

Husky Energy Inc.

Consolidated Financial Statements

For the Year Ended December 31, 2009

MANAGEMENT'S REPORT

The management of Husky Energy Inc. ("the Company") is responsible for the financial information and operating data presented in this financial document.

The consolidated financial statements have been prepared by management in accordance with Canadian 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 as they include certain amounts based on estimates and judgments. 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 financial document has been prepared on a basis consistent with that in the consolidated financial statements.

Husky Energy Inc. 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. Management evaluation concluded that our internal control over financial reporting was effective as of December 31, 2009. The system of internal controls is further supported by an internal audit function.

The Audit Committee of the Board of Directors, composed of independent 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, financial reporting matters and reserves determination process. The Committee reviews the annual 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 Committee is also responsible for the appointment of the external auditors for the Company.

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

/s/ John C.S. Lau

John C.S. Lau

President & Chief Executive Officer

/s/ Alister Cowan

Alister Cowan

Vice President & Chief Financial Officer

Calgary, Alberta, Canada

February 3, 2010

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Husky Energy Inc. ("the Company") as at December 31, 2009, 2008 and 2007 and the consolidated statements of earnings and comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2009. 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.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). 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, 2009, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2009 in accordance with Canadian generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 3, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

KPMG LLP

Chartered Accountants

Calgary, Alberta, Canada

February 3, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Husky Energy Inc.

We have audited Husky Energy Inc. ("the Company")'s internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have conducted our audits on the consolidated financial statements in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Our report dated February 3, 2010 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

KPMG LLP

Chartered Accountants

Calgary, Alberta, Canada

February 3, 2010

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

<i>As at December 31 (millions of dollars)</i>	2009	2008	2007
Assets			
Current assets			
Cash and cash equivalents	\$ 392	\$ 913	\$ 208
Accounts receivable <i>(notes 7, 23)</i>	987	1,344	1,622
Inventories <i>(note 8)</i>	1,520	1,032	1,190
Prepaid expenses	12	11	14
	2,911	3,300	3,034
Property, plant and equipment, net <i>(notes 1, 9)</i>	21,254	20,839	17,805
Goodwill <i>(notes 1, 13)</i>	689	779	660
Contribution receivable <i>(notes 11, 23)</i>	1,313	1,448	-
Other assets	128	120	167
	\$ 26,295	\$ 26,486	\$ 21,666
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities <i>(notes 15, 23)</i>	\$ 2,185	\$ 2,896	\$ 2,358
Long-term debt due within one year <i>(notes 16, 23)</i>	-	-	741
	2,185	2,896	3,099
Long-term debt <i>(notes 16, 23)</i>	3,229	1,957	2,073
Contribution payable <i>(notes 11, 23)</i>	1,500	1,659	-
Other long-term liabilities <i>(note 17)</i>	1,036	898	918
Future income taxes <i>(note 18)</i>	3,932	4,713	3,948
Commitments and contingencies <i>(note 19)</i>			
Shareholders' equity			
Common shares <i>(note 20)</i>	3,585	3,568	3,551
Retained earnings	10,832	10,436	8,154
Accumulated other comprehensive income	(4)	359	(77)
	14,413	14,363	11,628
	\$ 26,295	\$ 26,486	\$ 21,666

The accompanying notes to the consolidated financial statements are an integral part of these statements. 2008 and 2007 amounts as restated for the adoption of a new accounting policy. Refer to Note 4.

On behalf of the Board:

/s/ John C.S. Lau

John C. S. Lau

Director

/s/ R.D. Fullerton

R.D. Fullerton

Director

Consolidated Statements of Earnings and Comprehensive Income

<i>Year ended December 31 (millions of dollars, except per share amounts)</i>	2009	2008	2007
Sales and operating revenues, net of royalties	\$ 15,074	\$ 24,701	\$ 15,518
Costs and expenses			
Cost of sales and operating expenses <i>(note 17)</i>	10,865	17,706	9,314
Selling and administration expenses	265	284	219
Stock-based compensation <i>(note 20)</i>	1	(33)	88
Depletion, depreciation and amortization <i>(notes 1, 9)</i>	1,805	1,832	1,806
Interest - net <i>(note 16)</i>	194	147	130
Foreign exchange <i>(note 16)</i>	(5)	(335)	(51)
Other - net <i>(note 23)</i>	(8)	(45)	(97)
	13,117	19,556	11,409
Earnings before income taxes	1,957	5,145	4,109
Income taxes (recoveries) <i>(note 18)</i>			
Current	1,262	901	347
Future	(721)	493	561
	541	1,394	908
Net earnings	1,416	3,751	3,201
Other comprehensive income			
Cumulative foreign currency translation adjustment	(469)	607	(175)
Hedge of net investment, net of tax <i>(note 23)</i>	104	(165)	102
Derivatives designated as cash flow hedges, net of tax <i>(note 23)</i>	2	(6)	14
	(363)	436	(59)
Comprehensive income	\$ 1,053	\$ 4,187	\$ 3,142
Earnings per share			
Basic and diluted	\$ 1.67	\$ 4.42	\$ 3.77
Weighted average number of common shares outstanding <i>(millions)</i>			
Basic and diluted	849.7	849.2	848.8

The accompanying notes to the consolidated financial statements are an integral part of these statements. 2008 and 2007 amounts as restated for the adoption of a new accounting policy. Refer to Note 4.

Consolidated Statements of Changes in Shareholders' Equity

<i>Year ended December 31 (millions of dollars)</i>	2009	2008	2007
Common shares			
Beginning of year	\$ 3,568	\$ 3,551	\$ 3,533
Options exercised	17	17	18
End of year	3,585	3,568	3,551
Retained earnings			
Beginning of year	10,436	8,154	6,087
Net earnings	1,416	3,751	3,201
Dividends on common shares <i>(note 20)</i>			
Ordinary	(1,020)	(1,469)	(917)
Special	-	-	(212)
Adoption of financial instruments	-	-	4
Adoption of intangible assets <i>(note 4)</i>	-	-	(9)
End of year	10,832	10,436	8,154
Accumulated other comprehensive income			
Beginning of year	359	(77)	-
Adoption of financial instruments	-	-	(18)
Other comprehensive income			
Cumulative foreign currency translation adjustment	(469)	607	(175)
Hedge of net investment, net of tax <i>(note 23)</i>	104	(165)	102
Derivatives designated as cash flow hedges, net of tax <i>(note 23)</i>	2	(6)	14
	(363)	436	(59)
End of year	(4)	359	(77)
Shareholders' equity	\$ 14,413	\$ 14,363	\$ 11,628

The accompanying notes to the consolidated financial statements are an integral part of these statements. 2008 and 2007 amounts as restated for the adoption of a new accounting policy. Refer to Note 4.

Consolidated Statements of Cash Flows

Year ended December 31 (millions of dollars)	2009	2008	2007
Operating activities			
Net earnings	\$ 1,416	\$ 3,751	\$ 3,201
Items not affecting cash			
Accretion <i>(note 17)</i>	48	54	47
Depletion, depreciation and amortization	1,805	1,832	1,806
Future income taxes (recoveries)	(721)	493	561
Foreign exchange	(48)	(94)	(135)
Other	7	(90)	(92)
Settlement of asset retirement obligations <i>(note 17)</i>	(41)	(56)	(51)
Change in non-cash working capital <i>(note 12)</i>	(548)	888	(718)
Cash flow - operating activities	1,918	6,778	4,619
Financing activities			
Long-term debt issue	3,604	949	7,222
Long-term debt repayment	(1,866)	(2,205)	(5,722)
Debt issue costs	(14)	-	(8)
Proceeds from exercise of stock options	6	5	5
Proceeds from monetization of financial instruments	41	12	-
Dividends on common shares	(1,020)	(1,469)	(1,129)
Other	10	3	-
Change in non-cash working capital <i>(note 12)</i>	(167)	146	65
Cash flow - financing activities	594	(2,559)	433
Available for investing	2,512	4,219	5,052
Investing activities			
Expenditures on property, plant and equipment	(2,762)	(4,060)	(2,931)
Corporate acquisition <i>(note 10)</i>	-	-	(2,589)
Joint venture arrangement <i>(note 11)</i>	-	127	-
Asset sales	28	37	333
Other	(10)	11	(6)
Change in non-cash working capital <i>(note 12)</i>	(289)	371	(93)
Cash flow - investing activities	(3,033)	(3,514)	(5,286)
Increase (decrease) in cash and cash equivalents	(521)	705	(234)
Cash and cash equivalents at beginning of year	913	208	442
Cash and cash equivalents at end of year	\$ 392	\$ 913	\$ 208

The accompanying notes to the consolidated financial statements are an integral part of these statements. 2008 and 2007 amounts as restated for the adoption of a new accounting policy. Refer to Note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Except where indicated and per share amounts, all dollar amounts are in millions.

NOTE 1 SEGMENTED FINANCIAL INFORMATION

Year ended December 31 ⁽¹⁾	Upstream			Midstream					
	2009	2008	2007	Upgrading			Infrastructure and Marketing		
				2009	2008	2007	2009	2008	2007
Sales and operating revenues, net of royalties	\$ 4,452	\$ 7,889	\$ 6,222	\$ 1,572	\$ 2,435	\$ 1,524	\$ 6,984	\$ 13,544	\$ 10,217
Costs and expenses									
Operating, cost of sales, selling and general	1,495	1,627	1,308	1,461	2,053	1,146	6,669	13,192	9,838
Depletion, depreciation and amortization	1,397	1,505	1,615	34	31	25	36	31	28
Interest - net	-	-	-	-	-	-	-	-	-
Foreign exchange	-	-	-	-	-	-	-	-	-
	2,892	3,132	2,923	1,495	2,084	1,171	6,705	13,223	9,866
Earnings (loss) before income taxes	1,560	4,757	3,299	77	351	353	279	321	351
Current income taxes	909	585	122	111	84	10	101	126	68
Future income taxes	(462)	795	581	(88)	21	75	(22)	(29)	30
Net earnings (loss)	\$ 1,113	\$ 3,377	\$ 2,596	\$ 54	\$ 246	\$ 268	\$ 200	\$ 224	\$ 253
Property, plant and equipment - As at December 31									
Cost	\$27,478	\$25,283	\$23,611	\$ 1,774	\$ 1,704	\$ 1,607	\$ 956	\$ 931	\$ 842
Accumulated depletion, depreciation and amortization	12,688	11,432	9,956	544	510	480	365	330	298
Net	\$14,790	\$13,851	\$13,655	\$ 1,230	\$ 1,194	\$ 1,127	\$ 591	\$ 601	\$ 544
Expenditures on property, plant and equipment - Year ended December 31⁽²⁾	\$ 2,326	\$ 3,580	\$ 2,388	\$ 69	\$ 99	\$ 217	\$ 25	\$ 94	\$ 92
Goodwill additions - Year ended December 31	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total assets - As at December 31	\$16,338	\$15,653	\$14,395	\$ 1,427	\$ 1,322	\$ 1,377	\$ 1,712	\$ 1,486	\$ 1,134

(1) 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) Excludes capitalized costs related to asset retirement obligations incurred during the period and corporate acquisitions (notes 10 and 11).

(3) 2008 and 2007 amounts as restated for the adoption of a new accounting policy. Refer to Note 4.

Geographical Financial Information

Year ended December 31	Canada			United States			Other International		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Sales and operating revenues, net of royalties	\$ 8,856	\$ 15,213	\$ 11,736	\$ 5,981	\$ 9,172	\$ 3,494	\$ 237	\$ 316	\$ 288
Expenditures on property, plant and equipment ⁽¹⁾	1,974	3,685	2,877	285	193	21	538	230	76
As at December 31									
Property, plant and equipment, net	\$ 16,624	\$ 16,234	\$ 16,017	\$ 3,587	\$ 4,093	\$ 1,417	\$ 1,043	\$ 512	\$ 371
Goodwill ⁽²⁾	160	160	160	529	619	500	-	-	-
Total assets	20,239	20,208	17,952	5,363	5,744	3,240	693	534	474

(1) Excludes capitalized costs related to asset retirement obligations incurred during the period and corporate acquisitions (notes 10 and 11).

(2) Goodwill relates to Western Canada in the upstream segment and the Lima Refinery in the downstream segment - U.S. Refining and Marketing.

Downstream						Corporate and Eliminations ⁽¹⁾			Total		
Canadian Refined Products			U.S. Refining and Marketing								
2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007
\$ 2,495	\$ 3,564	\$ 2,916	\$ 5,349	\$ 7,802	\$ 2,383	\$ (5,778)	\$ (10,533)	\$ (7,744)	\$ 15,074	\$ 24,701	\$ 15,518
2,204	3,340	2,607	4,957	8,280	2,167	(5,663)	(10,580)	(7,542)	11,123	17,912	9,524
93	81	66	194	154	47	51	30	25	1,805	1,832	1,806
-	-	-	3	3	1	191	144	129	194	147	130
-	-	-	-	-	-	(5)	(335)	(51)	(5)	(335)	(51)
2,297	3,421	2,673	5,154	8,437	2,215	(5,426)	(10,741)	(7,439)	13,117	19,556	11,409
198	143	243	195	(635)	168	(352)	208	(305)	1,957	5,145	4,109
38	28	17	3	(24)	28	100	102	102	1,262	901	347
19	11	33	68	(208)	35	(236)	(97)	(193)	(721)	493	561
\$ 141	\$ 104	\$ 193	\$ 124	\$ (403)	\$ 105	\$ (216)	\$ 203	\$ (214)	\$ 1,416	\$ 3,751	\$ 3,201
\$ 1,767	\$ 1,691	\$ 1,550	\$ 3,875	\$ 4,249	\$ 1,459	\$ 439	\$ 406	\$ 338	\$ 36,289	\$ 34,264	\$ 29,407
755	669	590	377	229	46	306	255	232	15,035	13,425	11,602
\$ 1,012	\$ 1,022	\$ 960	\$ 3,498	\$ 4,020	\$ 1,413	\$ 133	\$ 151	\$ 106	\$ 21,254	\$ 20,839	\$ 17,805
\$ 81	\$ 155	\$ 212	\$ 260	\$ 133	\$ 21	\$ 36	\$ 47	\$ 44	\$ 2,797	\$ 4,108	\$ 2,974
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 536	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 536
\$ 1,430	\$ 1,375	\$ 1,332	\$ 4,771	\$ 5,380	\$ 3,058	\$ 617	\$ 1,270	\$ 370	\$ 26,295	\$ 26,486	\$ 21,666

Total		
2009	2008	2007
\$15,074	\$24,701	\$15,518
2,797	4,108	2,974
\$ 21,254	\$20,839	\$17,805
689	779	660
26,295	26,486	21,666

NOTE 2 NATURE OF OPERATIONS AND ORGANIZATION

Husky Energy Inc. ("Husky" or "the Company") is a publicly traded, integrated energy and energy-related company headquartered in Calgary, Alberta, Canada.

Management has segmented the Company's business based on differences in products and services and management responsibility. The Company's business is conducted predominantly through three major business segments - upstream, midstream and downstream.

Upstream includes exploration for, development and production of crude oil, natural gas and natural gas liquids. The Company's upstream operations are located primarily in Western Canada, offshore Eastern Canada, offshore Greenland, United States, offshore China and offshore Indonesia.

Midstream includes upgrading of heavy crude oil feedstock into synthetic crude oil (upgrading); marketing of the Company's and other producers' crude oil, natural gas, natural gas liquids, sulphur and petroleum coke; pipeline transportation and processing of heavy crude oil, storage of crude oil, diluent and natural gas and cogeneration of electrical and thermal energy (infrastructure and marketing).

Downstream includes refining in Canada of crude oil and marketing of refined petroleum products including gasoline, diesel, ethanol blended fuels, asphalt and ancillary products, and production of ethanol (Canadian refined products) and refining in the U.S. of primarily crude oil to produce and market gasoline, jet fuel and diesel fuels that meet U.S. clean fuels standards (U.S. refining and marketing).

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

a) Principles of Consolidation and the Preparation of Financial Statements

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

The consolidated financial statements include the accounts of Husky Energy Inc. and its subsidiaries after the elimination of intercompany balances and transactions. The Company consolidates all investments in which it has either direct or indirect voting ownership in excess of 50%. In addition, the Company consolidates variable interest entities when it is deemed to be the primary beneficiary, and proportionately consolidates joint venture entities.

Substantially all of the Company's upstream activities are conducted jointly with third parties and accordingly the accounts reflect the Company's proportionate share of the assets, liabilities, revenues, expenses and cash flow from these activities.

b) Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements and the reported amounts of revenues and expenses during the period. Specifically, amounts recorded for depletion, depreciation, amortization of accretion expense, asset retirement obligations, fair value measurements, management contracts, employee future benefits and amounts used in impairment tests for intangible assets, goodwill, inventory and property, plant and equipment are based on estimates. These estimates include petroleum and natural gas reserves, future petroleum and natural gas prices, future interest rates and future costs required to develop those reserves as well as other fair value assumptions. By their nature, these estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change on the financial statements.

c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand less outstanding cheques and deposits with a maturity of less than three months at the time of purchase. When outstanding cheques are in excess of cash on hand, the excess is reported in bank operating loans.

d) Inventories

Crude oil, natural gas, refined petroleum products and purchased sulphur inventories, other than commodity inventory held for trading, are valued at the lower of cost or net realizable value. Cost is determined using average cost or on a first-in, first-out basis, as appropriate. Materials, parts and supplies are valued at the lower of average cost or net realizable value. Cost consists of raw material, labour, direct overhead and transportation. Commodity inventory held for trading purposes are carried at fair value less cost to sell. Any changes in fair value are included as gains or losses in other expenses during the period of change. Previous impairment write-downs are reversed when there is a change in the situation that caused the impairment. Unrealized intersegment profits in inventories are eliminated.

e) Precious Metals

The Company uses precious metals in conjunction with catalyst as part of the downstream U.S. refining process. These precious metals remain intact; however, there is a loss during the reclamation process. The estimated loss is amortized to operating expenses over the period that the precious metal is in use, which is approximately two to five years. After the reclamation process, the actual loss is compared to the estimated loss and any difference is recognized in earnings.

f) 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 activity, drilling of productive and non-productive wells, carrying costs directly related to unproved properties and administrative costs directly related to exploration and development activities.

Depletion of oil and gas properties and depreciation of associated production facilities are calculated using the unit of production method, based on gross 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. Costs subject to depletion and depreciation include both the estimated costs required to develop proved undeveloped reserves and the associated addition to the asset retirement obligations. 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. Gains or losses on the disposition of oil and gas properties are not recognized unless the gain or loss changes the depletion rate by 20% or more.

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 proved developed reserves have been attributed to a portion of the property or the property is determined to be impaired.

Impairment losses are recognized when the carrying amount of a cost centre exceeds the sum of:

- the undiscounted cash flow expected to result from production from proved reserves based on forecast oil and gas prices and costs;
- the costs of unproved properties, less impairment; and
- the costs of major development projects, less impairment.

The amount of impairment loss is determined to be the amount by which the carrying amount of the cost centre exceeds the sum of:

- the fair value of proved and probable reserves calculated using a present value technique that uses the cash flows expected to result from production of the proved reserves and a portion of the probable reserves discounted using a risk free rate; and
- the cost, less impairment, of unproved properties and major development projects that do not have probable reserves attributed to them.

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 which range from five to thirty-five years. Depreciation for upgrading assets is provided using the unit of production method, based on the plant's estimated productive life. Repairs and maintenance costs, other than major turnaround costs, are charged to earnings as incurred. Certain turnaround costs are deferred to other assets 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) Asset Retirement Obligations

The recognition of the fair value of legal obligations associated with the retirement of tangible long-lived assets as calculated using the current estimated costs to retire the asset inflated to the estimated retirement date discounted using a credit-adjusted risk free rate, is recorded in the period that the asset is put into use, with a corresponding increase to the carrying value of the related asset. The obligations recognized are legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in cost of sales and operating expenses. The liability will also be adjusted to reflect revisions to the previous estimates of the undiscounted obligation. The costs capitalized to the related assets are amortized to earnings in a manner consistent with the depletion, depreciation and amortization of the underlying asset. Actual retirement expenditures are charged to the accumulated liability as incurred.

iv) Capitalized Interest

Interest is capitalized on significant major capital projects based on the Company's long-term cost of borrowing. Capitalization of interest ceases when the capital project is substantially complete and ready for its intended use.

g) Impairment or Disposal of Long-lived Assets

An impairment loss is recognized when the carrying value of a long-lived asset is not recoverable and exceeds its fair value. Testing for recoverability uses the undiscounted cash flows expected from the asset's use and disposition. To test for and measure impairment, long-lived assets are grouped at the lowest level for which identifiable cash flows are largely independent.

A long-lived asset that meets the conditions as held for sale is measured at the lower of its carrying amount or fair value less costs to sell. Such assets are not amortized while they are classified as held for sale. The results of operations of a component of an entity that has been disposed of, or is classified as held for sale, are reported in discontinued operations if: i) the operations and cash flows of the component have been or will be eliminated as a result of the disposal transaction; and, ii) the entity will not have a significant continuing involvement in the operations of the component after the disposal transaction.

h) Goodwill

Goodwill is the excess of the purchase price paid over the fair value of net assets acquired. Goodwill is subject to impairment tests on at least an annual basis or sooner if there are indicators of impairment. The Company tests impairment annually in the fourth quarter of each year. To assess impairment, the fair values of the assets and liabilities of the reporting unit are compared to their carrying amounts. If the excess of the reporting unit's fair value over its carrying amounts is greater than the carrying amount of the goodwill then there is no impairment. Any amount that the carrying amount of the goodwill exceeds the excess of the reporting unit's fair value over its carrying amount is goodwill impairment. Impairment losses would be recognized in current period earnings.

i) Derivative Financial Instruments and Hedging Activities

i) Financial Instruments

All financial instruments must initially be recognized at fair value on the balance sheet. The Company has classified each financial instrument into the following categories: held for trading financial assets and financial liabilities, loans or receivables, held to maturity investments, available for sale financial assets, and other financial liabilities. Subsequent measurement of the financial instruments is based on their classification. Unrealized gains and losses on held for trading financial instruments are recognized in earnings. Gains and losses on available for sale financial assets are recognized in Other Comprehensive Income ("OCI") and are transferred to earnings when the asset is derecognized. The other categories of financial instruments are recognized at amortized cost using the effective interest rate method.

A held for trading financial instrument is not a loan or receivable and includes one of the following criteria:

- is a derivative, except for those derivatives that have been designated as effective hedging instruments;
- has been acquired or incurred principally for the purpose of selling or repurchasing in the near future; or
- is part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

For financial assets and financial liabilities that are not classified as held for trading, the transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are added to the fair value initially recognized for that financial instrument. These costs are expensed to earnings using the effective interest rate method.

ii) Derivative Instruments and Hedging Activities

Derivative instruments are utilized by the Company to manage market risk against the volatility in commodity prices, foreign exchange rates and interest rate exposures. The Company's policy is not to utilize derivative instruments for speculative purposes. The Company may choose to designate derivative instruments as hedges. Hedge accounting continues to be optional.

At the inception of a hedge, if the Company elects to use hedge accounting, the Company formally documents the designation of the hedge, the risk management objectives, the hedging relationships between the hedged items and hedging items and the method for testing the effectiveness of the hedge, which must be reasonably assured over the term of the hedge. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company formally assesses, both at the inception of the hedge and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

All derivative instruments are recorded on the balance sheet at fair value in accounts receivable, other assets, accounts payable and accrued liabilities, or other long-term liabilities. Freestanding derivative instruments are classified as held for trading financial instruments. Gains and losses on these instruments are recorded in other expenses in the Consolidated Statement of Earnings in the period they occur. Derivative instruments that have been designated and qualify for hedge accounting are classified as either fair value or cash flow hedges. For fair value hedges, the gains or losses arising from adjusting the derivative to its fair value are recognized immediately in earnings along with the gain or loss on the hedged item. For cash flow hedges, the effective portion of the gains and losses is recorded in OCI until the hedged transaction is recognized in earnings. When the earnings impact of the underlying hedged transaction is recognized in the Consolidated Statement of Earnings, the fair value of the associated cash flow hedge is reclassified from OCI into earnings. Any hedge ineffectiveness is immediately recognized in earnings. Hedge accounting is discontinued on a prospective basis when the hedging relationship no longer qualifies for hedge accounting.

The Company may enter into commodity price contracts to hedge anticipated sales of crude oil and natural gas production to manage its exposure to price fluctuations. Gains and losses from these contracts are recognized in upstream oil and gas revenues as the related sales occur.

The Company may enter into commodity price contracts to offset fixed price contracts entered into with customers and suppliers to retain market prices while meeting customer or supplier pricing requirements. Gains and losses from these contracts are recognized in midstream revenues or costs of sales.

The Company may enter into power price contracts to hedge anticipated purchases of electricity to manage its exposure to price fluctuations. Gains and losses from these contracts are recognized in upstream operating expenses as the related purchases occur.

The Company may enter into interest rate swap agreements to hedge its fixed and floating interest rate mix on long-term debt. Gains and losses from these contracts are recognized as an adjustment to the interest expense on the hedged debt instrument.

The Company may enter into foreign exchange contracts to hedge its foreign currency exposures on U.S. dollar denominated long-term debt. Gains and losses on these instruments related to foreign exchange are recorded in foreign exchange expense in the period to which they relate, offsetting the respective foreign exchange gains and losses recognized on the underlying foreign currency long-term debt. The remaining portion of the gain or loss is recorded in Accumulated Other Comprehensive Income and is adjusted for changes in the fair value of the instrument over the life of the debt.

The Company may designate certain U.S. dollar denominated debt as a hedge of its net investment in self-sustaining foreign operations. The unrealized foreign exchange gains and losses arising from the translation of the debt are recorded in OCI, net of tax and are limited to the translation gain or loss on the net investment.

The Company may enter into foreign exchange forwards and foreign exchange collars to hedge anticipated U.S. dollar denominated crude oil and natural gas sales. Gains and losses on these instruments are recognized in upstream oil and gas revenues when the sale is recorded.

The Company may enter into foreign exchange contracts to offset its foreign exchange exposure. Gains and losses on these instruments are recorded at fair value and are recognized in other expense in the Consolidated Statement of Earnings.

For cash flow hedges that have been terminated or cease to be effective, prospective gains or losses on the derivative are recognized in earnings. Any gain or loss that has been included in Accumulated Other Comprehensive Income at the time the hedge is discontinued continues to be deferred in Accumulated Other Comprehensive Income until the original hedged transaction is recognized in earnings. However, if the likelihood of the original hedged transaction occurring is no longer probable, the entire gain or loss in Accumulated Other Comprehensive Income related to this transaction is immediately reclassified to earnings.

Fair values of the derivatives are based on quoted market prices where available. The fair values of swaps and forward contracts are based on forward market prices. If a forward price is not available for a commodity based forward contract, a forward price is estimated using an existing forward price adjusted for quality or location.

iii) Embedded Derivatives

Embedded derivatives are derivatives embedded in a host contract. They are recorded separately from the host contract when their economic characteristics and risks are not clearly and closely related to those of the host contract, the terms of the embedded derivatives are the same as those of a freestanding derivative and the combined contract is not classified as held for trading or designated at fair value. The Company selected January 1, 2003 as its transition date for accounting for any potential embedded derivatives.

iv) Comprehensive Income

Comprehensive income consists of net earnings and OCI. OCI comprises the change in the fair value of the effective portion of the derivatives used as hedging items in a cash flow hedge or net investment hedge and exchange gains and losses arising from the translation of the financial statements of a self-sustaining foreign operation. Amounts included in OCI are shown net of tax. Accumulated Other Comprehensive Income is an equity category comprised of the cumulative amounts of OCI.

j) Employee Future Benefits

In Canada, the Company provides a defined contribution pension plan and a post-retirement health and dental care plan to qualified employees. The Company also maintains a defined benefit pension plan for a small number of employees who did not choose to join the defined contribution pension plan in 1991. The cost of the pension benefits earned by employees in the defined contribution pension plan is paid and expensed when incurred. The cost of the benefits earned by employees in the post-retirement health and dental care plan and defined benefit pension plan is charged to earnings as services are rendered using the projected benefit method prorated on service. The cost of the post-retirement health and dental care plan and defined benefit pension plan reflects a number of assumptions that affect the expected future benefit payments. These assumptions include, but are not limited to, attrition, mortality, the rate of return on pension plan assets and salary escalations for the defined benefit pension plan and expected health care cost trends for the post-retirement health and dental care plan. The plan assets are valued at fair value for the purposes of calculating the expected return on plan assets.

Adjustments arising out of plan amendments, changes in assumptions and experience gains and losses are normally amortized over the expected remaining average service life of the employee group.

k) Future Income Taxes

The Company follows the liability method of accounting for income taxes. Future income tax assets and liabilities are recognized at expected tax rates in effect when temporary differences between the tax basis and the carrying value of the Company's assets and liabilities reverse. The effect of a change to the tax rate on the future tax assets and liabilities is recognized in earnings when substantively enacted.

l) Non-monetary Transactions

Non-monetary transactions are measured based on fair value when there is evidence to support the fair value unless the transaction lacks commercial substance or is an exchange of product or property held for sale in the ordinary course of business.

m) 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 when title passes to an external party and payment has either been received or collection is reasonably certain. Sales between the business segments of the Company are eliminated from sales and operating revenues and cost of sales. Revenues associated with the sale of transportation, processing and natural gas storage services are recognized when the services are provided.

n) Foreign Currency Translation

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

The accounts of self-sustaining foreign operations are translated to Canadian dollars using the current rate method. Assets and liabilities are translated at the period-end exchange rate and revenues and expenses are translated at the average exchange rates for the period. Gains and losses on the translation of self-sustaining foreign operations are included in OCI.

o) Stock-based Compensation

In accordance with the Company's stock option plan, common share options may be granted to officers and certain other employees. The Company records compensation expense over the vesting period based on the fair value of options granted.

The Company's stock option plan is a tandem plan that provides the stock option holder with the right to exercise the stock option or surrender the option for a cash payment. A liability for expected cash settlements is accrued over the vesting period of the stock options based on the difference between the exercise price of the stock options and the market price of the Company's common shares. The liability is revalued to reflect changes in the market price of the Company's common shares and the net change is recognized in earnings. When stock options are surrendered for cash, the cash settlement paid reduces the outstanding liability. When stock options are exercised for common shares, consideration paid by the stock option holders and the previously recognized liability associated with the stock options are recorded as share capital.

Accrued compensation for an option that is forfeited is adjusted to earnings by decreasing the compensation cost in the period of forfeiture.

p) Earnings per Share

Basic common shares outstanding are the weighted average number of common shares outstanding for each period. The calculation of basic earnings per common share is based on net earnings divided by the weighted average number of common shares outstanding.

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. However, since the Company has a tandem stock option plan and accrues a liability for expected cash settlements, the potential common shares issuable upon exercise associated with the stock options are not included in diluted common shares outstanding. Shares that were potentially issuable on the settlement of the capital securities were not included in the determination of diluted earnings per common share, as the Company had neither the obligation nor intention to settle amounts due through the issuance of shares.

q) Reclassification

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

NOTE 4 CHANGES IN ACCOUNTING POLICIES

a) Goodwill and Intangible Assets

Effective January 1, 2009, the Company retroactively adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, "Goodwill and Intangible Assets," which replaced Section 3062 of the same name. As a result of issuing this guidance, Section 3450, "Research and Development Costs," and Emerging Issues Committee ("EIC") Abstract No. 27, "Revenues and Expenditures during the Pre-operating Period," have been withdrawn. This new guidance requires recognizing all goodwill and intangible assets in accordance with Section 1000, "Financial Statement Concepts." Section 3064 has eliminated the practice of recognizing items as assets that do not meet the Section 1000 definition and recognition criteria. Under this new guidance, fewer items meet the criteria for capitalization. The impact to the Company was as follows:

Consolidated Balance Sheet	As at Dec. 31, 2008			As at Dec. 31, 2007		
	As Reported	Change	As Restated	As Reported	Change	As Restated
Assets						
Prepaid expenses	\$ 33	\$ (22)	\$ 11	\$ 28	\$ (14)	\$ 14
Other assets	134	(14)	120	184	(17)	167
Liabilities and shareholders' equity						
Future income taxes	4,724	(11)	4,713	3,957	(9)	3,948
Retained earnings	10,461	(25)	10,436	8,176	(22)	8,154

Consolidated Statement of Earnings and Comprehensive Income	Year ended Dec. 31, 2008			Year ended Dec. 31, 2007		
	As Reported	Change	As Restated	As Reported	Change	As Restated
Cost of sales and operating expenses	\$ 17,701	\$ 5	\$ 17,706	\$ 9,296	\$ 18	\$ 9,314
Future income taxes	495	(2)	493	566	(5)	561
Net earnings	3,754	(3)	3,751	3,214	(13)	3,201
Comprehensive income	4,190	(3)	4,187	3,155	(13)	3,142
Earnings per share - basic and diluted	4.42	-	4.42	3.79	(0.02)	3.77

b) Financial Instruments

Effective July 1, 2009, the Company prospectively adopted the amendments to CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement." Amendments to this section have prohibited the reclassification of a financial asset out of the held-for-trading category when the fair value of the embedded derivative in a combined contract cannot be reasonably measured. The adoption of the amendments to this standard did not have an impact on the Company's financial statements.

Effective September 30, 2009, the Company adopted the amendments to CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement," in relation to the impairment of financial assets. Amendments to this section have revised the definition of "loans and receivables" and provided that certain conditions have been met, permits reclassification of financial assets from the held-for-trading and available-for-sale categories into the loans and receivables category. The amendments also provide one method of assessing impairment for all financial assets regardless of classification. These amendments are effective for the Company's annual financial statements relating to its fiscal year beginning on January 1, 2009. The adoption of the amendments to this standard did not have an impact on the Company's financial statements.

Effective December 31, 2009, the Company adopted the amendments to CICA Handbook Section 3862, "Financial Instruments - Disclosures," to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Refer to Note 23 "Financial Instruments and Risk Management" for the additional disclosures under amendments to Section 3862.

NOTE 5 PENDING ACCOUNTING PRONOUNCEMENTS

a) Business Combinations

In January 2009, the CICA issued Section 1582, "Business Combinations," which will replace CICA Handbook Section 1581 of the same name. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at the date of the exchange. Currently the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is agreed upon and announced. This new guidance generally requires all acquisition costs to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and remeasured at fair value with changes recorded through earnings each period until settled. Currently only contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill is required to be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from non-current assets in the purchase price allocation. Section 1582 is effective for Husky on January 1, 2011 with prospective application and early adoption permitted.

b) Consolidated Financial Statements

In January 2009, the CICA issued Section 1601, "Consolidated Financial Statements," which will replace CICA Handbook Section 1600 of the same name. This guidance requires uniform accounting policies to be consistent throughout all consolidated entities and the difference between reporting dates of a parent and a subsidiary to be no longer than three months. These are not explicitly required under the current standard. Section 1601 is effective for Husky on January 1, 2011 with early adoption permitted. This standard will have no impact to the Company.

c) Non-Controlling Interests

In January 2009, the CICA issued Section 1602, "Non-controlling Interests," which will replace CICA Handbook Section 1600, "Consolidated Financial Statements." Minority interest is now referred to as non-controlling interest, ("NCI"), and is presented within equity. Under this new guidance, when there is a loss or gain of control, the Company's previously held interest is revalued at fair value. Currently an increase in an investment is accounted for using the purchase method and a decrease in an investment is accounted for as a sale resulting in a gain or loss in earnings. In addition, NCI may be reported at fair value or at the proportionate share of the fair value of the acquired net assets and allocation of the net income to the NCI will be on this basis. Currently, NCI is recorded at the carrying amount and can only be in a deficit position if the NCI has an obligation to fund the losses. Section 1602 is effective for Husky on January 1, 2011 with early adoption permitted.

NOTE 6 INTERNATIONAL FINANCIAL REPORTING STANDARDS

In January 2006, the Canadian Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. In February 2008, as part of its strategic plan, the AcSB confirmed that Canadian publicly accountable entities will be required to report under International Financial Reporting Standards ("IFRS"), which will replace Canadian GAAP for years beginning on or after January 1, 2011. An omnibus exposure draft was issued by the AcSB in the second quarter of 2008, which incorporates IFRS into the CICA Handbook and prescribes the transitional provisions for adopting IFRS. In March 2009, the AcSB issued a second omnibus exposure draft on the adoption of IFRS. This exposure draft confirms the IFRS transition date as January 1, 2011 for all Canadian publicly accountable enterprises, incorporates any changes to IFRS since the previous exposure draft was issued and discusses additional key transitional issues. In October 2009, the AcSB issued a third omnibus exposure draft on the adoption of IFRS. This exposure draft incorporates changes to IFRS since the previous exposure draft that will be applicable to Canadian entities.

In July 2009, the International Accounting Standards Board ("IASB") approved additional IFRS transitional exemptions that will allow entities to allocate their oil and gas asset balance as determined under full cost accounting to the IFRS categories of exploration and evaluation assets and development and producing properties. Under the exemption, exploration and evaluation assets are measured at the amount determined under an entity's previous GAAP. For assets in the development or production phases, the amount is also measured at the amount determined under an entity's previous GAAP; however, such values must be allocated to the underlying IFRS transitional assets on a pro-rata basis using either reserve values or reserve volumes as of the entity's IFRS transition date. This exemption will relieve entities from significant adjustments resulting from retrospective adoption of IFRS. The Company intends to utilize this exemption. Husky is also evaluating other first-time adoption exemptions and elections available upon initial transition that provide relief from retrospective application of IFRS.

The Company has completed the diagnostic assessment phase by performing comparisons of the differences between Canadian GAAP and IFRS and is continuing assessment of the effects of adoption and finalizing its conversion plan. The Company has determined that accounting for property, plant and equipment will be impacted by the conversion to IFRS. The Company currently follows full cost accounting as prescribed in Accounting Guideline ("AcG") 16, "Oil and Gas Accounting – Full Cost." Conversion from Canadian GAAP to IFRS may have an impact on how the Company accounts for costs pertaining to oil and gas activities, in particular those related to the pre-exploration and development phases. The conversion to IFRS will also result in other impacts, some of which may be significant in nature.

Assessments of other impacts completed to date include foreign exchange, revenue recognition, provisions and asset retirement obligations. The Company continues to perform assessments on less critical IFRS transition issues and has commenced analysis of IFRS financial statement presentation and disclosure requirements. These assessments will need to be further analyzed and evaluated throughout the implementation phase of the Company's project. At this time, the impact on Husky's financial position and results of operations is not reliably determinable or estimable.

In 2009, the Company progressed work on information systems in preparation for the conversion of its balance sheet as at December 31, 2009 and the requirement to report 2010 in compliance with IFRS when reporting in 2011.

The Company will continue to monitor any changes in the adoption of IFRS and will update its plan as necessary.

NOTE 7 ACCOUNTS RECEIVABLE

	2009	2008	2007
Trade receivables	\$ 948	\$ 1,135	\$ 1,599
Allowance for doubtful accounts	(18)	(22)	(10)
Derivatives due within one year	22	111	22
Income taxes receivable	23	106	-
Other	12	14	11
	\$ 987	\$ 1,344	\$ 1,622

Sale of Accounts Receivable

Husky has chosen not to renew its securitization agreement, which expired on March 31, 2009. No accounts receivable had been sold under the program during 2009 and 2008. During 2007, proceeds from revolving sales between the third party and the Company totalled approximately \$3.5 billion. The average effective rate for 2007 was approximately 5.3%.

NOTE 8 INVENTORIES

	2009	2008	2007
Crude oil	\$ 812	\$ 480	\$ 539
Natural gas	172	222	192
Refined petroleum products	451	263	409
Materials, supplies and other	85	67	50
	\$ 1,520	\$ 1,032	\$ 1,190

Write-downs of inventories to net realizable value in 2009 amounted to \$106 million (2008 - \$721 million; 2007 - \$11 million).

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

Refer to Note 1, "Segmented Financial Information," which presents the Company's property, plant and equipment by segment.

Administrative costs related to exploration and development activities capitalized in 2009 were \$48 million (2008 - \$43 million; 2007 - \$48 million).

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

	2009	2008	2007
Canada	\$ 3,125	\$ 2,703	\$ 1,954
International	827	485	243
	\$ 3,952	\$ 3,188	\$ 2,197

Included in International are costs related to unproved properties incurred in cost centres that are considered to be in the pre-production stage. Currently, there are no proved reserves in these cost centres. All costs, net of any associated revenues, in these cost centres have been capitalized. Ultimate recoverability of these costs will be dependent upon the finding of proved oil and natural gas reserves. For the year ended December 31, 2009, the Company completed its impairment review of pre-production cost centres and determined that there was no impairment required.

The prices used in the ceiling test evaluation of the Company's crude oil and natural gas reserves at December 31, 2009 were:

	2010	2011	2012	2013	2014	Price increase 2014 to 2029 (percent)
Canada						
Crude oil (\$/bbl)	\$ 71.53	\$ 75.02	\$ 75.78	\$ 76.85	\$ 78.70	2
Natural gas (\$/mcf)	7.04	7.53	7.87	8.30	8.76	2

NOTE 10 CORPORATE ACQUISITION

In July 2007, the Company acquired a refinery in Lima, Ohio from The Premcor Refining Group Inc., an indirect wholly owned subsidiary of Valero Energy Corporation through the purchase of all of the issued and outstanding shares of Lima Refining Company ("Lima"). The total cash consideration was U.S. \$1.9 billion plus U.S. \$540 million for the cost of feedstock and product inventory. The results of Lima are included in the consolidated financial statements of the Company from its acquisition date. The Lima operations have been included in the downstream - U.S. Refining and Marketing segment in Note 1, "Segmented Financial Information." The operations of Lima are a self-sustaining foreign operation for foreign currency translation purposes.

The allocation of the aggregate purchase price based on the estimated fair values of the net assets of Lima on its acquisition date was as follows:

	U.S. \$	Cdn \$
Net assets acquired		
Working capital	\$ 4	\$ 4
Property, plant and equipment	1,455	1,542
Goodwill ⁽¹⁾	506	536
Other assets	25	26
Other long-term liabilities	(86)	(91)
	1,904	2,017
Feedstock and product inventory acquired	540	572
Total	\$ 2,444	\$ 2,589

(1) Allocated to U.S. Refining and Marketing in the Company's downstream segment. For U.S. income tax purposes, goodwill is deductible and amortized over a 15-year period. Refer to Note 1, "Segmented Financial Information."

NOTE 11 JOINT VENTURES

a) BP Canada Energy Company

On March 31, 2008, the Company completed a transaction with BP Canada Energy Company ("BP"), which resulted in the formation of a 50/50 joint venture upstream entity and a 50/50 joint venture downstream entity.

The upstream entity is a partnership to which Husky has contributed the Sunrise oil sands assets with a fair value of U.S. \$2.5 billion as at January 1, 2008, plus capital expenditures for the three-month period ended March 31, 2008 of \$15 million. BP's contribution was U.S. \$250 million cash and a contribution receivable for the balance of U.S. \$2.25 billion and \$15 million. The contribution receivable accretes at a rate of 6% and is payable between December 31, 2009 and December 31, 2015 with the final balance due and payable by December 31, 2015. The upstream entity is included as part of the upstream segment.

The downstream entity is a limited liability company ("LLC") to which BP has contributed the Toledo Refinery plus inventories and other net assets, less accounts payable and adjusted net earnings. Husky's contribution was U.S. \$250 million cash and a contribution payable for the balance of U.S. \$2.6 billion. Husky's share of the value of the amounts contributed at March 31, 2008 by both entities to the downstream LLC is described below:

Cash	\$ 129
Inventory	199
Property, plant and equipment (including adjusted earnings)	1,928
Partner contribution receivable	1,331
Other assets	2
Inventory related payables	(12)
Future income tax liability	(658)
Total contribution to downstream joint venture	\$ 2,919

The contribution payable accretes at a rate of 6% and is payable between December 31, 2009 and December 31, 2015 with the final balance due and payable by December 31, 2015. The timing of payments during this period will be determined by the capital expenditures made at the refinery during this same period. The downstream entity is included as part of the U.S. Refining and Marketing segment. This entity is a self-sustaining foreign operation.

Summarized below are the results of operations, cash flows and financial position relating to the Company's proportional interests in its downstream joint venture:

<i>Results of Operations</i>	2009	2008
Revenues	\$ 1,799	\$ 1,843
Expenses	1,761	2,020
Proportionate share of net income (loss)	\$ 38	\$ (177)

<i>Cash Flows</i>	2009	2008
Cash flow – operating activities	\$ 76	\$ (90)
Cash flow – financing activities	-	-
Cash flow – investing activities	(55)	(58)
Proportionate share of increase (decrease) in cash and cash equivalents	\$ 21	\$ (148)

<i>Financial Position</i>	2009	2008
Current assets	\$ 351	\$ 245
Long-term assets	1,910	2,292
Current liabilities	(179)	(42)
Long-term liabilities	(528)	(666)
Proportionate share of net assets	\$ 1,554	\$ 1,829

Both joint ventures are being accounted for using proportionate consolidation. The amounts recorded in the consolidated financial statements represent the Company's 50% interest in the joint ventures.

b) CNOOC Southeast Asia Limited

In April 2008, a subsidiary of the Company, Husky Oil Madura Partnership ("HOMP"), entered into an agreement with CNOOC Southeast Asia Limited ("CNOOCSE"), which resulted in the acquisition by CNOOCSE of a 50% equity interest in Husky Oil (Madura) Limited, a subsidiary of HOMP, for a consideration of \$127 million (U.S. \$125 million) resulting in a gain of \$69 million included in other - net in the Consolidated Statements of Earnings and Comprehensive Income. Husky Oil (Madura) Limited holds a 100% interest in the Madura Strait Production Sharing Contract. The resulting joint venture arrangement is being accounted for using the proportionate consolidation method.

c) Results of Joint Ventures

The results of Husky's proportionate share of its downstream joint venture with BP are described in Note 11 a). The results from the upstream joint venture with BP and the joint venture arrangement with CNOOCSE are considered to be in the pre-production phase. As a result, any impact on the financial results of the Company subsequent to entering into these joint ventures is considered immaterial.

NOTE 12 CASH FLOWS - CHANGE IN NON-CASH WORKING CAPITAL

a) Change in non-cash working capital was as follows:

	2009	2008	2007
Decrease (increase) in non-cash working capital			
Accounts receivable	\$ 235	\$ 453	\$ (345)
Inventories	(651)	522	(212)
Prepaid expenses	-	2	1
Accounts payable and accrued liabilities	(588)	428	(190)
Change in non-cash working capital	\$ (1,004)	\$ 1,405	\$ (746)
Relating to:			
Operating activities	\$ (548)	\$ 888	\$ (718)
Financing activities	(167)	146	65
Investing activities	(289)	371	(93)

b) Other cash flow information:

	2009	2008	2007
Cash taxes paid	\$ 1,323	\$ 615	\$ 926
Cash interest paid	\$ 200	\$ 159	\$ 162

Cash and cash equivalents at December 31, 2009 included \$65 million of cash and \$327 million of short-term investments with maturities less than three months.

NOTE 13 GOODWILL

	2009	2008	2007
Balance at beginning of year	\$ 779	\$ 660	\$ 160
Acquired during the year	-	-	536
Foreign currency translation of goodwill in self-sustaining U.S. operations	(90)	119	(36)
Balance at end of year	\$ 689	\$ 779	\$ 660

NOTE 14 BANK OPERATING LOANS

At December 31, 2009, the Company had unsecured short-term borrowing lines of credit with banks totalling \$395 million (2008 - \$370 million; 2007 - \$270 million). As at December 31, 2009, bank operating loans (excluding reclassified outstanding cheques) were nil (2008 and 2007 - nil) and letters of credit under these lines of credit totalled \$133 million (2008 - \$166 million; 2007 - \$73 million). Interest payable is based on Bankers' Acceptance, U.S. LIBOR or prime rates. During 2009, the weighted average interest rate on short-term borrowings was approximately 6.5% (2008 - 7.1%; 2007 - 5.8%).

The Sunrise Oil Sands Partnership has an unsecured demand credit facility of \$10 million available for general purposes. The Company's proportionate share is \$5 million. As at December 31, 2009, there was no balance outstanding under this credit facility.

NOTE 15 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008	2007
Trade payables	\$ 37	\$ 93	\$ 23
Accrued liabilities	1,545	1,813	1,743
Dividend payable	255	425	280
Stock-based compensation	1	24	159
Current income taxes	270	419	36
Other	77	122	117
	\$ 2,185	\$ 2,896	\$ 2,358

NOTE 16 LONG-TERM DEBT

	Maturity	Cdn \$ Amount			U.S. \$ Denominated		
		2009	2008	2007	2009	2008	2007
Long-term debt							
6.95% medium-term notes- Series E		\$ -	\$ -	\$ 203	\$ -	\$ -	\$ -
6.25% notes	2012	419	490	395	400	400	400
5.90% notes	2014	785	-	-	750	-	-
7.55% debentures	2016	208	245	198	200	200	200
6.20% notes	2017	312	367	296	300	300	300
6.15% notes	2019	314	367	296	300	300	300
7.25% notes	2019	785	-	-	750	-	-
8.90% capital securities		-	-	223	-	-	225
6.80% notes	2037	405	474	445	387	387	450
Debt issue costs		(26)	(18)	(20)	-	-	-
Unwound interest rate swaps		27	32	37	-	-	-
		\$ 3,229	\$ 1,957	\$ 2,073	\$ 3,087	\$ 1,587	\$ 1,875
Long-term debt due within one year							
Bridge financing		\$ -	\$ -	\$ 741	\$ -	\$ -	\$ 750

Interest - net for the years ended December 31 was as follows:

	2009	2008	2007
Interest expense			
Long-term debt	\$ 193	\$ 154	\$ 151
Contribution payable	92	63	-
Other	8	5	6
	293	222	157
Amount capitalized	(16)	-	(19)
	277	222	138
Interest income			
Contribution receivable	(81)	(55)	-
Other	(2)	(20)	(8)
	(83)	(75)	(8)
	\$ 194	\$ 147	\$ 130

Foreign exchange for the years ended December 31 was as follows:

	2009	2008	2007
(Gain) loss on translation of U.S. dollar denominated long-term debt	\$ (327)	\$ 217	\$ (197)
(Gain) loss on cross currency swaps	62	(83)	62
(Gain) loss on contribution receivable	216	(228)	-
Other (gains) losses	44	(241)	84
Gain	\$ (5)	\$ (335)	\$ (51)

Other gains and losses include realized and unrealized foreign exchange gains and losses on working capital.

Credit Facilities

The revolving syndicated credit facility allows the Company to borrow up to \$1.25 billion in either Canadian or U.S. currency from a group of banks on an unsecured basis. The facility is structured as a five-year committed revolving credit facility. Interest rates vary based on Canadian prime, Bankers' Acceptance, U.S. LIBOR or U.S. base rate, depending on the borrowing option selected and credit ratings assigned by certain credit rating agencies to the Company's rated senior unsecured debt.

The Company's \$150 million revolving bilateral credit facilities have substantially the same terms as the syndicated credit facility.

As at December 31, 2009, there were no borrowings under the syndicated credit facility or the bilateral credit facilities. See Note 24 for debt covenants.

In July 2007, the Company obtained U.S. \$1.5 billion of short-term bridge financing at an interest rate based on U.S. LIBOR, maturing June 26, 2008, to facilitate closing the acquisition of the Lima, Ohio refinery. On September 11, 2007, the Company refinanced U.S. \$750 million with long-term notes. The remaining bridge financing of U.S. \$750 million was repaid in June 2008.

Notes and Debentures

Husky filed a debt shelf prospectus with the Alberta Securities Commissions on February 26, 2009 and the U.S. Securities and Exchange Commission on February 27, 2009. The shelf prospectus enables Husky to offer up to U.S. \$3 billion of debt securities in the United States until March 26, 2011. During the 25-month period that the shelf prospectus is effective, debt securities may be offered in amounts, at prices and on terms to be determined based on market conditions at the time of sale. In 2009, U.S. \$1.5 billion of debt securities were issued under this shelf prospectus.

On December 21, 2009, Husky filed an additional debt shelf prospectus with the Alberta Securities Commission that enables Husky to offer up to \$1 billion of debt securities in Canada until January 21, 2012. During the 25-month period that the shelf prospectus is effective, debt securities may be offered in amounts, at prices and on terms to be determined based on market conditions at the time of sale. As of December 31, 2009, no debt securities had been issued under this shelf prospectus.

The 6.25% and the 6.15% notes represent unsecured securities under a trust indenture dated June 14, 2002. Interest is payable semi-annually.

The 5.90% and the 7.25% notes, issued in 2009 as described above, represent unsecured securities under a trust indenture dated September 11, 2007. Interest is payable semi-annually.

The 7.55% debentures represent unsecured securities under a trust indenture dated October 31, 1996. Interest is payable semi-annually.

The 6.20% and the 6.80% notes represent unsecured securities under a trust indenture dated September 11, 2007. During 2008, the Company repurchased U.S. \$63 million of the 6.80% notes. Interest is payable semi-annually.

The 8.90% capital securities represented unsecured securities under an indenture dated August 10, 1998. On June 12, 2008, the Company initiated a cash tender offer to purchase any and all of the 8.90% capital securities. The tender offer expired on July 11, 2008 at which date U.S. \$214 million or 95% of the capital securities had been tendered. The settlement date occurred July 11, 2008. The remaining capital securities were redeemed on August 14, 2008.

The 6.95% medium-term notes Series E represented unsecured securities under a trust indenture dated May 4, 1999 and were redeemed in August 2008 at a redemption price, including accrued interest, of \$208 million.

The notes and debentures disclosed above are redeemable (unless otherwise stated) at the option of the Company, at any time, at a redemption price equal to the greater of the par value of the securities and the sum of the present values of the remaining scheduled payments discounted at a rate calculated using a comparable U.S. Treasury Bond rate (for U.S. dollar denominated securities) or Government of Canada Bond rate (for Canadian dollar denominated securities) plus an applicable spread.

The Company's notes, debentures, credit facilities and short-term lines of credit rank equally.

NOTE 17 OTHER LONG-TERM LIABILITIES

	2009	2008	2007
Asset retirement obligations	\$ 793	\$ 711	\$ 662
Cross currency swaps ⁽¹⁾	81	19	107
Employee future benefits (note 21)	81	81	69
Capital lease obligations	36	44	36
Stock-based compensation (note 20)	-	-	13
Other	45	43	31
	\$ 1,036	\$ 898	\$ 918

(1) Refer to Note 23, "Financial Instruments and Risk Factors."

Asset Retirement Obligations

At December 31, 2009, the estimated total undiscounted inflation adjusted amount required to settle the asset retirement obligations was \$5.9 billion. These obligations will be settled based on the useful lives of the underlying assets, which currently extend an average of 30 years into the future. This amount has been discounted using credit-adjusted risk free rates ranging from 6.2% to 9.6%.

Changes to the asset retirement obligations were as follows:

	2009	2008	2007
Asset retirement obligations at beginning of year	\$ 711	\$ 662	\$ 622
Liabilities incurred/acquired	79	56	57
Liabilities disposed	(4)	(5)	(13)
Liabilities settled	(41)	(56)	(51)
Accretion ⁽¹⁾	48	54	47
Asset retirement obligations at end of year	\$ 793	\$ 711	\$ 662

(1) Accretion is included in cost of sales and operating expenses.

NOTE 18 INCOME TAXES

The provision for income taxes in the Consolidated Statements of Earnings and Comprehensive Income reflects an effective tax rate which differs from the expected statutory tax rate. Differences for the years ended December 31 were accounted for as follows:

	2009	2008	2007
Earnings (loss) before income taxes			
Canada	\$ 2,195	\$ 5,687	\$ 3,745
United States	(51)	(820)	95
Other foreign jurisdictions	(187)	278	269
	1,957	5,145	4,109
Statutory income tax rate (percent)	30.0	30.6	32.7
Expected income tax	587	1,574	1,344
Effect on income tax of:			
Change in statutory tax rate	(1)	-	(395)
Rate benefit on partnership earnings	(27)	(60)	(53)
Capital gains and losses	(11)	(19)	(24)
Foreign jurisdictions	19	(102)	8
Other - net	(26)	1	28
Income tax expense	\$ 541	\$ 1,394	\$ 908

In 2009, a tax rate benefit of approximately \$1 million was recognized related to a reduction in the Ontario provincial corporate tax rate. During 2007, a tax benefit of \$395 million was recognized as a result of reductions in both federal and provincial tax rates. No similar tax benefit was recognized in 2008.

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

	2009	2008	2007
Future tax liabilities			
Property, plant and equipment	\$ 4,478	\$ 5,226	\$ 4,081
Foreign exchange gains taxable on realization	81	92	131
Other temporary differences	23	2	1
	4,582	5,320	4,213
Future tax assets			
Asset retirement obligations	230	207	186
Loss carry forwards	369	348	-
Other temporary differences	51	52	79
	650	607	265
	\$ 3,932	\$ 4,713	\$ 3,948

At December 31, 2009, the Company had \$1 billion of U.S. tax losses that will expire between 2028 and 2029.

NOTE 19 COMMITMENTS AND CONTINGENCIES

Certain former owners of interests in the upgrading assets retained a 20-year upside financial interest expiring in 2014 which requires payments to them when the average differential between heavy crude oil feedstock and synthetic crude oil exceeds \$6.50 per barrel. The calculation is based on a two-year rolling average of the differential. During 2009, the Company capitalized \$12 million (2008 - \$73 million; 2007 - \$84 million) of payments under this arrangement.

At December 31, 2009, the Company had commitments for non-cancellable operating leases and other long-term agreements that require the following minimum future payments:

	2010	2011	2012	2013	2014	After 2014	Total
Long-term debt and interest	\$ 211	\$ 211	\$ 616	\$ 185	\$ 945	\$ 3,093	\$ 5,261
Operating leases	102	93	77	64	59	162	557
Firm transportation agreements	188	148	142	130	124	1,413	2,145
Unconditional purchase obligations	2,701	1,350	967	33	21	106	5,178
Lease rentals and exploration work agreements	98	134	108	82	203	462	1,087
Asset retirement obligations	29	35	31	30	30	5,725	5,880
	\$ 3,329	\$ 1,971	\$ 1,941	\$ 524	\$ 1,382	\$10,961	\$ 20,108

The Company is involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company's favour, 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.

The Company has income tax filings that are subject to audit and potential reassessment. The findings may impact the tax liability of the Company. The final results are not reasonably determinable at this time and management believes that it has adequately provided for current and future income taxes.

The Terra Nova oil field is divided into three distinct areas, known as the Graben, the East Flank and the Far East. Husky currently holds a combined 12.51% working interest in the field, subject to redetermination. The process of working interest redetermination is before an arbitrator who is expected to make a decision by the third quarter of 2010. The outcome and impact of the arbitration process is not reasonably determinable at this time.

NOTE 20 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, with no shares outstanding.

Common Shares

Changes to issued share capital were as follows:

	Number of Shares	Amount
December 31, 2006	848,537,018	\$ 3,533
Options exercised	423,292	18
December 31, 2007	848,960,310	3,551
Options exercised	394,500	17
December 31, 2008	849,354,810	3,568
Options exercised	506,125	17
December 31, 2009	849,860,935	\$ 3,585

Stock Options

At December 31, 2009, 49.2 million common shares were reserved for issuance under the Company stock option plan. The stock option plan is a tandem plan that provides the stock option holder with the right to exercise the option or surrender the option for a cash payment. The exercise price of the option is equal to the weighted average trading price of the Company's common shares during the five trading days prior to the date of the award. When the option is surrendered for cash, the cash payment is the difference between the weighted average trading price of the Company's common shares on the trading day prior to the surrender date and the exercise price of the option.

Under the terms of the original 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. Effective February 26, 2007, the Board of Directors approved amendments to the Company's stock option plan to also provide for performance vesting of stock options. Shareholder ratification was obtained at the Annual and Special Meeting of Shareholders on April 19, 2007. Performance options granted may vest in up to one-third increments if the Company's annual total shareholder return (stock price appreciation and cumulative dividends on a reinvested basis) falls within certain percentile ranks relative to its industry peer group. The ultimate number of performance options that vest will depend upon the Company's performance measured over three calendar years. If the Company's performance is below the specified level compared with its industry peer group, the performance options awarded will be forfeited. If the Company's performance is at or above the specified level compared with its industry peer group, the number of performance options exercisable shall be determined by the Company's relative ranking. Stock compensation expense related to the performance options is accrued based on the price of the common shares at the end of the period and the anticipated performance factor. This expense is recognized over the three-year vesting period of the performance options.

As a result of the special \$0.25 per share dividend that was declared in February 2007, a downward adjustment of \$0.175 was made to the exercise price of all outstanding stock options effective February 28, 2007, in accordance with the terms of the stock option plan under which the options were issued.

The following options to purchase common shares have been awarded to officers and certain other employees:

	Number of Options (thousands)	Weighted Average Exercise Prices	Weighted Average Contractual Life (years)	Options Exercisable (thousands)
December 31, 2006	11,656	\$ 16.40	3	4,463
Granted	26,926	\$ 41.65	4	
Exercised for common shares	(423)	\$ 11.84	1	
Surrendered for cash	(5,147)	\$ 13.40	2	
Forfeited	(2,881)	\$ 40.41	4	
December 31, 2007	30,131	\$ 37.18	4	4,494
Granted	7,596	\$ 41.18	5	
Exercised for common shares	(395)	\$ 13.65	1	
Surrendered for cash	(4,132)	\$ 22.50	1	
Forfeited	(2,373)	\$ 41.58	3	
December 31, 2008	30,827	\$ 40.10	3	7,239
Granted	1,187	\$ 30.32	4	
Exercised for common shares	(506)	\$ 12.57	-	
Surrendered for cash	(765)	\$ 13.16	-	
Forfeited	(2,344)	\$ 41.59	2	
December 31, 2009	28,399	\$ 40.78	3	14,917

As at December 31, 2009	Outstanding Options			Options Exercisable	
	Number of Options (thousands)	Weighted Average Exercise Prices	Weighted Average Contractual Life (years)	Number of Options (thousands)	Weighted Average Exercise Prices
Range of Exercise Price					
\$16.41 - \$24.99	70	\$ 23.65	1	70	\$ 23.65
\$25.00 - \$29.99	907	\$ 29.62	4	72	\$ 27.40
\$30.00 - \$34.99	2,034	\$ 31.57	4	772	\$ 32.10
\$35.00 - \$39.99	999	\$ 38.59	2	660	\$ 37.89
\$40.00 - \$42.99	20,733	\$ 41.59	2	12,099	\$ 41.61
\$43.00 - \$45.02	3,656	\$ 45.02	4	1,244	\$ 45.02
	28,399	\$ 40.78	3	14,917	\$ 41.08

Dividends

During 2009, the Company declared dividends of \$1.20 per common share (2008 - \$1.73 per common share; 2007 - \$1.33 per common share). In 2007, declared dividends included a special dividend of \$0.25 per common share.

NOTE 21 EMPLOYEE FUTURE BENEFITS

At December 31, 2009, the accrued benefit liability for the post-retirement health and dental care plan in Canada was \$50 million. The accrued benefit liabilities for the defined benefit pension plan and the post-retirement welfare plan in the U.S. were \$1 million and \$30 million respectively. The total employee future benefits liability for the Company included in other long-term liabilities was \$81 million at December 31, 2009.

Canada

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 health and dental coverage to its retirees, which is accrued over the expected average remaining service life of the employees.

a) Defined Benefit Pension Plan

Weighted average long-term assumptions are based on independent historical and projected references and are noted below:

	2009	2008	2007
Discount rate <i>(percent)</i>	5.7	6.3	5.0
Long-term rate of increase in compensation levels <i>(percent)</i>	5.0	5.0	5.0
Long term rate of return on plan assets <i>(percent)</i>	7.0	7.0	7.5

The discount rate used at the end of 2009 to determine the accrued benefit obligation was 5.7%.

The long-term rate of return on the assets was determined based on management's best estimate and the historical rates of return, adjusted periodically. The rate at the end of 2009 was 7.0%.

The status of the defined benefit pension plan at December 31 was as follows:

Benefit Obligation	2009	2008	2007
Benefit obligation, beginning of year	\$ 132	\$ 150	\$ 149
Current service cost	2	2	2
Interest cost	8	8	7
Benefits paid	(10)	(9)	(8)
Actuarial (gains) losses	9	(19)	-
Benefit obligation, end of year	\$ 141	\$ 132	\$ 150

Fair Value of Plan Assets	2009	2008	2007
Fair value of plan assets, beginning of year	\$ 110	\$ 141	\$ 132
Contributions	5	6	10
Benefits paid	(10)	(9)	(8)
Expected return on plan assets	8	10	10
Gain (loss) on plan assets	6	(38)	(3)
Fair value of plan assets, end of year	\$ 119	\$ 110	\$ 141

Funded Status of Plan	2009	2008	2007
Fair value of plan assets	\$ 119	\$ 110	\$ 141
Benefit obligation	(141)	(132)	(150)
Excess obligation	(22)	(22)	(9)
Unrecognized past service costs	2	2	3
Unrecognized losses	46	50	32
Accrued benefit asset	\$ 26	\$ 30	\$ 26

Husky adheres to a Statement of Investment Policies and Procedures (the "Policy"). The assets are allocated in accordance with the long-term nature of the obligation and comprise a balanced investment based on interest rate and inflation sensitivities. The Policy explicitly prescribes diversification parameters for all classes of investment.

The Company's actuaries perform valuations annually as at December 31 for the defined benefit pension plan.

The composition of the defined benefit pension plan assets was as follows:

	2009	2008	2007
U.S. common equities	-%	1%	1%
Canadian common equities	32	26	30
International equity mutual funds	21	23	27
Canadian government bonds	15	18	14
Canadian corporate bonds	5	4	4
International fixed income	1	1	2
Canadian fixed income mutual funds	25	25	20
Cash and receivables	1	2	2
Total	100%	100%	100%

During 2009, Husky contributed \$5.4 million to the defined benefit pension plan assets, \$3.9 million of which was in respect of additional contributions as a result of the plan's deficiency. Husky currently plans to contribute \$9 million in 2010.

The Company amortizes the portion of the unrecognized actuarial gains or losses that exceed 10% of the greater of the accrued benefit obligation or the market-related value of pension plan assets. The market-related value of pension plan assets is the fair value of the assets. The gains or losses that are in excess of 10% are amortized over the expected future years of service, which is currently seven years.

The past service costs are amortized over the expected future years of service.

b) Post-retirement Health and Dental Care Plan

The discount rate used in the calculation of the benefit obligation was 6.0%. The average health care cost trend used was 9% for 2010 and 2011, which is reduced by 0.5% until 2019. The average dental care cost trend used was 4%, which remains constant.

The status of the post-retirement health and dental care plan at December 31 was as follows:

Benefit Obligation	2009	2008	2007
Benefit obligation, beginning of year	\$ 53	\$ 54	\$ 49
Current service cost	4	4	4
Interest cost	4	3	2
Benefits paid	(1)	(1)	(1)
Actuarial (gains) losses	5	(7)	-
Benefit obligation, end of year	\$ 65	\$ 53	\$ 54

Funded Status of Plan	2009	2008	2007
Benefit obligation	\$ (65)	\$ (53)	\$ (54)
Unrecognized losses	15	10	17
Accrued benefit liability	\$ (50)	\$ (43)	\$ (37)

The assumed health care cost trend can have a significant effect on the amounts reported for Husky's post-retirement health and dental care plan. A one percent increase and decrease in the assumed trend rate would have the following effect:

	1% Increase	1% Decrease
Effect on total service and interest cost components	\$ 1.7	\$ (1.2)
Effect on post-retirement benefit obligation	\$ 11.7	\$ (9.4)

c) Pension Expense and Post-retirement Health and Dental Care Expense

The expenses for the years ended December 31 were as follows:

Benefit Obligation	2009	2008	2007
Defined benefit pension plan			
Employer current service cost	\$ 2	\$ 2	\$ 2
Interest cost	8	8	7
Expected return on plan assets	(8)	(10)	(10)
Amortization of net actuarial losses	7	3	3
	9	3	2
Defined contribution pension plan	21	20	18
Total expense	\$ 30	\$ 23	\$ 20

Post-retirement Health and Dental Care Expense	2009	2008	2007
Employer current service cost	\$ 4	\$ 4	\$ 4
Interest cost	4	3	2
Amortization of net actuarial losses	-	1	1
Total expense	\$ 8	\$ 8	\$ 7

d) Future Benefit Payments

The following table discloses the current estimate of future benefit payments:

	Defined Benefit Pension Plan	Post-retirement Health and Dental Care Plan
2010	\$ 9	\$ 1
2011	10	2
2012	10	2
2013	10	2
2014	10	2
2015 - 2019	54	16

United States

a) Defined Benefit Pension Plan

As at December 31, 2009, the benefit obligation was \$8 million (2008 - \$5 million; 2007 - \$1 million) and the fair value of the plan assets was \$5 million (2008 - \$4 million; 2007 - \$1 million). The discount rate used at the end of 2009 to determine the accrued benefit obligation was 5.4% (2008 - 6.0%; 2007 - 6.1%). During 2009, Husky contributed \$2 million to the defined benefit pension plan assets and currently plans to contribute \$0.5 million in 2010.

Pension expense for 2009 was \$3 million (2008 - \$2 million; six months ended December 31, 2007 - \$1 million).

b) Defined Contribution Pension Plan

The Company's contribution to the U.S. 401(k) plan was \$3.3 million in 2009 (2008 - \$2.6 million; 2007 - \$0.9 million).

c) Post-retirement Welfare Plan

As at December 31, 2009, the benefit obligation was \$11 million (2008 - \$13 million; 2007 - \$33 million). The discount rate used at the end of 2009 to determine the accrued benefit obligation was 5.4% (2008 - 6.10%; 2007 - 6.25%).

Post-retirement welfare expense for 2009 was a recovery of \$2 million (2008 - \$3 million expense; six months ended December 31, 2007 - \$1.5 million expense).

NOTE 22 RELATED PARTY TRANSACTIONS

On May 11, 2009, the Company issued 5 and 10-year senior notes of U.S. \$251 million and U.S. \$107 million respectively to management, shareholders and directors. Subsequent to this offering, U.S. \$22 million of the 5-year senior notes and U.S. \$75 million of the 10-year senior notes issued to related parties were sold to third parties. These notes were offered through an existing base shelf prospectus, which was filed in February 2009. The coupon rates offered were 5.90% and 7.25% for the 5 and 10-year tranches respectively. These transactions were measured at the exchange amount, which was equivalent to the fair market value at the date of the transaction and have been carried out on the same terms as would apply with unrelated parties. At December 31, 2009, the senior notes were included in long-term debt on the Company's balance sheet.

TransAlta Power, L.P. ("TAPLP") is under the indirect control of one of Husky's principal shareholders. TAPLP is a 49.99% owner in TransAlta Cogeneration, L.P. ("TACLPL") which is the Company's joint venture partner for the Meridian cogeneration facility at Lloydminster. The Company sells natural gas to the Meridian cogeneration facility and other cogeneration facilities owned by TACLPL. These natural gas sales are related party transactions and have been measured at the exchange amount. For 2009, the total value of natural gas sales to the Meridian and other cogeneration facilities owned by TACLPL was \$90 million (2008 - \$125 million). At December 31, 2009, the total value of accounts receivables related to these transactions was nil (2008 - nil).

NOTE 23 FINANCIAL INSTRUMENTS AND RISK FACTORS

Details of the Company's significant accounting policies and risk management for the recognition and measurement of financial instruments and the basis for which income and expense are recognized are disclosed in Note 3, "Significant Accounting Policies."

Risk Management Overview

The Company is exposed to market risks related to the volatility of commodity prices, foreign exchange rates and interest rates. In certain instances, the Company uses derivative instruments to manage the Company's exposure to these risks. The Company employs risk management strategies and policies to ensure that any exposures to risk are in compliance with the Company's business objectives and risk tolerance levels. Risk management is ultimately established by the Company's Board of Directors and is implemented and monitored by senior management within the Company.

Husky is exposed to risk factors associated with operating in developing countries, political and regulatory instability. The Company maintains close contact with governments in the areas within which it operates.

Fair Value of Financial Instruments

The Company's financial instruments as at December 31, 2009 included cash and cash equivalents, accounts receivable, contribution receivable, bank operating loans, accounts payable and accrued liabilities, long-term debt, contribution payable, the derivative portion of cash flow hedges, the derivative portion of fair value hedges and freestanding derivatives.

The carrying value of cash and cash equivalents, accounts receivable, bank operating loans, accounts payable and accrued liabilities approximates their fair value due to the short-term maturity of these investments.

At December 31, 2009, the carrying value of the contribution receivable and contribution payable was \$1.3 billion and \$1.5 billion respectively. The fair value of these financial instruments is not readily determinable due to uncertainties regarding timing of the cash flows. Refer to Note 11, "Joint Ventures."

The derivative portion of cash flow hedges, fair value hedges, and free standing derivatives that are recorded at fair value on a recurring basis have been categorized into one of three categories based upon fair value hierarchy in accordance with CICA Handbook Section 3862. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. All of Husky's assets and liabilities that are recorded at fair value on a recurring basis are included in Level 2.

The financial instruments recorded at fair value on the balance sheet at December 31 are as follows:

	2009	2008	2007
Financial assets at fair value			
Trading derivatives	\$ 22	\$ 111	\$ 22
Financial liabilities at fair value			
Trading derivatives	16	23	6
Long-term debt designated as a fair value hedge	389	-	203

The estimation of the fair value of commodity derivatives incorporates forward prices and adjustments for quality or location. The estimation of the fair value of interest rate and foreign currency derivatives incorporates forward market prices, which are compared to quotes received from financial institutions to ensure reasonability.

The fair value of long-term debt is the present value of future cash flows associated with the debt. Market information such as treasury rates and credit spreads is used to determine the appropriate discount rates. These fair value determinations are compared to quotes received from financial institutions to ensure reasonability. The estimated fair value of long-term debt at December 31 was as follows:

	2009		2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	\$ 3,229	\$ 3,559	\$ 1,957	\$ 1,739	\$ 2,814	\$ 2,903

Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of foreign currency risk, interest rate risk and other price risk, for example, commodity price risk. The objective of market risk management is to manage and control market price exposures within acceptable limits, while maximizing returns.

In certain instances, the Company uses derivative commodity instruments to manage exposure to price volatility on a portion of its oil and gas production and firm commitments for the purchase or sale of crude oil and natural gas.

The Company's results will also be impacted by a decrease in the price of crude oil. The Company holds crude oil inventories that are feedstock or part of the in-process inventories at its refineries. These inventories are subject to a lower of cost or net realizable value test on a monthly basis and the Company is exposed to declining crude prices.

The Company's results are affected by the exchange rate between the Canadian and U.S. dollar. The majority of the Company's revenues are received in U.S. dollars or from the sale of oil and gas commodities that receive prices determined by reference to U.S. benchmark prices. An increase in the value of the Canadian dollar relative to the U.S. dollar will decrease the revenues received from the sale of oil and gas commodities. Correspondingly, a decrease in the value of the Canadian dollar relative to the U.S. dollar will increase the revenues received from the sale of oil and gas commodities. The majority of the Company's expenditures are in Canadian dollars.

A change in the value of the Canadian dollar against the U.S. dollar will also result in an increase or decrease in the Company's U.S. dollar denominated debt, as expressed in Canadian dollars, as well as the related interest expense. In order to mitigate the Company's exposure to long-term debt affected by the U.S./Canadian dollar exchange rate, the Company has entered into cash flow hedges using cross currency debt swaps. In addition, a portion of the Company's U.S. dollar denominated debt has been designated as a hedge of a net investment in a self-sustaining foreign operation and the unrealized foreign exchange gain is recorded in OCI.

To mitigate risk related to interest rates, the Company may enter into fair value hedges using interest rate swaps. The Company's objectives, processes and policies for managing market risk have not changed from the previous year.

Commodity Price Risk Management

a) Natural Gas Contracts

At December 31, 2009, the Company had the following third party offsetting physical purchase and sale natural gas contracts, which met the definition of a derivative instrument:

	Volumes (mmcf)	Fair Value
Physical purchase contracts	34,250	\$ (2)
Physical sale contracts	(34,250)	\$ 5

These contracts have been recorded at their fair value in accounts receivable and accrued liabilities and the resulting unrealized gain of \$1 million has been recorded in other expenses in the Consolidated Statements of Earnings and Comprehensive Income.

b) Natural Gas Storage Contracts

At December 31, 2009, the Company had the following third party physical purchase and sale natural gas storage contracts:

	Volumes (mmcf)	Fair Value
Physical purchase contracts	9,826	\$ 5
Physical sale contracts	(37,677)	\$ 8

These contracts have been recorded at their fair value in accounts receivable and accrued liabilities and the resulting unrealized loss of \$38 million has been recorded in other expenses in the Consolidated Statements of Earnings and Comprehensive Income. The natural gas inventory held in storage is recorded at fair value. At December 31, 2009, the fair value of the inventory was \$173 million, resulting in a \$69 million unrealized gain recorded in other expenses in the Consolidated Statements of Earnings and Comprehensive Income.

c) Oil Contracts

On July 1, 2009, the Company designated certain crude oil purchase and sale contracts as fair value hedges against the changes in the fair value of the inventory held in storage. The assessment of effectiveness for the fair value hedges excludes changes between current market prices and market prices on the settlement date in the future.

At December 31, 2009, the Company had the following third party crude oil purchase contracts which have been designated as a fair value hedge:

	Volumes (bbls)	Fair Value
Physical purchase contracts	1,518,765	\$ 4

These contracts have been recorded at their fair value in accounts receivable and the resulting unrealized gain of \$4 million has been recorded in earnings in the Consolidated Statements of Earnings and Comprehensive Income. The crude oil inventory held in storage is recorded at fair value. At December 31, 2009, the fair value of the inventory was \$124 million, resulting in a \$1 million unrealized loss recorded in earnings in the Consolidated Statements of Earnings and Comprehensive Income.

Prior to July 1, 2009, the Company had entered into contracts for future crude oil purchases, whereby there is a requirement to pay the market difference of the inventory price paid at delivery and the current market price at the settlement date in the future. These contracts have settled and the resulting loss of \$30 million has been recorded in other expenses in the Consolidated Statements of Earnings and Comprehensive Income.

Interest Rate Risk Management

At December 31, 2009, the Company had entered into a fair value hedge using interest rate swap arrangements whereby the fixed interest rate coupon on the long-term debt was swapped to floating rates with the following terms:

Notional Amount	Swap Maturity	Swap Rate	Fair Value
U.S. \$100	November 15, 2016	LIBOR + 420 bps	\$ (1)
U.S. \$100	September 15, 2017	LIBOR + 272 bps	\$ (1)
U.S. \$50	September 15, 2017	LIBOR + 275 bps	\$ (1)
U.S. \$125	September 15, 2017	LIBOR + 255 bps	\$ (0.5)

These contracts have been recorded at fair value in other long-term liabilities. As at December 31, 2009, the Company recognized a loss of less than \$1 million on the interest rate swap arrangements recorded in interest expense in the Consolidated Statements of Earnings and Comprehensive Income.

The Company had a freestanding derivative that required the payment of amounts based on a floating interest rate of CDOR + 175 bps in exchange for receipt of payments based on a fixed interest rate of 6.95% on \$200 million of long-term debt effective February 8, 2002 that expired on July 14, 2009. In 2008, the interest rate swap was discontinued as a fair value hedge as the underlying debt was redeemed. For the year ended December 31, 2009, the Company recognized a loss of less than \$1 million (2008 - \$3 million gain recorded in interest income, \$1 million gain recorded in other expenses) on the interest swap arrangements recorded in other expenses in the Consolidated Statement of Earnings and Comprehensive Income.

Foreign Currency Risk Management

The Company manages its exposure to foreign exchange fluctuations by balancing the U.S. dollar denominated cash flows with U.S. dollar denominated borrowings and other financial instruments. Husky utilizes spot and forward sales to convert cash flows to or from U.S. or Canadian currency.

At December 31, 2009, the Company had a cash flow hedge using the following cross currency debt swaps:

Debt	Swap Amount	Canadian Equivalent	Swap Maturity	Interest Rate (percent)	Fair Value
6.25% notes	U.S. \$ 150	\$ 211	June 15, 2012	7.41	\$ (66)
6.25% notes	U.S. \$ 75	\$ 89	June 15, 2012	5.65	\$ (11)
6.25% notes	U.S. \$ 50	\$ 59	June 15, 2012	5.67	\$ (6)
6.25% notes	U.S. \$ 75	\$ 88	June 15, 2012	5.61	\$ (9)

These contracts have been recorded at fair value in other long-term liabilities. The portion of the fair value of the derivative related to foreign exchange has been recorded in earnings to offset the foreign exchange on the translation of the underlying debt and the remaining gain has been included in OCI. As at December 31, 2009, the unrealized foreign exchange gain of \$2 million (2008 - \$6 million loss), net of tax of \$1 million (2008 - \$2 million) is recorded in OCI. At December 31, 2009, the balance in Accumulated Other Comprehensive Income was \$7 million (2008 - \$10 million), net of tax of \$3 million (2008 - \$4 million). For the year ended December 31, 2009, the Company recognized a foreign exchange loss of \$62 million (2008 - gain of \$83 million) on the cross currency debt swaps.

The Company enters into short-dated foreign exchange contracts to fix the exchange rate for conversion of U.S. dollars to Canadian dollars. For the year ended December 31, 2009, the impact of these contracts was a gain of \$16 million (2008 - loss of \$34 million) recorded in foreign exchange expense.

As at December 31, 2009, the Company settled its two remaining forward purchases of U.S. dollars realizing a loss of \$9 million recorded in other expenses in the Consolidated Statements of Earnings and Comprehensive Income.

Effective July 1, 2007, the Company's U.S. \$1.5 billion of debt financing related to the Lima acquisition was designated as a hedge of the Company's net investment in the U.S. refining and marketing operations, which are considered self-sustaining. During 2008, the Company repaid U.S. \$750 million of bridge financing and repurchased U.S. \$63 million of bonds that were classified as a net investment hedge. As at December 31, 2009, the unrealized foreign exchange gain of \$104 million (2008 - \$165 million loss), net of tax expense of \$18 million (2008 - \$27 million recovery), arising from the translation of the debt is recorded in OCI.

Effective December 3, 2009, Husky designated U.S. \$300 million of the U.S. \$750 million senior notes due December 15, 2019 as a hedge for the Company's net investment in the U.S. refining operations. In 2009, the unrealized foreign exchange gain arising from the translation of the debt was less than \$1 million net of tax, which was recorded in OCI.

Sensitivity Analysis

A sensitivity analysis for foreign currency, commodities and interest rate risks has been calculated by increasing or decreasing the interest rate or foreign currency exchange rate, as appropriate, in the fair value methodologies described in the "Fair Value of Financial Instruments" section of this note. These sensitivities represent the effect resulting from changing the relevant rates with all other variables held constant and have been applied only to financial instruments. The Company's process for determining these sensitivities has not changed during the year. All calculations are on a pre-tax basis.

The Company is exposed to interest rate risk on its interest rate swaps. As at December 31, 2009, had interest rates been 50 basis points higher and assuming all other variables remained constant, the impact to earnings before tax would have been \$12 million lower. Had interest rates been 50 basis points lower and assuming all other variables remained constant, the impact to earnings before tax would have been \$14 million higher.

The Company is exposed to interest rate and foreign currency risk on its cross currency debt swaps. As at December 31, 2009, had the Canadian dollar been 1% stronger versus the U.S. dollar and assuming all other variables remained constant, the impact to OCI would have been \$5 million lower. Had the Canadian dollar been 1% weaker versus the U.S. dollar and assuming all other variables remained constant, the impact to OCI would have been \$5 million higher. As at December 31, 2009, had the interest rates been 50 basis points higher and assuming all other variables remained constant, the impact to OCI would have been \$2 million higher. Had the interest rates been 50 basis points lower and assuming all other variables remained constant, the impact to OCI would have been \$1 million lower.

The Company is exposed to foreign currency risk on its forward purchases of U.S. dollars. As at December 31, 2009, had the Canadian dollar been 1% stronger relative to the U.S. dollar and assuming all other variables remained constant, the impact to earnings before tax would have been less than \$1 million lower. Equal and offsetting impacts would have occurred had the Canadian dollar been 1% weaker relative to the U.S. dollar and assuming all other variables remained constant.

The Company is exposed to commodity price risk on its natural gas storage contracts. As at December 31, 2009, had the forward price been \$0.20/mmbtu higher, the impact to earnings before tax would have been \$7 million lower. Had the forward price been \$0.20/mmbtu lower, the impact to earnings before tax would have been \$7 million higher.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's processes for managing liquidity risk include ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual capital expenditure budgets, which are monitored and are updated as required. In addition, the Company requires authorizations for expenditures on projects to assist with the management of capital.

Since the Company operates in the upstream oil and gas industry, it requires sufficient cash to fund capital programs necessary to maintain or increase production and develop reserves, to acquire strategic oil and gas assets, to repay maturing debt and to pay dividends. The Company's upstream capital programs are funded principally by cash provided from operating activities and available credit facilities. During times of low oil and gas prices, a portion of capital programs can generally be deferred. However, due to the long cycle times and the importance to future cash flow in maintaining the Company's production, it may be necessary to utilize alternative sources of capital to continue the Company's strategic investment plan during periods of low commodity prices. As a result, the Company frequently evaluates the options available with respect to sources of long and short-term capital resources. Occasionally, the Company will hedge a portion of its production to protect cash flow in the event of commodity price declines.

The Company has the following available credit facilities as at December 31, 2009:

Credit Facilities	Available	Unused
Operating facilities	\$ 395	\$ 262
Syndicated bank facility	1,250	1,250
Bilateral credit facilities	150	150
Total	\$ 1,795	\$ 1,662

In addition to the credit facilities listed above, the Company has unused capacity under shelf prospectuses of U.S. \$1.5 billion and \$1.0 billion, the availability of which is dependent on market conditions. The Company believes it has sufficient funding through the use of these facilities to meet its future borrowing requirements.

The following are the contractual maturities of financial liabilities as at December 31, 2009:

Financial Liability	Less than 1 Year	1 to less than 2 Years	2 to less than 5 Years	Thereafter
Accounts payable and accrued liabilities	\$ 2,185	\$ -	\$ -	\$ -
Cross currency swaps	-	-	447	-
Long-term debt and interest on fixed rate debt	212	212	1,750	3,122
Total	\$ 2,397	\$ 212	\$ 2,197	\$ 3,122

The Company's contribution payable to the joint venture with BP (refer to Note 11) is payable between December 31, 2009 and December 31, 2015, with the final balance due and payable by December 31, 2015.

The Company's objectives, processes and policies for managing liquidity risk have not changed from the previous year.

Credit Risk

Credit risk represents the financial loss that the Company would suffer if the Company's counterparties to a financial instrument, in owing an amount to the Company, fail to meet or discharge their obligation to the Company. The Company's accounts receivable are broad based with customers in the energy industry, midstream and end user segment and are subject to normal industry risks. The Company's policy to mitigate credit risk includes granting credit limits consistent with the financial strength of the counterparties and customers, requiring financial reassurances as deemed necessary, reducing the amount and duration of credit exposures and close monitoring of all accounts. The Company did not have any customers that constituted more than 10% of total sales and operating revenues during 2009.

The Company's objectives, processes and policies for managing credit risk have not changed from the previous year.

Cash and cash equivalents include cash bank balances and short-term deposits maturing in less than 90 days. The Company manages the credit exposure related to short-term investments by monitoring exposures daily on a per issuer basis relative to predefined investment limits.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure.

The Company's accounts receivable excluding income taxes receivable and doubtful accounts was aged as follows:

Aging	Dec. 31, 2009
Current	\$ 908
Past due (1 - 30 days)	44
Past due (31 - 60 days)	6
Past due (61 - 90 days)	4
Past due (more than 90 days)	20
Total	\$ 982

The movement in the Company's allowance for doubtful accounts for 2009 was as follows:

Balance at January 1, 2009	\$ 22
Provisions and revisions	(4)
Balance at December 31, 2009	\$ 18

The Company did not write off any uncollectible receivables in 2009.

Held-for-Trading Financial Liabilities

The Company's cross currency swaps have been designated as a cash flow hedge and the derivative component of the hedge meets the definition of a held-for-trading financial liability. The cross currency swap counterparties' credit profiles have not materially changed since the past year or since inception. As a result, the amount of change during the period and

cumulatively in the fair value of the cross currency swaps has not been materially impacted by changes resulting from credit risk. At December 31, 2009, the amount the Company would be contractually required to pay under the cross currency swaps at maturity was \$356 million higher (December 31, 2008 - \$414 million higher) than their carrying amount.

Embedded Derivative

During the fourth quarter of 2008, a drilling contract previously treated as an embedded derivative no longer met the criteria and the related accounting treatment was discontinued. A loss of \$71 million, after tax, was recorded in 2008 compared with a gain of \$71 million, after tax, for the same period in 2007.

NOTE 24 CAPITAL DISCLOSURES

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor and market confidence to sustain the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company considers its capital structure to include shareholders' equity and debt. To maintain or adjust the capital structure, the Company may, from time to time, issue shares, raise debt and/or adjust its capital spending to manage its current and projected debt levels.

The Company monitors capital based on the current and projected ratios of debt to cash flow from operations (defined as total debt divided by earnings from operations plus non-cash charges before settlement of asset retirement obligations and change in non-cash working capital) and debt to capital employed (defined as total debt divided by total debt and shareholders' equity). The Company's objective is to maintain a debt to cash flow from operations ratio of less than two times and a debt to capital employed target of 30% to 40%. At December 31, 2009, debt to capital employed was 18.3% which was below the long-term range, providing the financial flexibility to fund the Company's capital program and profitable growth opportunities. At December 31, 2009, debt to cash flow from operations was 1.3 times. The ratio may increase at certain times as a result of acquisitions. To facilitate the management of this ratio, the Company prepares annual budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment. The annual budget is approved by the Board of Directors.

The Company's share capital is not subject to external restrictions; however the bilateral credit facilities and the syndicated credit facility include a debt to cash flow covenant. The Company was fully compliant with this covenant at December 31, 2009.

There were no changes in the Company's approach to capital management from the previous year.

NOTE 25 GOVERNMENT ASSISTANCE

Husky has government assistance programs in place where it receives funding based on ethanol production and sales from the Lloydminster and Minnedosa ethanol plants from the Department of Natural Resources and the Government of Manitoba. The programs expire in 2015 and applications for funding are submitted quarterly. During 2009, the Company received \$53 million under these programs (2008 - \$18 million; 2007 - nil), of which \$17 million related to funding requested in 2008. The grants received under these programs have been recorded in cost of sales in the Consolidated Statements of Earnings and Comprehensive Income. Under the terms of the programs, funding accepted by the Company could be required to be repaid if certain conditions are not met.