

HUSKY ENERGY INC.

2000 Annual Report



CORPORATE PROFILE

Husky Energy is an integrated energy and energy-related company that ranks among Canada's largest petroleum companies in terms of production and the value of its asset base. Upstream activities are currently focused in Western Canada, offshore Eastern Canada as well as in China.

Husky's Midstream and Refined Products divisions were established to enhance shareholder value by participating in the value chain of the commodities being produced and to minimize the effect of commodity price volatility. Major assets and activities include the Lloydminster Upgrader, commodity marketing, Lloydminster pipeline system, storage operations and co-generation facilities.

Husky's two refineries produce transportation fuels and asphalt. Its marketing network includes 579 outlets across Canada and it wholesales both fuels and asphalt in Canada and the United States.

Husky's common shares commenced trading on The Toronto Stock Exchange on August 28, 2000 under the symbol HSE. HSE is included in the S&P Global 1200, TSE 300 Composite, S&P/TSE 60, TSE 100 and Toronto 35 indices, and is represented in the integrated oil subgroup in the TSE 300 Composite.

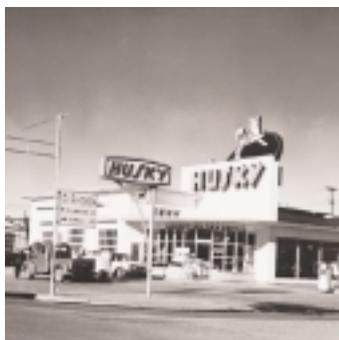
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NOTE

Where production and reserves are disclosed in terms of barrels of oil equivalent, Husky is converting natural gas volumes on the basis that six thousand cubic feet of natural gas equals one barrel of oil (6:1). This change in conversion from 10:1 to 6:1 basis, was made in the fourth quarter of 2000 to conform with current reporting practices by the majority of international and Canadian companies.

HUSKY ENERGY YESTERDAY AND TODAY



1938
Husky Refining Company founded in Cody, Wyoming.

1946
Refinery relocated from Cody to Lloydminster, Saskatchewan.

1953
Husky Oil Ltd. incorporated and public shares issued.

1976
The downstream assets of Union Oil Company of Canada, which included the Prince George, British Columbia refinery, acquired by Husky.

1979
A 68 percent interest in Husky acquired by NOVA Corporation of Alberta.



1983
Husky farmed into the Grand Banks offshore the East Coast of Canada.

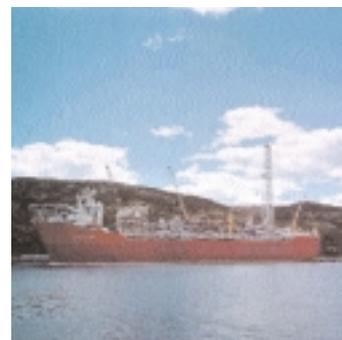
1987
Husky became a private company owned by NOVA, Hutchison Whampoa Limited, a Li Family interest and Canadian Imperial Bank of Commerce.

1988
Canterra Energy Ltd. acquired by Husky.

1991
NOVA's shareholdings in Husky acquired by Hutchison Whampoa and the Li Family.

1995
Husky's interest in the Lloydminster Upgrader increased to 50 percent through an acquisition of the Federal and Alberta governments' interests.

1996
A recapitalization program completed which included the issue of U.S. \$500 million fixed-rate long-term bonds.



1997
The Terra Nova project offshore Eastern Canada approved and construction commenced.

1998
The remaining interest in the Lloydminster Upgrader acquired by Husky.

Mohawk Canada Limited acquired by Husky.

A regional office in St. John's, Newfoundland opened and plans announced to resume drilling activities on the Grand Banks.

Two exploration licences in the Jeanne d'Arc Basin acquired by Husky.

Gulf and Talisman interests in the White Rose, Terra Nova, North Ben Nevis, Fortune, Nautilus and Mara fields acquired by Husky.

U.S. \$225 million in Capital Securities successfully raised by Husky.



1999

Husky completed a three-well delineation program at White Rose.

Husky completed the Meridian 215 megawatt co-generation plant in Lloydminster.

Ownership in the White Rose field increased to 82.5 percent following the acquisition of interests from Denison Mines and Norsk Hydro.

U.S. \$250 million of senior secured bonds issued by Husky in connection with Terra Nova oil field development.



2000

Interests exchanged in Terra Nova and White Rose for producing properties in Alberta at Valhalla and Wapiti. Husky retained 12.51 percent of Terra Nova and 72.5 percent of White Rose.

Renaissance Energy acquired by Husky; trading of the new company on The Toronto Stock Exchange commenced August 28, 2000.

A contract to jointly develop the Wenchang Oil Fields in the South China Sea signed by Husky and CNOOC.

Four parcels acquired by Husky offshore of the East Coast of Canada.

A 50 percent working interest acquired in additional oil sands rights in the Athabasca Oil Sands.

HSE

As a Canadian-based integrated energy and energy-related company, Husky Energy's mission is to maximize returns to its stakeholders in a socially responsible manner.

Our vision is to grow Husky Energy to be a leader in value creation with superior growth from high quality assets.

FINANCIAL HIGHLIGHTS

Years ended December 31	2000	1999	1998
(Millions of dollars except as noted)			
Sales and operating revenues, net of royalties	5,090	2,794	2,029
Cash flow from operations	1,399	517	449
Per share (dollars) – Basic	4.26	1.80	1.61
– Diluted	4.05	1.75	1.51
Earnings before ownership charges ⁽¹⁾	546	160	132
Per share (dollars) – Basic	1.58	0.41	0.34
– Diluted	1.52	0.41	0.34
Net earnings	464	43	25
Per share (dollars) – Basic	1.39	0.10	0.07
– Diluted	1.34	0.10	0.07
Capital expenditures ⁽²⁾	803	706	931
Return on average capital employed ⁽³⁾ (percent)	12.8	5.1	5.2
Return on equity ⁽⁴⁾ (percent)	20.1	8.3	8.2
Debt/capital employed (percent)	37	41	38
Debt/cash flow from operations ⁽⁵⁾	1.7	2.7	2.5

(1) Ownership charges represent interest and dividends related to the previous shareholders' capital structure in Husky Oil Limited, which were eliminated on August 25, 2000.

(2) Excludes acquisition of Renaissance Energy Ltd.

(3) Capital employed is defined as the average of short and long-term debt and shareholders' equity (2000 is weighted).

(4) Equity for purposes of this calculation has been weighted for 2000 and includes amounts due to shareholders prior to August 25, 2000.

(5) 2000 is based on the year-end Husky Energy Balance Sheet and Income Statement.

OPERATING HIGHLIGHTS

Years ended December 31	2000	1999	1998
Average daily production, before royalties			
Light and medium crude oil and NGLs (mbbls/day)	63.6	26.5	27.6
Lloydminster heavy crude oil (mbbls/day)	53.5	42.1	42.0
	117.1	68.6	69.6
Natural gas (mmcf/day)	358.0	250.5	232.6
Proved reserves, before royalties			
Light and medium crude oil and NGLs (mmbbls)	440	145	166
Lloydminster heavy oil (mmbbls)	114	105	81
Natural gas (bcf)	1,909	1,077	1,104
Sulphur (mmlt)	5	6	5
Synthetic crude sales (mbbls/day)	60.6	61.9	54.8
Pipeline throughput (mbbls/day)	527.7	393.8	411.6
Light refined products (millions of litres/day)	7.4	7.6	6.0
Asphalt and residuals (mbbls/day)	20.2	17.1	19.5
Refinery throughput (mbbls/day)	32.6	28.1	31.8
Refinery utilization (percent)	93	80	91



Victor T. K. Li
Co-Chairman



Canning K. N. Fok
Co-Chairman

Report to shareholders

It is our pleasure to present the first annual report of Husky Energy Inc. Our return to the public equity market coincides with some of the strongest financial results ever recorded by both the energy sector and Husky. In this report, we would like to share with you our strategy for the Company, the dedication of our management and employees, and our commitment in having you, our shareholders, participate in our growth and continued success.

FINANCIAL PERFORMANCE

Revenue, earnings and cash flow improved dramatically from 1999. Sales and operating revenues were \$5,090 million in 2000, up 82 percent from \$2,794 million recorded in 1999. Earnings before ownership charges for the year were \$546 million, or \$1.52 per share on a diluted basis, compared to \$160 million or \$0.41 per share in 1999. Cash flow from operations increased 171 percent to \$1,399 million or \$4.05 per diluted share, versus the prior year's \$517 million or \$1.75 per share.

Strong commodity prices, increased production volumes from both new developments and acquisitions, and the midstream business contributed significantly to the profitability of the Company. Husky's results include those of Renaissance Energy Ltd. for the period since August 25, 2000. The acquisition of Renaissance has been accounted for as a purchase by Husky of Renaissance's net assets using the purchase method of accounting. Capital expenditures, excluding the Renaissance acquisition, amounted to \$803 million for 2000 compared to \$706 million in 1999. The strong financial results and increase in cash flow allowed Husky to repay more than \$400 million in debt following the acquisition of Renaissance. Total debt was \$2,378 million at year end 2000 with unutilized credit lines of \$941 million. In early 2001, the Company's bank facilities were consolidated into a \$1 billion committed syndicated facility and \$145 million in bank operating lines. The Company is expected to continue to benefit from lower debt levels and interest expenses.

The acquisition of Renaissance, completed August 25, 2000, created one of the largest public oil and gas companies in Canada, based on assets and production.

The acquisition provided proved reserves of 390 million barrels of oil equivalent and probable reserves of 97 million barrels of oil equivalent. The acquisition cost of reserves was approximately \$6.50 per barrel of oil equivalent on a proved plus half-probable basis and the acquisition included significant tax pools. In evaluating Renaissance reserves, Husky Energy adopted its historically consistent approach of recognizing only proved undeveloped reserves that are supported by firm development plans. The acquisition of Renaissance also provided the Company with a substantial land base which will provide significant exploration and development opportunities. The integration of the two companies is complete and the combined Husky Energy employee team continues to optimize operations, capture synergies and eliminate redundancies.

UPSTREAM

Upstream operating profit increased to \$797 million in 2000 from \$174 million in 1999. Cash flow increased to \$1,203 million from \$398 million in 1999. The increase is attributed to higher commodity prices and increased volume, offset slightly by higher operating costs. Operating costs per barrel of oil equivalent increased to \$5.61 in 2000 from \$4.94 in 1999. The increase in operating costs reflected higher electricity and natural gas costs as well as increases in Crown burdens commensurate with higher commodity prices.

Annual production volumes averaged 176,800 barrels of oil equivalent per day in 2000 compared to 110,400 in 1999. This significant growth in volumes is due to the acquisition of the Valhalla and Wapiti properties and of

Renaissance. These annual volumes reflect only four months of Renaissance production; further growth can be expected in 2001 when Husky benefits from a full-year of the Renaissance acquisition.

Early in 2000, Husky acquired the Valhalla and Wapiti producing properties in Western Canada in exchange for certain interests in East Coast offshore properties. The subsequent acquisition of Renaissance complemented Husky's extensive development portfolio of high quality assets. With these acquisitions and the resulting corporate restructuring, Husky has a substantial cash flow base to fund its extensive long life developments offshore Eastern Canada, in the oil sands and internationally. Husky also has a significant Western Canada producing property and facility base that provides consolidation and aggregation value-added potential.

Husky has a strong track record in advanced secondary and tertiary production technologies. The Company utilizes state-of-the-art geoscience and reservoir engineering applications in conjunction with a team of experienced and skilled employees.

The deployment of this technology to the combined asset base is expected to lead to improvements in operating efficiencies and reserve additions and recoveries.

The management team is committed to the reduction of unit exploration, development, and production costs. The Company is focused on innovation directed at reducing unit costs, improving well productivity and plant throughput and maximizing reserve recovery. Our vision for the upstream business is to develop into one of the most competitive and highest value-added upstream operations in the industry.

Our current project portfolio reflects a diverse, high quality asset base capable of growing production and reserves over the next decade and beyond.

The Company has a significant land position that includes 8.6 million acres of undeveloped land in Western Canada. This land is prospective for conventional crude oil and natural gas as well as heavy oil and oil sands. Husky's oil sands holdings have the potential to yield in excess of 1.5 billion barrels of net recoverable oil over the medium to long term. In December 2000, Husky purchased a 50 percent working interest in additional oil sands rights in the Athabasca Oil Sands area adjacent to the Kearl Lease. Husky and its partner are evaluating plans to potentially exploit these high quality leases.

Our offshore acreage holdings on the East Coast in the Jeanne d'Arc Basin make Husky a leader in the area.

In 2000, Husky increased its East Coast holdings by successfully bidding on exploration rights offered by the Canada-Newfoundland Offshore Petroleum Board on four parcels offshore for \$25 million in work commitments over five years. Two of the parcels are located strategically adjacent to White Rose and two are located in a new exploration area, the South Whale Basin on the southern part of the Grand Banks. Husky's first share of production from this area is scheduled later this year at Terra Nova with full production in 2002. This is expected to be followed with production from the Husky-operated White Rose project by 2004 with full production in 2005. Engineering design for the floating production, storage and offloading vessel (FPSO) at White Rose is underway and a development application was filed with the regulatory authority in early 2001.

Internationally, Husky has signed a contract with the China National Offshore Oil Corporation (CNOOC) to jointly develop the Wenchang oil fields in the South China Sea. Oil production is expected to commence in 2002 and estimated to have an approximate peak production rate of 50,000 barrels per day. CNOOC and Husky will share costs, revenue and production on a 60/40 basis. Independent consultants have estimated recoverable reserves at approximately 100 million barrels for the two fields.

M I D S T R E A M

Midstream established new Company records in earnings and cash flow in 2000. Midstream operating profit increased 94 percent to \$245 million in 2000 from \$126 million in 1999. Cash flow increased 78 per cent to \$276 million from \$155 million in 1999. More than 80 percent of the increase in earnings and cash flow is attributed to the Upgrader operations. Husky's Midstream activities enhance the value of the upstream commodities, and help to insulate the Company from commodity price volatility.

Following the turnaround of the Upgrader in May 2000, Husky continues to experience improved throughput volumes.

During December, production of synthetic crude oil and diluent exceeded 77,000 barrels per day, a significant improvement from the Upgrader's original design capacity of 54,000 barrels per day.

The Upgrader has provided Husky with the ability to enhance the value of our current heavy oil production and generate revenue by processing third party volumes. During 2000, the Upgrader produced approximately 26 million barrels of synthetic crude oil and diluent. In addition the Upgrader's employees achieved a safety performance record of over 2.4 million hours of operations without a lost-time accident. We are completing yield and economic studies as part of our business plan in order to evaluate expansion of the facility.

The year 2000 provided another record year for our pipeline operations with throughput of over 527,700 barrels per day, up from 393,800 barrels per day in 1999. We continue to examine Husky's expansion alternatives to this infrastructure as heavy oil production throughput is now near its maximum rated capacity.

The year 2000 also marked Husky's first entry into the Saskatchewan electrical power generation business, through our 50 percent investment in the 215 megawatt co-generation facility adjacent to the Upgrader. In addition, Husky is exercising its right to purchase a 50 percent interest in a 45 megawatt co-generation facility at Rainbow Lake with the ability to expand to 110 megawatts in the future.

Husky markets its own production and third party crude oil, natural gas, natural gas liquids, and sulphur. During 2000, an average of 434,000 barrels per day of oil and 1.3 billion cubic feet per day of natural gas were managed. As part of our ongoing growth program, our business plan includes the expansion of our Hussar natural gas storage facility from 16 billion cubic feet to 75 billion cubic feet.

REFINED PRODUCTS

Refined products operating profit was \$49 million for both 2000 and 1999. Increased costs associated with the pipeline break serving the Prince George refinery and weaker retailing margins on light refined products were offset by strong margins on asphalt. Cash flow increased to \$77 million in 2000 from \$75 million in 1999.



*John C. S. Lau
President & Chief Executive Officer*

The growth in our light oil business was slower than expected. However, this was more than compensated by a strong performance in our asphalt business where new Company records were set for production, sales and cash flow.

Husky has identified synergies for improved asphalt refinery yields at lower costs, by integrating processes between the Upgrader and the refinery.

Husky continues to develop and expand its retail marketing network. We plan to focus our activities on remodelling our facilities, installing new technology and enhancing throughput of each facility, and on building non-fuel related revenue. Our car/truck stop network continues to show growth in volumes sold and value-added business.

STRATEGIC FOCUS

Looking forward to 2001, we expect commodity prices to remain strong. Production volumes from the former Renaissance properties will contribute a full year's consolidation, leading to significant increases in production, cash flow and earnings over those achieved in 2000.

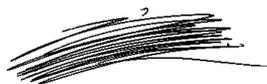
The increase in cash flow will be used to finance a capital budget of \$1.3 billion and to strengthen the balance sheet through debt repayment. The reduction in debt and associated interest expense is expected to further enhance corporate performance.

Our five-year business plan includes estimated production growth. Husky's production is expected to grow by approximately 200,000 barrels of oil equivalent per day, during this five-year period, through the development of heavy oil, oil sands and natural gas in Western Canada and oil offshore Eastern Canada and China.

Financial discipline is critical to adding shareholder value. A comprehensive capital allocation and evaluation system is in place.

Husky's capital spending program is carefully managed to ensure that costs are optimized and that the objective of maximizing value with the execution and timing of discretionary projects is achieved. As a result, a portion of Husky's fourth quarter drilling program was deferred in response to higher costs for incremental rigs. At Husky, cost and operating efficiency gains will be recognized and rewarded throughout the organization.

In closing, we would like to take this opportunity to welcome our new shareholders to the Company and thank our Directors who have provided excellent guidance during the past year, and our employees who have contributed to Husky's success. The technical expertise and dedication of Husky's employees is recognized, valued and important to our continued success.



Victor T. K. Li
Co-Chairman

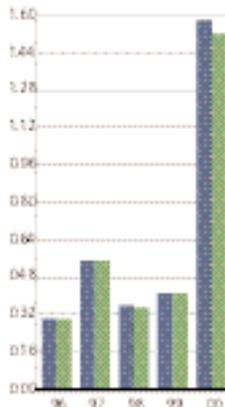


Canning K. N. Fok
Co-Chairman

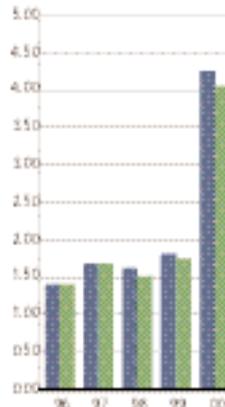


John C. S. Lau
President & Chief Executive Officer
February 28, 2001

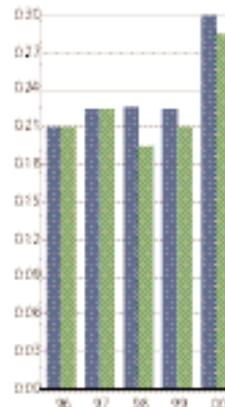
HIGHLIGHTS



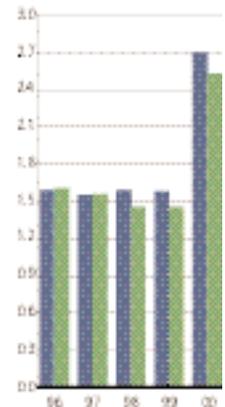
Earnings Per Share Before Ownership Charges (\$)
 ■ Basic
 ■ Diluted



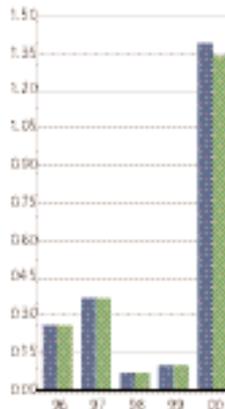
Cash Flow From Operations Per Share (\$)
 ■ Basic
 ■ Diluted



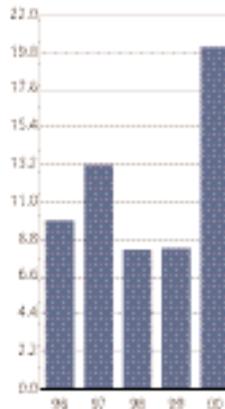
Production Per Share (boe)
 ■ Basic
 ■ Diluted



Proved Reserves Per Share (boe)
 ■ Basic
 ■ Diluted

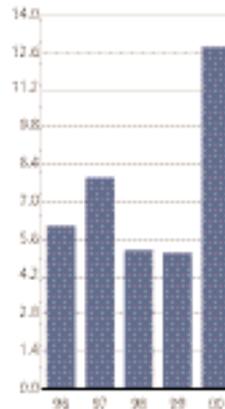


Net Earnings Per Share (\$)
 ■ Basic
 ■ Diluted



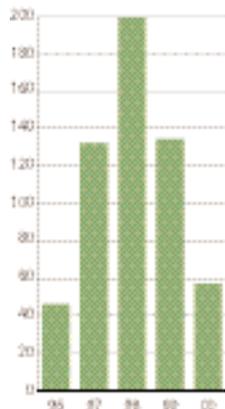
Return On Equity (%)

Equity for the purpose of this calculation includes amounts due to shareholders prior to August 25, 2000 and has been weighted for 2000.



Return On Average Capital Employed (%)

Capital employed is defined as the average of short and long-term debt and shareholders' equity (2000 is weighted).



Corporate Reinvestment Ratio (%)

Husky at a glance

Husky Energy is a Canadian-based, integrated energy and energy-related company, with businesses divided into three segments: Upstream, Midstream and Refined Products.



UPSTREAM

Husky's conventional oil and gas business is focused in Western Canada, as is Husky's fast growing heavy oil business located in the Lloydminster area of Alberta and Saskatchewan. Fourth quarter production from Western Canada totalled 270,000 barrels of oil equivalent per day, making Husky one of the leading oil and gas producers in the country. In Western Canada, Husky is focused on optimizing production, step-out development programs, maximizing reserve recovery and minimizing costs.

Husky has extensive undeveloped oil sands holdings in the Cold Lake and Athabasca regions with both in-situ and mining-based bitumen development potential which will provide long-term growth to the heavy oil and bitumen business.



MIDSTREAM

Husky's Midstream activities include the Lloydminster Upgrader, a 1,900 kilometre heavy oil pipeline system, commodity marketing, natural gas storage, and third party processing. These businesses strengthen the value chain of Husky and reduces the volatility of the Company's financial performance. Husky also recognizes the value of energy and energy related businesses.

The Company has a 50 percent interest in a 215 megawatt natural gas fired co-generation facility that produces steam for the Upgrader and generates power



REFINED PRODUCTS

Husky's continued growth in the Refined Products business was slowed in 2000 due to problems with the pipeline supplying the Prince George Refinery and tightening of retail fuel margins. This reduced growth in the light oil business was more than compensated by a strong showing in the asphalt business where new Company records were set for production, sales and cash flow. At

Exploration in Western Canada is comprised of an aggressive natural gas drive concentrated in the Deep Basin, Foothills and Northern regions of Alberta and British Columbia.

Offshore Canada's East Coast, Husky is a major player with interests in 13 Significant Discovery Areas and seven Exploration Licenses. Husky has a 12.51 percent interest in Terra Nova and a 72.5 percent interest in White Rose.

Internationally, Husky holds a 40 percent interest in the Wenchang oil field development in the South China Sea as well as holdings in Indonesia and Libya.

Husky has focused development programs which are expected to deliver major production growth over the next five years. Heavy oil, bitumen, natural gas and offshore oil development are expected to contribute 80 percent of an estimated 200,000 barrels of oil equivalent per day increase over this period.

Capital spending in Upstream is projected at \$1.1 billion in 2001.

for the Saskatchewan grid. The Company is exercising its right to participate in the Rainbow Lake co-generation facility.

Husky's Midstream operating strategy is to maximize the value chain of its commodities and to improve the operations of its major assets.

The Company is focused on expanding volumes, improving operating efficiencies and increasing self-sufficiency in electric generation. The strategic value of the Midstream was evident in 2000 when Company record volumes and earnings were set. Capital expansion plans are underway in all areas to match future growth of our Upstream business.

Capital spending in Midstream is projected to exceed \$100 million in 2001.

Lloydminster, Husky has identified synergies for improved asphalt refinery yields, at lower costs, by integrating processes between the Upgrader and the refinery.

Husky continues to develop and expand its retail marketing network. We plan to focus activities on remodelling facilities, installing of new technology, and enhancing throughput of each facility and improving non-fuel related revenue. The car/truck stop network continues to show growth in volume throughput and in the value-added business.

Operations review

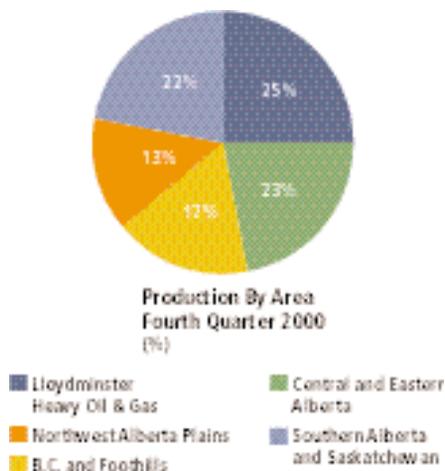
UPSTREAM - OVERVIEW

PRODUCTION

Annual production volumes averaged 176,800 barrels of oil equivalent per day in 2000 compared to 110,400 in 1999. Volume growth is attributed to the Renaissance acquisition, an increase in heavy oil volumes and Valhalla and Wapiti conventional oil and gas volumes.

Capital spending in the Upstream sector, excluding the Renaissance acquisition, amounted to \$700 million for 2000.

Looking forward to 2001, Husky's current capital spending plans anticipate overall production growth in the range of approximately 10,000 barrels of oil equivalent per day from Western Canada, driven primarily by heavy oil production and natural gas development. In addition, the Company expects a production contribution from the Terra Nova project on the East Coast at the end of 2001. Husky's upstream capital budget for 2001 is approximately \$1,090 million with \$860 million allocated to Western Canada, \$130 million to the East Coast and \$100 million to international projects.



Drilling and acquisitions increased total reserves by 57 percent on a barrel of oil equivalent basis

RESERVES

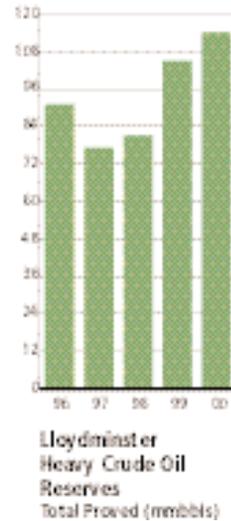
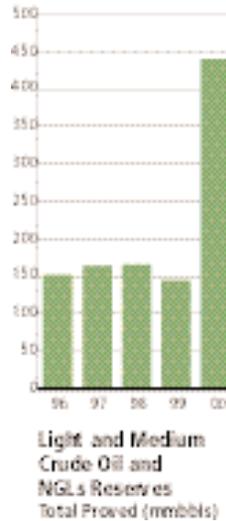
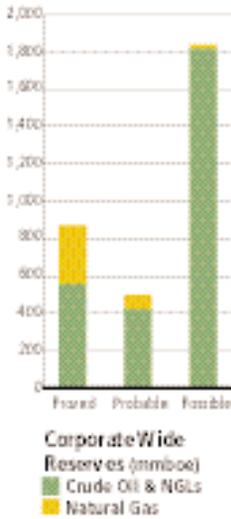
Husky holds substantial reserves of crude oil, natural gas and natural gas liquids. The Company has in place a disciplined reserve evaluation and quality assurance process which provides for consistent and realistic reserve categorization and booking practices.

Due to the large number of new properties acquired through Renaissance, Husky engaged the services of Sproule and Associates to assist in the technical evaluation of Western Canadian properties, as well as to review and confirm Company estimates.

In addition, independent firms have prepared reserve reports largely consistent with those of Husky engineers for the East Coast and Indonesia (DeGolyer and McNaughton) and China (Ryder-Scott) properties.

Husky's audit committee of the Board of Directors conducted a review of reserve estimates, including policies and methodology.

As at December 31, 2000



SUMMARY OF RESERVES

Light and medium crude oil and NGLs reserves, before royalties (mmbbls)

Years ended December 31	2000	1999	1998
Proved developed	338	133	133
Proved undeveloped	102	12	33
Total proved	440	145	166
Probable	343	322	106
Total	783	467	272
Reserve life index (years)*			
Proved	10.2	15.0	16.5
Proved plus probable	18.1	48.3	27.0

*Based on annualized Q4 production for 2000.

Lloydminster heavy crude oil reserves, before royalties (mmbbls)

Years ended December 31	2000	1999	1998
Proved developed	65	56	62
Proved undeveloped	49	49	19
Total proved	114	105	81
Probable	78	78	68
Total	192	183	149
Reserve life index (years)*			
Proved	5.4	6.8	5.3
Proved plus probable	9.2	11.9	9.7

*Based on annualized Q4 production for 2000.



Southern Alberta gas production



Natural Gas Reserves Total Proved (bcf) At December 31, 2000

Natural gas reserves, before royalties (bcf)

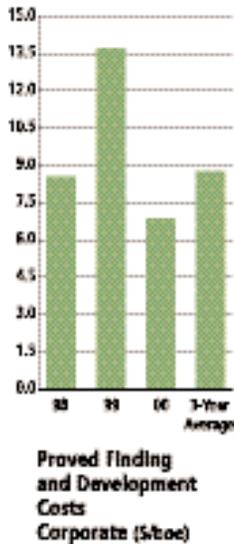
Years ended December 31	2000	1999	1998
Proved developed	1,580	818	816
Proved undeveloped	329	259	288
Total proved	1,909	1,077	1,104
Probable	453	255	317
Total	2,362	1,332	1,421
Reserve life index*			
Proved	9.0	11.8	13.0
Proved plus probable	11.1	14.6	16.7

*Based on annualized Q4 production for 2000.

Total barrels of oil equivalent, before royalties (mmboe)

Years ended December 31	2000	1999	1998
Proved developed	666	326	331
Proved undeveloped	206	104	100
Total proved	872	430	431
Probable	496	442	227
Total	1,368	872	658
Reserve life index*			
Proved	8.7	10.7	10.9
Proved plus probable	13.7	21.6	16.6

*Based on annualized Q4 production for 2000.



Upstream capital expenditures in 2001 will total \$1.1 billion

The following table represents the calculation of Husky's annual finding and development costs. Husky has maintained competitive finding and development costs, contributing to future profitability. In calculating finding and

development costs there are often timing differences created by the timing of when reserves are recognized relative to the capital expenditures. Three-year average figures are provided to normalize these timing differences.

ANNUAL FINDING AND DEVELOPMENT COSTS

Corporate

Years ended December 31	3-Year 1998-2000	2000	1999	1998
Total capitalized costs (millions)	\$ 1,563	\$ 638	\$ 521	\$ 404
Proved reserve additions and revisions (mmboe)	178	93	38	47
Average cost per boe	\$ 8.78	\$ 6.88	\$ 13.72	\$ 8.54

Western Canada

Years ended December 31	3-Year 1998-2000	2000	1999	1998
Total capitalized costs (millions)	\$ 822	\$ 400	\$ 218	\$ 204
Proved reserve additions and revisions (mmboe)	147	49	59	39
Average cost per boe	\$ 5.60	\$ 8.13	\$ 3.68	\$ 5.29

Note: Average cost per boe values presented are calculated using source figures that were unrounded.

PRODUCTION REPLACEMENT STATISTICS

Corporate

Years ended December 31	3-Year 1998-2000	2000	1999	1998
Production (mmboe)	145	65	40	40
Proved reserve additions and revisions (mmboe)	178	93	38	47
Production replacement ratio (excluding net acquisitions)	123%	143%	94%	120%
Proved reserve additions including net acquisitions (mmboe)*	205	117	39	49
Production replacement ratio (including net acquisitions)*	142%	181%	97%	125%

*Excludes Renaissance acquisition.

Western Canada

Years ended December 31	3-Year 1998-2000	2000	1999	1998
Production (mmboe)	144	65	40	39
Proved reserve additions and revisions (mmboe)	147	49	59	39
Production replacement ratio (excluding net acquisitions)	102%	76%	147%	98%
Proved reserve additions including net acquisitions (mmboe)*	174	74	60	41
Production replacement ratio (including net acquisitions)*	121%	114%	149%	103%

*Excludes Renaissance acquisition.

RECYCLE RATIO

Corporate

Years ended December 31	3-Year 1998-2000	2000	1999	1998
EBITDA netback**	\$ 12.82	\$ 18.60	\$ 9.84	\$ 6.39
Proved finding and development cost (per boe)	\$ 8.78	\$ 6.88	\$ 13.72	\$ 8.54
Recycle ratio***	1.46	2.70	0.72	0.75

**EBITDA represents earnings before interest, income taxes and depletion, depreciation and amortization.

***The recycle ratio is a measure of the efficiency of Husky's capital program relative to product netbacks.

Western Canada

Years ended December 31	3-Year 1998-2000	2000	1999	1998
EBITDA netback**	\$ 12.77	\$ 18.55	\$ 9.74	\$ 6.38
Proved finding and development cost (per boe)	\$ 5.60	\$ 8.13	\$ 3.68	\$ 5.29
Recycle ratio***	2.28	2.28	2.65	1.21

**EBITDA represents earnings before interest, income taxes and depletion, depreciation and amortization.

***The recycle ratio is a measure of the efficiency of Husky's capital program relative to product netbacks.

Note: Production replacement ratios presented are calculated using source figures that were unrounded.

DRILLING

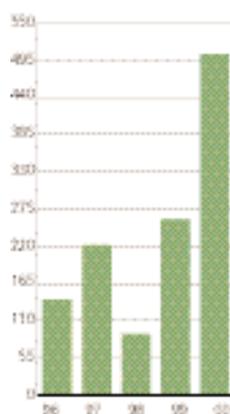
Husky drilled 504 net wells in 2000 resulting in a 93 percent success rate, an improvement over the 88 percent success rate achieved in 1999.

GROSS WELLS DRILLED

Years ended December 31	2000	1999	1998
Crude oil	429	215	91
Natural gas	122	56	31
Dry	41	32	14
Total	592	303	136
Success ratio	93%	89%	90%
Exploratory	57	34	33
Development	535	269	103
Total	592	303	136

GROSS WELLS DRILLED BY REGION

	2000	1999	1998
Western Canada			
Exploratory – Crude oil	16	9	16
– Natural gas	30	13	9
– Dry	9	9	8
	55	31	33
Development – Crude oil	411	203	75
– Natural gas	92	42	22
– Dry	30	23	6
	533	268	103
Total	588	299	136
East Coast			
Exploratory – Crude oil	1	2	-
– Natural gas	-	1	-
– Dry	1	-	-
	2	3	-
Development – Crude oil	2	1	-
– Natural gas	-	-	-
– Dry	-	-	-
	2	1	-
Total	4	4	-



Net Wells Drilled



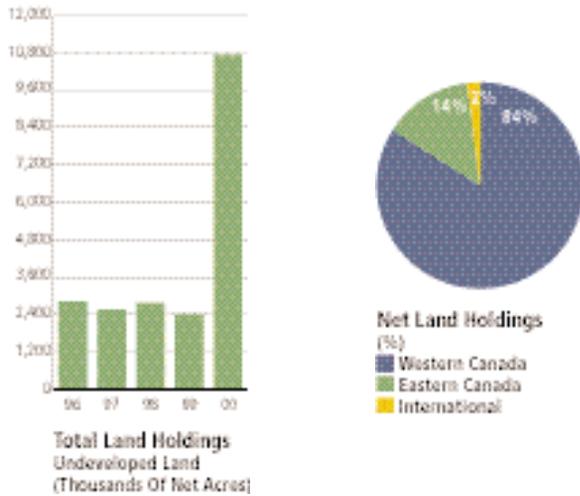
Husky drilled 503 net wells in Western Canada in 2000

NET WELLS DRILLED

Years ended December 31	2000	1999	1998
Crude oil	376	200	66
Natural gas	90	29	14
Dry	38	31	10
Total	504	260	90
Success ratio	93%	88%	89%
Exploratory	43	25	24
Development	461	235	66
Total	504	260	90

NET WELLS DRILLED BY REGION

Western Canada		2000	1999	1998
Exploratory	- Crude oil	13	9	11
	- Natural gas	20	5	7
	- Dry	9	9	6
		42	23	24
Development	- Crude oil	363	190	55
	- Natural gas	70	23	7
	- Dry	28	22	4
		461	235	66
Total		503	258	90
East Coast				
Exploratory	- Crude oil	-	1	-
	- Natural gas	-	1	-
	- Dry	1	-	-
		1	2	-
Development	- Crude oil	-	-	-
	- Natural gas	-	-	-
	- Dry	-	-	-
		-	-	-
Total		1	2	-



Husky owns a significant undeveloped land base in Western Canada

LAND HOLDINGS

Husky’s Western Canada land base of approximately 8.6 million net undeveloped acres provides tremendous

opportunity for new reserve additions from exploration and development. These holdings are continuously reviewed and allocated to drilling, farmout or divestiture programs.

LAND HOLDINGS

Years ended December 31	2000	1999	1998
Undeveloped land (thousands of net acres)			
Alberta	5,616	692	877
Saskatchewan	2,638	586	662
British Columbia	173	66	133
Manitoba	163	-	-
Western Canada	8,590	1,344	1,672
N.W.T. and Arctic	409	417	474
Eastern Canada	1,489	258	243
International	221	389	392
Total	10,709	2,408	2,781

WESTERN CANADA OVERVIEW

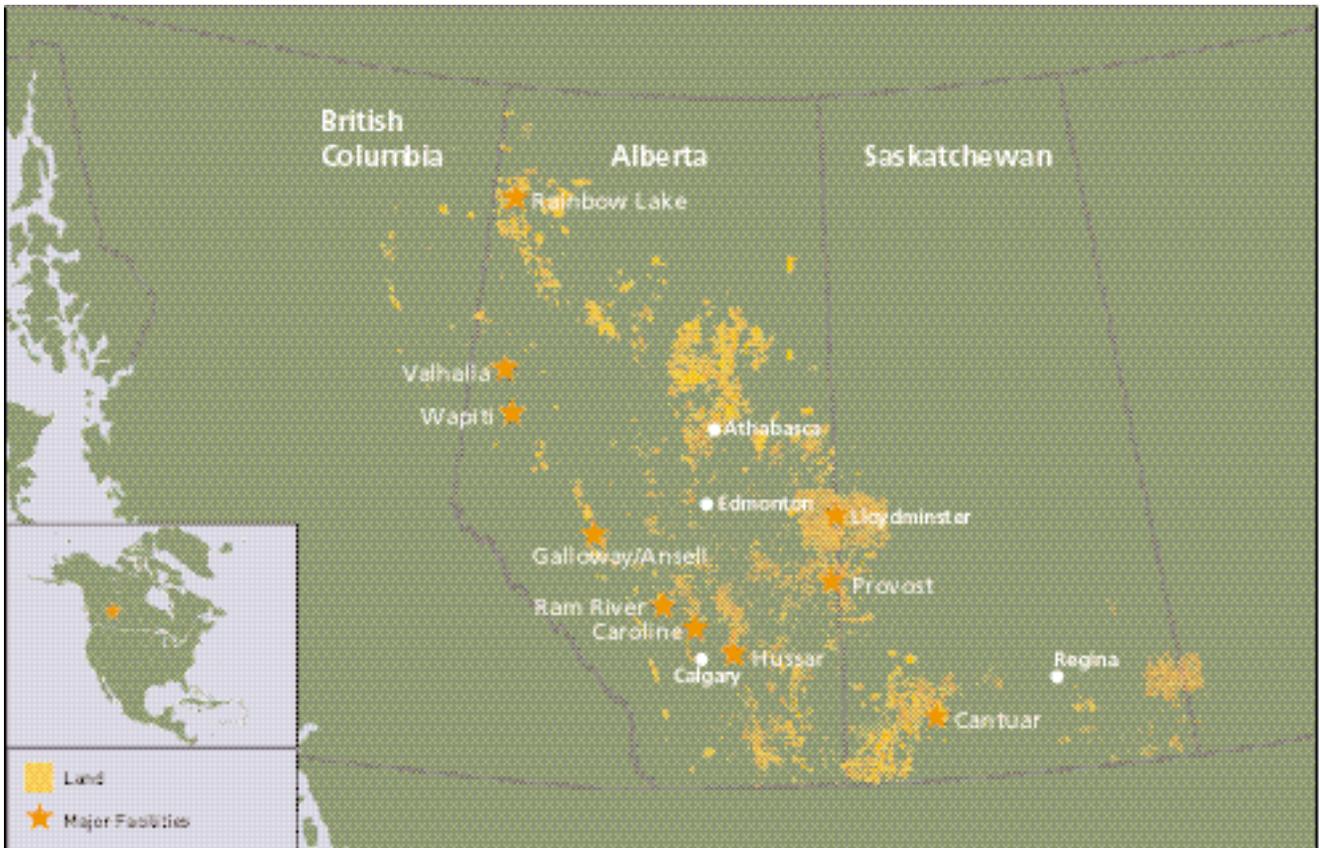
Husky's Western Canadian upstream core assets contribute the majority of the Company's earnings and cash flow, in turn providing a strong base to fund Husky's long-term development projects. Spread throughout Western Canada, operations are targeted to optimize production and maximize reserve recovery, while minimizing costs and fully utilizing the Company's upstream and midstream infrastructure. Asset diversification includes light oil, heavy oil, natural gas and natural gas liquids, each of which tend to have independent price cycles, thereby contributing to financial stability.

The 2000 acquisition of Renaissance was a complementary fit of both assets and people. The companies were

integrated quickly and Husky now has teams focused on advancing the business plan. Husky expects to achieve superior growth from its high quality assets by investing in the best opportunities, employing the most capable people and advanced technologies, and managing with financial discipline.

Husky has a focused approach to natural gas exploration and development, primarily in the deeper plays in the western margin of the Western Canada Sedimentary Basin. Growth in conventional and primary heavy oil production will come from mature, longer life areas in Alberta and Saskatchewan. Bitumen holdings in the Cold Lake and Athabasca oil sands deposits are poised to add dramatically to reserves and production volumes over the coming decade.

Western Canada – Land Holdings and Major Facilities

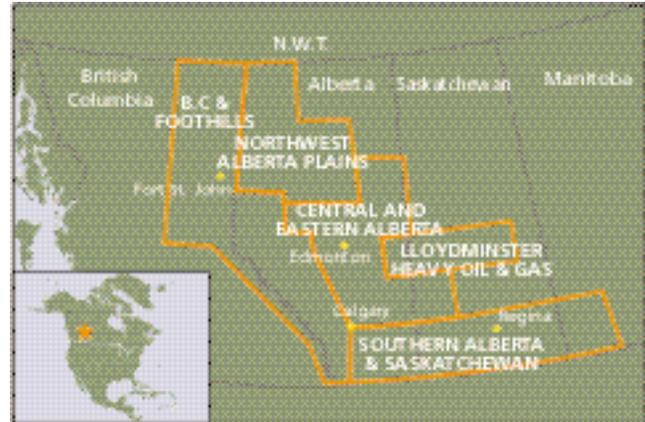


UPSTREAM – OPERATING AREAS

WESTERN CANADA

Husky's Western Canada production operations are divided into five business units, sized at an average daily production of 40,000 to 70,000 barrels of oil equivalent. Each unit has specific business goals, financial accountability, and production and efficiency targets.

Business Units



PRODUCTION BY AREA (2000 4TH QUARTER)

	Light & Medium Crude Oil & NGLs (mbbls/day)	Lloydminster Heavy Crude Oil (mbbls/day)	Natural Gas (mmcf/day)	Combined (mboe/day)	Percent of total
Lloydminster Heavy Oil and Gas	4	57	41	68	25
Northwest Alberta Plains	13	-	138	36	13
British Columbia and Foothills	17	-	176	46	17
Central and Eastern Alberta	33	-	174	62	23
Southern Alberta and Saskatchewan	51	-	46	59	22
Total	118	57	575	271	100

PRODUCTION BY AREA (2000)

	Light & Medium Crude Oil & NGLs (mbbls/day)	Lloydminster Heavy Crude Oil (mbbls/day)	Natural Gas (mmcf/day)	Combined (mboe/day)	Percent of total
Lloydminster Heavy Oil and Gas	4	54	43	65	37
Northwest Alberta Plains	14	-	59	24	13
British Columbia and Foothills	16	-	170	44	25
Central and Eastern Alberta	12	-	71	24	13
Southern Alberta and Saskatchewan	18	-	15	20	12
Total	64	54	358	177	100

Lloydminster Heavy Oil and Gas

In the Lloydminster area, where Husky has been active for more than a half-century, recent operations have consistently delivered excellent growth in cold production, while adding reserves at low finding and development costs. This growth has been augmented by Husky's oil treating and gathering system, and the ability to dispose of produced sand and water, making Husky a low-cost operator. An inventory of 3,000 heavy oil locations provides Husky the ability to offset reservoir declines and grow production in response to heavy oil demand. The Company plans to drill approximately 400 wells in 2001, an increase of more than 30 percent from 2000 drilling.

Husky operates a thermal heavy oil project at Pikes Peak, Saskatchewan, that produces 9,000 barrels of oil per day, achieving over 70 percent recovery of original oil-in-place. Development is planned to commence in 2001 on a similar reservoir to the north at Celtic.

The Company projects that these low-risk growth plans will increase Lloydminster area heavy production to an estimated 100,000 barrels of oil per day by the end of 2005, from production of approximately 54,000 barrels of oil per day in 2000. The control of operating costs continues to be a critical success factor for this business unit with the recapture of lease gas being a current priority. The use of natural gas to fuel production facilities and provide heat to thermal production and storage facilities, provides a major incentive to utilize local gas potential.



Lloydminster heavy oil

Northwest Alberta Plains

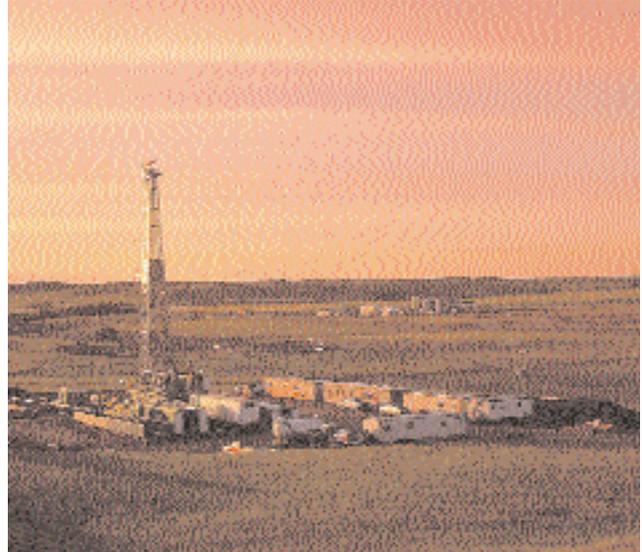
The Northwest Alberta Plains area holds significant natural gas potential. In a major shallow natural gas development at Boyer-Haro and Muskwa-Marten Hills, Husky will drill 160 wells in the first quarter of 2001, adding additional expected production of 40 million cubic feet per day. In addition, expansion of the Rainbow Lake natural gas plant will increase natural gas sales and accelerate recovery from six crude oil pools undergoing tertiary miscible floods. Husky's unit operating costs are among the lowest in the area, and will be maintained by additional production volumes and through the implementation of new cost control initiatives.

British Columbia and Foothills

Focused on natural gas production, this area offers strong growth potential from structural plays in the Foothills and Deep Basin, and the development of more shallow, previously bypassed natural gas pools. Husky plans to drill four net development or step-out wells in the Foothills in 2001.

In the central Alberta foothills, Husky operates the Ram River sour gas plant, capable of processing more than 600 million cubic feet per day of raw natural gas. During 2000, Husky added incremental production by installation of compression capacity at the Blackstone plant and tied-in 10 million cubic feet per day of new gas from a Mississippian horizontal well development at Cordel. Husky's tie-in of the Benjamin field located 90 kilometres south, and the Reilly field located 25 kilometres west, will add 80 million cubic feet per day to the Ram River gas plant in 2001, increasing utilization to 95 percent of capacity. Third-party volumes are expected to take up any spare capacity at the plant.

In January, 2000, Husky acquired 7,500 barrels of oil per day and 10 million cubic feet per day of natural gas production from the Wapiti and Valhalla areas of northwest Alberta. The Company drilled 15 development wells in the Doe Creek and Cardium formations during 2000 to maintain production and plans to increase volumes from this area in 2001.



Alberta drilling operation

Central and Eastern Alberta

The combination of Husky and Renaissance assets in Central and Eastern Alberta makes Husky one of the most prominent operators in this mature region. Step-out development drilling, production of previously bypassed pay, improved recovery techniques, and synergistic acquisitions will help to offset production declines. Operating cost reviews on all properties will be completed annually to control unit costs through divestitures, facility rationalization and third party processing initiatives.

Southern Alberta and Saskatchewan

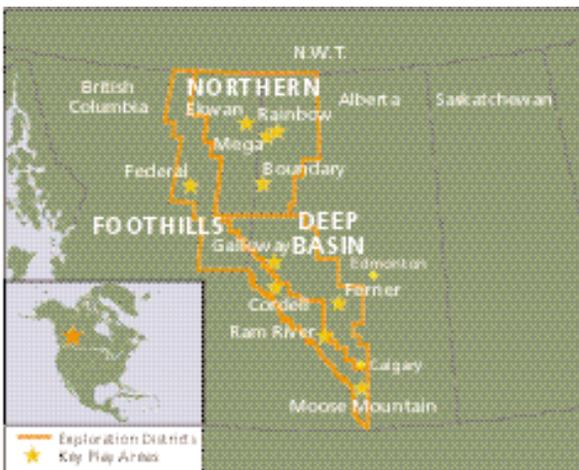
In southern Alberta and Saskatchewan oil production is expected to grow through step-out exploitation and improved recoveries in 2001. In the first quarter of 2001, Husky plans to drill 15 horizontal wells to develop a Cretaceous medium-gravity oil reservoir on the Dieppe Block at Suffield, Alberta. The drilling program is expected to add 2,000 barrels per day of production during first quarter 2001 and grow to 5,000 barrels per day in 2002, which will be transported and processed at Husky's Jenner battery. At Taber, Alberta the Company is implementing an alkaline-polymer-surfactant flood that has the potential to increase recovery by an additional 10-15 percent from the Cretaceous Mannville reservoir. If the application of this technology proves successful, wider area applications will have a material positive impact on Husky's oil reserves. Operating cost reviews will be completed annually on all properties and business initiatives instituted to control unit costs.

Western Canada Exploration

Conventional exploration is directed toward natural gas and natural gas liquids plays on the western margin of the Western Canadian Sedimentary Basin. Husky's three exploration areas – Foothills, Deep Basin and Northern – contain a mix of play types, all of which have multi-zone potential.

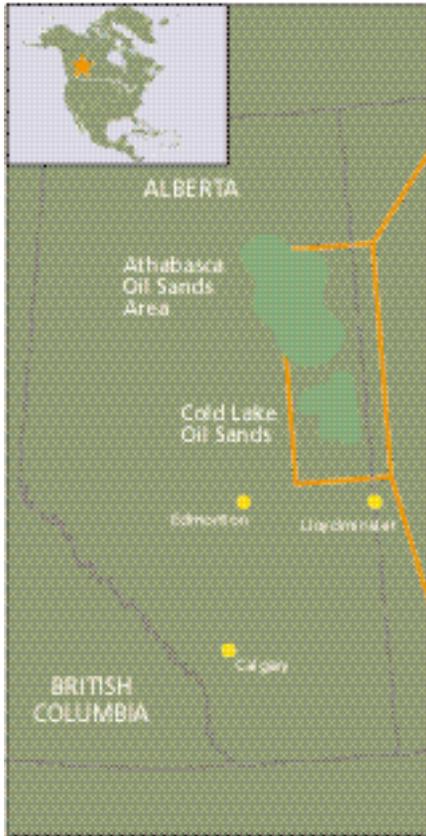
In the Deep Basin and Northern areas, Husky is focused on Cretaceous sandstone reservoirs at shallow and intermediate depths. The stacked nature of many of these reservoir units allows for a single well to probe multiple targets, thereby reducing exploration cost and risk. High impact potential is present in deeper, higher risk, Mississippian and Devonian plays in these two areas. Husky will selectively invest in those opportunities that offer the greatest economic benefit. Particular success was achieved this year at Galloway, in the Edson area of the Deep Basin. These discoveries were brought onstream in 2000 and the productive capability is approximately 20 million cubic feet per day of natural gas and 800 barrels per day of natural gas liquids from Cretaceous formations.

Western Canada Exploration Districts

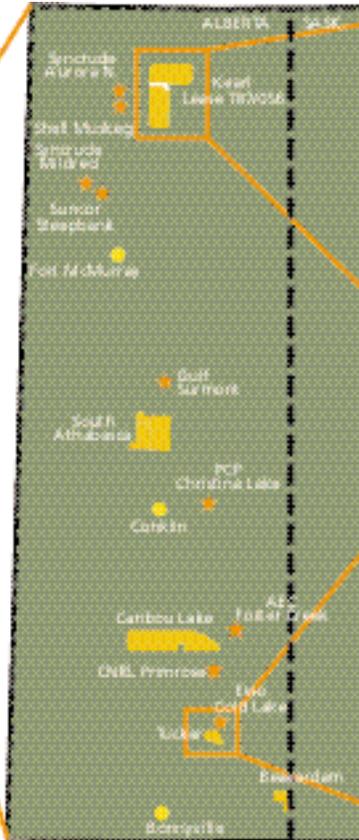


In the Foothills, exploration has benefited from recent advances in seismic imaging of structural traps and improved understanding of fractured carbonate reservoir performance. Husky has employed these tools to bring its holdings in the Ram River and Moose Mountain areas of the central Alberta Foothills to maturity. The exploration team is concentrating on securing new core areas in the Foothills belt to provide future growth opportunities.

Oil Sands Areas



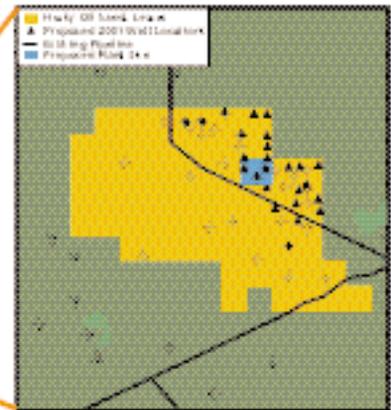
Oil Sands



Athabasca – Kearn



Tucker



Oil Sands

Husky is well positioned in Canada’s oil sands, with attractive acreage in the Cold Lake and Athabasca regions. The Company believes that these key properties currently under evaluation have the potential to add more than 1.5 billion barrels of net bitumen reserves in a series of staged developments over the next two to ten years.

Cold Lake

In 2001, Husky will focus on advancing Tucker, a wholly-owned property in the southwest portion of the Cold Lake deposit. Husky will drill 20 stratigraphic wells during the first quarter to refine the reservoir model. During the balance of the year, Husky will plan and prepare an environmental impact assessment in preparation for a development application to the Alberta Energy and Utilities Board. Tucker is characterized by a clean, high porosity, sandstone pay zone up to 30 metres thick. Commercial production is expected to produce 15,000-20,000 barrels per day by 2004 using steam-assisted gravity drainage.

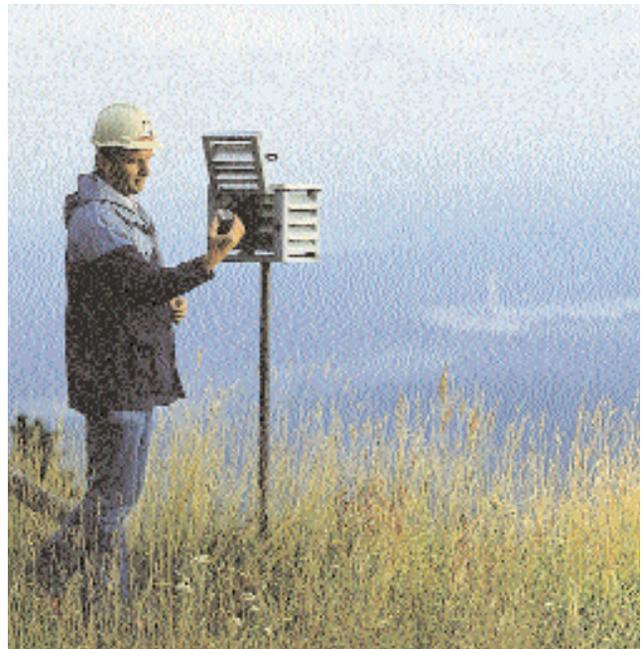
Caribou, a second Husky property in the northern Cold Lake area, offers similar potential to Tucker. Husky will undertake further stratigraphic drilling during the winter of 2001-2002 to assist in planning the exploitation of the property.



Thermal heavy oil development

Athabasca

The Husky operated Kearl lease provides both an in-situ and mining opportunity, in the Athabasca oil sands deposit, where the Company holds a 51 percent working interest. In late 2000, the Company acquired a 50 percent working interest in an adjacent lease to the north. The bitumen-bearing McMurray Formation at Kearl lies at depths of 45 to 200 metres. Resources in the northern portion are accessible by surface mining, while those to the south can be exploited using in-situ thermal recovery methods. The McMurray sands form an excellent reservoir, with pay zones ranging in thickness from 30 metres to 80 metres. A stratigraphic drilling program is planned to confirm the reserve potential of Kearl. Additional wells may be drilled to evaluate the adjacent lease (OS6) to the north in the future. The Company estimates that these leases offer gross reserve potential of more than three billion barrels.



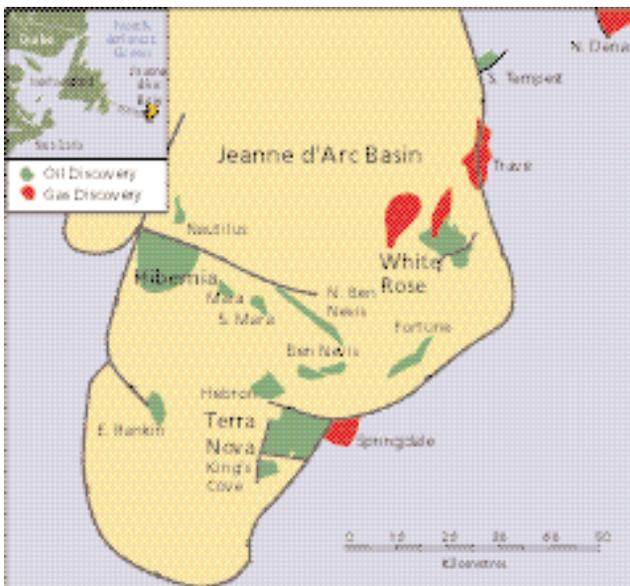
Environmental standards and monitoring of air quality are high priorities for Husky

**EASTERN CANADA
OFFSHORE ACTIVITIES**

Husky has been exploring offshore Canada’s East Coast for over 20 years and as a result is well positioned in the prime areas offshore Newfoundland. The Company has working interests in 13 Significant Discovery Areas (SDA) and seven current Exploration Licenses in this region. Husky has budgeted capital expenditures of \$130 million for development and exploration activities in 2001.

The Jeanne d’Arc Basin is comparable to the highly productive Central North Sea. It exhibits similar geological traps, and source and reservoir rocks. Discoveries to date in the Jeanne d’Arc Basin include oil fields ranging in size from 30 to 800 million barrels that can be exploited efficiently with current technology, as well as significant gas potential.

Jeanne d’Arc Basin – Significant Discoveries



Production Development

Terra Nova

The Terra Nova oil field, in which Husky holds a 12.51 percent working interest, is the second largest oil discovery in the Jeanne d’Arc Basin, after the Hibernia field. It is the first Grand Banks field to be developed with a conventional floating production system. This 400 million barrel field is expected to come onstream in late 2001, with peak production expected to achieve 129,000 barrels of oil per day (16,000 barrels of oil per day net to Husky), during 2002.

White Rose

The White Rose SDA is located on the eastern margin of the Jeanne d’Arc Basin. Husky holds a 72.5 percent interest in White Rose and is the operator. In January 2001, Husky filed a Development Application with the Canada-Newfoundland Offshore Petroleum Board, which provides a comprehensive plan for the development of the White Rose South Avalon oil pool. The South Avalon pool is currently assessed at 230 million barrels of recoverable oil, with a further 100 million barrels possible within the White Rose block from future delineation of adjacent pool discoveries.

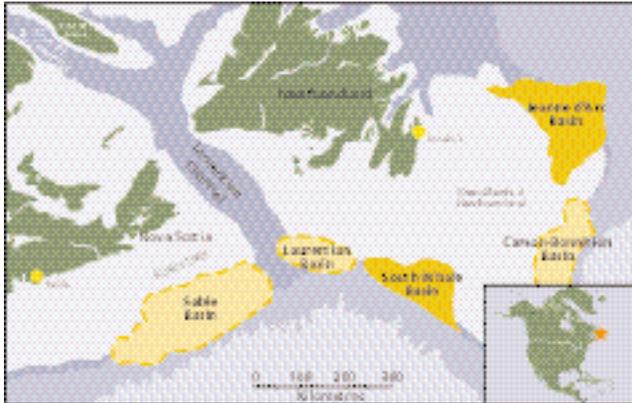
According to the concept selection study undertaken by Husky’s consulting engineers, White Rose development costs to first oil are estimated at \$1.75 billion. Husky believes that the estimated plateau production rate will be 92,000 barrels of oil per day and that the project should contribute 67,000 barrels per day to Husky’s overall production.

Husky's experienced exploration team has developed a ranked prospect inventory for the Basin that includes step-out locations within the White Rose block as well as new wildcat locations, a significant oil prospect at Gros Morne and a large, higher-risk oil prospect at Trepassey.

Gas Potential

The Grand Banks holds considerable gas potential based on major discoveries to date and undiscovered potential resources. Husky's ongoing exploration programs have the potential to bring established resources in the Grand Banks to the seven to ten trillion cubic feet level. At this resource level, a major pipeline project connecting Grand Banks gas to the North American grid may be economically viable.

East Coast Gas Potential



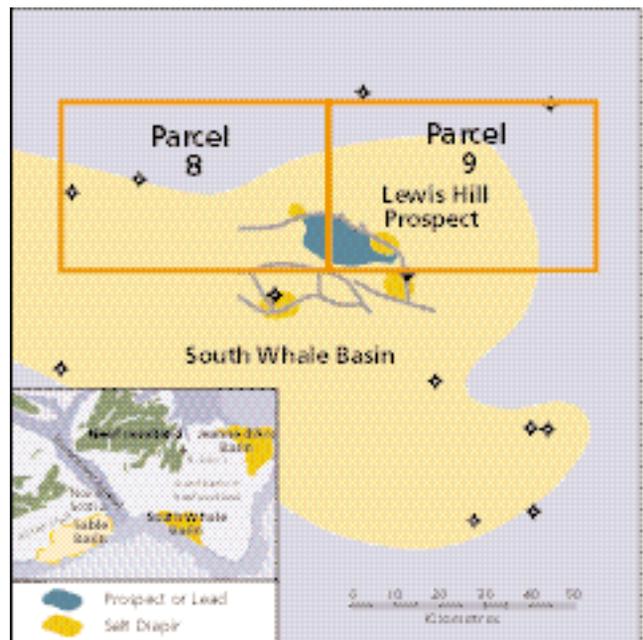
The White Rose SDA is currently estimated to contain 2.5 trillion cubic feet of natural gas, establishing the SDA as a potential anchor for future gas development. The Company believes that a large untested structure on Husky's Grand Bank Exploration License has potential for one trillion cubic feet. Furthermore, several natural gas discoveries in the 40 billion to 300 billion cubic foot range are located within reach of a possible pipeline route.

South Whale Basin

Also in 2000, Husky acquired two Exploration Licenses comprising 440,000 hectares in the South Whale Basin, a new exploration area on the southern Grand Banks. The regional setting of South Whale Basin is similar to that of the proven hydrocarbon-bearing Jeanne d'Arc and Sable Basins. Seismic data on the license demonstrates the presence of a large structure with potential to trap hydrocarbons, while information gathered from a number of older wells confirms the existence of reservoir sands. Depending on the availability of seismic vessels, a three-dimensional seismic survey is planned for the summer of 2001 to confirm future drilling locations.

Husky assesses the natural gas potential on its South Whale Basin Exploration License at 2.5 trillion cubic feet. A South Whale discovery would benefit from its position in iceberg-free waters and proximity to the Nova Scotia mainland.

South Whale Basin Lewis Hill Prospect



INTERNATIONAL

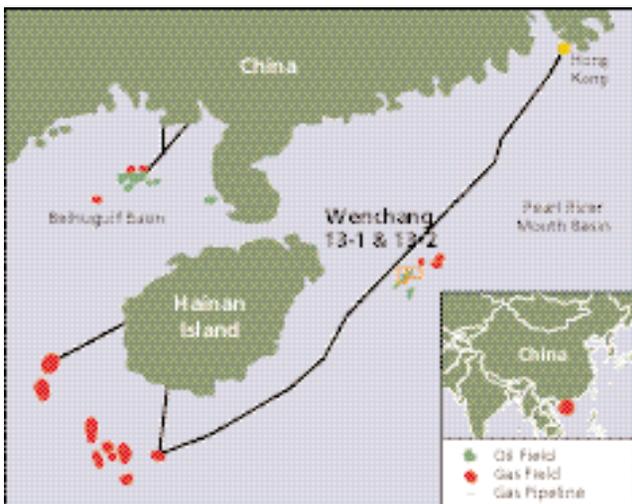
Husky holds interests in China, Indonesia and Libya and is pursuing other synergistic opportunities in South East Asia.

China

Husky Oil China Ltd., a wholly-owned subsidiary of Husky, signed a petroleum contract with the China National Offshore Oil Corporation in October 2000 to develop two high-quality oil fields in the South China Sea. Located in the western Pearl River Mouth Basin, approximately 300 kilometres south of Hong Kong and 136 kilometres east of Hainan Island, the Wenchang 13-1 and 13-2 fields, are estimated to contain about 100 million barrels of reserves.

Husky holds a 40 percent interest in the fields, which are expected to achieve peak production of 50,000 barrels of oil per day (20,000 barrels of oil per day net to Husky) following start-up planned for the first half of 2002. The Wenchang fields will be produced from fixed platforms in water 100 metres deep, into a floating production storage and offloading vessel (FPSO) stationed between the fields. Development drilling and fabrication of the production facilities are underway. Husky has allocated \$100 million to the Wenchang project in its 2001 capital budget.

Husky Operations in the South China Sea



John C. S. Lau, President and C.E.O., Husky Energy Inc.; Mr. Wei Liucheng, President, CNOOC and Robert Mackenzie, Minister, (Commercial), Canadian Embassy, Beijing, PRC

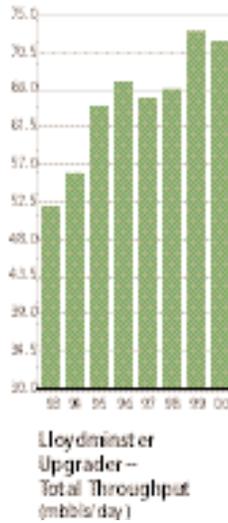
Indonesia

Husky is party to a production-sharing contract relating to a 690,400 acre block in the Madura Strait offshore Java, Indonesia. Exploration drilling has resulted in the discovery of two natural gas fields in the block. The BD field is estimated to contain 515 billion cubic feet of natural gas and 23 million barrels of natural gas liquids. In 1995 the Indonesian state oil company approved a development plan that would supply natural gas to a proposed independent power plant near Pasuruan, East Java. However, the construction of the power plant – and development of the natural gas field – has been postponed pending the resolution of domestic energy market and finance issues.

Libya

Husky has a minor crude oil production interest in the Shatirah field, onshore Libya.

MIDSTREAM



The Lloydminster Upgrader is the heart of Husky's Midstream operations

LLOYDMINSTER HEAVY OIL UPGRADER

In 2000, the Lloydminster Upgrader produced approximately 60,600 barrels per day of synthetic crude and 10,800 barrels per day of diluent. This allowed Husky to effectively upgrade all its current heavy oil production into synthetic crude, capturing the price differential between light and heavy crude blends as well as providing a reliable supply of diluent for the Company's heavy oil operations.

As oil production from Western Canada continues to get heavier, combined with growing offshore imports of heavy oil, the oversupply of heavy crudes relative to refinery demand has led to a widening of the light oil to heavy oil price differential. Husky has the ability to offset the impact of these differentials for its own production. During 2000 the heavy oil blend to light oil price differentials averaged \$13.77 per barrel, resulting in record profitability by the Upgrader.

Over the next year, yield evaluation projects will be completed to formalize expansion economics of the Upgrader. Negotiations have been initiated to assure supply



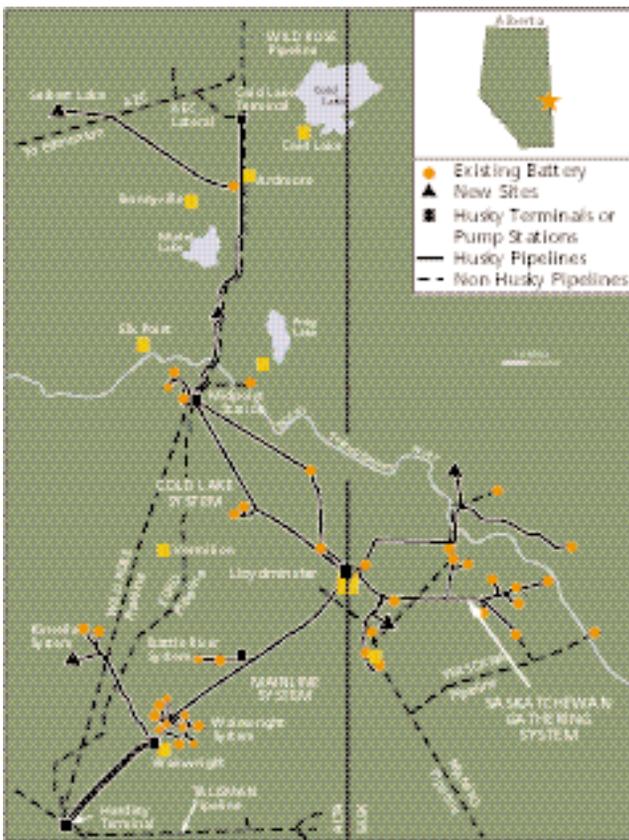
Automated control room of the Lloydminster Upgrader

of heavy oil is available to utilize all additional capacity. Timing of the expansion is dependent upon a number of market fundamentals including the ability of the Northern tier United States refineries to accept synthetic crude and the availability of a skilled construction workforce.

PIPELINES

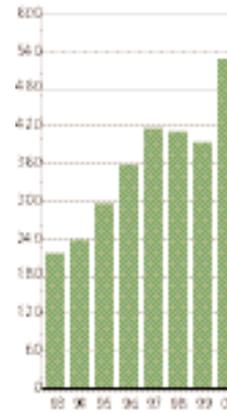
Husky operates over 1,900 kilometres of pipeline providing a strategic advantage to Husky in the Lloydminster area. Oil is moved from the Cold Lake region and west central Saskatchewan to the Husky Upgrader and asphalt refinery and to the non-owned transmission pipelines serving United States refineries. During 2000 the pipeline was operating at near its maximum capacity with record volumes in excess of 527,700 barrels per day.

Husky's Pipeline System



COMMODITY MARKETING

Husky markets its own production and third party crude oil, natural gas, natural gas liquids, sulphur and petroleum coke. During 2000, an average of 434,000 barrels per day of oil and 1.3 billion cubic feet per day of natural gas were managed.

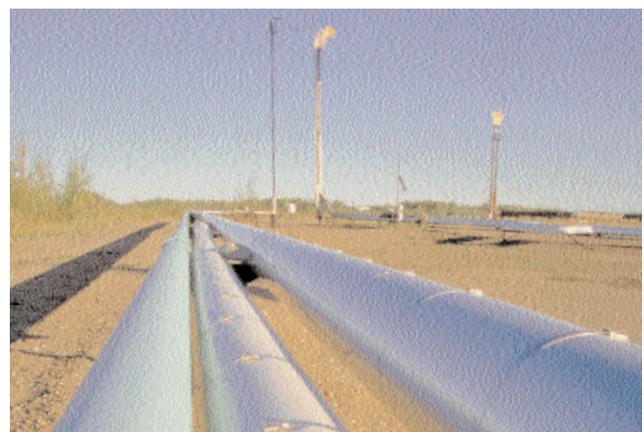


Pipeline Throughput (mbbls/day)

Husky continues to experience strong commodity marketing growth and the Company intends to increase third party business and services. As part of our ongoing growth program, the Company is also considering expansion of its Hussar natural gas storage facility from 16 billion cubic feet to 75 billion cubic feet.

POWER GENERATION

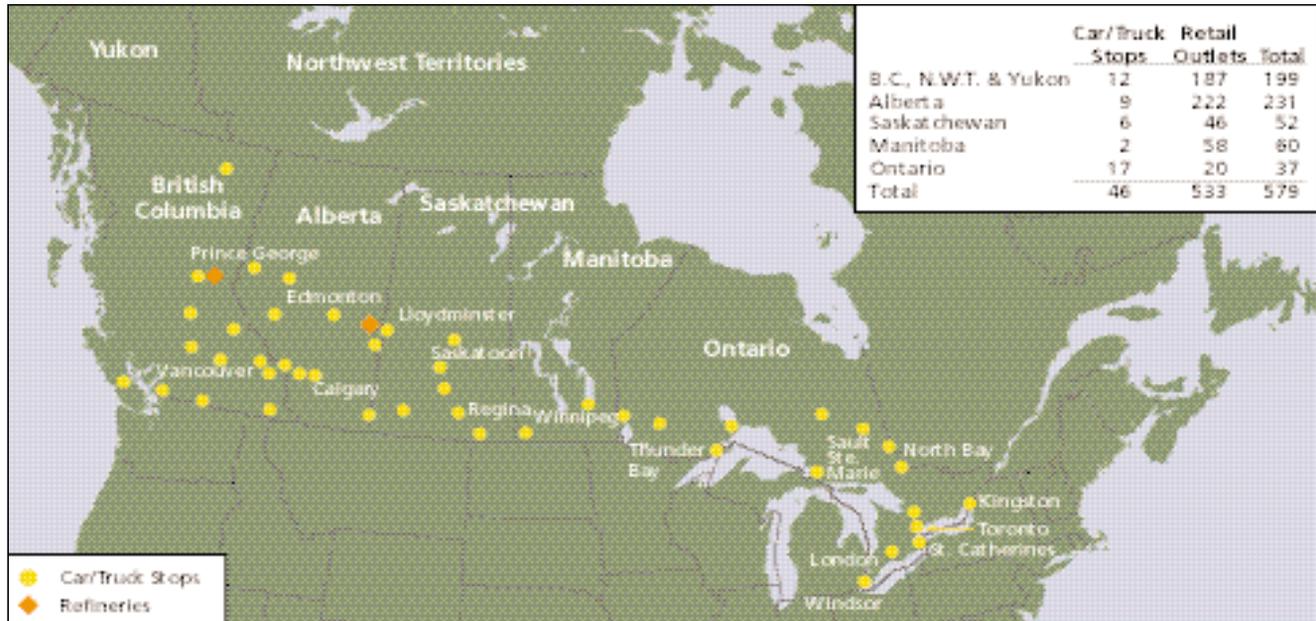
Husky has a 50 percent interest in a 215 megawatt cogeneration facility adjacent to the Upgrader. The Company is exercising its right to purchase a 50 percent interest in a 45 megawatt facility at Rainbow Lake. This facility has the ability to expand to 110 megawatts in the future. Husky plans to become more self-sufficient in its power needs.



Husky's pipeline network is a strategic asset in the Lloydminster area

REFINED PRODUCTS

Husky's Retail Marketing Outlets



WHOLESALE, COMMERCIAL AND RETAIL MARKETING

The Company's wholesale, commercial and retail marketing network consists of 579 Husky and Mohawk outlets located from British Columbia to Ontario. This network includes one of the most successful car/truck stop networks in Canada. Husky's Prince George refinery supplies 20 percent of the fuel sold by the outlets, 60 percent is supplied by processing agreements with other refiners and 20 percent is purchased in the open market. Non-fuel related cash flow through the retail network was over \$25 million in 2000.

OIL REFINING AND ETHANOL PROCESSING

Husky owns a 10,000 barrel per day refinery at Prince George, British Columbia and a 10 million litres per year ethanol plant at Minnedosa, Manitoba. Ethanol is an oxygenate, derived from biomass, that when added to gasoline promotes fuel combustion, raises octane levels and prevents water from freezing in fuel lines. The ethanol blended gasoline (Mother Nature's Fuel) has received federal

government recognition for its low combustion emissions as compared to other products. Husky is actively repositioning its supply of ethanol as ethanol-blended gasoline is now available at most Husky stations.

ASPHALT REFINERY

Husky owns and operates a 25,000 barrel per day refinery at Lloydminster that processes heavy oil into asphalt, used for paving and building products. Husky has identified synergies for improved yields at lower costs by integrating processes between the Upgrader and the refinery.

ASPHALT MARKETING

The high quality of asphalt produced at the Lloydminster refinery has resulted in Husky achieving a 35 percent market share in the Western Canadian paving market. Asphalt sales increased eight percent in 2000. Forty percent of the refinery production is exported to the United States, where demand for high specification asphalt is growing. The asphalt business achieved a Company record year in production, sales and cash flow.

Technology and innovation

Husky's approach to technology is to identify and implement near commercial or newly commercial processes or products that enhance our core business activities. An example is the installation of a hydrogen recovery membrane system in the Lloydminster Upgrader. The membrane unit has increased processing capacity and substantially reduced hydrogen costs.

In our Upstream operations, the Company has defined, and will be implementing remote single well monitoring automation in our heavy oil operations. The project will be installed in phases allowing us to optimize capital costs and to further define operational and production reliability improvements as we proceed. Application of this technology will be extended to other areas of Husky provided an adequate rate of return can be realized.

Husky has also created a team of experienced technical staff to assist the business units in identifying and implementing projects that improve operating, production, safety and environmental performance. This Cost Management team will be able to effectively communicate best practices across the Company, and to convert ideas into value-added projects.

Husky supports two research chairs at the University of Calgary. With the Company's financial support of the Bituminous Materials Chair, a leading asphalt research facility has been established at the University. The project provides a focal point for the technical needs of the asphalt industry, trains scientists and engineers in the field, and develops advanced bituminous materials and technologies with a strong focus on environmental issues. Believing education is the key to competing successfully in a global market, Husky's sponsorship of the Petroleum Engineering Chair creates learning opportunities for talented professionals.

EAST COAST RESEARCH AND DEVELOPMENT INITIATIVES

On the East Coast, Husky works closely with local research agencies and companies to address the demands posed by developing offshore petroleum resources in harsh environments.

Husky continues to work closely with C-CORE (Centre for Cold Ocean Resources Engineering) at Memorial University of Newfoundland on several initiatives including:

- Iceberg scour studies which will include assessing shallow geotechnical and geological conditions at the White Rose oil field, and will estimate scour depths along proposed flowline routes; and
- The Integrated Ice Management Research and Development Initiative, an initiative supported by several industry partners which is focused on iceberg towing, detection and systems integration activities. C-CORE is using remote sensing (such as satellite imaging) and ice engineering expertise to undertake this work.

Other research and development initiatives include:

- Serving in an advisory capacity to Newfoundland-based Instrumar Limited on the development of its multi-phase flow meter; and
- A collaborative research study between Husky, Memorial University and the Canadian Wildlife Service, on seabirds and marine mammal distributions off Newfoundland; and
- Working together with Memorial University and other industry partners through the Memorial University Seismic Imaging Consortium (MUSIC).

In addition to meeting the technical requirements of specific projects, Husky sees the long-term benefits of these research and development initiatives contributing broadly to the development of local capabilities in the offshore sector.

Health, safety and environment

Husky assigns a high priority to the health, safety and environmental protection of its employees, contractors, the general public and the environment. This commitment is reflected in both its corporate policy and in the formal health, safety and environmental management systems which have been established. As well, the Company incorporates health, safety and environmental protection in its strategic planning process.

In the mid-1990s Husky implemented a formal systematic approach to managing its health, safety and environmental responsibilities based on the Det Norske Veritas model, an internationally recognized and world-class provider of loss control and environmental management programs. To ensure that the Company remains at the forefront of health, safety and environmental performance, Husky routinely audits its operations and benchmarks its performance against its industry peers. An example Husky is particularly proud of is that the Lloydminster Upgrader passed a record of 2.4 million manhours without a lost-time accident as of December 31, 2000.

Husky believes it has a responsibility to integrate health, safety and environmental considerations into the conduct of its business and has for many years been a strong proponent of early and extensive public consultation with all stakeholders who may be impacted by its operations. Accordingly, Husky is a member of a variety of government, industry and non-government groups whose focus is on health, safety and environmental protection.

The Company and its employees support more than ten organizations devoted to preserving the wilderness. A Company representative serves on the Canadian Board of the World Wildlife Fund. Husky is a founding supporter of the Eastern Slopes Grizzly Bear Project, which is studying the impact of fragmentation of grizzly bear habitat along the eastern slopes of the Rocky Mountains. The Company is also active in the Boreal Caribou Committee and the Central Rockies Wolf Project. Husky is a strong partner of Ducks Unlimited throughout the prairie provinces.



Husky is a founding supporter of the Eastern Slopes Grizzly Bear Project

Since becoming a participant in the Canadian Government's Voluntary Challenge and Registry in 1995, Husky continues to modify its operations to reduce greenhouse gas emissions. These include reduction of flared gas, solution gas recovery, managing fugitive emissions, improving energy efficiency and co-generation.

Husky's leadership efforts in this area have been recognized twice by Canada's Voluntary Challenge on Climate Change.

Overall, Husky seeks to achieve a healthy balance between economic development and the health, safety and environmental needs of society.



Husky wins two V.C.R. (Voluntary Challenge and Registry) Awards for Leadership in Greenhouse Gas Emissions Reporting and Reduction

Husky and the community

Husky contributes to organizations that strengthen and benefit society. During 2000, Husky has donated to several hundred organizations involved in health, welfare, civic activities, education, art and culture. Donations, in various amounts, are allocated by six employee committees across Canada, ensuring that the funding reflects local community needs. This support extends far and accomplishes much in the communities in which Husky operates: from tree-planting to summer camp to community theatre and care for seniors.

Husky's support of the Canadian Cancer Society since 1963 is just one example of the kinds of programs that receive ongoing support. A vehicle was donated by the Company for the Society's Ride 'n' Care program and eight employees volunteer as drivers to transport patients to and from cancer treatment centres.

School partnerships provide support to young people as they prepare to make career choices and plan for their futures. Since 1990, Husky employees have spent hundreds of hours providing students from Western Canada High School in Calgary the opportunity to put school theory into practice. This relationship allows students the chance to develop a positive attitude toward the world of business. The partnership recently won a Mayor's Excellence Award sponsored by the Calgary Educational Partnership Foundation.

In Lloydminster, on the Alberta/Saskatchewan border, Husky sponsors a Job Safety Skills Program in area high schools, which prepares students to work safely in a wide range of industries and businesses.

Husky has an Aboriginal Affairs program, which promotes employment, education and business opportunities among Aboriginal people. The Company's Aboriginal Affairs Coordinator maintains a database of Aboriginal job applicants and assists in matching them to job opportunities at Husky. Up to seven scholarships are awarded annually, each of which allows the recipient to complete an educational program that leads to a degree, diploma or certificate. Aboriginal Awareness Workshops provide employees with an awareness of cultural, economic, social and structural differences and facilitate an effective business relationship. Aboriginal Awareness Week uses exhibits and activities to provide employees with a better understanding



Husky's relationship with the Frog Lake First Nation spans more than two decades

of Aboriginal Affairs. Husky's donation to the University of Northern British Columbia in Prince George supports the education of rural and Aboriginal students.

In recognition of Husky's commitment and support, the Frog Lake First Nation named Husky President & Chief Executive Officer John C. S. Lau as honorary chief, Chief Earth Child. Husky's activities with the Frog Lake First Nation, whose Reserve is located 80 kilometres north of Lloydminster, started nearly two decades ago and is indicative of the Company's long-standing efforts to promote fairness and diversity.

In 2000, Husky was recognized with a Merit Award from the Canadian government for its employment equity practices. The Company was also named one of the country's best employers by the editors of the book *Canada's Top 100 Employers: The Guide to Canada's Best Places to Work*.

Husky's Hussar Plant coordinated the purchase and supply of fire-fighting foam by the Company, area businesses and the town of Standard. This has not only saved money for the participating organizations, but also improved the readiness of the local volunteer fire fighters.

Husky encourages participation by its employees in community activities. Husky staff have been involved in municipal hazardous waste round-ups, organizing youth functions, building cross-country skiing and hiking trails, and numerous other volunteer activities.

Management's discussion and analysis

This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Auditors' Report included in this Annual Report. The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in Canada. The effect of significant differences between Canadian and United States accounting principles is disclosed in note 16 to the Consolidated Financial Statements. Unless otherwise indicated, all production is before royalties and prices include the effect of hedging. A barrel of oil equivalent (boe) is based on a rate of six mcf to one barrel of oil.

FORWARD-LOOKING STATEMENTS

Certain of the statements set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Annual Report such as the statements regarding planned capital expenditures and the availability of capital resources to fund capital expenditures are forward-looking and are based upon Husky's current belief as to the outcome and timing of such future events. There are numerous risks and

uncertainties that can affect the outcome and timing of such events, including many factors beyond the control of Husky. These factors include, but are not limited to, the matters described below. Should one or more of these risks or uncertainties occur, or should underlying assumptions prove incorrect, Husky's actual results and plans for 2001 and beyond could differ materially from those expressed in the forward-looking statements.

OVERVIEW

Husky's results of operations include those of Renaissance Energy Ltd. ("Renaissance") from August 25, 2000. The acquisition of Renaissance by Husky was accounted for using the purchase method of accounting. On August 25, 2000, pursuant to a Plan of Arrangement outlined in an Information Circular dated July 12, 2000 a new publicly traded company, Husky Energy Inc., was created. Husky Energy Inc. is the parent company of Husky Oil Operations Limited ("HOOL"). HOOL was formed upon the amalgamation of Husky Oil Limited ("Husky Oil"), its principal subsidiary, Husky Oil Operations Limited and

Renaissance. Upon completion of the Plan of Arrangement the former shareholders of Husky Oil held approximately 71.7 percent of the shares of Husky.

Husky's operating activities are divided into three segments. The Upstream segment includes the exploration, development and production of crude oil and natural gas in Western Canada, the Canadian East Coast offshore and some international areas. The Midstream segment includes upgrading operations, commodity trading and infrastructure operations, which include pipeline, processing, storage and new venture operations. The Refined Products segment includes refining of crude oil and marketing of refined petroleum products.

Husky's results of operations are influenced significantly by crude oil and natural gas prices, the costs to find and produce crude oil and natural gas, the differential between heavy and light crude oil, the demand for and ability to deliver natural gas, the exchange rate between the Canadian and the U.S. dollars, refined product margins, the demand for Husky's pipeline capacity and the demand for refined petroleum products.

Crude oil and natural gas prices have been, and are expected to continue to be, volatile and subject to fluctuations based on a number of factors. The prices received for the crude oil sold by Husky are related to the price of crude oil in world markets. The market price of heavy crude oil trades at a discount or differential to light crude oil.

World oil prices increased from late 1999 through 2000 as a result of increased global demand, low petroleum inventories and better production management by OPEC. The price for West Texas Intermediate (WTI) crude oil, an industry benchmark, averaged U.S. \$30.20 per barrel, U.S. \$19.24 per barrel and U.S. \$14.43 per barrel during 2000, 1999 and 1998, respectively. During 2000 the monthly average price per barrel of WTI fluctuated between

U.S. \$25.54 per barrel in April and U.S. \$34.26 per barrel in November and ended the year at U.S. \$28.40 per barrel.

The demand for natural gas is affected by factors, such as weather patterns in North America, the availability of alternative sources of energy supply and general industry activity levels. There have been and continue to be periodic imbalances between supply and demand for natural gas.

Natural gas prices realized by Husky are based on fixed price contracts, on spot prices or, from time to time, on prices on the New York Mercantile Exchange ("NYMEX") or on other United States regional market prices. During 2000 demand in the United States for natural gas continued to increase, which combined with low natural gas inventories and stagnant production growth resulted in significant price increases toward year-end. The U.S. NYMEX natural gas benchmark averaged U.S. \$3.91 per million British thermal units during 2000, 72 percent higher than the U.S. \$2.27 per million British thermal units during 1999.

Husky's results of operations are affected by the exchange rate between Canadian and U.S. dollars. A significant portion of Husky's revenues, especially with respect to Husky's upstream operations, are received in or determined by reference to U.S. dollar denominated prices, while the majority of Husky's expenditures are in Canadian dollars. Accordingly, a change in the value of the Canadian dollar relative to the U.S. dollar has the effect of increasing or decreasing revenues. A change in the relative value of the Canadian dollar would also result in an increase or decrease in Husky's U.S. dollar denominated debt, as expressed in Canadian dollars, and the related interest expense.

Husky's results of operations are also dependent on the price of refinery feedstock, the overall demand for pipeline transportation capacity and the demand for refined petroleum products. The margins realized by Husky for refined products are affected by crude oil price fluctuations, which affect refinery feedstock prices, and third party

refined product purchases. Husky's ability to maintain product margins in an environment of higher feedstock costs is contingent upon its ability to pass higher costs on to its customers.

The profitability of Husky's upgrading operations is dependent upon the differential between the price of synthetic crude oil and the cost of heavy oil feedstock and other operating costs, including natural gas, and is therefore sensitive to the differential between the price of blended heavy crude oil and the price of synthetic crude oil. An increase in the price of blended heavy crude oil feedstock which is not accompanied by an equivalent increase in the price of synthetic crude oil would reduce the profitability of Husky's upgrading operations.

The differential between the average price at Lloydminster of synthetic crude oil and blended heavy crude oil feedstock averaged \$13.77 per barrel during 2000, \$6.49 per barrel during 1999 and \$7.85 per barrel during 1998. The differential was relatively stable for the first eight months of 2000, averaging \$9.24 per barrel. The differential rose sharply from September to the end of the year reaching \$25.80 per barrel in November and ended the year at \$25.48 per barrel. The widening of the differential reflected lower heavy crude oil prices during the last few months of 2000 due to high supply of heavy crude oil combined with lower diluent supply.

Most aspects of Husky's business are affected by environmental legislation. Similar to other companies in the oil and gas industry, Husky incurs costs for preventive and corrective actions and is required to obtain operating licences and adhere to certain standards and controls regarding activities relating to oil and gas exploration, development and production as well as refining, transportation, marketing and storage of petroleum and refined petroleum products. Changes to regulations could have an adverse effect on Husky's results of operations and financial condition.

RESULTS OF OPERATIONS

2000 compared with 1999

Sales and Operating Revenues

Husky's total sales and operating revenues increased \$2,296 million (82 percent), from \$2,794 million during 1999 to \$5,090 million during 2000.

Husky's total revenues from upstream operations (net of royalties) increased \$971 million (161 percent), from \$602 million during 1999 to \$1,573 million during 2000. The increase in upstream revenues in 2000 was primarily due to the acquisition of Renaissance effective from August 25, 2000. Renaissance added \$544 million (56 percent) to upstream net revenues during 2000, \$289 million (30 percent) from sales of light and medium crude oil and natural gas liquids and \$255 million (26 percent) from sales of natural gas. The remaining increase in upstream revenues in 2000 was attributable to the former Husky Oil properties, which reflected an increase in revenues from sales of heavy crude oil (15 percent), light and medium crude oil and natural gas liquids (17 percent) and natural gas and sulphur (12 percent). Heavy crude oil production increased from 42.1 mbbls/day in 1999 to 53.5 mbbls/day in 2000. The increase in heavy crude oil production was attributable to an increase in drilling activity, which commenced after the first quarter of 1999 and continued through 2000. The average price received for heavy oil increased from \$16.00 per barrel in 1999 to \$21.26 per barrel in 2000. Light and medium crude oil and natural gas liquids production (excluding Renaissance properties) increased from 26.5 mbbls/day in 1999 to 33.2 mbbls/day in 2000. The increase in production was primarily due to a property exchange, which was effective January 1, 2000. Husky received producing properties located at Valhalla and Wapiti near Grande Prairie, Alberta in exchange for interests in Terra Nova and White Rose, non-producing properties located off the East Coast of Newfoundland. The property exchange added 7.0 mbbls/day of light crude oil and natural gas liquids to 2000 production. The average price received for light and medium crude oil and natural gas

liquids increased from \$21.52 per barrel in 1999 to \$33.42 per barrel in 2000. Production from the Renaissance properties produce a medium viscosity crude oil averaging \$31.27 per barrel compared with the average Husky Oil light and medium crude oil averaging \$38.64 per barrel, before the impact of hedging. Natural gas production (excluding Renaissance properties) decreased from 250.5 mmcf/day in 1999 to 234.2 mmcf/day in 2000. The decrease was primarily due to gas plant restrictions and maintenance during the second quarter and production declines in certain northeast British Columbia properties. Natural gas production from Valhalla and Wapiti added 9.8 mmcf/day during 2000. The average price received for natural gas increased from \$2.41/mcf in 1999 to \$5.16/mcf in 2000.

Husky's total revenue from midstream operations increased \$1,390 million (72 percent), from \$1,925 million in 1999 to \$3,315 million in 2000. Revenues from upgrading operations contributed \$365 million of the increase in midstream revenues. The increase in upgrading revenues resulted from higher prices for synthetic crude oil. Sales volume was lower in 2000 due to a full plant turnaround in May 2000. During 2000 the average price of synthetic crude oil was 57 percent higher than in 1999. Revenues from infrastructure and marketing contributed \$1,025 million of the increase in midstream revenues, primarily as a result of increased commodity prices, higher brokered natural gas and blended heavy crude oil sales volume, higher pipeline throughput and also contributions from the co-generation and gas storage operations, which were new in 2000.

Husky's total revenues from refined product operations increased \$443 million (49 percent), from \$904 million in 1999 to \$1,347 million in 2000. Light oil refined products accounted for 66 percent of the increase as a result of higher motor fuel prices. The remainder of the increase was due to higher sales prices and volume of asphalt products.

Sales volume of asphalt products was 18 percent higher during 2000 compared with 1999.

Costs and Expenses

Husky's total segmented costs and expenses increased \$1,550 million (63 percent), from \$2,447 million during 1999 to \$3,997 million during 2000.

Husky's total upstream costs and expenses increased \$348 million (81 percent), from \$428 million in 1999 to \$776 million in 2000. Higher costs and expenses in 2000 were primarily due to the inclusion of Renaissance properties from August 25, 2000. Depletion, depreciation and amortization (DD&A) accounted for \$184 million of the increase and resulted from higher production volume attributed to the inclusion of Renaissance properties, higher heavy crude oil production volumes and the inclusion of Valhalla and Wapiti properties from January 1, 2000. Total upstream DD&A per unit was \$6.28/boe during 2000 compared with \$5.56/boe during 1999. Higher upstream operating costs accounted for \$164 million of the increase in upstream costs and expenses and were related to higher production volume. Total upstream average operating cost per unit was \$5.61/boe during 2000 compared with \$4.94/boe during 1999.

There were no ceiling test writedowns required at the end of 2000. Writedowns of oil and gas properties may be required in the future if prices decline, undeveloped property values decrease, estimated proved reserves volumes are revised downward or costs incurred in exploration, development or acquisition activities exceed the future net cash flows from the additional reserves, if any.

Husky's total midstream costs and expenses increased \$1,271 million (71 percent), from \$1,799 million in 1999 to \$3,070 million in 2000. Infrastructure and marketing accounted for \$1,006 million of the increase primarily due to higher commodity costs and higher brokered sales

volumes and to the new co-generation and gas storage operations, which commenced operations in 2000. Costs and expenses that relate to upgrading operations accounted for \$265 million of the increase in midstream costs and expenses. Higher upgrading costs and expenses relate primarily to higher feedstock costs and to higher natural gas and steam costs. Upgrading operating cost per unit of plant yield averaged \$6.17 per barrel during 2000 compared with \$4.02 per barrel during 1999.

Husky's total refined products costs and expenses increased \$443 million (52 percent), from \$855 million in 1999 to \$1,298 million in 2000 primarily due to higher cost of refinery feedstock and higher asphalt product sales volume during 2000.

Operating Profit

Husky's total operating profit increased \$746 million (215 percent), from \$347 million to \$1,093 million in 2000.

Husky's total upstream operating profit increased \$623 million (358 percent), from \$174 million in 1999 to \$797 million in 2000. The acquisition of Renaissance accounted for approximately half of the increase in operating profit. The remaining increase was attributable to the former Husky Oil properties, which benefited from higher oil and gas prices and increased sales volume of crude oil and natural gas liquids.

Husky's total midstream operating profit increased \$119 million (94 percent), from \$126 million in 1999 to \$245 million in 2000. Upgrading operations accounted for \$100 million of the total increase in midstream operating profit. The increase in upgrading operating profit was due to a significantly wider differential between the price of synthetic crude oil and the cost of blended heavy crude oil feedstock. During 2000 the differential averaged \$13.77 per barrel compared with \$6.49 per barrel during 1999. The effect of the wider differential was partially

offset by lower throughput and higher operating costs. The lower throughput was due to a full plant turnaround in May and the higher operating costs were related to the increased costs of natural gas and thermal energy. Infrastructure and marketing operations accounted for \$19 million of the total increase in midstream operating profit. Higher heavy crude throughput benefited pipeline and processing operations. The addition of co-generation and natural gas storage operations during 2000 also contributed to higher operating profit.

Husky's total refined products operating profit was \$49 million in both 2000 and 1999. Lower marketing margins for light oil refined products were offset by higher asphalt sales volumes and margins. The lower margins for light refined product were due to higher feedstock costs, which could not entirely be passed on to Husky customers.

Earnings Before Taxes and Ownership Charges

Earnings before taxes were \$917 million during 2000 compared with \$211 million during 1999. Interest-net increased \$39 million (63 percent), from \$62 million in 1999 to \$101 million in 2000. Interest before capitalization and interest income was \$48 million above 1999. The higher interest charges during 2000 were largely due to the inclusion of Renaissance debt. Additionally, the 8.45 percent senior secured bonds that were issued during July 1999 to fund part of the East Coast Terra Nova development operations, were outstanding during all of 2000. During the second quarter of 2000 Husky redeemed a portion of the 8.45 percent senior secured bonds as a result of a property exchange, with the related redemption costs included in interest expense.

Interest capitalized during 2000 was \$43 million, an increase of \$11 million over 1999. Higher capitalized interest was due to interest capitalization on the White Rose delineation project which commenced during the fourth quarter of 1999 and the progression of the Terra Nova development project.

Husky recorded a foreign exchange loss of \$5 million during 2000 compared with a loss of \$25 million during 1999.

Income Taxes

Income tax expense was \$371 million during 2000 compared with \$51 million during 1999. Higher income tax expense resulted from higher pre-tax earnings. Note 8 to the Consolidated Financial Statements provides an analysis of income tax expense.

Earnings Before Ownership Charges

Ownership charges represented interest on the subordinated shareholders' loans and dividends on Class C shares and were paid by capitalizing interest to principal or issuing additional Class C shares. Earnings before ownership charges, therefore, represented earnings available for interest, dividends or other distributions to the shareholders. Earnings before ownership charges were not intended to be a substitute for net earnings. Under the Plan of Arrangement, the indebtedness of Husky Oil to its shareholders was eliminated and as a result ownership charges ceased to be charged to earnings.

Earnings before ownership charges amounted to \$546 million during 2000 compared with \$160 million during 1999.

Husky recorded total ownership charges of \$82 million in 2000 compared with \$117 million during 1999.

Net Earnings

Net earnings were \$464 million in 2000 compared with \$43 million during 1999.

1999 Compared With 1998

Sales and Operating Revenues

Husky's total sales and operating revenues increased \$765 million (38 percent), from \$2,029 million in 1998 to \$2,794 million in 1999.

Husky's total revenues from upstream operations increased \$156 million (35 percent), from \$446 million in 1998 to \$602 million in 1999. The increase in upstream revenues in 1999 was attributable to an increase in revenues from heavy crude oil (64 percent), light and medium crude oil and natural gas liquids (23 percent) and natural gas and sulphur (13 percent). Heavy crude oil production increased from 42.0 mbbls/day in 1998 to 42.1 mbbls/day in 1999. During 1999 an optimization program involving development drilling and the installation of higher capacity pumping equipment commenced and resulted in production volumes increasing in the fourth quarter of 1999. The average price realized for heavy crude oil increased from \$8.26 per barrel in 1998 to \$16.00 per barrel in 1999. Light and medium crude oil and natural gas liquids production decreased from 27.6 mbbls/day in 1998 to 26.5 mbbls/day in 1999. The average price realized for light and medium crude oil and natural gas liquids increased from \$16.07 per barrel in 1998 to \$21.52 per barrel in 1999. Natural gas production increased from 232.6 mmcf/day in 1998 to 250.5 mmcf/day in 1999 as a result of discoveries in northeast British Columbia, development activities in central Alberta and in the Alberta foothills. The average price for natural gas increased from \$2.17/mcf in 1998 to \$2.41/mcf in 1999.

Husky's total revenues from midstream operations increased \$514 million (36 percent), from \$1,411 million in 1998 to \$1,925 million in 1999. Revenues from upgrading operations contributed \$229 million of the increase. Higher upgrading operations revenues resulted from higher average prices for synthetic crude oil and higher sales volumes. During 1999 the average realized price for synthetic crude

oil increased 36 percent compared with 1998. Revenues from infrastructure and marketing operations contributed the remainder of the increase, primarily due to higher oil and gas prices.

Husky's total revenues from refined product operations increased \$240 million (36 percent), from \$664 million in 1998 to \$904 million in 1999. The higher downstream revenues were, in part, due to a full year of Mohawk Canada Limited ("Mohawk") operations, acquired July 7, 1998. The remainder of the increase was attributable to higher prices for both motor fuels and asphalt products. Sales volumes of asphalt products were 12 percent lower during 1999 compared with 1998.

Costs and Expenses

Husky's total segmented costs and expenses increased \$655 million (37 percent), from \$1,792 million during 1998 to \$2,447 million during 1999.

Husky's total upstream costs and expenses increased \$20 million (5 percent), from \$408 million in 1998 to \$428 million in 1999. Higher DD&A expense related primarily to a higher capital base and higher production. Total average upstream operating cost per unit increased from \$4.68/boe in 1998 to \$4.94/boe in 1999. Total upstream DD&A per unit increased from \$5.42/boe in 1998 (restated) to \$5.56/boe in 1999.

Husky's total midstream costs and expenses increased \$520 million (41 percent), from \$1,279 million in 1998 to \$1,799 million in 1999. Costs and expenses related to upgrading operations increased by \$243 million from 1998 to 1999 as a result of higher feedstock costs, due to increased heavy crude oil prices and production volumes. The remainder of the increase was primarily related to infrastructure and marketing operations, which were affected by the higher cost of purchased commodities.

Husky's total refined product costs and expenses increased \$255 million (43 percent), from \$600 million in 1998 to \$855 million in 1999 due to the inclusion of Mohawk operations for a full year and higher feedstock costs.

Operating Profit

Husky's operating profit increased \$110 million (46 percent), from \$237 million in 1998 to \$347 million in 1999.

Husky's upstream operating profit increased \$136 million (358 percent), from \$38 million in 1998 to \$174 million in 1999. The higher upstream operating profit was attributable to higher average realized prices for crude oil, natural gas liquids and natural gas and higher natural gas production volume.

Husky's midstream operating profit decreased \$6 million (5 percent), from \$132 million in 1998 to \$126 million in 1999. The lower midstream operating profit was due to lower upgrading profit, which decreased by \$14 million. The decrease resulted from a narrower upgrading differential and higher depreciation partially offset by higher production volumes. Operating profit from infrastructure and marketing operations increased \$8 million, due primarily to lower operating costs and higher marketing income.

Husky's refined product operating profit decreased \$15 million (23 percent) from \$64 million in 1998 to \$49 million in 1999. The lower operating profit was attributable to asphalt operations, which experienced lower sales volumes and narrower product margins due to higher feedstock costs. Operating profit from light oil refined product operations increased during 1999 as higher sales volumes of all products resulted from a full year of Mohawk operations but were partially offset by narrower product margins.

Earnings Before Taxes and Ownership Charges

Interest-net decreased \$8 million (11 percent), from \$70 million in 1998 to \$62 million in 1999, due to increased interest capitalization. Interest of \$32 million was capitalized during 1999 on the Terra Nova, White Rose and co-generation projects.

Foreign exchange losses increased by \$5 million (25 percent), from \$20 million in 1998 to \$25 million in 1999. Other-net in 1998 include gains on termination of gas sales contracts of \$62 million.

Income Taxes

Income tax expense was \$51 million in 1999 compared to \$27 million in 1998 due to higher pretax earnings during 1999.

Earnings Before Ownership Charges

Earnings before ownership charges amounted to \$160 million in 1999 compared to \$132 million in 1998.

Net Earnings

Husky recorded total ownership charges of \$117 million in 1999 compared to \$107 million in 1998. Net earnings were \$43 million in 1999 compared to net earnings of \$25 million in 1998.

LIQUIDITY AND CAPITAL RESOURCES

Capital Expenditures and Liquidity

During 2000, cash available from operating activities amounted to \$1,419 million, an increase of \$918 million compared with 1999. Cash used for investing activities amounted to \$759 million, a decrease of \$27 million compared with 1999. During 2000 cash used for investing activities comprised capital expenditures of \$803 million and costs related to the acquisition of Renaissance of

\$38 million, partially offset by sales of assets and reduction of other assets of \$82 million. The reduction of other assets was mainly due to the release and subsequent utilization for general corporate use of term deposits, which had been maintained in connection with the 8.45 percent senior secured bonds.

During 1999, cash available from operating activities amounted to \$501 million, an increase of \$102 million compared with 1998. During 1999, cash used for investing activities amounted to \$786 million, a decrease of \$102 million compared with 1998. During 1999 cash used for investing activities comprised capital expenditures of \$706 million and classification of \$85 million of term deposits as other assets partially offset by asset sales.

During 1998 cash available from operating activities amounted to \$399 million. Cash used for investing activities during 1998 amounted to \$888 million, comprising capital expenditures of \$829 million, acquisition of Mohawk for \$102 million, partially offset by asset sales.

During 2000, net capital investments were financed by cash flow from operating activities.

During 1999, net capital investments were financed by cash flow from operating activities and through the issuance of U.S. \$250 million of 8.45 percent senior secured bonds due 2012, the proceeds of which are being used to finance a portion of Husky's share of the Terra Nova oil field project.

During 1998, net capital investments were financed by cash flow from operating activities, through the issuance of U.S. \$225 million of capital securities and from bank credit facilities.

CAPITAL EXPENDITURES

Upstream

2000

Upstream capital expenditures for property, plant and equipment amounted to \$700 million in 2000 compared with \$570 million in 1999. Upstream capital expenditures in Western Canada totalled \$419 million and included \$114 million for development in the Lloydminster heavy oil area and \$186 million in conventional oil and gas areas primarily in Alberta. Exploration spending during 2000 totalled \$119 million in Western Canada approximately one third of which was spent in the Alberta foothills and northeastern British Columbia. During 2000, \$194 million was spent on East Coast exploration and development projects, which includes the Terra Nova development project and the White Rose delineation project.

1999

Upstream capital expenditures for property, plant and equipment amounted to \$570 million in 1999 compared with \$439 million in 1998. During 1999, \$309 million of capital spending was directed toward Husky's exploration and development activities off the East Coast of Canada. Included in the East Coast spending was \$31 million to acquire additional interests in White Rose and other properties in the Jeanne d'Arc Basin. Upstream capital expenditures in Western Canada totalled \$238 million including \$81 million for development in the Lloydminster heavy oil area and \$76 million for exploration. Exploration spending was approximately 32 percent of upstream capital expenditures in Western Canada. Exploration spending in Western Canada in 1999 was concentrated in the Alberta and northeast British Columbia foothills. In 1999, a total of \$23 million was spent in international areas.

1998

Upstream capital expenditures for property, plant and equipment amounted to \$439 million in 1998, an increase of \$165 million compared with 1997. During 1998,

\$158 million of capital spending was directed toward development of Husky's crude oil and natural gas properties in Western Canada. Exploration spending in Western Canada in 1998 was concentrated in the Alberta foothills and northeast British Columbia and southern Saskatchewan. Exploration spending amounted to \$75 million, or approximately 32 percent of the Western Canadian upstream capital expenditures. Capital expenditures relating to projects off the East Coast of Canada were \$191 million in 1998, including \$71 million to acquire additional interests in the Jeanne d'Arc Basin and \$111 million for Terra Nova development. In 1998, a total of \$15 million was spent in international areas.

Midstream

2000

Midstream capital expenditures for property, plant and equipment totalled \$59 million in 2000 and included construction of the Hussar natural gas storage facility and various pipeline and upgrader projects.

1999

Midstream capital expenditures for property, plant and equipment totalled \$94 million in 1999 of which \$57 million was related to the construction of the Meridian co-generation project, which was commissioned at the end of 1999.

1998

Midstream capital expenditures for property, plant and equipment totalled \$351 million in 1998. During 1998, Husky purchased the remaining interest in the Lloydminster Upgrader, which included \$265 million of additions to property, plant and equipment. In addition, midstream capital expenditures included \$27 million for the Meridian co-generation project, \$41 million for pipeline development and \$18 million at the Lloydminster Upgrader.

Refined Products

2000

Refined products capital expenditures amounted to \$29 million in 2000 including \$19 million for marketing outlet improvements and \$7 million for various improvements at the Lloydminster asphalt refinery.

1999

Refined products capital expenditures amounted to \$34 million in 1999 and were primarily for capital improvements to refineries and marketing outlets.

1998

Refined products capital expenditures amounted to \$27 million in 1998 and \$102 million to acquire Mohawk.

Husky has committed to complete the development of the Terra Nova oil field off the East Coast of Canada. Husky's share of future costs of this project to first oil was estimated at \$25 million at December 31, 2000. All capital expenditures planned for 2001 are in the normal course of business and are expected to be financed with cash flow from operations and, to the extent required, existing credit facilities.

FINANCING ACTIVITIES

As of December 31, 2000 Husky's outstanding long-term debt, including amounts due within one year, totalled \$2,344 million, compared with \$1,351 at December 31, 1999. Husky assumed \$1,575 million of long-term debt with the acquisition of Renaissance on August 25, 2000. As a result of reducing its interest in the Terra Nova oil field development project, Husky redeemed U.S. \$71 million of the 8.45 percent senior secured bonds in May 2000. In early 2000 U.S. \$41 million of term deposits previously maintained in connection with the 8.45 percent senior secured bonds were replaced by letters of credit and were released for general corporate use.

As of December 31, 1999, Husky's outstanding long-term debt, including amounts due within one year, stood at \$1,351 million, compared with \$1,102 million as of December 31, 1998.

With respect to Husky Oil, dividends on Common shares have not been paid since 1988 and were not paid on Class A shares or Class B shares. Dividends on Class C shares were paid through the issuance of additional Class C shares. Interest expense on subordinated shareholders' loans was charged, but was capitalized to principal on subordinated shareholders' loan or paid by issuing additional Class C shares.

On July 13, 1999, Husky completed the issuance of an aggregate principal amount of U.S. \$250 million of 8.45 percent senior secured bonds due 2012. As a condition of the issue of the bonds, certain funds were placed on deposit, which at December 31, 1999 totalled \$86 million. The purpose of the bond issue was to fund a portion of Husky's share of the Terra Nova field development costs.

On August 10, 1998, Husky completed the issuance of an aggregate principal amount of U.S. \$225 million of 8.90 percent capital securities due August 15, 2028, generating proceeds of approximately \$336 million. Husky records the capital securities as a component of equity and the return thereon as a charge to retained earnings.

At December 31, 2000, \$174 million (U.S. \$116 million) had been drawn under the revolving syndicated credit facility, which at December 31, 2000 permitted drawings of up to \$510 million. Interest rates vary based on Canadian prime, Bankers' Acceptance, U.S. Libor or U.S. base rate, depending on the borrowing option selected, the credit ratings assigned by certain rating agencies to Husky's rated senior unsecured debt and whether the facility is revolving or non-revolving. This facility was amended and restated in January 2001 to allow Husky to borrow up to \$1 billion on substantially the same terms. A non-revolving syndicated credit facility, which had \$300 million drawn under it was subsequently refinanced and cancelled during the first quarter 2001. In addition, four revolving facilities with available aggregate capacity of \$500 million were unutilized at December 31, 2000 and were cancelled in January 2001.

At December 31, 2000, \$84 million had been utilized under Husky's \$234 million short-term revolving credit facilities for operating loans and letters of credit. At December 31, 1999, \$100 million had been drawn down under the \$510 million revolving syndicated credit facility

and \$42 million had been utilized under the \$125 million short-term revolving credit facilities for operating loans and letters of credit. The interest rates applicable to these facilities were based on Canadian prime, Bankers' Acceptance or money market rate, or U.S. dollar equivalents.

At December 31, 1998, Husky had short and long-term lines of credit with banks aggregating \$495 million of which \$34 million had been used for bank operating loans and letters of credit. The interest rates applicable to these facilities were based on Canadian prime, Bankers' Acceptance or money market rate, or U.S. dollar equivalents.

Husky has an agreement to sell trade receivables up to \$220 million on a continual basis. The agreement calls for purchase discounts, based on Canadian commercial paper rates to be paid on an ongoing basis. The average effective rate for 2000 was approximately 5.95 percent (1999 – 5.30 percent). Husky's exposure to credit loss is immaterial under this agreement.

At December 31, 2000 Husky had the following credit ratings:

	Rated	Debt Rated
Standard and Poor's Rating Services	BBB	Senior Unsecured Debt
	BB+	Capital Securities
	BBB	8.45% Senior Secured Bonds
Moody's Investor Services	Baa3	Senior Unsecured Debt
	Ba2	Capital Securities
	Baa3	8.45% Senior Secured Bonds
Dominion Bond Rating Service Limited	BBB (high)	Senior Unsecured Long-Term Notes
	BBB	Capital Securities

The Company also received ratings from Canadian Bond Rating Service Inc. (CBRS) of BBB+ for senior unsecured debentures, BBB+ for Medium-Term Notes and BBB- for Capital Securities. CBRS has been acquired by Standard and Poor's Rating Service who is in the process of harmonizing the two ratings systems.

Effects Of Inflation

Inflation impacts both capital and operating expenditures. The prices Husky receives for its commodities may not move in direct relation to inflation related cost increases. Management currently does not anticipate that general inflation will have a material effect on Husky's operations.

Sensitivity Analysis

The following table shows the effect on net earnings and cash flow of changes in certain key variables. The analysis is based on business conditions and production volumes during the fourth quarter of 2000 due to the acquisition of Renaissance, which was effective from August 25, 2000. Each separate item in the sensitivity analysis assumes the others are held constant. While these sensitivities are applicable for the period and magnitude of changes on which they are based, they may not be applicable in other periods, under other economic circumstances or greater magnitudes of change.

Quarterly Information

For information regarding the eight quarters ended December 31, 2000 see page 77 of this Annual Report.

Factor	Change	Approximate Change			
		Cash Flow		Earnings	
		(\$ Millions)	(\$/diluted share)	(\$ Millions)	(\$/diluted share)
WTI Benchmark Crude Oil Price ⁽¹⁾	U.S. \$1.00/bbl	84	0.19	51	0.12
NYMEX Benchmark Natural Gas Price ^(1,2)	U.S. \$0.20/mcf	41	0.09	23	0.05
Light/Heavy Crude Oil Differential ⁽³⁾	Cdn. \$1.00/bbl	25	0.06	14	0.03
Light Oil Margins	Cdn. \$0.005/litre	14	0.03	8	0.02
Asphalt Margins	Cdn. \$1.00/bbl	7	0.02	4	0.01
Exchange Rate (U.S.\$ per Cdn.\$)	U.S. \$0.01	50	0.11	29	0.07
Interest Rate ⁽⁴⁾	1%	7	0.02	4	0.01

⁽¹⁾ Excludes the impact of hedging. Hedged oil and natural gas volumes at December 31, 2000 are immaterial.

⁽²⁾ Includes decrease in earnings related to natural gas consumption.

⁽³⁾ Includes impact of Upstream and Upgrading operations only. Sensitivity would be negative with an increase in the differential.

⁽⁴⁾ Interest rate sensitivity based on year-end debt.

MANAGEMENT'S REPORT

The management of Husky Energy Inc. is responsible for the financial information and operating data presented in this annual report.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Financial information presented elsewhere in this annual report has been prepared on a consistent basis with that in the financial statements.

Husky Energy maintains systems of internal accounting and administrative controls. These systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are properly accounted for and adequately safeguarded. The system of internal controls is further supported by an internal audit function.

The Audit Committee of the Board of Directors, composed of non-management Directors, meets regularly with management, as well as the external auditors, to discuss auditing (external, internal and joint venture), internal controls, accounting policy and financial reporting matters. The Committee reviews the consolidated financial statements with both management and the independent auditors and reports its findings to the Board of Directors before such statements are approved by the Board.

The consolidated financial statements have been audited by KPMG, the independent auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. KPMG have full and free access to the Audit Committee.

(signed)

John C. S. Lau
President &
Chief Executive Officer
Calgary, Alberta
February 14, 2001

(signed)

Neil McGee
Vice President &
Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Husky Energy Inc., as at December 31, 2000 and 1999 and the consolidated statements of earnings (deficit), retained earnings and cash flows for each of the years in the three year period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

With respect to the consolidated financial statements for the year ended December 31, 2000 we conducted our audit in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards. With respect to the consolidated financial statements for each of the years in the two years ended December 31, 1999 we conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and cash flows for each of the years in the three-year period ended December 31, 2000 in accordance with Canadian generally accepted accounting principles.

Generally accepted Canadian accounting principles vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected results of operations for each of the years in the three-year period ended December 31, 2000 and shareholders' equity as of December 31, 2000 and 1999, to the extent summarized in note 16 to the consolidated financial statements.

(signed)

KPMG LLP
Calgary, Canada
Chartered Accountants
February 2, 2001

CONSOLIDATED BALANCE SHEETS

As at December 31 (millions of dollars)	2000	1999	1998
ASSETS			
Current assets			
Cash equivalents	\$ -	\$ -	\$ 1
Accounts receivable	715	315	160
Inventories (note 4)	186	134	81
Prepaid expenses	27	14	16
	928	463	258
Property, plant and equipment, net (note 5) (full cost accounting)	7,841	4,189	3,780
Other assets	133	163	156
	\$ 8,902	\$ 4,815	\$ 4,194
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Bank operating loans (note 6)	\$ 34	\$ 31	\$ 29
Accounts payable and accrued liabilities	1,076	518	328
Long-term debt due within one year (note 7)	33	2	3
	1,143	551	360
Long-term debt (note 7)	2,311	1,349	1,099
Site restoration provision (note 5)	178	95	91
Future income taxes (note 8)	1,231	825	792
Due to shareholders (note 9)	-	1,743	1,626
Shareholders' equity			
Capital securities and accrued return (note 11)	347	347	348
Class B shares (note 9)	-	200	200
Common shares (note 10)	3,388	-	-
Retained earnings (deficit)	304	(295)	(322)
	4,039	252	226
Commitments and contingencies (note 13)			
Subsequent event (note 7)			
	\$ 8,902	\$ 4,815	\$ 4,194

On behalf of the Board:

(signed)

John C. S. Lau
Director

(signed)

William Shurniak
Director

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF EARNINGS

Years Ended December 31 (millions of dollars)	2000	1999	1998
Sales and operating revenues	\$ 5,090	\$ 2,794	\$ 2,029
Costs and expenses			
Cost of sales and operating expenses	3,516	2,151	1,513
Selling and administration expenses	67	48	53
Depletion, depreciation and amortization (note 5)	481	293	273
Interest – net (note 7)	101	62	70
Foreign exchange	5	25	20
Other – net	3	4	(59)
	4,173	2,583	1,870
Earnings before income taxes	917	211	159
Income taxes (note 8)			
Current	12	5	5
Future	359	46	22
	371	51	27
Earnings before ownership charges	546	160	132
Interest on subordinated shareholders' loans (note 9)	48	73	73
Dividends on Class C shares (note 9)	34	44	34
	82	117	107
Net earnings	\$ 464	\$ 43	\$ 25
Earnings per share – before ownership charges (note 10)			
Basic	\$ 1.58	\$ 0.41	\$ 0.34
Diluted	\$ 1.52	\$ 0.41	\$ 0.34
Earnings per share (note 10)			
Basic	\$ 1.39	\$ 0.10	\$ 0.07
Diluted	\$ 1.34	\$ 0.10	\$ 0.07

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (DEFICIT)

Years Ended December 31 (millions of dollars)	2000	1999	1998
Beginning of year	\$ (295)	\$ (322)	\$ (340)
Reduction of stated capital (note 9)	160	-	-
Employee future benefits – retroactive adjustment	(8)	-	-
Net earnings	464	43	25
Return on capital securities (note 11)	(30)	(29)	(12)
Related future income taxes (note 8)	13	13	5
End of year	\$ 304	\$ (295)	\$ (322)

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31 (millions of dollars)	2000	1999	1998
Operating activities			
Earnings before ownership charges	\$ 546	\$ 160	\$ 132
Items not affecting cash			
Depletion, depreciation and amortization	481	293	273
Future income taxes	359	46	22
Foreign exchange – non cash	10	16	20
Other	3	2	2
Cash flow from operations	1,399	517	449
Change in non-cash working capital	20	(16)	(50)
	1,419	501	399
Financing activities			
Bank operating loans financing – net	3	3	29
Long-term debt issue	171	375	28
Long-term debt repayment	(800)	(57)	(2)
Capital securities issue – net	-	-	336
Return on capital securities payment	(30)	(31)	-
Deferred credits	(4)	(6)	(4)
	(660)	284	387
Available for investing	759	785	786
Investing activities			
Capital expenditures	803	706	829
Acquisition of Mohawk	-	-	102
Acquisition costs	38	-	-
Asset sales	(2)	(15)	(38)
Other assets	(80)	95	(5)
	759	786	888
Decrease in cash equivalents	-	(1)	(102)
Cash equivalents at beginning of year	-	1	103
Cash equivalents at end of year	\$ -	\$ -	\$ 1
Decrease (increase) in non-cash working capital			
Accounts receivable	\$ (545)	\$ (156)	\$ 37
Inventories	(65)	(53)	23
Prepaid expenses	(28)	2	(1)
Accounts payable and accrued liabilities	658	191	(109)
Change in non-cash working capital	\$ 20	\$ (16)	\$ (50)
Cash taxes paid	\$ 9	\$ 1	\$ 5
Cash interest paid	\$ 138	\$ 80	\$ 74

The accompanying notes to the consolidated financial statements are an integral part of these statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000

Except where indicated, all dollar amounts are in millions of Canadian dollars.

1. NATURE OF OPERATIONS AND ORGANIZATION

HUSKY ENERGY INC. (the "Company") is a Canadian-based publicly traded integrated energy and energy-related company headquartered in Calgary, Alberta. The Company's business is conducted predominantly through three major business segments. The Upstream operations include the exploration for and the development and production of crude oil and natural gas; Midstream operations include the purchase, transportation, storage and marketing of crude oil, natural gas, natural gas liquids, sulphur and petroleum coke, and the processing and upgrading of heavy crude oil and co-generation of electrical and thermal energy; and Refined products operations include the refining of crude oil and marketing of refined petroleum products.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian generally accepted accounting principles which, in the case of the Company, differ in certain respects from those in the United States. These differences are described in note 16 Reconciliation to Accounting Principles Generally Accepted in the United States.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates.

The consolidated financial statements include the accounts of the Company and its subsidiaries.

A significant part of the Company's activities is conducted jointly with third parties and accordingly the accounts reflect the Company's proportionate interest in these activities.

Certain prior years amounts have been restated to conform with current presentation.

a) Cash Equivalents

Cash equivalents consists of cash in the bank, less outstanding cheques, and deposits with a maturity of less than three months.

b) Inventory Valuations

Crude oil, natural gas, refined petroleum products and purchased sulphur inventories are valued at the lower of cost, on a first-in, first-out basis, or net realizable value. Materials and supplies are stated at average cost. Cost consists of raw material, labour, direct overhead and transportation. Intersegment profits are eliminated.

c) Property, Plant and Equipment

i) Oil and Gas

The Company employs the full cost method of accounting for oil and gas interests whereby all costs of acquisition, exploration for and development of oil and gas reserves are capitalized and accumulated within cost centres on a country-by-country basis. Such costs include land acquisition, geological and geophysical, drilling of productive and non-productive wells, carrying costs directly related to unproved properties and administrative costs directly related to exploration and development activities. Interest is capitalized on certain major capital projects based on the Company's long-term cost of borrowing.

The provision for depletion of oil and gas properties and depreciation of associated production facilities is calculated using the unit-of-production method, based on proved oil and gas reserves as estimated by the Company's engineers, for each cost centre. Depreciation of gas plants and certain other oil and gas facilities is provided using the straight-line method based on their estimated useful lives. In the normal course of operations, retirements of oil and gas interests are accounted for by charging the asset cost, net of any proceeds, to accumulated depletion or depreciation.

Costs of acquiring and evaluating significant unproved oil and gas interests are excluded from costs subject to depletion and depreciation until it is determined that proved oil and gas reserves are attributable to such interests or until impairment occurs. Costs of major development projects are excluded from costs subject to depletion and depreciation until the earliest of when a portion of the property becomes capable of production, or when development activity ceases, or when impairment occurs.

The aggregate carrying values of oil and gas interests are subject to cost recovery ceiling tests. Net capitalized costs in each cost centre are limited to the estimated future net revenues from proved oil and gas reserves, at prices and costs in effect at year end, plus the cost of unproved properties and major development projects, less impairment. In addition, the net capitalized costs of all cost centres, less related future income taxes, are limited to the estimated future net revenues from all cost centres plus the net cost of major development projects and unproved properties less future removal and site restoration costs, administrative expenses, financing costs and income taxes. Any amounts in excess of these limits are charged to earnings.

ii) Other Plant and Equipment

Depreciation for substantially all other plant and equipment, except upgrading assets, is provided using the straight-line method based on estimated useful lives of assets. Depreciation for upgrading assets is provided using the unit of production method, based on the plant's estimated productive life. When the net carrying amount of other plant and equipment, less related accumulated provisions for future removal and site restoration costs and future income taxes, exceeds the net recoverable amount, the excess is charged to earnings. Repairs and maintenance costs, other than major turnaround costs, are charged to earnings as incurred. Major turnaround costs are deferred when incurred and amortized over the estimated period of time to the next scheduled turnaround. At the time of disposition of plant and equipment, accounts are relieved of the asset values and accumulated depreciation and any resulting gain or loss is reflected in earnings.

iii) Future Removal and Site Restoration Costs

Future removal and site restoration costs net of expected recoveries, where they are probable and can be reasonably estimated, are provided for using the method of depletion or depreciation related to the asset. Costs are estimated by the Company's engineers based on current regulations, costs, technology and industry standards. The annual charge is included in the provision for depletion, depreciation and amortization. Removal and site restoration expenditures are charged to the accumulated provision as incurred.

d) Financial Instruments

The Company uses derivative financial instruments including forwards, swaps, options and futures to hedge exposure to fluctuations in interest rates, currency exchange rates and commodity prices. All transactions of this nature entered into by the Company are related to an underlying physical or financial position, firm commitment or to future oil and gas production and this hedging relationship is, or is expected to be, effective in achieving offsetting changes in fair value or cash flows. The Company does not use derivative financial instruments for trading purposes. The counterparties to these transactions are primarily major financial institutions.

Gains and losses related to financial instruments designated as hedges are deferred and recognized in the period and in the same financial statement category in which the revenues or expenses associated with the hedged transactions are recognized.

A financial instrument or its component parts are, on initial recognition, classified as a liability or as equity in accordance with the substance of the contractual arrangement, including the requirement to deliver cash or another financial asset in the case of a liability, or an arrangement which evidences a residual interest in the assets of the Company after the deduction of all liabilities in the case of equity. Interest, dividends, losses and gains relating to a financial instrument, or a component part, classified as a financial liability are reported in the Consolidated Statements of Earnings as expense or income. Distributions to holders of a financial instrument classified as an equity instrument are reported directly in equity.

Financial assets and financial liabilities are offset and the net amount reported on the balance sheet if the Company has a legally enforceable right to set off the recognized amounts and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

e) Revenue Recognition

Revenues from the sale of crude oil, natural gas, natural gas liquids, synthetic crude oil, purchased commodities and refined petroleum products are recorded on a gross basis when title passes to an external party. Sales between the business segments of the Company are eliminated from sales and operating revenues and cost of sales.

f) Future Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the financial statements and their respective tax bases, using income tax rates substantively enacted at the balance sheet date. The effect of a change in rates on future income tax liabilities and assets is recognized in the period that the change occurs.

g) Foreign Currency Translation

Foreign denominated long-term monetary assets and liabilities of Canadian operations are translated at the current rate of exchange. Unrealized translation gains or losses are deferred and amortized over the remaining lives of the long-term monetary items.

Capital securities are adjusted to the current rate of exchange through a deferral and amortization to retained earnings over their expected lives.

Accounts of foreign operations, which are considered financially and operationally integrated, are translated to Canadian dollars using average rates for the year for revenue and expenses, except depreciation and depletion which are translated at the rate of exchange applicable to the related assets. Gains or losses resulting from these translation adjustments are included in earnings. Monetary assets are translated at current exchange rates and non-monetary assets are translated using historical rates of exchange.

h) Post-Retirement Benefits

Effective January 1, 2000, the Company retroactively adopted, without restatement, the new recommendations issued by the Canadian Institute of Chartered Accountants on accounting for employee future benefits. The effect of this change in accounting policy was a reduction of 2000 earnings of less than \$2 million.

i) Stock-Based Compensation Plans

In accordance with the Company's stock option plan, common share options are granted to directors, officers and certain other employees. The Company does not recognize compensation expense on the issuance of common share options under this plan because the exercise price of the share options is equal to the market value of the common shares when they are granted.

j) Earnings Per Share

In 2000 the Company adopted the new accounting policy for the calculation and presentation of earnings per share in accordance with the recommendations of the Canadian Institute of Chartered Accountants. The new policy has been adopted retroactively.

Basic common shares outstanding are the weighted average number of common shares outstanding for each period. Diluted common shares outstanding are calculated using the treasury stock method, which assumes that any proceeds received from in-the-money options would be used to buy back common shares at the average market price for the period. In addition, diluted common shares also include the effect of the potential conversion of capital securities to common shares, as well as the potential exercise of any outstanding warrants.

3. PLAN OF ARRANGEMENT

On June 18, 2000 Husky Oil Limited and Renaissance Energy Ltd. ("Renaissance") agreed to a Plan of Arrangement whereby Husky Oil Limited and its principal subsidiary, Husky Oil Operations Limited ("HOOL"), would merge with Renaissance and continue as HOOL. The Plan of Arrangement also included the incorporation of a new company, Husky Energy Inc. Husky Energy Inc. is the parent company of HOOL and is publicly traded.

After obtaining the approval of the Renaissance shareholders and other requisite approvals, the transaction became effective on August 25, 2000. In accordance with an election made by the shareholders of Renaissance, the shareholders of Husky Oil Limited purchased, on a pro-rata basis, 27,777,531 shares of Renaissance. The holders of Renaissance shares as at August 25, 2000 were issued one Husky Energy Inc. share for each Renaissance share. As a result, Renaissance shareholders received 145,530,429 shares of Husky Energy Inc. with an assigned value of \$1,734 million. In accordance with the Plan of Arrangement, the Husky Oil Limited subordinated shareholders' loans were converted to Class C shares, a portion of the Class A and Class B shares were exchanged for assets excluded from the transaction, and the remaining Husky Oil Limited shares were exchanged for 270,272,654 shares of Husky Energy Inc., which represented 65 percent of the total outstanding shares. After the completion of the transaction the former shareholders of Husky Oil Limited held approximately 71.7 percent of the shares of the Company, including the 27,777,531 shares previously acquired for cash.

In addition, the holders of Renaissance shares received one Husky Energy preferred share, which was immediately redeemed by a cash payment equal to \$2.50 per preferred share.

The allocation of the aggregate purchase price based on the estimated fair values of the Renaissance net assets at August 25, 2000 is as follows:

	Allocation
Net assets acquired	
Working capital	\$ 84
Property, plant and equipment	3,514
Marketing and transportation	(131)
Other assets	23
Acquisition costs	(51)
Deferred credits	(70)
Future income taxes	(60)
Long-term debt	(1,575)
	<u>\$ 1,734</u>
Consideration	
Shares exchanged	\$ 1,734

Capitalized acquisition costs relate primarily to severance costs (\$19 million), professional fees directly related to the acquisition (\$24 million) and other direct acquisition costs (\$8 million). The fair value of marketing and transportation contracts with firm commitments was determined on the basis of forward price curves applicable to the commitments in the contracts. As at December 31, 2000 accounts payable and accrued liabilities include \$10 million for remaining severance costs and \$3 million for other remaining direct acquisition costs.

The following table represents the unaudited pro forma results of the Company as though the acquisition had occurred on January 1, 1999:

	2000	1999
Sales and operating revenues, net of royalties	\$ 5,930	\$ 3,693
Earnings	\$ 766	\$ 207
Earnings per share		
Basic	\$ 1.80	\$ 0.46
Diluted	\$ 1.74	\$ 0.46

4. INVENTORIES

	2000	1999
Crude oil and refined petroleum products	\$ 132	\$ 117
Natural gas	41	2
Materials, supplies and other	13	15
	\$ 186	\$ 134

5. PROPERTY, PLANT AND EQUIPMENT

	Cost		Accumulated Depletion Depreciation and Amortization		Net	
	2000	1999	2000	1999	2000	1999
	Upstream					
Canada	\$ 9,023	\$ 4,916	\$ 2,622	\$ 2,270	\$ 6,401	\$ 2,646
International	290	203	139	130	151	73
	9,313	5,119	2,761	2,400	6,552	2,719
Midstream						
Upgrading	912	900	337	320	575	580
Infrastructure	510	472	148	134	362	338
	1,422	1,372	485	454	937	918
Refined products	628	603	302	275	326	328
Corporate	108	322	82	98	26	224
	\$ 11,471	\$ 7,416	\$ 3,630	\$ 3,227	\$ 7,841	\$ 4,189

Costs of oil and gas properties, including major development projects, excluded from costs subject to depletion and depreciation at December 31 consist of:

	2000	1999
Canada	\$ 1,073	\$ 646
International	137	58
	\$ 1,210	\$ 704

Prior to the elimination of the Husky Oil Limited subordinated shareholders' loans and Class C shares in accordance with the Plan of Arrangement, the related future interest and dividends were excluded from the ceiling test determination for oil and gas properties. If these ownership charges had been included in the ceiling test determination no writedown would have been required at December 31, 1999, and an after tax writedown of \$1.5 billion would have been required at December 31, 1998.

During 2000, Husky Oil Limited swapped a 4.99 percent interest in the Terra Nova oil field and a 10.0 percent interest in the White Rose oil field (both offshore Newfoundland) for 100 percent interests in the Wapiti and Valhalla areas of Alberta.

The Company has estimated future removal and site restoration costs of \$619 million at December 31, 2000 (December 31, 1999 – \$237 million). During 2000 removal and site restoration expenditures amounted to \$10 million (1999 – \$6 million).

6. BANK OPERATING LOANS

At December 31, 2000 the Company had short-term lines of credit with banks totalling \$234 million (1999 – \$125 million), of which \$84 million (1999 – \$42 million) had been used for bank operating loans and letters of credit.

The interest rate applicable to bank operating loans is based on Canadian prime, Bankers' Acceptance or money market rate, or U.S. dollar equivalents. As at December 31, 2000, this interest rate approximated 6.58 percent.

7. LONG-TERM DEBT

	Maturity	2000	1999
Long-term debt			
Revolving syndicated credit facility		\$ -	\$ 100
– U.S. \$116	2005	174	-
Non-revolving syndicated credit facility	2001	300	-
6.875 percent notes	– U.S. \$150	2003	216
7.125 percent notes	– U.S. \$150	2006	217
7.550 percent debentures	– U.S. \$200	2016	289
10.6 percent notes	– U.S. \$116	-	168
8.45 percent senior secured bonds	– 1999 U.S. \$250; 2000 U.S. \$179	2012	361
Private placement notes	– U.S. \$101	2003-5	-
Medium-term notes	2002-9	700	-
Total long-term debt		2,344	1,351
Amount due within one year		(33)	(2)
		\$ 2,311	\$ 1,349

As at December 31, 2000, other assets include deferred foreign exchange losses of \$73 million (December 31, 1999 – \$39 million) on the translation of the U.S. dollar based long-term debt and \$20 million (December 31, 1999 – \$25 million) of deferred debt issue costs.

The revolving syndicated credit facility allows the Company to borrow up to \$510 million in either Canadian or U.S. currency from a group of banks on an unsecured basis. The facility is structured as an unsecured one year committed revolving credit facility, extendible annually. In the event that the lenders do not consent to such extension, the revolving credit facility will convert to a four year non-revolving amortizing term loan. Interest rates vary based on Canadian prime, Bankers' Acceptance, U.S. Libor or U.S. base rate, depending on the borrowing option selected, credit ratings assigned by certain credit rating agencies to the Company's rated senior unsecured debt and whether the Company borrows under the revolving or non-revolving condition. In January 2001 this facility was amended and restated to allow the Company to borrow up to \$1 billion from a group of lenders at substantially the same terms.

The non-revolving syndicated credit facility due 2001 will be refinanced during the first quarter of 2001 under the \$1 billion syndicated credit facility.

At December 31, 2000 the Company had \$500 million of revolving, extendible bank credit facilities comprised of four facilities, each for \$125 million. These facilities were cancelled in January 2001.

The 6.875 percent notes, the 7.125 percent notes and the 7.550 percent debentures represent unsecured securities issued under an indenture dated October 31, 1996. Such securities mature in 2003, 2006 and 2016, respectively. The 6.875 percent and 7.125 percent notes are not redeemable prior to maturity. The 7.550 percent debentures are redeemable, at the option of the Company, at any time and at a price determinable at the time of redemption. Interest is payable semi-annually.

The 10.6 percent obligation outstanding at December 31, 1999 represented unsecured notes due July 20, 2089. These notes were refinanced in July 2000 under the Company's syndicated credit facility.

The 8.45 percent senior secured bonds represent securities issued by a subsidiary under a trust indenture. These securities mature in 2012 and are redeemable prior to maturity under certain circumstances. Interest is payable semi-annually. Principal payments are payable in semi-annual installments commencing on either August 1, 2001 or, if elected, August 1, 2002. Such securities have been issued in connection with the financing of the Company's share of the costs for the exploration and development of the Terra Nova oil field located off the east coast of Canada. The Company, through a wholly owned partnership, owns 12.5 percent of the oil field and associated facilities. The repayment of the securities will be made solely from revenue from the oil field. There is also a charge created by the partnership on its interest in the assets of the oil field and associated facilities in favour of the security holders. During May 2000 the Company redeemed U.S. \$71 million (Cdn. \$104 million) of the bonds concomitant with the reduction of ownership from 17.5 percent to 12.5 percent.

At December 31, 1999, other assets included designated cash deposits of \$86 million, which were required to be maintained under certain security agreements in connection with the 8.45 percent senior secured bonds. These deposits were replaced by letters of credit in early 2000.

The private placement notes are issued under two separate note agreements. The 6.22 percent notes (U.S. \$20 million) and the 6.05 percent notes (U.S. \$6 million) represent unsecured securities issued under a private placement note agreement dated March 13, 1996, as amended, and the 6.58 percent notes (U.S. \$75 million) represent unsecured securities issued under a private placement master shelf agreement dated June 26, 1997, as amended. Such notes mature in 2003, 2004 and 2005 respectively. Interest is payable semi-annually on each note. All notes are redeemable, at the option of the Company, at any time and at a price determinable at the time of redemption. In January 2001 the note agreements were amended and restated at substantially the same terms.

The Medium-term notes Series A, B and C represent unsecured securities issued under a trust indenture dated February 3, 1997 and the Series D and E notes represent unsecured securities issued under a trust indenture dated May 4, 1999. The amounts, rates and maturities are as follows:

Issue	Amount	Interest Rate	Maturity Date
Series A	\$ 100	5.90%	February 2002
Series B	100	6.85%	February 2007
Series C	100	5.75%	February 2003
Series D	200	6.30%	June 2004
Series E	200	6.95%	July 2009
	<u>\$ 700</u>		

The Series B and Series E notes are redeemable at any time at the option of the Company, at a price determinable at the time of redemption. Interest is payable semi-annually on each series.

Aggregate annual maturities of debt for the five years subsequent to December 31, 2000 are: 2001 – \$32.9 million, 2002 – \$259.7 million, 2003 – \$523.6 million, 2004 – \$386.6 million and 2005 – \$188.5 million.

Interest – net for the years ended December 31 consists of:

	2000	1999	1998
Long-term debt	\$ 144	\$ 97	\$ 79
Short-term debt	4	3	2
	148	\$ 100	\$ 81
Amount capitalized	(43)	(32)	(7)
Amount charged to expense	105	68	74
Interest income	(4)	(6)	(4)
	\$ 101	\$ 62	\$ 70

8. INCOME TAXES

The combined provisions for income taxes in the Consolidated Statements of Earnings and Retained Earnings reflects an effective tax rate which differs from the expected Canadian federal tax rate. Differences for the years ended December 31 are accounted for as follows:

	2000	1999	1998
Earnings before taxes	\$ 917	\$ 211	\$ 159
Statutory income tax rate	44.7%	44.7%	44.7%
Expected income tax	410	94	71
Effect on income tax of:			
Interest on subordinated shareholders' loans	(21)	(33)	(33)
Return on capital securities	(13)	(13)	(5)
Royalties, lease rentals and mineral taxes payable to the Crown	141	40	19
Resource allowance on Canadian production income	(175)	(57)	(39)
Non-deductible capital taxes	12	5	5
Other – net	4	2	4
	\$ 358	\$ 38	\$ 22
Charged (credited) to:			
Income tax expense	\$ 371	\$ 51	\$ 27
Retained earnings	(13)	(13)	(5)
	\$ 358	\$ 38	\$ 22

The future income tax liability at December 31 is comprised of the tax effect of temporary differences as follows:

	2000	1999
Future tax liabilities		
Property, plant and equipment	\$ 1,467	\$ 976
Other temporary differences	2	2
	1,469	978
Future tax assets		
Loss carryforwards	103	40
Foreign exchange losses (gains) deductible on realization	(12)	17
Site restoration and other deferred credits	81	47
Provincial royalty rebates	45	45
Other temporary differences	21	4
	238	153
Future income taxes	\$ 1,231	\$ 825

9. SHAREHOLDERS' INVESTMENT PRIOR TO RESTRUCTURING

As part of the restructuring that occurred concurrent with the acquisition of Renaissance all previously issued preferred shares of Husky Oil were exchanged, redeemed or cancelled on the capitalization of Husky Energy. All previously issued common and preferred shares were recorded at a value of \$1 per share. In addition, the previously outstanding subordinated shareholders' loans, which bore interest payable at 9.05 percent per annum, were converted to Class C preferred shares prior to their cancellation.

	Class A Preferred	Class B Preferred	Class C Preferred	Total	Subordinated Shareholders' Loans	Husky Energy Common
Balance January 1, 1998	\$ 359	\$ 200	\$ 358	\$ 917	\$ 802	\$ -
Subordinated shareholders' loan interest ⁽¹⁾			68	68		
Class C share dividends			34	34		
Interest capitalized to principal				-	5	
Balance December 31, 1998	359	200	460	1,019	807	-
Subordinated shareholders' loan interest ⁽¹⁾			67	67		
Class C share dividends			44	44		
Interest capitalized to principal					6	
Balance December 31, 1999	359	200	571	1,130	813	-
Subordinated shareholders' loan interest ⁽¹⁾			44	44		
Class C share dividends			34	34		
Interest capitalized to principal					4	
Redeemed for assets	(209)	(10)		(219)		
Exchanged for Husky Energy common shares	(150)	(190)		(340)		340
Conversion of subordinated shareholders' loans			817	817	(817)	
Reduction of stated capital			(160)	(160)		
Cancelled on amalgamation			(1,306)	(1,306)		1,306
Paid in capital						8
Balance December 31, 2000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,654

⁽¹⁾ Reflects the capitalization of interest on the subordinated shareholders' loans to Class C preferred shares.

10. SHARE CAPITAL

The Company's authorized share capital is as follows:

Common shares – an unlimited number of no par value.

Preferred shares – an unlimited number of no par value.

Changes to issued share capital for the year ended December 31 are as follows:

	Number of Shares	2000
Common shares		
Issued for Renaissance shares	145,530,429	\$ 1,734
Issued for Husky Oil shares	270,272,654	1,654
End of year	415,803,083	\$ 3,388

	Number of Shares	2000
Preferred shares		
Issued for Renaissance shares	363,826,073	\$ 364
Redeemed for cash	(363,826,073)	(364)
End of year		\$ -

Stock Options

The following options to purchase common shares have been awarded to directors, officers and certain other employees. At December 31, 2000, 30,000,000 common shares were reserved for issuance under the Company stock option plan. The exercise price of the options is equal to the average market price of the Company's common shares during the five trading days prior to the date of the award. Under the stock option plan the options awarded have a maximum term of five years and vest over three years on the basis of one-third per year.

	Number of Shares (thousands)	Weighted Average Exercise Price	Weighted Average Contractual Life (years)	Options Exercisable (thousands)
Granted	8,995	\$ 13.61	5	-
Assumed on Renaissance acquisition	1,372	15.77	2	1,372
Cancelled	(606)	13.61	5	-
End of year	9,761	\$ 13.91	4	1,372

In conjunction with the acquisition of Renaissance, the Company granted 1,372,000 Renaissance replacement options to purchase common shares of Husky Energy Inc. in exchange for certain share purchase options to purchase common shares of Renaissance previously held by employees of Renaissance. In addition, the former shareholders of Husky Oil Limited were granted warrants to acquire, for \$0.01, 1.857 common shares for each common share issued on the exercise of a Renaissance replacement option. The warrants are exercisable only if and when the Renaissance replacement options are exercised and provide for the issue of a maximum of 2.5 million common shares.

Earnings And Cash Flow From Operations Per Share

Through a series of transactions, the indebtedness of Husky Oil Limited to its shareholders was eliminated on August 25, 2000 and all of its share capital was exchanged for shares in Husky Energy Inc. In addition, on August 24, 2000 the shareholders of Husky Oil Limited approved a special resolution to reduce the stated capital in the Class C share account and eliminate the accumulated deficit. As a result, ownership charges, which consisted of interest on subordinated shareholder loans and dividends on Class C shares, ceased to be a charge to earnings. Earnings before ownership charges represented earnings available for interest, dividends or other distributions to shareholders. While earnings before ownership charges are not intended to be a substitute for net earnings, they are, however, considered to best reflect the results of the Company for comparative purposes. The capital restructuring has been retroactively applied for purposes of determining the weighted average number of shares and the earnings attributable to common shareholders.

The reconciliation between basic and diluted earnings and cash flow from operations per share is as follows:

	For the year ended December 31, 2000			For the year ended December 31, 1999			For the year ended December 31, 1998		
	Number of Shares Dollars (millions)	Per Share Amount		Number of Shares Dollars (millions)	Per Share Amount		Number of Shares Dollars (millions)	Per Share Amount	
Earnings before ownership charges as reported	\$ 546			\$ 160			\$ 132		
Return on capital securities, net of tax	(17)			(16)			(7)		
Tax benefit on ownership charges	(21)			(32)			(33)		
Basic earnings per share before ownership charges	\$ 508	321	\$ 1.58	\$ 112	270	\$ 0.41	\$ 92	270	\$ 0.34
Return on capital securities, net of tax	17			16			7		
Diluted earnings per share before ownership charges	\$ 525	345	\$ 1.52	\$ 128	295	\$ 0.41	\$ 99	297	\$ 0.34
Net earnings as reported	\$ 464			\$ 43			\$ 25		
Return on capital securities, net of tax	(17)			(16)			(7)		
Basic earnings per share	\$ 447	321	\$ 1.39	\$ 27	270	\$ 0.10	\$ 18	270	\$ 0.07
Return on capital securities, net of tax	17			16			7		
Diluted earnings per share	\$ 464	345	\$ 1.34	\$ 43	295	\$ 0.10	\$ 25	297	\$ 0.07
Cash flow from operations as reported	\$ 1,399			\$ 517			\$ 449		
Return on capital securities, before tax	(30)			(29)			(12)		
Basic cash flow from operations per share	\$ 1,369	321	\$ 4.26	\$ 488	270	\$ 1.80	\$ 437	270	\$ 1.61
Return on capital securities, before tax	30			29			12		
Diluted cash flow from operations per share	\$ 1,399	345	\$ 4.05	\$ 517	295	\$ 1.75	\$ 449	297	\$ 1.51

11. CAPITAL SECURITIES

The capital securities represent an aggregate principal amount of U.S. \$225 million, maturing in 2028, which yield an annual return of 8.9 percent payable semi-annually commencing February 15, 1999 until August 15, 2008. The capital securities are redeemable in whole or in part at the option of the Company at any time prior to August 15, 2008 and at a price determinable at the time of redemption. If not redeemed in whole, commencing on August 15, 2008, the annual return would change to a floating rate equal to the three month U.S. Libor plus 5.50 percent per annum payable semi-annually.

The Company has the right at any time prior to maturity to defer payment of the return on the capital securities for periods not exceeding 10 consecutive semi-annual payment periods. The Company also has the right to satisfy its obligation to pay the deferred return on capital securities, to redeem the capital securities or pay the principal amount of the capital securities plus accrued and unpaid return by delivering either common or preferred shares to the trustee for sale to certain qualified purchasers, the proceeds from which would be applied to the Company's obligation. The capital securities rank junior to all senior debt and other financial debt of the Company.

The principal amount of the capital securities, net of issue costs, have been classified as equity, and the return amounts on an after tax basis are classified as distributions of equity, as the Company has the unrestricted ability to settle its obligations by delivering common or preferred shares to the trustee.

The amount disclosed as capital securities in shareholders' equity at December 31 consists of the following:

	2000	1999
Capital securities – U.S. \$225 million	\$ 338	\$ 325
Unamortized foreign exchange	3	16
Unamortized costs of issue	(5)	(5)
Accrued return	11	11
	\$ 347	\$ 347

Return on capital securities, net of amortization for the years ended December 31, 2000, 1999 and 1998 was \$30 million, \$29 million and \$12 million, respectively.

12. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

In 2000 the Company adopted the new accounting policy for employee future benefits in accordance with the standard issued by the Canadian Institute of Chartered Accountants. The new standard was applied retroactively without restatement of prior periods.

The Company currently provides a defined contribution pension plan for all qualified employees. The Company also maintains a defined benefit pension plan, which is closed to new entrants, and all current participants are vested. The Company also provides certain medical and dental coverage to its retirees which are accrued over the working lives of the employees.

Weighted average long-term assumptions used for the defined benefit pension plan and other post-retirement benefits are as follows:

	2000	1999	1998
Discount rate	7.3%	8.0%	8.0%
Long-term rate of increase in compensation levels	5.0%	5.0%	5.0%
Long-term rate of return on plan assets	8.0%	8.0%	8.0%

The status of the benefit plans and accrued benefit liability at December 31 are as follows:

	2000	1999
Plan assets at fair market value, principally marketable debt and equity securities and cash equivalents	\$ 90	\$ 83
Projected benefit obligation	(106)	(79)
Excess assets (excess obligation)	(16)	4
Unrecognized gains	(2)	(7)
Accrued benefit liability	\$ (18)	\$ (3)

13. COMMITMENTS AND CONTINGENCIES

The Company has committed to complete the development of the Terra Nova oil field off the east coast of Canada. The Company's share of future costs of this project is estimated at \$25 million.

Certain former owners of interests in the upgrading assets retained a 20 year upside financial interest expiring in 2014 which would require payments to them, should certain product price conditions be met.

The Company has firm commitments for transportation services that require the payment of tariffs. The Company has sufficient production to utilize these transmission services.

The Company is involved in various claims and litigation arising in the normal course of business. The Company has disagreed with reassessments for income tax for certain years, one of which relates to the tax treatment afforded certain foreign currency indebtedness and related swaps entered into by the Company. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company's favor, the Company does not currently believe that the outcome of adverse decisions in any pending or threatened proceedings related to these and other matters or any amount which it may be required to pay by reason thereof would have a material adverse impact on its financial position, results of operations or liquidity.

14. SEGMENT DISCLOSURES

Management has segmented the Company's business based on differences in products and services and management strategy and responsibility. The Company's business is conducted predominantly through three major industry segments – Upstream, Midstream and Refined products.

Upstream includes exploration for, development and production of crude oil, natural gas, natural gas liquids and sulphur. The Company's upstream operations are located primarily in Western Canada, offshore Eastern Canada (East Coast) with some interests outside Canada (International).

Midstream includes upgrading of heavy crude oil feedstock into synthetic crude oil (Upgrading); marketing of the Company's and other producer's crude oil, natural gas, natural gas liquids, sulphur and petroleum coke; and pipeline transportation and processing of heavy crude oil, storage of crude oil, diluent and natural gas and co-generation of electrical and thermal energy (Infrastructure and Marketing).

Refined products includes refining of crude oil and marketing of refined petroleum products including gasoline, alternative fuels and asphalt.

The following is an analysis of certain consolidated financial information by segment for the years ended December 31:

	2000	1999	1998
Sales and operating revenues			
Upstream			
Canada	\$ 1,569	\$ 598	\$ 443
International	4	4	3
	1,573	602	446
Midstream			
Upgrading	1,006	641	412
Infrastructure and Marketing	2,309	1,284	999
	3,315	1,925	1,411
Refined products	1,347	904	664
Intersegment eliminations ⁽¹⁾	(1,145)	(637)	(492)
	\$ 5,090	\$ 2,794	\$ 2,029
Operating profit ⁽²⁾			
Upstream			
Canada	\$ 801	\$ 180	\$ 42
International	(4)	(6)	(4)
	797	174	38
Midstream			
Upgrading	149	49	63
Infrastructure and Marketing	96	77	69
	245	126	132
Refined products	49	49	64
Intersegment eliminations ⁽¹⁾	2	(2)	3
	1,093	347	237
Interest – net	(101)	(62)	(70)
Foreign exchange	(5)	(25)	(20)
Corporate ⁽³⁾	(70)	(49)	12
Earnings before income taxes	\$ 917	\$ 211	\$ 159

⁽¹⁾ Intersegment eliminations relate to sales and operating revenues between segments recorded at transfer prices based on current market prices, and to unrealized intersegment profits in inventories.

⁽²⁾ Operating profit is total revenue less operating expenses. Operating expenses exclude general corporate expense, foreign exchange, interest expense, income taxes and ownership charges. Corporate expense includes corporate selling and administrative costs, depreciation of corporate assets and other income and expenses.

⁽³⁾ During 1998 Corporate included \$62 million received on the termination of gas sales contracts.

	2000	1999	1998
Depletion, depreciation and amortization			
Upstream			
Canada	\$ 398	\$ 212	\$ 208
International	9	11	6
	\$ 407	\$ 223	\$ 214
Midstream			
Upgrading	\$ 16	\$ 16	\$ 14
Infrastructure and Marketing	15	13	12
	31	29	26
Refined products	28	26	20
Corporate	15	15	13
	\$ 481	\$ 293	\$ 273
Capital expenditures			
Upstream			
Western Canada	\$ 419	\$ 238	\$ 233
East Coast	194	309	191
International	87	23	15
	700	570	439
Midstream			
Upgrading	12	15	283
Infrastructure and Marketing	47	79	68
	59	94	351
Refined products	29	34	27
Corporate	15	8	12
	803	706	829
Acquisitions			
Refined products – Mohawk	-	-	102
	\$ 803	\$ 706	\$ 931
	2000	1999	
Identifiable assets ⁽⁴⁾			
Upstream			
Western Canada	\$ 5,721	\$ 2,025	
East Coast	680	621	
International	151	73	
	6,552	2,719	
Midstream			
Upgrading	575	580	
Infrastructure and Marketing	362	338	
	937	918	
Refined products	326	328	
Corporate ⁽⁵⁾	1,087	850	
	\$ 8,902	\$ 4,815	

⁽⁴⁾ Identifiable assets by segment are the total assets specifically attributable to those operations as at December 31 of each year.

⁽⁵⁾ Corporate includes accounts receivable, inventories, prepaid expenses, other assets and corporate assets.

A significant part of the Company's upstream activities are, and before February 1, 1998 all upgrading activities were, conducted through joint ventures. In addition the Company has a 50 percent interest in the Meridian Co-generation Project, which is accounted for using the proportionate consolidation method. A summary of the Company's proportionate interest in the joint venture is as follows:

	2000	1999
Accounts receivable	\$ 6	\$ 1
Property, plant and equipment	84	78
	\$ 90	\$ 79
Accounts payable	\$ 6	\$ 7
Partner's equity	84	72
	\$ 90	\$ 79
Sales	\$ 49	\$ 1
Operating costs	(41)	(1)
	\$ 8	\$ -

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The nature of the Company's operations, including the issuance of U.S. dollar denominated long-term debt and floating interest rates, expose the Company to fluctuations in commodity prices, exchange rates and interest rates. The Company monitors and, when appropriate, utilizes derivative financial instruments to manage its exposure to these risks.

These instruments are exposed to fluctuations in prices and rates, but by nature of being hedges of an actual transaction of future oil and gas production, any gains or losses will be offset by gains or losses on the hedged transaction.

The Company is exposed to credit related losses in the event of nonperformance by counterparties to the financial instruments. The Company primarily deals with major financial institutions and does not anticipate nonperformance by the counterparties.

Risk Management

Foreign Currency Rate Risk Management

The Company is exposed to foreign currency fluctuations on its U.S. dollar denominated debt and cash flow. The Company periodically uses derivative financial instruments, including forward exchange contracts and currency options, to manage this exposure. As of December 31, 2000 the Company had entered into several foreign exchange collar arrangements that protect against a strengthening Canadian dollar. These transactions protect U.S. \$25 million per month in 2001 and U.S. \$20 million per month in 2002 at an exchange rate of \$1.49 (U.S. \$0.67). Husky foregoes any gains beyond \$1.54 (U.S. \$0.65) for the same period. The fair value of these contracts on December 31, 2000 was a loss of approximately \$5.0 million.

As of December 31, 1999 the Company had no forward exchange contracts or currency option contracts outstanding. As of December 31, 1998 the Company had sold forward, under forward exchange contracts for periods of less than one year, U.S. \$94 million.

The amount realized by the Company on foreign currency rate risk management for the year ended December 31, 2000 was a loss of \$5 million (1999 – loss of \$8 million; 1998 – loss of \$20 million).

Interest Rate Risk Management

	Amount	Floating Interest Rate	Related Note
December 31, 2000	U.S. \$40,000,000	Libor – 15 basis points	6.875% November 2003
	U.S. \$30,000,000	Libor – 32.5 basis points	7.125% November 2006
December 31, 1999	U.S. \$15,000,000	Libor – 1 basis point	6.875% November 2003
	U.S. \$20,000,000	Libor – 22 basis points	7.125% November 2006
December 31, 1998	U.S. \$55,000,000	Libor + 20 basis points	6.875% November 2003
	U.S. \$20,000,000	Libor – 22 basis points	7.125% November 2006
	U.S. \$20,000,000	Cdn. BA + 7.5 basis points	7.125% November 2006

At December 31, 2000 the fair value of these outstanding floating interest rate swaps was Cdn. \$5 million (1999 – Nominal, 1998 – \$14 million).

The amount recognized by the Company on interest rate risk management for the year ended December 31, 2000 was a gain of \$1 million (1999 – gain of \$2 million; 1998 – gain of \$2 million). These gains have been credited against the associated long-term interest expense.

Commodity Price Risk Management

The Company seeks to reduce its exposure to commodity price risk in its businesses through the use of physical product arrangements, futures and options. From time to time, some of the upstream and midstream segment price risk is managed through the forward selling or purchase of oil and gas production.

The Company has entered into price swap agreements, for terms of less than five years, which call for the Company to pay or receive floating prices and receive or pay fixed prices on oil and gas. The Company also entered into collar arrangements where the Company pays or receives amounts when prices move out of a specific range. In addition, the Company has entered into basis swap agreements, for a term of less than five years, which call for the Company to pay or receive a settlement based on the differential between certain floating price indices.

Natural Gas Contracts

As at December 31, 2000

Contract Type	Contract Period	Average Daily Volume (mmcf/d)	Husky Receives (U.S. \$/mcf)	Husky Pays (U.S. \$/mcf)	Unrealized Gain (Loss) (U.S. \$)
Natural gas production swaps	2001 – 2005	8	1.915	NYMEX	(13)
	Jan – Mar 2001	5	NYMEX	4.150	2
	Jan – Mar 2001	5	4.605	NYMEX	(2)
Natural gas basis sales swap	Jan 2001 – Oct 2003	73	NYMEX-0.29	AECO	(3)
Natural gas basis purchase swaps	Jan 2001 – Oct 2003	49	AECO	NYMEX-0.49	13
Financial swaps	Jan – May 2001	66	NYMEX	5.352	9
	Jan – Mar 2001	2	AECO	4.801	1
	Jan – Dec 2001	9	4.724	AECO	(4)
Fixed price physical sales	Jan – Mar 2001	10	5.010+NV basis	NYMEX	(4)
	Jan – May 2001	60	5.476	NYMEX	(5)
	Jan – Mar 2001	2	4.804	AECO	(1)
Fixed price physical purchases	Jan – Dec 2001	9	AECO	4.721	4

As at December 31, 1999

Contract Type	Contract Period	Average Daily Volume (mmcf/d)	Husky Receives (U.S. \$/mcf)	Husky Pays (U.S. \$/mcf)	Unrealized Gain (Loss) (U.S. \$)
Natural gas basis sales swaps	Jan 2000 – Oct 2001	27	NYMEX-\$0.39	AECO	(2)
Natural gas basis purchase swaps	Jan – Oct 2000	15	Ventura	Midcon-\$0.10	-
	Jan 2000 – Oct 2003	35	AECO	NYMEX-\$0.58	13
Financial swaps	Jan – Mar 2000	15	NYMEX	\$2.53	-
	Jan – Oct 2000	5	AECO	\$1.48	1
	Jan – Oct 2000	5	\$2.09	Ventura	-

Crude Oil Contracts

As at December 31, 1999

Contract Type	Contract Period	Average Daily Volume (mbbls/day)	Husky Receives (U.S. \$/bbl)	Husky Pays (U.S. \$/bbl)	Unrealized Gain (Loss) (U.S. \$)
Crude oil production swaps	Jan – Dec 2000	35	\$20.56	NYMEX	(21)
	Jan 2000 – Dec 2002	4	NYMEX	\$17.68	-
Crude oil options	Jan 2000 – Nov 2001	3	Floor \$15.69	Cap \$18.50	-

The net amount realized by the Company on commodity price risk management for the year ended December 31, 2000 was a loss of \$150 million (1999 – loss of \$69 million; 1998 – gain of \$17 million). The amounts have been charged or credited to the associated sales revenue, cost of sales or operating costs.

Fair Value Of Other Financial Instruments

Fair value estimates are made as of a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision. Fair values of other financial assets and liabilities included in the consolidated balance sheets are as follows:

For cash equivalents, accounts receivable, accounts payable and accrued liabilities and other short-term obligations, the carrying amounts in the consolidated balance sheets approximate fair value due to the short maturity of these instruments.

The estimated fair value of long-term debt instruments is based upon the future cash flows associated with each instrument, discounted using a current market rate for a similar debt instrument of comparable remaining maturity.

Estimated fair values of the Company's financial liabilities, where the fair value differs from the carrying amounts on the financial statements as at December 31 are as follows:

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$ 2,344	\$ 2,348	\$ 1,351	\$ 1,328

Sale Of Accounts Receivable

The Company has an agreement to sell trade receivables up to \$220 million on a continual basis. The agreement calls for purchase discounts, based on Canadian commercial paper rates to be paid on an ongoing basis. The average effective rate for 2000 was approximately 5.95 percent (1999 – 5.30 percent). The Company has potential exposure to an immaterial amount of credit loss under this agreement.

16. RECONCILIATION TO ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted ("GAAP") in Canada, which differ in some respects to those in the United States. Any differences in accounting principles as they pertain to the accompanying consolidated financial statements were immaterial except as described below:

Consolidated Statement of Earnings

	2000	1999	1998
Net earnings	\$ 464	\$ 43	\$ 25
Adjustments			
Full cost accounting ^(a)	26	22	29
Related income taxes	(12)	(10)	(13)
Foreign currency translation ^(b)	(51)	103	(46)
Related income taxes	17	(35)	15
Post retirement benefits ^(c)	(4)	(1)	(1)
Related income taxes	2	-	-
Return on capital securities ^(d)	(30)	(29)	(12)
Related income taxes	13	13	5
Gain on energy trading contracts ^(e)	-	-	-
Accounting for income taxes ^(f)	6	13	6
Net earnings under U.S. GAAP	\$ 431	\$ 119	\$ 8
Earnings before taxes	\$ 776	\$ 189	\$ 22
Net earnings per share under U.S. GAAP – Basic	\$ 1.34	\$ 0.44	\$ 0.03
– Diluted	\$ 1.30	\$ 0.44	\$ 0.03

Under U.S. GAAP, the Company would present interest on subordinated shareholders' loans and dividends on Class C shares under the heading costs and expenses on the Consolidated Statement of Earnings.

Consolidated Balance Sheets

December 31, 2000	As reported	Increase (Decrease)	U.S. GAAP
Assets			
Property, plant and equipment ^(a)	\$ 7,841	\$ (221)	\$ 7,620
Other assets ^{(b) (d) (e)}	133	(57)	76
		<u>\$ (278)</u>	
Liabilities			
Accounts payable and accrued liabilities ^{(c) (e)}	1,076	\$ 22	1,098
Capital securities ^(d)	-	338	338
Future income taxes ^{(a) (b) (c) (d) (e) (f)}	1,231	(77)	1,154
		<u>283</u>	
Shareholders' equity			
Common shares ^(g)	3,388	160	3,548
Capital securities and accrued return ^(d)	347	(347)	-
Contributed surplus ^(h)	-	74	74
Retained earnings (deficit)	304	(448)	(144)
		<u>(561)</u>	
		<u>\$ (278)</u>	
December 31, 1999			
Assets			
Property, plant and equipment ^(a)	\$ 4,189	\$ (247)	\$ 3,942
Other assets ^{(b) (d) (e)}	163	(30)	133
		<u>\$ (277)</u>	
Liabilities			
Accounts payable and accrued liabilities ^{(c) (e)}	518	\$ 11	529
Capital securities ^(d)	-	325	325
Deferred credits ^(c)	95	8	103
Future income taxes ^{(a) (b) (c) (d) (e) (f)}	825	(68)	757
		<u>276</u>	
Shareholders' equity			
Capital securities and accrued return ^(d)	347	(347)	-
Contributed surplus ^(h)	-	74	74
Retained earnings (deficit)	(295)	(280)	(575)
		<u>(553)</u>	
		<u>\$ (277)</u>	

The increases or decreases noted above refer to the following differences between U.S. GAAP and Canadian GAAP:

- (a) The Company performs a cost recovery ceiling test for each cost centre which limits net capitalized costs to the undiscounted estimated future net revenue from proved oil and gas reserves plus the cost of unproved properties less impairment, using year end prices or average prices in that year if appropriate. In addition, the aggregate value of all cost centres is further limited by including financing costs, administration expenses, future removal and site restoration costs and income taxes. Under U.S. GAAP, companies using the full cost method of accounting for oil and gas producing activities perform a ceiling test on each cost centre using discounted estimated future net revenue from proved oil and gas reserves using a discount factor of 10 percent. Prices used in the U.S. GAAP ceiling tests performed for this reconciliation were those in effect at the applicable year end. Financing and administration costs are excluded from the calculation under U.S. GAAP.
- (b) The Company has deferred unrealized gains and losses on translation of foreign denominated long-term monetary items which are amortized over the remaining lives of the items. Under U.S. GAAP, gains or losses on translation of foreign denominated long-term monetary items, including those on the capital securities, are credited or charged to earnings immediately.
- (c) Prior to 2000 the Company expensed costs related to medical and dental post retirement benefits as incurred. Effective January 1, 2000 the Company retroactively adopted, without restatement, the new recommendations issued by the Canadian Institute of Chartered Accountants on accounting for employee future benefits which are consistent with those under U.S. GAAP, which requires use of the projected benefit method prorated based on service.
- (d) The Company records the capital securities as a component of equity and the return thereon as a charge to retained earnings. Under U.S. GAAP, the capital securities, the accrued return thereon and costs of the issue would be classified outside of shareholders' equity and the related return would be charged to earnings.
- (e) Under U.S. GAAP energy trading contracts, other than those designated as hedges, are recorded at fair value and the gains or losses are included in income.
- (f) The Company adopted the liability method of accounting for income taxes in 1999. Canadian GAAP liability method requires the measurement of future income tax liabilities and assets using income tax rates that reflect enacted income tax rate reductions provided it is more likely than not that the Company will be eligible for such rate reductions in the period of reversal. U.S. GAAP allows recording of such rate reductions only when claimed.
- (g) As a result of the reorganization of the capital structure which occurred on August 25, 2000, the deficit of Husky Oil Limited was eliminated. Elimination of the deficit would not be permitted under U.S. GAAP.
- (h) The Company recorded interest waived on subordinated shareholders' loans and dividends waived on Class C shares as a reduction of ownership charges. Under U.S. GAAP, waived interest and dividends in those years would be recorded as interest on subordinated shareholders' loans and dividends on Class C shares and as capital contributions.

Additional U.S. GAAP Disclosures**FAS 133**

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), establishes new accounting and reporting standards for derivative instruments and for hedging activities. This statement requires an entity to establish, at the inception of a hedge, the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. SFAS 133 is effective for the Company commencing January 1, 2001. The Company has identified the contracts and transactions that existed as at December 31, 2000 and prepared documentation required to support hedge accounting for those transactions previously accounted for as hedges. As at January 1, 2001, the adoption of the provisions of SFAS 133 would result in an increase in assets of \$17 million, an increase in liabilities of \$21 million, a cumulative catch-up adjustment to increase earnings by \$9 million and a reduction of \$13 million to other comprehensive income within shareholders' equity.

Stock Option Plan

SFAS 123, "Accounting for Stock-based Compensation", establishes financial accounting and reporting standards for stock-based employee compensation plans as well as transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. As permitted by the SFAS 123, Husky has elected to follow the intrinsic value method of accounting for stock-based compensation arrangements, as provided for in Accounting Principles Board Opinion 25 ("APB 25"). Since all options were granted with exercise prices equal to the market price when the options were granted, no compensation expense has been charged to income at the time of the option grants. Had compensation cost for the Husky stock options been determined based on the fair market value at the grant dates of the awards consistent with methodology prescribed by SFAS 123, "Accounting for Stock-Based Compensation", Husky's net income and net income per share for years ended December 31, 2000 would have been the pro forma amounts indicated below:

	2000	
	As Reported	Pro Forma
Net earnings	\$ 431	\$ 427
Net earnings per common share – Basic	\$ 1.34	\$ 1.33
– Diluted	\$ 1.30	\$ 1.28

The weighted average fair market value of options granted in 2000 was \$ 5.03 per option. The fair value of each option granted was estimated on the date of grant using the Modified Black-Scholes option-pricing model with the following assumptions: risk-free interest rate of 5.5 percent, volatility of 30 percent and expected life of five years.

Depreciation, depletion and amortization

Upstream depreciation, depletion and amortization, per gross equivalent barrel is calculated by converting natural gas volumes to a barrel of oil equivalent ("boe") using the ratio of 6 mcf of natural gas to 1 barrel of crude oil (sulphur volumes have been excluded from the calculation). Depreciation, depletion and amortization per Boe for the years ended December 31 are as follows:

	2000	1999	1998
Depreciation, depletion and amortization per boe	\$ 6.28	\$ 5.56	\$ 5.42

Supplementary data

RESERVE INFORMATION

Proved Developed and Undeveloped Reserves (before royalties)

	Light and Medium Crude Oil and NGLs (mmbbls)	Lloydminster Heavy Crude Oil (mmbbls)	Natural Gas (bcf)	Sulphur (mmlt)	Discounted Value of Estimated Future Net Revenues (millions)		
					0%	10%	15%
Proved Developed	338	65	1,580	5	\$ 15,889	\$ 8,645	\$ 7,343
Proved Undeveloped	102	49	329	-	2,994	1,398	1,029
Total Proved	440	114	1,909	5	\$ 18,883	\$ 10,043	\$ 8,372
Probable	343	78	453	1	\$ 8,645	\$ 3,113	\$ 2,095
December 31, 2000	783	192	2,362	6	\$ 27,528	\$ 13,156	\$ 10,467
December 31, 1999	467	183	1,332	6	\$ 13,102	\$ 6,393	\$ 4,886
December 31, 1998	272	149	1,421	6	\$ 4,146	\$ 1,747	\$ 1,313

Future net revenues are presented net of royalties, operating costs and future development costs and prior to deductions for overhead, interest and income tax charges. It should not be assumed that the discounted value of estimated future net reserves is representative of the fair market value of the reserves. Estimated future net revenues are based in part on forecasts of market prices, exchange rates, inflation, market demand and government policy which are subject to many uncertainties and may in the future differ materially from the forecasts used in these calculations.

	Light and Medium Crude Oil and NGLs (mmbbls)				Lloydminster Heavy Crude Oil (mmbbls)	Natural Gas (bcf)			Sulphur (mmlt)
	Western Canada	East Coast	International	Total	Western Canada	Western Canada	International	Total	
Proved Developed	338	-	-	338	65	1,580	-	1,580	5
Proved Undeveloped	52	11	39	102	49	186	143	329	-
Total Proved	390	11	39	440	114	1,766	143	1,909	5
Probable	136	202	5	343	78	434	19	453	1
December 31, 2000	526	213	44	783	192	2,200	162	2,362	6
December 31, 1999	203	256	8	467	183	1,170	162	1,332	6
December 31, 1998	199	65	8	272	149	1,259	162	1,421	6

The estimate of future net revenues at December 31, 2000 is based upon the following constant prices:

WTI at Cushing, Oklahoma (U.S. \$/bbl)	\$ 26.83
Light Crude Oil at Edmonton (Cdn. \$/bbl)	\$ 42.73
Lloydminster Heavy Crude Oil at Lloydminster (Cdn. \$/bbl)	\$ 10.19
International Crude Oil Benchmark (Cdn. \$/bbl)	\$ 46.35
Alberta Reference Price for Natural Gas (Cdn. \$/mcf)	\$ 8.65
Sulphur (Cdn. \$/tonne)	\$ 10.00
Exchange Rate (U.S. \$/Cdn. \$)	\$ 0.657

Proved reserves of crude oil and NGLs increased by 122 percent to 554 million barrels from 250 million barrels in 1999. The acquisition of the Renaissance assets accounted for approximately 78 percent of the increase or 238 million barrels. Proved reserves of natural gas also increased significantly by 77 percent to 1,909 billion cubic feet from 1,077 billion cubic feet in 1999. The Renaissance assets attributed 910 billion cubic feet of natural gas reserves.

NET FUTURE DEVELOPMENT COSTS

(\$ millions undiscounted)	2000	1999	1998
Proved developed	381	315	379
Proved undeveloped	892	401	374
Total proved	1,273	716	753
Probable	2,264	2,092	574
Total proved plus probable	3,537	2,808	1,327

This reserve report incorporates net future development costs required to bring proved undeveloped and probable reserves on production as well as maintain proved developed reserves.

RESERVE RECONCILIATION

Proved Reserves (before royalties)

	Western Canada				East Coast	International		Total Crude Oil (mmbbbls)	Total Natural Gas (bcf)
	Light and Medium Crude Oil (mmbbbls)	Lloydminster Heavy Crude Oil (mmbbbls)	Natural Gas (bcf)	Sulphur (mmlt)	Light and Medium Crude Oil (mmbbbls)	Light and Medium Crude Oil (mmbbbls)	Natural Gas (bcf)		
December 31, 1997	144	77	939	7	12	8	143	241	1,082
Production	(10)	(15)	(85)	-	-	-	-	(25)	(85)
Net acquisitions	(1)	1	12	-	-	-	-	-	12
Discoveries, extensions and technical revisions	5	18	95	(2)	9	(1)	-	31	95
December 31, 1998	138	81	961	5	21	7	143	247	1,104
Production	(10)	(15)	(91)	-	-	-	-	(25)	(91)
Net acquisitions	2	-	(4)	-	-	-	-	2	(4)
Discoveries, extensions and technical revisions	8	39	68	1	(21)	-	-	26	68
December 31, 1999	138	105	934	6	-	7	143	250	1,077
Production	(23)	(20)	(131)	(1)	-	-	-	(43)	(131)
Net acquisitions	20	1	23	-	-	-	-	21	23
Renaissance acquisition	238	-	910	-	-	-	-	238	910
Discoveries, extensions and technical revisions	17	28	30	-	11	32	-	88	30
December 31, 2000	390	114	1,766	5	11	39	143	554	1,909

Probable Reserves (before royalties)

	Western Canada				East Coast	International		Total Crude Oil (mmbbbls)	Total Natural Gas (bcf)
	Light and Medium Crude Oil (mmbbbls)	Lloyd- minster Heavy Crude Oil (mmbbbls)	Natural Gas (bcf)	Sulphur (mmlt)	Light and Medium Crude Oil (mmbbbls)	Light and Medium Crude Oil (mmbbbls)	Natural Gas (bcf)		
December 31, 1999	65	78	236	1	256	1	19	400	255
Net acquisitions	15	-	7	-	(43)	-	-	(28)	7
Renaissance acquisition	62	-	206	-	-	-	-	62	206
Discoveries, extensions and technical revisions	(6)	-	(15)	-	(11)	4	-	(13)	(15)
December 31, 2000	136	78	434	1	202	5	19	421	453

Notes:

1. Proved reserves are the estimated quantities of crude oil, natural gas and NGLs and sulphur which geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs under existing economic and operating conditions.
2. Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are reserves that are expected to be recovered through known accumulations where a significant expenditure is required.
3. Probable reserves are considered to be those reserves which may be recoverable as a result of the beneficial effects which may be derived from the future institution of some form of pressure maintenance or other secondary recovery method, or as a result of a more favourable performance of the existing recovery mechanism than that which may reasonably be deemed proven at the present time, or those reserves which may reasonably be assumed to exist because of geological or geological indications and drilling done in regions which contain proved reserves. The risk associated with those reserves generally ranges from 40 to 80 percent.

Reserves and Production by Principal Areas

The following tables set forth the estimates of Husky's proved reserves as at December 31, 2000 and production of crude oil, NGLs and natural gas by area.

Crude Oil and NGLs (mmbbls before royalties)	Proved Reserves	Percent of Proved Reserves	Q4 2000 Production (mmbbls/day)	Percent of Q4 2000 Production
Western Canada				
Lloydminster Heavy Oil and Gas	134	24	61	35
Northwest Alberta Plains	99	18	13	7
British Columbia and Foothills	66	12	17	10
Central and Eastern Alberta	58	10	33	19
Southern Alberta and Saskatchewan	147	27	51	29
	504	91	175	100
East Coast				
Terra Nova	11	2	-	-
International				
Madura, Indonesia	6	1	-	-
Shatirah, Libya	1	-	-	-
Wenchang, China	32	6	-	-
	39	7	-	-
Total Proved Reserves	554	100	175	100

Natural Gas (bcf before royalties)	Proved Reserves	Percent of Proved Reserves	Q4 2000 Production (mmcf/day)	Percent of Q4 2000 Production
Western Canada				
Lloydminster Heavy Oil and Gas	90	5	41	7
Northwest Alberta Plains	605	32	138	24
British Columbia and Foothills	552	29	176	31
Central and Eastern Alberta	371	20	174	30
Southern Alberta and Saskatchewan	125	7	46	8
	1,766	93	575	100
International				
Madura, Indonesia	143	7	-	-
Total Proved Reserves	1,909	100	575	100

QUARTERLY FINANCIAL AND OPERATING SUMMARY

(\$ millions, except where indicated)	2000				1999			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Earnings before ownership charges	232	158	85	71	47	52	47	14
Earnings before ownership charges per share								
– Basic (\$)	0.54	0.45	0.27	0.22	0.13	0.14	0.13	0.01
– Diluted (\$)	0.53	0.43	0.26	0.21	0.13	0.14	0.13	0.01
Net earnings	232	139	54	39	17	21	19	(14)
Net earnings per share – Basic (\$)	0.54	0.41	0.19	0.13	0.05	0.06	0.05	(0.07)
– Diluted (\$)	0.53	0.39	0.18	0.13	0.05	0.06	0.05	(0.07)
Cash flow from operations	601	388	219	191	144	152	137	84
Cash flow from operations per share								
– Basic (\$)	1.42	1.16	0.78	0.68	0.51	0.53	0.48	0.28
– Diluted (\$)	1.37	1.10	0.74	0.65	0.49	0.52	0.46	0.28
SEGMENTED DATA								
Financial								
Sales and operating revenues, net of royalties								
Upstream	656	438	249	230	166	165	149	122
Midstream								
Upgrader	297	286	186	237	200	189	144	108
Infrastructure and Marketing	766	549	535	459	433	347	279	225
	1,063	835	721	696	633	536	423	333
Refined Products	364	399	317	267	246	287	217	154
Intersegment eliminations	(314)	(320)	(269)	(242)	(137)	(202)	(168)	(130)
Total sales and operating revenues, net of royalties	1,769	1,352	1,018	951	908	786	621	479
Earnings before ownership charges								
Upstream	326	238	125	108	44	60	46	24
Midstream								
Upgrader	90	25	11	23	24	13	11	1
Infrastructure and Marketing	30	23	18	25	26	19	18	14
	120	48	29	48	50	32	29	15
Refined Products	19	16	12	2	(3)	18	25	9
Intersegment eliminations	8	5	-	(11)	3	(2)	(2)	(1)
Operating profit ⁽¹⁾	473	307	166	147	94	108	98	47
Corporate services ⁽²⁾	(241)	(149)	(81)	(76)	(47)	(56)	(51)	(33)
Total earnings before ownership charges	232	158	85	71	47	52	47	14
Cash flow								
Upstream	502	341	188	172	110	114	105	69
Midstream								
Upgrader	94	29	15	27	28	17	15	5
Infrastructure and Marketing	34	27	20	30	29	22	21	18
	128	56	35	57	57	39	36	23
Refined Products	26	23	19	9	3	24	31	17
Corporate services ⁽²⁾	(55)	(32)	(23)	(47)	(26)	(25)	(35)	(25)
Total cash flow	601	388	219	191	144	152	137	84

	2000				1999			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Capital expenditures ⁽³⁾								
Upstream								
Western Canada	205	84	68	62	76	73	31	58
East Coast	41	51	58	44	90	91	80	48
International	86	-	1	-	3	6	6	8
	332	135	127	106	169	170	117	114
Midstream								
Upgrading	4	2	4	2	5	1	6	3
Infrastructure and Marketing	16	7	5	19	20	24	20	15
	20	9	9	21	25	25	26	18
Refined Products	11	6	8	4	20	6	5	3
Corporate	2	2	8	3	3	2	2	1
Total capital expenditures	365	152	152	134	217	203	150	136
Depletion, depreciation and amortization								
Upstream	177	102	63	65	65	52	56	50
Midstream								
Upgrading	4	5	3	4	4	4	4	4
Infrastructure and Marketing	4	4	3	4	3	4	3	3
	8	9	6	8	7	8	7	7
Refined Products	7	7	7	7	7	7	6	6
Corporate	3	4	4	4	4	4	3	4
Total depletion, depreciation and amortization	195	122	80	84	83	71	72	67

⁽¹⁾ Operating profit is total revenue less operating expenses. Operating expenses include general corporate expense, foreign exchange, interest expense and income taxes.

⁽²⁾ Corporate services includes corporate administrative costs, depreciation of corporate assets, other income and expenses, interest, foreign exchange and income taxes.

⁽³⁾ Excludes acquisition of Renaissance Energy Ltd.

	2000				1999				
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	
Operational									
Upstream									
Production (before royalties)									
Light and medium crude oil and NGLs (mbbls/day)	117.9	66.5	34.7	34.6	27.2	26.9	25.5	26.4	
Lloydminster heavy crude oil (mbbls/day)	57.0	54.9	52.0	50.0	46.7	40.8	40.5	40.4	
	174.9	121.4	86.7	84.6	73.9	67.7	66.0	66.8	
Natural gas (mmcf/day)	575.0	373.7	224.1	256.7	245.3	249.8	255.5	251.5	
Netbacks ⁽¹⁾									
Light and medium crude oil and NGLs (\$/bbl)	\$ 18.11	\$ 25.04	\$ 23.51	\$ 21.37	\$ 15.61	\$ 14.99	\$ 14.71	\$ 10.79	
Lloydminster heavy crude oil (\$/bbl)	\$ 2.39	\$ 16.64	\$ 15.52	\$ 14.78	\$ 6.60	\$ 10.48	\$ 8.48	\$ 5.66	
Natural gas (\$/mcf)	\$ 5.30	\$ 2.47	\$ 1.96	\$ 1.59	\$ 1.80	\$ 1.49	\$ 1.32	\$ 1.17	
Net wells drilled									
Exploratory	Oil	7	5	1	-	3	2	1	4
	Gas	14	5	-	1	3	-	1	2
	Dry	7	2	1	-	4	2	1	2
	28	12	2	1	10	4	3	8	
Development	Oil	131	94	56	82	77	92	11	10
	Gas	56	8	5	1	1	9	1	12
	Dry	11	4	7	6	8	5	2	7
Total	198	106	68	89	86	106	14	29	
	226	118	70	90	96	110	17	37	
Success ratio	92%	95%	90%	93%	88%	94%	82%	76%	
Midstream									
Synthetic crude sales (mbbls/day)	65.6	66.1	49.8	60.9	60.3	63.1	61.6	62.5	
Husky upgrading differential (\$/bbl)	\$ 24.35	\$ 11.00	\$ 9.21	\$ 8.67	\$ 8.83	\$ 5.85	\$ 6.62	\$ 4.22	
Pipeline throughput (mbbls/day)	542.9	507.8	497.6	483.3	455.3	370.3	369.8	379.4	
Refined Products									
Refined product sales									
Light refined products (million litres per day)	7.5	7.7	7.5	4.8	7.5	8.4	7.5	4.2	
Asphalt and residuals (mbbls/day)	20.2	27.0	18.4	10.3	11.9	25.3	19.0	8.0	
Refinery throughput									
Lloydminster refinery (mbbls/day)	24.8	25.7	22.2	18.9	11.1	21.0	20.2	17.5	
Prince George refinery (mbbls/day)	10.8	7.9	7.6	9.7	10.5	10.7	8.1	9.7	
Refinery utilization	102%	96%	85%	82%	62%	91%	81%	78%	

⁽¹⁾ Netbacks are Husky's average realized price less royalties and operating costs on a per unit basis.

FIVE YEAR FINANCIAL AND OPERATING SUMMARY

(\$ millions, except where indicated)	2000	1999	1998	1997	1996
Earnings before ownership charges	546	160	132	171	104
Earnings before ownership charges per share					
– Basic (\$)	1.58	0.41	0.34	0.51	0.31
– Diluted (\$)	1.52	0.41	0.34	0.51	0.31
Net earnings	464	43	25	72	35
Net earnings per share					
– Basic (\$)	1.39	0.10	0.07	0.27	0.13
– Diluted (\$)	1.34	0.10	0.07	0.27	0.13
Cash flow from operations	1,399	517	449	453	378
Cash flow from operations per share					
– Basic (\$)	4.26	1.80	1.61	1.68	1.40
– Diluted (\$)	4.05	1.75	1.51	1.68	1.40
Return on equity ⁽¹⁾	20.1%	8.3%	8.2%	13.2%	9.9%
Return on average capital employed ⁽²⁾	12.8%	5.1%	5.2%	7.9%	6.1%
SEGMENTED DATA					
Financial					
Sales and operating revenues, net of royalties					
Upstream	1,573	602	446	579	599
Midstream					
Upgrader	1,006	641	412	279	284
Infrastructure and Marketing	2,309	1,284	999	1,437	1,286
	3,315	1,925	1,411	1,716	1,570
Refined Products	1,347	904	664	613	546
Intersegment eliminations	(1,145)	(637)	(492)	(620)	(604)
Total sales and operating revenues, net of royalties	5,090	2,794	2,029	2,288	2,111
Earnings before ownership charges					
Upstream	797	174	38	175	222
Midstream					
Upgrader	149	49	63	48	14
Infrastructure and Marketing	96	77	69	61	52
	245	126	132	109	66
Refined Products	49	49	64	39	10
Intersegment eliminations	2	(2)	3	-	(1)
Operating profit ⁽³⁾	1,093	347	237	323	297
Corporate services ⁽⁴⁾	(547)	(187)	(105)	(152)	(193)
Total earnings before ownership charges	546	160	132	171	104
Cash flow					
Upstream	1,203	398	252	380	428
Midstream					
Upgrader	165	65	77	60	26
Infrastructure and Marketing	111	90	81	67	58
	276	155	158	127	84
Refined Products	77	75	84	53	24
Corporate services ⁽⁴⁾	(157)	(111)	(45)	(107)	(158)
Total cash flow	1,399	517	449	453	378

(\$ millions, except where indicated)	2000	1999	1998	1997	1996
Capital expenditures ⁽⁵⁾					
Upstream					
Western Canada	419	238	233	234	169
East Coast	194	309	191	29	5
International	87	23	15	11	7
	700	570	439	274	181
Midstream					
Upgrader	12	15	283	6	2
Infrastructure and Marketing	47	79	68	140	13
	59	94	351	146	15
Refined Products	29	34	129	23	18
Corporate	15	8	12	158	4
Total capital expenditures	803	706	931	601	218
Depletion, depreciation and amortization					
Upstream	407	223	214	205	206
Midstream					
Upgrading	16	16	14	12	12
Infrastructure and Marketing	15	13	12	6	6
	31	29	26	18	18
Refined Products	28	26	20	13	14
Corporate	15	15	13	7	9
Total depletion, depreciation and amortization	481	293	273	243	247
Identifiable assets					
Upstream	6,552	2,719	2,355	2,157	2,080
Midstream					
Upgrader	575	580	586	317	323
Infrastructure and Marketing	362	338	290	233	99
	937	918	876	550	422
Refined Products	326	328	320	161	153
Corporate ⁽⁶⁾	1,087	850	643	723	519
Total identifiable assets	8,902	4,815	4,194	3,591	3,174

⁽¹⁾ Equity for purposes of this calculation has been weighted for 2000 and includes amounts due to shareholders prior to August 29, 2000.

⁽²⁾ Capital employed is defined as the average of short and long-term debt and shareholders' equity (2000 is weighted).

⁽³⁾ Operating profit is total revenue less operating expenses. Operating expenses exclude general corporate expense, foreign exchange, interest expense and income taxes.

⁽⁴⁾ Corporate services includes corporate administrative costs, depreciation of corporate assets, other income and expenses, interest, foreign exchange and income taxes.

⁽⁵⁾ Excludes acquisition of Renaissance Energy Ltd.

⁽⁶⁾ Corporate includes accounts receivable, inventories, prepaid expenses, other assets and corporate assets.

(\$ millions, except where indicated)		2000	1999	1998	1997	1996
Operational						
Upstream						
Production (before royalties)						
Light and medium crude oil and NGLs (mbbls/day)		63.6	26.5	27.6	27.6	28.3
Heavy crude oil (mbbls/day)		53.5	42.1	42.0	41.9	34.5
		117.1	68.6	69.6	69.5	62.8
Natural gas (mmcf/day)		358.0	250.5	232.6	246.0	267.9
Proved reserves (before royalties)						
Light and medium crude oil and NGLs (mmbbls)		440	145	166	164	152
Heavy crude oil (mmbbls)		114	105	81	77	91
		554	250	247	241	243
Natural gas (bcf)		1,909	1,077	1,104	1,082	1,134
Netbacks ⁽¹⁾						
Light and medium crude oil and NGLs (\$/bbl)		\$ 20.61	\$ 13.71	\$ 9.78	\$ 15.51	\$ 16.42
Heavy crude oil (\$/bbl)		\$ 12.11	\$ 7.75	\$ 1.61	\$ 6.24	\$ 10.32
Natural gas (\$/mcf)		\$ 3.59	\$ 1.54	\$ 1.46	\$ 1.50	\$ 1.39
Net wells drilled						
Exploratory	Oil	13	10	11	34	54
	Gas	20	6	7	2	3
	Dry	10	9	6	13	9
		43	25	24	49	66
Development	Oil	363	190	55	159	68
	Gas	70	23	7	3	6
	Dry	28	22	4	11	1
Total		461	235	66	173	75
		504	260	90	222	141
Success ratio (%)		93%	88%	89%	89%	93%
Undeveloped landholdings (million net acres)		10.7	2.4	2.8	2.6	2.8
Midstream						
Synthetic crude sales (mbbls/day)		60.6	61.9	54.8	27.5	26.8
Husky upgrading differential (\$/bbl)		\$ 13.77	\$ 6.49	\$ 7.85	\$ 8.54	\$ 5.94
Pipeline throughput (mbbls/day)		527.7	393.8	411.6	417.0	359.4
Refined Products						
Refined product sales						
Light refined products (million litres/day)		7.4	7.6	6.0	4.5	4.2
Asphalt and residuals (mbbls/day)		20.2	17.1	19.5	17.7	15.1
Refinery throughput						
Lloydminster refinery (mbbls/day)		23.4	17.9	21.9	21.5	18.4
Prince George refinery (mbbls/day)		9.2	10.2	9.9	10.3	10.0
Refinery utilization (%)		93%	80%	91%	91%	81%

⁽¹⁾ Netbacks are Husky's average realized price less royalties and operating costs on a per unit basis.

SELECTED TEN YEAR FINANCIAL AND OPERATING DATA

(\$ millions, except where indicated)	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Sales and operating revenues, net of royalties	5,090	2,794	2,029	2,288	2,111	1,783	1,373	1,138	977	869
Earnings before ownership charges ⁽¹⁾	546	160	132	171	104	70	12	(231)	(308)	(315)
Net earnings	464	43	25	72	35	(22)	(6)	(238)	(351)	(315)
Cash flow from operations	1,399	517	449	453	378	303	242	171	183	191
Capital expenditures ⁽²⁾	803	706	931	601	218	155	257	315	312	480
Total debt ⁽³⁾	2,378	1,382	1,131	1,014	853	1,474	1,667	1,570	1,570	1,336
Total debt/Capital employed ⁽⁴⁾	37%	41%	38%	42%	41%	62%	67%	66%	61%	50%
Total debt/Cash flow from operations ⁽⁵⁾	1.7	2.7	2.5	2.2	2.3	4.9	6.9	9.2	8.6	7.0
Reinvestment ratio ⁽⁶⁾	57%	134%	199%	132%	46%	44%	62%	117%	118%	236%
Return on capital employed ⁽⁴⁾	12.8%	5.1%	5.2%	7.9%	6.1%	3.6%	2.5%	(7.9)%	(11.0)%	(10.8)%
Return on equity ⁽⁷⁾	20.1%	8.3%	8.2%	13.2%	9.9%	8.0%	1.5%	(25.5)%	(26.8)%	(22.4)%
Production										
Light and medium crude oil and NGLs (mbbls/day)	63.6	26.5	27.6	27.6	28.3	27.7	29.4	29.9	28.9	26.1
Heavy oil production (mbbls/day)	53.5	42.1	42.0	41.9	34.5	30.0	26.6	21.9	18.4	17.4
	117.1	68.6	69.6	69.5	62.8	57.7	56.0	51.8	47.3	43.5
Natural gas (mmcf/day)	358	251	233	246	268	286	248	246	252	225

Notes:

⁽¹⁾ Ownership charges represent interest and dividends related to the previous shareholders' capital structure in Husky Oil Limited, which were eliminated on August 25, 2000.

⁽²⁾ Excludes investment in other assets and year 2000 excludes the acquisition of Renaissance Energy Ltd.

⁽³⁾ Year 1991 to 1995 total debt excludes asset in financial swap.

⁽⁴⁾ Capital employed is defined as the average of short and long-term debt and shareholders' equity (2000 is weighted).

⁽⁵⁾ 2000 is based on year-end balance sheet and Husky Energy Inc. income statement.

⁽⁶⁾ Reinvestment ratio is based on capital expenditures net of divestitures.

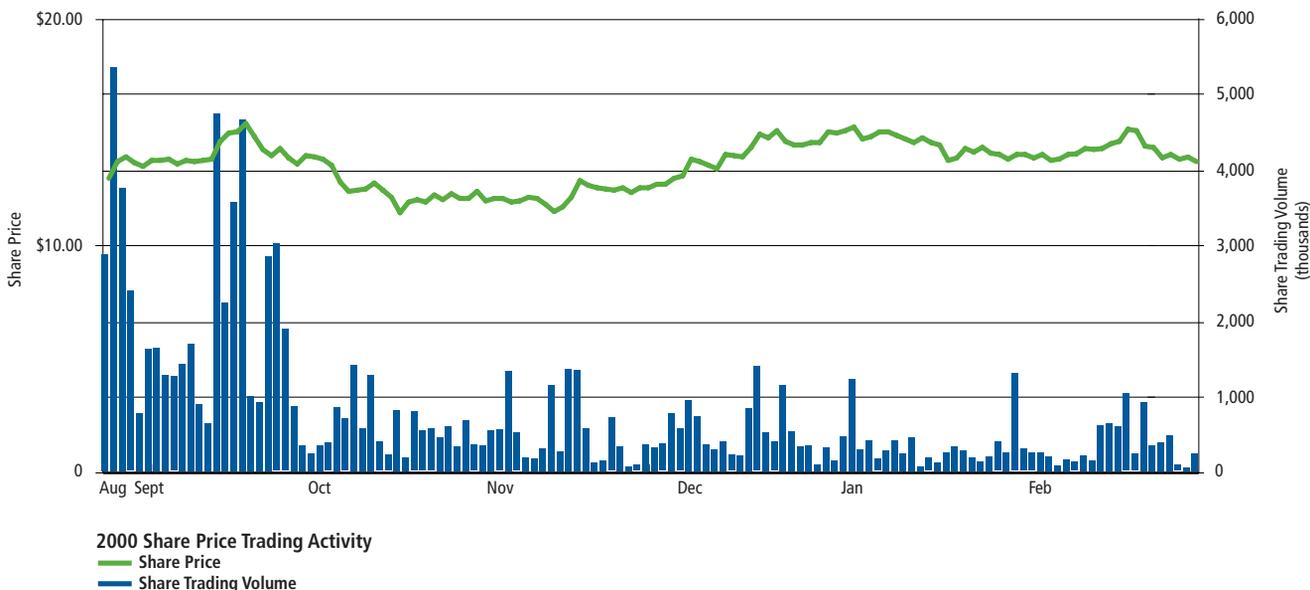
⁽⁷⁾ Equity for purposes of this calculation has been weighted for 2000 and includes amounts due to shareholders prior to August 25, 2000.

COMMON SHARE INFORMATION

For the year ended December 31, 2000 (thousands of shares, except prices)

Share price ⁽¹⁾	High	\$ 15.95
	Low	\$ 11.50
	Close at December 31st	\$ 14.90
Average daily trading volumes		979
Number of weighted average common shares outstanding at December 31, 2000		
	Basic	415,803
	Diluted ⁽²⁾	440,569
Number of common shares outstanding at February 28, 2001		
	Basic	415,803
	Diluted	441,789

- (1) Trading in HSE common shares commenced on The Toronto Stock Exchange on August 28, 2000. HSE is included in the S&P Global 1200, TSE 300 Composite, S&P/TSE 60, TSE 100 and Toronto 35 indices, and is represented in the integrated oil subgroup in the TSE 300 Composite.
- (2) In accordance with recent recommendations of the Canadian Institute of Chartered Accountants on the calculation of earnings per share, these calculations include the potential dilutive effect of the conversion of options, warrants and capital securities.



The 2000 Annual Report contains forward-looking statements, including references to regulatory applications, drilling plans, construction activities, seismic activity, refining margins, oil and gas production levels and the sources of growth thereof, results of exploration activities, and dates by which certain areas may be developed or may come onstream. These forward-looking statements are subject to numerous known and unknown risks and uncertainties and other factors which may cause actual results, levels of activity and numerous achievements to differ materially from those expressed or implied by such statements. Such factors include, but are not limited to: general economic, market and business conditions; industry capacity; competitive action by other companies; fluctuations in oil and gas prices; refining and marketing margins; the ability to produce and transport crude oil and natural gas to markets; the results of exploration and development of drilling and related activities; fluctuation in foreign currency exchange rates; the imprecision of reserve estimates; the ability of suppliers to meet commitments; actions by governmental authorities including increases in taxes; decisions or approvals of administrative tribunals; changes in environmental and other regulations; risks attendant with oil and gas operations; and other factors, many of which are beyond the control of Husky. Husky's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Husky will derive therefrom.

CORPORATE INFORMATION

BOARD OF DIRECTORS

CO-CHAIRMEN

Victor T. K. Li
Managing Director, Cheung Kong (Holdings) Limited &
Deputy Chairman, Hutchison Whampoa Limited
Hong Kong

Canning K. N. Fok ⁽¹⁾
Group Managing Director
Hutchison Whampoa Limited
Hong Kong

DEPUTY CHAIRMAN

William Shurniak ⁽²⁾
Chairman
ETSA Utilities and Powercor Australia Limited
Australia

DIRECTORS

Martin J. G. Glynn ⁽²⁾
President, Chief Executive Officer & Director,
HSBC Bank of Canada
Vancouver

Ronald G. Greene ⁽¹⁾
President & Chief Executive Officer,
Tortuga Investment Corp.
Calgary

Terence C. Y. Hui
President & Chief Executive Officer,
Concord Pacific Group Inc.
Vancouver

Brent D. Kinney ⁽³⁾
Independent Businessman
Dubai, United Arab Emirates

Holger Kluge ^{(1), (3)}
Retired President,
Canadian Imperial Bank of Commerce,
Personal and Commercial Bank
Toronto

Poh Chan Koh
Finance Director,
Harbour Plaza Hotel Management (International) Ltd.
Hong Kong

Eva L. Kwok ⁽¹⁾
Chairman & Chief Executive Officer,
Amara International Investment Corp.
Vancouver

Stanley T. L. Kwok ⁽³⁾
President, Stanley Kwok Consultants &
Director, Amara International Investment Corp.
Vancouver

John C. S. Lau
President & Chief Executive Officer,
Husky Energy Inc.
Calgary

Wilmot L. Matthews ⁽²⁾
Independent Businessman
Toronto

Wayne E. Shaw
Barrister and Solicitor
Stikeman Elliott
Toronto

Frank J. Sixt ⁽¹⁾
Executive Director & Group Finance Director,
Hutchison Whampoa Limited
Hong Kong

OFFICERS/EXECUTIVES

Husky Energy Inc.

John C. S. Lau
President & Chief Executive Officer

James S. Blair
Senior Vice President & Chief Operating Officer

James D. Girgulis
Vice President, Legal & Corporate Secretary

Donald R. Ingram
Senior Vice President, Midstream & Refined Products

Neil D. McGee
Vice President & Chief Financial Officer



Standing L-R: James D. Girgulis, Donald R. Ingram.
Sitting L-R: Neil D. McGee, John C. S. Lau, and James S. Blair.

Husky Oil Operations Limited

John C. S. Lau
Chairman of the Board, President & Chief Executive Officer

James S. Blair
Senior Vice President & Chief Operating Officer

James D. Girgulis
Vice President, Legal & Corporate Secretary

Donald R. Ingram
Senior Vice President, Midstream & Refined Products

Neil D. McGee
Vice President & Chief Financial Officer

Richard M. Alexander
Treasurer

L. Geoffrey Barlow
Controller

K. Wendell Carroll
Vice President, Corporate Administration

Robert S. Coward
Vice President, Western Canada Production

J. Tom Graham
Vice President, Heavy Oil & Gas

Terence L. Sharkey
Vice President, Drilling & Completions

David R. Taylor
Vice President, Exploration

⁽¹⁾ Compensation Committee

⁽²⁾ Audit Committee

⁽³⁾ Health, Safety and Environment Committee

INVESTOR INFORMATION

STOCK EXCHANGE LISTING

The Toronto Stock Exchange: HSE

OUTSTANDING SHARES

The number of weighted average common shares outstanding (in thousands) was 415,803 (basic) at February 28, 2001 and 441,789 (diluted).

TRANSFER AGENT AND REGISTRAR

Husky's transfer agent and registrar is Computershare Trust Company of Canada. In the United States, the transfer agent and registrar is Computershare Trust Company, Inc. Share certificates may be transferred at Computershare's principal offices in Calgary, Toronto, Montreal and Vancouver, and at Computershare's principal office in Denver, Colorado in the United States.

Queries regarding share certificates, dividends and estate transfers should be directed to Computershare Trust Company at 1-888-267-6555 (toll free in North America).

AUDITORS

KPMG LLP
1200, 205 - 5 Avenue S.W.
Calgary, Alberta T2P 4B9

DIVIDENDS

Husky's Board of Directors has approved a dividend policy that pays quarterly dividends of \$0.09 (\$0.36 annually) per common share. This policy will be reviewed by the Board from time to time.

CORPORATE GOVERNANCE

The Board of Directors of Husky Energy Inc. takes seriously its duties and responsibilities with respect to principles of good corporate governance. A report of our corporate governance practices as prescribed by the guidelines adopted by The Toronto Stock Exchange may be found in the Management Information Circular dated March 30, 2001.

ANNUAL MEETING

The annual meeting of shareholders will be held at 10:30 a.m. on May 14, 2001 in the Imperial Ballroom at the Hyatt Regency Calgary, 700 Centre Street South, Calgary, Alberta.

ADDITIONAL PUBLICATIONS

The following publications are made available on our Website or from our Investor Relations department:

- * Annual Information Form, filed with the Canadian securities regulators
- * Form 20-F, filed with the U.S. Securities and Exchange Commission
- * Quarterly Reports

CORPORATE OFFICE

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E-mail: corp_com@huskyenergy.ca

Website
Visit Husky Energy's home page at www.huskyenergy.ca

DUPLICATE REPORTS

We try to avoid duplicate mailings of quarterly and annual reports, but shareholders with more than one registered account may receive more than one mailing. To eliminate these duplicates, please contact the transfer agent and registrar at 1-888-267-6555 to consolidate this information.

ABBREVIATIONS

bbls	barrels
bcf	billion cubic feet
boe	barrels of oil equivalent
hectare	1 hectare is equal to 2.47 acres
mmbbls	thousand barrels
mmbbls/day	thousand barrels per day
mboe	thousand barrels of oil equivalent
mboe/day	thousand barrels of oil equivalent per day
mcf	thousand cubic feet
mmbbls	million barrels
mmbbls	million barrels of oil equivalent
mmbbls/day	million barrels of oil equivalent per day
mmcf	million cubic feet
mmcf/day	million cubic feet per day
mmlt	million long tons

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