral of the original asphalt project. I think we're really deferring sort of the timeline around thinking about it again towards the latter part of this decade. We are going to continue to grow our heavy oil production. So, while this addition at Superior will see us through sort of the next three or four years and keep us balanced in terms of heavy oil production and heavy oil processing, at about that time we're going to have to be looking again at what the right approach is to managing that, the differential exposure.

**GEOFF MORGAN:**

Right, okay. Sorry, when you say "the latter part of this decade," do you mean kind of 2019, 2020, or a decade meaning 10 years from now?

**ROBERT PEABODY:**

No, no, I mean more around—as you said, around 2019, 2010.

**GEOFF MORGAN:**

Okay. Thank you.

**OPERATOR:**

This concludes the time allocated for questions on today's call. I will now turn the call back over to Mr. Rob Peabody for any closing comments.

**ROBERT PEABODY:**

Thanks very much for your questions. To sum up, a lot was accomplished in the last quarter. We remain on track with the strategy and targets we set out at our Investor Day last May and continue to realize improved funds from operations and free cash flow.

A reminder that our next call will be on December 4, when we will provide a further operational update and set out our production and capital spending guidance for 2018.

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.