HUSKY ENERGY SECOND QUARTER RESULTS CONFERENCE CALL TRANSCRIPT

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Speakers: Rob McInnis
Manager - Investor Relations

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Alister Cowen
Chief Financial Officer

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

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

In today's call we will provide an update on Husky's business strategy and an overview of results followed by a question-and-answer session. Please note that today's comments do contain forward-looking information. Actual results may differ materially from expected results because of various risk 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:
Thanks. Good morning. It's just about a little over 12 months since my joining Husky so this quarterly report gives me a chance to reflect on our recent unexpected performance. As you can see from our second quarter results, the actions taken to execute our strategic plan are taking root. Second executive consecutive quarter we've been able to point to stronger because a broad set of performance metrics so earnings are up 274% compared to the second quarter last year. The cash flow is up 104% and production increased 10%.

In summary, we have made significant progress over a relatively short time and our goal is to build on this momentum and to continue to execute against our strategic growth plan. While it was a strong quarter operationally, we did of course benefit from a number of market factors including higher realized crude prices and increased crack spreads and, most importantly, the quarter was a strong vindication of our, what I've called in the past, very specialized integrated strategy. But what's more satisfying to me is that solid operational execution continued to deliver value.

Now, as all of you know, we are in the midst of a rather uncertain global fiscal and monetary environment and we have also a number of very major upcoming project commitments for the next several years. It was in this context that we decided in the second quarter to proceed with a $1.2 billion common share offering and basically by prefunding in our balance sheet in advance of these major projects and by lowering the risk associated with economic uncertainties we have now increased our financial flexibility to carry out our growth strategy.

We told you earlier that we were exploring the merits of the a second relisting of our shares on the Hong Kong Stock Exchange and this was part of a long-term funding plan that I alluded to at our Investor Day last year. We have not reached a decision on the HKSE listing and have not set a time line either for making a decision but I do wish to say that with the common share offering now complete, we do not contemplate that if a new listing should occur on the Stock Exchange it would be associated with any new equity issue.
Moving on to production, a key highlight for the quarter is the progress we achieved in increasing production. Our production for the quarter averaged 300 -- almost 312,000 barrels per day, which is, as I said earlier, a 10% increase over the same period last year and it's towards the high end our guidance. It's important to note that these gains were achieved despite some significant disruptions from forest fires in Northern Alberta and a shutdown of the Rainbow Pipeline and that shutdown continues.

We were able to mitigate some of the impacts but at the peak of the disruptions in May production in the Slave Lakes region was reduced by about 17,000 barrels per day. By late May production impacted by the fires was restored. However, the prolonged shutdown of the northern portion of Rainbow pipeline reduced production by about 13,600 barrels a day through June and that by the way continues. We do not have at this point a firm pipeline time line on when the pipeline will resume operations.

Moving on to the next, the first of our major growth pillars, which is the Liwan Gas project, a significant highlight for the quarter was the approval for the overall development plan. We call it the ODP for the Liwan 3-1 field by Husky and our partner, CNOOC, in the Liwan Gas project. It's a clean milestone for the development in terms of keeping the project on track towards first gas production in late 2013 or early 2014, in that time frame. The next step now is to submit the ODP to the Chinese Government parties for approval.

In support of the ODP submission, of course, we did execute a gas sales agreement with the CNOOC Gas and Power Group and it -- you know, the gas price mechanism basically is in line with the anticipated Guangdong City Gate market price, which provides a very attractive rate of return for the project. And is basically, I think, within the constraints of our joint venture agreement. I think I can give you guidance that is in the USD11 to USD13 price range at today's exchange rates.

So, that's a real cornerstone development for Husky, as we look to build a substantial energy business in Asia and we are very pleased with the progress so far.

In summary, I would say we are quietly pleased with the progress the Company has made over the past year to execute our strategic plan. We took action to halt a slide in production. We are progressing on the foundations of future growth. A number of -- by the way -- in that context a number of key management hires have been made to ensure that we have the right talent in place to carry out those plans, the Asia management team is fully in place.

We have about -- some of you will be aware -- we have built a significant resource play group in Western Canada. We have filled out key missing links in the Oil Sands area so really all of our base businesses, as well as our growth pillars, are properly staffed. And we continue to achieve significant milestones in advancing the three growth pillars, which I'll refresh your memory are the Oil Sands, Southeast Asia and the Atlantic Region.

And finally, we executed the comprehensive financing plan, which ensures that we are well positioned to carry out the growth strategy. So therefore we have the people in place. We have the funding in place. We have the strategy in place and we have the initial results of our ability to execute against that plan.
So, in summary, I would say it's been an exciting and rewarding year, a lot of hard work ahead but it would be fair to say the results of recent quarters show that we are on track.

On that note I'll hand you over to Alister to get the detail on the financials.

**ALISTER COWEN:**

Thanks, Asim. As Asim had indicated, we have had a strong quarter. Our performance has been driven primarily by an increase in production as well as higher realized crude prices, slightly higher natural gas prices, strong throughput rates of the Upgrader and our refineries and improved margins in the downstream sector.

While the strong Canadian dollar had some odd risks impacts on results, we saw more positives on the whole in the quarter. Our net earnings were $669 million or $0.71 per share. That compares to $179 million or $0.19 per share in the second quarter of last year. Net earnings did include a post-tax gain on a property swap of $50 million.

Our cash flow, as Asim said, increased by 104% on the quarter to a strong $1.5 billion, or $1.67 per share compared to $739 million, or $0.87 per share a year ago.

The U.S., downstream business had a very solid quarter with strong refinery operational performance. The U.S. downstream business as a pillar has specialized integration strategy has allowed us to capture the wider heavy oil and Brent differentials and reducing the risk of volatility. U.S. downstream contributed $165 million to our net earnings.

When we look at the pricing environment certainly we saw an improvement there and that was a contributor to the quarter's results, although as mentioned the stronger Canadian dollar did partially offset some of the gains. The average realized crude oil pricing was $86.90 per barrel. That compared to $64.75 per barrel for the same period last year.

Natural gas pricing did improve modestly to $3.66 per Mcf versus $3.45 per Mcf a year ago. We did see an increase in the light heavy crude oil differentials compared to year ago with an average of USD17.89 per barrel compared to USD14.34 per barrel last year.

In the U.S. downstream the refining margin averaged USD0.21, USD21.37 per barrel in the quarter compared to USD6.03 a year ago. Downstream, as we said, has been a strong story for us and that's indicated in the first six months of refining margins where we averaged $19.29 per barrel versus $5.51 for the first six months of 2010.

When we look at the financing plan and the balance sheet, as Asim had indicated earlier, we did complete a key element of that in the quarter and we closed the $1.2 billion common share offering and that now gives us increased financial flexibility to carry out the growth strategy that we've outlined to you.

We do plan some internal CapEx spending between $4 billion to $4.2 billion per year through the 2015 plan period. Through the next two years, 2012 and 2013 we plan to direct approximately $500 million towards additional Oil Sands development and $500 million to
emerging oil and resource plays. And, based on those plans, we anticipate production will now be towards the higher end of our guidance of 3% to 5% compound annual growth rate for 2011 to 2015.

I'd just like to emphasize it will be based on turnarounds and more on a lumpy basis but it will be in a compound basis really towards the top end of that range.

We also anticipate sustaining 3% to 5% compound annual growth and an annual reserves replacement ratio of 140% per annum through 2020 with the funding plan and the growth capital plans we have in place.

We do have a strong balance sheet, as Asim had mentioned, with a debt to capital ratio of 18% and a debt to cash flow ratio of 0.9 times.

Looking forward into the next quarter, we do see some continued market strength and are now analyzing a respective performance for Q3. We'd like you to keep in mind the following. We did experience a 9-day shutdown at our refinery at Lima in Ohio. That's a result of the discovery of a small leak in the crude oil crude unit furnace and that oil refinery has returned to full operation and the overall pretax impact of that shutdown, including the repair costs, is estimated at an opportunity cost of between $15 million to $20 million pretax and that will be reflected in the Q3 results.

Our 30-day turnaround, partial turnaround is coming underway at the Toledo refinery, as we've outlined in the MD&A. The Lloyd Upgrader will also undergo a minor turnaround in September and October, primarily for inspection and equipment maintenance and during that period that Upgrader will be at about 70% to 80% of capacity. The ongoing shutdown the northern portion of the Rainbow pipeline is expected to curtail production by about 11,000 barrels per day until the pipeline resumes operating and that is essentially light production.

On the East Coast we have completed a two-day turnaround on the SeaRose earlier in the July and the Terra Nova FPSO has a 28-day turnaround scheduled for September. An originally scheduled 15-week dockside maintenance for the FPSO, which was scheduled for this month, has now been deferred to 2012.

And finally looking at the dividend, the Board of Directors did approve a quarterly dividend of $0.30 per share.

Now, I am going to ask Rob to discuss the Upstream operations.

ROB PEABODY:
Thanks, Alister. I'd like to begin with a brief word about our continuing efforts to build and maintain a strong safety culture at Husky. Soon more than 1,700 contract workers will converge on the Sunrise Energy project site. In preparation for that heightened activity Husky recently held a Sunrise Safety Summit. The Summit was designed to help key Sunrise leaders understand our safety goals and expectations and to develop and employ a comprehensive health, safety and environmental program for the Sunrise project.
We’re building a very strong safety culture at Sunrise and we are making it clear to every worker and contractor employed at the site that the highest standards and best safety practices will be required.

Turning to Western Canada, as you know over the last year we have initiated a number of steps to develop our oil and gas resource portfolio. We’ve made a lot of progress building the foundation. From a big picture standpoint we plan to invest about $250 million through 2013 to develop our emerging oil resource plays and we have a strong pipeline of projects in development and we expect that we will be able to grow into a 30,000 barrel per day business by the end of the plan period.

On the gas resource side we also plan to invest about $250 million through 2013 to develop our liquids rich gas assets. Much of those efforts will be focused on our Ansell play where we have a land base of about 150,000 net acres.

Taking a look at developments during the quarter beginning with oil resource plays, we acquired around 11,500 acres at the Bakken formation in south central Saskatchewan adjacent to our Unger oil resource play and Husky now holds about 18,700 net acres in this light oil play. At the end of the second quarter production from four producing wells in the play was approximately 600 barrels per day. Based on these positive results, we have committed funds to accelerate the drilling and completion of 10 additional wells in the second half of 2011.

Our other oil resource plays include opportunities in the Lower Shaunavon in Southern Saskatchewan, the Viking in Southwest Saskatchewan and Central Alberta and in the Northern Cardium trend at Wapiti and Kakwa in West Central Alberta.

Spring breakup and extended wet conditions delayed drilling and completion plans in the quarter. However, we do expect to accelerate activities in the second half of the year. We did complete the drilling of two wells at the Central Alberta Viking resource project following a six-well drilling program. In the first quarter, a total of 11 Viking wells have been place on production from this area along with another three from the Saskatchewan Viking oil project.

In gas resource plays we continue to build our gas resource portfolio in the quarter adding approximately 16,000 acres of new crown land to our existing base of approximately 800,000 acres. A key focus has been on our liquids rich Ansell asset. During the first two quarters we drilled 21 Cardium formation wells. These will be completed in the second half of the year. A further 12 Cardium and 9 deeper multi-zone wells are planned in the second half of the year.

We are currently constructing additional off load capacity at Ansell, which will increase total production capacity by year-end to 56 million cubic feet per day and over 2,000 barrels per day of liquid. We believe Ansell has the ability to support a larger development and we took steps during the quarter to seek a joint venture partner to accelerate development.

In heavy oil we continue to make progress on our thermal developments. Our goal is to achieve a higher proportion of our heavy oil production from thermal projects at F&Ds and operating costs that are comparable to our current levels of F&D and operating costs for our CHOPS production.
Construction of the 8,000 barrel per day South Pikes Peak project was approximately 67% complete at the end of the quarter and is progressing on schedule towards first production in mid-2012. Construction of the 3,000 barrel per day Paradise Hill thermal project is also progressing on schedule towards first production in the third quarter of 2012.

Turning to our growth pillars, Phase 1 of the energy project continues on schedule towards first planned production or first production in 2014. Drilling was complete in the second quarter on the first 12 horizontal well pairs as part of the planned 49 initial pairs for the project. Detailed engineering milestones were achieved on schedule during the quarter and purchases of major equipment and preparation of the surface facility for construction are targeted for the third quarter.

Conceptual development engineering for Sunrise's next phase has also begun. We continued to make progress at the Tucker Oil Sands project during the quarter as well. Production averaged 6,400 barrels per day during the quarter and we exited June with production in excess of 7,000 barrels per day. This is almost double the rate of a year ago. Production in July month to date is over 8,000 barrels per day with more wells to come on stream between now and the end of the year.

In the Atlantic region the North Amethyst development continues to perform well during the quarter with average gross production of around 33,000 barrels per day. Drilling was completed on an additional production well and the production well came on stream on June 23rd towards the end of the quarter at a rate of 6,200 barrels per day without water injection support. A supporting water injection well was brought on stream last week and performance to date makes us confident we will achieve the targeted design rate of 37,000 barrels per day for the North Amethyst project.

As Alister mentioned, earlier this month we completed a two-day turnaround at the SeaRose FPSO. This turnaround, as you may recall, was originally scheduled to last 16 days.

Turning to Southeast Asia, as Asim mentioned, we achieved a significant milestone during the quarter with the finalization of the overall development plan for the first phase of the Liwan gas project. Production from the Liwan 3-1 field is expected to come on stream in late 2013 or early 2014 ramping up towards a rate of about 300 million standard cubic feet per day gross.

The overall Liwan gas project is comprised of three fields on Block 29/26. Liwan 3-1, Liuhua 34-2 and Liuhua 29-1, Husky’s share of these developments is 49%. And when all three fields come on stream we expect gross production to reach approximately 500 standard -- 500 million cubic feet per day in the 2015 time frame.

On the exploration front, Husky acquired the exploration rights to two parcels of lands in the Central Mackenzie Valley in the Northwest Territories. These lands complement our existing portfolio and we are evaluating the timing of preliminary work on the new concessions, including 3D seismic and well drilling.
Finally, returning to the production impact at the Rainbow pipeline outage, looking into the third quarter we do not yet have a time frame on when the northern portion of the Rainbow pipeline will resume operations. While we have been able to further reduce the impact of the outage, until the pipeline resumes operations production will be curtailed by about 11,000 barrels per day of light oil production.

In summary, the upstream, in the upstream we continue to make substantial progress in developing our emerging oil and gas resource plays and advancing our growth pillars. Despite disruptions in the Slave Lake region we still anticipate production will be at the high end of our guidance for the year.

At this time I would like to turn you over to the moderator for your questions.

OPERATOR:
The first question is from George Toriola of UBS Canada.

GEORGE TORIOLA:
A couple of questions here, of that with the heavy oil production and this question is for Rob. You talk about specifically you talk about maintaining current heavy oil production levels and then you go and talk about the thermal developments. Could you break down the current heavy oil production into what is thermal and what is not thermal and then could you just walk through what you see as opportunity on both sides?

ROB PEABODY:
Thanks, George. Okay very briefly just currently our overall heavy oil production is in the range of 100,000 barrels per day. Not all of that comes out the Lloydminster region but the vast majority does. Our current thermal production is in the range of about 18,000 to 20,000 barrels per day today.

With these projects coming on stream over the next five years we’re looking to increase our thermal production into the range of about 40,000 barrels per day. That will be offset by some declining CHOPS production because, as we’ve outlined before, as we are moving towards the edge of the reservoir with some of the CHOPS wells F&D costs are rising and by bringing on these thermal projects we actually help drive our F&D costs back down.

GEORGE TORIOLA:
Okay perfect, so do you expect the sort of CHOPS conventional heavy oil to remain flat or that's going to just looking out five years as well, what’s that likely to do?

ASIM GHOSH:
George, I'd like to make the point and I think it's a good opportunity to make a larger point here that when we gave you the guidance in the Investor Day last year, and I could either give that, the events of the recent past and all that we talked about support that, that overall guidance is correct. It's a compound annual growth rate guidance and therefore it's not -- please don't translate that to 3% to 5% every year, point number one.
Point number two, an extension of that same point applies to heavy oil that, as we transition to thermal, the thermal projects are lumpy. CHOPS is short stroke and therefore in fact you might get a slight decline before you get the increase but in terms of a longer-term time frame we are comfortable with everything that gets seen on what our thermal, how our thermal plays performing that reservoir that we will be able to maintain an overall flat perspective but not necessarily every year.

So, in other words, what I am giving you a heads up, that hey, if you should see a decline in one year, don't see that as a reason for despair because it's just that the thermal plays are longer cycle projects than CHOPS.

George Toriola:
Okay thank you very much, Asim. Last question is just about Ansell and you talk about the intention to seek JV partner here. Could you -- is this going to be a competitive process? What is this going to be and to the extent that it is going to be a competitive process where you in terms of putting out teasers and things like that?

Asim Ghosh:
Well, there's a marketing process that is on and a marketing process has a number of elements in there. Obviously, price is an element. What a partner brings to the party is an element but broadly I think we are in an open marketing process so what the exact criteria are for the final decision, it's a complex of the criteria. I am not going give that handle out in public but it is an open marketing process.

I do want to make the point though we have what it takes financially and technology wise to develop Ansell on our own so the reason for a JV process is simply to accelerate what we could do on our own. It's not -- we are not looking for either the technology or any other specific upstream skill set in making it happen.

George Toriola:
Okay thanks a lot.

Operator:
Your next question comes from Greg Pardy of RBC Capital Markets please go ahead.

Greg Pardy:
So I've got three questions, some of those just nitty, but the cash tax number in the second quarter was a lot lower than we would have expected but just curious if you can give us any guidance as to what that number might look like this year. That's question one.

Second, you've done a good job I think in outlining what Liwan is going to look like but I am just -- I am wondering if you can provide us with some milestones, the next milestones and the time lines we should be looking for.

Third, just interested what you're going to be doing in the Northwest Territories and lastly, we have seen other companies now moving to spin out midstream assets and so forth and just take
advantage of the market. Obviously you've got the JV contemplated at Ansell but are there any other assets that you might consider moving off your books? Thanks very much.

**ASIM GHOSH:**
That was four questions, Greg, not three but you can ask. It's all right.

**GREG PARDY:**
Asim, if I say four you're going to lose track so I had to stay with three.

**ASIM GHOSH:**
Alister, why don't you take the first one?

**ALISTER COWEN:**
Yes, Greg, on the cash taxes we were lower in the quarter and we will be lower through the rest of the year and the reason for that is we have resolved some tax issues that we had and we had paid taxes, cash taxes, of prior years that we now don't need so we're using these up to satisfy our requirements of this year so it will be slightly lower, probably more consistent with what you saw in the second quarter for the rest of the year.

**GREG PARDY:**
Okay thanks.

**ASIM GHOSH:**
On Liwan the next step is to submit the LDP to the government and then get their approval and I mean all of this will take place between weeks and months but our model it will either give you a specific commitment as to when the sovereign Chinese government will give me a response.

**ROB PEABODY:**
And just referring to the MD&A of course, I mean we did update you just that all the major deepwater equipment, pipelines and installation services are in the process of being tendered and the development wells have been drilled.

**GREG PARDY:**
Okay, one other one on that, I mean you've given a CapEx number pricing production, just curious what the implied royalty we should be thinking about might be.

**ALISTER COWEN:**
Greg, we probably have to get back to you on that one.

**GREG PARDY:**
Okay, thanks.

**ASIM GHOSH:**
Okay, next one was Northwest Territory.
ROB PEABODY:
Just one other comment on Liwan just I did see a report that indicated that there was a view that the Liwan cost estimate was increasing. I think that's just a misunderstanding. The original cost estimate of CAD$5 billion was for Liwan 3-1. The $6.5 billion includes the other two fields so there hasn't been any increase in the cost estimate.

ASIM GHOSH:
It's comparing apples to oranges.

ROB PEABODY:
Yes just for clarity.

ASIM GHOSH:
Okay, so what was the question on the Northwest Territories? Greg?

OPERATOR:
He's no longer on the line. I could ask him to queue up again if you wish.

ASIM GHOSH:
No that's fine. And then --

OPERATOR:
I can get the next question?

ASIM GHOSH:
I think we just go on to the next question then.

OPERATOR:
The next question comes from Brian Dutton, Credit Suisse. Please go ahead.

BRIAN DUTTON:
If you're counting questions I have two and a supplemental to Greg's tax question so maybe I'll start with that. On the tax side, Alister, you mentioned about where you thought cash taxes would be but do you see any changes on the tax partnership side and I am thinking here on the JV or the partnership that you have your East Coast production sitting in?

ALISTER COWEN:
That's a good question. Clearly, you all know there's going to be changes in the federal regulations around that. We are looking at what the options are going to be there but that will be complex and they'll take us some time to work through so at this point I think the assumption is that we will gradually unwind and line other the next five years with the revised regulations unless we can find something that meets all the requirements and fits within the federal regulations, tax regulations, so that's kind of where we're at at this point.
BRIAN DUTTON:
Okay, so you don't see any big bullet payment or something as a result of that, it would be a gradual unwind.

ALISTER COWEN:
I think the rules as they've been provided there I think it's a five-year time period in which we kind of unwind.

BRIAN DUTTON:
Okay, question on the downstream, how large was the FIFO inventory gain in the quarter?

ALISTER COWEN:
Well we don't -- well, we're obviously on the FIFO basis; we don't really have a -- we don't do our books on a LIFO basis but I'll give you a range. We estimated some roughly in the range of $50 million to $75 million.

ASIM GHOSH:
But remember this is not a GAAP number. It's a management estimate.

BRIAN DUTTON:
No I understand that. And I guess the last question is giving your spending plans that you outlined earlier on the call, within the context of the current commodity price environment, are you fully funded or do you need or do you anticipate needing to come back and tapping the equity market again?

ALISTER COWEN:
No, I think from in the context of commodity prices really are for the spending funds that we have outlined to you from an equity perspective we believe we're fully funded. Clearly there may be some access to the debt market but we have a balance sheet that would we able to support that.

BRIAN DUTTON:
So, that's all for equity for now?

ASIM GHOSH:
Yes.

ALISTER COWEN:
Yes.

BRIAN DUTTON:
And just on --

ALISTER COWEN:
Sorry, Brian, I just reaffirm that we do have the dividend reinvestment program.
ASIM GHOSH:
So there's no new equity raising program other than what's already been advised to the marketplace so there will be a drip for the next --

ALISTER COWEN:
Till the end of next year.

ASIM GHOSH:
Till the end of next year.

BRIAN DUTTON:
Right, I was just going to ask about that and so are there any plans to extend that or is that a firm close date?

ASIM GHOSH:
No, no that's the plan and there are no plans to extend that.

BRIAN DUTTON:
Great thank you very much.

ASIM GHOSH:
Your next question comes from Greg Pardy, RBC Capital Markets, please go ahead.

GREG PARDY:
You thought you were going to get rid of me. Just the last question then. I wanted ask we're hearing other companies spinning out assets midstream and so on. Any thoughts, plans internally as to whether some assets you've got buried in the Company might make more sense to be in the public market?

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

ALISTER COWEN:
Thanks. So, Greg, I mean you know that the strategy we have is from a midstream and downstream perspective those assets are part of our reservation strategy and so from an operational perspective they're pretty key and we believe they do add a lot of value and mitigate risk and volatility.

I am always open to a financing way alternative but from an operational perspective we do believe that they are pretty critical to us.

GREG PARDY:
Okay, thanks very much.
Your next question comes from Menno Hulshof, TD Securities, please go ahead.

**MENNO HULSHOF:**
I’ve got a -- I am going to start with a question on that $6.5 billion budget. Would that include capital invested to date? And if so, how much has been put to work so far? And then second, what sort of a return do you think you can generate from the project and how would that stack up relative to other opportunities in the portfolio?

**ALISTER COWEN:**
Okay, the $6.5 billion, just to remind everybody, as Rob had said, it's to fill three field developments. It's a shallow water facility and the on shore facilities and I would say it will be approximately $3 billion of that. It includes a portion of what has been spent on that field to date but not the unsuccessful exploration costs.

And I think the last part of your question was how did it stack up as to returns and we think it stacks up very well with other alternatives in the portfolio for a mega project, bearing in mind that fixed pricing, guaranteed pricing we're not exposed particularly to market volatility commodity prices.

**MENNO HULSHOF:**
Okay, so you're thinking like top quartile?

**ALISTER COWEN:**
It's comparable to the larger projects that we have.

**MENNO HULSHOF:**
Okay, perfect and then I’ve got an unrelated question on Saleski and the --

**ASIM GHOSH:**
We lost that. Has everything gone?

**OPERATOR:**
We're going to try to get Menno back on the line here.

**ASIM GHOSH:**
Okay why don't we move on to the next question in the meantime?

**OPERATOR:**
Your next question comes from Katherine Minyard, JPMorgan, please go ahead.

**KATHERINE MINYARD:**
Just a quick question on Liwan, I realize you guys left a lot of detail in the MD&A and I apologize I haven't gone through it in its totality but for the Liwan gas sales agreement can you talk about what volumes are actually governed by the gas sales agreement? I know that it's just Liwan but then you give a production number for both Liwan 3-1 and then Liuhua 34-2 of total production of 300 million cubic feet a day so what part of the sales are governed? What volumes are governed by the gas sales agreement?
ALISTER COWEN:
Yes, Kathryn, a large part of that’s the earned of the majority you never get majority at that 300 million cubic feet a day comes out of Liwan 3-1. Liuhua 34-2 is the smaller, a much smaller field so a very large portion of that 300,000 is what the price applies to. The $11 to $13 range that Asim gave earlier is a lot of the contractual things that we can’t disclose the exact price. It’s comparable to -- that $11 to $13 is comparable to land at LNG in that area so we’re well within that range. And we are negotiating the gas sales agreement so the next two fields over the next say six to 12 months will do Liuhua 34-2 next and then we’ll do 29-1 beginning of next year.

KATHERINE MINYARD:
Great and then if I could just turn quickly to Tucker, can you just talk about some of the factors that are driving the production growth and the improvement that we’re seeing? Is it more wells? Is it more steam? Have we hit kind of a turning point in the reservoir’s response? What’s driving that?

ASIM GHOSH:
Rob, why don’t you take that one?

ROB PEABODY:
Okay, thanks. Yes there’s a whole range of things of course driving the production. Now the major driver is new wells and so we’ve brought out a number of wells this year. We’ve got another five to bring on between now and the end of the year and that’s what’s underpinning the production growth.

ASIM GHOSH:
I think the point needs to be made that the fundamental change is proper placement of wells so the big difference between the well program today, which is leading to production, versus the historical well program where we did not make our numbers and all the people threw some egg in our faces was where the fundamental differences were placed.

ROB PEABODY:
And the only thing I would add to that is just this is the really the first SAGD project. It was done in a Clearwater formation as opposed to the McMurray and there were a lot of lessons to be learned with how to apply SAGD to that formation.

KATHERINE MINYARD:
Okay, great and then just finally just thinking more broadly about your production and kind of the growth between kind of the first part of the year at the second quarter and then the end of the year, especially in Western Canada as you kind of compare 2Q to say a 4Q rate or a full-year exit rate, can you kind of quantify that in aggregate and then maybe discuss the extent to which that’s driven by a return of production that was previously shut in or impacted by infrastructure constraints versus what’s driven by the kind of more aggressive approach to development that you’re undertaking. And I’ll leave it there, thank you.
ROB PEABODY:
Okay, well let me just briefly answer that to say we really expect production to continue similar to what we've seen in the first half but some of the factors that are helping us on production in the second half are clearly North Amethyst coming up to full production rates and hopefully at some point we will see the Plains Pipeline situation resolve but, as we've said, we've gotten no real information yet as to when that's going to occur.

ASIM GHOSH:
Yes, as we said, we don't expect the Plains Pipeline to return in the next few weeks or months so therefore in the immediate future we just -- we are not in a position to give guidance on that because it's a factor outside our control. But more specifically I think we are giving annual guidance and I don't think I am in a position to start giving quarter-by-quarter guidance. It's not been our practice and I don't want to set anybody out here.

OPERATOR:
Your next question comes from Menno Hulshof, TD Securities, please go ahead.

MENNO HULSHOF:
Sorry about that, not sure what happened there but the question was on Saleski and then the carbonates. In the press release you suggested that you're evaluating options for a pilot and I know it's early days but what are you currently considering and what would the time line look like?

ROB PEABODY:
Well, I'd just say I think it's too early to give out any specifics on that just because it is conceptual work at the moment and what we are looking to do at Saleski is by the end of the year or as we go into next year and do our normal reserves update we have undertaken some independent work to get a good handle on the contingent resources we believe are at Saleski so we're going to be putting out some information on that.

MENNO HULSHOF:
Perfect, that's it for me.

OPERATOR:
Your next question comes from Mike Dunn, FirstEnergy Capital Corp., please go ahead.

MIKE DUNN:
A couple questions, Liwan, I just want to be clear the U.S. $6.5 billion cost estimates you mentioned in your press release that you're about $3 billion of that. Are you 49% of that estimate or is it not quite that math? And secondly --

ALISTER COWEN:
Yes, Mike, good question. We are 49% of the production but $3 billion on the cost and the reason for that is the shallow water on shore facilities we built slightly larger to accommodate another field in the region that we are not a part of. Therefore, we don't have quite 49% of the
shallow water and on shore cost. That's why it was the difference. But we are 49% of the production.

MIKE DUNN:
Okay, thank you and then in terms of the pricing one of you mentioned that it was a reasonably fixed pricing. Is it fixed versus LNG spot prices or is it more of a longer term fixed price that you'd be looking at?

ALISTER COWEN:
Well, it's essentially it's fixed in the beginning period and then we'll fall within a range depending on the Guangdong City Gate price, which will depend on essentially LNG going into that market.

MIKE DUNN:
Okay, thanks and just a question on your recent update to your production guidance, you're looking at sort of the higher end of the range for this year. I just wanted to confirm you're not baking into that any potential acquisitions that you haven't yet closed, is that correct?

ALISTER COWEN:
That would be correct.

MIKE DUNN:
Okay, thanks, that's all for me.

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

The first question comes from Edward Welsch, Dow Jones.

EDWARD WELSCH:
This question, I think Greg Pardy asked it earlier was about Northwest Territories. I was wondering if to give a little more color on what exactly you guys are doing out there. I was somewhat curious that the amount that you guys paid for those leases was quite a bit more than what some of the surrounding players paid, Exxon and Conoco, so any color you could give on what you see for prospects up there.

ASIM GHOSH:
I'll hand that over to Rob after I just -- I would clarify one issue. We have not paid anything for those leases. Our bids were work commitments bid and we have up to nine years to explore these lands and work off our work commitment. So there is actually no payment to be made from Husky for these work commitment bids. Rob, you want to take the last of that?

ROB PEABODY:
Thanks, Asim. Yes, I mean, just to put it in context, we've been actively exploring in the Central Mackenzie Valley area for more than a decade and with a couple of previous smaller discoveries in the area. These lands complement our existing portfolio and we believe the lands
are prospective and, as it's very clear there's an existing petroleum system near these lands at Norman Wells, of course it's been there for quite a while.

And these, as Asim says, this was a work commitment we made and is based on what we believe and we'll -- it will take to go up there and really assess these leases and hopefully, based on the assessment, move forward with the development.

EDWARD WELSCH:
Okay thanks a lot.

OPERATOR:
Your next question is from Pat Roche, of the Daily Oil Bulletin, please proceed.

PAT ROCHE:
Two questions on Tucker, first of all why did you decide to use SAGD rather than cyclic steam? And secondly, I know hindsight is 20/20. If you had Tucker to do over right from scratch, would you still go with SAGD rather than cyclic steam?

ASIM GHOSH:
Rob, you take that.

ROB PEABODY:
Yes, I think overall it just -- I mean, clearly it was the first application of SAGD and I guess, like all first applications, tends to be quite painful but we are getting reasonable results now and, as we've said before, we now believe this project is going to achieve some reasonable returns for Husky, even when we look at the overall light of the project and all the costs that have been incurred there so I think we're actually -- I think the results of the work and of course we're not finished yet. We've still got a ways to go but my sense is that when we look back we'll still believe, especially as we've now modified it to work in the Clearwater, we actually believe that this is actually going to be a viable technology for developing these types of reservoirs.

PAT ROCHE:
Thank you.

OPERATOR:
Your next question comes from Mike Dunn, FirstEnergy Capital Corp., please proceed.

MIKE DUNN:
Just wanted to clarify on the Mackenzie Valley leases, my understanding was that there was an up-front deposit required I think somewhere around $90 million or 25%. Is that refundable?

ROB PEABODY:
No, that's not how it works. There isn't a large up front deposit that is made so that's yes.

MIKE DUNN:
Okay, thanks for clarifying.
OPERATOR:
Your next question comes from Jeff Jones, Reuters, please proceed.

JEFF JONES:
My question relates to Liwan, just following up on the capital costs and this is kind of a three parter. First of all, is the $6.5 billion kind of a figure that you had expected this to ring in at earlier as you were developing it?

Secondly, what is kind of the payout time at your $11 to $13 Mcf gas price?

And thirdly, do you believe that the value of this project is reflected in the Husky share price, given that you canceled the potential IPO of Asia last year? Thank you.

ALISTER COWEN:
Let me address that. The $6.5 billion is in line with what we had expected for a full scale development so and Robert had mentioned that earlier, so there's no issue there. The payout time we would expect payout in four to five years on that project. That would be consistent with the economics that we had outlined and I talked about earlier.

And then I think your last question was do we believe the value of Liwan is at the sell price.

ASIM GHOSH:
No, I think our firm Company position is that our stock price is completely undervalued for all of our businesses.

OPERATOR:
The next question comes from John Wright, Energy and News Today., please proceed.

JOHN WRIGHT:
You mentioned earlier something about turnaround plans in the Toledo refiner. I am sorry I had to drop out. I couldn't understand it.

ASIM GHOSH:
Terrance, you want to take that?

TERRANCE KUTRYK:
So specifically what's your question?

JOHN WRIGHT:
About what units would be involved in the duration, that sort of thing.

TERRANCE KUTRYK:
Yes okay, I appreciate the question. Certainly there are some turnaround activities which are going on there but, with respect to the specific units that are involved and so forth, that's
information that would be best addressed in conjunction with our partner. We don't have that available to us right now.

**JOHN WRIGHT:**
Okay, any other upcoming turnaround plans at refineries other than Toledo that you can tell us about?

**TERRANCE KUTRYK:**
We do have some turnaround plans that are relatively minor in nature associated with our asphalt plant and they've been addressed and I think in more detail MB&A.

**JOHN WRIGHT:**
Okay, thank you.

**OPERATOR:**
There are no more further questions at this time. Please continue, Mr. Ghosh.

**ASIM GHOSH:**
Well, thank you for the questions, a very full deck. So, on one final note, earlier this month John Lau, my predecessor at Husky Oil and he subsequently moved on to head up the -- to get the [Asia Pacific], announced his retirement effective throughout July 19. And as you know, he was the guiding force at Husky over the last two decades.

He has decided to step down, and enjoy his retirement. And I am sure everybody on this call joins us in wishing him all the best for the next phase in his life.

So, as we end, I would just like to say that we are comfortable with our strategy and we are starting to, I hope, give you some confidence in our ability to execute and we will watch the price unfold. Thank you for joining us. Bye, bye.

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