



HUSKY ENERGY 2011 FOURTH QUARTER AND YEAR END RESULTS TRANSCRIPT

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Speakers: Sharon Murphy

General Manager Corporate Communications - Investor Relations

Asim Ghosh

Chief Executive Officer

Alister Cowan

Chief Financial Officer

Rob Peabody

Chief Operating Officer, Operations & Refining

Terrance Kutryk

Vice President, Midstream Operations

Bob Baird

Vice President, Downstream Operations



OPERATOR:

At this time, I would like to turn the conference over to Sharon Murphy, General Manager, Corporate Communications and Investor Relations. Please go ahead.

SHARON MURPHY:

Good morning, everyone. Thank you for joining us today to discuss our 2011 fourth quarter results and year end results. With me today are our Chief Executive Officer, Asim Ghosh; our Chief Financial Officer, Alister Cowan; our Chief Operating Officer, Rob Peabody; Vice President of Midstream, Terrance Kutryk; and Vice President of Downstream, Bob Baird. In today's call, we will provide an update on Husky's business strategy and an overview of results, followed by a Q&A session.

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 will now turn the call over to Asim.

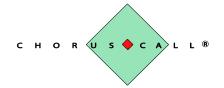
ASIM GHOSH:

Good morning. Thank you, Sharon. Today's conference call brings to a close what I have characterized as a solid year of performance for Husky. Some of you may recall a year ago we were in a period of transition. We'd just laid out a five-year business plan, and that plan included clear financial and operational metrics. It called for production growth, provided a specific figure of 3% to 5% annual compound growth over the five-year time frame. It outlined our investment plans for our three growth pillars, respectively the Asia-Pac region, the oil sands in the Atlantic region, and the continuation of what I characterized as a balanced growth strategy. In summary, over the past year, our team rolled up their sleeves and we focused on executing against that strategy.

So let me summarize where we are. We've met or exceeded virtually all of our key performance targets. Production for the year averaged 312,500 barrels a day, which was at the higher end of our guidance of 290,000 to 315,000 barrels a day. And that's something like 9% up from a year ago. And that's versus our five-year compound growth target of 3% to 5%.

I do wish to stress, yet again, a point I've made before. The 3% to 5% is a compound annual growth target and there will be some lumpiness in the trend as we experience off-stations, such as for this year, and some of it is influenced by certain major projects coming onstream starting end of 2013 and 2014. So this is not 3% to 5% year-to-year. I know it seems like I may seem to be coming close to repeating that point ad nauseum, but I do wish to make the point for those people who have not been listening on previous calls or who have not attended the Investor Day.

Secondly, we are forecasting a reserve replacement ratio for the year in the range of 170%, which compares to our target of 140% annually for the period. Netbacks in the year were up 23% year-over-year, driven in part by stronger crude oil prices. The nature of our portfolio which is -- and of course, most importantly, underpinned by strong and consistent execution, which allowed us to take advantage of these higher benchmark prices.





We've now recorded four consecutive quarters of increased earnings, cash flow and production gains compared to the year ago comparable periods. And for the year, earnings increased 135% to \$2.2 billion. Cash flow from operations rose 69% to \$5.2 billion. And we achieved a 5 percentage point increase in return on capital employed.

Coming now to 2012, we are building on our momentum in a fundamental way. We announced a \$4.7 billion capital expenditure program, which allows us to build on the progress we have made in boosting near-term production. It supports the continued development of the growth pillars. Of the \$4.7 billion, the cash outflow actually would be \$4.1 billion, recognizing that some of the projects are joint ventures and the early parts have a disproportionate carry from the joint venture partners.

And just to give you -- I believe I discussed this in the Investor Day, but just as a recap; about 85% of that budget is directed toward upstream and further of that, about 60% is being invested in our growth pillars. This program will enable us to achieve our 2012 production guidance of 290,000 to 315,000 barrels a day. And that includes guidance, incidentally, includes the impact of planned offstations for the SeaRose and Terra Nova FPSOs, which are one of the lumpy events I spoke about a moment ago.

The results, I would say, of the past year demonstrate that the Company is on course and producing the desired results. And while we are pleased with the gains made, we do not, by any stretch of the imagination, believe it is time to declare victory. We recognize that the industry has had some help over the past year from strong oil prices, but there's a lot of work ahead and we remain on the task.

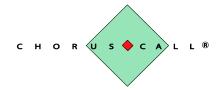
On that note, I will hand you over to Alister.

ALISTER COWAN:

Thanks, Asim. As Asim said, it has been a good year for us, and the results in our fourth quarter continued to show the progress that we have achieved. Net earnings for the quarter were \$408 million, or \$0.42 per share, and that represented 194% increase over the \$139 million in net earnings, or per \$0.16 per share, recorded in the fourth quarter of 2010. Cash flow from operations increased 75% to \$1.2 billion or \$1.24 per share, compared to \$685 million or \$0.80 per share a year ago.

When working out the earnings I want to point out some of the noteworthy items that were included in the quarter; we recorded a non-cash impairment charge related to natural gas properties in Western Canada, and we also had higher exploration and evaluation expense in the quarter, which by its nature, tends to be lumpy. If we normalize for these two items, our underlying earnings for the quarter was \$532 million comparable to the last quarter.

Increased production was a key contributor to the fourth quarter results. Production rose 30,000 BOEs per day, or 14%, to 318,900 BOE per day compared to 280,500 BOE per day in the fourth quarter of 2010. This was the the result of increased production at North Amethyst and new production coming on stream, at the West White Rose pilot, both in the Atlantic region,and acquisitions that we completed in Western Canada in the first quarter of this year, and also increased production from the Tucker oil sands project.





When we look at pricing in the quarter, the details are in the MD&E, which is on our website, but I want to point out a few highlights. The outreach realized crude oil pricing was \$88.97 per barrel, compared to \$68.87 a year ago. Natural gas, as you know, continued to drop, with the average realized pricing at \$3.24 per mcf, compared to \$3.52 in Q4 2010. The realized upgrading differential was CAD22.32 per barrel, compared to CAD16.39 per barrel a year ago. While this is an increase in the year-over-year basis, we did see some tightening of the differential from the third quarter of 2011.

We also saw our similar trend in U.S. downstream. The realized refining margin averaged \$14.80 U.S. per barrel, compared to \$10.97 U.S. per barrel a year ago, but the refining margin is down from \$16.13 U.S. per barrel in the third quarter.

When I look forward, we're seeing continued stands in crude oil prices in the first quarter to date of 2012, but that has been coupled with lower natural gas prices. We are also currently seeing high volatility in Western Canada crude oil pricing. Contributing factors to that are pipeline constraints, a strong Western Canada production overall in the industry, and facilities issues.

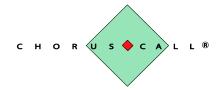
From our perspective, our focus and creation strategy allows us to mitigate the impacts of this volatility, but we certainly acknowledge that there's going to be a timing lag, potentially straddling quarters, between upstream and downstream recognition of the impact.

Some key points to keep in mind in respect to the fourth quarter and the remainder of the year; we remind you that the SeaRose FPSO will undergo an approximate 125-day maintenance offstation that commences in the second quarter of 2012. And as we have previously stated, the impact to the production averaged over the entire year, has been estimated to be about 12,000 barrels per day. The Terra Nova FPSO is also scheduled to undergo a 21-week offstation in the second half of 2012. And the impact to the annual production is estimated at about 4,000 barrels per day. You will note that this is slightly longer that had been previously estimated by the operator and we've adjusted the impact to production accordingly. An (inaudible 10.34) take place of the upgrader in the first half of the year to expedite hydrogen plant repairs and catalyst changeout. That will last approximately three weeks. And the Toledo refinery is scheduled to have a minor turn around mid 2012.

Finally, our Board of Directors has approved a quarterly dividend of \$0.30 per share. Now, I'm going to turn you over to Rob to talk about the Upstream operations.

ROB PEABODY:

Thanks, Alister. Earlier this week we held our annual Safety Summit. Some 150 frontline supervisors came together with our senior management and set the process and occupational safety agenda for the year. What we have consistently seen is that where we delivered a good performance in safety we also see high reliability in uptimes. A good example of this is the SeaRose. Since its commissioning six years ago, the safety record onboard the vessel has been very good, with no loss time injuries. Leading process integrity metrics are also tracked rigorously. And last year the vessel achieved an uptme of 98% versus the norm of about 92% for FPSOs throughout the industry. The point here is that where we see -- where many see a trade-off between production and safety, in practice we see the exact opposite; better safety leads to better business results.





Turning to production; as Asim indicated earlier, a highlight for 2011 was rising production. Pipeline disruptions and flooding in the Spring in Western Canada did impact our ability to bring on volumes, but by the fourth quarter, production was almost 319,000 barrels per day.

Look at our activities in Western Canada, first in oil resource plays; we were active across the portfolio, drilling 35 gross, about 33 net wells in the fourth quarter. The Oungre Bakken project in south central Saskatchewan continues to be a positive story for us, with five wells drilled in the quarter, an additional 12 wells are planned for 2012.

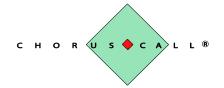
Operations accelerated at the Redwater Viking project in Alberta with eight horizontal wells drilled in the quarter, bringing the total to 22 for the year. The majority of wells are awaiting tie-in and are expected to be on production soon. In the southwestern Saskatchewan Viking play, 10 horizontal wells were drilled in the fourth quarter, for a total of 16 in the year.

On the basis of results to date, we're stepping up our drilling plans in the Redwater and Saskatchewan Viking in 2012, with approximately 50 wells planned. In the Northwest Territories, drilling commenced in January on the first of two vertical exploration wells in the Central Mackenzie Valley.

Turning to gas resource plays, I'll start with Ansell; construction of additional offload capacity was completed in the fourth quarter, bringing total production capacity to over 50 million cubic feet per day and 2,000 barrels per day of liquids. At Kaybob in northwest Alberta, a drilling program was initiated to evaluate the Duvernay liquids rich gas play. At Kakwa, the three well multi-zone drilling program was completed by year-end at the wells placed on production. Initial production is inline with our expectations. Meanwhile, we continue to keep activity levels in dry gas resource plays to a minimum.

In our heavy oil business, we continue to process our thermal developments. And just to remind you, our goal is to achieve an increasingly higher proportion of heavy oil production from long-life thermal projects. Construction of the 8,000 barrel per day Pikes Peak South project was approximately 80% complete at the end of the quarter, and we expect first production from that project in the middle of the year. Construction of the 3,000 barrel per day Paradise Hill thermal project is also approximately 80% complete. Again, we expect first production from that project around the third quarter. A single well paired thermal pilot at Rush Lake achieved first oil in October and is performing in line with expectations. Our goal remains to increase our heavy oil thermal production from around 20,000 barrels per day today to approximately 35,000 barrels per day by 2016.

Turning to our growth pillars, the Liwan gas project in the South China Sea continues moves forward. Fabrication continues on the sub-sae equipment, the platform jacket, the top sides and the gas plant. The platform jacket is expected to be installed this summer. As you may recall, the Liwan 3-1 and the Liuhua 34-2 fields are being developed in tandem in the first phase of this project. Production from these fields is forecast to come onstream in the late 2013, early 2014 timeframe. In December, the government of China approved the original gas in place report for the Liuhua 29-1 field, and this is our third significant discovery on the block. Front-end engineering and design will now begin, and this field is targeted to come on-line in the late 2014, and early 2015 time frame. This is another significant milestone in the Liwan gas projects overall development.





Offshore Indonesia tendering of equipment and services for the Madura BD Field development continued, with first gas production targeted for 2014. In 2011, we drilled two successful wells in the Madura Straits Blocks, which confirmed additional commercial quantities of gas in the MDA and MBH fields. The MBH-1 exploration well drilled in the fourth quarter tested at an equipment-restricted rate of 18.1 million cubic feet per day. The MBH field may be developed in tandem with the MDA field. A plan of development is expected to be filed in 2012. We plan to continue our exploration program in the Madura Straights Block this year with about six wells planned.

In oil sands, Phase I of the Sunrise Energy Project continues on schedule towards planned first production in 2014. Construction activities continue onsite with the installation of the foundations in the Central Plant Facility and the delivery of the first major equipment. To date, more than half of the 49 SAGD well pairs planned for Phase I have been completed. A contract for the Design Basis Memorandum and front-end engineering design for the next phase of the Sunrise project was awarded in the fourth quarter. Front-end engineering design is expected to be completed in 2013.

In the fourth quarter, we also released the results of an independent evaluation of our emerging oil sands properties. Highlights included the addition of approximately 10 billion barrels of best estimate, contingent resource to our bitumen holdings. The majority of the resource is attributable to our Saleski carbonate oil sands lease.

In the Atlantic region, the North Amethyst satellite field continued to perform well, with three production wells and three water ejection wells onstream at the end of December. An application was filed in the fourth quarter to amend the development plan for North Amethyst to include the deeper Hibernia reservoir. In 2012, development drilling will continue at North Amethyst in the Ben Nevis reservoir and an infill well will be drilled at the main White Rose field to facilitate incremental oil recovery. A water injector to support production from our West White Rose pilot will also be completed in the first half of 2012.

In summary, this has been a year of progress for Husky on many fronts. Our 2012 capital program is designed to build on that momentum. We continue to transform our foundation businesses in Western Canada and our heavy oil business. And while we continue to advance the projects that underpin our major growth pillars.

At this time I would like to turn you over to the moderator for your questions. After that, we will follow with some Q&A and then Asim will offer some closing remarks.

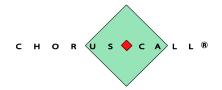
OPERATOR:

The first question today from Mark Polak from Scotia Bank. Please go ahead.

MARK POLAK:

Good morning, guys. Two questions. First one; wondering if you can comment on what reserve replacement is looking like for 2011?

And the second one, on Sunrise you mentioned the front-end engineering design for Phase II would be done next year. Is the plan to move directly into sanction then, as construction activity on Phase I is ramping down?





ASIM GHOSH:

Rob, do you want to take that?

ROB PEABODY:

Okay. On the reserve replacement comment we gave -- at our Investor Day we set out our -- that we expected about 170% reserve replacement this year. We are just finalizing all of the details, but I don't expect that is going to change a lot. But all of the details of that will be in our AIF, which will be filed in March.

On the Sunrise point, I think the main thing is we are going to finish front-end engineering on Sunrise in early 2013, and then both partners, clearly ourselves, and BP, will establish the pace at which we move forward from there.

MARK POLAK:

Thank you.

OPERATOR:

The next question comes from Joe Citarrella of Goldman Sachs. Please go ahead.

JOE CITARRELLA:

Thank you. On the thermal projects and the Sunrise Phase II build-outs, any color on how you're seeing capital costs trending there, going forward? And any indications of inflationary pressure as you are building out there?

ROB PEABODY:

Yes, okay. Just to reiterate, when we -- as we described at the Investor Day as well, we had a quite comprehensive strategy on cost control around the Sunrise project, in particular. We employ a contract strategy with a lot of lump sum components to it. At the moment, we have -- lump sum and convertible fixed price contracts make up about two-thirds of the total cost. And about half of these contracts have already been converted to lump sum.

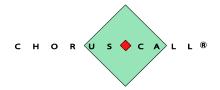
We are on schedule for conversion of the remainder, at the moment. Drilling, of course, is reimbursable in the project and consists of about one-third of the total costs. As we outlined before, that is going well, it is on schedule and on budget, so we feel pretty good there. We have substantially reduced our risk. I think the overall point on escalation is clearly we see escalation in costs across the whole industry, with oil in this \$100 a barrel region. There is a little bit of a linkage here.

ASIM GHOSH:

Basically we're also seeing higher revenue. If you think higher costs, it's related to higher revenue. The two seem to go together in this industry.

JOE CITARRELLA:

Sure. And then my next question is just on the Ansell play. Given where gas prices are, could you speak a bit more to the economics and your plans on 2012 and going forward? Do you see the liquids content as enough to keep you from needing to slow down the pace there at all?





And a second question within Ansell, do you have any general comments on how the JV process is going there? That would be great. Thank you.

ASIM GHOSH:

Alister, why don't you take that one?

ALISTER COWAN:

Okay. Ansell, as Rob said, is a key component of our 2012 plans. We have also said, and I've said many times, is that we've put ourselves in a very strong financial position with the activities we've undertaken. And while we're looking at a joint venture process, one would only happen if it adds additional value to what we can do ourselves. Clearly, we're looking at that. No decisions have been made. And when we have something, we'll obviously tell you about it.

From a development process, we completed the construction of the additional off-load capacity in the fourth quarter and are moving forward with the drilling program in 2012.

JOE CITARRELLA:

Thank you very much.

ASIM GHOSH:

You had a question about the liquids prices. But overall, I would say the Ansell economics continue to be as good as anything we can see in Western Canada.

ROB PEABODY:

For our liquids rich gas, I would say. Clearly, we're seeing very low gas prices today. While Ansell has good -- is a reasonable project for the long -- a very good project for the long-term, we believe, we will adjust pace depending on opportunities as we see going forward here.

JOE CITARRELLA:

That's helpful. Appreciate the color.

OPERATOR:

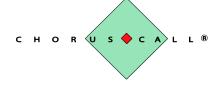
The next question comes from Paul Cheng from Barclays Capital. Please go ahead.

PAUL CHENG:

Hi, good morning, gentlemen. A number of quick questions. Alister; in the deferred tax is there any kind of rough guidance you can give us in 2012, 2013? In 2011, I think about 40% of your reported tax is cash tax. How is that ratio going to look like for the next two years?

ALISTER COWAN:

I think at our Investor Day in December, I think I made the comment that we'd expect that the cash tax for 2012 and to 2013 would be very close to 100% of the tax charge. There's really two reasons. One is, we've utilized up most of the losses, tax losses we had in the U.S. from our refining business. So moving forward, that will be cash taxable. The second one is with the change in law around the deferral partnerships in Canada, we have to bring in to -- we have to pay the deferral remains over the next five years. And that's about another \$150 million to \$200 million a year in cash tax that we'll pay next year. It will be around 100%.





PAUL CHENG:

And is that going to be the case that goes beyond 2013, or that your investment in Sunrise and other areas will start to make it back to not we need such a big cash taxpayer?

ALISTER COWAN:

That is correct, Paul. As we move further out and we stay on -- the expenditures ramp up, it will certainly bring down the cash tax charge. But we will have, for five years, the impact of the deferral partnerships. And that's roughly \$200 million a year.

PAUL CHENG:

I see. Maybe this is for Rob. Rob, on the Liwan, what is the percentage of completion, in terms of construction in the design work?

ROB PEABODY:

The percentage complete?

PAUL CHENG:

Yes.

ROB PEABODY:

I don't have this currently to the exact date at the moment, but the last time -- it was around -- it was over 30% earned value complete.

PAUL CHENG:

The total completion, 30%, or just the construction piece is 30%?

ROB PEABODY:

It's basically the project. But essentially, the project, as I say, is on schedule for 2013 and 2014.

PAUL CHENG:

Is all the design work -- everything is done by now or that are you still fine-tuning on the design?

ROB PEABODY:

The design is largely done. There are still small amounts. But it is quite advanced. We are into construction.

PAUL CHENG:

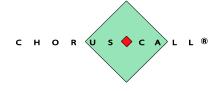
And when do you expect the Sunrise steaming will start?

ROB PEABODY:

The current schedule for Sunrise steaming is the latter part of 2013 to start steaming.

PAUL CHENG:

And given the current gas price, have you shut any gas well; or you're just reducing your new drilling activity, but the existing well you didn't really shut yet.





ALISTER COWAN:

Paul, let me take that. On the gas side, returns -- we have taken a lot of steps. As we said in December, we have substantially reduced our dry gas development. A couple of other points to note is that 2012 we'll focus on liquids rich gas oil plays, such as Ansell. About one-third of our gas production, daily, we actually use internationally for our various facilities, whether it be the refineries of the upgrader, and thirdly, our thermal and Tucker. That will increase over time as we bring on these Ansell projects and Sunrise. But we do continually monitor the environment. But at this price, we don't have any plans to shutting gas on the basis that it's still cash flow positive.

PAUL CHENG:

Final question for Rob. Rob, do you have some number you can share with us on the year-end production exit rate for the non-conventional shale play in your portfolio, breakdown between oil and gas? And also if you have any target for those starting in 2012 and 2013?

ROB PEABODY:

I'm not going to give specific guidance on that at the moment. One of the things about the whole oil resource and gas resource play portfolio, as I think we have been conveying at the Investor Days, is we are still at a relatively early phase of development here. And by the -- my hope would be by the end of this year, we will be able to give a much better feel for what this looks like, at our next Investor Day.

PAUL CHENG:

Right. But can you share with us what is the year-end exit rate? And maybe if there is any data, in terms of the 30-day IP or expectation of the EUR per well and the well cost account information?

ROB PEABODY:

Not at the moment.

PAUL CHENG:

Thank you.

OPERATOR:

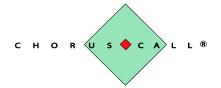
The next question comes from Edward Welsch of Husky Energy. Please go ahead.

ED WELSCH:

Hi, this is Ed Welsh with Dow Jones Newswires, actually. I wanted to ask; you mentioned the volatility in Western Canadian crude pricing. We saw a really large widening in spreads; can you talk about that phenomenon and how it's going to affect your business this year?

ASIM GHOSH:

I think the points that Alister made was to the extent that oil is backing up, there'll be less stabilization upstream. However, given our unique position of what we have called "targeted downstream integration," we expect to recover the last upstream margin in downstream. However, there is a timing lag, because the time in which we recognize it upstream is sooner than when we recognize it downstream. There will be a straggling of quarters, but across the -- we expect to be internally hedged.





ED WELSCH:

I see. Given your refining capacity, it's going to protect you from some of this that might otherwise hit your business.

ASIM GHOSH:

Exactly. You make less upstream, but your input costs go down downstream.

ED WELSCH:

Now, did you say that you might actually cut back production on the upstream side in order to match --?

ASIM GHOSH:

No. We did not say that.

ED WELSCH:

Okay, all right. Well, thanks for that.

OPERATOR:

The next question comes from Jeff Jones of Reuters. Please go ahead.

JEFF JONES:

Yes, my question is along the same lines. I'm wondering if you have any internal view on how long this situation might last, with this huge expansion of heavy, and even light synthetic crude differentials.

ASIM GHOSH:

No, we don't. I want to harken back to what I've said in previous Investor Days. As a company, we firmly believe in the merits of a balanced portfolio and internal hedges. I think that diversification of the portfolios are proving to be a moderating factor in our results, has done so over the last year. As we get more and more focused on creating those balances we want to ground-proof the Company from such volatilities.

JEFF JONES:

Thanks very much.

OPERATOR:

The next question comes from the Mike Dunn of First Energy Capital. Please go ahead.

MIKE DUNN:

Good morning, everyone. A couple questions; first guys, you mentioned in your MD&A that completion of two Duvernay wells is expected in 2012. Should we be thinking of that as maybe first quarter here and maybe you've some results to share with your Q1 results? Or can you narrow down that timing at all for me?

And the second question would be on your Lima refinery. Just wondering if the Lima refinery is seeing any discounted crudes flowing into the refinery, there? I know a lot of it comes up from the Gulf Coast area. But just wondering if there is -- a portion of that is looking cheaper these days?





ASIM GHOSH:

Rob, why don't you take the Duvernay part, first? And then Bob, you'll take the Lima one.

ROB PEABODY:

Okay, on the Duvernay, fairly briefly I would say is; we have a vertical well into there, and we now have a horizontal well that we are hoping to get completed in the first quarter of this year. When we have some significant results to speak about, we will.

MIKE DUNN:

Great.

ASIM GHOSH:

Bob?

BOB BAIRD:

And on the Lima crude slate, we're using between 70% to 80% of our feed stock is on discounted crudes.

MIKE DUNN:

Great, thanks, guys.

OPERATOR:

There are no more questions at this time. I will now hand the call back over to Asim Ghosh for closing remarks.

ASIM GHOSH:

Thank you very much. Thank you for joining us. So I just want to summarize, on behalf of the team; I think in conclusion we can say that we have accomplished much over the past year, but we are focused on the path ahead. We do have some lumpy events which will affect us this year. So I'd wish to remind you of the two offstations yet again.

And secondly, I wish to remind you of the point that we -- that the question before last addressed, that given the volatilities we are seeing in pipeline connectivities, there will not necessarily be a smooth quarter-to-quarter profit delivery because of the disconnect between upstream and downstream profit recognition.

But overall, our strategy is clear. The results demonstrate that the strategy is taking root and we are delivering against our targets. But we recognize much remains to be done. Thank you for joining us.

OPERATOR:

Ladies and gentlemen, the conference has now concluded. You may disconnect your line. Thank you for joining and have a pleasant day.

