HUSKY ENERGY FIRST QUARTER 2011 RESULTS
CONFERENCE CALL TRANSCRIPT

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Speakers:

Rob McInnis
Manager - Investor Relations

Asim Ghosh
President and Chief Executive Officer

Alister Cowen
Chief Financial Officer

Rob Peabody
Chief Operating Officer, Operations & Refining
OPERATOR:  
Welcome to the Husky Energy First Quarter 2011 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.

At this time I'd like to turn the conference over to Rob McInnis, Manager of Investor Relations. Please go ahead, sir.

ROB McINNIS:  
Good morning, everyone. Thank you for joining us to discuss our 2011 First Quarter Results. With me today are CEO, Asim Ghosh; CFO, Alister Cowen; COO, Rob Peabody; Vice President of Midstream and Refined Products, Terrance Kutryk and Vice President of Downstream, Bob Baird.

In today's call we will provide an update on Husky's business strategy and an overview of results. Later this morning, we will also be holding our Annual General Meeting here in Calgary. A webcast of the meeting may be accessed from our website at www.huskyenergy.com. The AGM presentation begins at 10:30 AM Mountain Standard Time.

Please note that today's comments contain forward-looking information. Actual results may differ materially from expected results because of various risks factors and assumptions that are described in our quarterly release and in our annual filings, which are available on SEDAR, EDGAR and our website.

I will now turn the call over to Asim.

ASIM GHOSH:  
Good morning and thank you for joining us; the first quarterly call of the New Year. As you can see from the results, this has been a strong quarter for Husky compared to the same quarter year ago. Our production was up 5%. Earnings were up some 70%. Cash flow is up 36%, so on all key metrics a good quarter. But actually if we do a bit of deeper analysis it is not just a question of increased oil prices, because it was a mixed bag for a number of reasons.

We did have strong Brent oil prices driven by a global recovery and of course the political tensions in North Africa and the Middle East. However, if you look at gas prices at this time most people in the industry thought gas prices had bottomed out, but in fact there is an abundant -- the abundance of supply continues to exert downward pressure.

Secondly, as far as our particular business and a lot of Canadian, Western Canadian industry is concerned, differentials widened between light and heavy oil as a result of lingering issues connected to the Enbridge pipeline disruptions and of course we had our own supply throughput restrictions at the Lloyd upgrade, which didn't allow us to get the benefit of that widening.
Western Canada did not experience the full benefit, therefore, of the improved global crude pricing environment.

On the other hand, the refining crack spreads widened in the US due to the Brent WTI differentials and an improving economy, which drove increased demand, and our Downstream assets were able to benefit from that.

Net, it's very clear that our asset portfolio, our integrated strategy allowed us to develop -- deliver a good result because of strong performance in segments of our portfolio, which more than offset challenges of other areas. And, most importantly, the fact that all of our segments were able to deliver solid operational execution and so therefore were in a position to take advantage of these factors.

Now, coming out of production, our production for the quarter averaged 310,000, little bit over, barrels per day, which is 11% increase over the fourth quarter of 2010, and is, as I said, 5% up from a year ago so that's within our guidance.

There are several factors for this strong performance. In February we completed the acquisition of our properties from Exxon Mobile that while it's headlined as a gas acquisition, in reality I remind you that it's a very oil and liquids rich acquisition. That purchase began contributing about 22,000 barrels per day for production from that early February date, so we haven't had the benefit for the full quarter of that.

On the East Coast our North Amethyst satellite development continued to perform well with production averaging 31,000 barrels per day in the quarter, gross, so that's about 21,400 net to Husky. We also achieved a solid performance from our Western Canada heavy oil portfolio where we've initiated the, as you recollect from my conversations in previous quarters, a number of accelerated development activities outside and these are organic, outside of the acquisitions.

So, overall, we are pleased with the progress we've made on the production front and we believe we remain on track to achieve our guidance of 3% to 5% growth over the five-year plan. I do wish to remind you that this is a cumulative production growth number. There will be variations year-to-year, as we experience turnarounds and as we bring on projects. So this is really a five-year average.

A brief word on our Midstream, Downstream performance; they both provided solid performance for the quarter. Throughput from our refineries and Upgrader averaged 310,000 barrels per day during the quarter compared to 275,000 barrels per day in the fourth quarter of 2010 and some of that base, of course, was affected by the turnaround at Lima last year. Optimum throughput levels at our now Downstream refineries were achieved, fortunately for us at a time when we were able to capitalize on these record cracks spreads that we've been seeing.
During the quarter the Downstream segment contributed some $153 million to net earnings compared to $9 million in the year ago period. Midstream also performs strongly contributing some $79 million to net earnings compared to $49 million a year ago.

Coming now -- sort of taking our eyes off the immediate quarter issues to the larger strategic issues, which are you know our three build pillars. First of all, Southeast Asia we continue to make solid progress in advancing this cornerstone project, which is the Liwan Gas Project. And, as you know, we made three significant national gas discoveries in Block 29/26. There is Liwan 3-1, Liuhua 34-2 and Liuhua 29-1.

The overall development plan for Liwan 3-1 has been prepared, undergoing final reviews and we expect to submit the plan for approval later this year. Pricing contracts are at the late stages of being finalized. I'm not in a position to disclose the exact details because we're in the midst of a negotiation but, as we have said to you before, I can share with you that gas will be sold under a long-term contract at competitive prices in the South China, the Guangdong and Hong Kong markets. The project is actually is expected within this calendar year, first production targeted for late 2013 and I think it ramps up through 2014.

In oil sands, we did tell you in the last quarter that we had sanctioned the project. The project, the Sunrise Project, remains on budget and on track and that is targeting for first oil in 2014. And conceptual work at all these begun in the quarter of Sunrise Phase II, with an eye towards leveraging the economies of scale.

And finally in the Atlantic region, we continue to evaluate options for the next phase of our White Rose satellite developments. Key option under consideration there is the possible construction of a fixed drilling platform. And again, like the South China Sea project we hope to be able to provide further details on this as well later in the year.

In summary well, I think it would be fair to say we are pleased with the progress we have made in the past ten months to execute our strategic plan. You will recollect that we got clarity to the South China spinoff uncertainty. We got clarity to the Sunrise expansion project. We did complete two significant acquisitions. We are very pleased with the initial results of those. We have put together a comprehensive financing plan.

And I think our first quarter results demonstrate some of the early gains and we continue to execute against the financial targets and operational milestones that I'd outlined to you in the Investor Day in early December.

And I would just would like, in ending, to reiterate the fact that our strategy of being an integrated company, which I told you that we were integrated for some very specific reasons, specific to our particular portfolio. I think this quarter has been a vindication of that fundamental cornerstone of our strategy.
Okay on that note, Alister, why don't you pick up on the next section?

ALISTER COWEN:
Thanks. As Asim indicated, we did perform well this quarter but we did have some negative impacts from the strong Canadian dollar, continued weakness in natural gas prices and the way that Western Canada crude oil discounts to WTI that Asim talked about. However, these were more than offset by strong operational performance in production and refinery throughput and higher brand related crude oil pricing for our offshore production and refining margins in the US.

Net earnings were $626 million or $0.70 per share and that compares to $368 million, or $0.41 per share, in the same period a year earlier. The net earnings did include a gain on disposal of non-core assets of $143 million after tax.

Our cash flow from operations increased 36% during the quarter to $1.16 billion or $1.30 per share compared to $854 million or $1.00 per share on the year ago period. And this compares to cash flow of $1.04 billion or $1.21 per share in the fourth quarter of 2010.

I'd remind you that the cash flow related to the gain on disposal of non-core assets is not included in the cash flow from operations, it's included in cash flow from investing activities.

Our financial results clearly reflect our transition to IFRS at the start of 2011 and we did disclose in our Annual Report, in Note 24, the full impact of our restated earnings, [to a gain].

Our 2010 numbers have been restated for comparatives. The main impact of IFRS in the quarter are exploration expense as the result our move to successful IFRS accounting and higher depletion expense as a result of reporting on a field-by-field basis, now, instead of actual cost basis.

That breaks out to approximately -- or breaks out to $93 million of pre-tax for exploration expense, as we've disclosed, and roughly $40 million additional depletion charge, pre-tax.

Now, our production are this 310,400 barrels, BOE-per-day and that compares to 296,000 BOE-per-day in the first quarter of 2010 and up from 280,500 BOE-per-day in the fourth quarter of 2010.

As Asim said, our US Energy business had a very solid first quarter with strong operational performance of the refineries and higher refining margins and that resulted in the Downstream segment contributing $153 million to net earnings in this quarter.

The Upgrader resumed normal operations mid-April now following the completion of repairs due to the minor fire. The overall pre-tax impact, including repair costs, is estimated at an opportunity cost of
between $70 million to $80 million pretax during the fourth quarter. We will have about another $10 million to $50 million impact in April as we ramped up.

Pricing; we did see improved pricing environment, which as a contributor to the quarter’s results, although I will say that the stronger Canadian dollar did partially offset some of that improved pricing. Our realized crude oil pricing was $76.78 compared to $69.29 for the same period last year. As I said, we benefitted from higher Brent related pricing for our offshore production, which is approximately 31% of our liquids production, but that was partially offset by lower pricing for Western Canada crude oil as a result of export pipeline disruptions.

The light heavy crude oil differentials averaged $23.11 per barrel and that compared to $9.29 per barrel in the first quarter of last year but, as Asim mentioned earlier, we didn't -- weren't able to capture the full benefit of that widening spread as the result of a reduced output of the Upgrader. However, I would say it did positively affect contributions from the Toledo refinery, which processes a significant amount of heavy crude oil.

The refining -- realized refining margin in US Downstream averaged USD16.83 per barrel in the quarter compared to USD5.12 a year ago. Realized gain on natural gas prices reflected weaker market conditions and was $3.66 per Mcf compared to $4.81 per Mcf last year.

From a financing perspective we completed two key initiatives as part of our comprehensive financing plan. These are designed to increase the liquidity and financial flexibility during a period of accelerated growth in our portfolio. The shareholders approved an amendment to the Corporation’s Articles, which allows dividends to be paid in cash or common shares at each shareholder’s discretion, and the April dividend that was paid in early April reflected that cash and stock split.

We also closed our preferred share issue in the quarter raising $300 million in equity financing at very attractive rates. And our debt to capital ratio at the end of the period was 21% of debt to cash flow of 1.2 times on a trailing12-month basis remains below our targeted ranges.

As I look forward, we do see a reasonably good market environment going forward into the second quarter. When we look forward I’d remind you for the rest of the year we have supply and maintenance events. We’re scheduled to complete the minor 45-day turnaround of the Lloyd Upgrader in the third quarter. During that period the Upgrader will be at roughly 70% capacity. The Toledo refinery will have a minor 30-day turnaround in the second quarter in the area of cracker unit and for general maintenance.

On the East Coast, the Sea Rose FPSO is scheduled for a 16-day maintenance turnaround commencing in July. However, we are evaluating options to reduce that program’s duration. We also expect that the originally scheduled 15-week dock-side maintenance for the Terra Nova FPSO will be deferred from July 2011 to a future date. The timing of the turnaround is undergoing finalization by the operator.
Now, as I previously mentioned, the transition from Canadian General Accepted Accounting Principles to International Financial Reporting Standards will have an impact on retained earnings and net earnings. There will be no impact to cash flow as a result of this.

For 2011 we have estimated the transition to IFRS will result in the reduction of net earnings in the range of $200 million to some $275 million versus the comparable Canadian GAAP numbers.

Finally, the Board of Directors has approved a quarterly dividend of $0.30 per share and at -- in each shareholder's election will be paid in either cash or shares.

Now, at this time I’d like to turn it over to Rob, who is going to talk about the Upstream results.

**Rob Peabody:**
Thanks, Alister. Well, as Asim and Alister described, the first quarter was very strong from the standpoint of operational and financial metrics. It was more challenging from a safety perspective. As you will be aware, we had a fire at the upgrader that resulted in reduced throughput. We also had an incident while frac'ing a well in Western Canada. I can assure you that both of these incidents are the subject of rigorous investigations. Lessons learned from the incidents will be shared throughout the organization and with our industry partners, where appropriate, to guard against any reoccurrence.

Turning to production, as Asim noted, we made solid progress in the quarter in accelerating our near-term production. So far, based on our performance to date, we remain on track to achieve our production guidance.

In Western Canada the foundation of our business, as described in the strategy, in the first quarter we drilled 234 exploration and development wells. Looking at the type of wells drilled, 94% of these targeted oil are liquids-rich resource gas plays, in line with our strategy.

In oil resource plays we focused on developing our opportunities in the Lower Shaunavon and Bakken Zones of Southern Saskatchewan along with the Viking Zone in Southwest Saskatchewan and Central Alberta. 16 wells were drilled in the quarter and six placed on production at a combined rate of 445 barrels per day.

We continued to develop in our gas -- in terms of our gas resource plays. We continue to develop our liquids rich natural gas assets. Our prime focus in the near term is Ansell where liquids production from the Cardium averages about 50 barrels of natural gas per million standard cubic feet of gas.

At Ansell four rigs were active and a total of 20 wells were drilled in the quarter. While currently shut down for breakup, we plan to recommence drilling in the second quarter with 21 wells planned. In the third quarter we expect to commission extra capacity at Ansell to take production to around 56 million cubic feet per day and over 2,000 barrels per day of liquids.
Additional exploration and development drilling continued at our plays in Northwestern -- sorry Northeast British Columbia and with two Jean Marie development wells drilled at Bivouac and Muskwa horizontal well drilled in the Horn River Basin, with very encouraging results.

Through a combination of Crown land sales and private purchases we increased our land holdings in our gas resource play portfolio by 29,000 acres in the quarter. Looking at our activities in Lloydminster, in heavy oil, construction of the 8,000-barrel-per-day South Pikes Peak project is about 60% complete. The project remains on budget and on schedule and we expect first production in mid-2012.

Construction also continued on the 3,000-barrel-per-day Paradise Hill project, which was commenced at the start of the quarter. First production there is expected in late 2012.

Our horizontal well development program targeting new geological horizons in the Lloydminster area has been running at a strong pace; 31 of the planned 104 wells for 2011 were drilled in the first quarter.

And we continued to make good progress at the Tucker Oil Sands project with production averaging 6,200 barrels per day in the quarter and that compares with 4,000 barrels per day in the first quarter of 2010. In the next quarter we will be adding further production wells as we go through the quarter and subsequently through the year. Tucker generated positive cash flow and earnings over the quarter.

Turning to our growth pillars, as Asim mentioned, the Sunrise Energy project continues to progress on schedule towards first production in 2012. 12 horizontal wells were -- sorry, 2014. 12 horizontal wells were spud and seven were fully drilled in the quarter and the well logs and cores we're getting back from that operation show that the reservoir quality is in line with our expectations.

Several contracts were signed during the quarter for the key equipment including contracts for steam generators, vessels, with the water treatment plant and the CAM to support the project.

During the quarter we advanced conceptual work for Sunrise Phase II. We have plans -- we have -- we do plan to commence pre-feas work on that project in the second half of 2011. We also drilled 24 stratigraphic test wells to further delineate our Saleski oil sands lease.

In the Atlantic Regions, production continued to be strong from North Amethyst. The field produced an average of 31,000 barrels per day, gross, during the quarter of which Husky shares 21,400 barrels. In 2011 we expect to tie into another production well and one more injector at North Amethyst.

At White Rose, at West White Rose, our next satellite project, our, pilot, well pair progressed on schedule. These wells will help refine our understanding of the development potential of the full West White Rose Field. First production from the pilot is expected in the third quarter of this year. In 2011
we also plan to drill an appraisal well at our Mizzen discovery and an exploration well to test another prospect south of Terra Nova.

Looking over to Southeast Asia, as Asim mentioned, we continue to make good progress on the Liwan Gas Project as well. Towards -- and we’re aiming to sanction the project later in 2011 and we continue to target first production in late 2013. All nine development wells for the Liwan 3-1 field have been drilled confirming the quality and the extent of the reservoir. Tendering of key pieces of the project, including deepwater production equipment, pipelines and installation services, is advancing.

In Indonesia Husky and its partners continue to move forward with plans for the development of the Madeira BD and MDA gas fields. Tenders for Madeira’s long lead items, including the floating production storage offloading vessel, are being issued -- are to be issued by midyear. We continue to target first production for Madeira in 2014.

So, in summary, in the Upstream we continue to make substantial progress on accelerating near-term production and advancing our growth pillars and we remain comfortable with our production guidance for the remainder of the year.

At this time, I would like to turn you over to our moderator for your questions and following that,

**OPERATOR:**
Ladies and gentleman, we will now begin the question-and-answer session.

Your first question comes from George Toriola of UBS.

**GEORGE TORIOLA:**
Thanks and good morning guys. Just a -- this question is for Asim. The pillars of growth you suggested are delivering results. I wonder -- and we know what the sort of medium to longer-term growth pillars are. In the near term could you provide some clarity on your thoughts here? Are you focused on execution; are you looking at incremental acquisitions; what's the very near-term strategy?

**ASIM GHOSH:**
Good question. I mean first of all, I do want to say that what I talked of was in the executing the interim steps of the pillars of growth. I am not suggesting for a minute that the pillars of growth are getting us the results today, just so just a small point of clarification there.

Nonetheless, I think we are at this point focused on becoming an execution machine, very simple. We have a strategy. It's not our plan to change strategy every day. We did have a need to bridge a short-term gap and we have executed some critical inorganic steps towards that and we’re done with it for the moment. At this point we are focused on executing what we have and I think you would have gotten a flavor from what Rob was talking about, both in terms of project execution for the larger projects and in
terms of executing our present portfolio. That's what we are focusing on. We want to become a predictable execution machine.

If something opportunistic, which is very value accretive, should come our way we would be open to that in terms of inorganic stuff and -- but always within the very tight strategic rigor we have laid out, which is I believe I used the term "strategic contiguity." That's something that speaks to our core skills that keeps us in the geographies that we are in and most importantly is financially accretive. So I don't ever want to box myself into a corner of saying something is always done but, having said that, at this point our focus is on becoming an execution machine.

GEORGE TORIOLA:
Thanks a lot guys.

OPERATOR:
Next question comes from Greg Pardy of RBC Capital Markets. Please go ahead.

GREG PARDY:
Hi, good morning. I've got some, just some quick ones, and then I did want to ask you something on strategy, mostly on the Downstream. But how should we be thinking about gas realizations then with Madeira? Will those be -- are those -- I believe those are with power producers but just wanted to get an understanding as to whether they'll be any linkage then with petroleum prices whatsoever?

ASIM GHOSH:
Alister, why don't you take that?

ALISTER COWEN:
Yes the gas off-take agreements for Madeira are to be sold into Indonesia so they're going to be to domestic pricing there, which is clearly lower than what you may get in selling into China, but there won't be much linkage with oil prices for those, Greg.

GREG PARDY:
Okay, no problem and that's what we thought before. With Liwan then, Alister, I think at your strategy session we've been talking about 150 million cubic feet a day of production to your interest. I just wanted to take a reality check on the CapEx and see if you comment, but we're somewhere around $1.75 billion, $2 billion for that development, net to your interest. Are those numbers about right?

ALISTER COWEN:
That would be for -- as some of you may recall from the Investor Day I think that was Liwan 3-1 we were talking about specifically, not the other two developments.

GREG PARDY:
Okay.

**ROB PEABODY:**
The number for production for the full developments, once they ramp up in 2015 is 250 million a day.

**ASIM GHOSH:**
Yes but then with the larger project CapEx also.

**ROB PEABODY:**
Yes, and that's associated with the full CapEx.

**ASIM GHOSH:**
For the full CapEx.

**GREG PARDY:**
Okay, so your interest then will ramp to 250?

**ALISTER COWEN:**
Yes, over time was we bring on the Liuhua, the additional Liuhua 2 fields.

**GREG PARDY:**
Okay.

**ALISTER COWEN:**
Yes.

**GREG PARDY:**
Okay, and then I think what you're saying is boost CapEx accordingly.

**ALISTER COWEN:**
Yes.

**GREG PARDY:**
Okay. Your release has got a lot in here just in terms of a very extensive land position in Western Canada and you've highlighted some of the areas but are you -- would you plan or would you be open to sort of coming out with targeted production rates, what have you, with a number, whether it's the Viking, Cardium, what have you? Are you open to doing that? It just feels as though it's a lot going on but it's just a question of bringing some focus in terms of what it's going to mean production wise.

**ASIM GHOSH:**
Rob, do you want to take that?

**ROB PEABODY:**
Well, maybe if you would just give me a little more clarity on what the question is?

**GREG PARDY:**
Well, I think, Rob, it's really a question of just what kind of production -- is there a way that you could break down what kind of production targets you have just for some of the new plays that you're bringing on?

**ROB PEABODY:**
Okay. Well, we aren't ready to sort of do a breakdown but what we did do at the -- at our presentation last year if you remember was we -- our target production coming from these plays over the period to 2015 is to grow the business to about 30,000 barrels a day. And what we're seeing out there at the moment still leaves us very confident we'll be able to do that over the five-year period.

**GREG PARDY:**
Okay. And what -- and just as a point of reference then, where would those be at as it -- were they effectively zero at Christmas, minimal?

**ROB PEABODY:**
They were about 5,000 barrels a day currently.

**GREG PARDY:**
Okay thanks very much. And the last question is just really one on strategy and obviously we've seen a recovery here in terms of Downstream. If we, for whatever reason, the cycle gets extended and Downstream does start to attract more attention, strategically is there any role -- like is Lima a necessary part of the portfolio longer term?

**ASIM GHOSH:**
Well, look I think to be honest with you, our view on the refining assets is they are options and we will revalue the -- we will reevaluate the value of the options as we -- as the situation unfolds but basically I want to be clear about this. Our strategy needs to be -- to remain to be integrated.

**GREG PARDY:**
Okay that's great. Thanks very much.

**OPERATOR:**
Your next question comes from Andrew Potter of CIBC. Please go ahead.

**ANDREW POTTER:**
Just a few questions, first maybe if you could just talk a little bit about Mizzen. What is -- a little bit more specifically about when we should expect this to spud and when we'd expect results; and maybe if you can talk a little bit about range of potential resource estimates.
And the second question was just on Tucker, maybe if you could just elaborate on, with the new wells coming on where would we expect to exit 2011 and maybe a little color even on where we would expect this to go in 2012?

**ASIM GHOSH:**
Let me answer the Tucker question first and then I'll hand you over to Rob for Mizzen. On Tucker, this project starts to cover our cost of capital and give an accretive return at today's pricing at about the 10,000 to 12,000 barrels a day range. And our present projections lead us to believe that we could get to those sorts of figures by the end of this year. Since this project was conceived oil prices are up and I remind you that this project was conceived at a long-term oil price of 35 barrels so the metrics that are required to make this project work have changed materially.

On Mizzen, Rob, do you want to take that one?

**ROB PEABODY:**
Yes just briefly. I mean we're planning with our partner, Statoil, to spud that well subject to rig availability, sometime in the third quarter. In terms of what we have there, we have one exploration well. On the basis of the information we had there we were awarded the largest significant discovery license ever given on the East Coast but the key thing now is the delineation well to really understand the full scope and size of that development. So it would be premature to speculate on the size yet.

**ANDREW POTTER:**
Okay that's fine. Thanks.

**OPERATOR:**
We will now open the question-and-answer session to members of the media.

There are no further questions at this time.

**ROB MCINNIS:**
Actually, we'll turn it over to Asim for some closing comments.

**ASIM GHOSH:**
Okay, well thank you. So, basically I'll close by saying I think the picture that you see emerging I think that speaks to the point that George Toriola raised early in the meeting, was one of increasing momentum, as we execute on our near-term strategy and fill in the building blocks of our growth pillars.

But to refresh your memory, it's the Liwan Gas Project, which we expect to sanction in later 2011 and that comes on stream in the end of 2013 and the Sunrise Energy Project, which is progressing; well that comes on stream in 2014. And in the months ahead we hope to be able to share some news on
our third growth pillar, the Atlantic region, maybe evaluating first (inaudible) of the White Rose project, but in the meantime, we are focused on executing the existing parts of our portfolio.

Thank you for joining us. A good start to the New Year, and all the best to everybody. Thank you.

**OPERATOR:**
Ladies and gentlemen, this concludes today's conference call. You may disconnect your telephones. Thank you for joining and have a pleasant day.