HUSKY ENERGY
2020 GUIDANCE CONFERENCE CALL
TRANSCRIPT

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Speakers:

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Peter Rosenthal
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Jeff Hart
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Robert Symonds
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Dan Cuthbertson
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Operator:
Welcome to the Husky Energy 2020 Guidance 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. To join the question queue, you may press star then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero.

I would now like to turn the conference over to Dan Cuthbertson, Director of Investor Relations. Please go ahead, Mr. Cuthbertson.

Dan Cuthbertson:
Good morning, and thanks for joining us. Today’s call is accompanied by a slide deck, which can be found on our website. I’m here with CEO Rob Peabody, who will take us through our 2020 guidance plan. We’re also joined by other members of our senior management team, who will speak to their respective areas throughout the presentation. We look forward to taking your questions afterwards.

Today’s call does have forward-looking information and non-GAAP measures. The identification of the forward-looking information and non-GAAP measures, the risk factors and assumptions pertaining to the forward-looking information, and additional information pertaining to the non-GAAP measures are at the end of this presentation and in our annual filings on SEDAR and EDGAR.

Unless stated otherwise, all numbers are in Canadian currency and before royalties.

Specific modeling questions can be answered by our Investor Relations team after the call.

Now, I’ll turn it over to Rob, who will start us off on Slide Number 2.

Robert Peabody:
Thanks, Dan. I’ll start with a high level overview of our 2020 guidance for capital spending, Upstream production, and Downstream throughput capacity. The main takeaway here is that the plan we set out at Investor Day last May remains on track and, in some areas, it’s been
improved a bit. 2020 capital spending has been reduced by $100 million, compared with our Investor Day plan. As a result, the midpoint of our capital spending guidance is $3.3 billion for 2020.

The capital is being directed towards projects that lower our cost structure and improve our margins, including the Liuhua 29-1 gas field and five new thermal projects in Saskatchewan. This will set the stage for significant free cash flow growth beginning in 2021. Because we are spending less, we’re also producing a little less in 2020, compared to our Investor Day plan. This means Upstream production will be in the range of 295,000 to 310,000 barrels of oil equivalent per day. The midpoint of this range represents an increase of about 4% versus 2019. It is mostly coming from the new Lloyd thermal projects in the back half of the year.

What sets Husky apart is our physical integration. This provides takeaway and processing capacity for all of our North American heavy oil production. We actually have more Downstream refining and upgrading capacity than we have Upstream production in 2020. Our Downstream capacity for 2020, excluding Superior, will be about 355,000 barrels per day, and that will include about 195,000 barrels per day for heavy oil feedstock processing. This is up by about 30,000 barrels a day from last year, due to the completion of the Lima crude oil flexibility project.

You’ll note that we have lowered our pricing assumptions from US$60 WTI due to the changing market conditions. Using our updated assumptions of a flat US$55 WTI and an $18 NYMEX 3:2:1 crack spread, we can fund our 2020 capital program and dividend payments out of funds from operations.

Now, turning to Slide 3, before going into the details of our 2020 plan, I’ll just remind you of Husky’s value proposition.

First, and most importantly, we are continuing our journey to become a high-reliability organization. We’ve now set a target to be in the global top-quartile for process safety by the end of 2022, and we’ve seen some good progress in our 2019 safety results. Peter Rosenthal will speak more to this in a moment. We also believe that good performance and transparency in environmental, social, and governance areas translates to better business performance.
Next, this Company remains resilient. We have one of the strongest balance sheets amongst our industry peers. Our earnings breakeven oil price currently sits at about US$42 WTI, and the investments we are making drive it lower. The Integrated Corridor, which is about 70% of our business, is shielding us from the differential volatility that many of our peers must endure, and in the Offshore, our high-netback business includes fixed-price gas contracts. All these factors combine to protect the downside and preserve the upside.

Finally, the delivery of total shareholder returns. Our investment hurdle rates ensure our projects generate returns above our cost of capital. We expect 2020 capital spending will be lower than 2019, with further reductions continuing into 2021. The two offshore projects, West White Rose and the 29-1 field at Liwan will complete a capital-intensive stage of development in this period. This, and our growing production, leads to a significant increase in free cash flow in 2021. At our updated pricing assumptions, the Company’s plan generates $500 million of free cash flow before dividends in 2020, growing to $1.5 billion in 2021.

Moving to Slide 4, in terms of delivery in 2019, our projects and operations were executed safely and without any major incidents. We remain on track to meet our 2019 capital spending guidance. Our balance sheet is strong and we’re well within our net debt targets as at Q3, with ample liquidity.

On the production front, we are coming in at the lower end of guidance. This takes into account the Alberta production quotas, which were extended for the entire year in 2019. This was beyond our original estimate of six months. It also reflects a slower than expected ramp-up in our Atlantic operations.

Looking at our projects, starting with the Integrated Corridor business . . . Our most recent Saskatchewan thermal project at Dee Valley came on production ahead of schedule in August. It reached its nameplate capacity in less than five weeks. In the Downstream business, the shutdown for the Lima crude oil flexibility project is wrapping up. It ran about three weeks behind schedule. We are currently restarting throughput; once ramped up, we’ll be able to process up to 40,000 barrels per day of heavy, giving us additional flexibility to capture margins. Also, we received all the required permits to start the Superior rebuild, which is now underway. In Canada, we closed the sale of the Prince George refinery, and we are continuing the strategic review of the retail and commercial fuels business.
In the Offshore, the 29-1 project is 70% complete and on track towards first gas in the fourth quarter of 2020. And we’re seeing good productivity gains at West White Rose, which remains on track for first oil around the end of 2022.

Now, I’ll turn it over to Peter Rosenthal to talk about safety, as we turn to Slide 5.

**Peter Rosenthal:**
Thanks, Rob. Over the past year, we have been taking specific actions to improve our safety quota and become a high-reliability organization. Our goal is to become a top-quartile safety and process safety performer by the end of 2022, as measured against worldwide benchmarks.

As you can see here, we have seen good early progress, and we are continuing to make improvements. This past year, our actions have resulted in no major incidents, 45% improvement in lost time injuries, 68% reduction in spills, and we have reduced the number of Tier 1 process safety events by about 50%.

We have also strengthened the framework of our safety management program, including introducing the ‘systematic and in control’ model, that I will talk about in a minute, to drive the right improvements and to allow us to quantitatively measure the quality of our operations. In the coming year, we’ll be updating our operational procedures and practices in accordance with this new framework, which includes requirements that support our journey to become an HRO and top-quartile process safety performer. We will be embedding Continuous Improvement tools and practices across Husky to become a true learning organization and to drive sustainable and consistent performance improvements.

Moving to Slide 6 . . . What you see here is what good looks like. A company is considered to be systematic and in control when its processes and procedures are documented, have clear accountabilities, and competencies that can be demonstrated. And most importantly, there needs to be a systematic set of checks that everything is working consistently as it should, and there’s continuous improvement. All of this, of course, has to be built on a strong leadership foundation, using the HRO principles.

Thank you. Now, I’ll pass the call to Janet Annesley, and we’ll turn to Slide 7, to talk about our progress in the ESG space.
Janet Annesley:
Thanks, Peter. Our approach to Environmental, Social and Governance topics is also rapidly evolving. We believe that measuring and reporting the ESG metrics that are important to our stakeholders, including safety, climate, Indigenous engagement, and talent management, all improve business discipline and improve performance. As such, we are looking to set specific climate-related targets in 2020, as we further align our Company with global referring frameworks.

I’ll take a moment here to focus specifically on climate. This past year, we formed a formal climate task force to look at carbon-related risks and opportunities, and how we can best manage and report those risks to our stakeholders. We’re also looking at using scenario analysis to help assess the resiliency against different oil and gas demand scenarios.

On the performance front, Husky has been working to reduce our carbon emissions through various initiatives, including CO₂ capture and injection, improving steam to oil ratios, and reducing the amounts of diluent we use. We have reduced our overall methane emissions by 45% between 2014 and 2018. And in Asia, our natural gas business is being used to generate electricity for the industrial complex in southern China, which is a much cleaner source of energy compared to coal.

Of course, the social and governance aspects are of equal importance. We’ve listed a few examples of our progress in these areas on the slide, including improved Indigenous economic inclusion and more closely aligning our pay structure with safety performance. I invite you to visit the ESG report on our website for more details on these and other initiatives we have in flight.

Thanks, and I’ll now ask Jeff Hart to provide more details about our capital plan on Slide 8.

Jeff Hart:
Thanks, Janet. Our plan continues to strike a balance between returning value to shareholders and investing for margin growth. The first thing I want to draw your attention to is a reduction in capital spending over the next couple of years. In 2020, we’re down $100 million, compared to the Investor Day plan, as we’re allocating less capital to Western Canada and conventional heavy oil. And we are continuing our drive for further capital efficiency.
In 2021, we’ve identified a further $400 million in capex reductions in Western Canada, the Atlantic, and the Downstream, over and above what we set out at Investor Day. The result is a more paced production profile, yet still providing for average growth of 7% per year out to 2021.

The main margin growth drivers in 2020 are the two 10,000-barrel-a-day Spruce thermals coming online in Saskatchewan and first production at the 29-1 field at Liwan, where we have a 75% working interest. In the Downstream, we see further margin expansion opportunities. This includes the Lima crude oil flexibility project, which has increased our heavy capacity at the refinery up to 40,000 barrels per day. Also, we have a project to increase diesel capacity at the Upgrader next year, in conjunction with the major turnaround.

Our price assumptions are based on a flat US$55 WTI, which is down from the US$60 WTI used at our Investor Day earlier this year. Under these assumptions, we expect to generate sufficient funds from operations to cover planned capital spending and the current dividend. The reduced capital, combined with increasing margins, will lead to significant free cash flow growth starting in 2021, and I’ll break this down for you on Slide 9.

Here’s the bridge to get us to that point. The biggest catalyst will be the reduction in capital spending. The other significant component is higher operating margins, which are being driven by Upstream production growth, lower operating costs, and increased margin capture in the Downstream. This margin growth is the result of the investments we’ve been making over the last few years. As you can see on the right, we expect our earnings breakeven will come down to about US$39 WTI per barrel in 2021.

I’ll just note that as a result of our new organizational structure, we expect to realize a pre-tax charge of about $70 million in Q4, and this will translate into approximately $70 million in annual cost savings going forward.

Moving to Slide 10, we are directing our investments towards four main areas in 2020. First, the heavy oil thermal business in Saskatchewan. These small-scale thermal projects at Lloydminster continue to deliver some of the highest returns in our portfolio and contribute to our growing percentage of low sustaining capital production. And we’re becoming more capital-efficient with the repetition in these projects. For example, the cost of building our Central Processing Facilities have gone down by about 30% for the identical plants.
Second, we are advancing construction of the West White Rose project towards first oil around the end of 2022. This project will rejuvenate our business in the Atlantic region. We will be leveraging the existing infrastructure, including the subsea network and SeaRose FPSO. Since these barrels receive Brent-like pricing, this will make an outsized contribution to our margin growth over the coming years.

Third, the 29-1 field at Liwan will be finalized by the end of 2020, and tied into the existing main field infrastructure. It, too, will add more fixed gas, price-backed gas production, further adding to our revenue stability. And in the Downstream, spending will be largely directed towards sustaining capital and increasing our diesel capacity at the Upgrader.

I’ll note that our capital guidance for 2020, on the right side of the slide, does not include costs associated with the Superior rebuild project. In 2020, the rebuild is expected to cost between CAD$450 million to CAD$525 million, and we expect most of this to be recovered from insurance.

Turning to Slide 11 . . . Now let’s look at the strength of our balance sheet and 2020 funding plan. In Q3, our net debt was 1.1 times trailing funds from operations, and we had total liquidity of about $6.4 billion. Over the past few years, we’ve set our debt levels to stay below two times net debt to funds from operations at US$40 WTI. For 2020, this implies $4.4 billion; meaning we have about $0.5 billion of headroom over our Q3 net debt of $3.9 billion. Also, this does not include any proceeds from the potential sale of the Canadian retail business, which could provide additional flexibility.

At our price planning assumptions, we produce enough funds from operations to cover our 2020 capital program and the current dividend. With this room on the balance sheet, we are committed to maintaining the current level of the dividend, and potentially growing it as we bring on additional Upstream production and Downstream flexibility projects.

Now, Rob Symonds will walk us through the operations plan, on Slide 12.

Robert Symonds:
Thanks, Jeff. Here’s our 2020 guidance for Upstream production and Downstream throughput. Husky has two businesses, the Integrated Corridor and the Offshore.
The Integrated Corridor, shown here in the blue and grey bars, makes up about 70% of our overall operations. The Corridor is essentially a manufacturing business. Its purpose is to be the lowest cost producer of refined products, such as diesel, jet fuel, asphalt, and petrochemical feedstocks. These products are expected to remain in high demand for the foreseeable future. As an example, we produce a high proportion of diesel, which positions us to benefit from the IMO 2020 regulation change.

The Upstream segment of the Corridor has a significant resource base that supplies the feedstock for this manufacturing business, including thermal and conventional heavy oil. All of the heavy oil we produce has a home, either through our committed, long-term export capacity or at our Canadian upgrader and asphalt refinery, or our Pad II refineries at Lima, Toledo, and Superior. I want to emphasize that we don’t have export pipeline constraints. We have dedicated space on pipelines, including the 75,000 barrel a day commitment on the existing Keystone line, and we currently have no need for rail.

Moving now to the Offshore... This is a high-netback business that includes fixed-price gas contracts and direct exposure to Brent pricing. Currently, production in our Atlantic segment is in decline. This will continue until West White Rose comes on-stream around the end of 2022, and rejuvenates the region. We expect Atlantic production in 2020 to average between 17,000 and 19,000 barrels per day. This includes our planned offtation at the Terra Nova project, that is scheduled to last six to seven months.

In Asia, the 29-1 field is going to add some 9,000 barrels a day of production by the end of 2020. Overall, we expect the mid-range of our 2020 Upstream production to be just over 300,000 boes per day. This assumes curtailment of approximately 5,000 barrels a day for the first six months of the year. Our Upstream production will be complemented by our Downstream capacity of 355,000 barrels a day.

Moving now to Slide 13... Here’s where we stand with our plan next year and beyond. Our success will be measured by the safe execution and delivery of these projects. As you can see in the right-hand column, we’re well on our way towards completing our 2020 plan milestones. The Lloyd Upgrader project to increase diesel capacity is on track for the second quarter, construction of the two new Spruce thermals is proceeding apace. And the 29-1 field will be tied into the main Liwan field during the fourth quarter.
Further out, we expect to finish the Superior rebuild by the end of 2021. Also, that year, we will see the next Saskatchewan thermal start up at Spruce Lake East.

Turning now to Slide 14, we’re continuing to proactively identify, evaluate and adopt new and emerging technologies. This includes using machine learning and artificial intelligence to improve safety, operational efficiency, and our environmental footprint, while also reducing costs. This past year, we piloted a machine learning program to improve steam-oil ratios to maximize production at the Sandall thermal project. This has been successful. Full implementation is planned to begin across all of our thermal operations in 2020. We’re also reducing steam-oil ratios by the use of non-condensable gases. We’ve started using these technologies at Sunrise and our Lloyd thermal projects.

In addition, we’re applying AI to speed up the evaluation of heavy oil well recompletions. In the Downstream, we’re evaluating advanced condition monitoring to provide for improved preventative maintenance at the Lima Refinery. This technology uses patent recognition software to monitor process and mechanical sensor data to help to further improve operational integrity, reliability, and process safety.

In the Atlantic region, we’re experimenting with data science models to provide intelligent recommendations to reduce time, cost, and risk for our Offshore well designs. At our head office here in Calgary, we’re using robotics process automation for repetitive supply chain and finance tasks. We’re also working alongside some of the brightest minds in the business, such as Microsoft, and we are participating in innovative partnerships, including COSIA and CRIN.

Thanks very much, and now we’ll go back to Rob Peabody to wrap up, on Slide 15.

Robert Peabody:
Thanks, Rob. Thanks also to Jeff, Peter, and Janet for providing additional context to our 2020 plan.

Just to sum up quickly, we remain focused on becoming a High Reliability organization. Safety and reliability will remain the backbone of everything we do.

In the current market environment, Husky has a compelling valuation.
We’re trading at about a 5% dividend yield and about 2.2 times cash flow. Our continued focus on reducing costs and growing margins has enhanced free cash flow in 2020, and has set the stage for a significant increase in free cash flow in 2021.

We look forward to updating our Q4 results with you in February. On behalf of the team, thanks for joining us, but we’ll now open the line up for some questions.

Operator:
Thank you. We will now begin the question-and-answer session. Any analysts who wish to ask a question may press star and one on their touchtone phone. You will hear a tone to indicate you are in the 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. Once again, for analysts who wish to join the question queue, please press star then one now.

Our first question comes from Greg Pardy of RBC Capital Markets.

Greg Pardy:
Thanks. Good morning. Thanks for that presentation, by the way. Just a couple areas I was hoping to dig into. The first is just a little bit of context around the $400 million drop in spending in 2020, and I guess the question I have is how much of a bearing do you think that will have on production as you go into 2020, and if so, where?

Rob Peabody:
Thanks, Greg. Thanks for joining us this morning. There’s two kind of elements of capital reduction we’ve talked about in this presentation, $100 million in 2020 and about $400 million in 2021. The $100 million in 2020 is really mostly coming out of Western Canada. That’s a combination of the kind of gas resource business, where we have lots of inventory, but lots of flexibility. In considering sort of the constraints on the basin in terms of egress, and things like that, we’re just going a lot slower, and clearly picking up on the market signal on free cash flow, as well. That also affects a little bit of the heavy oil kind of CHOPS business, the older business, where we’re not doing much in the way of new wells, it’s mostly recompletions, and things like that, but just slowing up that activity.
As you move into 2021, about half of that is again coming, about $200 million is coming from Western Canada, conventional and CHOPS, so very similar as I’ve just described for 2020 on that. Then, in 2021, about another $200 million is coming from West White Rose and efficiency in pacing. We’ve been saying for some time we’re seeing enhanced productivity on West White Rose, so some of that we’re seeing come through sort of as we’re going through 2021. And there’s a little bit of pacing for the project in both ways, in a way, because we actually accomplished more than we expected to accomplish this year. So that kind of pulled out a little bit of capital from next year, and also just a little, as we optimized the program, a little bit slipped into the next year.

Those are the kind of drivers in terms of production. Of course, the $200 million for West White Rose doesn’t make any difference to production relative to our LRP. And the Western Canada stuff, it’s relatively modest in terms of the production effect, even more modest in terms of the profitability and cash flow effect. I don’t know if I have an exact number there. It would be in the range of 5,000 to 10,000 barrels a day at the most.

**Greg Pardy:**
Okay, thanks for that, Rob. Then, the second one is Superior, which at times, as you’ve reported quarters, the insurance proceeds have thrown the cash flow numbers around, and so on. Without asking 52 questions on that, could you give us an idea of just how much it will, how much you expect the rebuild cost to be? I think you mentioned, or suggested, maybe another $100 million to $200 million of enhancement, costs which you’ll bear. Then, just any idea as to what 2020 could look like in terms of how much insurance proceeds we should be plugging into our models?

**Robert Peabody:**
Okay, let me cover that at the high level and then I’ll turn it over to Jeff Hart to go into some of the modelling assumptions around this. First of all, Superior, of course, is a very rapidly moving project, and that’s the intent, to get this up as quickly as possible.

Our best information we have now, and we’ve progressed engineering quite a lot now, and we are starting the construction, as well.
But right now, I’d start by saying I think the most important number—and then I’ll give you the other numbers—the most important number, is that we expect what I would call the unreimbursed sort of amount of the property damage insurance to be around US$150 million over two years. Probably, some of that, maybe half of that next year and maybe half of it the year after.

Now, the unreimbursed amount is because while the refinery is down, we are making some safety upgrades to the refinery, and we’re also making some modifications to increase its total throughput and its heavy processing capacity. These are relatively modest enhancements, but given the rebuilding that’s going on, it’s easier to install slightly larger vessels in a few places where we knew there were some debottlenecking opportunities. Now, that incremental US$150 million, call it, has very good returns associated with it, as you’d probably expect, given the ability to significantly enhance the capability of the refinery for a relatively modest amount of money. And that’s what the $150 million sort of unreimbursed over the two years is for.

The total cost of the rebuild is probably—our best estimate at the moment is somewhere around US$750 million, again, which will occur over the next two years, but, of course, everything but that $150 million, we’re expecting to be reimbursed by insurance.

With that, maybe I’ll turn it over to Jeff to talk about the assumptions.

Jeff Hart:
Yes, good morning, Greg. I’ll talk to the B.I. first. As you’ve seen, we’ve worked through and we have a cadence on collection now. We had a decent amount last quarter, and I’d expect that pace to continue through Q4, and continue through kind of the first half of the year. Obviously, we’re a little bit behind on collection of that, just as we work through with the insurance providers. I’ll remind you that the B.I. ends in April, so kind of think first half of the year, regular cadence on that, and that does come through FFO and is based off of the LP runs.

In relation to P.D., as Rob talked about, progressed the engineering, as I would expect, the bookings there on the accrual basis to be a little bit lumpier. As we get through technical discussions with the insurance providers, complete engineering and the like, I’d expect a little bit lumpier bookings on the receivables side, and then to grind that and collection as we execute over time.
The way I would model collection is I think it'll largely be a little bit back-end weighted next year. We'll get some on the P.D. side in the first half, but really, I would say I'd model it more in the latter half, into the first part of 2021, but I'd model the collections for this year in the latter half of the year.

Greg Pardy:
Okay, great, and that only hits the earnings, it’s not going to hit cash flow; correct?

Jeff Hart:
Yes, the way to think about it—and I’ll talk to the accounting cash flow statement. So, you’re absolutely right—well, actually, I’ll start with earnings. Both B.I. and P.D. do impact earnings. Then, on the cash flow statement, the B.I. will income into cash flow operating activities and, correspondingly, FFO. The P.D. and rebuild recoveries come through the cash flow statement, actually, as a recovery in the investing activities, and that’s where you’d see it. It doesn’t come through FFO, it comes through the cash flow statement on our financials, but through the investing activities section.

Greg Pardy:
Okay, terrific, and last question for me is, Rob, the US$150 million you mentioned over two years, that is baked into your capital, right? The capital number you put out for this year and next year, that will—it’s all in there?

Jeff Hart:
Yes, it’s all in, yes.

Greg Pardy:
Okay, perfect. Thanks, guys.

Jeff Hart:
Thanks, Greg.

Robert Peabody:
Thank you.
Operator:
Our next question comes from Phil Gresh of JPMorgan.

Phil Gresh:
Yes, hi, good morning. First question, just perhaps you could elaborate a little bit more on the operating cost improvement potential. Obviously, looking out to 2021, you have pretty significant cost improvements, and so I just wanted a little bit more detail. How much of that would you attribute just to the growing production bases versus other actions you’re taking?

Jeff Hart:
Yes, it’s really, you know, we talk about the—I’ll start with two factors. Number one, in the Atlantic, obviously, with higher production, it’s a fixed cost in there, so as we bring on production, it’s basically negligible cost as it comes on, because your cost structure is fixed, so that’s a big piece of it. The other factor is, you know, we’ve talked about investing for margin growth, and really, with Dee Valley on this year and the two Spruces coming on next year on the thermal side, really do start to bring down your OpEx per barrel. They ramp up to nameplate within a couple of months. Typically, you’re at low operating costs when they first come on, so you’re bringing that all down. So, it’s really a factor of our capital investments, number one; number two, it’s really the higher production in the Atlantic; and then we’ll see further savings kind of out to 2021, when we start to see the impact of the 29-1 field come on, which, again, is the same thing, fixed-cost structure around Liwan.

Robert Peabody:
I’d just add one thing to what Jeff said there. This is Rob Peabody again. With the focusing of the portfolio we’ve done over the past three years or so, we’re also starting to harvest some of that benefit of just a more focused and kind of simpler company, which allows us to go after some of the other prizes around G&A, and things like that.

So I’d just remind you—I mean, another driver in here is the staff reductions we’ve done this year, which, in aggregate, I think amount to about 370, or so. What we’re seeing there is that’ll generate forward savings of about $70 million, plus a little bit, pre-tax a year going forward. We’re taking a charge of around $70 million pre-tax, I think, in the last quarter associated with that.
We’re going to continue those efforts to kind of capitalize on the fact that we’ve kind of created now a more focused and a simpler company going forward.

**Phil Gresh:**
Sure, okay. Then, the second question. Rob, you talked about acknowledging that the free cash flow focus, you know, investors, and so as we look even beyond 2021—I realize you’ll hold an Analyst Day, probably, again in May to give a more thorough update. But I guess is this something that as you look at the—you talked about some efficiency gains in ’21, but would you think of maybe further activity impacts, longer term, that you’d be thinking about, or would everything else, besides what you talked about in the last question, essentially, be similar to how you thought about it in the past?

**Robert Peabody:**
Yes, I think you’re kind of—the answer to that is, you know, the pattern we establish for 2021 will carry on going forward, so that capital will continue at reduced levels throughout the rest of the five-year plan, and we’ll give you some update on that as we go forward.

**Phil Gresh:**
Okay, thanks.

**Operator:**
Our next question comes from Manav Gupta of Credit Suisse.

**Manav Gupta:**
Hey, guys. So, a quick question. You got some proceeds from the sale of the Prince George refinery, there’s another part of the Downstream business which is up for sale, and you guys had indicated that it could close by year end, also, and then you’re looking at about $500 million of free cash next year. The debt levels are obviously controlled. So, should we assume a majority of this surplus cash that is coming through sale, plus next year’s free cash flow, would be returned to shareholders in the form of dividend hike? Is that the right way to think about it?

**Jeff Hart:**
Yes, it’s Jeff here. Good morning.
Yes, our priority is, you know, in balance, to return cash to shareholders, and the way we’re looking at it next year—we talked to free cash flow of about $0.5 billion, which is enough to cover our dividend. Now, obviously, that’s after CapEx, the $500 million there. As we execute the retail and commercial fuels business, we’ll evaluate at that time, given where we are on the balance sheet, where we are on our capital programs, whether we can accelerate returns to shareholders.

So, really, the priority is to return to shareholders. We’re in balance with the dividends next year at our price line. As we execute retail and commercial fuels, if we have—you know, we’re well into the capital programs—we’d look to potentially advance some returns to shareholders. But we’ll balance all of that, knowing next year that we’ve got basically 29-1 in flight, two more thermals with the two Spruces, and West White Rose in flight, so we’ll balance that all together. But, you’re right, the view is prioritize cash returns to shareholders.

Robert Peabody:
Yes, and just to be clear—this is Rob here again—there’s no proceeds from the sale of the commercial business, and retail, included in the free cash flow numbers we’re talking about at the moment.

Manav Gupta:
No, that was clear. Just a quick follow-up. When we think about the spend for West White Rose, should we consider 2020 to be the peak year of spend and then it starts coming down, or ’20 or ’21 would be in line with each other?

Robert Peabody:
You’re right. You can see, actually, our progress already on West White Rose, at about 55% sort of. By the end of next year, we’re actually going to be pretty much finished all our concrete and rebar work, and everything like that, around the CGS, the topsides are going to be well advanced. The way to think about it is, the peak year is 2020, 2021 comes down a bit, and 2022 is largely a logistics year, of just putting everything out in the right place and commissioning it. So, it does drop off from 2020.

Manav Gupta:
Thank you for taking my questions.

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Robert Peabody:
Thank you.

Operator:
Our next question comes from Emily Chieng of Goldman Sachs.

Emily Chieng:
Hi, guys. Thanks for taking the time. Just on how you guys are taking a look at longer term production—and I know at your Investor Day earlier this year you talked about sort of reaching around 400,000 barrels per day of production by 2023—how should we think about that number given sort of the slowing in Western Canada and some of the CHOPS activity there?

Robert Peabody:
Yes, I mean, clearly, it’s come off a bit, and we’ll update you a bit, but it hasn’t come off very much. At the end of the plan, with these assumptions in, you’re just around that 400,000 barrel a day number still, so—because, of course, big drivers of that are really, as well, all the thermals are coming on, and 29-1, the Indonesian projects, which are still—all those are unaffected by this, and then, of course, West White Rose, which remains on the current schedule, which continues to ramp up, actually, all the way through to about 2025—yes, almost ’26.

Emily Chieng:
Great, that’s all for me. Thank you.

Operator:
Our next question comes from Mike Dunn of GMP FirstEnergy.

Mike Dunn:
Hi, good morning, everyone. Thanks. Guys, just wondering if there are any major changes you’re expecting to your financing activity lease payments going forward, relative to, I guess, what we’ve been seeing here over the last—the first three quarters of 2019.
Jeff Hart:
No, we can get into details a lot with you on the modelling side, but I'll just talk generally and remind people on the overall financing. So, no changes to kind of overall finance leases, that I think would be substantive, number one. Number two is to remind everyone we do have the maturities coming this quarter, which we did refinance, which is US$750 million, CAD$1 billion equivalent, and we do have some maturities next year on the finance side, as well, but not substantive, US$400 million, which we have ample liquidity to handle, and we'll look at market conditions from there. I'll leave it at that.

Mike Dunn:
Okay. So, is it fair to say then, Jeff, that if we consider capitalized interest, these finance lease payments, your preferred share dividends, and Indonesia spending that $0.5 billion is—that would take up, essentially, that $0.5 billion in free cash flow you’re talking about?

Jeff Hart:
Yes, it’s not a bad number, and we'll follow up with details and make sure we’re not talking cross-purpose, but that’s about right.

Mike Dunn:
Okay, thank you.

Operator:
Our next question comes from Menno Hulshof of TD Securities.

Menno Hulshof:
Hi, good morning, everyone, and thanks for taking my question. I was just hoping to get your thoughts on how extensive your turnaround schedule looks beyond 2020, and maybe you just could tie that into how much variability we should expect around your annualized sustaining capital estimate of 1.8 over the next several years.

Robert Peabody:
I’m trying to think of the best way to answer that question. I don’t think you’re going to see—we have various refineries and projects going down. I guess what’s a little exceptional this year is Terra Nova down for an offstation of seven months.
In 2022, early on in the year, we'll have the SeaRose offstation to do final modifications prior to the start-up of West White Rose. That will be a shorter turnaround than seven months, I think. I don’t have the detail right now, but the last time we did one of those, it was about around three months oil-to-oil sort of, maybe three-and-half months oil-to-oil. Clearly, the refineries, we have them basically on a five-year sort of schedule for turnarounds, although some of the refineries are shut down in two portions, so they go down to half rates. But what we can do on that is we can give you more detailed information. Our Investor Relations people have a schedule that goes all the way out to the end of the plan.

**Menno Hulshof:**
So, that $1.8 billion is still a reasonable expectation, then, over—call it the next three to four years, plus/minus 5%?

**Jeff Hart:**
Yes, and to clarify on that, it’s not a bad number right now, but that will marginally increase and move up as we move the production to close to 400,000 barrels a day, roundabout, so it does increase as we move up the production. Again, with our portfolio, given the slate of assets we have, depending where you put your capital, it can be quite variable. But the way to think about it is, yes, the $1.8 billion- $1.9 billion, increasing gradually as we're moving on production.

**Menno Hulshof:**
Okay, thank you. That’s it for me.

**Operator:**
This concludes the analyst Q&A portion of today’s call. We will now take any questions from the media. As a reminder, please press star then one on your touchtone phone if you wish to ask a question. If you’d like to remove yourself from the question queue, please press star then two. Once again, the media may press star, then one at this time.

Our first question comes from Dan Healing of the Canadian Press.
Dan Healing:
Good morning, and thanks for taking my question. I just wanted to ask about—I think, Rob, you mentioned how many layoffs there were. Was this from the October set of layoffs, or was it more general through the quarter?

Robert Peabody:
Most of it was from October, and there was a bit—there was some earlier in the year, just we were doing some business unit combinations, and things like that. So, it was a modest amount through the first and second quarter.

Dan Healing:
Oh, okay, and is there an amount that that results in savings in terms of your human resources?

Robert Peabody:
Yes, I think we actually included it in the note, that it’s about a $70 million pre-tax sort of savings, ultimately.

Dan Healing:
Okay, great. Thank you.

Robert Peabody:
Thanks.

Operator:
Our next question comes from Rod Nickel of Reuters.

Rod Nickel:
Hi, and thanks for taking my question. You mentioned curtailments, and, of course, the government has said that they could be in place through the end of 2020, but the Premier has said, I think, numerous times that he’d like to take them off sooner. What’s your expectation for the timing of curtailments coming fully off, and how could that possibly affect your business in 2020?
Robert Peabody:
Sure, that’s fine, Rod. What I’d say is, like, our assumption for next year was that we would see something around 5,000 barrels a day of curtailment for the first half of the year, kind of in line with what the Premier has been saying. I’ve certainly had a chance to talk to him a few times, and I know he sincerely is quite keen to get rid of this program, when he can.

Of course, it didn’t help in the last few weeks when we had Keystone shut down for a short period of time, which just backed up some more barrels. And we had the CN rail strike in Canada, which also backed up a bunch of barrels, so we now have to kind of work off that inventory. We were making good progress at it, and inventory levels were falling quite nicely, but that kind of set everything back a little bit, and that’s why we made the assumption for the first half of the year.

We continue to see reasonably good progress in creating new export options here, and I’m not talking about the big pipelines everybody thinks about. But overall, we’ve seen pipeline capacity out of the basin increase by over 200,000 barrels a day in the last year just through very small modifications to the existing pipelines. And in this last little bit of this year, it looks like we’re getting another 100,000 barrels a day on-stream with the partial start-up of Line 3. So, all in all, we’ll have seen about 300,000 there. It now looks, once this strike is out of the way and all the inventory—all the rail, all the engines and the cars can be moved to the right locations again, we’ve probably got something approaching 400,000 to 500,000 barrels a day of rail capacity out of the basin, as well. Compared to when we started curtailment, that’s up a couple of hundred thousand barrels a day.

So, net-net, when you put it all together, about 500,000 barrels a day of additional export capacity out of the basin. And it seems, when all that’s running, we make good progress on getting our inventories down.

That’s why I’m hopeful that as we move towards the—well, hopefully, maybe even move out of the first quarter, we’ll start seeing some real relief, but we made the assumption about the middle of the year.

Rod Nickel:
Thank you.
Operator:
This concludes the question-and-answer session. I would like to turn the conference back over to Mr. Rob Peabody for any closing remarks.

Robert Peabody:
Thanks, everybody, for joining us today. Appreciate your engagement, and just to say thank you and look forward to seeing many of you on the road in the next week or so. And we look forward to updating you on our Q4 results during February. On behalf of the team here, thanks very much for joining us today.

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