HUSKY ENERGY
2015 PRODUCTION GUIDANCE/CAPITAL EXPENDITURE PROGRAM CONFERENCE CALL & WEBCAST TRANSCRIPT

Date: Wednesday, December 17, 2014
Time: 9:00 AM MT
Speakers: Asim Ghosh
President and Chief Executive Officer

Darren Andruko
Treasurer and Acting Chief Financial Officer

Robert Peabody
Chief Operating Officer

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

DAN CUTHBERTSON:
Good morning and thanks for joining in on our call. With me this morning, I have CEO, Asim Ghosh; COO, Rob Peabody; Acting CFO, Darren Andruko; and Bob Baird, our Senior VP for Downstream. We will discuss our 2015 budget plan and production guidance and then open the line up to your questions. All figures referenced are in Canadian dollars and before royalties, unless otherwise stated.

Today’s presentation will contain forward-looking information and I’ll refer you to the advisory in the news release that outlines the various risk factors and assumptions, which are also described further in our quarterly releases and in our annual filings which are available on SEDAR and EDGAR on our website.

Asim will now provide you with his overview.

ASIM GHOSH:
Thanks, Dan. Good morning, everybody. In this morning’s news release, we charted a course for our 2015 business plan, including several near-term projects scheduled to come on towards the end of 2015 and into 2016.

In the third quarter call, I told you we were cutting our coat to the cloth provided. If you look at the fundamentals of our plan today, you can see why we are setting Husky up to need less cloth. You will recall that in 2010, we established a balanced growth strategy and set out to further enhance the resiliency of our business and create an expansive portfolio of near, mid and long-term projects. Among other steps, we rejuvenated our Heavy Oil business to focus on long-life, load-sustaining capital, high return thermal projects. For perspective, at a flat price of $60 WTI through to the end of project life, these projects will provide full cycle returns around 15%.

We made a decision to retain our Asia-Pacific business, including the Liwan gas project, which is now delivering significant cash flow at a locked-in price. We’ve moved forward with the
Sunrise Energy project, where we recently commenced steam injection, and spending for Phase 1 on that project is now largely behind us, giving us one more long-life, low decline project with low sustaining capital. In the Downstream, we made targeted investments to improve the flexibility of our feedstocks, our product range, and market access.

Our future course has us living within our means and providing a strong dividend, and by the end of 2016, we expect about half of our production will be from projects with low sustaining capital costs.

A few items guiding our approach in 2015. First, let me speak to the top priorities in our business plan. These include safe and reliable operations, a healthy balance sheet, a strong dividend, and providing for production and reserves growth over the planned period. We believe we have struck the right balance of near, mid and long-term projects. We have set up 2015 production guidance range at 325,000 to 355,000 barrels per day equivalent, and we expect to add about 40,000 barrels a day by late 2015 from Sunrise, the Rush Lake thermal project, the South White Rose project, and the Hibernia-formation well beneath our North Amethyst field. A significant volume of our new production will come on-stream in the second half of 2015 and through 2016, and this new growth will more than offset natural declines.

Let me take a minute to describe the inherent strength of our business model. Essentially, it’s in Husky’s DNA to maintain a conservative balance sheet in support of our business plan. As such, we made very conservative assumptions and set our capital program at $3.4 billion. We normally do not provide guidance on our price deck, but extraordinary times call for extraordinary exceptions, so as such, we based our program on a price deck that assumes about $55 WTI for the first half of 2015 and recovering only modestly to $65 WTI for the second half of the year, and that kind of averages out to $60 WTI for the year. But at the end of the day, we continue to focus on what we are able to control. Our task is not to prepare for a price turnaround; it’s to maintain a resilient, low sustaining capital business in line with the new price equalization point.

I will note that in 2014, about 40% of our earnings are not one-to-one exposed to oil price challenges. That includes our Asia-Pacific gas fields which are being developed through fixed price contracts and our Downstream, which is a high volume margin business.
Let me hand the call over to Darren to review our 2014 financials and to set the stage for our 2015 spending plans.

**DARREN ANDRUKO:**
Thanks, Asim. Before I get into details for 2015, I'll give you a snapshot of our forecast 2014 performance, and I'll start with CapEx, which is expected to be approximately $5.1 billion. This reflects the final cost of Sunrise and the commencement of appraisal drilling in the Bay du Nord discovery area. In terms of annual average production, we are on target with our forecast guidance range and expect to average 341,000 BOEs per day, an increase of approximately 9% over 2013.

Turning now to our 2015 production guidance, we expect our average annual production to land in the range of 325,000 to 355,000 barrels of oil equivalent per day, and as you heard earlier, most of our near-term production growth is back-weighted towards the end of 2015 and into 2016.

In terms of our 2015 capital expenditure program, we've set our capital budget at $3.4 billion. About $1.5 billion of that will be spent on Upstream sustaining and maintenance capital. The plan includes an ongoing focus on capital efficiency, delivering the near-term growth projects already underway, and prudent capital allocation oversight on larger developments.

A few notes about our financial plans and our assumptions. Over the past four years, we've been investing in the kind of projects that can deliver high quality, full cycle returns with a low sustaining cost base. Assuming a flat $60 WTI price over the life of various projects, full cycle rates of return are about 15% for heavy oil thermals, Ansell is in the low teens, South White Rose is around 15%, and Asia Pacific returns are about 10%. Our spending plan is designed to result in a low net debt to capital ratio at around 20%, and that helps us maintain financial strength and liquidity during volatile market conditions.

Finally, I'll refer you to the maintenance and turnaround schedule in the news release, and as is a practice, we'll update you on these items every quarter.

Now I'll turn the call over to Rob, who will talk about our operations.
ROBERT PEABODY:

Thanks, Darren. Before I speak to our 2015 operational plans, let me take a minute and give you a little insight into how we manage our capital allocation process. We take many things into consideration, including the return versus the risk profile of the investment. In particular, we look at the execution risk, including the scale of the project. In this environment, we are pacing our projects to manage risk and provide for steady earnings and cash flow. We look at cash flow timing. We like to see about 80% of our CapEx start returning cash within 24 months. Return on assets by year, as well as the project’s internal rate of return.

You may have noticed a bit of a theme emerging today in regards to sustaining capital intensity. Essentially, we’re differentiating between those investments with high requirements for ongoing CapEx versus those with lower requirements. For example, by the end of 2016, we expect about half of our total production will come from low sustaining capital cost projects, including heavy oil thermals, Liwan, and Sunrise. Together, this formula brings forward the best mix of projects.

Looking now at our operations, we made good progress this year across the business. We launched our largest ever project at Liwan in the spring, and we commenced steam injection at Sunrise last Thursday, following a safe start-up. In our Heavy Oil business, four years ago, we were at 18,000 barrels per day from our thermal heavy oil production. Today, we are at 45,000 barrels. We expect to grow that to 80,000 barrels per day by the end of 2016.

Our plan calls for a series of modular, repeatable developments, starting with the 10,000 barrel per day Rush Lake project that will come online in the third quarter of 2015. The following year, we will continue to roll out new projects at Edam East, Edam West, and Vawn, which will add an additional 23,500 barrels per day in near-term production. It’s easy to see why we’re advancing these projects. They are long-life, high netback developments that can be brought online very quickly; usually takes us about two years from sanction to first oil, and I’ll also remind you that they generally come on at rates exceeding their nameplate capacity. They also have low decline rates and higher oil recovery rates, typically more than 50%.

As you heard earlier, at a steady state $60 WTI price, these projects give us an internal rate of return of about 15%, and they have comparatively low F&Ds and operating costs which helps deliver higher quality returns, even in this current price environment. We have reduced our
heavy oil CHOPS and horizontal drilling plans in 2015 and 2016, while prioritizing sweet spots or higher return projects within both of these products’ lines. This is an area where we have the flexibility to dial up or dial down in response to commodity prices, and these projects can be brought back online quickly, should we see a rise in oil prices.

Meanwhile, an independent assessment of our resource in the Lloyd area has shown we have approximately 16 billion barrels of discovered heavy oil in place. More importantly, our best estimates contingent resources have been increased to 1.9 billion barrels, of which about 55% has the potential to be recovered using thermal technology. This assessment work is also guiding our ongoing development in heavy oil in terms of the location of our thermal projects, identifying new horizontal well plays and locating further CHOPS development opportunities. We’ve already recovered about 950 million barrels over the past 70 years of operations in the Lloyd area, and this recent work gives us the confidence that we can extract even greater value from this resource base as we move forward.

Turning now to Western Canada, our focus here is to advance a selection of high graded oil and liquids-rich gas resource plays. We are being diligent and taking the time to ensure the right resource plays are advanced at a measured pace. This is another area where we can accelerate or slow down projects in response to commodity prices. In the current environment, we are using this flexibility to move the needle towards liquids-rich gas, but we can balance back towards oil when the time is right. Ansell remains at the forefront of our liquids-rich gas developments and we’re continuing our investment in light of our strong land position and the results we’ve been getting to-date.

In the Downstream business, overall throughputs are expected to be in the 300,000 barrel per day range in 2015. At the Lima refinery, we are continuing our focus on improving the flexibility of our feedstocks, the product range, and market access to better support our Upstream crude and bitumen production. We are staging our planned crude oil flexibility project which is now scheduled to be complete in the 2018/’19 timeframe. Our partner-operated Toledo refinery will be ready to take bitumen from Sunrise when it begins production in 2015.

Looking now at the Asia-Pacific region, the Liwan gas project continues to ramp up. Production volumes are expected to average between 290 and 320 million cubic feet per day gross in 2015. As we announced earlier this week, production at the Liuhua 34-2 field has commenced.
following the tie-in of the Liwan field infrastructure. Offshore Indonesia, we continue to make good progress with our shallow water gas developments in the Madura Strait.

Moving over to Oil Sands, steam injection at Sunrise is now underway after a good and safe start-up last week. We are expecting first oil around the end of the first quarter in 2015. Production from this phase is expected to ramp up over the next two years to a full capacity of about 60,000 barrels per day, of which 30,000 barrels are net to Husky. Sunrise is designed to provide steady production, earnings, and cash flow for the next 40-plus years.

Looking now at the Atlantic region, with rig availability confirmed, we are continuing to progress our satellite developments in the Jeanne d’Arc Basin. At the South White Rose extension, we are looking to see first oil from our production well around the middle of 2015, which is later than we had originally planned, really due to rig scheduling. At our Hibernia-formation oil well at North Amethyst, we are planning to turn on the taps in the third quarter of next year. At West White Rose, we have deferred a final investment decision. We are going to take some time to identify further cost efficiencies with a proposed fixed platform and also to evaluate alternative options, including a sub-sea development concept.

Finally, on the exploration front, while we have reduced our exploration budget overall, we continue to prioritize the work with our partner to open up potential commercial opportunities in the Flemish Pass.

That’s the update. Now I’ll turn you back over to the Operator.

OPERATOR:
Thank you. We will now begin the question and answer session. If you would like to ask a question, please press star, and one on your 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 is from Harry Mateer of Barclays. Please go ahead.
**HARRY MATEER:**
Hi, good morning. Darren, I was wondering if you can maybe just talk to us a little bit about any funding plans Husky might have for next year? I know there’s a maturity coming up in March of about CDN$300 million. The press release, it alluded to potentially refinancing the Sunrise payment. I thought the expectation, at least as of the last quarterly call, was to roll CP for that, but has your thinking evolved and is Husky looking at the term debt market in 2015?

**DARREN ANDRUKO:**
Sure, Harry. So we do have some financing flexibility. Fortunately, we are keeping our balance sheet very strong; one of our top priorities, as Asim mentioned. We do have (audio interference 17:44) activity planned. We have a Canadian bond that we’ll likely be financing, and as you mentioned, we have an obligation to BP that comes due this year. It’s on our balance sheet already, and we’re already into the preparations for refinancing that. So we will have some activity but, again, the key priority here is to keep the balance sheet strong. We anticipate keeping net debt to capital at around that very comfortable 20% level through our plan period.

**HARRY MATEER:**
Okay. Thanks very much.

**OPERATOR:**
The next question is from Faisel Khan of Citigroup. Please go ahead.

**FAISEL KHAN:**
Yes, it’s Faisel Khan from Citigroup, but just curious how you guys are thinking about the current landscape, the M&A landscape, you know, given sort of the pullback in commodity prices. You guys still have a fairly strong balance sheet and just trying to understand, you know, if you might take advantage of the situation?

**ASIM GHOSH:**
Yes, I think I’d just—whether the landscape is now—the landscape’s (inaudible 18:40). The way we look at inorganic opportunities is that they must compete with our organic opportunities, and as Rob and Darren outlined in their respective portions, you know, we do have some internal opportunities that give us very, very attractive returns and, obviously, if you have
something that compete with (inaudible 19:00), we would have an open mind. But that threshold that we have set does not change.

**FAISEL KHAN:**
Okay, and I missed the big—your prepared remarks at the beginning of the call. Is it your current scenario—or your current vision for the year or for 2015 that the current CapEx budget that you’ve laid out along with the dividend will sort of be balanced by operating cash flow?

**ASIM GHOSH:**
Yes.

**FAISEL KHAN:**
In the current commodity price environment.

**ASIM GHOSH:**
Well, basically, I think we gave specific guidance to the commodity price environment, which is yes, we are assuming $55 WTI for the first half, $65 WTI for the second half. That’s what we built our plan on, so an average of $60 WTI, and we expect to be relatively free cash flow neutral in 2015 before dividends.

**FAISEL KHAN:**
Before dividends, okay. Thank you. Appreciate that clarification.

**OPERATOR:**
As a reminder, it is star, one to ask a question. The next question is from Nia Williams of Thomson Reuters. Please go ahead.

**NIA WILLIAMS:**
Hi, thanks for taking my question. I just wanted to check, I understand that Husky doesn’t hedge any production. I just wanted to ask why that is and whether that’s something you regret considering we’ve had this huge slide (ph 20:21) in prices recently?
ASIM GHOSH:
We don’t hedge on a going basis because there’s an assumption on a going basis that our crystal ball into financial pricing is smarter than that of the financial markets, and at any point in time, you can regret but on the other hand, on the other—when things move the other way, at other points in time, you could regret the other way. So over the cycle, we believe it balances out.

NIA WILLIAMS:
Thanks.

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

JEFF LEWIS:
Hi. Just a quick question. Can you confirm that you are deferring the investment on the White Rose extension?

ASIM GHOSH:
Rob will take that.

ROBERT PEABODY:
Yes, so this is Rob Peabody. Yes, we are deferring it for one year, and essentially, I would stress, we’re continuing to move forward overall in the Atlantic region with a series of mid and long-term projects. As we mentioned, we’ve taken the prudent approach to prioritizing our capital in favour of quick return projects and pacing our longer-term projects. We’ve deferred the final investment decision on West White Rose, although we absolutely remain committed to the development of that resource over the longer haul here. We’re going to use that pause just to identify cost efficiencies within the current development concept, as well as review alternative concepts, including sub-sea. The project remains an important part of our long-term Atlantic region portfolio.

JEFF LEWIS:
Thanks, and can you just confirm the CapEx for that project? Was it $2.5 billion?
ROBERT PEABODY:
We haven’t given specific guidance as to the capital of that project.

JEFF LEWIS:
Okay. Thanks.

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

ARTHUR GRAYFER:
Good morning. Just a couple of questions for me. The first one is, can you provide some thoughts as to how the current price environment changes the outlook for some of your longer-term growth projects, you know, in the 2016 and even longer than that timeframe? You know, for instance, Sunrise Phase 2, does this now look like it may take more of a back seat to thermal projects? Or I’m just kind of curious, any thoughts, and that’s my first question. I’ll come back to the second one after.

ASIM GHOSH:
Arthur, let me put this in a larger context, okay. We—basically, our strategy for the past four years has been what I’ve called a balanced growth strategy—you know, our diversified portfolio is important to that. The business plan that we are presenting is simply a continuation of that strategy, and the elements that Rob pointed out to you that drive our selection process continue—these are not new elements. They actually are what we have been using for the last four years.

So as far as specific projects are concerned, the point I want to make to you is the flexibility of our portfolio gives us the ability to adjust timing and scope. Yes, there’s a large part of our portfolio that we can turn on or turn off production for a relatively quick impact, so at six months or so. Some examples of that are Western Canada conventional or heavy oil CHOPS. We can bring forward thermals, we start immediately within 24 months, and importantly, I will repeat one of the points that Rob made, which is the risk to the profile of our investment, in particular, execution risk, which includes project scale.
As far as Sunrise Phase 2 is concerned, it's just part of our ongoing decision that we are going to look at and evaluate the early results of Phase 1 before we move forward to committing large capital on Phase 2, and that is something we are agreed with our joint venture partners on.

ARTHUR GRAYFER:
Okay. Then the second question is in regards to Bay du Nord and the Flemish Pass. Can you talk a little bit about what are the things that we should be thinking about as upcoming data points or news flow, and when could we hear about some of these items?

ASIM GHOSH:
So you know our exploration program is underway. It is a very major position that we have got. I think our joint venture partner there announced that in 2013 the discovery we had was one of the largest in the world in terms of oil. So that’s a very, very core part of our business and I think we will give you more information on that when the present stage of exploration is done with.

ARTHUR GRAYFER:
And when is that? Is that the end of next year?

ROBERT PEABODY:
We'll probably wrap up the first part of the delineation program somewhere around the third quarter of next year.

ARTHUR GRAYFER:
And that would be the first time we hear any real news flow.

ROBERT PEABODY:
Yes.

ARTHUR GRAYFER:
All right, great. Thank you very much.

OPERATOR:
This concludes the question and answer session. I will hand the call back over to Asim Ghosh.
ASIM GHOSH:
Well, thank you very much, everybody.  Thanks for joining us on this call and thank you for your questions.  Over the past six months, the industry has experienced a veritable sea change in market conditions.  I will leave oil forecasting to the pundits, and I just want to reiterate the point that our job at Husky is to use all the levers at our disposal to weatherproof our business to the new price environment.  Thank you again for joining us.

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