Date: Thursday, October 23, 2014

Time: 10:00 AM MT

Speakers:

Asim Ghosh
President and Chief Executive Officer

Darren Andruko
Treasurer and Acting Chief Financial Officer

Robert Peabody
Chief Operating Officer

Bob Baird
Senior Vice President, Downstream

Dan Cuthbertson
Manager, Investor Relations
OPERATOR:
At this time, I’d like to turn the conference over to Dan Cuthbertson, Manager, Investor Relations. Please go ahead, Mr. Cuthbertson.

DAN CUTHBERTSON:
Good morning and thanks for joining us for our third quarter results. Around the table we have and COO, Rob Peabody; Acting CFO, Darren Andruko; and Bob Baird from Downstream. CEO, Asim Gosh, is travelling on business and has joined us by phone. This will be a review of our third quarter results and then we will open the lines to questions.

As usual, our comments will contain forward-looking information. The actual results may differ materially from expected results because of various risk factors and assumptions that are outlined in our quarterly release and in our annual filings. You can access these on SEDAR, EDGAR and our website.

Asim will start us off with an overall look at the third quarter. Asim?

ASIM GHOSH:
Thanks, Dan. Good morning, everyone. During the third quarter, our industry saw significant downward pressure on both WTI and Brent prices. We’ve all felt the impact, which has continued into this quarter. In such a volatile environment, we are focusing on what we are able to control, and that’s operational performance.

Our results this morning reflect a strong showing from our bedrock business, heavy oil, where our thermal projects continue to punch above their weight. In Western Canada, our resource play production continues to improve, led by Ansell. In Asia Pacific, we are capitalizing on growing production at the Liwan gas project, where we are selling at a fixed price much higher than what we’d receive in North America. Ultimately, prices will go up and down, but in all areas of our business, we are carefully staging our activities to provide dependable cash flow and returns, while continuing to fund a prudent balance of near, mid and long-term projects.

Let’s take a look at our performance in the third quarter. Net earnings were $571 million, up more than 11% from $512 million a year ago. Cash flow was $1.34 billion, comparable with our
numbers last year. Total average production, Upstream was about 340,000 barrels a day, compared to 334,000 last quarter and 309,000 in the year ago quarter.

Rob and Darren will get to the details shortly, but I’ll take a moment to touch on some high points in the quarter.

First, again as I’d mentioned, heavy oil, with lower declines than conventional projects, thermals are giving us reliable, predictable cash flows. The Sandall development has been averaging around 5,300 barrels per day since we brought it on line earlier this year, producing well above its designed capacity of 3,500 barrels a day. We plan to roll these projects out on a regular basis using the same modular designs that have proven so successful in the past. This will help propel us towards our target production of 80,000 barrels per day from heavy oil thermals by 2019. As most of the incremental production coming on in the US is ultra light crude, this heavy oil production provides a natural complement.

Looking next at Western Canada, we are continuing to take a strategic approach at high-grading our large portfolio of oil and liquids-rich gas resource plays. Our focus is on improving the quality of returns through disciplined capital allocation and portfolio flexibility. We continue to make progress in transforming this part of our business and saw production from oil and liquids-rich gas plays average more than 34,000 barrels per day in this quarter compared to 25,000 barrels per day a year ago.

Turning to the Downstream, work is progressing on our heavy oil flexibility project at the Lima refinery. By upgrading our coker, metallurgy and furnaces, we’ll be able to process up to 40,000 barrels per day of heavy oil, while still being able, when required, to swing to light.

Moving on to Asia Pacific, at the Liwan gas project, we increased our average sales gas volumes to the range of 200 million to 220 million cubic per day gross, up from 180 million to 200 million range in the last quarter. Offshore Indonesia, we’ve been making good progress with our shallow water developments. A letter of intent has been issued to award the contract for an FPSO vessel for the BD liquids-rich gas field, and we’re moving forward with a plan of development for the MDK natural gas field, which is the latest in a series of staged developments in the Madura Strait.
In the Oil Sands, the first of two 30,000 barrels per day plants at Sunrise are undergoing commissioning. Systems are being checked and operations staff are running through their paces prior to anticipated start of steaming around the end of the year. Production is expected to ramp up over a two-year period to the full 60,000 barrels per day plant capacity, of which 30,000 barrels is net to Husky.

Moving now to the Atlantic, we are gearing up for first production from the Hibernia level formation beneath our North Amethyst field, and this is scheduled to start up around the end of the year. The satellite extension projects in the Jeanne d’Arc Basin are advancing as planned. Rob will take you through the details of South White Rose and West White Rose and expand a little bit on our recent activity around the Bay du Nord discovery area.

To sum up, it’s been a good quarter but not without its challenges. At times like this, I’ll remind you that our portfolio diversity and disciplined capital allocation process give us the flexibility to generate predictable results. We’ll provide you with more details in our December conference call. For the moment, I’ll hand you over to Darren.

DARREN ANDRUKO:
Thanks, Asim. As mentioned, total net earnings were $571 million for the quarter compared to $512 million at the same time last year, and cash flow was $1.34 billion, comparable to the third quarter of 2013. Third quarter production, 341,000 BOEs per day, up from 309,000 BOEs per day a year ago. This reflected increased production from the Liwan gas project, which came on stream earlier this year, and good performance from heavy oil thermal projects. Production in the Atlantic Region was impacted by approximately 10,300 barrels per day, due to the planned installation of production equipment for the South White Rose development, as well as planned turnarounds on the Sea Rose and Terra Nova FPSOs, which have resumed production. We also saw a number of third party turnarounds and outages in Western Canada.

In the Upstream business, we saw total net earnings of $460 million, comparable to the third quarter of 2013. This generally reflects the lower crude oil prices we saw in the quarter, offset by higher production volumes.

In the Downstream, net earnings from US refining and marketing operations were $29 million compared to $42 million in the third quarter of 2013. These results include a FIFO loss of
approximately $28 million in the third quarter, as prices for crude were generally on the decline. I’ll remind you that we experience these FIFO losses and gains as the benchmark prices move up and down. Downstream results also reflected a 42-day turnaround at the Lloydminster Upgrader, which was initiated at the end of August and completed by early October. Throughputs were maintained at about 80%.

The MD&A on our website has more detailed pricing information, so I’ll point out just a couple of items. The average realized price for our total Upstream production was CDN$68.35 per BOE, compared to $72.13 in the third quarter of 2013. The declining value of the Canadian dollar over the past quarter relative to the US dollar has helped to mitigate the impact of lower US dollar commodity prices. The realized US Downstream refining margin was $11.42 per barrel compared to $11.86 a year ago. Chicago market crack spreads averaged $17.41 compared to $15.86 in Q3 of last year.

As you will remember from our last Investor Day, we’ve been able to improve the realization of what we get through our three-pronged strategy to improve the flexibility of our feedstocks, product range and market access. The integrated nature of our business has protected us from some of the volatility associated with crack spreads, location and quality differentials.

As I mentioned a moment ago, Canadian/US dollar exchange rates often serve to mitigate some of the volatility in Brent and refined product prices to which we’re exposed. Only about 30% of our operating costs and 20% of our capital costs are in US dollars.

A few items of note for the coming quarters. In the Upstream, gas sales from the Liwan 3-1 field over the quarter were in the range of 200 million to 220 million cubic feet per day gross. We anticipate gas sales at Liwan to grow at a modest pace in 2015 as gas demand increases. With the longer than expected ramp-up in Liwan volumes, the exploration cost recovery is being extended. Approximately US$210 million has been recovered to date out of a total of about $800 million. We’ve made progress in laying a second 72-kilometre deep water pipeline at the Liwan 3-1 field, and that work will be completed as we secure a new pipe-laying vessel. As such, we will defer the scheduled Q4 shutdown.

In Oil Sands, we previously indicated that we are seeing cost pressures on the central plant facility at Sunrise. We expect total construction costs for Phase 1 to come in at about $3.2
billion, half of which is Husky’s share. This works out to the low 50,000s on a per-flowing barrel basis, which is in line with other projects completed or under construction since 2013. We’ve done a lot of work to reduce sustaining costs at Sunrise, which can be more than two thirds of the total project costs, and this gives us a good deal of confidence in our ability to maintain full-cycle returns in line with our original expectations.

In the Atlantic Region, the partner-operated Terra Nova is undergoing unplanned maintenance that has resulted in a temporary deferral of some production.

In the Downstream, as we mentioned last quarter, there is an ongoing curtailment on the Mid-Valley pipeline, which delivers crude into our Lima refinery. We expect this could impact throughput by up to 15,000 barrels per day into 2015. We’ve been running at reduced rates at Lima since October 16th due to unplanned interruptions on third party pipelines that supply feedstock to the refinery, but we expect to be building back-to-normal volumes around October 27th. At the Lloydminster Upgrader, the turnaround was completed in mid-October, as planned.

Finally, looking ahead to 2015, I remind you that we have a capital contribution, or true-up payment, due to our partner at the Toledo refinery. We expect this to be about US$1.2 billion net, and this obligation is reflected as a payable on our balance sheet. We’ve already begun preparation to refinance that obligation with the implementation of a commercial paper program in Canada. This $1 billion program provides us with access to flexible and low-cost funding. We’ve issued $920 million of commercial paper to date, and these funds have been converted to US dollars in anticipation of the BP repayment.

With respect to the common share dividend, our Board has approved a quarterly dividend of $0.30 per share for shareholders of record at the close of business on January 2nd of 2015.

Rob will now speak to our operational performance.

ROBERT PEABODY:
Thanks, Darren. I’ll start with our Heavy Oil business. We continue to see strong performance from our thermal projects, which averaged more than 45,000 barrels per day in the quarter compared to about 39,000 barrels a day a year ago. We’re advancing a number of other
modular thermal projects which, ultimately, will lower the amount of sustaining capital required to maintain and grow our Heavy Oil production.

The 10,000-barrel per day Rush Lake project is now more than 70% complete and is on track for first production in the second half of next year. Work is also advancing on the 10,000-barrel per day Edam East plant, with first oil expected in the first half of 2016. The 3,500-barrel per day Edam West project and the 10,000-barrel a day Vawn project are expected to begin production in the second half of 2016. To handle this production, we are extending our Saskatchewan pipeline gathering system and anticipate that work will be finished in 2015.

We have also made excellent progress with our cold horizontal heavy oil program. Over the past three years, production has increased from 3,700 barrels per day to more than 12,000 barrels per day now. Of note are the low operating costs for this production, which were around $14.42 per barrel over the past quarter.

Looking at our Western Canada operations, I'll point out a couple of highlights. Ansell produced approximately 17,500 barrels of oil equivalent per day in the quarter compared to about 13,700 a year ago, and we still have lots of running room in this play. Performance at our wells at Kaybob and in the Duvernay continue to meet expectations. In our oil resource plays, we drilled 15 horizontal wells and completed 15 in the third quarter, with our activities primarily focused on the Viking and Bakken plays.

Looking at the Downstream, which is the final component of our foundation businesses, at the Hardisty terminal, we had—we've completed construction on two 300,000-barrel storage tanks, which are expected to be in service in early 2015. These tanks help position us to better meet our expanding needs, as well as better serve our third party customers. Also, I should just mention there has been no impact on our operations at Hardisty as a result of a tank fire that occurred during maintenance activities about a week ago.

Turning now to the Asia Pacific region, the Liuhua 34-2 field, the pipeline has been completed and we are tying in the control systems and the MEG line to the main field infrastructure. We continue to look at mainland China and the Hong Kong market opportunities for the Liuhua 29-1 field, with first production likely in the 2018 timeframe.
In Indonesia, a letter of intent has been issued awarding the contract for a new FPSO for the BD liquids-rich gas field. This letter allows design and planning work on the FPSO to begin. Construction is already underway on the wellhead platform and pipeline infrastructure, and we’re looking at first production in 2017.

Elsewhere in the Madura Strait, a plan of development was approved by the government for the MDK natural gas field. MDK is in the vicinity of the MDA and MDH fields and will be tied to that infrastructure that is already being tendered for those fields. All three fields are in close proximity to the East Java pipeline system and will be tied into that line, and we’re looking for first production in the 2017/’18 timeframe.

Moving to Oil Sands, as you heard earlier from Asim, the Sunrise Energy Project is being primed to commence steaming around the end of this year. While we experienced some cost pressure around the central plant facilities, we have identified a number of opportunities to reduce sustaining costs, which, as Darren mentioned, are typically more than two thirds of our overall project costs. We outlined some of these at our last Investor Day, but I’ll just repeat a few.

We’re using a customized mobile drilling rig, and we’ll be using that going forward. It allows us to – for closing spacing of our wellheads, and this results in a smaller footprint it requires, and that allows us to actually use less piping and facilities on the pad. We’re also implementing multi-phase meters which eliminate the need for separators on the pads and allows us to further reduce the size of the pad facilities. Electric submersible pumps will be used to enhance production while removing large amounts of surface facilities that are associated with gas lift. Finally, vacuum insulated tubing will assist us in reducing heat loss and improve steam efficiency. These are just a few examples, but we’re actually looking at more than 75 different technologies and design enhancements as we move forward with Sunrise. This will help us maintain solid full-cycle returns for the project. We expect both plants, 1A and 1B, to be brought up to full speed over a ramp-up period of about two years.

Turning to the Atlantic Region, looking first at our satellite developments in the Jeanne d’Arc Basin, a well targeting the deeper Hibernia formation at North Amethyst is currently drilling and we expect to commence production around the end of this year. At South White Rose, all the production facilities have been installed. Our next steps are to drill and complete a production
well prior to first oil, which, due to rig availability, we expect to happen in the second quarter of next year. At West White Rose, we continue to advance work on construction of the graving dock. The project is subject to Company, partner and regulatory approval.

We’ve had a good run of exploration success in the Atlantic Region, which was capped by the Bay du Nord discovery with our partner, Statoil, last year. In the Flemish Pass, we’ve wrapped up a 3D seismic program that we started in the last quarter. With that data in hand, we are now ready to begin our planned 18-month appraisal and exploration program, following the arrival of the West Hercules rig offshore Newfoundland last week. This will help us and our partner get a better handle on the Bay du Nord discovery.

In summary, we have a lot on the go in the Atlantic Region in terms of production, new developments and exploration.

With that, I’ll turn you back over to the Operator.

OPERATOR:
Thank you. We will now begin the analyst question and answer session. Any analyst who wishes to ask a question may press star, and one on their touchtone phone. You will hear a tone to indicate you’re in queue. For participants using a speakerphone, it may be necessary to pick up your handset before pressing any keys. If you wish to remove yourself from the question queue, you may press star, and two. One moment, please, while we poll for questions.

The first question today is from Greg Pardy with RBC Capital Markets. Please go ahead.

GREG PARDY:
Good morning. First one maybe just is on Sunrise. With the $3.2 billion spend now that you’ve come out with, is that essentially it? Like, there’s no risk here that that number would go up further? Just want to be clear.

ASIM GHOSH:
Yes. The answer is yes.
GREG PARDY:
Okay. Very succinct, Asim, thanks, I like that. The second question then is, is just with respect to Liwan and getting a little better understanding in terms of what your productive capacity is and then what the demand dynamics look like as we go over the course 2015, could you give us an idea just on both fronts?

ASIM GHOSH:
Well, I’ll give you a quick high level answer first, and then I’ll hand it over Bob Baird, who’s in the call. Basically, the Liwan productive capacity runs—depending on the turnaround cycle, it goes as high as 160,000 barrels a day in the beginning of the cycle, soon after turnaround and then runs down to about 140,000 barrels a day as you get to the beginning—to the end of the turnaround cycle, so the efficiency runs down. So that’s kind of the range, so a midway range would be 150,000 barrels a day.

Okay, Bob, do you want to pick up the rest of the question on that?

DARREN ANDRUKO:
Asim, it’s Darren. Maybe I can pick up on that one and provide a bit more information about Liwan for Greg.

ASIM GHOSH:
Okay.

DARREN ANDRUKO:
You know, Greg, generally, demand for that Liwan gas is going to depend on demand in Guangdong Province for gas. Currently, we’re producing in the range of 200 million to 220 million. What you could expect, and what we’re expecting, is a modest ramp-up through the end of the year and into 2015 in that gas demand, and we’ll be able to provide more detail on that in our December guidance call.

GREG PARDY:
Okay, and then (cross talking 22:35).
ASIM GHOSH:
I think, Greg, I cocked up (inaudible 22:37). A lot of the—I thought you were asking about Lima and I answered the question that was about Liwan, so Darren, thanks for bailing out your CEO.

GREG PARDY:
No problem. Okay, so when you say a modest ramp, I mean do you think you’ll break 300 million as an exit rate, or—just on Liwan, just on the gas side, and I’m assuming this number obviously is excluding the liquids, right?

DARREN ANDRUKO:
Yes, but, Greg, as I say, I think the best thing to do is to just hold off. We’ll be able to provide you with much more detailed guidance in December.

GREG PARDY:
Okay. Thanks very much.

OPERATOR:
The next question is from Menno Hulshof with TD Securities. Please go ahead.

MENNO HULSHOF:
Yes, thanks and good morning. I’ll start with a follow-up to Greg’s question on Liwan. So for 34-2, when can we expect commissioning to be initiated? I understand that’s subject to the final approvals, and then how quickly could that field be tied in?

ASIM GHOSH:
Darren?

DARREN ANDRUKO:
Yes, Menno, we are expecting to be able to commission 34-2 by about the end of the year, and similar to my comment to Greg, I think we’ll be in a position to provide much better guidance on total volumes in our December call, in our December guidance (cross talking 23:54).
ASIM GHOSH:
Yes, remember, there’s another issue on 34-2. It’s dependent on approval of the ODP, which is kind of a regulatory process, so that’s not in anybody’s hands, you know. We’ve made progress on that but the specifics on that, really, it’s a regulatory process.

MENNO HULSHOF:
Due to time—is it difficult to pin down the timelines on that?

ASIM GHOSH:
I think it’s difficult to pin down the specific time on any regulatory process, with due respect to regulators, but yes, that’s the case.

MENNO HULSHOF:
Okay, and then just—and I’m pretty sure you’re not going to answer this question, but I’m going to ask it anyway. Do you have any preliminary thoughts or directional guidance on 2015 CapEx, flat, down?

ASIM GHOSH:
Yes, I think that would be the purpose of the December call.

MENNO HULSHOF:
Okay, and that’s…

ASIM GHOSH:
Yes, but I think I do—I do think, I mean, it leads up to a more general question, okay, which is we are—we have mixed-up volatile oil prices, and from our point of view—you know, I’m not going to predict oil prices because my opinion would probably add a 101st (inaudible 25:11) to the 100 internet articles I’ve read over the last week alone. But basically, as a strategy, from our point of view, I want to make two or three points.

First of all, our philosophy, that times like these call for prudence and focus. Our focus remains in areas we can control, and that includes operational performance and consistent execution of the plan we set out four years ago, and as you know, we’ve taken several steps to weatherproof our business and have several advantages within the business design. So basically, we’ve got
a wide portfolio. Our capital allocation portfolio managed process allows us to deliberately shift
capital within this portfolio; a large part of our production is especially resilient to lower
commodity prices because we have an internal gas hedge, which is 37% in 2014 and I think
by—it moves to around 80% in 2020; and most importantly, we are striving to make our
business more longer cycle, and we discussed the longer cycle point at the Investor Day.

So those are some just general points I want to make in the context of how we are looking at
capital allocation in this very volatile market. But basically, if I were to summarize, my overall
philosophy is we cut our coat to the cloth available. I have got enough levers to play with to give
me that flexibility and in—before the prices went down, we were exercising the discipline to look
at projects that had sort of high teens, mid to high teens payback, with one exception, of course,
which is Oil Sands, where we'll accept the low teens, and that gives us the cushion to even, at
lower prices, have projects that give us in the low teens returns.

Okay, so just some larger points I wanted to make in the context of your question, Menno,
okay?

MENNO HULSHOF:
Okay, perfect. Thanks, Asim. Then, finally, and I think this is a pretty quick one, where do you
stand on the CFO search?

ASIM GHOSH:
It’s work in progress. It’s work in progress, and, you know, that’s all I can say at this point in
time.

MENNO HULSHOF:
Okay, thank you. That’s it for me.

ASIM GHOSH:
Thank you.

OPERATOR:
The next question is from Paul Cheng with Barclays. Please go ahead.
PAUL CHENG:
Hey, guys. Several quick questions. On CapEx for next year, Asim or Rob, can you give me a rough idea how much of the CapEx that’s definitely already committed cannot be changed?

ASIM GHOSH:
Darren, do you want to take that?

DARREN ANDRUKO:
Yes, sure, Asim. I guess what I can tell you, Paul, is that of our capital program, $2 billion to $2.5 billion, basically, is what’s needed for—in the Upstream business for maintenance and sustaining capital, and that’s what we spend to keep our production flat. The rest of it is really for growth.

PAUL CHENG:
Yes, but some of the growth projects is in the middle part of the construction, so you’re not going to stop in the mid-part, I presume. So is there a rough number you can tell us that is how much on those?

DARREN ANDRUKO:
Yes, Paul, we’ll—again, we will update you on that at the guidance call in December.

PAUL CHENG:
Mm-hmm, okay. On—I presume that, Rob, will you be able to give us some rough number, what is the 2015 production outlook may be?

ROBERT PEABODY:
Again, we’ll give you that in December. It’s all kind of work in progress. I don’t want to…

PAUL CHENG:
Okay. Let me try two final ones. One, Terra Nova, you mentioned that there’s some (inaudible 29:32) on time in the quarter, in the fourth quarter. What kind of impact that we may be talking about here in terms of either number of days it will be down or what is the production volume impact?
ASIM GHOSH:
Well, it's a few thousand barrels a day at this time.

PAUL CHENG:
Is it back up yet?

ASIM GHOSH:
No, it's not back up yet.

ROBERT PEABODY:
I mean, it is running. This is a restriction.

ASIM GHOSH:
It's running, but it's running a few thousand barrels a day below (inaudible 30:03).

PAUL CHENG:
Oh, okay. So it's not like the whole field is down. It's...

ASIM GHOSH:
No, no, no.

PAUL CHENG:
It's reduced run rate.

ASIM GHOSH:
Yes.

PAUL CHENG:
A final one. When I'm looking at your third quarter results, the upgrader in the US refining margin realization seems to be performing far worse than the market indicator. For example, in the upgrader, if we’re looking at the WCS and same crude price differences, it doesn’t seem like that we would see sequentially as severe of a drop than what you report here. Similarly, in the Midwest, the WTI 6-3-2-1 crack spread essentially is spread to maybe down $0.50 or so, but on the other hand, WCS (inaudible 30:59) to WTI is probably improved $0.50 or so, and also that
Canadian light oil, or that the Bakken (inaudible 31:10) to WTI also improved about $1.50 to $2.00, so it’s a little bit surprising. Wondering, is there any kind of one-off factors in your operation in the third quarter that have resulted into the much worse margin realization?

ASIM GHOSH:
(Inaudible 31:33) Bob, there’s the turnaround on the Upgrader.

BOB BAIRD:
Yes. Darren?

DARREN ANDRUKO:
Maybe I can speak to that one, Asim. Paul, this is Darren. So a couple of things on our refining margins in the US. Probably the biggest factor would be the FIFO loss of $28 million that we experienced in the quarter because, as you know, crude was generally on the decline and, of course…

PAUL CHENG:
Well, I already took that out. I mean, even before we factor into the FIFO, using the LIFO impact, you dropped about $4.00, which is far worse than what the market indicators suggest.

DARREN ANDRUKO:
Okay, yes. From our perspective, when we look at Chicago cracks, we’re performing in line with our expectations. What I suggest is that we’ll take that offline with you and kind of walk you through what’s driving our refining margins later on in the day.

PAUL CHENG:
All right, that would be great.

OPERATOR:
The next question is from Mohit Bhardwaj of Citigroup. Please go ahead.

MOHIT BHARDWAJ:
Yes, thanks for taking my question. I guess this question is for Rob. Rob, I just wanted to see—I think you were very confident about the increases and they were manageable. It seems
like the increase in Sunrise cost is $500 million and it seems like it was a little higher than you guys were planning for. Would that be an accurate statement?

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

**ROBERT PEABODY:**
Yes, thanks, Asim. Yes, I think, as we indicated at the Investor Day, we felt that, you know, we weren’t happy with where the costs were, so that implicitly implies that I wanted the costs to be lower. As it turns out, that’s the number. When we look at plants that have been built over the same period, it’s kind of within the range. It’s still—we think, going forward, we’ll be able to further improve our capital efficiencies.

**MOHIT BHARDWAJ:**
Right, thank you. My second is on Liwan, and there have been a couple of questions on that already. My question is related to the take-or-pay contracts. Once you guys put the second pipeline in, the take-or-pay contract comes in, so even though the sales would be lower, as you guys are expecting just a modest increase in the current 220,000 Mcf number, do you start to get a higher netback once the second pipeline is brought in? Could you just explain that one more time for us?

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

**DARREN ANDRUKO:**
Yes, I’ll take that one. Let’s just talk about the volumes for a moment. Basically, the gas sales agreement that we have calls for activation of the take-or-pay 25 days after completion of the second 22-inch pipeline, which, by the way, we don’t need to produce the full amount of gas from the field right now. So the bottom line there is that we’ve got the pipe mostly laid and we’re awaiting a pipeline vessel to complete the work, and we’ll update you on the status of that as it goes along.
On the pricing side, though, the price that we’re receiving on the gas currently, and would be under the take-or-pay, continues to be strong, much higher than we would get in North America, still in that kind of $11 to $13 per Mcf range.

MOHIT BHARDWAJ:
Right, and so the net production that will come to you—say, for example, if you were still producing at 220,000 barrels per day, would that increase from, like, what you reported, 160 to closer to 190, because your recoveries would become faster, so you get closer to $800 million in the next year, or is that not how it works?

ASIM GHOSH:
About—withing 25 days of the completion of the pipeline, that is correct.

MOHIT BHARDWAJ:
Okay, thank you, and one final one from me. It seems like Sunrise and Liwan were slightly disappointing in terms of the way they came out, but it seems like Indonesia is working faster on the timeline. Would that—could you just elaborate on that? With the MDK field also coming on line in the 2017/2018 timeframe, it’s probably a little faster than you guys were expecting for.

ASIM GHOSH:
Rob, will you take that, please?

ROBERT PEABODY:
Yes. Thanks, Asim. Yes, I mean the BD field, we’re looking to get about $7.00 an Mcf, as we’ve previously discussed. We expect net production of about 40 million standard cubic feet a day of gas and 2,400 barrels per day of liquids. We’ve made a lot of progress in the last quarter, with the letter of intent for the contract for the FPSO being issued for the BD field, construction’s underway on the wellhead platform and the pipeline infrastructure and we are looking for production in the 2017 timeframe. With the MDA and MBH fields, natural gas, liquids gas sales agreements have been—are being negotiated, and we expect production of about 50,000—50 million a day from those two fields, which as I say, conveniently, will be tied into the nearby East Java pipeline system, and we expect production in the ’17/’18 timeframe; and finally, the MDK field, another natural gas field, the plan of development’s been approved and we have a two-well platform tied back to the MDA/MBH floating production unit that’s being
designed. So, you know, I think a real breakthrough on the sort of regulatory approval side in Indonesia over the last quarter, which was excellent.

**MOHIT BHARDWAJ:**
Thank you for taking my questions.

**OPERATOR:**
The next question is from Arthur Grayfer with CIBC. Please go ahead.

**ARTHUR GRAYFER:**
Hi. I just have two questions and I apologize if you’ve touched on these, but they’re both related to Liwan. The first one is can you tell me what the exact contracted volumes are on the take-or-pay once that second pipeline is laid?

**ASIM GHOSH:**
Darren?

**DARREN ANDRUKO:**
Yes, thank you, Asim, and Arthur, I can’t comment on that, but what—I think the best thing to do is just wait and we’ll provide you with the production guidance in December for 2015.

**ARTHUR GRAYFER:**
Okay. Then my second question then is, can you just elaborate—and I’m not looking for specific numbers, but can you elaborate upon what’s changed? Is the demand side a little bit different? Like, I was under the impression that, by the end of the year, you’d have additional facilities—additional power plants would be built and that production would ramp to 300 or 340, depending on if that line was laid, but now the comment you made that you would have a slower growth profile, so could you just elaborate for me as to what is different from discussions that you’ve had in previous periods?

**ASIM GHOSH:**
Let me give you a high level answer on that, okay? We are basically—there are now third party commissioning of new electricity plants that were built as a system dedicated to this source of
gas, and some issues with completing some pipeline connectivities to the Guangdong gas grid. (Cross talking 39:04).

ARTHUR GRAYFER:
I missed that first question. You said there was fewer electric plants?

ASIM GHOSH:
There are some dedicated gas-powered electricity plants that are running behind in their commissioning, as well as there are some links missing on connections to the Guangdong gas grid.

ARTHUR GRAYFER:
Then that will ultimately—is expected to be ultimately resolved over time, yes?

ASIM GHOSH:
Yes, that’s right, of course.

ARTHUR GRAYFER:
Okay. Thank you.

ASIM GHOSH:
Yes?

ARTHUR GRAYFER:
Yes.

OPERATOR:
As a reminder, any analyst who wishes to ask a question may press star, and one on their touchtone telephone.

The next question is from Harry Mateer with Barclays. Please go ahead.
HARRY MATEER:
Hi, good morning. Two questions. My first is for Darren. Darren, with respect to the new CP program to fund the BP true-up payment, should we just assume that you guys are going to be rolling that on an ongoing basis, or are there any plans to term it out or pay it down?

ASIM GHOSH:
Darren, do you want to take that?

DARREN ANDRUKO:
Yes, certainly. Harry, our plan is to continue to roll that paper. The program is available up to $1 billion at present. We’ve got a little over $900 million outstanding, and our plans in the near term are just to continue to roll that paper.

HARRY MATEER:
Okay, thank you. Then, from a strategic standpoint, I know the move in oil is very much early days and it’s anyone’s guess as to really what the next direction is, but when you look across the landscape, do you see any opportunities to use your strong balance sheet to possibly take advantage of strategic opportunities? You know, how actively are looking at the M&A opportunity set at this point in time?

ASIM GHOSH:
Well, I think what I have to say to that is I think what I said earlier in the Investor Day, that any external opportunity, any inorganic opportunity would have to compete with our strong suite of organic opportunities, and then it’s down a question of specifics, I mean what are the opportunities and what the potential returns are. But just because of our unique position of having such a wide portfolio of organic opportunities which are really in tried and tested areas, with strong returns even at these low prices, it’s a tough hurdle to cross.

HARRY MATEER:
Okay, and with an uncertain commodity price backdrop, how high would Husky be comfortable with running leverage at?
Asim Ghosh:
Well, we’ve given external guidance already on that. I mean, we basically like to run a 25% debt to capital ratio, and the reason for—and that was the case when commodity prices were higher. The reason for running that was precisely because we want to be prepared for eventualities such as this.

Harry Mateer:
Okay. Thanks very much.

Operator:
The next question is from Barbara Betanski with Addenda Capital. Please go ahead.

Barbara Betanski:
Thank you very much for taking the question. It’s a question on Sunrise. Just as you begin your ramp-up, I wonder if you could remind us of a couple of statistics. Just what steam capacity have you built for that project; and how many well pairs does Phase 1 include; and then thirdly, what sort of individual performance—individual well performance you looking for?

Asim Ghosh:
Rob, do you want to take that?

Robert Peabody:
Sure. Thanks, Asim. As far as the steam, I don’t have the exact number on hand, although what I will tell you is the project has been designed for a steam/oil ratio of 3, and the—and we expect the capacity to be achieved at 60,000 barrels a day, so you can kind of work out the math, where we are there on the steam capacity, whatever units you want to use, and there’s a lot of different ones for steam. So that’s the steam capacity.

As far as wells on start-up, I think it’s 49, I think, well pairs, and I’ve had a few thumbs-up around the room, so I think it is 49 well pairs that we start up on. And what was the third part of that question? It was…

Barbara Betanski:
It was just the individual sort of peak production rates you’re expecting?
**ROBERT PEABODY:**
Yes, so on—if you’re talking about individual well pair production rates, again, I’m pretty positive I know that number, but someone—yes, it’s 1,000 to 1,200 barrels per day per well pair.

**BARBARA BETANSKI:**
All right, thank you very much. Yes, as far as the steam capacity, I did see the SOR. I was sort of getting at whether some excess steam capacity had been built into that.

**ROBERT PEABODY:**
As in all cases with these plants, I’m relatively confident that we’ll actually have a little more steam capacity than it’s actually been designed for, but we’ll have to see that after we start it up.

**BARBARA BETANSKI:**
Okay, I appreciate that. Thank you.

**ROBERT PEABODY:**
Thanks.

**OPERATOR:**
This concludes the analyst Q&A portion of today’s call. We will now take questions from members of the media. As a reminder, please press star, and one on your touchtone phone to ask a question. If you wish to remove yourself from the question queue, press star, and two.

The next question is from Nia Williams with Thomson Reuters. Please go ahead.

**NIA WILLIAMS:**
Hi, thanks for taking my question. I just wanted to ask if the fall in oil prices have had an impact on plans to proceed with the heavy oil project at Lima refinery.

**ASIM GHOSH:**
No, not at all. I mean, the Lima refinery project is to increase flexibility, and prices go up, prices go down, but the Lima crude flexibility project is really to do with the differentials between light
and heavy and being able to be prepared for whichever way the market swings, rather than any absolute oil price.

NIA WILLIAMS:
Okay. Thank you.

OPERATOR:
The next question is from Jeff Lewis with the Globe and Mail. Please go ahead.

JEFF LEWIS:
Hi, thanks for taking my question. On Sunrise, can you just provide some insight as to what’s driving the costs up? Are you seeing sort of a—something in the broader sort of sector that’s pushing costs up, or is it something specific to the project itself? Thanks.

ASIM GHOSH:
Well, I’ll give one answer and then you can draw your own conclusions. There are broadly four legs to the project. Three of the legs have run on budget, on time. One leg hasn’t. All four legs are in exactly the same site, in the same basin, and they’ve been run by the same management on the Husky side, so you can draw you conclusions from that. I think my—the answer you’re looking for is implicit in my answer.

JEFF LEWIS:
Thanks.

OPERATOR:
This concludes the time allocated for questions on today’s call. I will now turn the call over to Mr. Ghosh for closing comments.

ASIM GHOSH:
Thank you, guys. Thank you for your questions. Overall, I would categorize it as another good quarter but not without challenges, and our balanced growth strategy, which includes a fully funded (inaudible 47:29) has served us well over the past four years. We expect it to continue to do so. Just as importantly, I took a number of questions on the call about capital outlook, capital allocation, we’ll discuss that in December, but basically I want to make the point that our
prudent capital allocation process and diverse portfolio – I keep hammering home that point – means we have the right balance of near, mid and long-term projects. I guess if I were to take a quick look back over, say 2010, which is really when this present Management team started working together, production has grown 20%, our oil weighting has grown 75% and we are continuing to position the Company towards more long-cycle, long wavelength projects, which allows us—which kind of positions us better to ride out these volatilities, okay? So on that note, thank you all for joining us, much appreciated.

**OPERATOR:**

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