

Husky Energy Inc.

Consolidated Financial Statements

For the Year Ended December 31, 2010

MANAGEMENT'S REPORT

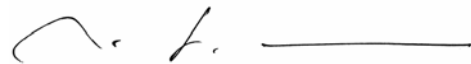
The management of Husky Energy Inc. ("the Company") is responsible for the financial information and operating data presented in this financial document.

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.

The Company 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's evaluation concluded that our internal control over financial reporting was effective as of December 31, 2010. 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, internal auditors as well as the external auditors, to discuss audit (external, internal and joint venture), internal controls, accounting policy and financial reporting matters as well as the 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.



Asim Ghosh

President & Chief Executive Officer



Alister Cowan

Vice President & Chief Financial Officer

Calgary, Alberta, Canada

March 8, 2011

INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated financial statements of Husky Energy Inc. ("the Company") and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010, 2009 and 2008, 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, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as at December 31, 2010, 2009 and 2008 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010 in accordance with Canadian generally accepted accounting principles.



KPMG LLP

Chartered Accountants

Calgary, Alberta, Canada

March 8, 2011

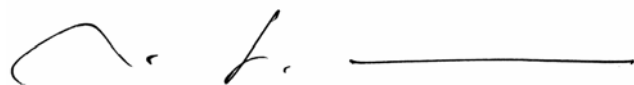
CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

<i>As at December 31 (millions of dollars)</i>	2010	2009	2008
Assets			
Current assets			
Cash and cash equivalents <i>(note 9)</i>	252	392	913
Accounts receivable <i>(notes 5, 20)</i>	1,529	987	1,344
Inventories <i>(note 6)</i>	1,935	1,520	1,032
Prepaid expenses	34	12	11
	3,750	2,911	3,300
Property, plant and equipment, net <i>(notes 1, 7)</i>	23,259	21,254	20,839
Goodwill <i>(notes 1, 10)</i>	663	689	779
Contribution receivable <i>(notes 8, 20)</i>	1,284	1,313	1,448
Other assets <i>(note 20)</i>	177	128	120
	29,133	26,295	26,486
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities <i>(notes 12, 20)</i>	2,494	2,185	2,896
Long-term debt <i>(notes 13, 20)</i>	4,187	3,229	1,957
Contribution payable <i>(notes 8, 20)</i>	1,427	1,500	1,659
Other long-term liabilities <i>(note 14)</i>	1,417	1,036	898
Future income taxes <i>(note 15)</i>	4,115	3,932	4,713
Commitments and contingencies <i>(note 16)</i>			
Shareholders' equity			
Common shares <i>(note 17)</i>	4,574	3,585	3,568
Retained earnings	10,985	10,832	10,436
Accumulated other comprehensive income	(66)	(4)	359
	15,493	14,413	14,363
	29,133	26,295	26,486

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

On behalf of the Board:



Asim Ghosh

Director



R.D. Fullerton

Director

Consolidated Statements of Earnings and Comprehensive Income

<i>Year ended December 31 (millions of dollars, except share data)</i>	2010	2009	2008
Sales and operating revenues, net of royalties	18,178	15,074	24,701
Costs and expenses			
Cost of sales and operating expenses <i>(note 14)</i>	14,013	10,865	17,706
Selling and administration expenses	305	265	284
Stock-based compensation <i>(note 17)</i>	–	1	(33)
Depletion, depreciation and amortization <i>(notes 1, 7)</i>	2,073	1,805	1,832
Interest - net <i>(note 13)</i>	208	194	147
Foreign exchange <i>(note 13)</i>	(2)	(5)	(335)
Other - net <i>(note 20)</i>	23	(8)	(45)
	16,620	13,117	19,556
Earnings before income taxes	1,558	1,957	5,145
Income taxes (recoveries) <i>(note 15)</i>			
Current	188	1,262	901
Future	197	(721)	493
	385	541	1,394
Net earnings	1,173	1,416	3,751
Other comprehensive income (loss)			
Cumulative foreign currency translation adjustment	(112)	(469)	607
Hedge of net investment, net of tax <i>(note 20)</i>	44	104	(165)
Derivatives designated as cash flow hedges, net of tax <i>(note 20)</i>	6	2	(6)
	(62)	(363)	436
Comprehensive income	1,111	1,053	4,187
Earnings per share			
Basic and diluted	1.38	1.67	4.42
Weighted average number of common shares outstanding <i>(millions)</i>			
Basic and diluted	852.7	849.7	849.2

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

Consolidated Statements of Changes in Shareholders' Equity

<i>Year ended December 31 (millions of dollars)</i>	2010	2009	2008
Common shares			
Beginning of year	3,585	3,568	3,551
Common shares issued, net of share issue costs	988	–	–
Options exercised	1	17	17
End of year	4,574	3,585	3,568
Retained earnings			
Beginning of year	10,832	10,436	8,154
Net earnings	1,173	1,416	3,751
Dividends on common shares <i>(note 17)</i>	(1,020)	(1,020)	(1,469)
End of year	10,985	10,832	10,436
Accumulated other comprehensive income			
Beginning of year	(4)	359	(77)
Other comprehensive income			
Cumulative foreign currency translation adjustment	(112)	(469)	607
Hedge of net investment, net of tax <i>(note 20)</i>	44	104	(165)
Derivatives designated as cash flow hedges, net of tax <i>(note 20)</i>	6	2	(6)
	(62)	(363)	436
End of year	(66)	(4)	359
Shareholders' equity	15,493	14,413	14,363

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

Consolidated Statements of Cash Flows

<i>Year ended December 31 (millions of dollars)</i>	2010	2009	2008
Operating activities			
Net earnings	1,173	1,416	3,751
Items not affecting cash			
Accretion <i>(note 14)</i>	53	48	54
Depletion, depreciation and amortization	2,073	1,805	1,832
Future income taxes (recoveries)	197	(721)	493
Foreign exchange	(24)	(48)	(94)
Other	77	7	(90)
Settlement of asset retirement obligations <i>(note 14)</i>	(60)	(41)	(56)
Change in non-cash working capital <i>(note 9)</i>	(786)	(548)	888
Cash flow - operating activities	2,703	1,918	6,778
Financing activities			
Long-term debt issuance	6,108	3,604	949
Long-term debt repayment	(5,028)	(1,866)	(2,205)
Proceeds from issuance of common shares, net of share issue costs <i>(note 17)</i>	988	-	-
Proceeds from monetization of financial instruments	-	41	12
Dividends on common shares	(1,020)	(1,020)	(1,469)
Contribution receivable repayment <i>(note 8)</i>	38	-	-
Other	(1)	2	8
Change in non-cash working capital <i>(note 9)</i>	-	(167)	146
Cash flow - financing activities	1,085	594	(2,559)
Investing activities			
Expenditures on property, plant and equipment	(3,852)	(2,762)	(4,060)
Joint venture arrangement <i>(note 8)</i>	-	-	127
Asset sales	7	28	37
Contribution payable repayment <i>(note 8)</i>	(85)	-	-
Other	(65)	(10)	11
Change in non-cash working capital <i>(note 9)</i>	67	(289)	371
Cash flow - investing activities	(3,928)	(3,033)	(3,514)
Increase (decrease) in cash and cash equivalents	(140)	(521)	705
Cash and cash equivalents at beginning of year	392	913	208
Cash and cash equivalents at end of year	252	392	913

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Segmented Financial Information

Year ended December 31 (\$ millions)	Upstream			Midstream					
	2010	2009	2008	Upgrading			Infrastructure and Marketing		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Sales and operating revenues, net of royalties	4,766	4,452	7,889	1,570	1,572	2,435	7,854	6,984	13,544
Costs and expenses									
Operating, cost of sales, selling and general	1,597	1,495	1,627	1,439	1,461	2,053	7,592	6,669	13,192
Depletion, depreciation and amortization	1,572	1,397	1,505	100	34	31	43	36	31
Interest - net	-	-	-	-	-	-	-	-	-
Foreign exchange	-	-	-	-	-	-	-	-	-
	3,169	2,892	3,132	1,539	1,495	2,084	7,635	6,705	13,223
Earnings (loss) before income taxes	1,597	1,560	4,757	31	77	351	219	279	321
Current income taxes (recoveries)	(23)	909	585	1	111	84	62	101	126
Future income taxes (reduction)	485	(462)	795	8	(88)	21	(3)	(22)	(29)
Net earnings (loss)	1,135	1,113	3,377	22	54	246	160	200	224
Property, plant and equipment									
-As at December 31									
Cost	30,711	27,478	25,283	1,963	1,774	1,704	1,100	956	931
Accumulated depletion, depreciation and amortization	14,189	12,688	11,432	644	544	510	437	365	330
Net	16,522	14,790	13,851	1,319	1,230	1,194	663	591	601
Expenditures on property, plant and equipment									
-Year ended December 31 ⁽²⁾	3,171	2,326	3,580	176	69	99	40	25	94
Total assets - As at December 31	18,179	16,338	15,653	2,075	1,427	1,322	1,368	1,712	1,486

⁽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 (note 14) and corporate acquisitions.

Geographical Financial Information

(\$ millions)	Canada			United States			Other International		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Year ended December 31									
Sales and operating revenues, net of royalties	10,405	8,856	15,213	7,522	5,981	9,172	251	237	316
Expenditures on property, plant and equipment ⁽¹⁾	3,252	1,974	3,685	257	285	193	447	538	230
As at December 31									
Property, plant and equipment, net	18,523	16,624	16,234	3,477	3,587	4,093	1,259	1,043	512
Goodwill ⁽²⁾	160	160	160	503	529	619	-	-	-
Total assets	22,674	20,239	20,208	5,486	5,363	5,744	973	693	534

⁽¹⁾ Excludes capitalized costs related to asset retirement obligations incurred during the period (note 14) and corporate acquisitions.

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

Downstream			U.S. Refining and Marketing			Corporate and Eliminations ⁽¹⁾			Total		
Canadian Refined Products											
2010	2009	2008	2010	2009	2008	2010	2009	2008	2010	2009	2008
2,975	2,495	3,564	7,107	5,349	7,802	(6,094)	(5,778)	(10,533)	18,178	15,074	24,701
2,728	2,204	3,340	6,946	4,957	8,280	(5,961)	(5,663)	(10,580)	14,341	11,123	17,912
91	93	81	191	194	154	76	51	30	2,073	1,805	1,832
-	-	-	2	3	3	206	191	144	208	194	147
-	-	-	-	-	-	(2)	(5)	(335)	(2)	(5)	(335)
2,819	2,297	3,421	7,139	5,154	8,437	(5,681)	(5,426)	(10,741)	16,620	13,117	19,556
156	198	143	(32)	195	(635)	(413)	(352)	208	1,558	1,957	5,145
56	38	28	-	3	(24)	92	100	102	188	1,262	901
(15)	19	11	(12)	68	(208)	(266)	(236)	(97)	197	(721)	493
115	141	104	(20)	124	(403)	(239)	(216)	203	1,173	1,416	3,751
2,053	1,767	1,691	3,939	3,875	4,249	519	439	406	40,285	36,289	34,264
832	755	669	543	377	229	381	306	255	17,026	15,035	13,425
1,221	1,012	1,022	3,396	3,498	4,020	138	133	151	23,259	21,254	20,839
245	81	155	257	260	133	67	36	47	3,956	2,797	4,108
1,582	1,430	1,375	5,078	4,771	5,380	851	617	1,270	29,133	26,295	26,486

Total		
2010	2009	2008
18,178	15,074	24,701
3,956	2,797	4,108
23,259	21,254	20,839
663	689	779
29,133	26,295	26,486

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, 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.

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

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, 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 and 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 and net realizable value. Cost consists of raw material, labour, direct overhead and transportation. Previous impairment write-downs are reversed when there is a change in the situation that caused the impairment. Commodity inventory held for trading purposes is 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. 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 is provided using the straight-line method based on estimated useful lives of assets which range from five to thirty-five years. 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 permanent 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. Unrealized 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 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 other post-retirement benefits 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. In the United States, the Company provides defined contribution plans (401(k)), a defined benefit pension plan and other post-retirement benefits.

The cost of the pension benefits earned by employees in the defined contribution pension plans is expensed as incurred. The cost of the benefits earned by employees in the other post-retirement and defined benefit plans is charged to earnings as services are rendered using the projected benefit method prorated on service. The pension expense for the defined benefit pension plans and other post-retirement benefits is based on management's best estimate of expected plan investment performance, salary escalation, retirement age, attrition, future health care costs and mortality.

The future benefit obligation is discounted using a market interest rate of high quality corporate debt securities that match the amount and timing of future benefit payments. Adjustments arising from plan amendments are amortized over the expected average remaining service lifetime ("EARSL"). Net actuarial gains and losses that exceed 10% of the greater of the fair value of the plan assets and the benefit obligation are amortized over the EARSL of the participating employees.

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. A valuation allowance is recorded to the extent that it is considered more likely than not that the Company will be unable to utilize future tax assets.

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 expense in the period of forfeiture.

The Company's long-term incentive program consists of a Performance Share Unit ("PSU") Plan that provides a time-vested award to certain officers and employees of the Company. PSUs entitle participants to receive cash based on the Company's share price at the time of vesting. The amount of cash is contingent on the Company's total shareholder return relative to a peer group of companies. A liability for expected cash payments is accrued over the vesting period of the PSUs based on the market price of the Company's common shares and an expected vesting percentage. The liability is revalued to reflect changes in the market price of the Company's common shares and the expected vesting percentage. When PSUs vest, a cash payment is made to the participants and the outstanding liability is reduced by the payment amount. Accrued compensation for a PSU that is forfeited is adjusted to earnings by decreasing the compensation expense in the period of forfeiture. Compensation expense is recognized in selling and administration expenses.

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.

Note 4 International Financial Reporting Standards

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") Accounting Standards Board ("AcSB") confirmed that Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), for fiscal periods beginning on or after January 1, 2011.

The Company has selected IFRS accounting policies and evaluated the first-time adoption exemptions and elections available under IFRS 1, "First-Time Adoption of International Financial Reporting Standards." The resulting anticipated impact of transition to IFRS as at January 1, 2010 and for the year ended December 31, 2010 is presented in Note 24 in accordance with IFRS in effect as at

December 31, 2010. The accounting policies and IFRS 1 election choices are subject to change as the Company is required to comply with new or revised standards or interpretations of IFRS standards that are effective up to December 31, 2011.

Note 5 Accounts Receivable

<i>(\$ millions)</i>	2010	2009	2008
Trade receivables	1,159	948	1,135
Allowance for doubtful accounts	(19)	(18)	(22)
Derivatives due within one year	35	22	111
Income taxes receivable	346	23	106
Other	8	12	14
	1,529	987	1,344

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.

Note 6 Inventories

<i>(\$ millions)</i>	2010	2009	2008
Crude oil	1,540	812	480
Natural gas	134	172	222
Refined petroleum products	148	451	263
Materials, supplies and other	113	85	67
	1,935	1,520	1,032

Write-downs of inventories to net realizable value in 2010 amounted to \$35 million (2009 - \$106 million; 2008 - \$721 million).

Note 7 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 2010 were \$51 million (2009 - \$48 million; 2008 - \$43 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:

<i>(\$ millions)</i>	2010	2009	2008
Canada	3,406	3,125	2,703
International	836	827	485
	4,242	3,952	3,188

Included in International are costs related to unproved properties incurred in cost centres that are considered to be in the pre-production stage. All costs, net of any associated revenues, in these cost centres have been capitalized. As at December 31, 2010, \$57 million was allocated to undeveloped properties with proved reserves and \$779 million was allocated to undeveloped properties without proved reserves in International. Ultimate recoverability of these costs will be dependent upon the finding and development of proved oil and natural gas reserves. For the year ended December 31, 2010, 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, 2010 were:

	2011	2012	2013	2014	2015	Price increase 2015 to 2030 (percent)
Canada						
Crude oil (\$/bbl)	75.99	76.90	76.24	76.22	75.95	1.6
Natural gas (\$/mcf)	3.89	4.55	5.01	5.84	6.06	2.6

Note 8 Joint Ventures

a) BP

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

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, 2010 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:

<i>(\$ millions)</i>	
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, 2010 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 and has a U.S. dollar functional currency.

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

Results of Operations <i>(\$ millions)</i>	2010	2009	2008
Revenues	2,063	1,799	1,843
Expenses	2,105	1,761	2,020
Proportionate share of net income (loss)	(42)	38	(177)
Cash Flows <i>(\$ millions)</i>	2010	2009	2008
Cash flow – operating activities	(2)	76	(90)
Cash flow – investing activities	(86)	(55)	(58)
Proportionate share of increase (decrease) in cash and cash equivalents	(88)	21	(148)

<i>Financial Position (\$ millions)</i>	2010	2009	2008
Current assets	424	351	245
Long-term assets	1,800	1,910	2,292
Current liabilities	(218)	(179)	(42)
Long-term liabilities	(481)	(528)	(666)
Proportionate share of net assets	1,525	1,554	1,829
<i>Contribution Receivable (\$ millions)</i>	2010	2009	2008
Beginning	1,313	1,448	–
Additions	–	–	1,220
Accretion	76	81	–
Received	(38)	–	–
Foreign exchange	(67)	(216)	228
Ending	1,284	1,313	1,448
<i>Contribution Payable (\$ millions)</i>	2010	2009	2008
Beginning	(1,500)	(1,659)	–
Additions	–	–	(1,398)
Accretion	(87)	(91)	–
Paid	85	–	–
Foreign exchange	75	250	(261)
Ending	(1,427)	(1,500)	(1,659)

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 (“HOML”), 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. HOML 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.

In 2010, both HOMP and CNOOCSE agreed to each sell a 10% equity share in HOML to Samudra Energy Ltd., through its affiliate SMS Development Ltd. (Refer to Note 23 c).

c) Results of Joint Ventures

The results of Husky’s proportionate share of its downstream joint venture with BP are described in Note 8 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 9 Cash Flows - Change in Non-cash Working Capital

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

<i>(\$ millions)</i>	2010	2009	2008
Decrease (increase) in non-cash working capital			
Accounts receivable	(530)	235	453
Inventories	(481)	(651)	522
Prepaid expenses	(17)	-	2
Accounts payable and accrued liabilities	309	(588)	428
Change in non-cash working capital	(719)	(1,004)	1,405
Relating to:			
Operating activities	(786)	(548)	888
Financing activities	-	(167)	146
Investing activities	67	(289)	371

b) Other cash flow information:

<i>(\$ millions)</i>	2010	2009	2008
Cash taxes paid	783	1,323	615
Cash interest paid	232	200	159

Cash and cash equivalents at December 31, 2010 included \$185 million of cash (2009 - \$65 million; 2008 - \$269 million) and \$67 million of short-term investments with maturities less than three months (2009 - \$327 million; 2008 - \$644 million).

Note 10 Goodwill

<i>(\$ millions)</i>	2010	2009	2008
Balance at beginning of year	689	779	660
Foreign currency translation of goodwill in self-sustaining U.S. operations	(26)	(90)	119
Balance at end of year	663	689	779

Note 11 Bank Operating Loans

At December 31, 2010, the Company had unsecured short-term borrowing lines of credit with banks totalling \$415 million (2009 - \$395 million; 2008 - \$370 million) and letters of credit under these lines of credit totalled \$116 million (2009 - \$133 million; 2008 - \$166 million). As at December 31, 2010, bank operating loans (excluding reclassified outstanding cheques) were nil (2009 and 2008 - nil). Interest payable is based on Bankers' Acceptance, U.S. LIBOR or prime rates. During 2010, the weighted average interest rate on short-term borrowings was approximately 4.1% (2009 - 6.5%; 2008 - 7.1%).

Asia Pacific Energy Ltd. and Husky Oil China Ltd., subsidiaries of Husky, each have an uncommitted demand revolving facility of U.S. \$10 million available for general purposes. As at December 31, 2010 there was no balance outstanding under these facilities. 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, 2010, there was no balance outstanding under this credit facility (2009 and 2008 - nil).

Note 12 Accounts Payable and Accrued Liabilities

<i>(\$ millions)</i>	2010	2009	2008
Trade payables	105	37	93
Accrued liabilities	2,060	1,545	1,813
Dividend payable	255	255	425
Stock-based compensation	-	1	24
Current income taxes	-	270	419
Other	74	77	122
	2,494	2,185	2,896

Note 13 Long-term Debt

<i>(\$ millions)</i>	Maturity	Cdn \$ Amount			U.S. \$ Denominated		
		2010	2009	2008	2010	2009	2008
Long-term debt							
Syndicated credit facility	2012	380	-	-	-	-	-
6.25% notes ⁽¹⁾	2012	398	419	490	400	400	400
5.90% notes ⁽²⁾	2014	750	785	-	750	750	-
3.75% medium-term notes ⁽²⁾	2015	308	-	-	-	-	-
7.55% debentures ⁽²⁾	2016	209	208	245	200	200	200
6.20% notes ⁽²⁾	2017	316	312	367	300	300	300
6.15% notes	2019	298	314	367	300	300	300
7.25% notes	2019	746	785	-	750	750	-
5.00% medium-term notes	2020	400	-	-	-	-	-
6.80% notes	2037	385	405	474	387	387	387
Debt issue costs ⁽³⁾		(26)	(26)	(18)	-	-	-
Unwound interest rate swaps		23	27	32	-	-	-
		4,187	3,229	1,957	3,087	3,087	1,587

⁽¹⁾ A portion of the Company's debt is designated in a cash flow hedging relationship for foreign currency risk management. Refer to Note 20.

⁽²⁾ A portion of the Company's debt is designated in a fair value hedging relationship for interest rate risk management and recorded at fair value. Refer to Note 20.

⁽³⁾ Calculated using the effective interest rate method.

There is no long term debt due within one year as at December 31, 2010 (2009 and 2008 - nil).

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

<i>(\$ millions)</i>	2010	2009	2008
Interest expense			
Long-term debt	226	193	154
Contribution payable	87	92	63
Short-term debt	6	8	5
	319	293	222
Amount capitalized	(30)	(16)	-
	289	277	222
Interest income			
Contribution receivable	(77)	(81)	(55)
Other	(4)	(2)	(20)
	(81)	(83)	(75)
Interest - net	208	194	147

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

<i>(\$ millions)</i>	2010	2009	2008
(Gain) loss on translation of U.S. dollar denominated long-term debt	(90)	(265)	134
(Gain) loss on contribution receivable	67	216	(228)
Other (gains) losses	21	44	(241)
Gain	(2)	(5)	(335)

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

Interest coverage ratios ⁽¹⁾:

	2010	2009	2008
Interest coverage ratios on long-term debt ^{(2) (4)}			
Earnings	7.8	11.1	34.4
Cash flow	13.7	17.4	50.9
Interest coverage ratios on total debt ^{(3) (4)}			
Earnings	7.6	10.7	33.4
Cash Flow	13.3	16.7	49.3

⁽¹⁾ Interest coverage ratios are presented in compliance with Section 8.4 of National Instrument 44-102 Shelf Distributions.

⁽²⁾ Interest coverage on long-term debt on an earnings basis is equal to earnings before interest expense on long-term debt and income taxes divided by interest expense on long-term debt and capitalized interest. Interest coverage on long-term debt on a cash flow basis is equal to cash flow from operating activities before interest expense on long-term debt and current income taxes divided by interest expense on long-term debt and capitalized interest. Long-term debt includes the current portion of long-term debt.

⁽³⁾ Interest coverage on total debt on an earnings basis is equal to earnings before interest expense on total debt and income taxes divided by interest expense on total debt and capitalized interest. Interest coverage on total debt on a cash flow basis is equal to cash flow from operating activities before interest expense on total debt and current income taxes divided by interest expense on total debt and capitalized interest. Total debt includes short and long-term debt.

⁽⁴⁾ Calculated for the 12 months ended for the dates shown.

Credit Facilities

The Company's revolving syndicated credit facility allows it 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. In August 2010, Husky added a second revolving syndicated credit facility that allows the Company to borrow up to \$1.5 billion in either Canadian or U.S. currency from a group of banks on an unsecured basis. The facility is structured as a four-year committed revolving credit facility. Interest rates under both revolving syndicated credit facilities 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 rating agencies to the Company's senior unsecured debt.

The Company's \$150 million revolving bilateral credit facilities have substantially the same terms as the \$1.25 billion syndicated credit facility.

As at December 31, 2010, the Company had borrowings of \$380 million under its \$1.25 billion revolving syndicated credit facility and no borrowings under its \$1.5 billion facility or its bilateral credit facilities. See Note 21 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 Commission 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 senior notes were issued under this shelf prospectus. The notes are unsecured and rank equally with all of Husky's other unsecured and unsubordinated indebtedness.

On December 21, 2009, Husky filed an additional debt shelf prospectus with the applicable securities regulators in each of the provinces of Canada 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. On March 12, 2010, Husky issued \$300 million of 3.75% notes due March 12, 2015 and \$400 million of 5.00% notes due March 12, 2020. The notes are redeemable at the option of the Company at any time, subject to a make whole provision. Interest is payable semi-annually. The notes are unsecured and unsubordinated and rank equally with all of Husky's other unsecured and unsubordinated indebtedness.

On November 26, 2010, Husky filed a universal short form base shelf prospectus with applicable securities regulators in each of the provinces of Canada that enables Husky to offer up to \$3 billion of common shares, preferred shares, debt securities, subscription receipts, warrants and units (the "Securities") in Canada until December 2012. During the 25-month period that the shelf prospectus is effective, Securities may be offered in amounts, at prices and on terms to be determined based on market conditions at the time of sale and set forth in an accompanying prospectus supplement. As of December 31, 2010, only common shares had been issued under the prospectus. (Refer to Note 17).

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 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 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 14 Other Long-term Liabilities

<i>(\$ millions)</i>	2010	2009	2008
Asset retirement obligations	1,150	793	711
Cross currency swaps <i>(note 20)</i>	102	92	33
Employee future benefits <i>(note 18)</i>	92	81	81
Capital lease obligations	34	36	44
Other	39	34	29
	1,417	1,036	898

Asset Retirement Obligations

At December 31, 2010, the estimated total undiscounted inflation-adjusted amount required to settle outstanding asset retirement obligations was \$7.6 billion (2009 - \$5.9 billion; 2008 - \$5.4 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:

<i>(\$ millions)</i>	2010	2009	2008
Asset retirement obligations at beginning of year	793	711	662
Liabilities incurred/acquired, net of revisions	365	79	56
Liabilities disposed	(1)	(4)	(5)
Liabilities settled	(60)	(41)	(56)
Accretion ⁽¹⁾	53	48	54
Asset retirement obligations at end of year	1,150	793	711

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

Note 15 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:

<i>(\$ millions)</i>	2010	2009	2008
Earnings (loss) before income taxes			
Canada	1,875	2,195	5,687
United States	(251)	(51)	(820)
Other foreign jurisdictions	(66)	(187)	278
	1,558	1,957	5,145
Statutory income tax rate (percent)	29.0	30.0	30.6
Expected income tax	452	587	1,574
Effect on income tax of:			
Change in statutory tax rate	–	(1)	–
Rate benefit on partnership earnings	(26)	(27)	(60)
Capital gains and losses	(5)	(11)	(19)
Foreign jurisdictions	(19)	19	(102)
Other - net	(17)	(26)	1
Income tax expense	385	541	1,394

In 2009, a tax rate benefit of approximately \$1 million was recognized related to a reduction in the Ontario provincial corporate tax rate.

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

<i>(\$ millions)</i>	2010	2009	2008
Future tax liabilities			
Property, plant and equipment	4,694	4,478	5,226
Foreign exchange gains taxable on realization	91	81	92
Other temporary differences	3	23	2
	4,788	4,582	5,320
Future tax assets			
Asset retirement obligations	325	230	207
Loss carry forwards	311	369	348
Other temporary differences	37	51	52
	673	650	607
	4,115	3,932	4,713

At December 31, 2010, the Company had \$818 million of U.S. tax losses that will expire between 2028 and 2030.

Note 16 Commitments and Contingencies

At December 31, 2010, the Company had commitments for non-cancellable operating leases and other long-term agreements that require the following minimum future payments:

(\$ millions)	2011	2012	2013	2014	2015	After 2015	Total
Interest on fixed rate long-term debt	232	220	207	185	158	998	2,000
Operating leases	105	96	73	64	57	117	512
Firm transportation agreements	166	142	132	161	170	3,197	3,968
Unconditional purchase obligations ⁽¹⁾	1,970	1,126	154	29	21	122	3,422
Lease rentals and exploration work agreements	98	66	49	160	78	491	942
	2,571	1,650	615	599	484	4,925	10,844

⁽¹⁾ Includes purchases of refined petroleum products, processing services, distribution services, insurance premiums, drilling rig services and natural gas purchases.

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.

Note 17 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 as at December 31, 2010.

Common Shares

Changes to issued common shares were as follows:

(\$ millions)	Number of Shares	Amount
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
Common shares issued, net of share issue costs	40,816,326	988
Options exercised	31,534	1
December 31, 2010	890,708,795	4,574

With respect to the Securities referred to in Note 13, Husky issued 11.9 million common shares at a price of \$24.50 per share for total gross proceeds of \$293 million via an overnight-marketed public offering. The Company also issued a total of 28.9 million common shares to the principal shareholders, L.F. Investments (Barbados) Limited and Hutchison Whampoa Luxembourg Holdings S.à.r.l. at a price of \$24.50 per share for total gross proceeds of \$707 million.

Stock Options

At December 31, 2010, 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. For options granted prior to 2010, 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. For options granted in 2010, 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 for the five trading days following 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. 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.

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, 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
Granted	8,870	\$ 27.95	4	
Exercised for common shares	(31)	\$ 24.14	–	
Surrendered for cash	(39)	\$ 23.24	–	
Forfeited	(7,658)	\$ 40.50	2	
December 31, 2010	29,541	\$ 37.04	3	17,325

As at December 31, 2010

Range of Exercise Price	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
\$25.41 - \$29.99	9,277	\$ 28.08	4	102	\$ 29.81
\$30.00 - \$34.99	1,692	\$ 31.65	3	928	\$ 31.96
\$35.00 - \$39.99	881	\$ 38.48	1	680	\$ 38.04
\$40.00 - \$42.99	14,557	\$ 41.58	1	13,976	\$ 41.61
\$43.00 - \$45.02	3,134	\$ 45.02	3	1,639	\$ 45.02
	29,541	\$ 37.04	3	17,325	\$ 41.20

Performance Share Units

In May 2010, the Board of Directors of Husky established the Performance Share Unit Plan for certain officers and employees of the Company. A PSU is a time-vested award entitling participants to receive cash based on the Company's share price at the time of vesting. The amount of cash is contingent on the Company's total shareholder return relative to a peer group of companies. During 2010, 245,000 PSUs were granted to senior management and 25,000 PSUs were forfeited. As at December 31, 2010, 220,000 PSUs were outstanding.

Dividends

During 2010, the Company declared dividends of \$1.20 per common share (2009 - \$1.20 per common share; 2008 - \$1.73 per common share).

Note 18 Employee Future Benefits

At December 31, 2010, the accrued benefit liability for the post-retirement health and dental care plan in Canada was \$59 million (2009 - \$50 million; 2008 - \$43 million). The accrued benefit liabilities for the defined benefit pension plan and the post-retirement welfare plan in the U.S. were \$2 million (2009 - \$1 million; 2008 - less than \$1 million) and \$31 million (2009 - \$30 million; 2008 - \$38 million) respectively. The total employee future benefits liability for the Company included in other long-term liabilities was \$92 million at December 31, 2010 (2009 - \$81 million; 2008 - \$81 million).

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:

	2010	2009	2008
Discount rate for pension benefit expense <i>(percent)</i>	5.7	6.3	5.0
Discount rate for accrued benefit obligation at December 31 <i>(percent)</i>	5.0	5.7	6.3
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	7.0

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

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

Benefit Obligation <i>(\$ millions)</i>	2010	2009	2008
Benefit obligation, beginning of year	141	132	150
Current service cost	1	2	2
Interest cost	8	8	8
Benefits paid	(9)	(10)	(9)
Actuarial (gains) losses	12	9	(19)
Benefit obligation, end of year	153	141	132

Fair Value of Plan Assets (\$ millions)	2010	2009	2008
Fair value of plan assets, beginning of year	119	110	141
Contributions	11	5	6
Benefits paid	(9)	(10)	(9)
Expected return on plan assets	8	8	10
Gain (loss) on plan assets	5	6	(38)
Fair value of plan assets, end of year	134	119	110

Funded Status of Plan (\$ millions)	2010	2009	2008
Fair value of plan assets	134	119	110
Benefit obligation	(153)	(141)	(132)
Excess obligation	(19)	(22)	(22)
Unrecognized past service costs	1	2	2
Unrecognized losses	48	46	50
Accrued benefit asset	30	26	30

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 measurement date of the plan assets and the accrued benefit obligation was December 31, 2010. The most recent actuarial valuation of the plan was December 31, 2009 and the next actuarial valuation is scheduled to occur no later than December 31, 2012.

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

	2010	2009	2008
U.S. common equities	-%	-%	1%
Canadian common equities	37	32	26
International equity mutual funds	20	21	23
Canadian government bonds	13	15	18
Canadian corporate bonds	6	5	4
International fixed income	-	1	1
Canadian fixed income mutual funds	23	25	25
Cash and receivables	1	1	2
Total	100%	100%	100%

During 2010, Husky contributed \$11.4 million to the defined benefit pension plan assets, \$10.1 million of which was in respect of additional contributions as a result of the plan's deficiency. Husky currently plans to contribute \$9.2 million in 2011.

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 six 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 at December 31, 2010 was 5.2%. The average health care cost trend rate used was 9.0% for 2011, which is reduced by 0.5% per year for eight years to 5.0% in 2019 and thereafter. 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 (\$ millions)	2010	2009	2008
Benefit obligation, beginning of year	65	53	54
Current service cost	5	4	4
Interest cost	4	4	3
Benefits paid	(1)	(1)	(1)
Actuarial (gains) losses	10	5	(7)
Benefit obligation, end of year	83	65	53

Funded Status of Plan (\$ millions)	2010	2009	2008
Benefit obligation	(83)	(65)	(53)
Unrecognized losses	24	15	10
Accrued benefit liability	(59)	(50)	(43)

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:

(\$ millions)	1% Increase	1% Decrease
Effect on total service and interest cost components	2.0	(1.4)
Effect on post-retirement benefit obligation	14.9	(12.0)

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

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

Pension Expense (\$ millions)	2010	2009	2008
Defined benefit pension plan			
Employer current service cost	1	2	2
Interest cost	8	8	8
Expected return on plan assets	(8)	(8)	(10)
Amortization of net actuarial losses	6	7	3
	7	9	3
Defined contribution pension plan	22	21	20
Total expense	29	30	23

Post-retirement Health and Dental Care Expense (\$ millions)	2010	2009	2008
Employer current service cost	5	4	4
Interest cost	4	4	3
Amortization of net actuarial losses	-	-	1
Total expense	9	8	8

d) Future Benefit Payments

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

<i>(\$ millions)</i>	Defined Benefit Pension Plan	Post-retirement Health and Dental Care Plan
2011	10	1
2012	10	2
2013	10	2
2014	10	2
2015	11	3
2016 - 2020	54	18

United States

a) Defined Benefit Pension Plan

As at December 31, 2010, the benefit obligation was \$13 million (2009 - \$8 million; 2008 - \$5 million) and the fair value of the plan assets was \$8 million (2009 - \$5 million; 2008 - \$4 million). The discount rate used at the end of 2010 to determine the accrued benefit obligation was 4.7% (2009 - 5.4%; 2008 - 6.0%). During 2010 Husky contributed \$3 million to the defined benefit pension plan assets and currently plans to contribute \$3 million in 2011.

Pension expense for 2010 was \$4 million (2009 - \$3 million; 2008 - \$2 million).

The measurement date of the plan assets and the accrued benefit obligation was December 31, 2010. The most recent actuarial valuation of the plan was January 1, 2010 and the next actuarial valuation is scheduled to occur no later than January 1, 2011.

b) Defined Contribution Pension Plan

The Company's contribution to the U.S. 401(k) plan was \$2.9 million in 2010 (2009 - \$3.3 million; 2008 - \$2.6 million).

c) Post-retirement Welfare Plan

As at December 31, 2010, the benefit obligation was \$12 million (2009 - \$11 million; 2008 - \$13 million). The discount rate used at the end of 2010 to determine the accrued benefit obligation was 4.9% (2009 - 5.4%; 2008 - 6.1%).

Post-retirement welfare expense for 2010 was a recovery of \$2 million (2009 - \$2 million recovery; 2008 - \$3 million expense).

Note 19 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 certain management, shareholders, affiliates and directors. These notes were offered through an existing base shelf prospectus, which was filed with the U.S. Securities and Exchange Commission in February 2009. The coupon rates offered were 5.90% and 7.25% for the 5- and 10-year tranches respectively. Subsequent to this offering, U.S. \$65 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 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, 2010, the senior notes are included in long-term debt on the Company's balance sheet.

On December 7, 2010, Husky issued 28.9 million common shares at a price of \$24.50 per share for total gross proceeds of \$707 million via a private placement to L.F. Investments (Barbados) Limited and Hutchison Whampoa Luxembourg Holdings S.à.r.l.

A related party is a 49.99% owner in TransAlta Cogeneration, L.P. ("TACL P") 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 TACL P. These natural gas sales are related party transactions. These transactions occur in the normal course of business and have been measured at the exchange amount. For 2010, the total value of natural gas sales to the

Meridian and other cogeneration facilities owned by TACLP was \$44 million (2009 - \$90 million; 2008 - \$125 million). At December 31, 2010, the total value of accounts receivables related to these transactions was nil (2009 and 2008 - nil). The Company and TACLP agreed to sell the Meridian cogeneration facility in February 2011. (Refer to Note 23 d).

Note 20 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, interest rates and foreign exchange 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 monitors the changes to regulations and government policies in the areas within which it operates.

Fair Value of Financial Instruments

The Company's financial instruments as at December 31, 2010 included cash and cash equivalents, accounts receivable, contribution receivable, accounts payable and accrued liabilities, long-term debt, contribution payable, the derivative portion of cash flow hedges, fair value hedges and freestanding derivatives.

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

At December 31, 2010, the carrying value of the contribution receivable and contribution payable was \$1.3 billion (2009 - \$1.3 billion; 2008 - \$1.5 billion) and \$1.4 billion (2009 - \$1.5 billion; 2008 - \$1.7 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 8, "Joint Ventures."

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 was as follows:

<i>(\$ millions)</i>	2010	2009	2008
Financial assets at fair value			
Trading derivatives	34	22	111
Financial liabilities at fair value			
Trading derivatives	12	16	23

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:

<i>(\$ millions)</i>	2010		2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt	4,187	4,578	3,229	3,559	1,957	1,739

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, 2010, the Company had the following third party offsetting physical purchase and sale natural gas contracts, which met the definition of a derivative instrument:

<i>(\$ millions)</i>	Volumes (mmcf)	Fair Value
Physical purchase contracts	14,696	(1)
Physical sale contracts	(14,696)	2

These contracts have been recorded at their fair value in accounts receivable and accrued liabilities and the resulting unrealized loss of \$2 million (2009 - gain of \$1 million; 2008 - gain of less than \$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, 2010, the Company had the following third party physical purchase and sale natural gas storage contracts:

<i>(\$ millions)</i>	<i>Volumes (mmcf)</i>	<i>Fair Value</i>
Physical purchase contracts	2,504	–
Physical sale contracts	(37,255)	31

The third party physical purchase and sale contracts have been recorded at their fair value in accrued liabilities and accounts receivable respectively. At December 31, 2010, the balance sheet position of these contracts was \$31 million recorded in accounts receivable (2009 - \$13 million in accounts receivable; 2008 - \$51 million in accounts receivable). The change in the fair value of these contracts resulted in an unrealized gain of \$18 million (2009 - unrealized loss of \$38 million; 2008 - unrealized gain of \$50 million) which has been recorded in other expenses in the Consolidated Statements of Earnings and Comprehensive Income.

At December 31, 2010, the Company also had financial natural gas storage contracts. Natural gas inventories held in storage relating to these contracts are recorded at fair value. At December 31, 2010, the fair value of the inventories was \$131 million (2009 - \$173 million; 2008 - \$222 million). The cumulative fair value change on this inventory as of December 31, 2010 was an unrealized loss of \$6 million (2009 - unrealized gain of \$45 million; 2008 - unrealized loss of \$24 million). The change in the fair value of inventory resulted in an unrealized loss of \$51 million (2009 - unrealized gain of \$69 million; 2008 - unrealized loss of \$24 million) which has been recorded in other expenses in the Consolidated Statements of Earnings and Comprehensive Income.

c) Oil Contracts

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, 2010, the Company had the following third party crude oil purchase contracts which have been designated as a fair value hedge:

<i>(\$ millions)</i>	<i>Volumes (bbls)</i>	<i>Fair Value</i>
Physical purchase contracts	326,382	(2)

These contracts have been recorded at their fair value in accounts receivable and the resulting unrealized gain of \$2 million (2009 - gain of \$4 million; 2008 - n/a) 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, 2010, the fair value of the inventory was \$30 million (2009 - \$124 million; 2008 - n/a), resulting in an unrealized loss of \$2 million (2009 - loss of \$1 million; 2008 - n/a) recorded in earnings in the Consolidated Statements of Earnings and Comprehensive Income.

The Company enters into certain crude oil purchases and sale contracts to minimize its exposure to fluctuations in the benchmark price between the time a sales agreement is entered into and the time inventory is delivered.

<i>(\$ millions)</i>	<i>Volumes (mbbls)</i>	<i>Fair Value</i>
Physical purchase contracts	3,001	(271)
Physical sale contracts	(3,001)	248

These contracts meet the definition of a derivative instrument and have been recorded at their fair value in accounts receivable and accrued liabilities. At December 31, 2010, a resulting unrealized loss of \$8 million was recorded in other expenses in the Consolidated Statements of Earnings and Comprehensive Income. A portion of the crude oil inventory is sold to third parties. This inventory is considered held for trading and as such, has been recorded at its fair value. At December 31, 2010, the fair value of inventory was \$72 million, resulting in a \$6 million unrealized gain recorded in other expenses in the Consolidated Statements of Earnings and Comprehensive Income.

The Company has 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. The contracts have been recorded at fair value in accounts receivable and accrued liabilities. As at December 31, 2010, the fair value of these

contracts was \$1 million resulting in a loss of \$1 million (2009 - loss of \$30 million) recorded in other expenses in the Consolidated Statements of Earnings and Comprehensive Income.

Interest Rate Risk Management

At December 31, 2010, 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 (\$ millions)	Swap Maturity	Swap Rate ⁽¹⁾ (percent)	Fair Value (\$ millions)
U.S. 200	November 15, 2016	LIBOR + 417 bps	10
U.S. 300	September 15, 2017	LIBOR + 264 bps	18
U.S. 150	June 15, 2014	LIBOR + 350 bps	5
Cdn 300	March 12, 2015	CDOR + 0.83%	8

⁽¹⁾ Weighted average rate.

During 2010, these swaps resulted in an offset to interest expense amounting to \$23 million (2009 - offset of less than \$1 million; 2008 - offset of less than \$1 million). The amortization of previous interest rate swap terminations resulted in an addition to interest expense of \$2 million (2009 - offset of \$3 million; 2008 - offset of \$5 million).

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 - gain of \$1 million) on the interest swap arrangements recorded in other expenses in the Consolidated Statements 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, 2010, the Company had a cash flow hedge using the following cross currency debt swaps:

Debt	Swap Amount (\$ millions)	Canadian Equivalent (\$ millions)	Swap Maturity	Interest Rate (percent)	Fair Value (\$ millions)
6.25% notes	U.S. 150	211	June 15, 2012	7.41	(68)
6.25% notes	U.S. 75	89	June 15, 2012	5.65	(14)
6.25% notes	U.S. 50	59	June 15, 2012	5.67	(8)
6.25% notes	U.S. 75	88	June 15, 2012	5.61	(12)

These contracts have been recorded at fair value in other long-term liabilities. The effective portion of the gain or loss related to measuring the contract at fair value has been included in OCI. As at December 31, 2010, the unrealized foreign exchange gain of \$6 million (2009 - \$2 million gain; 2008 - \$6 million loss), net of tax of \$2 million (2009 - \$1 million; 2008 - \$2 million) is recorded in OCI. At December 31, 2010, the balance in Accumulated Other Comprehensive Income was \$2 million (2009 - \$7 million; 2008 - \$10 million), net of tax of less than \$1 million (2009 - \$3 million; 2008 - \$4 million).

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, 2010, the impact of these contracts was a realized gain of \$26 million (2009 - gain of \$16 million; 2008 - loss of \$34 million) recorded in foreign exchange expense.

As at December 31, 2010, the Company has designated U.S. \$987 million (2009 - \$687 million) of its U.S. debt as a hedge of the Company's net investments in the U.S. refining operations, which are considered self-sustaining. In 2010, the unrealized foreign exchange gain arising from the translation of the debt was \$44 million (2009 - gain of \$104 million), net of tax expense of \$7 million (2009 - expense of \$18 million), 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, 2010, had interest rates been 50 basis points higher and assuming all other variables remained constant, the impact to earnings before tax would have been \$21 million lower (2009 - \$12 million lower; 2008 - less than \$1 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 \$24 million higher (2009 - \$14 million higher; 2008 - less than \$1 million higher).

The Company is exposed to interest rate and foreign currency risk on its cross currency debt swaps. As at December 31, 2010, 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 \$1 million lower (2009 - \$5 million lower; 2008 - \$4 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 \$6 million higher (2009 - \$5 million higher; 2008 - \$7 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 (2008 and 2009 - \$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 less than \$1 million lower (2009 - \$1 million lower; 2008 - \$7 million lower).

The Company is exposed to foreign currency risk on its forward purchases of U.S. dollars. As at December 31, 2010, 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 (2009 - less than \$1 million lower; 2008 - \$2 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, 2010, had the forward price been \$0.20/mmbtu higher, the impact to earnings before tax would have been \$3 million lower (2009 and 2008 - \$7 million lower). Had the forward price been \$0.20/mmbtu lower, the impact to earnings before tax would have been \$3 million higher (2009 and 2008 - \$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, 2010:

Credit Facilities (\$ millions)	Available	Unused
Operating facilities	415	299
Syndicated bank facilities	2,750	2,370
Bilateral credit facilities	150	150
Total	3,315	2,819

In addition to the credit facilities listed above, the Company has unused capacity under shelf prospectuses of U.S. \$1.5 billion and \$3.0 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, 2010:

Financial Liability (\$ millions)	2011	2012	2013	2014	2015	After 2015
Accounts payable and accrued liabilities	2,494	-	-	-	-	-
Cross currency swaps	-	447	-	-	-	-
Long-term debt	-	782	-	753	303	2,349

The following are contractual maturities of non-financial liabilities as at December 31, 2010:

Non-Financial Liability (\$ millions)	2011	2012	2013	2014	2015	After 2015
Asset retirement obligations	10	9	9	9	9	1,105

The Company's contribution payable to the joint venture with BP (refer to Note 8) is payable between December 31, 2010 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 2010.

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 with original maturities of 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, contribution 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 (\$ millions)	Dec. 31, 2010
Current	1,110
Past due (1 - 30 days)	68
Past due (31 - 60 days)	5
Past due (61 - 90 days)	4
Past due (more than 90 days)	15
Total	1,202

The movement in the Company's allowance for doubtful accounts for 2010 was as follows:

<i>(\$ millions)</i>	
Balance at January 1, 2010	18
Provisions and revisions	1
Balance at December 31, 2010	19

The Company did not write off any uncollectible receivables in 2010.

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, 2010, the amount the Company would be contractually required to pay under the cross currency swaps at maturity was \$346 million higher (December 31, 2009 - \$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 21 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 2.5 times and a debt to capital employed target of 25% to 35%. At December 31, 2010, debt to capital employed was 21.3% (2009 - 18.3%; 2008 - 12.0%) 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, 2010, debt to cash flow from operations was 1.2 times (2009 - 1.3 times; 2008 - 0.3 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 facilities include a debt to cash flow covenant. The Company was fully compliant with this covenant at December 31, 2010.

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

Note 22 Government Assistance

Husky has government assistance programs in place where it receives funding based on ethanol sales volume from the Lloydminster and Minnedosa ethanol plants. Applications for funding from the Department of Natural Resources and the Government of Manitoba are submitted on a monthly and quarterly basis, respectively. The programs expire in 2015. Prior to the second quarter of 2010, funding received was based on ethanol production margins. In the second quarter of 2010, amendments were made to the terms under these programs which require funding to be based on ethanol sales volume. The following government funding was received during the year:

<i>(\$ millions)</i>	2010	2009	2008
First Quarter	17	11	-
Second Quarter	15	16	-
Third Quarter	9	13	1
Fourth Quarter	9	13	17
Total funding received	50	53	18

Prior to the second quarter of 2010, funding received under these programs was recorded in cost of sales; beginning in the second quarter of 2010, the company recorded funding received under these programs in sales in the Consolidated Statements of Earnings and Comprehensive Income.

Note 23 Subsequent Events

a) ExxonMobil Asset Acquisition

On November 29, 2010, the Company announced that it had signed a purchase and sale agreement with ExxonMobil Canada Ltd. to acquire oil and natural gas properties in Alberta and northeast British Columbia for \$860 million. The effective date of the transaction was December 1, 2010. The transaction closed on February 4, 2011. Total consideration at closing was \$826 million.

b) Sale of Oil Sands Leases

On January 14, 2011, the Company completed a sales agreement to sell 23 square miles of mining leases in Alberta for a consideration of \$200 million resulting in a gain, subject to adjustments, of approximately \$177 million accounted for under IFRS. The first installment of \$100 million was received on January 14, 2011; the second installment of \$100 million is due and payable on January 13, 2012.

c) Completion of 10% Interest Sale of HOML

In October 2010, both HOMP and CNOOCSE agreed to each sell a 10% equity share in HOML to Samudra Energy Ltd. through its affiliate, SMS Development Ltd. ("SMS"). Following the completion of the sale, HOMP and CNOOCSE will each hold a 40% equity interest in HOML with the remaining 20% balance held by SMS. This sale closed on January 13, 2011, resulting in a gain of approximately \$10 million for the Company accounted for under IFRS. Husky's share of the consideration was U.S. \$12.5 million in cash and a deferred purchase price for the balance of U.S. \$12.5 million which bears interest at a rate of 5% and is payable to the Company from SMS's share of future distributions.

d) Sale of the Meridian Cogeneration Facility

Husky holds a 50% interest in the Meridian cogeneration facility, a 215 MW natural gas fired cogeneration facility at the site of the Lloydminster Upgrader. TACLP is the Company's joint venture partner for the Meridian cogeneration facility. In February 2011, Husky and TACLP agreed to sell the cogeneration facility to a related party. Completion of the transaction is subject to consent from Saskatchewan Power Corporation as well as regulatory approval. The transaction is expected to be completed by April 2011.

e) Amendments to Common Share Terms

In the Special Meeting of Shareholders held on February 28, 2011, Husky's shareholders approved amendments to the common share terms, which provide the shareholders with the ability to receive dividends in common shares or in cash. Quarterly dividends would be declared in an amount expressed in dollars per common share and would be paid by way of issuance of a fraction of a common share per outstanding common share determined by dividing the dollar amount of the dividend by the volume weighted average trading price of the common shares on the principal stock exchange on which the common shares are traded. The volume weighted average trading price of the common shares would be calculated by dividing the total value by the total volume of common shares traded over the 5 trading day period immediately prior to the payment date of the dividend on the common shares. A shareholder must deliver to Husky's transfer agent a Stock Dividend Confirmation Notice at least five business days prior to the record date of a declared dividend confirming they will accept the dividend in common shares. Failure to do so will result in such shareholder receiving the dividend paid in cash.

Note 24 First-Time Adoption of International Financial Reporting Standards

As part of the Company's transition to IFRS, the Company has prepared the Consolidated Balance Sheets as at January 1, 2010 and December 31, 2010 and the Statement of Total Comprehensive Income for the year ended December 31, 2010 to establish the opening balance sheet of the Company and the comparative 2010 results expected to be presented to the shareholders as part of the Company's first IFRS interim report as at March 31, 2011 and IFRS financial statements as at December 31, 2011.

For all periods up to and including the year ended December 31, 2010, the Company has prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Together with other publicly reportable enterprises in Canada starting in 2011, the Company is required to prepare consolidated financial statements in accordance with IFRS. Accordingly, in advance of the first IFRS reporting date for purposes of preparing comparative 2010 IFRS information, the Company has prepared Consolidated Balance Sheets as at January 1, 2010 and December 31, 2010 and a Statement of Total Comprehensive Income for the year ended December 31, 2010, using the following IFRS accounting policies and IFRS 1 elections.

The IFRS accounting policies provided in this note are only those policies that are expected to differ from the Company's stated Canadian GAAP accounting policies. The Company has chosen accounting policies based on the IFRSs in effect as at December 31, 2010 and prepared an assessment of the adjustments to be made by the Company to its Canadian GAAP Consolidated Balance Sheets as at January 1, 2010 and December 31, 2010 and its comparative Canadian GAAP Total Comprehensive Income for the year ended December 31, 2010 to comply with IFRS.

The impact of transition to IFRS presented in this note may require adjustment when it is incorporated as part of the first IFRS financial statements reported to shareholders in 2011. The adjustment may arise as a result of early adoption of any IFRS issued in 2011 that become effective after December 31, 2011 or as a result of new standards, amendments to standards or interpretations thereto issued by the IASB.

Key First-Time Adoption Exemptions to be Applied

IFRS 1 allows first-time adopters certain exemptions from retrospective application of certain IFRSs.

The Company plans to apply the following exemptions:

- Certain oil and gas assets in property, plant and equipment on the balance sheet were recognized and measured on a full cost basis in accordance with Canadian GAAP. The Company has elected to measure its Canadian properties at the amount determined under Canadian GAAP as at January 1, 2010. Costs included in the full cost pool on January 1, 2010 were allocated on a pro-rata basis to the underlying assets on the basis of proved developed reserve volumes as at January 1, 2010. Associated decommissioning assets were also measured at their carrying value under previous Canadian GAAP while all decommissioning liabilities were measured using a consistent credit-adjusted risk free rate, with a corresponding adjustment recorded to opening retained earnings. The Company has elected not to apply the IFRS 1 full cost exemption to its International upstream properties.
- IFRS 3, "Business Combinations," has not been applied to acquisitions of subsidiaries or interests in joint ventures that occurred before January 1, 2010.
- The Company has elected to apply International Accounting Standards ("IAS") 23, "Borrowing Costs," with an effective date of January 1, 2003 which requires mandatory capitalization of borrowing costs directly attributable to the acquisition, construction or production of qualifying assets. De-recognition of previously capitalized borrowing costs in accordance with Canadian GAAP did not have a material impact to the Company.
- The Company has recognized all cumulative actuarial gains and losses on pensions and other post-retirement benefits in retained earnings as at January 1, 2010.
- Cumulative currency translation differences for all foreign operations are deemed to be zero as at January 1, 2010. Accordingly, all cumulative foreign exchange gains and losses in the Company's cumulative foreign currency translation account have been recognized in retained earnings at January 1, 2010.
- IFRS 2, "Share-based Payment," has not been applied to equity instruments related to stock-based compensation arrangements that were granted on or before November 7, 2002, nor has it been applied to equity instruments granted after November 7, 2002 that vested before January 1, 2010. For cash-settled share-based payment transactions, the Company has not applied IFRS 2 to liabilities that were settled before January 1, 2010.
- The Company has not reassessed any arrangements to determine whether they contain a lease if they have already been assessed under Canadian GAAP. Additionally, any arrangements that have not been assessed under Canadian GAAP have been assessed under International Financial Reporting Interpretations Committee ("IFRIC") 4, "Determining Whether an Arrangement Contains a Lease," based on terms and conditions existing at January 1, 2010.

Significant Changes in Accounting Policies

Please refer to the notes that follow the detailed reconciliations.

Reconciliation of Equity at January 1, 2010 (Date of Transition to IFRS)

<i>(millions of dollars)</i>	Canadian GAAP	Effects of Transition to IFRS	IFRS
Assets			
Current assets			
Cash and cash equivalents	392	–	392
Accounts and notes receivable	987	–	987
Inventories	1,520	–	1,520
Prepaid expenses	12	–	12
	2,911	–	2,911
Exploration and evaluation assets <i>(notes a, d, j)</i>	–	1,943	1,943
Property, plant and equipment <i>(notes a, c, d, e, f, h)</i>	21,288	(2,704)	18,584
Goodwill	689	–	689
Contribution receivable	1,313	–	1,313
Other assets <i>(note b)</i>	94	(26)	68
	26,295	(787)	25,508
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities <i>(notes d, f, g)</i>	1,915	26	1,941
Income taxes payable	270	–	270
	2,185	26	2,211
Long-term debt	3,229	–	3,229
Other long-term financial liabilities	96	–	96
Other long-term liabilities <i>(notes b, c, d, g, i)</i>	147	137	284
Contribution payable	1,500	–	1,500
Asset retirement obligations <i>(notes d, f)</i>	793	(26)	767
Deferred tax liabilities <i>(note l)</i>	3,932	(227)	3,705
	11,882	(90)	11,792
Shareholders' equity			
Common shares	3,585	–	3,585
Retained earnings <i>(note m)</i>	10,832	(733)	10,099
Other reserves <i>(note d)</i>	(4)	36	32
	14,413	(697)	13,716
	26,295	(787)	25,508

Reconciliation of Equity at December 31, 2010

<i>(millions of dollars)</i>	Canadian GAAP	Effects of Transition to IFRS	IFRS
Assets			
Current assets			
Cash and cash equivalents	252	–	252
Accounts and notes receivable	1,529	–	1,529
Inventories	1,935	–	1,935
Prepaid expenses	34	–	34
	3,750	–	3,750
Exploration and evaluation assets <i>(notes a, d, j)</i>	–	472	472
Property, plant and equipment <i>(notes a, c, d, e, f, h, j)</i>	23,299	(1,529)	21,770
Goodwill	663	–	663
Contribution receivable	1,284	–	1,284
Other assets <i>(note b)</i>	137	(26)	111
	29,133	(1,083)	28,050
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities <i>(notes d, f, g)</i>	2,494	12	2,506
Long-term debt	4,187	–	4,187
Other long-term financial liabilities	102	–	102
Other long-term liabilities <i>(notes b, c, d, g, i)</i>	165	124	289
Contribution payable	1,427	–	1,427
Asset retirement obligations <i>(notes d, f)</i>	1,150	48	1,198
Deferred tax liabilities <i>(note l)</i>	4,115	(348)	3,767
	13,640	(164)	13,476
Shareholders' equity			
Common shares	4,574	–	4,574
Retained earnings <i>(note m)</i>	10,985	(959)	10,026
Other reserves <i>(notes b, d)</i>	(66)	40	(26)
	15,493	(919)	14,574
	29,133	(1,083)	28,050

Reconciliation of Total Comprehensive Income for the Year ended December 31, 2010

<i>(millions of dollars)</i>	Canadian GAAP	Effects of Transition to IFRS	IFRS
Revenues, net of royalties <i>(notes d, k)</i>	18,178	(854)	17,324
Costs and expenses			
Purchase of crude oil and products <i>(notes d, k)</i>	11,651	(854)	10,797
Production and operating expenses	2,309	–	2,309
Selling, general and administrative expenses <i>(notes d, g)</i>	305	(14)	291
Depletion, depreciation and amortization <i>(notes a, c, d, e, h)</i>	2,073	(81)	1,992
Exploration and evaluation expenses <i>(note a)</i>	–	438	438
Other - net <i>(notes f, i)</i>	23	(38)	(15)
	16,361	(549)	15,812
Profit from operating activities	1,817	(305)	1,512
Financial items			
Net foreign exchange gains (losses) <i>(note d)</i>	2	(51)	(49)
Finance income	79	–	79
Finance expenses <i>(notes d, f, j, l)</i>	(340)	15	(325)
	(259)	(36)	(295)
Profit before income taxes	1,558	(341)	1,217
Provisions for (recovery of) income taxes			
Current	188	–	188
Deferred <i>(note l)</i>	197	(115)	82
Profit	1,173	(226)	947
Other comprehensive income (loss)			
Exchange differences on translation of foreign operations, net of tax <i>(note d)</i>	(112)	21	(91)
Actuarial gains (losses) on pension plans, net of tax <i>(note b)</i>	–	(14)	(14)
Hedge of net investment, net of tax <i>(note d)</i>	44	(3)	41
Derivatives designated as cash flow hedges, net of tax	6	–	6
Total comprehensive income for the year	1,111	(222)	889

Notes to the Reconciliations of Equity and Total Comprehensive Income from Canadian GAAP to IFRS

a) IFRS 6 Adjustments – Exploration for and Evaluation of Mineral Resources

i) Accounting for Oil and Gas Properties

Under Canadian GAAP, the Company followed 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 were capitalized and accumulated within cost centres on a country-by-country basis. Depletion of oil and gas properties was calculated using the unit-of-production method based on proved oil and gas reserves for each cost centre. Under IFRS, pre-exploration and evaluation costs, which include all exploratory costs incurred prior to the acquisition of the legal right to explore, are expensed as incurred. After the legal right to explore is acquired, land acquisition costs and expenditures directly associated with exploratory wells will be capitalized as exploration and evaluation assets. Geological and geophysical and other exploration costs will be immediately recognized in exploration and evaluation expenses. Land acquisition costs will remain capitalized until the Company has chosen to discontinue all exploration activities in the associated area. Land acquisition costs associated with successful exploration are reclassified into property, plant and equipment. Exploratory wells will remain capitalized until the drilling operation is complete and the results have been evaluated. If the well does not encounter reserves of commercial quantity, either on its own or in combination with other exploration wells associated with the same area of exploration, the costs of drilling the well or wells will be written-off to exploration and evaluation expenses. Wells that result in commercial quantities of reserves remain capitalized and reclassified into property, plant, and equipment.

The Company has elected to apply the IFRS 1 exemption for its Canadian oil and gas assets. For International cost centres where the Company has elected not to apply the IFRS 1 deemed cost exemption, previously capitalized costs related to unsuccessful exploration drilling, geological and geophysical expenditures, exploratory seismic and lease rental expenses have been recorded as a reduction to property, plant and equipment and opening retained earnings upon adoption of IFRS 6. As a result, inception to January 1, 2010 exploration activities that would have been expensed under IFRS totaled \$516 million. For the year ended December 31, 2010, the Company reduced net property, plant, and equipment by \$438 million, in accordance with IFRS 6, and recognized these amounts as exploration and evaluation expenses for all cost centres.

ii) Depletion Expense

The application of IFRS oil and gas accounting policies resulted in differences in the carrying costs subject to depletion under IFRS as compared to full cost accounting. Additionally, differences in depletion arose from the determination of depletion at the field level under IFRS versus a country level under full cost accounting. For the year ended December 31, 2010, the Company has recognized reduced depletion, depreciation and amortization of \$173 million under IFRS when compared to full cost accounting for International oil and gas properties and increased depletion, depreciation and amortization of \$129 million under IFRS when compared to full cost accounting for Canadian oil and gas properties. This net reduction in depletion expense can be explained in part due to the opening adjustment to International oil and gas assets as described above.

iii) Exploration and Evaluation Assets

Under IFRS 6, management has assessed the classification of activities designated as developmental or exploratory, which then determines the appropriate accounting treatment and classification of the costs incurred. For capitalized costs associated with exploratory activities, the Company has presented these costs separately on the balance sheet. Costs totalling \$1,939 million as at January 1, 2010 and \$477 million as at December 31, 2010 were reclassified from property, plant, and equipment to exploration and evaluation assets.

Consolidated Statement of Total Comprehensive Income (\$ millions)	For the year ended December 31, 2010
Increase in exploration and evaluation expenses	438
Decrease in depletion, depreciation and amortization	(44)
Adjustment before income taxes	394

Consolidated Balance Sheets (\$ millions)	As at January 1, 2010	As at December 31, 2010
Decrease/(increase) in exploration and evaluation assets	(1,939)	(477)
Decrease in property, plant and equipment	2,455	1,387
Decrease in retained earnings	516	910

b) IAS 19 Adjustments – Employee Benefits

Unamortized net actuarial loss and past service costs

IAS 19 allows the Company to recognize the unamortized net actuarial loss and past service costs for its defined benefit pension plans immediately in other comprehensive income. Canadian GAAP requires amortization of these losses and costs to net earnings over the estimated average remaining service life, with disclosure of the total cumulative unrecognized amount in the notes to the consolidated financial statements. Upon adoption of IAS 19 at January 1, 2010, the Company recognized a decrease of \$65 million and an increase of \$12 million in opening retained earnings related to the Company's cumulative unrecognized actuarial losses and past service cost recoveries, respectively. An additional charge to other comprehensive income of \$20 million (before taxes of \$6 million) was recorded in other comprehensive income representing unamortized net actuarial loss for the year ended December 31, 2010.

<u>Consolidated Statement of Total Comprehensive Income</u> (\$ millions)	<u>For the year ended December 31, 2010</u>
Decrease in other comprehensive income, before income taxes	20
Adjustment before income taxes	20

<u>Consolidated Balance Sheets</u> (\$ millions)	<u>As at January 1, 2010</u>	<u>As at December 31, 2010</u>
Decrease in other assets	26	26
Increase in other long-term liabilities	27	47
Decrease in retained earnings	53	53
Decrease in other reserves	–	20

c) IAS 20 Adjustments – Government Grants

Under IAS 20, government grants are recognized when there is reasonable assurance that the entity will comply with the conditions attached to them and the grants will be received. Under Canadian GAAP, government grants are recognized when received. The Company received government grants for the expansion of its ethanol plants which are subject to repayments dependent on the profitability of its operations as assessed annually until 2015. The Company does not have reasonable assurance of the amounts repayable on the grant until the repayment requirements are fulfilled. At January 1, 2010, the Company de-recognized these government grants until reasonable assurance of the measurement of repayments is determinable which increased property, plant, and equipment and other long-term liabilities by \$15 million as at January 1, 2010 and December 31, 2010. The reclassification from property, plant, and equipment would have resulted in increased depletion, depreciation and amortization of \$2 million from inception to January 1, 2010; this amount was recorded as a reduction of property, plant, and equipment and opening retained earnings. For the year ended December 31, 2010, the reclassification of government grants increased depletion, depreciation and amortization by less than \$1 million.

d) IAS 21 Adjustments – The Effects of Changes in Foreign Exchange Rates

Under IFRS, the functional currency of an entity is determined by focusing on the primary economic environment in which it operates and less precedence is placed on factors regarding the financing from and operational involvement of the reporting entity which consolidates the entity in its financial statements. Under Canadian GAAP, equal precedence is placed on all factors. The effect of this change to IFRS resulted in two entities having a different functional currency than the Company's functional currency. As such, the translation of the results and balance sheet of the foreign operations into the Company's presentation currency requires a translation of all assets and liabilities at the closing rate at each reporting date with all resulting foreign exchange gains or losses recognized in other comprehensive income. Revenues and expenses of foreign operations are translated using average monthly foreign exchange rates, which approximate the foreign exchange rates on the dates of the transactions with foreign exchange differences recognized in other comprehensive income. The retrospective application of IAS 21 resulted in a cumulative foreign currency exchange loss on revaluation of \$29 million as at January 1, 2010 which was recognized in other reserves prior to applying the IFRS 1 exemption.

The Company elected to utilize the IFRS 1 exemption to deem all foreign currency translation differences of \$36 million that arose prior to the date of transition with respect to all foreign operations to be nil at the date of transition. The Company reversed the balance of exchange differences on translation of foreign operations within other reserves and recorded a decrease to opening retained earnings of \$65 million.

For the year ended December 31, 2010, net foreign exchange losses of \$53 million and gain of \$21 million were attributed to the above mentioned entities that were assessed as having a different functional currency than the Company's functional currency under IFRS; these amounts were recorded to profit and other comprehensive income (loss) respectively.

For the year ended December 31, 2010, the Company reclassified \$3 million of foreign exchange loss on translation of its foreign operations from other reserves to profit under Canadian GAAP. Under IFRS, this reclassification is not required until the foreign operation is partially or fully disposed. The Company recorded increased net foreign exchange gains and reduced other comprehensive income of \$3 million under IFRS for the year ended December 31, 2010.

Consolidated Statement of Total Comprehensive Income (\$ millions)	For the year ended December 31, 2010
Decrease in revenues, net of royalties	2
Increase/(decrease) in purchases of crude oil and other products	(2)
Increase/(decrease) in selling, general and administrative expenses	(1)
Increase/(decrease) in depletion, depreciation and amortization	(1)
Decrease in net foreign exchange gains	51
Increase in finance expenses	1
Adjustment before income taxes	50

Consolidated Balance Sheets (\$ millions)	As at January 1, 2010	As at December 31, 2010
Decrease in exploration and evaluation assets	39	11
Decrease/(increase) in property, plant and equipment	(4)	58
Increase/(decrease) in accounts payable and other accrued liabilities	3	–
Increase/(decrease) in asset retirement obligations	(9)	(8)
Decrease in retained earnings	65	115
Decrease (increase) in other reserves	(36)	(54)

e) IAS 36 Adjustments – Impairment of Assets

Under Canadian GAAP, impairment of long-lived assets is assessed on the basis of an asset's estimated undiscounted future cash flows compared with the asset's carrying amount and if impairment is indicated, discounted cash flows are prepared to quantify the amount of the impairment. Under IFRS, impairment is assessed based on discounted cash flows compared with the asset's carrying amount to determine the recoverable amount and measure the amount of the impairment. In addition under IFRS, where a long-lived asset does not generate largely independent cash inflows, the Company is required to perform its test at a cash generating unit level, which is the smallest identifiable grouping of assets that generates largely independent cash inflows. Canadian GAAP impairment is based on undiscounted cash flows using asset groupings with both independent cash inflows and cash outflows.

With the adoption of IAS 36, the Company recorded impairments on its ethanol plants decreasing property, plant, and equipment by \$91 million as at January 1, 2010 based on their recoverable amounts using a fair value less cost to sell valuation based on a 39 year cash flow projection discounted at a pre-tax rate of 11%. For the year ended December 31, 2010, the recognition of these impairments under IFRS resulted in reduced depletion, depreciation and amortization of \$3 million.

The adoption of IAS 36 and application of the full cost exemption also resulted in an impairment of the carrying value of oil and gas properties in the East Central Alberta and Foothills West districts decreasing property, plant, and equipment by \$66 million as at January 1, 2010. The recoverable amounts were based on fair value less cost to sell valuations using proved plus probable reserve life discounted at pre-tax rates ranging from 13% to 14%. For the year ended December 31, 2010, the recognition of these impairments under IFRS resulted in reduced depletion, depreciation and amortization of \$7 million.

Consolidated Statement of Total Comprehensive Income (\$ millions)	For the year ended December 31, 2010
Decrease in depletion, depreciation and amortization	(10)
Adjustment before income taxes	(10)

Consolidated Balance Sheets (\$ millions)	As at January 1, 2010	As at December 31, 2010
Decrease in property, plant and equipment	157	147
Decrease in retained earnings	157	147

f) IAS 37 Adjustments – Provisions, Contingent Liabilities and Contingent Assets

i) Asset Retirement Obligations

Consistent with IFRS, decommissioning provisions (asset retirement obligations) have been previously measured under Canadian GAAP based on the estimated cost of decommissioning, discounted to their net present value upon initial recognition. Under IAS 37, asset retirement obligations will continue to be discounted using a credit-adjusted risk free rate, however, the liability is required to be re-measured based on changes in estimates including discount rates.

For asset retirement obligations associated with Canadian oil and gas properties where the IFRS 1 exemption was utilized, the Company re-measured asset retirement obligations as at January 1, 2010 under IAS 37 with a corresponding adjustment to opening retained earnings. The carrying values of Canadian oil and gas assets associated with asset retirement obligations under Canadian GAAP were not adjusted on transition to IFRS. This resulted in a decrease in asset retirement obligations and an increase in opening retained earnings of \$13 million as at January 1, 2010. Accordingly for the year ended December 31, 2010, the Company recorded reduced accretion of \$3 million under IFRS. At December 31, 2010, the Company re-measured the asset retirement obligations based on a change in the discount rate from 6.4% to 6.2% which increased property, plant, and equipment and asset retirement obligations by \$66 million.

The total impact of this change to asset retirement obligations of Canadian oil and gas assets subject to the IFRS 1 exemption is summarized as follows:

Consolidated Statement of Total Comprehensive Income (\$ millions)	For the year ended December 31, 2010
Decrease in finance expenses	3
Adjustment before income taxes	3

Consolidated Balance Sheets (\$ millions)	As at January 1, 2010	As at December 31, 2010
Increase in property, plant and equipment	–	66
Decrease/(increase) in asset retirement obligations	13	(50)
Increase in retained earnings	13	16

For asset retirement obligations associated with international oil and gas assets, midstream, downstream and corporate assets that were not subject to the IFRS 1 exemption, a retrospective application of IAS 37 was performed. This resulted in an increase in net property, plant, and equipment of \$38 million as at January 1, 2010 and an incremental increase of \$11 million during the year ended December 31, 2010. Asset retirement obligations decreased by \$4 million as at January 1, 2010 and increased by an incremental \$10 million for the year ended December 31, 2010. For the year ended December 31, 2010, the Company recorded reduced accretion of \$1 million in pre-tax finance expenses.

The total impact of this change to asset retirement obligations associated with international oil and gas assets, midstream, downstream and corporate assets is summarized as follows:

Consolidated Statement of Total Comprehensive Income (\$ millions)	For the year ended December 31, 2010
Decrease in finance expenses	1
Adjustment before income taxes	1

Consolidated Balance Sheets (\$ millions)	As at January 1, 2010	As at December 31, 2010
Increase in property, plant, and equipment	38	49
Decrease/(increase) in asset retirement obligations	4	(6)
Increase in retained earnings	42	43

Under Canadian GAAP accretion of the asset retirement obligations was included in cost of sales and operating expenses; however, under IFRS accretion is now classified in finance expenses.

ii) Onerous Contracts

Under IAS 37, contracts that are deemed loss-making or onerous are recognized as a present obligation when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. There are no equivalent requirements under Canadian GAAP. The Company recorded a provision for a drilling rig commitment that was deemed onerous resulting in an increase in provisions of \$1 million at January 1, 2010 recorded in accounts payable and accrued liabilities with a corresponding decrease in retained earnings. For the year ended December 31, 2010, the Company recognized an additional provision of \$1 million with a corresponding expense recorded to other - net.

g) IFRS 2 Adjustments – Share-Based Payments

The Company has granted cash-settled share-based payments to certain employees in the past. Under IFRS the related liability is adjusted to reflect the fair value of the outstanding cash-settled share-based payment using an option pricing model. Canadian GAAP permitted share-based payments to be accounted for by reference to their intrinsic value.

The impact of this change is summarized as follows:

Consolidated Statement of Total Comprehensive Income (\$ millions)	For the year ended December 31, 2010
Decrease in selling, general and administrative expenses	(13)
Adjustment before income taxes	(13)

Consolidated Balance Sheets (\$ millions)	As at January 1, 2010	As at December 31, 2010
Increase in accounts payable and accrued liabilities	22	10
Increase in other long-term liabilities	10	9
Decrease in retained earnings	32	19

h) IAS 16 Adjustments – Property, Plant and Equipment

The Company reviewed the major components and useful lives of items of property, plant, and equipment. As a result of the retroactive treatment of component depreciation, the Company decreased property, plant and equipment by \$144 million with an adjustment to opening retained earnings.

The Company also reviewed replacement of major components to determine if assets replaced prior to the end of their useful life required derecognition under IFRS. The Company determined that asset components with a net book value of \$3 million required derecognition which was recorded as a decrease to opening retained earnings.

As a result of these adjustments which reduced the net book value of assets on transition to IFRS, the Company recognized reduced pre-tax depletion, depreciation and amortization of \$26 million for the year ended December 31, 2010. For the year ended December 31, 2010, the Company recognized \$2 million on component disposal recorded as an expense to other - net.

Consolidated Statement of Total Comprehensive Income (\$ millions)	For the year ended December 31, 2010
Decrease in depletion, depreciation and amortization	(26)
Increase in other - net	2
Adjustment before income taxes	(24)

Consolidated Balance Sheets (\$ millions)	As at January 1, 2010	As at December 31, 2010
Decrease in property, plant and equipment	147	123
Decrease in retained earnings	147	123

i) IFRS 3 Adjustments – Business Combinations

Given that the Company elected to apply the IFRS 1 exemption which permits no adjustments to amounts recorded for acquisitions that occurred prior to January 1, 2010, no retrospective adjustments are required. The Company acquired the remaining interest in the Lloydminster upgrader from the Minister of Natural Resources in 1995 and is required to make payments to the Minister from 1995 to 2014 based on average differentials between heavy crude oil feedstock and the price of synthetic crude oil sales. Under IFRS, the Company is required to recognize this contingent consideration at its fair value as part of the acquisition and record a corresponding liability. Under Canadian GAAP, any contingent consideration is not required to be recognized unless amounts are resolved and payable on the date of acquisition. On transition to IFRS, Husky recognized a liability of \$85 million, based on the fair value of remaining upside interest payments, with an adjustment to opening retained earnings. For the year ended December 31, 2010, the Company recognized pre-tax accretion of \$9 million in finance expenses under IFRS. Changes in forecast differentials used to determine the fair value of the remaining upside interest payments resulted in the recognition of a pre-tax gain of \$41 million recorded to other income for the year ended December 31, 2010.

Consolidated Statement of Total Comprehensive Income (\$ millions)	For the year ended December 31, 2010
Increase in finance expenses	9
Increase/(decrease) in other - net	(41)
Adjustment before income taxes	(32)

Consolidated Balance Sheets (\$ millions)	As at January 1, 2010	As at December 31, 2010
Increase in other long-term liabilities	85	53
Decrease in retained earnings	85	53

j) IAS 23 Adjustments – Borrowing Costs

The Company has elected to commence mandatory capitalization of all major capital projects as at January 1, 2003, representing the date the Company commenced incurring capital expenditures on its Madura and Liwan projects, as permitted under IFRS 1. As a result, borrowing costs on major capital International upstream exploratory projects increased exploration and evaluation assets by \$43 million as at January 1, 2010 with an adjustment to opening retained earnings.

During the year ended December 31, 2010, the major capital projects with capitalized borrowing costs under IFRS were transferred to the development phase and therefore \$43 million of capitalized borrowing costs were reclassified to property, plant and equipment. Additionally, the Company capitalized incremental borrowing costs of \$6 million in exploration and evaluation assets and \$15 million in property, plant, and equipment under IFRS with a corresponding adjustment to finance expenses for the year ended December 31, 2010.

Consolidated Statement of Total Comprehensive Income (\$ millions)	For the year ended December 31, 2010
Decrease in finance expenses	21
Adjustment before income taxes	21

Consolidated Balance Sheets (\$ millions)	As at January 1, 2010	As at December 31, 2010
Increase in exploration and evaluation assets	43	6
Increase in property, plant and equipment	–	58
Increase in retained earnings	43	64

k) IAS 18 Adjustments – Revenue

Under IFRS, realized and unrealized gains and losses on natural gas purchase and sale contracts are recorded on a net basis against sales and operating expenses. Under Canadian GAAP, these gains and losses are recorded on a gross basis. For the year ended December 31, 2010, the Company reclassified \$852 million of losses on natural gas purchase contracts from purchases of crude oil and products to revenues.

l) IAS 12 Adjustments – Income Taxes

Nearly all recognized IFRS conversion adjustments as discussed in this transition note have related effects on deferred taxes. The tax impact of the above changes (increased)/decreased the deferred tax liability as follows:

<i>(millions of dollars)</i>	As at Jan. 1, 2010	For the year ended, Dec. 31, 2010	As at Dec. 31, 2010
Exploration for and evaluation of mineral resources <i>(note a)</i>	154	114	268
Depletion of oil and gas properties <i>(note a)</i>	–	(11)	(11)
Employee benefits <i>(note b)</i>	16	6	22
Foreign currency translation <i>(note d)</i>	7	13	20
Impairment of assets <i>(note e)</i>	47	(3)	44
Asset retirement obligations <i>(note f)</i>	(16)	(1)	(17)
Share-based payments <i>(note g)</i>	10	(4)	6
Property, plant and equipment <i>(note h)</i>	44	(7)	37
Business combinations <i>(note i)</i>	25	(8)	17
Borrowing costs <i>(note j)</i>	(13)	(5)	(18)
Uncertain tax positions <i>(note l)</i>	(47)	27	(20)
Decrease in deferred tax liability	227	121	348

Under IFRS, the Company records and measures income tax uncertainties based on a single best estimate. Under Canadian GAAP the Company recorded uncertain tax positions if such positions were probable of being sustained. The impact of this change increased the deferred tax liability by \$47 million as at January 1, 2010 and \$20 million as at December 31, 2010 under IFRS.

m) Opening Retained Earnings Adjustments

The above changes (increased)/decreased retained earnings (each net of related tax) as follows:

<i>(millions of dollars)</i>	As at Jan. 1, 2010	For the year ended, Dec. 31, 2010	As at Dec. 31, 2010
Exploration for and evaluation of mineral resources <i>(note a)</i>	362	324	686
Depletion of oil and gas properties <i>(note a)</i>	–	(33)	(33)
Employee benefits <i>(note b)</i>	37	–	37
Government grants <i>(note c)</i>	2	–	2
Foreign currency translation <i>(note d)</i>	58	37	95
Impairment of assets <i>(note e)</i>	110	(7)	103
Asset retirement obligations <i>(note f)</i>	(39)	(3)	(42)
Provisions – onerous contracts <i>(note f)</i>	1	1	2
Share-based payments <i>(note g)</i>	22	(9)	13
Property, plant and equipment <i>(note h)</i>	103	(17)	86
Business combinations <i>(note i)</i>	60	(24)	36
Borrowing costs <i>(note j)</i>	(30)	(16)	(46)
Uncertain tax positions <i>(note l)</i>	47	(27)	20
Decrease in retained earnings	733	226	959

n) Reclassifications

Certain amounts have been reclassified to conform with current presentation.

o) Adjustments to the Company's Cash Flow Statement under IFRS

The highlighted reconciling items discussed above between Canadian GAAP and IFRS policies have no net impact on the cash flows generated by the Company.