CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

(millions of dollars, except share data) (unaudited)	December 31 2010	December 31 2009
Assets		
Current assets		
Cash and cash equivalents (note 4)	$ 252	$ 392
Accounts receivable	1,529	987
Inventories	1,935	1,520
Prepaid expenses	34	12
	3,750	2,911
Property, plant and equipment	40,285	36,289
Less accumulated depletion, depreciation and amortization	17,026	15,035
	23,259	21,254
Goodwill	663	689
Contribution receivable	1,284	1,313
Other assets	177	128
	$ 29,133	$ 26,295
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 2,494	$ 2,185
Long-term debt (note 6)	4,187	3,229
Contribution payable	1,427	1,500
Other long-term liabilities (note 7)	1,417	1,036
Future income taxes	4,115	3,932
Commitments and contingencies (note 8)		
Shareholders' equity		
Common shares (note 9)	4,574	3,585
Retained earnings	10,985	10,832
Accumulated other comprehensive income	(66)	(4)
	15,493	14,413
	$ 29,133	$ 26,295
Common shares outstanding (millions) (note 9)	890.7	849.9

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

Notice to reader

The accompanying unaudited financial statements for the quarter and year ended December 31, 2010 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These unaudited financial statements have not been reviewed by the Company's external auditors.

Consolidated Statements of Earnings and Comprehensive Income

(millions of dollars, except share data) (unaudited)	Three months ended Dec. 31 2010	Three months ended Dec. 31 2009	Year ended Dec. 31 2010	Year ended Dec. 31 2009
Sales and operating revenues, net of royalties	$ 4,731	$ 3,605	$ 18,178	$ 15,074
Costs and expenses				
Cost of sales and operating expenses	3,590	2,613	14,013	10,865
Selling and administration expenses	99	74	305	265
Depletion, depreciation and amortization	547	455	2,073	1,805
Interest - net (note 6)	50	53	208	194
Foreign exchange (note 6)	7	(6)	(2)	(5)
Other - net	21	(20)	23	(7)
	4,314	3,169	16,620	13,117
Earnings before income taxes	417	436	1,558	1,957
Income taxes (recoveries)				
Current	(37)	216	188	1,262
Future	149	(100)	197	(721)
	112	116	385	541
Net earnings	305	320	1,173	1,416
Other comprehensive income (loss)				
Cumulative foreign currency translation adjustment	(78)	(66)	(112)	(469)
Hedge of net investment, net of tax (note 12)	31	15	44	104
Derivatives designated as cash flow hedges, net of tax (note 12)	-	-	6	2
	(47)	(51)	(62)	(363)
Comprehensive income	$ 258	$ 269	$ 1,111	$ 1,053
Earnings per share				
Basic and diluted	$ 0.35	$ 0.38	$ 1.38	$ 1.67
Weighted average number of common shares outstanding (millions)				
Basic and diluted	861.0	849.9	852.7	849.7

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

Consolidated Statements of Changes in Shareholders' Equity

(millions of dollars) (unaudited)	Three months ended Dec. 31 2010	Three months ended Dec. 31 2009	Year ended Dec. 31 2010	Year ended Dec. 31 2009
Common shares				
Beginning of period	$ 3,585	$ 3,585	$ 3,585	$ 3,568
Common shares issued, net of share issue costs	988	-	988	-
Options exercised	1	-	1	17
End of period	4,574	3,585	4,574	3,585
Retained earnings				
Beginning of period	10,935	10,767	10,832	10,436
Net earnings	305	320	1,173	1,416
Dividends on common shares	(255)	(255)	(1,020)	(1,020)
End of period	10,985	10,832	10,985	10,832
Accumulated other comprehensive income				
Beginning of period	(19)	47	(4)	359
Other comprehensive income				
Cumulative foreign currency translation adjustment	(78)	(66)	(112)	(469)
Hedge of net investment, net of tax (note 12)	31	15	44	104
Derivatives designated as cash flow hedges, net of tax (note 12)	-	-	6	2
	(47)	(51)	(62)	(363)
End of period	(66)	(4)	(66)	(4)
Shareholders' equity	$ 15,493	$ 14,413	$ 15,493	$ 14,413

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

Consolidated Statements of Cash Flows

(millions of dollars) (unaudited)	Three months ended Dec. 31 2010	Three months ended Dec. 31 2009	Year ended Dec. 31 2010	Year ended Dec. 31 2009
Operating activities				
Net earnings	$ 305	$ 320	$ 1,173	$ 1,416
Items not affecting cash				
Accretion (note 7)	13	11	53	48
Depletion, depreciation and amortization	547	455	2,073	1,805
Future income taxes (recoveries)	149	(100)	197	(721)
Foreign exchange	(16)	(20)	(24)	(48)
Other	39	(9)	77	7
Settlement of asset retirement obligations (note 7)	(26)	(17)	(60)	(41)
Change in non-cash working capital (note 4)	(355)	(264)	(786)	(548)
Cash flow - operating activities	656	376	2,703	1,918
Financing activities				
Long-term debt issuance	2,849	-	6,108	3,604
Long-term debt repayment	(2,609)	-	(5,028)	(1,866)
Proceeds from issuance of common shares, net of share issue costs (note 9)	988	-	988	-
Dividends on common shares	(255)	(255)	(1,020)	(1,020)
Other	5	3	37	43
Change in non-cash working capital (note 4)	(28)	(43)	-	(167)
Cash flow - financing activities	950	(295)	1,085	594
Investing activities				
Expenditures on property, plant and equipment	(1,564)	(1,034)	(3,852)	(2,762)
Other	(32)	2	(143)	18
Change in non-cash working capital (note 4)	211	97	67	(289)
Cash flow - investing activities	(1,385)	(935)	(3,928)	(3,033)
Increase (decrease) in cash and cash equivalents	221	(854)	(140)	(521)
Cash and cash equivalents, beginning of period	31	1,246	392	913
Cash and cash equivalents, end of period	$ 252	$ 392	$ 252	$ 392

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

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

Note 1 Segmented Financial Information

	Upstream		Midstream				Downstream				Corporate and Eliminations [1]		Total	
			Upgrading		Infrastructure and Marketing		Canadian Refined Products		U.S. Refining and Marketing					
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Three months ended December 31														
Sales and operating revenues, net of royalties	$ 1,276	$ 1,200	$ 366	$ 445	$ 1,936	$ 1,692	$ 835	$ 634	$ 1,824	$ 1,169	$ (1,506)	$ (1,535)	$ 4,731	$ 3,605
Costs and expenses														
Operating, cost of sales, selling and general	419	372	334	415	1,860	1,615	758	596	1,739	1,189	(1,400)	(1,520)	3,710	2,667
Depletion, depreciation and amortization	404	351	42	9	13	9	18	24	51	47	19	15	547	455
Interest - net	-	-	-	-	-	-	-	-	-	1	50	52	50	53
Foreign exchange	-	-	-	-	-	-	-	-	-	-	7	(6)	7	(6)
	823	723	376	424	1,873	1,624	776	620	1,790	1,237	(1,324)	(1,459)	4,314	3,169
Earnings (loss) before income taxes	453	477	(10)	21	63	68	59	14	34	(68)	(182)	(76)	417	436
Current income taxes (recoveries)	(68)	96	(20)	57	15	26	12	9	-	3	24	25	(37)	216
Future income taxes (reduction)	199	47	17	(50)	2	(7)	3	(5)	12	(28)	(84)	(57)	149	(100)
Net earnings (loss)	$ 322	$ 334	$ (7)	$ 14	$ 46	$ 49	$ 44	$ 10	$ 22	$ (43)	$ (122)	$ (44)	$ 305	$ 320
Expenditures on property, plant and equipment - Three months ended Dec. 31 [2]	$ 1,280	$ 841	$ 50	$ 20	$ 15	$ -	$ 80	$ 38	$ 122	$ 137	$ 51	$ 14	$ 1,598	$ 1,050
Year ended December 31														
Sales and operating revenues, net of royalties	$ 4,766	$ 4,452	$ 1,570	$ 1,572	$ 7,854	$ 6,984	$ 2,975	$ 2,495	$ 7,107	$ 5,349	$ (6,094)	$ (5,778)	$ 18,178	$ 15,074
Costs and expenses														
Operating, cost of sales, selling and general	1,597	1,495	1,439	1,461	7,592	6,669	2,728	2,204	6,946	4,957	(5,961)	(5,663)	14,341	11,123
Depletion, depreciation and amortization	1,572	1,397	100	34	43	36	91	93	191	194	76	51	2,073	1,805
Interest - net	-	-	-	-	-	-	-	-	2	3	206	191	208	194
Foreign exchange	-	-	-	-	-	-	-	-	-	-	(2)	(5)	(2)	(5)
	3,169	2,892	1,539	1,495	7,635	6,705	2,819	2,297	7,139	5,154	(5,681)	(5,426)	16,620	13,117
Earnings (loss) before income taxes	1,597	1,560	31	77	219	279	156	198	(32)	195	(413)	(352)	1,558	1,957
Current income taxes (recoveries)	(23)	909	1	111	62	101	56	38	-	3	92	100	188	1,262
Future income taxes (reduction)	485	(462)	8	(88)	(3)	(22)	(15)	19	(12)	68	(266)	(236)	197	(721)
Net earnings (loss)	$ 1,135	$ 1,113	$ 22	$ 54	$ 160	$ 200	$ 115	$ 141	$ (20)	$ 124	$ (239)	$ (216)	$ 1,173	$ 1,416
Expenditures on property, plant and equipment - Year ended Dec. 31 [2]	$ 3,171	$ 2,326	$ 176	$ 69	$ 40	$ 25	$ 245	$ 81	$ 257	$ 260	$ 67	$ 36	$ 3,956	$ 2,797
Total assets - As at December 31	$ 18,179	$ 16,338	$ 2,075	$ 1,427	$ 1,368	$ 1,712	$ 1,582	$ 1,430	$ 5,078	$ 4,771	$ 851	$ 617	$ 29,133	$ 26,295

[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.

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

Geographical Financial Information

	Canada		United States		Other International		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Three months ended December 31								
Sales and operating revenues, net of royalties	$ 2,785	$ 2,196	$ 1,879	$ 1,350	$ 67	$ 59	$ 4,731	$ 3,605
Expenditures on property, plant and equipment [1]	1,325	746	122	147	151	157	1,598	1,050
Year ended December 31								
Sales and operating revenues, net of royalties	$ 10,405	$ 8,856	$ 7,522	$ 5,981	$ 251	$ 237	$ 18,178	$ 15,074
Expenditures on property, plant and equipment [1]	3,252	1,974	257	285	447	538	3,956	2,797
As at December 31								
Property, plant and equipment, net	$ 18,523	$ 16,624	$ 3,477	$ 3,587	$ 1,259	$ 1,043	$ 23,259	$ 21,254
Goodwill [2]	160	160	503	529	-	-	663	689

(1) Excludes capitalized costs related to asset retirement obligations incurred during the period.
(2) Goodwill relates to Western Canada in the upstream segment and to the Lima Refinery in the downstream segment - U.S. Refining and Marketing. Changes in goodwill for the U.S. arise from translation of goodwill in the Company's self-sustaining U.S. operations.

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

Note 2 Significant Accounting Policies

The interim consolidated financial statements of Husky Energy Inc. ("Husky" or "the Company") have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar amounts are in Canadian dollars, unless otherwise indicated. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2009. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto in the Company's annual report for the year ended December 31, 2009. Certain prior years' amounts have been reclassified to conform with current presentation.

Note 3 International Financial Reporting Standards

The Accounting Standards Board confirmed that Canadian publicly accountable entities will be required to report under International Financial Reporting Standards ("IFRS"), which will replace Canadian GAAP for years beginning on or after January 1, 2011.

In July 2009, the International Accounting Standards Board approved additional IFRS transitional exemptions that will allow entities to allocate their oil and gas asset balance as determined under full cost accounting to the IFRS categories of exploration and evaluation assets and development and producing properties.

Husky expects that the areas with the most significant impact as a result of the transition to IFRS in the first quarter of 2011 will be property, plant and equipment and retained earnings.

Note 4 Cash Flows - Change in Non-cash Working Capital

	Three months ended Dec. 31		Year ended Dec. 31	
	2010	2009	2010	2009
a) Change in non-cash working capital was as follows:				
Decrease (increase) in non-cash working capital				
Accounts receivable	$ (343)	$ (215)	$ (530)	$ 235
Inventories	(280)	(268)	(481)	(651)
Prepaid expenses	26	14	(17)	-
Accounts payable and accrued liabilities	425	259	309	(588)
Change in non-cash working capital	$ (172)	$ (210)	$ (719)	$ (1,004)
Relating to:				
Operating activities	$ (355)	$ (264)	$ (786)	$ (548)
Financing activities	(28)	(43)	-	(167)
Investing activities	211	97	67	(289)
b) Other cash flow information:				
Cash taxes paid	$ 35	$ 180	$ 783	$ 1,323
Cash interest paid	88	99	232	200

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

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

Note 5 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). As at December 31, 2010, letters of credit under these lines of credit totalled $116 million (2009 - $133 million). As at December 31, 2010 and December 31, 2009, there were no bank operating loans outstanding.

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 this facility. 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, and December 31, 2009, there was no balance outstanding under this credit facility.

Note 6 Long-term Debt

	Maturity	December 31 2010	December 31 2009
Long-term debt			
Syndicated credit facility	2012	$ 380	$ -
6.25% notes (U.S. $400) (1)	2012	398	419
5.90% notes (U.S. $750) (2)	2014	750	785
3.75% medium-term notes (2)	2015	308	-
7.55% debentures (U.S. $200) (2)	2016	209	208
6.20% notes (U.S. $300) (2)	2017	316	312
6.15% notes (U.S. $300)	2019	298	314
7.25% notes (U.S. $750)	2019	746	785
5.00% medium-term notes	2020	400	-
6.80% notes (U.S. $387)	2037	385	405
Debt issue costs (3)		(26)	(26)
Unwound interest rate swaps		23	27
		$ 4,187	$ 3,229

(1) A portion of the Company's debt is designated in a cash flow hedging relationship for foreign currency risk management. Refer to Note 12.
(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 12.
(3) Calculated using the effective interest rate method.

On December 21, 2009, Husky filed a 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.

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

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

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 at December 31, 2010, only common shares had been issued under the prospectus. (Refer to Note 9).

Interest - net consisted of:

	Three months ended Dec. 31		Year ended Dec. 31	
	2010	2009	2010	2009
Interest expense				
Long-term debt	$ 59	$ 55	$ 226	$ 193
Contribution payable	21	21	87	92
Short-term debt	5	1	6	8
	85	77	319	293
Amount capitalized	(16)	(5)	(30)	(16)
	69	72	289	277
Interest income				
Contribution receivable	(19)	(19)	(77)	(81)
Other	-	-	(4)	(2)
	(19)	(19)	(81)	(83)
Interest - net	$ 50	$ 53	$ 208	$ 194

Foreign exchange (gains) and losses consisted of:

	Three months ended Dec. 31		Year ended Dec. 31	
	2010	2009	2010	2009
Gain on translation of U.S. dollar denominated long-term debt	$ (61)	$ (53)	$ (90)	$ (265)
Loss on contribution receivable	46	32	67	216
Other losses	22	15	21	44
(Gain) loss	$ 7	$ (6)	$ (2)	$ (5)

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

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

Interest coverage ratios [1]:

	December 31 2010	2009
Interest coverage ratios on long-term debt [2][4]		
Earnings	7.8	11.1
Cash flow	13.7	17.4
Interest coverage ratios on total debt [3][4]		
Earnings	7.6	10.7
Cash flow	13.3	16.7

(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.

Note 7 Other Long-term Liabilities

	December 31 2010	2009
Asset retirement obligations	$ 1,150	$ 793
Cross currency swaps (note 12)	102	92
Employee future benefits (note 10)	92	81
Capital lease obligations	34	36
Other	39	34
	$ 1,417	$ 1,036

Asset Retirement Obligations

Changes to asset retirement obligations were as follows:

	December 31 2010	2009
Asset retirement obligations at beginning of year	$ 793	$ 711
Liabilities incurred/acquired, net of revisions	365	79
Liabilities disposed	(1)	(4)
Liabilities settled	(60)	(41)
Accretion [1]	53	48
Asset retirement obligations at December 31	$ 1,150	$ 793

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

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

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). 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%.

Note 8 Commitments and Contingencies

The Company has no material litigation other than 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 proceeding 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.

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:

	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.

Note 9 Share Capital

The Company's authorized share capital consists of an unlimited number of no par value common and preferred shares.

Common Shares

Changes to issued common shares were as follows:

	Year ended December 31			
	2010		2009	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of year	849,860,935	$ 3,585	849,354,810	$ 3,568
Common shares issued, net of share issue costs	40,816,326	988	-	-
Options exercised	31,534	1	506,125	17
Balance at December 31	890,708,795	$ 4,574	849,860,935	$ 3,585

With respect to the $3 billion universal short form base shelf prospectus referred to in Note 6, 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 and a total of 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.

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

Stock Options

In accordance with the Company's stock option plan, common share options may be granted to officers and certain other employees. 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.

All stock options awarded have a maximum term of five years. Normal options granted 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.

The following tables cover all stock options granted by the Company for the periods shown.

	2010		2009	
	Number of Options (thousands)	Weighted Average Exercise Prices	Number of Options (thousands)	Weighted Average Exercise Prices
Outstanding, beginning of year	28,399	$ 40.78	30,827	$ 40.10
Granted	8,870	$ 27.95	1,187	$ 30.32
Exercised for common shares	(31)	$ 24.14	(506)	$ 12.57
Surrendered for cash	(39)	$ 23.24	(765)	$ 13.16
Forfeited	(7,658)	$ 40.50	(2,344)	$ 41.59
Outstanding at December 31	29,541	$ 37.04	28,399	$ 40.78
Options exercisable at December 31	17,325	$ 41.20	14,917	$ 41.08

	December 31, 2010				
	Outstanding Options			Options Exercisable	
Range of Exercise Price	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

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

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 performance share unit ("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.

Note 10 Employee Future Benefits

Total benefit costs recognized were as follows:

	Three months ended Dec. 31		Year ended Dec. 31	
	2010	2009	2010	2009
Employer current service cost	$ 8	$ 9	$ 35	$ 33
Interest cost	3	3	13	13
Expected return on plan assets	(2)	(2)	(9)	(8)
Amortization of net actuarial losses	2	1	4	4
	$ 11	$ 11	$ 43	$ 42

Note 11 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 at $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. under the $3 billion universal short form base shelf prospectus filed on November 26, 2010.

TransAlta Power, L.P. ("TAPLP") is under the indirect control of one of Husky's principal shareholders. TAPLP is a 49.99% owner in TransAlta Cogeneration, L.P. ("TACLP") 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 TACLP. 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 the year ended December 31, 2010, the total value of natural gas sales to the Meridian and other cogeneration facilities owed by TACLP was $ 44 million (2009 - $90 million). At December 31, 2010, the total value of accounts receivables related to these transactions was nil (2009 - nil).

Note 12 Financial Instruments and Risk Management

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 expenses are recognized are disclosed in Note 3 and Note 23 of the Company's 2009 consolidated financial statements.

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

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, contribution payable, long-term debt, 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) and $1.4 billion (2009 - $1.5 billion) respectively. The fair value of these financial instruments is not readily determinable due to uncertainties regarding timing of the cash flows.

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.

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 the Canadian Institute of Chartered Accountants 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.

Commodity Price Risk Management

Natural Gas Contracts

At December 31, 2010, the Company had the following third party offsetting physical purchase and sale natural gas contracts:

	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) has been recorded in other expenses in the Consolidated Statements of Earnings and Comprehensive Income.

Natural Gas Storage Contracts

At December 31, 2010, the Company had the following third party physical purchase and sale natural gas storage contracts:

	Volumes (mmcf)	Fair Value
Physical purchase contracts	2,504	$ -
Physical sale contracts	(37,255)	$ 31

These contracts have been recorded at their fair value in accounts receivable and accrued liabilities and the resulting unrealized gain of $18 million (2009 - $38 million loss) has been recorded in other expenses in the Consolidated Statements of Earnings and Comprehensive Income. The natural gas inventory of 34,751 mmcf (2009 – 29,778 mmcf) held in storage is recorded at fair value. At December 31, 2010, the fair value of the inventory was $131 million (2009 -

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$173 million), resulting in a $51 million unrealized loss (2009 - $69 million unrealized gain) recorded in other expenses in the Consolidated Statements of Earnings and Comprehensive Income.

Oil Contracts

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

At December 31, 2010, the Company had the following third party crude oil purchase contracts which have been designated as a fair value hedge:

	Volumes (bbls)	Fair Value
Physical purchase contracts	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) has been recorded in cost of sales 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), resulting in an unrealized loss of $2 million (2009 – loss of $1 million) recorded in cost of sales in the Consolidated Statements of Earnings and Comprehensive Income.

The Company enters into certain crude oil purchase 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.

	Volumes (mbbls)	Fair Value
Physical purchase contracts	3,001	$ (280)
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 - $30 million loss) recorded in other expenses in the Consolidated Statements of Earnings and Comprehensive Income.

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

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			Swap Maturity	Swap Rate (1) (percent)	Fair Value	
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.

These contracts have been recorded at fair value in other long-term liabilities. As at December 31, 2010, the Company recognized an unrealized gain of $23 million (2009 – loss of less than $1 million) on the interest rate swap arrangements recorded in interest expense in the Consolidated Statements of Earnings and Comprehensive Income.

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			Canadian Equivalent		Swap Maturity	Interest Rate (percent)	Fair Value	
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 Other Comprehensive Income ("OCI").

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) 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 investment 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.

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 over 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 maturity, the Company is contractually obligated under the cross currency swaps to pay $447 million and receive U.S. $350 million.

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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 assurances as deemed necessary, reducing the amount and duration of credit exposures and close monitoring of all accounts.

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.

Note 13 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:

	2010	2009
First Quarter	$ 17	$ 11
Second Quarter	15	16
Third Quarter	9	13
Fourth Quarter	9	13
Total funding received	$ 50	$ 53

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 Statement of Earnings and Comprehensive Income.

Note 14 Subsequent Events

ExxonMobil 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, which is subject to adjustments pending the outcome of outstanding rights of first refusal.

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.

Completion of 10% Interest Sale of HOML

In October 2010, both Husky and CNOOC Southeast Asia Limited ("CNOOCSE") agreed to each sell a 10% equity share in Husky Oil (Madura) Limited ("HOML") to Samudra Energy Ltd. through its affiliate, SMS Development Ltd. ("SMS"). Following the completion of the sale, Husky 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.