



HUSKY ENERGY

THIRD QUARTER 2019

CONFERENCE CALL TRANSCRIPT

Date: Thursday, October 24, 2019

Time: 9:00 AM MT / 11:00 AM ET

Speakers: **Robert Peabody**
President and Chief Executive Officer

Robert Symonds
Chief Operating Officer

Jeff Hart
Chief Financial Officer

Jeff Rinker
Senior Vice President, Downstream

Dan Cuthbertson
Investor Relations

Operator:

Welcome to the Husky Energy Third Quarter 2019 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:

Hello and thanks for joining us today. We have CEO Rob Peabody, COO Rob Symonds, and CFO Jeff Hart, and other members of the team here to summarize our third quarter results and then take your questions.

Our call today will 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 in this morning's news release and in our annual filings on SEDAR and EDGAR. Unless stated otherwise, all numbers are in Canadian currency and before royalties.

We ask that you direct any specific modeling questions to our Investor Relations team after the call. Rob will now start us off.

Robert Peabody:

Thanks, Dan. Good morning, everyone. The third quarter saw the delivery of some important milestones. I'll start with our progress on the safety front.

We're continuing our transition into a top safety performer through the actions we're taking to become a high reliability organization. This work to enhance process safety is also translating into improved reliability across the Company. Under the direction of Peter Rosenthal, our SVP in charge of Safety and Operations Integrity, we've taken a series of important steps over the past several months. These include building and strengthening our safety organization through

process safety, operational integrity, maintenance, and reliability initiatives. All of our safety staff are now under Peter's leadership and he reports directly to me.

Ultimately, I'm confident that we're on the right track to further entrench best practices and safety throughout the Company.

Turning now to our operational highlights . . . It was a very successful quarter in terms of planned delivery and execution of our strategy, including achieving all of the planned milestones for the period that we set out at our Investor Day last May. It's important to remember that everything in our plan is part of a deliberate drive to expand margins and bring down our breakeven oil price.

In the Integrated Corridor, our most recent Saskatchewan thermal project at Dee Valley is now on production, and it was delivered ahead of schedule and below budget. This is another in a series of low-cost, repeatable 10,000 barrel a day projects in a growing portfolio. Dee Valley ramped up very quickly after its start-up on August 24, hitting its nameplate capacity on September 30.

We have five more of these Lloyd projects currently in development. They come on production through 2023.

Spruce Lake Central, which is now about 85% complete, will start up in the second half of 2020. Spruce Lake North will follow around the end of the year.

In the Downstream, the Lima Refinery ran near its recently enhanced capacity of 175,000 barrels per day throughout the quarter. At the Superior Refinery, we received the required approvals to begin the rebuild construction of the refinery, which is now under way.

In the Canadian Downstream segment, we announced the sale of the Prince George Refinery and continue to advance the strategic review of our retail and commercial fuels business. This further focuses our portfolio on the core Integrated Corridor and Offshore businesses.

Looking now at the Offshore . . . In the Atlantic region, we resumed full production from the White Rose field in mid-August, which brought our overall Atlantic production to over 25,000

barrels a day Husky working interest. At the West White Rose project, we are continuing to see strong productivity gains, which has allowed us to complete the fourth quadrant of the concrete gravity structure earlier than expected. Rob Symonds will speak more to this in his section.

To sum up, we're continuing our drive to become a high reliability organization. Our strong balance sheet, combined with deep physical integration in the Integrator Corridor business and fixed-price gas contracts in Asia, contributes to our resilience while keeping us well-positioned for the upside.

We remain committed to the plan we set out at Investor Day earlier this year, including returning value to our shareholders through a sustainable cash dividend. The investments we're making will reduce our cost structure and grow our margins, which further improves our resilience. As we wrap up our larger capital projects in Asia and in the Atlantic, we expect to reach a positive free cash flow inflection point in 2021, as we outlined at our Investor Day.

Finally, you will have seen we made some workforce reductions earlier this week. This was to align our organization with the lower level of capex investment that we set out at our Investor Day in May of this year, and the more focused portfolio we have following our divestments and transformation programs over the last few years. I'm confident these changes, while never easy, will give us a productive and efficient business, and put us in the best position to achieve our goals.

Now, I'll turn the call over to Jeff to review our Q3 financial results.

Jeff Hart:

Thanks, Rob. Funds from operations were just over \$1 billion in the third quarter compared to \$1.3 billion in the year-ago period, and up from \$800 million last quarter. Cash flow from operating activities, including changes in non-cash working capital, was \$800 million compared to \$1.3 billion in Q3 2018. This reflects increased production following the completion of a large number of turnarounds in Q2, the ramp-up of the new Dee Valley thermal project in Saskatchewan and the return to full production in the Atlantic region in late August.

Net earnings were \$273 million compared to \$545 million in the year-ago period. This was primarily due to the impact of lower crude oil prices, coupled with lower U.S. refining margins.

While Downstream operational performance was solid, we felt the impacts of weaker crack spreads. The overall downstream EBITDA was \$410 million, which includes \$132 million in pre-tax insurance proceeds related to business interruption at the Superior Refinery. This compares to the same time last year when we saw \$580 million in Downstream EBITDA, which included \$110 million in pre-tax impacts primarily related to property damage insurance at Superior.

Meanwhile, Upstream production averaged around 295,000 BOE per day compared to 268,000 BOE per day last quarter. The average Upstream realized price for this quarter was \$47.54 per barrel, down about 6% from Q3 2018. Upstream operating costs of \$14.83 per BOE were in line with what we saw at this time last year. They were lower compared to the previous quarter due to increased production and the completion of our planned turnarounds. The Upstream operating netback averaged \$29.31 per BOE. This included a netback of \$62.59 per BOE in Asia and \$41.64 per barrel in the Atlantic region, where the ramp-up of the White Rose Field reduced our unit costs.

The Infrastructure and Marketing segment realized net earnings of \$34 million compared to \$149 million in Q3 2018, mostly reflecting the tighter heavy oil location differentials. Due to our integrated nature, we captured part of this difference in the Upstream business.

Capital spending was \$868 million compared to \$968 million in Q3 last year. Our capital guidance for 2019 remains unchanged at \$3.3 billion to \$3.5 billion. Net debt at the end of the quarter was \$3.9 billion or 1.1 times trailing 12-months funds from operations. Net debt has been impacted by higher working capital, mostly due to the increase in receivables in the quarter, which includes the timing of business interruption insurance proceeds and crude oil liftings in the Atlantic. Net debt does not yet include any proceeds from the sale of the Prince George Refinery which is expected to close in the fourth quarter.

Total liquidity was approximately \$6.5 billion, including \$2.3 billion in cash and \$4.2 billion in unused credit facilities.

Finally, our Board has approved a quarterly dividend of \$0.125 per common share.

Thanks. Now, I'll pass the call over to Rob Symonds for more detail on our third quarter operations.

Robert Symonds:

Thanks, Jeff. Month-to-date for October, our overall Upstream production is running over 300,000 barrels equivalent per day.

In the Integrated Corridor, the Dee Valley thermal project came on very strongly, which is typical for this type of development. As Rob mentioned, we reached nameplate in September, and I can now tell you we've recently seen production of over 11,000 barrels per day. As a result, we expect to meet our target of 90,000 barrels a day of overall Saskatchewan thermal production by the end of this year. Now, I remind you that our Saskatchewan production is not subject to government quotas.

Elsewhere in the heavy oil portfolio, we started up our first polymer injection project at the Aberfeldy field in Saskatchewan. This technology is helping increase oil recovery while using existing infrastructure, leading to lower operating costs. We're also using machine learning models to improve our steam-oil ratios at the Sandall and Edam East thermal projects. Field trials are under way, and we're seeing good results with improved production.

At Sunrise we're working towards a November start up of a non-condensable gas pilot program that should also ultimately help us to reduce steam-oil ratios.

In the Downstream, total throughput at the Upgrader and refineries was 356,000 barrels per day. At the Lima Refinery, we started the final tie-in of the crude oil flexibility project, and it is now about 95% complete. As was included in our plan, this requires a full shutdown that will last until the back half of November, so you'll see that reflected in our Q4 throughput numbers. Following a staged start-up, we'll be able to process up to 40,000 barrels a day of heavy crude, which is up from the 10,000 barrels a day that we can currently run. This will allow enhanced margin capture.

At the Superior Refinery, the rebuild is underway. A substantial amount of the cost is expected to be recovered through property damage insurance. We will be using Best Available Control Technology to provide for even greater safety and efficiency. Once completed, the refinery will run in a continuous mode, averaging 45,000 barrels a day of throughput compared to our

previous run rate of 40,000 barrels per day. We're also increasing our heavy processing capacity from 20,000 barrels a day to 25,000 barrels a day.

Turning now to the Offshore business . . . Overall average total production for Asia and the Atlantic in the quarter was 62,700 BOEs day Husky working interest. This is up from 54,400 in the last quarter. Our share of gas production from Liwan averaged 158 million standard cubic feet per day in Q3, which is comparable to the previous quarter.

At Liuhua 29-1, which is our third field at Liwan, all seven subsea wells have been drilled, and the final completions are being installed. The overall project to tie in 29-1 is now about 65% complete, and we're on schedule for first gas by the end of next year. Once ramped up in 2021, it could deliver around 9,000 BOEs a day net to Husky.

In the Atlantic region, the West White Rose Project is progressing to plan and is now more than halfway complete.

We finished the third quadrant of the concrete gravity structure in Q3. We had planned to finish the fourth and final section next year; however, thanks to the strong productivity that we've seen on the project, we've been able to complete the final quadrant this year. In fact, it was finished last week.

Thanks. Now, I'll turn the call back to the Operator for questions.

Operator:

Thank you. We will now begin the analyst question-and-answer session. Any analyst who wishes to ask a question may press star and one on their touchtone phone. You will hear a tone to indicate you 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 then two. One moment while we poll for questions.

Our first question comes from Benny Wong of Morgan Stanley.

Benny Wong:

Hi. Good morning, guys. Just wondered if I can get an update in terms of the process of the sale of your Canadian retail and fuel distribution business; any indication of interest there, and any colour you can provide in terms of how that's stacking up versus what you guys were hoping for or expecting?

Robert Peabody:

Sure. Absolutely. This is Rob Peabody. Just on the retail sale, I'll just give a quick update on PG. We're expecting that to close in the next week or two, so that's gone rather well. The ongoing strategic review of the retail business is underway. As we said before, we've had good interest in the business from many parties, and we'll update you as soon as we have something signed, done and sealed; we don't want to comment on current negotiations. But, overall, we feel pretty good about the process.

Benny Wong:

Great. Thanks. Just wondering if you can maybe give us some early thoughts about how you guys think about next year about your budget. I think in previous conferences or events, you've kind of mentioned you'd been thinking about potentially the possibility around raising the dividend if the proceeds of the non-core sales come in, in line or even better than expected. Just any further thoughts around that would be helpful. Thanks.

Robert Peabody:

Sure. I guess we can kind of—I'll talk a minute, and then I'll turn it over to Jeff, the CFO. Basically, we set out our plan in May of last year. We still feel we're essentially on that plan in terms of delivery and in terms of the free cash flow inflection we see at the end of next year. That's really coming clearly as we bring on 30,000 barrels a day of new production in the two new thermals plus, of course, the project in the satellite development of Liwan. Those help on the enhancing cash flow. But on the flip side of that, we're also seeing capital really falling off as we get towards the end of next year as, again, we're seeing some big projects come to the end of their big spend period, including the crude oil flexibility project, which, of course, is finished at the end of this year.

Then as we go into next year, 29-1 ramps down, some of those thermals ramp down. At the West White Rose project we're coming out of the heaviest spend part of that project, as well,

that project doesn't come on until the back end of 2022, the last year, so it's really much less intensive from a cost standpoint than where we are now.

As we said earlier, that project seems to be going as well, or better than, the assumptions that we put in around Investor Day in May.

We still see that cash inflection point coming. We still see the balance sheet is still in good shape. One thing I should point out is when you look at the debt at the end of this quarter, the debt does not yet reflect the proceeds of the Prince George sale; those still have to come in. Also, while we've got business interruption insurance payments agreed with the insurers in the quarter and book those in the quarter, the actual cash still is coming in, in the next few weeks. There's about somewhere in the order of \$300 million and \$350 million-plus that's kind of not in the end-of-quarter-debt number . . . that's kind of in the mail, I guess you could say.

Jeff, you want to add anything?

Jeff Hart:

Yes, a point on the net debt. Our receivables increased by about CAD\$300 million in the quarter from Q2. That's really driven by the business interruption insurance proceeds, and we have some crude oil and things on the East Coast that we're in the process of collecting, just for that colour.

I think just to add onto the point on dividend and proceeds or returning cash to shareholders, we laid out the plan at Investor Day. Our priority is executing, and its safe and reliable operations, and then generating cash to return to shareholders. That is our bias and priority.

Rob talked to the inflection point on cash flow. We'll be prudent about returning cash to shareholders, and we'll balance next year and making sure that we're good through next year. But our priority is as proceeds come in, we're comfortable with the commodity environment and the like, and we see the cash flow inflection point getting closer. There're some catalysts there through the year.

Benny Wong:

Great. Thanks, guys.

Robert Peabody:

Thanks.

Operator:

Our next question comes from Emily Chieng of Goldman Sachs.

Emily Chieng:

Thanks, guys. Can you talk about some of the slightly more one-time type of items that impacted earnings this quarter? Just thinking about the higher-than-expected business interruption, insurance payment, and also the timing rateability of that \$113 million of equity distribution from the Asia business there please.

Jeff Hart:

Yes, I'll talk to that. I'll start with the distributions from the equity investments. I wouldn't view it as a one-time, although we did have, let's say, a true-up in distributions in the quarter. But I would expect the distributions on a regular quarterly basis ongoing, which is really your operating cash flows less any capex in the venture. It'll be a regular occurrence, but this was, what I'd say, is a larger true-up.

Number two, on the business interruption we've collected about US\$225 to date since the time of the incident and, really, we're at with the differentials, where they were last year, the cracks and the like, we're still in the process of collecting via the LP calculations with our insurance provider. I would expect that on a regular basis. We have coverage through to April next year, and so expect that. It's really based off market metrics and the LP model, so it's really reflective of the operating cash flows as if the refinery were up and running.

Emily Chieng:

Got it. Thanks.

Robert Peabody:

Yes. The only thing I would add to Jeff's comments on that is that the nature of doing the calculations, agreeing with them with insurance companies, and then getting the payment means that in reality we're kind of the—these are delayed payments if you think of it that way.

Now that we've absorbed the delay of the start of the incident, what you'll see is at the end, when the business interruption insurance runs out in April, you'll still see payments come in probably 2Q, and I wouldn't even be surprised a bit in 3Q, as we kind of collect the money that was really owed to us from the early days of the incident.

Emily Chieng:

Got it. That makes sense. Just one more question, please. Around production guidance for 2019, I guess, what confidence do you have in reaching the bottom end of that target? Does this require all operations go exactly to plan, or is there any room for error here built-in? Thanks.

Robert Peabody:

Rob, do you want to talk to that?

Robert Symonds:

Yes. This is Rob Symonds. I mean, clearly having significant amount of production under a quarter in Alberta is putting some pressure on our totals. But, certainly, right now everything does not have to run perfectly. Obviously, we can't have a major problem anywhere, so, right now, yes, we remain confident that we're going to get towards that bottom end of the range.

Operator:

Our next question comes from Phil Gresh of JP Morgan.

Phil Gresh:

Hi there. First question just on the Downstream side, I know you talked about the business interruption proceeds, so that was helpful. You have guided to a specific level of operating costs in the U.S. specifically that excludes the cost of Superior. But, obviously, if we look at the P&L, the total cost per barrel are quite a bit higher. I'm just trying to understand how you expect that the cost side of the equation to progress and how much of the, I guess, one-time headwind we're seeing from the Superior costs in the operating line item.

Jeff Hart:

Yes. There're a couple of factors. The dollar per barrel throughput is always obviously negatively impacted because you have ongoing costs at Superior, so that is what I'd say is more one-time from that metric, as we're still incurring that. I would view that as more one-time. When

we get up to normal operations, your dollar per BOE with that impact per barrel will normalize from there. Then it really gets in, I think, in prep work and some reliability integrity work in the other assets.

Let me pass it over to Jeff for further comments.

Jeff Rinker:

This is Jeff Rinker. Aside from Superior, as Jeff just mentioned, I think the biggest area we've seen unexpectedly high operating costs this year was at our Toledo joint venture where Toledo has had some turnaround that went much longer than we had planned it to do, and so the maintenance costs there were higher, and especially maintenance costs per barrel were higher than expected. I think across our operated assets, our operating costs were largely where we expected them to be, and we now see Toledo back up, running full rates and running reliably so I don't expect those and the higher costs that we saw at Toledo to continue either.

Phil Gresh:

I guess if I take your guidance of I think \$7.20 to \$7.70 per barrel for this year, and I think the run rate is being closer to \$10, so is it fair to say you're tracking a bit above the \$7.70 but the rest of that is Superior costs?

Jeff Hart:

I think that's a fair summary.

Phil Gresh:

Okay. Got it. Then I guess the broader question, as we look at 2020, the guidance from the Analyst Day is that capital spending will be up a little bit versus 2019. I know there are still several thermal projects you have on the docket here to grow production, but is there any, I guess, contemplation of as I guess West White Rose is continuing to have the spending there and the ramp, that you would consider maybe slowing the production trajectory to generate more free cash flow and have less of a capex headwind next year, or is this something you're pretty committed to? Just in general, is there capital spending flexibility, I guess, is the broader question? Thanks.

Robert Peabody:

Let me address that and then if Jeff has any other things to add I'll turn it over to him.

But, essentially, capex in 2020 is relatively clear. I think what you will see—and we'll come back to this when we put out our guidance in December—is that you'll see some impacts of further capital efficiency. I think we think we can actually deliver what we're planning to deliver with a little lower cost as we look forward, and we'll update you on that in December.

Then further out, of course, as you go further out there is a little more flexibility and there's a little bit more of an opportunity to do a little bit of trade-off on volumes versus capital. We're looking at that and, again, we'll update that in December.

I think what I'd say is the growth that we're planning to deliver, of course the cost will—the crude oil flexibility project is finished; the 29-1 field is actually in a fairly advanced state; and those two thermal projects that are being delivered next year are all towards the end of their capital spending program. So, I don't think it's going to affect production growth in the near-term very much, and it just may be a little bit of trade-off with the total scale to capital program over the five-year. If you'll recall, when we did our Investor Day, we brought down the five-year capital spending. I think we took about \$1.2 billion or so out of the capital spending, at least that's the number in the back of my mind when we did that.

I think as we look at it going into this coming year, between capital efficiency and a little bit more of looking at that trade-off, I think, we think there's a little bit more room to bring down that five-year capital number. As I say, we'll update you on that in December when we kind of just put out our guidance for next year. Jeff?

Jeff Hart:

Yes. Just to add a little bit of colour where there is some flexibility in the capital is really in our onshore space and your Western Canada space and our cold production assets. But as Rob alluded to, we'll come out with guidance, but our priority really is those projects that we just highlighted in executing through and, ultimately, returning cash to shareholders.

Robert Peabody:

I guess the only thing I'd highlight on that is, again, with the plan last year, of course we had a big positive free cash flow inflection going into 2021, which feels like a good place to be in. Hopefully, well, we know that these changes will only improve on that kind of picture that we set out.

Phil Gresh:

Okay. Thank you.

Operator:

Our next question comes from Manav Gupta of Credit Suisse.

Manav Gupta:

Hey, guys. I'm trying to understand this. As these mandated parts are coming down by 10,000 barrels November and December again, like, how will the production vary between Sunrise, Tucker versus your CHOPs? Like, where will you be looking to ramp up some or bring down some to manage around these lower cutbacks?

Robert Symonds:

Yes. If I understand the question correctly, Manav, it's about sort of how do we prioritize where we take our quota cuts?

Manav Gupta:

Absolutely. Right.

Robert Symonds:

Clearly, for us there's a number of criteria that go into that, but predominantly it's about the best netbacks. We've historically been cutting back our heavy oil cold production assets. Then Sunrise and Tucker have both been impacted. Right now, we are looking to bring up Sunrise. Sunrise is quite capable still of running over 60,000 barrels a day at that nameplate kind of piece, and as you've seen, we've been running that below. That's the predominant area now.

The other two areas, over the last year we haven't been investing and so there is some decline in those assets, and so you haven't got a lot of extra capacity. So, Sunrise is the predominant one that we would go to.

Manav Gupta:

A second question is more on the macro side. When do you expect the Government of Alberta to kind of announce something on the rail deal? We've been hearing for a long time a lot of people are optimistic with what happened. It's just what's the possible timeline on this rail and curtailment deal?

Robert Peabody:

This is Rob Peabody again. Yes. I certainly was optimistic amongst the other people as well, but we haven't really heard anything. I hear rumours again that we're going to hear something, but predicting these political outcomes seems to be getting more and more difficult, frankly. I think the main thing about that is that I would just emphasize, our strategy still has all of our production growth in Western Canada coming Saskatchewan, so it's not hurt by levels of quotas and curtailments.

The other thing I'd just add to that, I think, is that, unfortunately, because quotas have held back a lot of people making investments in Alberta, including ourselves, the capacity, as Rob alludes to that you can immediately bring on if quotas went away, starts becoming less. At the same time, the pipeline companies have actually been doing a pretty good job of creeping capacity in their pipelines. I mean, by the end of this year, I think the number that I've been told is they will have about 270,000 barrels of additional capacity on compared to when quotas were first introduced.

Between those two things, there's actually, I think the quotas are biting less hard on most producers, and where we see that is in the kind of secondary market around quotas. So, if you want to buy them, some months are a little tighter than others, but we've been through a couple of months here where there was lots of quota just available to go out and purchase. Again, I think the problem is becoming less acute, but part of the reason it's becoming less acute is because the quotas have been on long enough they've affected investment enough that it's reducing the total amount of capacity that's kind of being held up.

Manav Gupta:

The last question, guys, on Enbridge moving to a contracted capacity, a number of producers had opposed it, including Husky. I'm just trying to understand where are we in that process or how do you see that entire process playing out at this stage?

Robert Peabody:

I'll get Jeff Rinker to answer that.

Jeff Rinker:

This is Jeff Rinker. Hi. Yes, we were among a number of other shippers on the pipeline that were concerned about the process of converting the pipe to contract to capacity. We expressed those concerns. I'm happy to see that the energy regulator decided to step in and have a review of the process before continuing with the open season. I think that's a welcome sign, and we'll participate in that review along with the rest of industry, I suppose. I don't know anything more about the timeline of that and what the regulator has said.

Manav Gupta:

Thanks so much.

Operator:

Our next question comes from Prashant Rao of Citigroup.

Prashant Rao:

Hi. Thanks for taking the question. Mine are a little bit more specific here. I was just wondering on the corporate segment income line, it looks like there was some benefit there in the quarter to FFO and to net income. There're moving parts there, and so just wanted to get a sense of how much of that is maybe ratable as a read-forward. Are we looking at a lower corporate expense going on and how does that fit into kind of your thoughts on your previous comments on capital framework ahead?

Jeff Hart:

Yes. So, a couple of things; we're within where we'd expected, but there're a couple of longer-term, what I'd say, benefits. Obviously, we'll have cost reductions here through the coming year or through the coming period with some of the changes we've just recently made, number one.

The only thing that I'd highlight really is in the corporate segment for this quarter is just really the stock-based compensation is the only thing that really kind of moved. I think everything else is within expectation, but we'd expect savings, I'd say, longer-term through the coming years with some of the recent things that have occurred.

Prashant Rao:

Okay. Thanks. Then just a quick follow-up on Superior now that construction has begun. Could you maybe give us a little bit more colour on what is sort of the stages of construction there, like what are some of the longer lead items that are on-site, and as much as you can disclose or divulge on what are the units maybe that need to be rebuilt, so that we can just kind of get a sense of how much kit needs to be put in before we get operational in 2021?

Robert Peabody:

Jeff will answer that.

Jeff Rinker:

Thanks, Rob. Yes, we're really happy that we got the construction permits issued to us at the end of September, and that was, I think we said before that, we were hopeful we'd get them by the fourth quarter, so that was actually even a little bit better than we'd hoped to get them in hand.

Now, we're in construction phase. We're doing earthworks on-site. Demolition is largely complete. We've got a couple of more items of demolition to get done, but that'll be well done by the end of this year, we expect. Also, within a month or so, we'll be starting to do the piling and civil work at the site. Really, we're working right into construction.

The units that were most affected by the incident were the crude units and the FCC, and that's where most of the construction effort is focused, of course. Although we are doing, as well, some safety and reliability enhancements in some other units, especially the alkylation unit at the site. We have major equipment ordered, and we'll have major equipment starting to show up on the site around the end of the year, beginning of next year, and you'll start to see the landscape of the refinery change in a positive direction. Construction will be heavy all of next year and we'll be in commissioning and start-up sometime in 2021.

Prashant Rao:

Okay. Thank you very much. That's very helpful colour. I'll turn it over. Thanks again.

Operator:

Thanks. Our next question comes from Dennis Fong of Canaccord Genuity.

Dennis Fong:

Hi. Good morning and thanks for taking my questions. Maybe just a bit of a follow-on to the Superior reconstruction. One of the questions that I had was just around you were talking about a few upgrades, both within the context of the safety as well as expansion of the throughput. I was just wondering, those traditionally are not covered within insurance proceeds, so how should I be thinking about the cost or capex to you guys and how that should maybe look out over the years of the rebuild?

Jeff Hart:

Yes. You're right on that, on the perspective of the insurance covers the rebuild portion kind of replaced likely in time to where, you know, with new technology basically, but the enhancements are you're probably in the \$100 to \$200 range, give or take, and obviously those are economic, but that's kind of the ballpark to have on it.

Robert Symonds:

Yes. Dennis, this is Rob. Just a little bit more detail on that. The component that's not covered, R&D, those things that are making the refinery better. We're moving from 40,000, because if you'll recall we kind of swung the refinery between heavy and light. Once we're re-done, we'll run 45, and we'll be able to run full heavy. Insurance is clearly not going to do that. To Jeff's point, though, that's very economic, and that's what you should think of, and it is in our plan, and it's been in our plan since Investor Day, as somewhere in that CAD\$100 to CAD\$200 required for Husky to put into the refinery.

Dennis Fong:

Okay. Perfect. Thanks. My second question here is just with respect to your thermal projects. You've been traditionally running kind of three simultaneously, plus or minus, projects on an ongoing basis. I think as you get into the late stages of 2020, as you complete projects that kind of falls to 2.0, 2.5. Given kind of the restructure of your workforce and so forth, should we not

expect kind of that run rate 3.0, 3.5 type of projects on a go-forward basis from the thermal side of things?

Robert Symonds:

Dennis, this is Rob. Let me try and give you some clarity here. If you'll recall, two years ago we had a process of running two projects a year in terms of coming on-stream. That means there's a number that are being trained at any given time, to your point. As we highlighted at Investor Day, we're coming down from two a year to three every two years, so 1.5. Indeed, the number in train will start to decline. That was what was in Investor Day, and the staffing decisions that were made are consistent with that. But we will continue running at that three every two years.

Dennis Fong:

Okay. Great. Perfect. Then the final one here is, initially the proceeds from the PG asset sale, and potentially the retail gas station network should, frankly, first go to the balance sheet. Obviously, that's in fairly good shape right now. How should I be thinking about capital allocation decisions, like on a Year 4 type of position? I'll turn it back. Thanks.

Jeff Hart:

Yes. It's Jeff here. You're absolutely right, as it will balance out. Our balance sheet is in good shape. As the proceeds come in, we'll balance the balance sheet, for lack of a better word, with returns to cash to shareholders. Those are our two ultimate priorities. As we hit the cash flow inflection point in 2021 and we're closer to that, we'll look to hopefully enhance returns to shareholders, but we'll balance that through the coming period just to make sure that we're good through the execution as we bring on these two thermals next year in 29-1.

That's the way to think about it is balance sheet and returns cash to shareholders are the bias and priorities.

Dennis Fong:

Great. Thank you.

Operator:

Our next question comes from Jon Morrison of CIBC Capital Markets.

Jon Morrison:

Good morning, all. Jeff, just to clarify, modeling Superior as if it was running on a three-month lag basis is what you believe is the most realistic way to try to match the insurance proceeds versus modeling it on a live or non-live basis; is that correct? I just wanted to make sure.

Jeff Hart:

I think that's a fair look. Clearly, the start here as you go through and you do the validations, you work through the LP model with your counterparts on the insurance side, it's a little bit lumpier and irregular from that, but that's where we'd like to get to, and I think that that's not a bad assumption.

Jon Morrison:

Okay. Price realizations in both Western Canada and Atlantic seemed a little bit stronger in the quarter. Was there anything specific that drove that that we should be aware of?

Jeff Hart:

Not really. We can have, in detail, the IR team follow up with you after as well.

Jon Morrison:

Okay. Just on the Superior rebuild, I realize that you're now in the construction phase and gearing towards 2021 from a delivery perspective, but is there anything from a regulatory or permitting perspective, either at the state or municipal level, that could delay a delivery date at this point, or is it really just your traditional construction risks that you face? Said a different way, I guess, do construction permits equal all permits?

Jeff Rinker:

This is Jeff. We have all the permits we need to construct and operate the refinery.

Jon Morrison:

Okay. Maybe this is a good one for you as well, Jeff, but any additional colour you could give around helping us quantify the magnitude of the enhanced margin capture as you think about completing the Lima crude flexibility project heading into 2020?

Jeff Rinker:

Yes. Okay. The main thing that we're accomplishing through the crude oil flexibility project obviously is being able to go up to 40,000 barrels a day of heavy processing. That's why we're doing so much work at the coker new main fractionator and with a lot of work around the coker.

One of the more maybe less heavily advertised and positive aspects of the project has also been just higher overall throughput and reliability across the whole refinery. You'll notice that two years ago refinery nameplate, or kind of advertised max capacity at the refinery was 160,000 barrels a day. This year we've been running consistently 175,000 barrels a day all year; in fact, I think it's 175.3 is the throughput through three quarters.

That is because of COF project investments that have been done; equipment that we replaced, exchangers, furnaces, that sort of thing. We've been able to reliably run that refinery at a much higher rate, actually, than we were ready to advertise and, actually, I would even say a little bit higher than we had expected. So, we're very positively surprised by that.

So, there're really two economic benefits of cost. One is higher reliable throughput and the second one is going to be, of course, the up to 40,000 barrels a day. We probably won't run 40,000 heavy all the time, unless heavy differentials are really attractive, but we'll have the flexibility to do that when it makes sense.

I'd also point out that this extra 15,000 barrels a day, this is 1.5, 1.25 Prince George Refinery, so even with the divestment of Prince George, our refining capacity is actually going up.

Jon Morrison:

Perfect. That's very helpful. Rob, you talked about the organizational changes and staffing reductions in the release, but is there anything more you can share around what you're trying to accomplish there? Were those as simple as largely project-based roles? Are you trying to just run with a lower headcount, or was there any structural changes in the business units and how they operate and how you process workflow within the organization?

Robert Peabody:

Yes. I mean, let me touch on that. I mean, first of all, these weren't a reaction. These weren't sort of a short-term reaction to any sort of recent political developments or anything like that. I

just see some of that stuff, people pass me Twitter—I still don't have a Twitter account. So, that's all sort of, probably B.S. is probably the best way to refer to that.

I mean, this is all around the strategy we laid out at Investor Day, which clearly involved focusing the portfolio over time, lowering the capital expenditure over time. So what we really have done now, and it was always in the plan, was to go back to the organization and make sure it is best configured to deliver that plan and not configured to deliver some big upside if oil went to much higher price. Let's focus the organization so it's quick to deliver that plan very efficiently, and that's what we did.

Your comments about the way we work and how we work, that's absolutely correct. One of the things that over the last little while has happened, of course, is work has reduced. The capital program came down. We would often take some very good people and put them into other groups which resulted over time with spans of control getting narrower than you would like to see. So, one of the things we did is we went through the organization rigorously and made sure the spans of control were correct and there weren't extra layers in the organization and all these things. Again, unfortunately what that meant is a lot of very good people who've done a lot of great work for us, but there just wasn't a position for them in that organization anymore. Certainly, I thank them for their contribution to the Company, and it's always unfortunate when you have to do these things.

But I think we're now positioned in a really good place to deliver this plan. Actually, I think the long-term effect in the organization will be very positive because people have much more full jobs to do, and we can get on and deliver.

Jon Morrison:

That's really helpful. Maybe if I could squeeze one more in, actually; I realize that you have solid market access, but if we were to see a rail above curtailment and program announced, say this week or next, does that change your desire to have any exposure to rail versus your current stance of really not needing it, if all of a sudden you could produce an extra 2%, 3% more than you otherwise would be able to in the unconstrained world?

Robert Peabody:

Yes. I'll just say on that we don't have a major export capacity issue at all. I mean, frankly, we have a quota issue. Everything we move, we can move without rail on our existing pipeline commitments and everything like that, which is helpful because that's the cheapest way to move stuff.

As I said, I think in short, I'll just say we don't have an issue with export capacity, we have an issue with quotas. Your point, which is quite right, is if you link quotas to export, would that give us more incentive to put something on rail, and the answer to that is at the margin potentially, but we would just have to work through the economics and do that. I think you wouldn't see us being one of the leaders in taking long-term rail capacity in order to meet that sort of requirements because there's just not enough in it for us, I don't think.

Jon Morrison:

That's very helpful. Appreciate the colour. I'll turn it back.

Robert Peabody:

Thanks.

Operator:

Our next question comes from Mike Dunn of GMP FirstEnergy.

Michael Dunn:

Thanks, everyone.

Robert Peabody:

Hey, Mike.

Michael Dunn:

Good morning. I had a question, I guess, probably for Jeff, but you do have some expensive coupon notes maturing here later this year? Is it right to presume that that's not necessarily going to get paid down from cash on hand in asset sales? I'm expecting, I guess, either through credit facilities or a term note of new notes that would be largely refinanced?

Jeff Hart:

Yes. So, there's the U.S. dollar notes coming due here in Q4. We've got—and that's USD\$750 million, call it CAD\$1 billion. We've got over \$2 billion in cash. We refinanced USD\$750 million earlier this year at a lower rate. I'd look to obviously these notes we'll pay down, and then we'll evaluate market conditions. We do have maturities coming due on the Canadian side next year, and we'll evaluate where the market is with that and look to balance liquidity in the overall capital needs. The existing notes on the U.S. dollar side that is coming due we will pay down.

Michael Dunn:

Okay. Then regarding corporate costs, I mean, should we be building in some severance costs here in the next quarter or two into our estimates?

Jeff Hart:

Yes. You would see this really manifest itself. It's a Q4 item, so I think that's a prudent thing to do.

Robert Peabody:

Again, in December we'll give a bit more colour just so that you have some guidance on that.

Michael Dunn:

Okay. That's it for me. Thanks.

Jeff Hart:

Thanks.

Operator:

Our next question comes from Asit Sen of Bank of America Merrill Lynch.

Asit Sen:

Thanks. Good morning. I have two quick ones. First, Rob, on sustaining capex, would the changes in your portfolio on both Upstream and Downstream and further efficiency gains, how do we think about sustaining capex versus I think what you guys have outlined at \$1.8 billion level in coming years?

Robert Peabody:

I don't think there will be a major change to the \$1.8 billion. We'll go back and look at that again, and if there's any changes to that, we'll talk about that in December as well, but I wouldn't rush out to model anything because basically the program of projects is essentially the same.

Asit Sen:

Got it. I was just thinking about your Analyst Day and the 2023 plan. Could you remind us what the cumulative growth capital in that plan was, the base case plan was, and perhaps sustain low oil price environment in a, let's say \$40, \$45 world, how does that change philosophically or conceptually?

Robert Peabody:

Do you want talk to that?

Jeff Hart:

Yes. I think the growth capex is about \$11 billion over five years. The way to think about a lower price world in all of that, we've really reduced capital through that Investor Day, and we talked about the inflection point here in 2021. The balance sheet is strong. We're working through obviously the PG disposition, which is expected to close this quarter, and we're well advanced and working through the retail review as well.

I think for us, when we hit that cash flow inflection point, we're through 29-1, the two thermals, we're in a good place and we'll balance these proceeds, returns to shareholders and the balance sheet over the coming 12 months.

Asit Sen:

Appreciate the colour. Thank you.

Operator:

This concludes the analyst question-and-answer portion of today's call. We will now take questions from members of the media. As a reminder, please press star and one on your touchtone phone to ask a question. If you wish to remove yourself from the queue, you may press star then two.

Our first question comes from Dan Healing of The Canadian Press.

Dan Healing:

Good morning, guys. Thanks for taking my question. I had a question concerning the layoffs this week. There's been tonnes of speculation, some saying there were dozens laid off, some saying there were hundreds. I've never understood why companies won't indicate what the size of these things are, recognizing that it's an unpleasant thing. Can you give us any indication at all of what even the percentage of it might've been?

Robert Peabody:

Well, we make a policy of not commenting on the exact numbers around layoffs. What I do want to say about the layoffs, because again, some of the other speculation that I've seen out there, is that these were in any way reflective of, say, recent political developments, either federally or provincially. We continue as a company. We work with whatever governments we have, and we work constructively with them. Like, I guess, any company, we like some things Governments do, and other things we're not so pleased with, but we continue to work to try to get them to do things that we think are good for jobs and good for returns to shareholders and our ability to fund pensions and things like that.

I just want to say, again, we set out a plan at our Investor Day in May last year which involved less capital spending. A lot of that, of course, has to go back—you have to go back to things like just oil price and the general oil price in the world and things like that. So that was a prudent thing to do, but eventually, when you spend less, you need less people to spend that money efficiently. So, that's what these job cuts were about.

Dan Healing:

All right. As a follow-up, the NDP and some others charging this week that Husky is benefiting from lower corporate taxes in Alberta, and yet you're reducing people. Given what you're saying about how you're spending less, obviously paying out less as well. Shouldn't that support more jobs?

Robert Peabody:

Yes. Just backing up a little bit, let's say overall our capital spending program is one of the strongest in the industry relative to our Company, and that's because, again, our core part of our strategy is about reducing the price that we need to breakeven as a Company and make the Company more resilient. Now, we would love to spend more money in Alberta, but, unfortunately, in Alberta, which is a very specific case, very different to Saskatchewan where we're still spending at very high levels, there are quotas in place that mean that we could spend to develop crude oil, but then they wouldn't let us sell it. So, that doesn't make any sense either. We really appreciate the tax changes, and I think they are the right policy. I really believe that the Premier is on the right path with that, and certainly they will encourage us to make whatever investments we can, but we are an oil company, and so producing what we produce is actually quite important to us. I'm hoping that's still a short-term issue. I'm not trying to second-guess all the judgments he had to make in making that decision. There could be very good arguments; we've had conversations about that, but for us at the moment, it restricts us from being able to invest in Alberta.

But I do want to emphasize we are continuing to invest strongly in Saskatchewan, very strongly in Newfoundland, and we're investing very strongly in the United States in our refining system.

Dan Healing:

Okay. Thanks very much.

Operator:

This concludes the question-and-answer sessions. I'd like to turn the conference back over to Mr. Rob Peabody for any closing remarks.

Robert Peabody:

Okay. Thanks very much for everybody who participated in the call. Really appreciate it and really appreciate the questions as well.

Just to wrap up, we made good progress in Q3 in delivering our planned milestones safely and reliably, and we maintain we really remain on track for the rest of the year, particularly with the goals we set out at our Investor Day earlier this year in May. We also look forward to updating you on our 2020 plans at our guidance call in early December.

Thanks again 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.