HUSKY ENERGY FIRST QUARTER 2012
CONFERENCE CALL & WEBCAST
TRANSCRIPT

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Speakers:
- Asim Gosh
  Chief Executive Officer
- Alister Cowan
  Chief Financial Officer
- Robert Peabody
  Chief Operating Officer
- Bob Baird
  Senior Vice President, Downstream
- Rob McInnis
  Manager, Investor Relations
- Terrance Kutryk
  VP Midstream & Refined Products
OPERATOR:
Welcome to the Husky Energy First Quarter 2012 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 would like to turn the conference over to Rob McInnis, Manager Investor Relations. Please go ahead.

ROB MCINNIS:
Good morning, everyone. Thank you for joining us to discuss our 2012 first quarter results. With me today are CEO, Asim Ghosh; our CFO, Alister Cowan; our COO, Rob Peabody; our Senior Vice President of Midstream and Refined Products, Terrance Kutryk, and our Senior 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 followed by a question-and-answer session.

Later this morning we will also be holding our Annual Meeting of the shareholders in Calgary. A webcast of that meeting may also be accessed from our website at huskyenergy.com. The presentation begins at ten-thirty AM Mountain Standard Time.

Please note that in today's comments will 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, both of which are available on SEDAR, EDGAR and our website.

I'll now turn the call over to Asim.

ASIM GHOSH:
Thank you and good morning. It's been another strong quarter for Husky. Our business is on course and we are consistently executing as demonstrated by the results. Production was up 3% in the quarter compared to the year-ago period, which is about 10,000 barrels a day.

Our cash flow increased slightly from a year earlier to $1.17 billion and we recorded net earnings of $591 million, which is up 22% over the corresponding year-ago period with an adjustment for a one-time gain in the year ago period.

So, basically this quarter once again revealed the strength of our focused integration strategy, which really adds value by minimizing risk in the increasingly volatile market environments that we've been seeing.

The way I look at it, I see our Midstream, Downstream segments as an extra arrow in our quiver, is how I've defined it during these times of market uncertainty.

Some of the quarter highlights now, overall I would say the quarter demonstrated we are sustaining the momentum we built over the last year.
I'll cover a couple of highlights, starting first with the Asia-Pacific, fabrication of the shallow water jacket for the Liwan Gas Project in the South China Sea is now more than three-quarters complete and you know it's kind of difficult for me to show the pictures in the medium that we're using right now, but when completed this will be some 200 meters tall, about the height of the Calgary Tower, which in fact we also built I believe in 1967.

Atop the shallow water jacket will be the top sides, which is also progressing and that's about a quarter complete. This is really three decks, each about the size of a football field. So overall, we are making great progress and remain on track for first production in late 2013, early 2014.

On the next big building block, Sunrise, last week we finished drilling all of the SAGD wells for Phase I, and the most important conclusion from the drilling is not just the fact that we completed them but the fact that the drilling has confirmed the high quality of the resource and that we are in line with our expectations of the subsurface.

This is the project earlier this month and the progress is visible so also on this project, as in Liwan, we're making great progress and we remain on track for first production in 2014.

The results in this quarter show that we are on course to achieve our targets but I do want to remind you, as I have in the past, that we will encounter one-off events such as turnarounds on new projects coming on-stream that will make our longer-term compound five-year growth target of 3% to 5% a lumpy one. It will not be a smooth line, that's not how we have planned it.

One of those events, and again, a planned event, is about to begin. Next month the SeaRose FPSO is scheduled to begin a 125-day offstation and later in the presentation my colleague, Rob, will provide you with some details about that.

We've previously advised you of these events and the SeaRose off-station actually is included in our annual production guidance of 290,000 to 315,000 barrels a day that we expect for this year.

So, in summary, the first quarter demonstrates we are on course. We are focused on execution, we're delivering against the plan and the results are being achieved. Alister, do you want to take over for the next section?

**ALISTER COWAN:**
Yes, thank you. As Asim indicated, we have performed well for this quarter. A higher upstream production, a higher throughput to the upgrader and higher outreach realized prices for crude oil has offset the impacts from the other areas.

Our net earnings for the quarter were $591 million or $0.60 per share and that compares to $626 million or $0.70 per share a year ago. If you exclude the after tax gain of $143 million on the sale of non-core assets in Q1 2011, our net earnings from underlying operations actually increased 22% from $483 million and this also compares to the fourth quarter earnings of $408 million.

Our cash flow from operations was $1.17 billion or $1.20 per share and that compares to $1.16 billion or $1.30 per share a year ago. Now, I'll remind you of what I said on Investor Day, last December, about our cash taxes and our cash flow this year reflects an increase in the cash taxes of $178 million compared to a year ago, mainly due to the removal by the Federal government of the partnership deferrals.
On the production side we see 120,000 barrels per day, BOEs per day in the quarter, and that’s comparable to the fourth quarter of last year and represents a 3% increase from a year ago. Downstream business was a positive story for us over the last year. We did, however, see some tightening of U.S. refinery margins in the first quarter, but overall it does remain positive.

The upgrader contributed $14 million to net earnings in the quarter. That compares to $3 million a year ago as a result of normalized throughputs.

The U.S. refining operations contributed $71 million to net earnings compared to $160 million a year earlier and this really reflects the higher priced Brent-based feedstock at Lima plus we had a catalyst replacement at Lima that resulted in a 10-day hydrotreater outage reducing some volumes. We were able to partially mitigate the impact of the higher price Brent feedstock by utilizing some lower priced Western Canadian sources of crude in the refineries; and as Asim mentioned, this is one of the benefits of our focused integration strategy.

While the details of pricing are in the MD&A, I do want to point to you a few highlights. The average realized price for the Company’s production, as a whole, was $65.26 per BOE in the quarter, slightly up from the $61.03 a year ago. The average realized crude oil pricing was $87.11 per barrel compared to $78.27 a year ago.

The realized pricing in the quarter does include the impact of wider Western Canada and heavy differentials. However, we’ve been able to minimize the volatility and capture a large portion of these differentials and our Upstream infrastructure and marketing business and the Downstream, upgrading and refining operations.

Natural gas, as you know, continued to drop with average realized pricing at $2.64 per Mcf compared to $3.87 in Q1, 2011. As I mentioned, the realized upgrading differential was $20.38 per barrel compared to $24 a year ago and we saw a similar trend in the U.S. Downstream where realized refining margins were $14.14 U.S. per barrel compared to $16.83 U.S. a year ago.

Looking forward, there are some events to bear in mind in respect to the second quarter and the remainder of the year. As you know, the off-station program for the SeaRose is about to begin. This will result in a reduction to annual production of approximately 12,000 barrels per day and has been included in our annual guidance. Later this year our partner-operated Terra Nova FPSO will also undergo an off-station and this will reduce annual production by about 4,000 barrels per day.

Planned outages underway at the upgrader to expedite hydrogen planned repairs and catalyst change outs, which is just normal maintenance, and this outage, which required a complete shut down of the plant, will last approximately three weeks. The Toledo refinery is scheduled to have a minor turnaround in mid-2012 and that will partially reduce throughput levels during that period.

From a financing perspective, we completed a $500 million dollar U.S. public offering of unsecured notes at an interest rate of just under 4%. Proceeds will be used amongst other things for the redemption of the existing debt securities of which $400 million are due in June of this year. And finally, our Board of Directors has approved a quarterly dividend of $0.30 per share.

Rob is now going to discuss with you the Upstream operations.
Thanks. As mentioned my Asim and Alister, we've been preparing for the SeaRose off-station. The SeaRose was commissioned six years ago and has had an outstanding safety record with no lost time injuries. Last year the vessel achieved an up time of 98% versus the norm of 92% for FPSOs throughout the industry. So what we see is a very strong correlation between safety, operational integrity and business results.

Early next month the SeaRose will begin what is expected to be 125 day off-station program. Production is scheduled to be shut in at the White Rose field in early May. Well in dry dock a variety of maintenance and inspection operations will take place. We will also use the opportunity to execute a number of system upgrades. This program will position us to carry out our full slate of planned and future production opportunities in the Atlantic region in the years ahead.

Turning to production, looking first at our activities in Western Canada, we were active across the oil resource portfolio in the quarter drilling 24 wells. Activities were concentrated in the Oungre Bakken play in Southeast Saskatchewan, the lower Shaunavon in Southwestern Saskatchewan and the Redwater in Saskatchewan Viking formation plays.

The horizontal well targeting the Muskwa shale at Rainbow in Northwest Alberta was completed in the quarter with test results as expected. The well is undergoing pressure build-up prior to being placed on production. Drilling operations commenced on a two-well pad, which will carry on through Spring breakup.

In the Northwest Territories, we drilled and cased two vertical pilot wells to evaluate the Canol shale formation on our two exploration licenses. A 220-square-kilometer 3D seismic program was also finished there last week. We will use the results from this work to formulate the next stage of our evaluation program.

In gas resource plays; our activities remain focused on liquids rich gas opportunities at Ansell, Kaybob and Kakwa. At Ansell we drilled a total of nine wells in the quarter including three multi-zone vertical wells, three Cardium horizontals, two Wilrich horizontals and one vertical Cardium well.

In our Heavy Oil business in the Lloydminster region the 8,000 barrel per day Pikes Peak south and 3,000 barrel per day Paradise thermal projects are both nearing completion. They remain on target to achieve first oil in the third quarter. Based on positive results from our pilot at Rush Lake in 2011 we're moving forward with the design of an 8,000 barrel per day commercial project. We also expect this project to come on stream in the 2015 time frame. Preliminary planning for three additional thermal projects is also underway.

Turning to our growth pillars, first looking at Asia-Pacific, where the Liwan Gas Project is really taking shape. Fabrication of the shallow water jacket is nearing completion. Preparations are underway for the installation of this jacket this summer.

As you may recall, we are developing three fields on the block. The first two fields are being developed in tandem in Phase I of the project. Front-end engineering and design for the third field commenced in February. Also, in the Asia-Pacific region offshore Indonesia tenders have been issued for drilling rigs to drill around six exploration wells commencing in June. Meanwhile work continues bringing the VD, MDA and MBH fields towards production with first gas from the Madura Straits block expected in 2014.
In oil sands, Asim gave you a good update on the Sunrise Energy Project, so I'll just add that we're making progress on development work for the next phase of Sunrise. The detailed design or the design base memorandum and feed work has been awarded and feed is expected to be completed in 2013.

Finally, in the Atlantic region, the North Amethyst satellite fields continue to perform well with three productions wells and three water injection wells on stream. We plan to drill an infill well at the main White Rose field this year and continue development drilling at North Amethyst.

At the end of 2011 we filed an application to amend the North Amethyst development plan to include the deeper Hibernia formation. We also recently awarded the feed contract for the next phase of the White Rose developments, which will include west and south satellite fields.

In summary, we've make steady progress in executing the Upstream strategy we laid out at our investor meetings in 2010 and again in 2011. Transformation of our foundation businesses in Western Canada and heavy oil is on track and our major growth projects are advancing on schedule.

I will now turn you over to the moderator for your questions.

**OPERATOR:**
We will now begin the Question and Answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Anyone who has a question may press star and one at this time.

The first question comes from Joe Ciarrella of Goldman Sachs. Please go ahead.

**JOE CIARRELLA:**
Thank you. Curious, on the oil resource plays in Western Canada with a number of the wells drilled here across the quarter, any update you're able to provide in terms of how you're thinking about the long-term contribution from the various plays in light of how the results are trending here. I think you've suggested in the past that you can get to 30,000 barrels a day in aggregate by 2015. I am curious where you stand today in terms of how you're feeling, whether it's better or worse at this point than the 30,000 that you've suggested before.

**ROB PEABODY:**
Okay, I'll take that, this is Rob Peabody. We're continuing to work the agenda of course on oil resource plays, good progress being made to date, just remind you of the overall strategy in our Western Canada business. We are transitioning that business over time to oil resource and liquids rich gas resource plays. As we've said before, we expect over the planning period to move that business strongly in that direction but it takes time to achieve this process with ultimately moving about a third of our oil production over into that area. And what I'd say is we're on track on that and we're seeing good results today.

**ALISTER COWAN:**
I think, Joe, it would be fair to say that at this point in time we are pleased with our land position. We are where we are at this point in our exploration and in our plan it does not call for us to have firm definitive conclusions on where we stand but there's nothing we have got that leads to any concerns about our long-term plan. Our strategic plan continues to be that we will reposition this basin and we have confidence in the ability to execute against that strategic plan.

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JOE CIARRELLA:
And maybe more on a similar point, just on a more micro level, are there any results you can share at this point across any of the different plays in terms of average production rates per well or you EURs that you're expecting that you're able to share?

ASIM GHOSH:
I think basically you know the resource play game, okay. You drill a well, you frac’ it and you don't really know for a year what a dependable type curve is. So early into the exercise would really be way premature for us to draw any conclusions but clearly we've, as I said, we've got the land positions and we've got enough optionality out here that we have some sense, some confidence that we are not chasing a pie in the sky dream.

JOE CIARRELLA:
Makes sense. Thank you very much.

OPERATOR:
The next question comes from George Toriola of UBS. Please go ahead.

GEORGE TORIOLA:
Thanks, and good morning guys. My question is really around the downstream. If you could provide some insight into a couple of things, first of all, your heavy oil process in capacity in your downstream business? Secondly, you talk about higher input costs that impacted the quarter here; if you can sort of give a little bit more color around that in the context of what we've seen some of the other, some of your peers do here that would be very helpful. Thank you.

ASIM GHOSH:
Bob, you want to take that?

BOB BAIRD:
Yes, George, to answer your question, basically our heavy oil capacity in Canada is primarily the upgrader and the asphalt plant, which about is 110,000 barrels a day. In the U.S. operations we run a very high volume through our Toledo BP refinery and Lima does take a small portion of the heavy crudes that we can run in Lima.

As to your second part, the issue that we have, it really is around the Lima refinery. We, at this point, we don't have all the WTI type price barrels going into Lima. There is a percentage of our barrels that are still Brent price.

GEORGE TORIOLA:
Okay and are you able to -- you did provide some insight on the U.S., can you put numbers around that or not? I mean, you did put numbers around Canada.

ALISTER COWAN:
George, I'll answer that. Yes on the Lima side a very small amount, a few thousand barrels of heavy are going through there. That's about the maximum we can take on the current configuration. And on the Toledo side, I mean it's a heavy refinery. The majority of the throughput is going through there as heavy barrels.

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GEORGE TORIOLA:
Okay and so the impact for the quarter, was that in Toledo I assume then?

ALISTER COWAN:
No it's Lima where we were buying Brent-based barrels to process.

GEORGE TORIOLA:
Okay, thank you very much.

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

GREG PARDY:
Hi, good morning. Let's hit you with three questions, so just with a nitty question maybe for Alister is; where's your head at just in terms of cash taxes for this year, just to check models. Rob, you talked about the Muskwa in terms of results being as expected; just curious if you can provide any more color around that?

And then the last thing, just intrigued with potentially using a platform with White Rose. You've talked about that before. I'm wondering how far along your thoughts are with the proceeding with that. Thanks.

ALISTER COWAN:
Well, Greg, I'll start off with the cash taxes. So, you'll recall I said in December that we'll remove all of the partnership deferrals by the federal government it would have an impact on us too, two impacts really. One is the tax on current yearly earnings is going to have to be paid out in cash in the year we earn them. And then secondly, we have a catch up payment to make over the next five years through the transitional arrangement.

So, as that over time that I saw the cash taxes would be equal to the current tax expense. My head is still there. That's where it's going to be with slightly different, current taxes were slightly less and current tax expense in the first quarter but I think by the end of the year they'll equal out.

GREG PARDY:
Okay thanks.

ALISTER COWAN:
We move to the resource play?

ROB PEBODY:
Yes, just quickly on the Muskwa, Asim more or less told you about as much as we're going to tell you on this other than to say we clearly, and we've disclosed before, we have an extensive land position up here. We have drilled previously a number of vertical wells and tested them. That caused us to decide to go ahead with the horizontal well development.

We have -- you know, that well in fact was put on normal production yesterday so -- and, as Asim said, it's just too early to call these tight curves and I've heard other companies disclose IP rates over a day in things like but we want to get some real solid data behind this before we start disclosing further data in the market. And
really looking forward, it's going to be toward the end of this year by the time we can actually see how that type curve is developing. So, overall we're very encouraged but it's too early to get definitive about the play.

In terms of White Rose and the platform and where we are, as we said in the earlier in the discussion today, we are actually -- we've started engineering on the preliminary engineering on that development. It will include the West White Rose development and the South White Rose development. Our preliminary screening economics indicate this is going to be a very robust project. It's not – you know, it is going to continue to use the FPSO for processing, which makes it a very capital efficient sort of way to move forward.

GREG PARDY:
Okay thanks for that.

OPERATOR:
The next question comes from David McCall of Morningstar. Please go ahead.

DAVID MCCALL:
Good morning guys, just three questions, first I am kind of wondering if you can give any comments on cost pressures you might be seeing in Northern Alberta, specifically I am thinking with the Sunrise Project.

Second question, I am wondering if you guys are seeing any cost pressures you could talk about for Asia/Pacific and I am really just thinking anything out of the ordinary here for your offshore projects.

And the third question is just kind of your thoughts on the potential impact from the Seaway reversal as it relates to the heavy oil differential. Thank you.

ASIM GHOSH:
Okay let me just pick them up one by one. In Northern Alberta definitely it's a more competitive labor environment than we experienced a year ago but I wish to remind you of our contracting strategy that by the latter part of this year, by the last quarter of this year, we will actually have converted a vast proportion of our costs to either fixed cost or lump sum, either fixed unit rate or lump sum.

And also, at this point in time, as we speak, we've already executed, we've already got cost certainty on the field facilities and we've completed the Phase I drilling. So, so far a big chunk of the project has been executed. That's on track and in the second half of this year a very major proportion of the rest will have been converted and we will have cost certainty.

And the final point to remember is that the way we have conceived of the project is a big chunk of the work is done in modules outside of the basin and the stuff is brought in. It's actually assembled in Edmonton rather than in Fort McMurray, so these are a number of very tightly planned strategic initiatives that we have undertaken to give us a high measure of cost certainty and prevent crazy cost overruns in Sunrise.

In summary, therefore, yes cost pressures in the environment but we see ourselves being materially insulated by plan. In the Asia/Pacific, as I said, again if you look at the jacket it's three quarters complete. The drilling is all complete. The subsea wellheads are installed and the top side they're a quarter complete. So, we are advanced enough in the project that yes we are seeing cost pressures in Asia but we are kind of far enough down the road that we don't have a fear of a blowout, maybe are past the blowout stage.
On the Seaway reversal we see it as a material event and I remind you of what I've called our focused integration strategy that we in fact are really creating optionalities around pricing volatilities in an increasingly volatile price environment. The WTI Brent reversal is without precedent. The size of that differential is without precedent.

The location discounts we are seeing in our Canadian location discounts vis-a-vis the U.S. is without precedent and the rapidity of those changes is without precedent. So, here you've got a lot of without precedents out here and in spite of that because we have by plan created this very, focused integration strategy, we've in fact been able to ride out these discounts, as the results for this quarter show.

I'll remind you that something like a quarter of all Canadian crude that leaves Western Canada goes through out system and therefore it gives us a number of mitigation opportunities, as we see these discounts, okay?

DAVID McCall:
Thank you.

OPERATOR:
The next question comes from Mark Polak, Scotiabank. Please go ahead.

MARK Polak:
Good morning, I just wanted to touch base on the North Amethyst Hibernia amendments. I am curious how that's looking, still on track for approval sometime middle of this year and then would you start drilling that at some point later next year?

ASIM Ghosh:
Rob, you want to take that?

Rob Peabody:
Sure. Thanks, Asim. Yes we don't -- approval doesn't look like it's going to be a rate determining step here or anything and those wells will just be drilled from the existing North Amethyst drill center so it will just be kind of encompassed within our normal operations going forward.

MARK Polak:
Okay great, thank you.

OPERATOR:
As a reminder, anyone who has a question may press star and one at this time. The next question comes from Paul Cheng of Barclays. Please proceed.

Paul Cheng:
Hey guys, good morning. Several quick questions; Alister, can you give us what is the FIFO gain in the quarter?

Alister Cowan:
We experienced a small FIFO gain in the quarter. It's not something we would typically disclose, Paul, so it's a relatively small in the quarter.
PAUL CHENG:
So, less than $5 million or $10 millions?

ALISTER COWAN:
As we don't disclose it, it's relatively small in relation to the overall results.

PAUL CHENG:
Okay. On the ramp I know that you don't want to give too much information since it's already stated on the oil resource play. Is there any -- is that enough of the well that you can give us a rough estimate what is the 30-day IP average?

ALISTER COWAN:
No, because you're only producing for one day.

PAUL CHENG:
Okay. On --

ASIM GHOSH:
In any event, Paul, I think, as I said very early in this call, we don't want to take a call on what the type curve is till we have about a year's data on the well because it's just too premature.

PAUL CHENG:
Sure. And can you tell us that how many days that to take to drill the well and how many -- and then the total completion days?

ASIM GHOSH:
Well, we are still at the early stage. You know, we haven't gone to what we call factory drilling so one of the information I give you at this point is kind of one off pilot and it's irrelevant to the modeling of the economics of this.

PAUL CHENG:
Sure, I understand. But I'm trying to understand that how many wells that end up that way maybe drilling this year and then also the now on a factory manufacturing process that how many days that you expect that is going to cut down to if you can share some of those information.

ROB PEABODY:
Well, I am not going to go into a tremendous amount of detail on that but by the end of the year we expect to have about between five and six wells on production so we are going to continue to drill these wells going forward and that's the game plan.

PAUL CHENG:
I see. Rob, can you remind me there how many rigs currently you have and then how many rigs you're going to be average for this year and next year?

ROB PEABODY:
In terms of rigs overall, we've been running -- it varies week to week and time like that but somewhere in the 40 range sort of across --
Paul Cheng:
No, no I am just talking about on the oil resource play, I’m sorry.

Rob Peabody:
I would have to get back to you at the precise numbers but we’re talking--

Asim Ghosh:
Well, Paul, I can give you a rough picture okay. I think, basically if you look at all the wells we are drilling in Western Canada this year, over a third are going to be resource plays okay and then of course a big chunk of that is a first phase of answer over to the liquid switch gas resource plays and the less they are going to be oil resource plays. But basically that’s about as much guidance we are giving.

Operator:
The next question comes from Scott Haggett from Reuters. Please go ahead.

Scott Haggett:
Can you give me some detail on your leak at Lima today? How long do you expect to be shut down and what unit was affected?

Asim Ghosh:
Bob, why don’t you take that?

Bob Baird:
Okay we basically had a small gas leak at our sat gas unit and preliminary estimates is that we’re going to be doing the repairs and it could take somewhere between 48 hours and seven days.

Scott Haggett:
Thank you.

Bob Baird:
Production -- and right now production is still maintaining at 120,000 barrels a day.

Scott Haggett:
Thanks.

Operator:
We will now open the question queue to members of the media. If you have a question you may press star and one at this time. There are no more questions at this time. I will now hand the call back to Asim Ghosh for closing remarks.

Asim Ghosh:
Well, thank you very much for joining the call and thanks for your questions. Later this morning we will hold our AGM in Calgary and the message I will be telling our shareholders is that in 2011 we put our heads down and focused on execution and I think we are on the way to unlocking the true potential of Husky. I hope you can join us in person if you have the time or listen in on the webcast.
Thank you again for joining us.

OPERATOR:
Ladies and gentlemen, the conference is now concluded and you may disconnect your telephone. Thank you for joining and have a pleasant day. Goodbye.