Husky Energy

July 28, 2010

9:00 a.m. Calgary time

Aherne: Good morning everyone. Thank you for joining us today to discuss our 2010 second quarter results. With me today are CEO Asim Ghosh, CFO Alister Cowan, COO Rob Peabody, and VP of Midstream and Refined Products Terrance Kutryk.

In today's call, Asim will provide an overview of Husky's strategic direction. Alister will discuss the Company's performance. Rob will provide an update on our upstream operations and Terrance will provide an update on the Midstream and Downstream activities.

Please note that today's comments contain forward-looking information. Actual results may differ materially from expected results because of various risk factors and assumptions that are described in our quarterly release and in our annual filings, which are available on SEDAR, EDGAR and our website.

I'll now turn the call over to Asim

Ghosh:

Introduction

Thank you for taking the time to join us on this conference call. Before we begin our discussion of the second quarter results, I would like to take a few moments to share my early impressions of the Company.

While I have only been in the CEO chair for fewer than two months, I have been a Board member since May 2009. Over that time I have been able to dig into the company to gain a thorough understanding of our challenges and opportunities.

Company Overview

To start, Husky Energy has a number of significant strengths, the first being its enviable portfolio.

- This Company has an outstanding resource base. At 2009 production levels, our discovered, recoverable resource base can sustain operations for over 60 years.

- We have a good, diverse asset base and are not over exposed in any particular area. Our conventional assets in Western Canada and our heavy oil assets are the company's bread and butter, providing a solid and sustainable foundation.
- Then we have three tremendous growth pillars in the Oil Sands, East Coast and South East Asia.

The second strength I want to highlight is a strong corporate culture that has taken shape, formed over the past 70 years.

- Husky has talented and dedicated employees in its ranks.
- The commitment to safety is second to none, Rob will expand on this later.
- We have skills and technology-leading positions in core producing areas such as heavy oil and the East Coast that enable our business strategies.

The third strength I want to mention is our cost consciousness.

- I don't mean cost cutting, I mean prudent and disciplined allocation of capital, budgetary control and execution, all of which is engrained within our culture.

The final differentiator I will mention is our strong balance sheet.

- As you all know, Husky worked diligently to create and maintain a strong balance sheet.
- On a relative and absolute basis we have low debt levels, a key Husky strength. However a strong balance sheet is only an advantage if you use it wisely to create shareholder value - a topic I will touch on in a moment.

Issues of the Day

The Company is extremely well positioned for the long-term, however we have some short-term issues around production.

- In 2008, in the face of uncertainty as economies and markets collapsed, Husky chose to take a prudent approach in managing its financial position. We focused our financial resources on pursuing long-term strategic projects, trading off short-term production opportunities.
- While we have emerged from the recession in a strong financial position, we are seeing the impact on our current production levels.

- We now need to rebalance our portfolio. We will direct a measure of capital to low cost, high return projects to achieve our short-term goal of building a production bridge while maintaining the integrity of our long-term objectives.

Actions in Response to this Issue

So how are we going to deliver near term production growth? For a start, we are shifting some investment towards our bread and butter, short-term return projects in our core Western Canada areas.

- Over the next few quarters we will be identifying opportunities and taking action to increase short-term organic growth. We should start to see a response over the next 12 to 18 months.
- We will also be utilizing our strong financial position to acquire currently flowing barrels in a value conscious way.
- Our focus will be on opportunities with strategic contiguity. That is, acquisitions that are either near our existing operations where we can realize synergies, or acquisitions where we can apply our technical capabilities to realize value.

Pillars of Future Growth

Going forward, how will we add more shareholder value?

Our first pillar of growth is the oil sands.

- This Company has an incredible oil sands resource base. The Oil Sands are going to play an increasingly prominent role in our production profile and it is an exciting story to tell.
- Our portfolio includes projects that contain over 50 billion barrels of discovered petroleum initially in place, of which 4 billion are recoverable using today’s technology. Oil sands projects alone could double Husky’s production in time.
- The Sunrise lease is a top tier resource and we are making progress on its development. We should receive the tenders back for the major facilities later this week and we plan to sanction the project by year-end.
- We are confident these vital resources will be developed safely and with a focus on responsible environmental stewardship.

Our second pillar of growth is the leading position we have built on the East Coast. White Rose has been very profitable and will continue production from the main field and satellite tie-backs. But we also see potential for other transformational projects in the area:

- We believe we can increase resource recovery from the White Rose field, above the 30 to 35% level under the current development scheme.
- We are assessing development opportunities of other near-field tie-backs and production from other reservoir zones such as the Hibernia formation.
- We have been advancing our study of development alternatives for the large gas resource in the area. As many of you know, there is in excess of 2 trillion cubic feet of gas in the White Rose field alone.
- Our East Coast portfolio includes 23 significant discoveries offshore Newfoundland and Labrador, a land position second to none.

Our third growth pillar is another exciting story emerging in South East Asia.

- Our Wenchang oil field in the Pearl River Mouth Basin, contributes high netback production.
- Development work is continuing to advance our significant Liwan gas discovery.
- We are evaluating in detail whether a spin-out and separate listing of our Asian assets represents the best way to maximize value for our shareholders.
- In any such transaction, meticulous attention must be paid to legal, regulatory and tax considerations both in Canada and in the countries where the businesses are operated. This work is currently underway.
- We would expect to be in a position to make a definitive recommendation before year-end and we will of course make an announcement once we have drawn a conclusion.

Comments on the Quarter

- Rob and Alister will speak specifically to our second quarter performance. However, as was mentioned in the news release, a key goal is to deliver near-term production growth.
- Earlier today we announced that we signed a Letter of Intent to purchase natural gas producing properties which will add to our production and reserves.
- This is an example of our focus on increasing near term production.
- This is a synergistic acquisition in an area where we have considerable gathering and processing infrastructure.

At this time I would like to turn the call over to Alister to discuss our second quarter performance.

Cowan: Thanks Asim.

Results Overview

I'm now going to take some time to walk through the financial results for the second quarter. Our results clearly reflect the impact of current economic conditions on different parts of our business.

- We generated cash flow from operations in the second quarter of $806 million, comparable to the same period in 2009.
- Net earnings were $266 million, which was lower than the second quarter of 2009.

Financial performance was influenced by four key factors and I'll give more colour on each of these in a moment:

- Lower product margins in the Downstream segment,
- lower production,
- higher realized commodity pricing; and
- increased depletion expense in South East Asia.

Downstream

In our U.S. downstream business, results reflect the weak economic demand, which has kept market crack spreads similar year over year. Our realized refining margins are impacted by:

- Product differences from our refinery configuration and transportation costs from benchmark hubs,
- difference accounting policies for the purchase of crude oil compared to benchmark pricing; and
- the translation impact of the stronger Canadian dollar.

Benchmarks

It is important to understand when discussing our downstream business that our realized refining margins will always be different than quoted benchmarks.

Benchmark crack spreads such as the Chicago 3:2:1 are calculated based on standard ratios of gasoline and distillate products. However, the product slate produced at our Lima and Toledo refineries contain approximately 10 to 15% of other products which are sold at lower market prices when compared with gasoline and distillate.

Crude Oil Purchase Accounting

Husky's realized refining margins are also affected by the time lag between the purchase and delivery of crude oil to the refinery. We account for this on a first-in first-out ("FIFO") basis in accordance with Canadian generally accepted accounting principles ("GAAP"). Benchmark pricing is calculated on a last-in first-out ("LIFO") basis which reflects current market pricing.

The net result is the financial performance of our Downstream will typically be better in times of rising prices. The absolute price of crude oil is not as important as the trend of the pricing.

In the second quarter of 2010, crude oil prices were relatively stable, therefore the impact of FIFO/LIFO accounting was minimal. In the same period of 2009, crude oil prices rose significantly. As a result, our realized refining margin in 2009 reflected this increase as a result of the approximately 6 week time lag between purchase and delivery of the crude oil to the refinery.

Translation Impacts

The strengthening of the Canadian dollar against the U.S. dollar, also reduced the results in 2010 of our U.S. Downstream business translated into Canadian dollars.

Impact of Production

As Asim highlighted, overall production was down in the quarter and is a clear focus for the near-term.

Liquids production in the second quarter was lower compared to the same quarter in 2009, due to peak production rate decline from the White Rose field and lower heavy oil production resulting from the lower capital expenditures in 2009.

On the East Coast, production will stabilize with the North Amethyst satellite, which commenced production on May 31, 2010.

Average natural gas production was 504 million cubic feet per day, similar to levels in the second quarter of 2009. Gas production was impacted by scheduled plant turnaround activity.

Commodity Price Environment

Commodity prices were higher in the second quarter of 2010 compared to 2009. Benchmark commodity prices, denominated in U.S. dollars, were up significantly from the same quarter in 2009.

However, the strengthening of the Canadian dollar (up 13%) reduced the impact of these higher prices in Canadian dollars (Resulting in a 15% increase in Canadian dollars vs. a 31% increase in U.S. dollars).

South East Asia Results

Turning now to South East Asia, higher depletion expense during 2010 is a result of our increased activity as we continue to execute on our exploration plans as we build a material oil and gas business in the region.

Operationally, we announced the successful testing of the first appraisal well at the Liuhua 29-1 discovery on Block 29/26, with encouraging results.

We also made another natural gas discovery at the Liuhua 34-4-1 exploration well. This is our fourth discovery on Block 29/26.

Husky is firmly committed to the development of the Liwan gas discovery and expects to sanction the project later this year.

Financial Position

In looking at the balance sheet, the Company remains in a strong financial position.

- Total debt at June 30, 2010, net of cash and cash equivalents, was $3.9 billion.
- Debt to cash flow and debt to capital employed ratios at June 30, 2010, were 1.4 times and 21.6 percent respectively on a trailing 12 month basis.

These ratios remain within our target ranges and provide Husky with the flexibility to take advantage of value-adding investment opportunities as they arise.

As announced earlier this morning, Husky's Board of Directors has approved a quarterly dividend of 30 cents per share.

Rob will now provide details on the Upstream operations.

Peabody:
Thanks Alister.

Safety

I want to start out with some remarks on safety and operational integrity, as I always do with the operations team. A good measure of occupational safety is our Total Recordable Incident Rate. Performance for the first half of the year was 1.15, comparable to 2009. Husky's 2010 target is to be less than 1, and we are driving towards this goal.

We have also been making good progress implementing the Husky Operational Integrity Management System, known as HOIMS, adopted in 2007.

HOIMS is a comprehensive system that integrates elements of process safety, occupational safety and environmental stewardship. It is the way forward that will provide for the safety of our employees, contractors, neighbours and asset base.

Production

I now want to talk about our production. We have completed a comprehensive review of operational activities in the first half of the year and an assessment of the production forecast and planned business activities for the remainder of the year.

As a result we are adjusting 2010 total production guidance to 285 to 295 thousand barrels of oil equivalent per day, and we expect to exit 2010 in the range of 300 thousand barrels per day. The main reason for this adjustment was the delay in North Amethyst start-up resulting in a 10 thousand barrels per day reduction, combined with modestly lower production in our heavy oil operations compared to the original forecast.

Compared to 2009, production for the quarter was impacted by lower rates from the main White Rose field, in natural decline, and heavy oil production as a result of reduced capital expenditures in 2009.

Planned maintenance turnarounds in the remainder of the year that will impact upstream production include a 24-day shutdown of Terra Nova in Q3, and a 16-day shutdown of White Rose in October.

North Amethyst production, which is currently around 20 thousand barrels per day, will ramp up as additional wells are drilled and brought on stream. Production should reach gross peak rate of around 37 thousand barrels per day in 2011, 25 thousand barrels per day net to Husky.

Upstream Growth Projects

As Asim stated earlier, a key goal is to deliver near-term production growth. I would like to update you on the steps we are taking to accelerate production growth while continuing to build the foundation for the long term.

1. *Western Canada*

In Western Canada, at Ansell two wells were spud in the quarter to test multi-zone targets. In the second half of the year, we are planning to drill an additional 50 gas wells at Ansell, where economics are supported by high liquid yields combined with the gas production.

Husky continues to build its position in a number of gas resource plays and now holds more than 952,000 net acres around established assets in the Alberta foothills and northeast British Columbia. In the second quarter, Husky acquired additional land in Bivouac, located in northeast British Columbia, as well as land in the Ansell area.

Oil resource play evaluation and testing activity continued in the quarter. Six Viking wells were placed on production in the Dodsland/Elrose area of southwest Saskatchewan, to bring the total number of producing wells to 11.

An additional 15 wells are planned for Redwater for the remainder of the year. Evaluation wells are currently in progress to assess the Cardium at Lanaway, the Lower Shaunavon in southwest Saskatchewan and the Bakken in southeast Saskatchewan.

2. *Heavy Oil*

Moving into the Heavy Oil segment, we are increasing our drilling activity. In 2010, we plan to drill 291 CHOPS wells and 84 horizontal wells compared to 175 CHOPS and 27 horizontals respectively in 2009.

At McMullen, an additional 32 wells are planned for the second half of the year to further exploit the oil production potential of the lease.

We are continuing construction of the 8 thousand barrels per day South Pike's Peak thermal heavy oil project. The project is approximately 30% complete at the end of the second quarter. Production is expected to commence in the first half of 2012. This is the first stage of our plan to double Husky's heavy oil thermal production from the current level of 20 thousand barrels per day.

3. East Coast

Over on the East Coast, we had a very busy quarter with first oil from the North Amethyst field. In the quarter, Husky and its partners extended the agreement for the *Henry Goodrich* offshore drilling rig. This will enable Husky to continue the development of White Rose and adjacent oil fields through January 2013.

We expect to receive approval for the West White Rose pilot shortly with production planned for 2011.

4. Oil Sands

Moving to the Oil Sands, Husky continues to progress the development of the Sunrise Energy Project. As Asim mentioned, the tendering process for the central plant and major field facilities is nearing completion. Final contractor selection should occur in the third quarter with project sanction targeted by year end.

I also want to update you on some of the work we have underway at Tucker.

As many of you know, Tucker's issues are largely with the sub-surface. We have conducted a detailed review of Tucker, started at the beginning of 2009, that:

- Optimized the project's forward development,
- captured all applicable learnings,
- applied those learnings to Sunrise; and
- confirmed that our projections for Sunrise remain robust.

We believe that the forward plan for Tucker can achieve economics comparable to the original approval case. Higher bitumen prices today offset the projected higher steam-oil ratio and lower production.

In the quarter, 3 new well pairs were tied-in and put on-steam, and an additional 4 well pairs were drilled. These wells incorporate a number of design changes, and their performance will prove if our revised development plan is on track. We should receive confirmation by around mid-2011.

Terrance will now talk about the Midstream and Downstream activities.

Kutryk: Thanks, Rob.

Midstream Business

Husky has a strong position in heavy oil. While there is a specific market for that product, the reason we are in the midstream business is to maximize its value, including transport and upgrading.

The Lloydminster Upgrader throughput for the second quarter averaged 73,500 barrels per day and operating costs were $6.60 per barrel. The Upgrader is scheduled for its planned 5-year turnaround beginning in September, for 53 days.

Refining Business

Our downstream business captures the full value from our heavy oil and bitumen production, and minimizes income and cash flow volatility.

Throughput was up in the quarter for U.S. and Canadian refining at 253 thousand barrels per day compared with 230 thousand barrels per day in 2009. This year’s performance reflects the improved operations at Lima following the turnaround in 2009.

Lima will complete the remaining portion of its 5-year turnaround in November of this year, at which time it will operate at reduced rates of 100 thousand barrels per day.

Retail Operations

To refresh your memory, our retail network extends from British Columbia through to the Quebec border. Husky continues to move forward to integrate the newly acquired 98 retail locations in Southern Ontario. These locations will provide future options for our Ohio refinery production.

Re-branding is underway with the completion of 37 sites. The remaining locations will be brought into our network in the last six months of 2010.

At this time I would like to turn the call back to Patrick.

Aherne: That concludes the opening part of the call. We would be pleased to answer any questions you might have. I will now turn it back to the conference operator for questions from our participants starting with analysts and then from the media.

Question and Answer Period

Ghosh Resumes:

Ghosh: I would like to conclude by once again saying how confident I am in our future. We have a unique portfolio and a strong balance sheet.

Strong Foundation

- Our Western Canada and heavy oil asset base provides strong cash flow and short-term production growth.

Mid to Long-term Opportunities

- Oil sands will be a leading part of our growth and we have transformational opportunities on the East Coast.
- We continue to build a material oil and gas business in South East Asia.

Path Forward

- I want to assure you that our path forward will continue to be governed by an unwavering focus on safety.

Thank you for your questions.

Aherne: Thank you for your participation in our conference call today. If you have any additional questions or comments, please do not hesitate to follow up with me offline.