

2012

**United States Securities and Exchange Commission**  
Washington, D.C. 20549

**Form 40-F**

- Registration Statement pursuant to section 12 of the Securities Exchange Act of 1934
- Annual report pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934

**For the fiscal year ended December 31, 2012**

**Commission File Number: 001-04307**

**Husky Energy Inc.**

(Exact name of Registrant as specified in its charter)

<b>Alberta, Canada</b>	<b>1311</b>	<b>Not Applicable</b>
(Province or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Numbers (if applicable))	(I.R.S. Employer Identification Number (if applicable))

**707-8<sup>th</sup> Avenue S.W., P.O. Box 6525 Station D, Calgary, Alberta, Canada T2P 3G7**  
**(403) 298-6111**

(Address and telephone number of Registrant's principal executive office)

**CT Corporation System, 111 Eighth Avenue, New York, New York 10011**  
**(212) 894-8400**

(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

**Title of Class:** None

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

**Title of Class:** None

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**Title of Class:** Common Shares

**For annual reports, indicate by check mark the information filed with this Form:**

- Annual information form  Audited annual financial statements

Number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

982,229,220 Common Shares outstanding as of December 31, 2012

12,000,000 Cumulative Redeemable Preferred Shares, Series 1 outstanding as of December 31, 2012

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (s.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes  No

The Annual Report on Form 40-F shall be incorporated by reference into or as an exhibit to, as applicable, the Registrant's Registration Statement under the Securities Act of 1933: Form F-10 File No. 333-174554.

## **Principal Documents**

The following documents have been filed as part of this Annual Report on Form 40-F:

### **A. Annual Information Form**

The Annual Information Form of Husky Energy Inc. (“Husky” or “the Company”) for the year ended December 31, 2012 is included as Document A of this Annual Report on Form 40-F.

### **B. Audited Annual Financial Statements**

Husky’s audited consolidated financial statements for the years ended December 31, 2012 and December 31, 2011, including the auditors’ report with respect thereto, is included as Document B of this Annual Report on Form 40-F.

### **C. Management’s Discussion and Analysis**

Husky’s Management’s Discussion and Analysis for the year ended December 31, 2012 is included as Document C of this Annual Report on Form 40-F.

## **Certifications**

See Exhibits 23.1, 23.2, 31.1, 31.2, 32.1 and 32.2, which are included as Exhibits to this Annual Report on Form 40-F.

## **Supplemental Reserves Information**

See Exhibit 99.1 for the Supplemental Reserves Information, which is included as an Exhibit to this Annual Report on Form 40-F.

## **Disclosure Controls and Procedures**

See the section “Disclosure Controls and Procedures” in Husky’s Management’s Discussion and Analysis for the year ended December 31, 2012 which is included as Document C of this Annual Report on Form 40-F.

## **Management’s Annual Report on Internal Control Over Financial Reporting**

The section “Management’s Annual Report on Internal Control over Financial Reporting” in Husky’s Management’s Discussion and Analysis, is included as Document C of this Annual Report on Form 40-F.

## **Attestation Report of the Registered Public Accounting Firm**

The required disclosure is included in the “Report of Independent Registered Public Accounting Firm” that accompanies Husky’s consolidated financial statements for the year ended December 31, 2012, which is included as Document B of this Annual Report on Form 40-F.

## **Changes in Internal Control Over Financial Reporting**

The required disclosure is included in the section “Disclosure Controls and Procedures” in Husky’s Management’s Discussion and Analysis for the year ended December 31, 2012, which is included as Document C of this Annual Report on Form 40-F.

## **Notice Pursuant to Regulation BTR**

Not Applicable.

## **Audit Committee Financial Expert**

The Board of Directors of Husky has determined that William Shurniak is an “audit committee financial expert” (as defined in paragraph 8(b) of General Instruction B to Form 40-F) serving on its Audit Committee. Pursuant to paragraph 8(a)(2) of General Instruction B to Form 40-F, the Board has applied the definition of independence applicable to the audit committee members of New York Stock Exchange listed companies. Mr. Shurniak is a corporate director and is independent under the New York Stock Exchange standards. For a description of Mr. Shurniak’s relevant experience in financial matters, see Mr. Shurniak’s history in the section “Directors and Officers” and in the section “Audit Committee” in Husky’s Annual Information Form for the year ended December 31, 2012, which is included as Document A of this Annual Report on Form 40-F.

## **Code of Business Conduct and Ethics**

Husky’s Code of Ethics is disclosed in its Code of Business Conduct, which is applicable to its principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar

functions and to all of its other employees, and is posted on its website at [www.huskyenergy.com](http://www.huskyenergy.com). In the fiscal year ended December 31, 2012, there were no amendments to Husky's Code of Business Conduct, nor did Husky grant a waiver, including an implicit waiver from a provision of its Code of Business Conduct. In the event that, during Husky's ensuing fiscal year, Husky:

- i. amends any provision of its Code of Business Conduct that applies to its principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions that relates to any element of the code of ethics definition enumerated in paragraph (9)(b) of General Instruction B to Form 40-F, or
- ii. grants a waiver, including an implicit waiver, from a provision of its Code of Business Conduct to any of its principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions that relates to one or more of the items set forth in paragraph (9)(b) of General Instruction B to Form 40-F,

Husky will promptly disclose such occurrences on its website following the date of such amendment or waiver and will specifically describe the nature of any amendment or waiver, and in the case of a waiver, name the person to whom the waiver was granted and the date of the waiver.

#### **Principal Accountant Fees and Services**

See the section "External Auditor Service Fees" in the Annual Information Form for the year ended December 31, 2012, which is included as Document A of this Annual Report on Form 40-F.

#### **Off-Balance Sheet Arrangements**

See the section "Off-Balance Sheet Arrangements" in Husky's Management's Discussion and Analysis for the year ended December 31, 2012, which is included as Document C of this Annual Report on Form 40-F.

#### **Tabular Disclosure of Contractual Obligations**

See the section "Cash Requirements" in Husky's Management's Discussion and Analysis for the year ended December 31, 2012, which is included as Document C of this Annual Report on Form 40-F.

#### **Identification of the Audit Committee**

Husky has a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee are: W. Shurniak, C.S. Russel, F.S.H. Ma and G.C. Magnus.

#### **Interactive Data File**

Not applicable.

#### **Mine Safety Disclosure**

Not applicable.

# Undertaking and Consent to Service of Process

## Undertaking

Husky undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

## Consent to Service of Process

A Form F-X signed by Husky and its agent for service of process has been filed with the Commission together with Form F-10 (333 - 174554) in connection with its common shares registered on such form.

Any change to the name or address of the agent for service of process of Husky shall be communicated promptly to the Commission by an amendment to the Form F-X referencing the file number of Husky.

## Signatures

Pursuant to the requirements of the Exchange Act, Husky Energy Inc. certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereto duly authorized.

Dated this 8th day of March, 2013

## Husky Energy Inc.

By: /s/ Asim Ghosh  
Name: Asim Ghosh  
Title: President & Chief Executive Officer

By: /s/ James D. Girgulis  
Name: James D. Girgulis  
Title: Senior Vice President, General Counsel and Secretary

**Annual Information Form**

**For the Year Ended December 31, 2012**

**Husky Energy Inc.**  
**Annual Information Form**  
**For the Year Ended December 31, 2012**  
**March 8, 2013**

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## **ADVISORIES**

In this Annual Information Form (“AIF”), the terms “Husky” and “the Company” mean Husky Energy Inc. and its subsidiaries and partnership interests on a consolidated basis including information with respect to predecessor corporations.

Unless otherwise noted, all financial information included and incorporated by reference in this AIF is determined using International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

Except where otherwise indicated, all dollar amounts stated in this AIF are Canadian dollars.



## ABBREVIATIONS AND GLOSSARY OF TERMS

When used in this AIF, the following terms have the meanings indicated:

### Units of Measure

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bbl	barrel
bbls	barrels
bbls/day	barrels per calendar day
bcf	billion cubic feet
boe	barrels of oil equivalent
boe/day	barrels of oil equivalent per calendar day
bopd	barrels of oil per day
bpd	barrels per day
bps	basis points
CO <sub>2</sub>	carbon dioxide
GJ	gigajoule
km	kilometers
lt	litres
lt/day	litres per day
m	meters
mbbls	thousand barrels
mbbls/day	thousand barrels per calendar day
mboe	thousand barrels of oil equivalent
mboe/day	thousand barrels of oil equivalent per day
mcf	thousand cubic feet
mmbbls	million barrels
mmboe	million barrels of oil equivalent
mmbtu	million British thermal units
mmcf	million cubic feet
mmcf/day	million cubic feet per calendar day
MW	megawatts
sq km	square kilometers

### Acronyms

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API	American Petroleum Institute
ASP	Alkaline Surfactant Polymer
CDOR	Certificate of Deposit Offered Rate
CHOPS	Cold Heavy Oil Production with Sand
CNOOC	China National Offshore Oil Corporation
COGEH	Canadian Oil and Gas Evaluation Handbook
CSS	Cyclic Steam Stimulation
EIA	Energy Information Administration
EL	Exploration Licence
EOR	Enhanced Oil Recovery
ERCB	Energy Resources Conservation Board
FAS	Financial Accounting Statement
FASB	Financial Accounting Standards Board
FEED	Front End Engineering Design
FPSO	Floating Production, Storage and Offloading Vessel
GAAP	Generally Accepted Accounting Principles
LIBOR	London Interbank Offered Rate
LLB	Lloydminster Blend
MD&A	Management's Discussion And Analysis
NGL	Natural Gas Liquids

NIT	NOVA Inventory Transfer
NWT	Northwest Territories
NYMEX	New York Mercantile Exchange
ODP	Overall Development Plan
OPEC	Organization of Petroleum Exporting Countries
PIIP	Petroleum Initially-In-Place
PSC	Production Sharing Contract
SAGD	Steam Assisted Gravity Drainage
SDL	Significant Discovery Licence
SEC	Securities and Exchange Commission of the United States
SEDAR	System for Electronic Document Analysis and Retrieval
U.S.	United States
WCSB	Western Canada Sedimentary Basin
WTI	West Texas Intermediate

The Company uses the term boe which is calculated on an energy equivalence basis whereby one barrel of crude oil is equivalent to six thousand cubic feet of natural gas. Readers are cautioned that the term boe may be misleading, particularly if used in isolation. This measure is primarily applicable at the burner tip and does not represent an equivalency at the wellhead.

**API° gravity**

Measure of oil density or specific gravity used in the petroleum industry. The API scale expresses density such that the greater the density of the petroleum, the lower the degree of API gravity.

**Barrel**

A unit of volume equal to 42 U.S. gallons.

**Bitumen**

Bitumen is solid or semi-solid with a viscosity greater than 10,000 centipoise at original temperature in the deposit and atmospheric pressure.

**Bulk terminal**

A facility used primarily for the storage and/or marketing of petroleum products.

**Coal bed methane**

The primary energy source of natural gas is methane. Coal bed methane is methane found and recovered from the coal bed seams. The methane is normally trapped in coal by water that is under pressure. When the water is removed the methane is released.

**Cold production**

A non-thermal production process for heavy oil in unconsolidated sand formations. During the cold production process, heavy oil and sand are produced simultaneously through the use of progressive cavity pumps, which produce high pressure in the reservoir.

**Debottleneck**

To remove restrictions thus improving flow rates and productive capacity.

**Delineation well**

A well in close proximity to an oil or gas well that helps determine the aerial extent of the reservoir.

**Developed area**

A drainage unit having a well completed thereon capable of producing oil or gas in paying quantities.

**Development well**

A well drilled within the proved area of an oil and gas reservoir to the depth of a stratigraphic horizon known to be productive.

**Diluent**

A lighter gravity liquid hydrocarbon, usually condensate or synthetic oil, added to heavy oil to improve the transmissibility of the oil through a pipeline.

**Dry and abandoned well**

A well found to be incapable of producing oil or gas in sufficient quantities to justify completion as a producing oil or gas well.

**Enhanced recovery**

The increased recovery from a crude oil pool achieved by artificial means or by the application of energy extrinsic to the pool. An artificial means or application includes pressuring, cycling, pressure maintenance or injection to the pool of a substance or form of energy but does not include the injection in a well of a substance or form of energy for the sole purpose of aiding in the lifting of fluids in the well, or stimulation of the reservoir at or near the well by mechanical, chemical, thermal or explosive means.

**Exploration Licence (“EL”)**

A licence with respect to the Canadian offshore or the Northwest or Yukon Territories conferring the right to explore for, and the exclusive right to drill and test for, petroleum; the exclusive right to develop the applicable area in order to produce petroleum; and, subject to satisfying the requirements for issuance of a production licence and compliance with the terms of the licence and other provisions of the relevant legislation, the exclusive right to obtain a production licence.

**Exploratory well**

A well drilled to find a new field or to find a new reservoir in a field previously found to be productive of oil or gas in another reservoir. Generally, an exploratory well is any well that is not a development well, a service well, an extension well, or a stratigraphic test well as those items are defined herein.

**Extension well**

A well drilled to extend the limits of a known reservoir.

**Field**

An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition. There may be two or more reservoirs in a field which are separated vertically by intervening impervious strata, or laterally by local geologic barriers, or by both.

**Gathering system**

Pipeline system and associated facilities used to gather natural gas or crude oil from various wells and deliver it to a central point where it can be moved from there by a single pipeline to a processing facility or sales point.

**Heavy crude oil**

Crude oil measured between 20 API° and 10 API° and is liquid at original temperature in the deposit and atmospheric pressure.

**Horizontal drilling**

Drilling horizontally rather than vertically through a reservoir, thereby exposing more of the well to the reservoir and increasing production.

**Hydrogen sulphide**

A poisonous gas which is colourless and heavier than air and is found in sour gas.

**Infill well**

A well drilled on an irregular pattern disregarding normal spacing requirements. These wells are drilled to produce from parts of a reservoir that would otherwise not be recovered through existing wells drilled in accordance with normal spacing.

**Light crude oil**

Crude oil measured at 30 API° or lighter.

**Liquefied petroleum gas**

Liquefied propanes and butanes, separately or in mixtures.

**Medium crude oil**

Crude oil measured between 20 API° and 30 API°.

**Meteocean data**

Meteorological and oceanographic data used for, among other things, the design of marine structures.

**Miscible flood**

An enhanced recovery method which requires that three fluids exist in the reservoir: the mobile oil to be recovered, a displacing fluid (NGL) injected to move as a bank behind the oil, and a fluid injected to propel the displacing fluid (chase gas) through the reservoir.

**Multiple completion well**

A well producing from two or more formations by means of separate tubing strings running inside the casing, each of which carry hydrocarbons from a separate and distinct producing formation.

**Natural gas liquids**

Those hydrocarbon components recovered from raw natural gas as liquids by processing through extraction plants, or recovered from field separators, scrubbers or other gathering facilities. These liquids include the hydrocarbon components ethane, propane, butanes and condensate, or a combination thereof.

**Oil battery**

An accessible area to accommodate separators, treaters, storage tanks and other equipment necessary to process and store crude oil and other fluids prior to transportation.

**Oil sands**

Sands and other rock materials which contain crude bitumen and include all other mineral substances in association therewith.

**Overriding royalty interests**

An interest acquired or withheld in the oil and gas produced (or the proceeds from the sale of such oil and gas), received free and clear of all costs of development, operation, or maintenance and in addition to the usual landowner's royalty reserved to the lessor in an oil and gas lease.

**Primary recovery**

The oil and gas recovered by any method that may be employed to produce the oil or gas through a single well bore. The fluid enters the well bore by the action of native reservoir energy or gravity.

**Production Sharing Contract ("PSC")**

A contract for the development of resources under which the contractor's costs (investment) are recoverable each year out of the production but there is a maximum amount of production which can be applied to the cost recovery in any year. This annual allocation of production is referred to as cost oil; the remainder is referred to as profit oil and is divided in accordance with the contract between the contractor and the host government.

**Raw gas**

Gas as produced from a well before the separation of liquefiable hydrocarbons or other substances contained therein.

**Reserve Replacement Ratio**

The reserve replacement ratio represents the rate at which the Company replaces reserve volumes realized through current production for a given period. The ratio is calculated as the sum of: closing reserve volumes less opening reserve volumes plus production volumes divided by production volumes.

**Secondary recovery**

Oil or gas recovered by injecting water or gas into the reservoir to force additional oil or gas to the producing wells. Usually, but not necessarily, this is done after the primary recovery phase has passed.

**Seismic (survey)**

A method by which the physical attributes in the outer rock shell of the earth are determined by measuring, with a seismograph, the rate of transmission of shock waves through the various rock formations. The rate at which the waves are transmitted varies with the medium through which they pass.

**Service well**

A well drilled or completed for the purpose of supporting production in an existing field. Specific purposes of service wells include gas injection, water injection, steam injection, air injection, saltwater disposal, water supply for injection, observation or injection for in-situ combustion.

**Significant Discovery Licence (“SDL”)**

A licence issued following the declaration of a significant discovery, which is indicated by the first exploration well that demonstrates by flow testing the existence of sufficient hydrocarbons in a particular geological feature to suggest potential for sustained production. A Significant Discovery Licence confers the same rights as that of an Exploration Licence.

**Sour gas**

Natural gas contaminated with chemical impurities, notably hydrogen sulphide or other sulphur compounds. Such compounds must be removed before the gas can be used for commercial or domestic purposes.

**Specific gravity**

The ratio between the weight of equal volumes of water and another liquid measured at standard temperature, the weight of water is assigned a value of one. However, the specific gravity of oil is normally expressed in degrees of API gravity as follows:

$$\text{Degrees API} = \frac{141.5}{\text{Specific gravity @ F60 degrees}} - 131.5$$

**Spot price**

The price for a one-time open market transaction for immediate delivery of a specific quantity of product at a specific location where the commodity is purchased “on the spot” at current market rates.

**Steam assisted gravity drainage (“SAGD”)**

A recovery method used to produce heavy crude oil and bitumen in-situ. Steam is injected via a horizontal well along a producing formation. The temperature in the formation increases and lowers the viscosity of the crude oil allowing it to fall to a horizontal production well beneath the steam injection well.

**Step-out well**

A well drilled adjacent to a proven well but located in an unproven area; a well drilled in an effort to ascertain the extent and boundaries of a producing formation.

**Stratigraphic test well**

A drilling effort, geologically directed, to obtain information pertaining to a specific geologic condition. Such wells customarily are drilled without the intention of being completed for hydrocarbon production. This classification also includes tests identified as core tests and all types of expendable holes related to hydrocarbon exploration. Stratigraphic test wells are classified as (i) “exploratory-type,” if not drilled in a proved area, or (ii) “development-type,” if drilled in a proved area.

**Synthetic oil**

A mixture of hydrocarbons derived by upgrading heavy crude oils, including bitumen, through a process that reduces the carbon content and increases the hydrogen content.

**Tertiary recovery**

The recovery of oil and gas by using exotic or complex recovery schemes involving steam, chemicals, gases or heat. Usually, but not necessarily, this is done after the secondary recovery phase has passed.

**Three dimensional (“3-D”) seismic survey**

Three dimensional seismic imaging which uses a grid of numerous cables rather than a few lines stretched in one line.

**Turnaround**

Perform maintenance at a plant or facility which requires the plant or facility to be completely or partially shutdown for the duration.

**Undeveloped area**

An area that has not been established by drilling operations whether oil and/or gas may be found in commercial quantities.

**Waterflood**

One method of secondary recovery in which water is injected into an oil reservoir for the purpose of forcing oil out of the reservoir and into the bore of a producing well.

**Well abandonment costs**

Costs of abandoning a well, net of any salvage value, and disconnecting the well from the surface gathering system.

**Wellhead**

The structure, sometimes called the “Christmas tree,” that is positioned on the surface over a well that is used to control the flow of oil or gas as it emerges from the subsurface casinghead.

**Working interest**

An interest in the net revenues of an oil and gas property which is proportionate to the share of exploration and development costs borne until such costs have been recovered, and which entitles the holder to participate in a share of net revenue thereafter.

## EXCHANGE RATE INFORMATION

The following table discloses various indicators of the Canadian dollar/U.S. dollar rate of exchange or the cost of a U.S. dollar in Canadian currency for the three years indicated.<sup>(1)(2)</sup>

<i>(Cdn \$ per U.S. \$)</i>	<b>Year ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Year-end	0.995	1.017	0.995
Low	0.964	0.941	0.995
High	1.044	1.066	1.078
Average	0.999	0.989	1.030

<sup>(1)</sup> The year-end exchange rates were as quoted by the Bank of Canada for the noon buying rate.

<sup>(2)</sup> The high, low and average rates were either quoted or calculated as of the last day of the relevant period.

# CORPORATE STRUCTURE

## Husky Energy Inc.

Husky Energy Inc. was incorporated under the *Business Corporations Act* (Alberta) on June 21, 2000. The Company's Articles were amended effective February 28, 2011 to permit the issuance of common shares as payment of stock dividends on the common shares and to authorize preferred shares to be issued in one or more series. The Company's Articles were also amended effective March 3, 2011 to create Cumulative Redeemable Preferred Shares, Series 1 (the "Series 1 Preferred Shares") and Cumulative Redeemable Preferred Shares, Series 2 (the "Series 2 Preferred Shares").

Husky has its registered office and its head and principal office at 707, 8th Avenue S.W., P.O. Box 6525, Station D, Calgary, Alberta, T2P 3G7.

## Intercorporate Relationships

The following table lists Husky's significant subsidiaries and jointly controlled entities and their place of incorporation, continuance or organization, as the case may be, as at December 31, 2012.<sup>(1)</sup> All of the following companies and partnerships, except as otherwise indicated, are 100% beneficially owned or controlled or directed, directly or indirectly.

<b>Name</b>	<b>Jurisdiction</b>
<b>Subsidiary of Husky Energy Inc.</b>	
Husky Oil Operations Limited	Alberta
<b>Subsidiaries and jointly controlled entities of Husky Oil Operations Limited</b>	
Husky Oil Limited Partnership	Alberta
Husky Terra Nova Partnership	Alberta
Husky Downstream General Partnership	Alberta
Husky Energy Marketing Partnership	Alberta
Sunrise Oil Sands Partnership (50%)	Alberta
BP-Husky Refining LLC (50%)	Delaware
Lima Refining Company	Delaware
Husky Marketing and Supply Company	Delaware

<sup>(1)</sup> Principal operating subsidiaries exclusive of intercorporate relationships due to financing related receivables and investments.

## GENERAL DEVELOPMENT OF HUSKY

### Three Year History of Husky

#### 2010

On January 20, 2010, Husky announced that it had completed the FEED for Phase I of the Sunrise Energy Project, located 60 kilometers northeast of Fort McMurray in northern Alberta. The Company also obtained the necessary approvals from the Government of Alberta, Environment Department and the Energy Resources and Conservation Board ("ERCB") to proceed with the project. Husky announced in November 2010 that it was moving forward with the construction of facilities for the phased development of the Sunrise Energy Project. This first phase of the project is expected to cost approximately \$2.7 billion and is expected have gross production of approximately 60,000 barrels per day beginning in 2014. Further, Sunrise will use SAGD technology which limits site disturbance. In November 2010, sanction for Phase I was announced.

On February 8, 2010, Husky announced its third significant gas discovery on Block 29/26 in the South China Sea.

On March 12, 2010, Husky issued \$700 million in medium-term notes under the \$1 billion shelf prospectus which was filed by the Company in December 2009 with the securities regulatory authorities in each of the provinces of Canada. The medium-term notes were issued in two tranches: \$300 million at 3.75% maturing on March 12, 2015 and \$400 million at 5.00% maturing on March 12, 2020.

Mr. Asim Ghosh was appointed as President and Chief Executive Officer of the Company, effective June 1, 2010. Mr. Ghosh was previously appointed to the Board of Directors in May 2009. The Company's former President and Chief Executive Officer, Mr. John C.S. Lau, was appointed President and Chief Executive Officer, Asia Pacific, in May 2010 after stepping down as President and Chief Executive Officer of Husky after 18 years in the position. Mr. Lau's retirement from Husky Asia Pacific was announced on July 19, 2011.

On May 31, 2010, Husky completed drilling and successful testing of the first appraisal well at the Liuhua 29-1 discovery Block 29/26 in the South China Sea with encouraging results.

On May 31, 2010, Husky also announced that oil production had been achieved from the North Amethyst field, offshore Newfoundland and Labrador. North Amethyst is the first satellite field development at Husky's White Rose project and was brought on production less than four years after discovery. It is also the first subsea tieback project in Canada.

On September 1, 2010, Husky signed a purchase agreement to acquire natural gas properties in west central Alberta, which added 10.8 mboe/day of gross production, 32.9 mmboe of proved reserves and 10.7 mmboe of probable reserves, and extended the optimum utilization of its Ram River gas plant. The acquisition also added 160,000 acres of land to the Company's holdings, including 122,000 undeveloped acres, doubling Husky's land holdings in the region. This purchase closed on November 30, 2010 and had an effective date of June 1, 2010. The reserves estimates set forth above were as at December 31, 2010.

On October 27, 2010, Husky announced that it had completed the successful drilling of a second appraisal well at the Liuhua 29-1 discovery Block 29/26 in the South China Sea.

On October 28, 2010, Husky announced that it had received approval from the Government of Indonesia for a 20 year extension to the existing Madura Strait PSC, originally awarded in 1982. The Madura Strait PSC includes the Madura BD and MDA fields, as well as numerous other prospects and leads. Husky and its partner in the Madura Strait, CNOOC, also each agreed to sell a 10% equity stake in the Madura PSC to Samudra Energy Ltd., through its affiliate SMS Development Ltd. Following the completion of the sale, Husky and CNOOC each hold a 40% equity interest in Husky Oil (Madura) Limited, with the remaining 20% held by Samudra Energy Ltd. This sale closed on January 13, 2011 and Husky Oil (Madura) Ltd. subsequently changed its name to Husky-CNOOC Madura Limited.

Effective November 26, 2010, Husky filed a universal short form base shelf prospectus with applicable securities regulators in each of the provinces of Canada. The shelf prospectus enabled Husky to offer up to \$3 billion of common shares, preferred shares, debt securities, subscription receipts, warrants and units in Canada until December 2012.

Husky signed an \$860 million purchase and sale agreement to acquire oil and natural gas properties in Alberta and northeast British Columbia. This purchase included 16.3 mboe/day of gross natural gas production, 4.8 mbbls/day of gross oil production, and 0.8 mbbls/day of natural gas liquids ("NGL"). Husky estimated reserves included 104 mmboe of proved reserves and nine mmboe of probable reserves based on an effective date of December 1, 2010. The purchase transaction closed on February 4, 2011.

Husky also announced that it decided to retain its Asia Pacific assets citing the Company's view that it is in the best interest of the shareholders to continue to build this material business in the resource-rich region and leverage the close proximity to major energy markets in Hong Kong and Mainland China.

On December 7, 2010, Husky issued equity by way of a public overnight-marketed common share offering and a private placement to its principal shareholders. Pursuant to the public offering, the Company issued a total of 11.9 million common shares at a price of \$24.50 per share for total gross proceeds of approximately \$293 million. The public offering was conducted under the Company's previously filed Canadian shelf prospectus and accompanying prospectus supplement. The Company also issued a total of 28.9 million common shares in a private placement to its 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 approximately \$707 million.



The Government of China approved the Original-Gas-in-Place (“OGIP”) report for the Liwan 3-1 field. On December 7, 2010, Husky announced that it had signed a Heads of Agreement with CNOOC, specifying the key principles of cooperation for funding and operation of the Liwan 3-1 deep water gas field development. Under the agreement for the Liwan 3-1 field development, Husky will operate the deep water portion of the project involving development drilling and completions, subsea equipment and controls, and subsea tie-backs to a shallow water platform. CNOOC will operate the shallow water portion of the project including a shallow water platform, approximately 270 kilometers of subsea pipeline to shore, and the onshore gas processing plant.

## **2011**

On February 28, 2011, Husky announced that its shareholders voted in favour of an amendment to the Company's Articles, which allows shareholders to accept dividends in cash or in common shares. The shareholders also approved an amendment to allow for the issuance of preferred shares.

On March 18, 2011, Husky issued 12 million Series 1 Preferred Shares at a price of \$25.00 per share for aggregate gross proceeds of \$300 million. Holders of the Series 1 Preferred Shares are entitled to receive a cumulative quarterly fixed dividend yielding 4.45% annually for the initial period ending March 31, 2016. Thereafter, the dividend rate will be reset every five years at a rate equal to the 5-year Government of Canada bond yield plus 1.73%. Holders of Series 1 Preferred Shares have the right, at their option, to convert their shares into Series 2 Preferred Shares, subject to certain conditions, on March 31, 2016 and on March 31 every five years thereafter. Holders of the Series 2 Preferred Shares are entitled to receive cumulative quarterly floating rate dividends at a rate equal to the three-month Government of Canada Treasury Bill yield plus 1.73%.

On June 13, 2011, Husky filed a universal short form base shelf prospectus with the Alberta Securities Commission and the SEC. The prospectus enabled Husky to offer up to U.S. \$3 billion of common shares, preferred shares, debt securities, subscription receipts, warrants and units in the United States up to and including July 12, 2013, subject to market conditions at the time of sale. Approximately \$1.5 billion remains available for issuance under this prospectus.

On June 29, 2011, Husky completed a \$1 billion public offering and a \$200 million private placement to its principal shareholders, L.F. Investments (Barbados) Limited and Hutchison Whampoa Luxembourg Holdings S.a.r.l. The Company issued approximately 37 million common shares at \$27.05 per share in the public offering and approximately 7 million common shares at a price of \$27.05 per share in the private placement. The public offering was conducted under the Company's universal short form base shelf prospectus filed November 26, 2010 with the securities regulatory authorities in all provinces of Canada, the Company's universal short form base shelf prospectus filed June 13, 2011 with the Alberta Securities Commission and the SEC, and the respective accompanying prospectus supplements.

On September 19, 2011, Husky announced that it had sanctioned the development of the Liwan 3-1 and Liuhua 34-2 fields, the principal fields of the Liwan Gas Project in the South China Sea. The project, which is being jointly developed by Husky and CNOOC, aims to bring at least three natural gas discoveries on Block 29/26 to market. The ODP for Liwan 3-1 was submitted to the Chinese government authorities for regulatory approval and was approved by the Government of China in 2012. A gas sales agreement for production from the field is also in place. The gas sales agreement was executed with CNOOC Gas & Power Group, Guangdong Branch for volumes from the Liwan 3-1 field. Production from the field will supply the Guangdong Province natural gas grid from an onshore gas plant at Gaolan Island, Zhuohai.

## **2012**

On March 22, 2012, the Company issued U.S. \$500 million of 3.95% senior unsecured notes due April 15, 2022 pursuant to the universal short form base shelf prospectus filed with the Alberta Securities Commission and the SEC on June 13, 2011 and an accompanying prospectus supplement. The notes are redeemable at the option of the Company at a make-whole premium and interest is payable semi-annually. The notes are unsecured and unsubordinated and rank equally with all of the Company's other unsecured and unsubordinated indebtedness.

On June 15, 2012, Husky repaid the maturing U.S. \$400 million of 6.25% notes for U.S. \$413 million, including U.S. \$13 million of interest.

On December 14, 2012, Husky amended and restated both of its revolving syndicated credit facilities to allow it to borrow up to \$1.5 billion and \$1.6 billion in either Canadian or U.S. currency from a group of banks on an unsecured basis. The maturity date for the \$1.5 billion facility was extended to December 14, 2016 and there was no change to the August 31, 2014 maturity date of the \$1.6 billion facility. There continues to be no difference between the terms of these facilities, other than their maturity dates.

On December 31, 2012, Husky filed a universal short form base shelf prospectus (the "Canadian Shelf Prospectus") with applicable securities regulators in each of the provinces of Canada, other than Quebec, that enables the Company to offer up to \$3.0 billion of common shares, preferred shares, debt securities, subscription receipts, warrants and units (the "Securities") in Canada up to and including January 30, 2015. As of December 31, 2012, the Company had not issued Securities under the Canadian Shelf Prospectus. This Canadian Shelf Prospectus replaced the universal short form base shelf prospectus filed in Canada during November 2010 which had remaining unused capacity of \$1.4 billion and expired in December 2012.

During 2012, the Company continued to advance exploration and development projects on its extensive oil resource land base of approximately 800,000 net acres. Heavy oil production commenced in the second quarter of 2012 ahead of schedule at both the Pikes Peak South and Paradise Hill heavy oil thermal projects and has ramped up to a combined average of 17,000 bbls/day exceeding the combined 11,500 bbls/day design rates. Construction is approximately 40% complete at the 3,500 bbls/day Sandall thermal development project and initial drilling has commenced. First production is scheduled in 2014. Design and initial site work is continuing at the 10,000 bbls/day Rush Lake commercial project with first production anticipated in 2015. Initial planning is ongoing for three additional commercial thermal projects.

The ODP for the Liwan Gas Project development on Block 29/26 in the South China Sea was approved by the Government of China. The development project was more than 80% complete as of the end of 2012 and remains on track to achieve planned first production in late 2013/early 2014. Seven out of nine production wells are ready to commence operations and all nine production trees have been installed. At the end of 2012, approximately 90 kilometers of the two 79-kilometer deep water pipelines connecting the gas field to the central platform have been laid and approximately 190 kilometers out of 261 kilometers of shallow water pipeline have been laid from the central platform to the onshore gas plant. The completed jacket for the shallow water central platform was successfully placed onto the ocean floor on August 30, 2012. Fabrication of the platform topsides is progressing and the floatover of the topsides for the central platform is planned for mid-2013. Construction of the onshore gas plant is progressing on schedule.

Development of the single well Liuhua 34-2 field is planned to proceed in parallel with, and be tied into the development of the Liwan 3-1 field. FEED for the development of the Liuhua 29-1 gas field has now been completed, and the ODP is being prepared. Negotiations for the sale of the gas from the Liuhua 34-2 and Liuhua 29-1 fields are ongoing.

In December, Husky signed a joint venture contract with CPC Corporation, Taiwan for an exploration block in the South China Sea. The exploration block is located 100 kilometers southwest of the island of Taiwan and covers approximately 10,000 square kilometers. Husky holds a 75% working interest during exploration, while CPC Corporation has the right to participate in the development program up to a 50% interest.

The 2012 exploration drilling program on the Madura Strait Block concluded in October with four new discoveries being made as a result of a five well exploration drilling program. These discoveries are now under evaluation for commercial development. The development plan for a combined MDA and MBH development project was approved in 2013 by the industry regulator, SKK Migas. As agreed with the regulator, a re-tender process for the BD field FPSO was conducted and pre-qualification responses are being evaluated. First gas from the Madura Strait Block is anticipated in 2014/2015.

Husky and BP continue to advance the development of the Sunrise Energy Project in multiple stages. During 2012, drilling of the planned SAGD horizontal well pairs for Phase 1 was completed and site construction and equipment installations were substantially advanced. Phase 1 of the 60,000 bbls/day (30,000 bbls/day net) project remains on track for first production in 2014. Substantial cost certainty on the first phase of the Sunrise Energy Project was achieved in 2012 with the conversion to a lump sum contract for the CPF. Over 85% of the \$2.7 billion costs estimate for Phase 1 are now fixed and incorporate all significant contract conversions and facility and efficiency design improvements. As of December 31, 2012, approximately 65% of the project's total cost estimate has been spent. The CPF is approaching 50% completion with piling substantially completed and foundation work

proceeding at the site. Construction of the field facilities is now more than 80% complete. Development work continues on the next phase of the project with the Design Basis Memorandum expected to be completed in 2013. Regulatory approvals are in place for a total of 200,000 bbls/day (100,000 bbls/day net).

Development continued at the White Rose field with the addition of an infill production well which was brought online in August 2012. As at the end of 2012, a total of 22 wells, including nine producing wells, ten water injectors, and three gas injectors were in production. Future infill wells are being evaluated. A development plan amendment was filed with the regulator in October 2012 to facilitate development of resources at the South White Rose Extension satellite. This region will be developed via subsea tieback to the SeaRose FPSO, similar to the North Amethyst satellite extension. At North Amethyst, development continued in 2012 with the addition of the fourth production well. At the end of 2012, four production and three water injection wells were on-line and the fourth water injector well is scheduled to be drilled in 2013. An application to develop the deeper Hibernia formation at North Amethyst is progressing through the regulatory review process. A water injection well to support the existing producing well for the West White Rose pilot project was completed and brought online during 2012. Evaluation of a wellhead platform to facilitate future development continued during 2012 and supporting regulatory filings were submitted for an environmental assessment of the concept. A decision on a preferred development option is expected in 2013.

Husky and Seadrill entered into a five-year contract for the use of Seadrill's West Mira rig, a new harsh environment semi-submersible rig currently being built and expected to be completed in 2015.

Exploration activity in the Atlantic Region included drilling of the Searcher prospect in the southern Jeanne D'Arc Basin. The well did not encounter commercial hydrocarbons and was expensed in 2012. The Company plans to participate in a number of operated and non-operated exploratory wells in the Atlantic Region during the 2013/2014 timeframe. The first well in this program is a partner-operated exploration well southeast of the Mizzen discovery located in the Flemish Pass offshore Newfoundland and Labrador.

## **DESCRIPTION OF HUSKY'S BUSINESS**

### **General**

Husky is a publicly traded international integrated energy company headquartered in Calgary, Alberta, Canada.

Management has identified segments for the Company's business based on differences in products, services and management responsibility. The Company's business is conducted predominantly through two major business segments – Upstream and Downstream.

During the first quarter of 2012, the Company completed an evaluation of activities of the Company's former Midstream segment as a service provider to the Upstream or Downstream operations. As a result, and consistent with the Company's strategic view of its integrated business, the previously reported Midstream segment activities are now aligned and reported within the Company's core exploration and production, or in its upgrading and refining businesses. The Company believes this change in segment presentation allows management and third parties to more effectively assess the Company's performance.

Upstream includes exploration for, and development and production of, crude oil, bitumen, natural gas and NGL (Exploration and Production) and marketing of the Company's and other producers' crude oil, natural gas, NGL, sulphur and petroleum coke, pipeline transportation and blending of crude oil and natural gas and storage of crude oil, diluent and natural gas (Infrastructure and Marketing). The Company's Upstream operations are located primarily in Western Canada, offshore East Coast of Canada, offshore Greenland, offshore China and offshore Indonesia.

Downstream includes upgrading of heavy crude oil feedstock into synthetic crude oil (Upgrading), 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).

# Social and Environmental Policy

## Husky Operational Integrity Management System

Husky approaches social responsibility and sustainable development by seeking a balance among economic, environmental and social issues while maintaining growth. Husky strives to find solutions to these issues that do not compromise the needs of future generations. In 2008, Husky implemented the Husky Operational Integrity Management System (“HOIMS”) which is followed by all Husky businesses, with particular emphasis on projects and operations and management of the operational integrity of assets throughout its life cycle. HOIMS includes 14 fundamental elements; each element contains well defined objectives and expectations that guide Husky to continuously improve operational integrity. Resources are dedicated to the continued implementation and execution of HOIMS, and audits are conducted to help ensure that HOIMS is effectively integrated into daily operations.

The fundamental elements of HOIMS are:

1. Ensure all levels of management demonstrate leadership and commitment to operational integrity. Define and ensure appropriate accountability for HOIMS throughout the organization.
2. Prevent incidents by identifying and minimizing workplace and personal health risks. Promote and reinforce all safe behaviours.
3. Manage risks by performing comprehensive risk assessments to provide essential decision-making information. Develop and implement plans to manage significant risks and impacts to as low as reasonably practical levels.
4. Be prepared for an emergency or security threat. Identify all necessary actions to be taken to protect people, the environment, the organization’s assets and reputation in the event of an emergency or security threat.
5. Maintain operations reliability and integrity by use of clearly defined and documented operational, maintenance, inspection and corrosion programs. Seek improvements in process and equipment dependability by systematically eliminating defects and sources of loss.
6. Provide assurance that personnel possess the necessary competencies, knowledge, abilities and behaviours to perform and demonstrate designated tasks and responsibilities effectively, efficiently and safely.
7. Report and investigate all incidents. Learn from incidents and use the information to take corrective action and prevent recurrence.
8. Operate responsibly to minimize the environmental impact of operations. Leave a positive legacy behind when operations cease.
9. Ensure that risks and exposures from proposed changes are identified, evaluated and managed to remain at an acceptable level.
10. Identify, maintain and safeguard important information. Ensure personnel can readily access and retrieve information. Promote and encourage constructive dialogue within the organization to share industry recommended practices and acquired knowledge.
11. Ensure conformance with Corporate policies and compliance with all relevant government regulations. Work constructively to influence proposed laws and regulations, and debate on emerging issues.
12. Design, construct, commission, operate and decommission all assets in a healthy, safe, secure, environmentally sound, reliable and efficient manner.
13. Ensure contractors and suppliers perform in a manner that is consistent and compatible with Husky’s policies and business performance standards. Ensure contracted services and procured materials meet the requirements and expectations of Husky’s standards.
14. Confirm that HOIMS processes are implemented and assess whether they are working effectively. Measure progress and continually improve towards meeting HOIMS objectives, targets, and key performance indicators.

## Health, Safety and Environment

The Health, Safety and Environment Committee of the Board of Directors is responsible for oversight of health, safety and environment policy, audit results and for monitoring compliance with the Company’s environmental policies, key performance indicators and regulatory requirements. The mandate of the Health, Safety and Environment Committee is available on the Husky website at [www.huskyenergy.com](http://www.huskyenergy.com).

## Environmental Protection

Husky's operations are subject to various environmental requirements under federal, provincial, state and local laws and regulations, as well as international conventions. These laws and regulations cover matters such as air emissions, wastewater discharge, non-saline water use, land disturbances and handling and disposal of waste materials. These laws and regulations have proliferated and become more complex over time, governing an increasingly broad aspect of the industry's mode of operating and product characteristics. Husky continues to monitor emerging environmental laws and regulations and proactively implements programs as required for compliance.

Husky is required by the Government of Canada to report facilities that emit greater than 50,000 tonnes of carbon dioxide equivalence ("CO<sub>2</sub>E"). The Lloydminster Upgrader, Lloydminster Refinery, Prince George Refinery, SeaRose floating, production and storage offloading vessel ("FPSO"), Sierra compressor station, Ram River gas plant, Rainbow Lake gas plant, Tucker thermal oil plant, Bolney SAGD thermal plant, Pikes Peak CSS thermal plant and the Lloydminster and Minnedosa ethanol plants are in this category. Husky has implemented an Environmental Performance Reporting System ("EPRS") that gathers, consolidates, and calculates information, generates reports and identifies trends regarding greenhouse gas emissions.

Husky is also a member of the Integrated CO<sub>2</sub> Network, which is working to reduce greenhouse gas emissions. The group continues to study technologies related to the capture, transportation and storage of CO<sub>2</sub>. A project was completed in 2012 to capture, compress and liquefy CO<sub>2</sub> from the Lloydminster ethanol plant for injection into heavy oil fields for Enhanced Oil Recovery. At Lloydminster and Rainbow Lake, Husky utilizes cogeneration to produce both electricity and thermal energy for use at its processing facilities. This configuration has fewer adverse effects on the environment and is cost effective. Electrical energy in excess of Husky's requirements is sold into the grid, the provincial network of electrical transmission and distribution facilities. At Husky's Tucker Thermal SAGD project vapour recovery systems are in use on all tanks and process vessels.

Husky has undertaken programs to minimize water consumption, particularly non-saline water. At the Tucker Thermal SAGD project, over 80% of water produced with the bitumen is recycled, and make up water is sourced from very saline, non-potable groundwater. Husky is implementing various technologies to improve water efficiency. A number of Husky fields in Alberta and Saskatchewan use alkali surfactant polymer ("ASP") to increase water efficiency in enhanced oil recovery. In the Lloydminster area, Husky uses CO<sub>2</sub> to dilute and mobilize heavy oil in a pilot project.

Ongoing remediation and reclamation work is occurring at approximately 2,900 well sites and facilities. In 2012, Husky spent approximately \$118 million on asset retirement obligations ("ARO") and expects to spend approximately \$130 - \$150 million in 2013 on environmental site closure activities, including abandonment, decommissioning, reclamation and remediation.

The Company completed a review of its ARO provisions including estimated costs and projected timing of performing the abandonment and retirement operations. The results of this review have been incorporated into the estimated liability as disclosed in Note 16 of the consolidated financial statements included in this AIF.

At December 31, 2012, Husky had 512 retail locations in its light refined products operations, which consisted of 361 owned or leased locations (Husky controlled) and 151 independent retailer locations. Husky is continually monitoring the owned and leased locations for environmental compliance and, where required, performing remediation including routine underground tank replacements. Husky has several "legacy" (inactive facility) sites which require remediation. These inactive sites range from refinery sites to retail locations.

It is not possible to predict with certainty the amount of additional investment in new or existing facilities required to be incurred in the future for environmental protection or to address regulatory compliance requirements, such as reporting. Although these costs may be significant, Husky does not expect that they will have a material adverse effect on liquidity and financial position over the long-term.

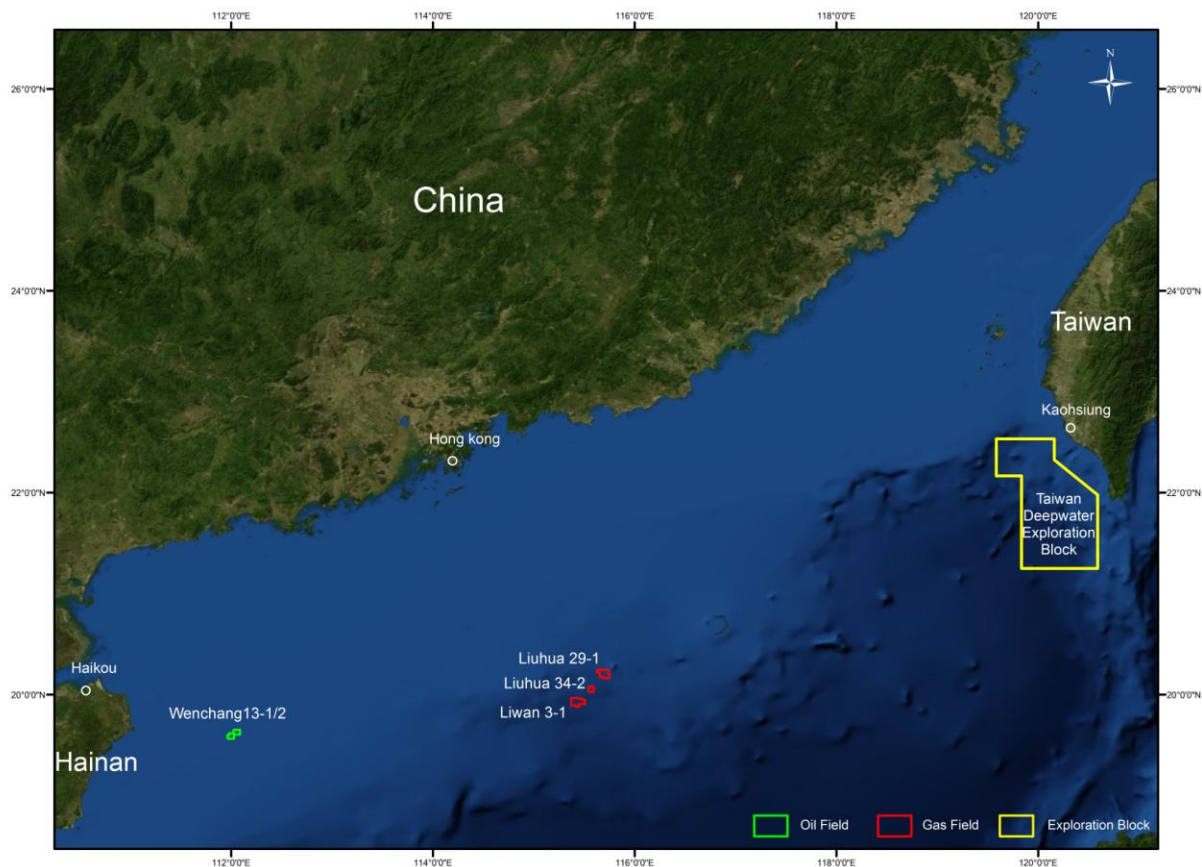
## Upstream Operations

Upstream includes exploration for, and development and production of, crude oil, bitumen, natural gas and natural gas liquids (Exploration and Production) and marketing of the Company's and other producers' crude oil, natural gas, NGL, sulphur and petroleum coke, pipeline transportation and blending of crude oil and natural gas and storage of crude oil, diluent and natural gas (Infrastructure and Marketing).

### Description of Major Properties and Facilities

Husky's portfolio of Upstream assets includes properties with reserves of light crude oil (30° API and lighter), medium crude oil (between 20° and 30° API), heavy crude oil (liquid between 20° API and 10° API), bitumen (solid or semi-solid with a viscosity greater than 10,000 centipoise at original temperature in the deposit and atmospheric pressure), NGL, natural gas and sulphur.

#### China



#### Wenchang

The Wenchang field is located in the western Pearl River Mouth Basin, approximately 400 kilometers south of Hong Kong and 100 kilometers east of Hainan Island. Husky holds a 40% working interest in two oil fields, which commenced production in July 2002. The Wenchang 13-1 and 13-2 oil fields are currently producing from 32 wells in 100 meters of water into an FPSO vessel stationed between fixed platforms located in each of the two fields. The blended crude oil from the two fields averages approximately 35° API. Husky's gross production averaged 8.3 mbbbls/day during 2012.

## ***Block 29/26***

Husky executed a PSC with CNOOC for the Contract Area 29/26 exploration block on October 1, 2004. The block is located in the Pearl River Mouth Basin of the South China Sea approximately 300 kilometers southeast of Hong Kong and 65 kilometers southeast of the Panyu gas discovery. The third Exploration Phase of the PSC has been completed and the retained area for development and production is approximately 55,100 acres (223 square kilometers).

In 2006, Husky drilled the Liwan 3-1-1 well natural gas discovery. The well was drilled in 1,500 meters of water to a total depth of 3,843 meters. During 2009, Husky discovered an additional gas field at Liuhua 34-2, approximately 23 kilometers to the northeast of the Liwan 3-1 field. In 2010, the Company made another natural gas discovery at Liuhua 29-1, approximately 43 kilometers to the northeast of the Liwan 3-1 field.

In late 2010, Husky Oil China Ltd. signed a Heads of Agreement with CNOOC which specified CNOOC's election to participate in the development of the Block 29/26 discoveries to its maximum 51% working interest and key principles to fund, develop and operate the Liwan 3-1 deep water gas field. It was agreed that the project would be separated into deep water and shallow water development projects with Husky acting as deep water operator and CNOOC acting as shallow water operator. The deep water project would include a subsea production system connected by dual flow lines to a central shallow water platform. The shallow water project would include the shallow water platform connected to an onshore gas plant with access to the energy markets of Hong Kong and the Guangdong province on the China mainland. It was also envisaged that the Liuhua 34-2 and Liuhua 29-1 fields would be tied into and share usage of the shallow water infrastructure.

In 2011, Husky completed tendering the major deep water equipment and installation activity and CNOOC commenced the shallow water pipe laying and onshore gas plant construction. A gas sales agreement was also executed with CNOOC Gas & Power Group, Guangdong Branch for volumes from the Liwan 3-1 field.

In 2012, Husky made significant progress in the development of the Liwan 3-1 field. The ODP for the field was approved by the Chinese Government and the project was more than 80% complete at the end of 2012. Two further upper completions in the Liwan 3-1 gas field were installed and flow tested successfully at the expected production rates bringing the total of fully ready production wells to seven. All nine subsea production trees have been installed on the wells and eight associated upper completions have also been installed.

At the end of 2012, approximately 90 kilometers of the two 79-kilometer deep water pipelines connecting the gas field to the central platform have been laid and approximately 190 kilometers out of 261 kilometers of shallow water pipeline have been laid from the central platform to the onshore gas plant. Pipe laying activity is planned to resume in early 2013.

The jacket for the shallow water central platform was completed and load-out of the jacket was achieved in July 2012. The jacket was launched onto the ocean floor on August 30, 2012 after which piling to anchor the feet of the jacket to the seabed was completed. Fabrication and installation of the jacket is now fully complete and ready for the floatover of the topsides for the central platform which is planned for mid-2013.

Platform topsides fabrication progressed in 2012. The Monoethylene Glycol Recovery Unit was delivered to the Qingdao, Eastern China topsides construction site and the approximately 850 tonne unit was elevated and set into its final installation position on the upper deck. Generators and compressors have also been positioned and construction of control rooms, living quarters and other facilities are in their final stages.

Construction of the onshore gas plant progressed on schedule with site preparations and foundations largely completed including the completion of a seawall on the eastern side of the site. Nine of ten spherical liquids storage tanks are in place and the construction of pipe racks for transporting gas through the site is progressing. Construction of the control and administrative buildings as well as living areas commenced.

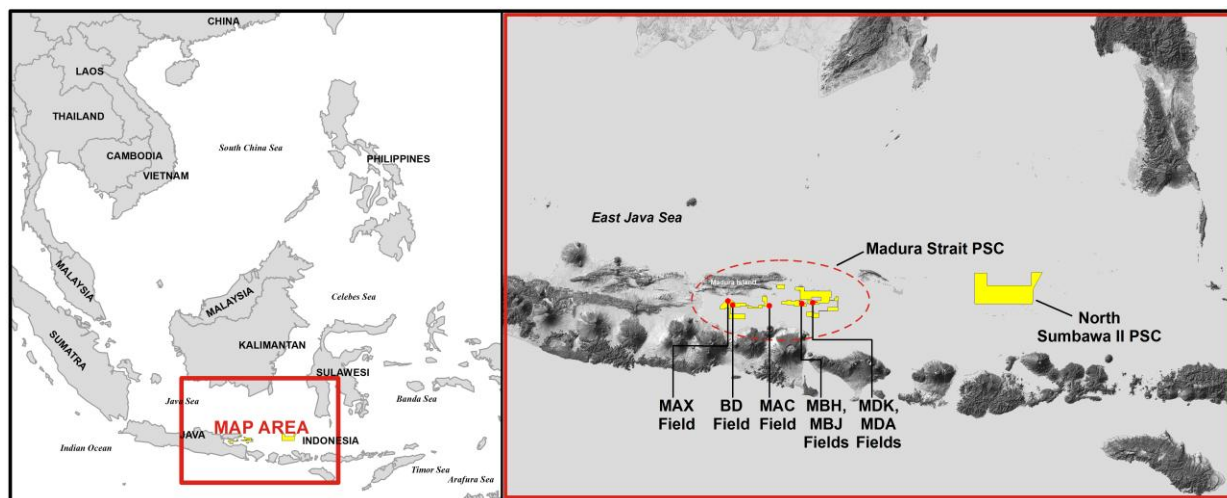
Development of the single well Liuhua 34-2 field is proceeding in parallel with, and will be tied into the development of the Liwan 3-1 field. FEED for the development of the Liuhua 29-1 gas field has now been completed, and the ODP is being prepared. Negotiations for the sale of the gas from the Liuhua 34-2 and Liuhua 29-1 fields are ongoing.

The Liwan 3-1 development project is proceeding on schedule with first gas anticipated in late 2013/early 2014. The Liuhua 34-2 field is being developed on the same schedule. Production from the Liwan 3-1 field is expected to ramp up through 2014.

### **Taiwan**

In December 2012, Husky signed a joint venture contract with CPC Corporation, Taiwan for an exploration block in the South China Sea. The exploration block is located 100 kilometers southwest of the island of Taiwan and covers approximately 10,300 square kilometers. Husky holds a 75% working interest during exploration, while CPC Corporation has the right to participate in the development program up to a 50% interest. Under the joint venture contract, Husky has an obligation to carry out two-dimensional (“2-D”) seismic surveys within the first two years, with options to carry out 3-D seismic surveys and to drill at least one exploration well in subsequent exploration periods.

### **Indonesia**



### **Madura Strait**

Husky has a 40% interest in approximately 621,700 acres (2,516 square kilometers) of the Madura Strait block, located offshore East Java, south of Madura Island, Indonesia. Husky’s two partners are CNOOC which is the operator and has a 40% working interest, and Samudra Energy Ltd., which holds the remaining 20% interest through its affiliate, SMS Development Ltd.

The BD gas field was granted commercial status and the Plan of Development was approved by the Indonesian state oil company in 1995. The field was to supply natural gas to a proposed independent power plant; however, construction of the power plant did not proceed due to economic issues that occurred in Indonesia at that time and as a result the BD development was deferred. Market conditions became more favourable for the BD development to supply gas to meet the demand of the East Java region and an updated development plan was approved in 2008 by the Government of Indonesia.

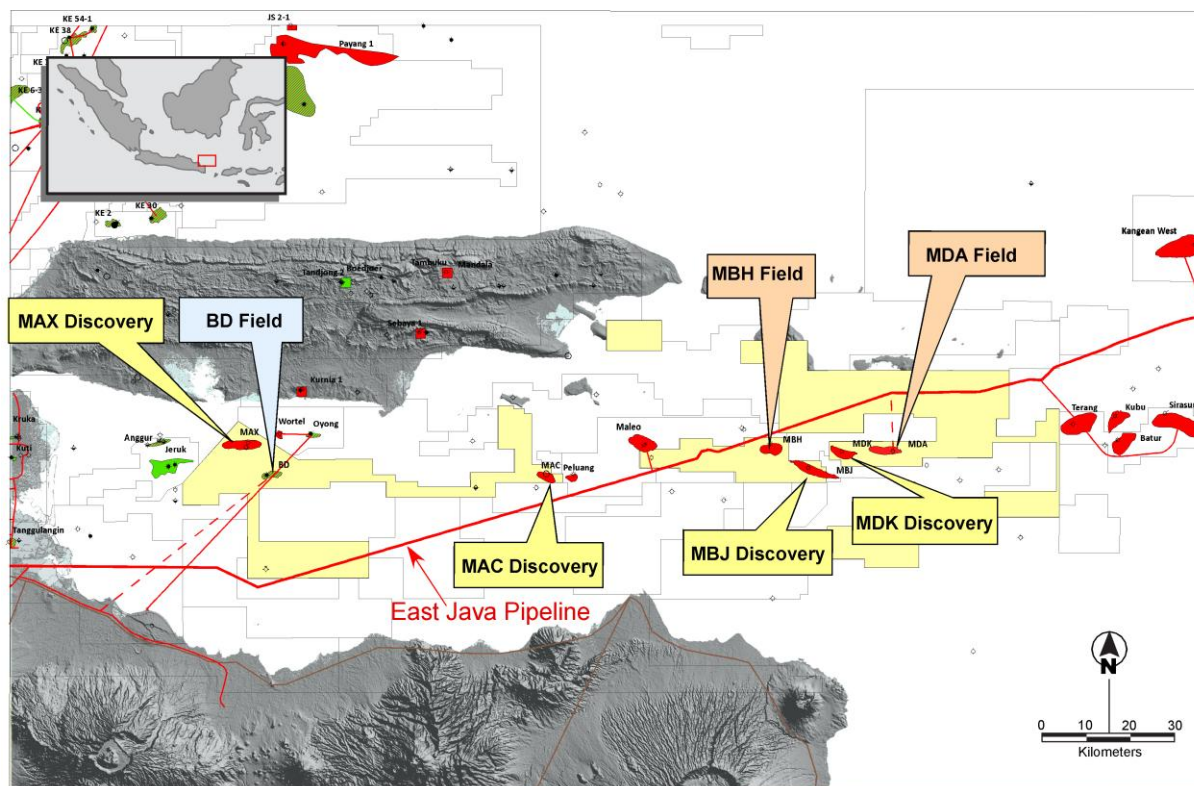
In October 2010, the Government of Indonesia approved an extension of the PSC that was originally awarded in 1982. The approval provided a 20-year extension to the contract which now runs until 2032. The BD field FEED was completed in the second quarter of 2010 and gas sales contracts previously signed in 2010 with three gas buyers were amended in 2011.

In 2011, CNOOC drilled an appraisal well which confirmed commercial quantities of hydrocarbons in the MDA field. An exploration well was also drilled in 2011 on the MBH field and a new gas field was discovered.

In November 2012, the functions of BP Migas, the then Indonesian oil and gas regulator, were transferred to the Energy and Mineral Resources Ministry and a new body, SKK Migas, that has been established as the new industry regulator. As discussed and agreed with the new regulator, a re-tender for the BD field FPSO was conducted and pre-qualification responses are being evaluated. Tendering for the wellhead platform and sales pipeline are also in



progress. The development plan for a combined MDA and MBH development project was approved in the first quarter of 2013 by SKK Migas. First gas from the Madura Strait Block is anticipated in 2014/2015 time frame.



### ***North Sumbawa II***

Husky executed a PSC in November 2008 with the Government of Indonesia for the North Sumbawa II contract area. Husky holds a 100% interest in the North Sumbawa II block, which is located in the East Java Basin approximately 300 kilometers east of the Madura Strait block and covers an area of 937,300 acres (3,793 square kilometers). The PSC requires the acquisition of 2-D seismic data with a commitment of U.S. \$2 million, and the drilling of one exploration well with a commitment of U.S. \$10 million within the first four years of the contract, including an approved one year extension. Husky satisfied its seismic work commitment by acquiring 1,020 kilometers of 2-D seismic data in December 2009. Husky has used this data to identify a potential exploration prospect and drilling is under consideration. Husky requested and received an additional one year extension to fulfill its initial drilling commitments.

### **Atlantic Region**

Husky’s offshore East Coast Canada exploration and development program is focused on the Jeanne d’Arc Basin on the Grand Banks, which contains the Hibernia and Terra Nova fields, as well as the White Rose field and satellite extensions including the North Amethyst, West White Rose and the South White Rose extensions. Husky is the operator of the White Rose field and satellite extensions and holds ownership interests in the Terra Nova field, as well as in a number of smaller undeveloped fields. Husky also holds significant exploration acreage offshore Newfoundland and Labrador and a portfolio of exploration licences offshore Greenland.

### ***White Rose Oil Field***

The White Rose oil field is located 354 kilometers off the coast of Newfoundland and Labrador and approximately 48 kilometers east of the Hibernia oil field on the eastern section of the Jeanne d’Arc Basin. Husky is the operator of the White Rose field and satellite tiebacks, including the North Amethyst, West White Rose and South White Rose extensions. The Company has a 72.5% working interest in the core field, and a 68.9% working interest in the satellite fields.

First oil was achieved at White Rose in November 2005. The White Rose field was the third oil field developed offshore Newfoundland and Labrador. The field currently has nine production wells, ten water injectors, and three gas injectors. Husky continues to look at means of enhancing oil recovery from the core field, and during 2012 drilled an infill production well at White Rose in the South Avalon oil pool, which was brought online in August 2012. During 2012, Husky's gross production from the White Rose field averaged 14.3 mbbbls/day.

On May 31, 2010, first oil was achieved from North Amethyst, the first satellite field extension for the White Rose field. The field is located approximately six kilometers southwest of the SeaRose FPSO vessel. Production flows from North Amethyst to the SeaRose FPSO through a series of subsea flow lines. During 2012, Husky's gross production from North Amethyst averaged 13.1 mbbbls/day. A fourth production well was completed and brought online in December 2012. As of December 31, 2012, the field had four production wells and three water injection wells. Up to 11 wells are currently planned for the main North Amethyst development.

A Development Plan Amendment ("DPA") requesting approval to produce from a second, deeper formation at North Amethyst is moving through the regulatory review process. The DPA currently envisions drilling one production well and one water injector, utilizing existing infrastructure.

Husky continues to progress plans for a staged development of the West White Rose field through a two-well pilot project. First production was achieved in September 2011, with a supporting water injection well completed and brought online in 2012. Husky's production from this satellite field was 3.4 mbbbls/day during 2012. These wells will provide additional information on the reservoir to refine development plans for the full West White Rose field.

The Company continues to evaluate the feasibility of a concrete wellhead and drilling platform for development of future resources in the White Rose region, including the full development of West White Rose. Pre-FEED and FEED contracts to support this work were awarded in April 2012.

Production from the White Rose field and satellite extensions was impacted during 2012 by a planned maintenance off-station program which saw production from the SeaRose FPSO shut in for 102 days. Production resumed August 13, 2012, three weeks ahead of schedule.

In the third quarter of 2012, Husky excavated a new subsea drill centre to facilitate future operations at the South White Rose extension. Discovered in 2003, it is the smallest of the satellite tie-back developments. A DPA to provide for both production and gas injection wells in the region was filed in the fourth quarter of 2012. Development drilling from the new centre is scheduled to commence in early 2013.

### ***Terra Nova Oil Field***

The Terra Nova oil field is located approximately 350 kilometers southeast of St. John's, Newfoundland and Labrador. The Terra Nova oil field is divided into three distinct areas, known as the Graben, the East Flank and the Far East. Production at Terra Nova commenced in January 2002. Husky's working interest in the field increased to 13% effective December 1, 2010.

Husky's production in 2012 from the Terra Nova field was 3.0 mbbbls/day. Production at Terra Nova was impacted by a planned maintenance off-station program which lasted 26 weeks. Production from the field resumed on December 9, 2012 and continues to ramp up more slowly than anticipated.

As at December 31, 2012, there were 14 wells in operation in the Graben area, eight production wells, three water injection wells and three gas injection wells. In the East Flank area there were 12 wells operating, including seven production wells and five water injection wells. There is one extended reach producer and an extended reach water injection well in the Far East area. Drilling operations are expected to continue in 2013 on both new and existing development wells.

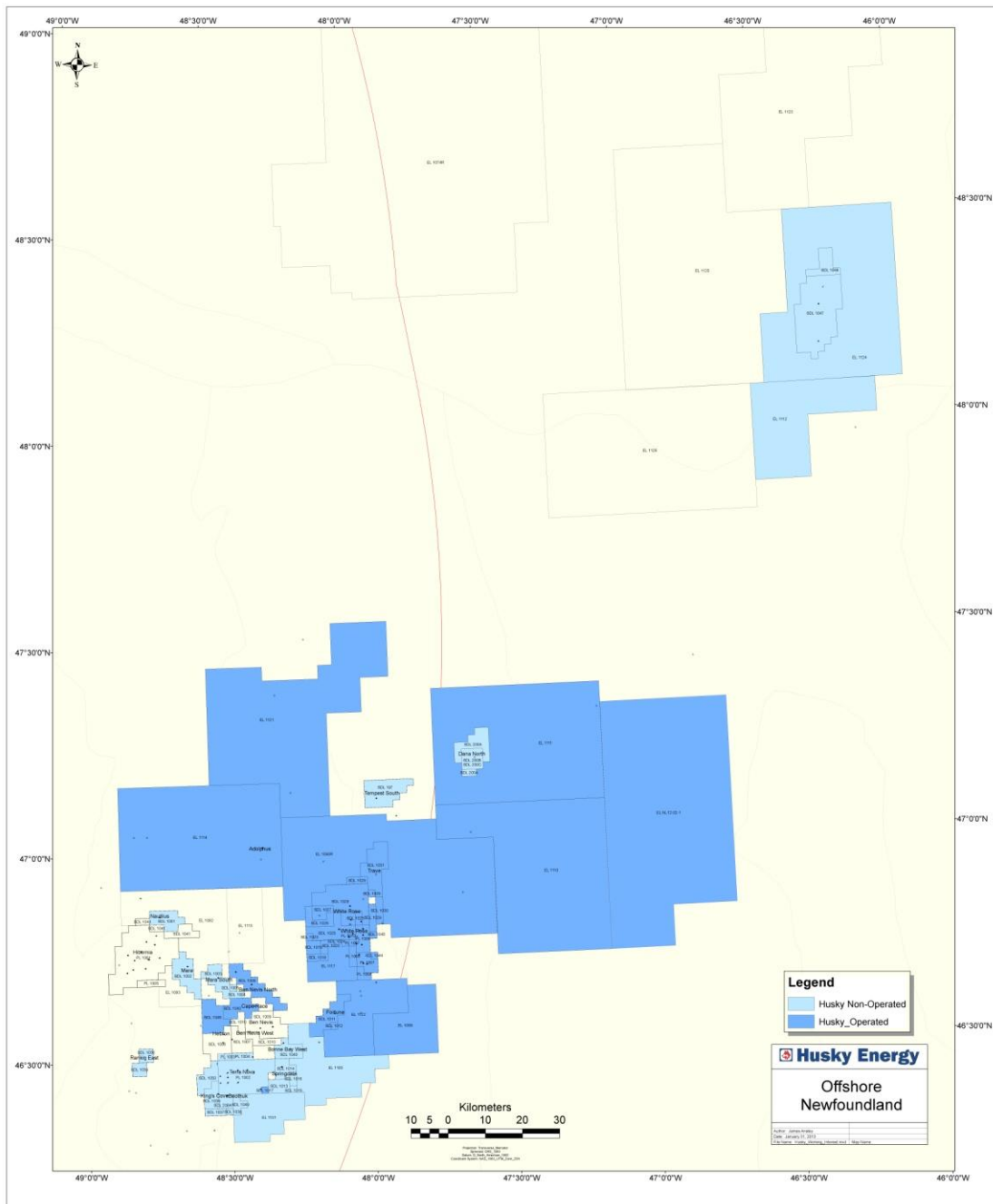
### ***Atlantic Region Exploration***

Husky believes that the Atlantic Region has exploration potential, and that the Company's position in the region will provide growth opportunities for light crude oil and natural gas development in the medium to long-term. Husky presently holds working interests ranging from 5.3% to 73.1% in 23 significant discovery areas ("SDAs") in the Jeanne d'Arc Basin, the Flemish Pass and Labrador and Baffin Island.

Husky participated in the Searcher C-87 exploration well during the second half of the year. The Searcher exploration well did not encounter commercial hydrocarbons. In November 2012, the Company was awarded exploration rights to a 208,899 hectare parcel of land in the Flemish Pass offshore Newfoundland. Husky holds a 40% working interest in the new licence.

As of January 16, 2013, Husky held a working interest in 17 Exploration Licences (“ELs”) offshore Newfoundland, Labrador and Greenland. Husky is the operator of 13 of these ELs and has working interests ranging from 35% to 100%.

The Company will also participate in additional operated and non-operated exploration and delineation wells during 2013, including the partner-operated Harpoon exploration well located southeast of the Mizzen discovery in the Flemish Pass. Husky holds a 35% working interest in both wells.



## ***Greenland***

Husky is the operator of two ELs offshore the west coast of Disko Island, Greenland. Husky continues to evaluate its opportunities in the region and has received a two-year extension on the initial phase of its exploration program. Geotechnical evaluations continued on the Greenland concessions and socio-economic study work is expected to advance during 2013.

## **Oil Sands**

### ***Sunrise Energy Project***

On March 31, 2008, Husky and BP completed a transaction that created an integrated North American oil sands business. The business comprises a 50/50 partnership to develop the Sunrise Energy Project, operated by Husky, and a 50/50 limited liability company for the BP-Husky Toledo Refinery, operated by BP.

FEED for Phase I of the Sunrise in-situ SAGD oil sands project, located in the Athabasca region of northern Alberta, was completed in December 2009. During 2010, the partnership reached an agreement on the movement of diluted bitumen to market and transportation of diluent to the Sunrise oil sands site. Project sanction for Phase I was announced in late 2010 and Husky awarded major engineering and construction contracts for the central processing and field facilities. Development drilling commenced in the first quarter of 2011. First production for Phase I is planned for 2014.

The Sunrise Energy Project was approved by the ERCB in December 2005. An amendment to the application was submitted in April 2007, which outlined changes and optimizations resulting from ongoing depletion planning and FEED. Amendment approvals from the ERCB were received in January 2009 and approval from Alberta Environment was received in the first quarter of 2009. A second amendment to optimize the central plant facility design was filed with the regulators in July 2009 and approval was received from both the ERCB and Alberta Environment in December 2009.

The drilling program for Phase I was completed in 2012 and the CPF is approaching 50% completion with piling substantially completed and foundation work proceeding at the site. Major equipment continues to be delivered and placed into position with approximately half of the modules fabricated and moved to site. Construction of the field facilities is now more than 80% complete with significant activity currently underway, including pipelining in the field and fabrication in the module shops.

Regulatory approvals are in place for a total of 200,000 bbls/day (100,000 bbls/day net).

### ***Tucker Oil Sands Project***

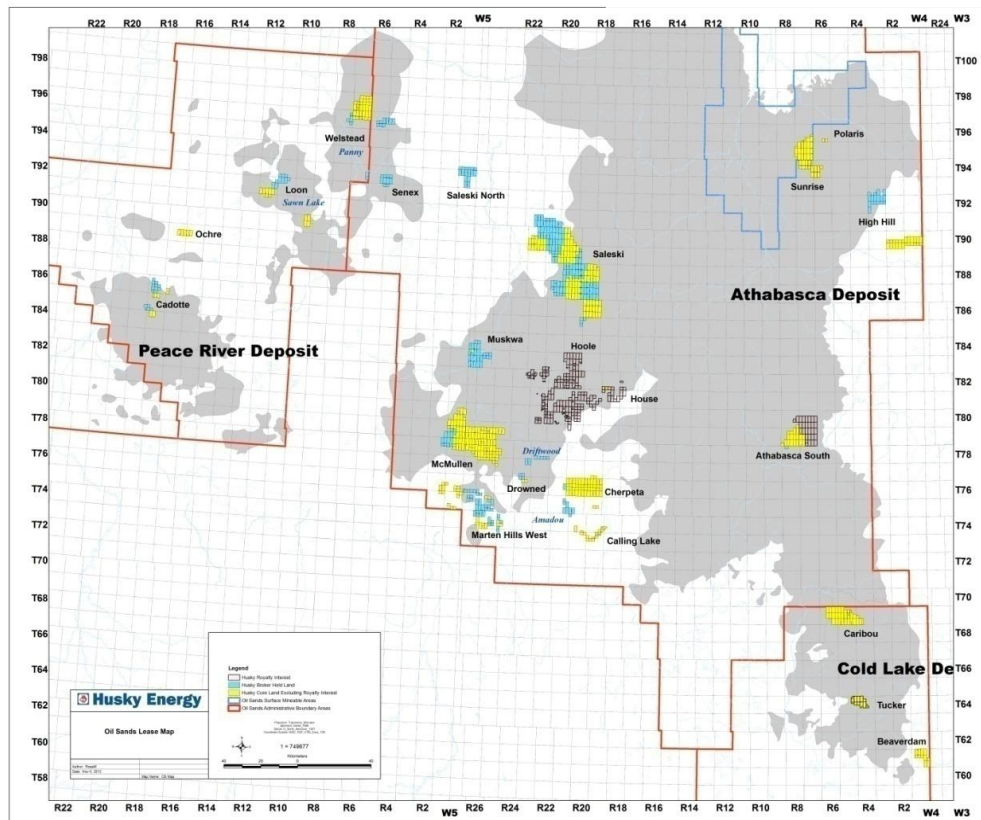
Tucker is an in-situ SAGD oil sands project located 30 kilometers northwest of Cold Lake, Alberta that commenced production at the end of 2006. Husky drilled two wells (one well pair) in 2011 to test the productivity of the Lower Grand Rapids formation. Based on the positive results, drilling of ten wells (five well pairs) commenced in 2012. Gross production at Tucker in December 2012 was 9.9 mbbls/day. Several applications to the ERCB have been approved or are proceeding for additional drilling and field development through 2015.

### ***Undeveloped Oil Sands Assets***

Husky holds in excess of 550,000 acres in undeveloped oil sands leases and has a 100% working interest in all leases except in Athabasca South in which it has a 50% working interest.

In Saleski, just north of the Hamlet of Wabasca, Alberta, Husky drilled and tested two wells and tested one standing well to high-grade acreage and select a pilot production area and confirm the availability of water source and disposal. Lab scale tests were performed to support advancing to the pilot stage; the application for the pilot is planned for 2013.

Further portfolio activity is expected to focus on accelerating and high grading the development of Husky's other oil sands leases.



## Heavy Oil

### *Lloydminster Heavy Oil and Gas*

Husky's heavy oil assets are primarily concentrated in a large producing region in the Lloydminster, Alberta/Saskatchewan area. The Company maintains a land position of approximately two million gross acres within this area. Over 90% of Husky's proved reserves in the region are contained in the heavy crude oil producing areas of Pikes Peak, Edam, Tangleflags, Celtic, Bolney, Paradise Hill, Westhazel, Big Gully, Mervin, Marwayne, Lashburn, Gully Lake, Vermilion, Swimming, Morgan, Lindbergh, Aberfeldy, Marsden, Epping, Furness and Rush Lake, and in the medium gravity crude oil producing fields of Wildmere and Wainwright. These fields contain accumulations of heavy crude oil at relatively shallow depths and are all located within 100 kilometers of the town of Lloydminster, Alberta.

Husky currently produces from oil and gas wells ranging in depth from 450 meters to 650 meters and holds a 100% working interest in the majority of these wells. Production of heavy oil from the Lloydminster area uses a variety of techniques, including primary production methods, horizontal well technology, CSS, and SAGD. Husky has increased primary production from the area through cold production techniques which utilize progressive cavity pumps capable of simultaneous production of sand and heavy oil from unconsolidated formations. Husky's gross heavy and medium crude oil production from the area averaged 89.5 mbbbls/day in 2012. Of the total gross crude oil produced, 61.1 mbbbls/day was primary production of heavy crude oil, including CHOPS and horizontal technologies, 26.3 mbbbls/day was from Husky's thermal operations and 2.1 mbbbls/day was from the medium gravity waterflooded fields in the Wainwright and Wildmere areas. Husky also produces natural gas from numerous small shallow pools in the Lloydminster region and recovers solution gas produced from heavy oil wells. During 2012, Husky's gross natural gas production from the Lloydminster region averaged 25.4 mmcf/day.

In the Lloydminster area, the Company owns and operates 21 oil treating facilities which are tied into the Husky heavy oil pipeline systems. These pipeline systems transport heavy crude oil from the field locations to the Husky Lloydminster asphalt refinery, the Husky Lloydminster Upgrader and the third-party pipeline systems at Hardisty, Alberta.

Production commenced in the second quarter of 2012 ahead of schedule at both the Pikes Peak South and Paradise Hill heavy oil thermal projects and has ramped up to levels exceeding the combined 11,500 bbls/day design rates. Average production levels of approximately 12,000 bbls/day at Pikes Peak South and 5,000 bbls/day at Paradise Hill heavy oil thermal projects were achieved during the fourth quarter of 2012.

Construction is approximately 40% complete at the 3,500 bbls/day Sandall thermal development project and initial drilling has commenced. First production is scheduled in 2014.

Design and initial site work is continuing at the 10,000 bbls/day Rush Lake commercial project with first production anticipated in 2015. Production performance from the first single well pair pilot is in line with expectations and a second well pair pilot is planned to commence production in the second quarter of 2013. Initial planning is ongoing for three additional commercial thermal projects.

The Company advanced its horizontal drilling program in 2012 with the completion of 144 wells. Based on the positive performance of previous horizontal drilling programs, Husky is continuing this program by planning to drill approximately 140 wells in 2013. The Company also drilled 250 gross CHOPS wells during 2012. In 2013, 200 CHOPS wells are planned.

The Company is focused on increasing its heavy oil production and believes that its undeveloped land position, coupled with the development and application of improved recovery technologies, will maintain heavy crude oil production in the Lloydminster area.

#### ***Non-Thermal Enhanced Oil Recovery (“EOR”)***

Husky operated four solvent EOR pilot programs in 2012 and a CO<sub>2</sub> capture and liquefaction plant at the Lloydminster Ethanol Plant. This liquefied CO<sub>2</sub> is used in the ongoing EOR piloting program.

#### **Western Canada (excluding Heavy Oil and Oil Sands)**

##### ***East Central Alberta***

Husky's East Central Alberta operations are located primarily in central Alberta, in a band extending from the Rocky Mountain foothills in the west, to east of the Alberta/Saskatchewan boundary. Husky operates 67 facilities in the area. Husky's 2012 gross production from East Central Alberta averaged 82 mmcf/day of natural gas and 16.4 mbbls/day of oil and NGL.

Husky plans to continue its Viking resource oil drilling program which targets medium productivity reservoirs enhanced by utilizing horizontal drilling and multiple-stage fracturing treatments. Plans are in place to drill up to 58 Viking wells in 2013, primarily at the proven areas of Redwater (20 kilometers northeast of Edmonton) and Elrose (80 kilometers southwest of Saskatoon), and expand into the Alliance area (200 kilometers southeast of Edmonton). Husky currently has approximately 100 wells producing from the plays and will continue to develop infrastructure in all three areas, as required.

Preparations for the Macklin, Saskatchewan ASP flood have advanced, with petrophysical and coreflood studies completed, confirming ASP flooding potential. Optimization of the existing pattern waterflood which is necessary prior to ASP implementation is underway and well workovers are scheduled to be completed in 2013.

At Red Deer, Husky will focus on the development of additional oil resource properties from the Mississippian and Devonian formations. Development of Husky's gas properties in the area has been deferred due to low commodity prices with the exception of some liquids-rich gas prospects in the Hussar field.

##### ***Southern Alberta and Southern Saskatchewan***

Husky is the operator of a number of properties in southern Alberta and southern Saskatchewan. Husky's gross production from properties in southern Alberta averaged 7.0 mbbls/day of crude oil and NGL and 16.8 mmcf/day of natural gas during 2012. In southern Saskatchewan, 2012 gross production averaged 15.6 mbbls/day of crude oil and NGL and 14.9 mmcf/day of natural gas.

Husky's ASP EOR program is used at Warner and Crowsnest in southern Alberta and at Gull Lake in southern Saskatchewan. In addition, Husky holds a 20.3% non-operating working interest in the Instow, Saskatchewan ASP flood, where oil response continues to increase in line with expectations. Husky's gross incremental production at December 2012 for its ASP EOR program was approximately 3.9 mbbbls/day (2.5 mbbls/day net). Husky's ASP project at Fosterton, Saskatchewan commenced production in December 2012 and has continued to ramp up to targeted ASP injection rates. Husky is the operator and holds a 62.4% working interest in this project.

Development of the Bakken formation continued in southeast Saskatchewan, with 23 wells drilled and 22 wells on production. A tank treating facility, gathering system, and oil sales line were built and commissioned. Production and evaluation of the Lower Shaunavon formation in southwest Saskatchewan continued with four wells drilled and put on production. Husky's gross production from these two plays was approximately 2.6 mbbbls/day in December 2012.

### ***Foothills Northwest Plains***

The Foothills Northwest Plains area is located in western and northern Alberta and British Columbia. The area is made up of five distinct districts: Rainbow Lake, Northern Alberta, Northern Alberta & British Columbia Plains, Ansell-Galloway and Foothills. Average production from across all Foothills Northwest Plains was approximately 97.1 mboe/day in 2012.

Rainbow Lake, located approximately 700 kilometers northwest of Edmonton, Alberta, is the site of Husky's largest light oil production operation in Western Canada. Husky's production for 2012 from the Rainbow Lake district averaged 10.8 mbbbls/day of light crude oil and NGL and 94.2 mmcf/day of natural gas. In addition to operating and continuing development of these assets, Husky has commenced exploration activities within the Muskwa resource play in which Husky holds a 100% working interest and a total of 12 horizontal wells were drilled in 2012.

The Northern Alberta district surrounds the communities of Peace River and Slave Lake northwest of Edmonton, Alberta and produces shallow gas and heavy oil. Husky's production for 2012 from this district averaged 6.5 mbbbls/day of heavy oil and 32 mmcf/day of natural gas. Husky drilled 54 wells in 2012 to expand its primary heavy oil production from the McMullen field, located 40 kilometers southwest of the Hamlet of Wabasca, Alberta and continued to evaluate an EOR pilot project through 2012.

Gross production from the Northern Alberta & British Columbia Plains district averaged approximately 5.2 mbbbls/day of light crude oil and NGL and 81.9 mmcf/day of natural gas in 2012. The Company continued development of the Cardium oil resource play in the Wapiti area, in which Husky holds a 100% working interest, drilling five horizontal oil wells.

Production at the Ansell-Galloway district was approximately 2.2 mbbbls/day of NGL and 56.0 mmcf/day of natural gas in 2012. A horizontal drilling program was executed in 2012 with six Cardium and five Wilrich horizontal wells drilled. In addition four vertical appraisal wells were drilled and Husky participated in three partner operated horizontal wells. Significant progress was made with securing additional offtake capacity utilizing excess third-party plant capacity in the area for 2013 volumes and beyond.

The Foothills district produced approximately 4.0 mbbbls/day of light crude oil and NGL and 146.1 mmcf/day of natural gas in 2012. Production from the area is predominantly processed at the Ram River gas plant, with Husky operating and holding an average 84% interest in the Ram River sour gas plant and related processing facilities located in the Foothills district. Maintenance and operational activities continued in 2012; however, development activity was limited.

### ***Northwest Territories ("NWT")***

In the NWT, Husky was active on two ELs acquired in June 2011. Following the construction of an ice bridge spanning the Mackenzie River and a winter access road, two vertical pilot wells were drilled: the N-09 well on EL 463 and the H-64 well on EL 462. These two wells satisfied the requirements to extend the term of both ELs to the full nine-year term. The two vertical wells were extensively cored and have provided valuable data for the characterization of the geochemical and geomechanical properties of the reservoir and the bounding units. Additionally, a 220 square kilometre multi-component proprietary 3-D seismic survey was acquired.

Pre-disturbance, archeological, permafrost, aggregate, baseline wildlife, vegetation and surface water studies were conducted in the summer of 2012. This data, combined with the geotechnical data acquired from the two vertical wells, provided the background for Husky's land and water use permit applications for the winter 2012/2013 program including construction, baseline groundwater, completion/testing and all season access road projects which received regulatory approval.

### ***Columbia River Basin (Washington and Oregon State – USA)***

Husky holds undeveloped land in the Columbia River Basin located in the states of Washington and Oregon. While these lands are thought to be prospective for natural gas, this play is not competitive with Husky's many other opportunities for investment due to the relatively high risk of the play, combined with the current low gas prices. A decision has been made to allow these leases to expire.

## **Distribution of Oil and Gas Production**

### **Crude Oil and NGL**

Husky provides heavy crude oil feedstock to its Upgrader and its asphalt refinery, which are located at Lloydminster, Alberta/Saskatchewan. The combined dry crude feedstock requirements of the Upgrader and asphalt refinery are approximately equal to Husky's heavy crude oil production from the Lloydminster area. Husky also purchases third party volumes. Husky markets heavy crude oil production directly to refiners located in the mid-west and eastern United States and Canada. Husky markets its light and synthetic crude oil production to third-party refiners in Canada, the United States and Asia in addition to Husky's Lima Refinery. NGL are sold to local petrochemical end users, retail and wholesale distributors and refiners in North America.

Husky markets third-party volumes of crude oil, synthetic crude oil and NGL in addition to its own production. For a discussion of Husky's distribution methods associated with crude oil and NGL, refer to the Commodity Marketing section of this AIF.

### **Natural Gas**

The following table shows the distribution of Husky's gross average daily natural gas production for the years indicated. The Company also markets third-party natural gas production in addition to its own production.

	Years ended December 31,		
	2012	2011	2010
	(mmcf/day)		
<b>Sales Distribution</b>			
United States	154	163	223
Canada	242	297	164
	396	460	387
Sales to Aggregators	4	3	3
Internal Use <sup>(1)</sup>	154	144	117
	554	607	507

<sup>(1)</sup> Husky consumes natural gas for fuel at several of its facilities.

### **Fixed Price Contracts**

The following table shows the future commitments to deliver natural gas from Husky reserves. Husky's proved developed reserves of natural gas in Western Canada are more than adequate to meet future delivery commitments.

	bcf	Fixed Price \$/mmbtu
2013	11.6	4.17
2014	11.6	4.25
2015	3.8	4.34



## Disclosures of Oil and Gas Activities

### Production History

Average Gross Daily Production	Year Ended	Three Months Ended			
	Dec 31, 2012	Dec 31, 2012	Sept 30, 2012	June 30, 2012	Mar 31, 2012
<b>Canada – Western Canada</b>					
Light Crude Oil and NGL (mbbls/day)	30.1	31.9	29.0	29.4	30.5
Medium Crude Oil (mbbls/day)	24.1	23.2	23.9	24.1	24.9
Heavy Crude Oil (mbbls/day)	76.9	76.0	77.1	78.1	76.2
Bitumen (mbbls/day)	35.9	46.7	37.8	29.6	29.6
Natural Gas (mmcf/day)	554.0	523.7	544.9	559.5	588.3
<b>Canada – Atlantic Region</b>					
Light Crude Oil (mbbls/day)	33.8	45.7	18.5	19.0	52.1
<b>China</b>					
Light Crude Oil and NGL (mbbls/day)	8.4	8.5	7.9	8.4	8.6
<b>Total Gross Production (mboe/day)</b>	<b>301.5</b>	<b>319.3</b>	<b>285.0</b>	<b>281.9</b>	<b>319.9</b>
<hr/>					
Average Gross Daily Production	Year Ended	Three Months Ended			
	Dec 31, 2011	Dec 31, 2011	Sept 30, 2011	June 30, 2011	Mar 31, 2011
<b>Canada – Western Canada</b>					
Light Crude Oil and NGL (mbbls/day)	24.8	28.8	22.9	21.7	25.9
Medium Crude Oil (mbbls/day)	24.5	24.3	24.6	24.6	24.6
Heavy Crude Oil (mbbls/day)	74.5	75.8	75.1	73.6	73.4
Bitumen (mbbls/day)	24.7	27.4	23.6	23.6	24.2
Natural Gas (mmcf/day)	607.0	597.9	614.7	631.8	583.3
<b>Canada – Atlantic Region</b>					
Light Crude Oil (mbbls/day)	54.3	54.6	53.4	53.7	55.5
<b>China</b>					
Light Crude Oil and NGL (mbbls/day)	8.5	8.3	7.0	9.1	9.6
<b>Total Gross Production (mboe/day)</b>	<b>312.5</b>	<b>318.9</b>	<b>309.1</b>	<b>311.6</b>	<b>310.4</b>
<hr/>					
Average Gross Daily Production	Year Ended	Three Months Ended			
	Dec 31, 2010	Dec 31, 2010	Sept 30, 2010	June 30, 2010	Mar 31, 2010
<b>Canada – Western Canada</b>					
Light Crude Oil and NGL (mbbls/day)	23.0	23.0	23.5	22.5	23.4
Medium Crude Oil (mbbls/day)	25.4	25.3	25.7	25.1	25.3
Heavy Crude Oil (mbbls/day)	74.5	74.6	72.4	74.6	76.4
Bitumen (mbbls/day)	22.3	23.1	21.9	21.5	22.6
Natural Gas (mmcf/day)	506.8	494.2	505.5	503.9	523.7
<b>Canada – Atlantic Region</b>					
Light Crude Oil (mbbls/day)	46.7	41.3	50.8	45.0	49.9
<b>China</b>					
Light Crude Oil and NGL (mbbls/day)	10.7	10.8	10.1	11.2	11.0
<b>Total Gross Production (mboe/day)</b>	<b>287.1</b>	<b>280.5</b>	<b>288.7</b>	<b>283.9</b>	<b>295.9</b>

## Netback Analysis

The following tables show Husky's netback analysis by product and area. The netback analysis has been revised to align with the change in segment presentation and prior quarters have been restated to reflect the current presentation.

Average Per Unit Amounts	Year Ended	Three Months Ended			
	Dec 31, 2012	Dec 31, 2012	Sept 30, 2012	Jun 30, 2012	Mar 31, 2012
<b>Light Crude Oil and NGL (\$/bbl)</b>					
Canada – Western Canada					
Price received	\$76.85	\$72.31	\$71.98	\$78.62	\$84.64
Royalties	\$12.95	\$10.49	\$14.47	\$11.76	\$15.25
Production Costs	\$20.72	\$19.68	\$19.82	\$20.26	\$21.86
Netback	\$43.18	\$42.14	\$37.70	\$46.60	\$47.53
Canada – Atlantic Canada					
Price Received	\$115.78	\$108.88	\$112.78	\$110.97	\$124.74
Royalties	\$12.36	\$11.15	\$9.11	\$4.00	\$17.65
Production Costs	\$17.12	\$10.73	\$33.36	\$31.77	\$11.63
Transportation Costs <sup>(1)</sup>	\$2.14	\$1.95	\$3.34	\$4.21	\$1.12
Netback	\$84.16	\$85.05	\$66.97	\$70.99	\$94.35
Canada – Total					
Price Received <sup>(1)</sup>	\$96.29	\$92.73	\$86.55	\$89.66	\$109.24
Royalties	\$12.64	\$10.88	\$12.39	\$8.72	\$16.76
Production Costs	\$18.82	\$14.40	\$25.08	\$24.78	\$15.40
Netback	\$64.83	\$67.45	\$49.08	\$56.17	\$77.07
China					
Price Received	\$113.01	\$104.25	\$106.38	\$114.28	\$126.74
Royalties	\$26.88	\$22.97	\$24.31	\$29.42	\$30.73
Production Costs	\$10.08	\$12.01	\$9.10	\$11.32	\$7.85
Netback	\$76.04	\$69.28	\$72.97	\$73.54	\$88.17
Company Total					
Price Received <sup>(1)</sup>	\$98.22	\$93.88	\$89.38	\$93.30	\$110.89
Royalties	\$14.28	\$12.08	\$14.09	\$11.78	\$18.08
Production Costs	\$17.81	\$14.16	\$22.80	\$22.79	\$14.69
Netback	\$66.13	\$67.63	\$52.49	\$58.74	\$78.12
<b>Medium Crude Oil (\$/bbl)</b>					
Canada – Western Canada					
Price Received	\$71.51	\$67.55	\$69.59	\$69.92	\$78.63
Royalties	\$12.76	\$11.14	\$11.33	\$12.59	\$15.89
Production Costs	\$20.53	\$19.82	\$21.04	\$21.85	\$20.94
Netback	\$38.22	\$36.60	\$37.22	\$35.48	\$41.80
<b>Heavy Crude Oil (\$/bbl)</b>					
Canada – Western Canada					
Price Received	\$61.91	\$57.90	\$60.58	\$60.42	\$68.93
Royalties	\$6.04	\$7.85	\$7.75	\$5.77	\$2.75
Production Costs	\$17.56	\$18.36	\$18.70	\$16.26	\$16.98
Netback	\$38.31	\$31.70	\$34.13	\$38.40	\$49.20
<b>Bitumen (\$/bbl)</b>					
Canada – Western Canada					
Price Received	\$59.49	\$55.74	\$60.10	\$58.09	\$65.83
Royalties	\$3.80	\$2.69	\$2.14	\$5.92	\$5.60
Production Costs	\$13.36	\$12.74	\$13.21	\$13.17	\$14.81
Netback	\$42.32	\$40.31	\$44.75	\$39.00	\$45.43
<b>Natural Gas (\$/mcf)</b>					
Canada – Western Canada <sup>(2)</sup>					
Price Received	\$2.60	\$3.25	\$2.48	\$2.05	\$2.64
Royalties	(\$0.08)	\$0.08	(\$0.28)	(\$0.11)	(\$0.02)
Production Costs	\$1.91	\$2.17	\$1.92	\$1.75	\$1.81
Netback	\$0.77	\$1.01	\$0.83	\$0.41	\$0.86

<sup>(1)</sup> Transportation costs are shown separately from price in Canada – Atlantic Region. This cost category is netted against price when calculating Canada Total and Company Total balances.

<sup>(2)</sup> Includes sulphur sales and royalties.

Average Per Unit Amounts	Year Ended	Three Months Ended			
	Dec 31, 2011	Dec 31, 2011	Sept 30, 2011	Jun 30, 2011	Mar 31, 2011
<b>Light Crude Oil and NGL (\$/bbl)</b>					
Canada – Western Canada					
Price Received	\$84.02	\$88.56	\$76.55	\$88.81	\$81.55
Royalties	\$17.04	\$19.98	\$14.77	\$17.20	\$15.52
Production Costs	\$21.37	\$19.66	\$20.51	\$24.03	\$21.86
Netback	\$45.61	\$48.92	\$41.27	\$47.58	\$44.18
Canada – Atlantic Canada					
Price Received	\$112.21	\$114.74	\$110.59	\$115.48	\$108.04
Royalties	\$19.36	\$22.35	\$17.12	\$19.61	\$18.31
Production Costs	\$8.75	\$8.54	\$9.82	\$9.00	\$7.67
Transportation Costs <sup>(1)</sup>	\$1.50	\$1.59	\$1.62	\$0.87	\$1.91
Netback	\$82.59	\$82.26	\$82.03	\$86.00	\$80.15
Canada – Total					
Price Received <sup>(1)</sup>	\$102.34	\$104.67	\$99.24	\$107.20	\$98.31
Royalties	\$18.63	\$21.53	\$16.42	\$18.92	\$17.42
Production Costs	\$12.71	\$12.38	\$13.03	\$13.32	\$12.18
Netback	\$71.00	\$70.77	\$69.79	\$74.95	\$68.70
China					
Price Received	\$110.54	\$115.61	\$109.81	\$111.90	\$105.30
Royalties	\$32.75	\$36.39	\$32.34	\$37.22	\$25.54
Production Costs	\$8.17	\$9.18	\$10.41	\$7.38	\$6.34
Netback	\$69.62	\$70.04	\$67.07	\$67.30	\$73.41
Company Total					
Price Received <sup>(1)</sup>	\$103.13	\$105.66	\$100.12	\$107.70	\$99.04
Royalties	\$20.00	\$22.87	\$17.76	\$20.89	\$18.28
Production Costs	\$12.27	\$12.09	\$12.81	\$12.68	\$11.57
Netback	\$70.86	\$70.70	\$69.56	\$74.13	\$69.20
<b>Medium Crude Oil (\$/bbl)</b>					
Canada – Western Canada					
Price Received	\$76.59	\$85.83	\$70.81	\$81.24	\$68.41
Royalties	\$14.13	\$15.24	\$13.58	\$15.24	\$12.41
Production Costs	\$20.05	\$20.88	\$21.60	\$18.14	\$19.58
Netback	\$42.41	\$49.71	\$35.63	\$47.86	\$36.41
<b>Heavy Crude Oil (\$/bbl)</b>					
Canada – Western Canada					
Price Received	\$68.13	\$76.37	\$62.35	\$72.51	\$61.02
Royalties	\$8.83	\$9.47	\$8.09	\$9.88	\$7.86
Production Costs	\$17.57	\$17.70	\$17.94	\$17.44	\$17.16
Netback	\$41.72	\$49.21	\$36.31	\$45.20	\$35.99
<b>Bitumen (\$/bbl)</b>					
Canada – Western Canada					
Price Received	\$65.75	\$74.19	\$59.60	\$69.76	\$58.11
Royalties	\$8.69	\$9.75	\$6.73	\$7.91	\$10.18
Production Costs	\$17.72	\$18.47	\$17.18	\$18.19	\$16.91
Netback	\$39.34	\$45.02	\$34.79	\$42.52	\$28.33
<b>Natural gas (\$/mcf)</b>					
Canada – Western Canada <sup>(2)</sup>					
Price Received	\$3.89	\$3.53	\$4.12	\$4.02	\$3.87
Royalties	\$0.18	\$0.23	\$0.17	\$0.19	\$0.13
Production Costs	\$1.75	\$1.83	\$1.85	\$1.70	\$1.62
Netback	\$1.96	\$1.47	\$2.10	\$2.13	\$2.11

<sup>(1)</sup> Transportation costs are shown separately from price in Canada – Atlantic Region. This cost category is netted against price when calculating Canada Total and Company Total balances.

<sup>(2)</sup> Includes sulphur sales and royalties.

## Producing and Non-Producing Wells <sup>(1)(2)(3)</sup>

### Producing Wells

	Oil Wells		Natural Gas Wells		Total	
	Gross	Net	Gross	Net	Gross	Net
<b>Canada</b>						
Alberta	4,341	3,575	5,732	4,221	10,073	7,796
Saskatchewan	6,941	6,000	1,373	1,256	8,314	7,256
British Columbia	199	57	311	270	510	327
Newfoundland	30	12	-	-	30	12
	11,511	9,644	7,416	5,747	18,927	15,391
<b>International</b>						
China	32	13	-	-	32	13
Libya	-	-	-	-	-	-
	32	13	-	-	32	13
<b>As at December 31, 2012</b>	<b>11,543</b>	<b>9,657</b>	<b>7,416</b>	<b>5,747</b>	<b>18,959</b>	<b>15,404</b>
<b>Canada</b>						
Alberta	4,607	3,792	5,883	4,371	10,490	8,163
Saskatchewan	6,753	5,797	1,416	1,293	8,169	7,090
British Columbia	200	58	304	264	504	322
Newfoundland	28	11	-	-	28	11
	11,588	9,658	7,603	5,928	19,191	15,586
<b>International</b>						
China	33	13	-	-	33	13
Libya	-	-	-	-	-	-
	33	13	-	-	33	13
<b>As at December 31, 2011</b>	<b>11,621</b>	<b>9,671</b>	<b>7,603</b>	<b>5,928</b>	<b>19,224</b>	<b>15,599</b>
<b>Canada</b>						
Alberta	4,484	3,580	5,770	4,407	10,254	7,987
Saskatchewan	6,582	5,488	1,446	1,311	8,028	6,799
British Columbia	204	59	283	242	487	301
Newfoundland	25	9	-	-	25	9
	11,295	9,136	7,499	5,960	18,794	15,096
<b>International</b>						
China	32	13	-	-	32	13
Libya	3	1	-	-	3	1
	35	14	-	-	35	14
<b>As at December 31, 2010</b>	<b>11,330</b>	<b>9,150</b>	<b>7,499</b>	<b>5,960</b>	<b>18,829</b>	<b>15,110</b>

### Non-Producing Wells

	2012					
	Oil Wells		Natural Gas Wells		Total	
	Gross	Net	Gross	Net	Gross	Net
Canada	5,150	4,563	1,699	1,416	6,849	5,979

(1) The number of gross wells is the total number of wells in which Husky owns a working interest. The number of net wells is the sum of the fractional interests owned in the gross wells. Productive wells are those producing or capable of producing at December 31, 2012.

(2) Does not include producing wells in which Husky has no working interest but does have a royalty interest. At December 31, 2012, Husky had a royalty interest in 4,333 wells of which 1,458 were oil producers and 2,875 were gas producers.

(3) For purposes of the table, multiple completions are counted as a single well. Where one of the completions in a given well is an oil completion, the well is classified as an oil well. In 2012, there were 751 gross and 725 net oil wells and 670 gross and 524 net natural gas wells which were completed in two or more formations and from which production is not commingled.

## Landholdings - Developed Acreage

<i>(thousands of acres)</i>	<b>Gross</b>	<b>Net</b>
<b>As at December 31, 2012</b>		
<b>Western Canada</b>		
Alberta	4,590	2,912
Saskatchewan	871	700
British Columbia	187	147
Manitoba	2	-
	5,650	3,759
<b>Atlantic Region</b>	57	20
	5,707	3,779
<b>China</b>	17	7
<b>Libya</b>	7	2
<b>Total</b>	<b>5,731</b>	<b>3,788</b>
<b>As at December 31, 2011</b>		
<b>Western Canada</b>		
Alberta	4,594	2,908
Saskatchewan	878	699
British Columbia	187	147
Manitoba	19	2
	5,678	3,756
<b>Atlantic Region</b>	58	20
	5,736	3,776
<b>China</b>	17	7
<b>Libya</b>	7	2
<b>Total</b>	<b>5,760</b>	<b>3,785</b>
<b>As at December 31, 2010</b>		
<b>Western Canada</b>		
Alberta	4,172	2,729
Saskatchewan	891	704
British Columbia	172	133
Manitoba	2	-
	5,237	3,566
<b>Atlantic Region</b>	54	18
	5,291	3,584
<b>China</b>	17	7
<b>Libya</b>	7	2
<b>Total</b>	<b>5,315</b>	<b>3,593</b>

## Landholdings - Undeveloped Acreage

<i>(thousands of acres)</i>	<b>Gross</b>	<b>Net</b>
<b>As at December 31, 2012</b>		
<b>Western Canada</b>		
Alberta	5,022	3,683
Saskatchewan	1,602	1,431
British Columbia	950	709
Manitoba	3	1
	7,577	5,824
<b>Northwest Territories and Arctic</b>	483	466
<b>Atlantic Region</b>	5,046	3,124
	13,106	9,414
<b>United States</b>	616	259
<b>China</b>	495	243
<b>Indonesia</b>	1,559	937
<b>Greenland</b>	8,471	5,983
<b>Taiwan</b>	2,545	1,909
	26,792	18,745
<b>As at December 31, 2011</b>		
<b>Western Canada</b>		
Alberta	5,353	3,930
Saskatchewan	1,654	1,481
British Columbia	1,037	774
Manitoba	3	1
	8,047	4,846
<b>Northwest Territories and Arctic</b>	1,156	633
<b>Atlantic Region</b>	5,548	3,339
	14,751	8,818
<b>United States</b>	1,076	398
<b>China</b>	990	484
<b>Indonesia</b>	1,628	1,213
<b>Greenland</b>	8,471	5,983
	26,916	16,896
<b>As at December 31, 2010</b>		
<b>Western Canada</b>		
Alberta	4,801	3,407
Saskatchewan	1,712	1,522
British Columbia	1,020	747
Manitoba	4	1
	7,537	5,677
<b>Northwest Territories and Arctic</b>	943	303
<b>Atlantic Region</b>	4,777	2,989
	13,257	8,969
<b>United States</b>	1,100	484
<b>China</b>	990	990
<b>Indonesia</b>	1,940	1,595
<b>Greenland</b>	8,471	5,983
	25,758	18,021

## Significant Factors or Uncertainties Relevant to Properties with No Attributed Reserves

The Company has a \$322 million work commitment associated with its undeveloped land holdings in the Canadian Northwest Territories and Arctic. In total, the Company has \$509 million in exploration work commitments to be incurred over the next five years.

Over the next 12 months, approximately 841,139 acres, or less than 5% of the Company's net undeveloped landholdings in Canada, will be subject to expiry.

Husky holds interests in a diverse portfolio of undeveloped petroleum assets in Western Canada, the Atlantic Region and in several other areas (offshore Greenland, China, Taiwan and Indonesia, the United States and the Canadian Northwest Territories and Arctic). As part of its active portfolio management, Husky continually reviews the economic viability of its undeveloped properties using industry standard economic evaluation techniques and pricing and economic environment assumptions. Each year, as part of this active management process, some properties are selected for further development activities, while others are held in abeyance, sold, swapped or relinquished back to the mineral rights owner. There is no guarantee that commercial reserves will be discovered or developed on these properties.

### Drilling Activity

	Year ended December 31,					
	2012		2011		2010	
	Gross	Net	Gross	Net	Gross	Net
<b>Canada – Western Canada</b>						
Exploration						
Oil	47	30	50	40	60	51
Gas	19	12	24	24	37	31
Dry	-	-	3	3	8	8
	66	42	77	67	105	90
Development						
Oil	775	715	880	765	815	722
Gas	23	17	57	42	73	53
Dry	5	4	4	4	10	9
	803	736	941	811	898	784
	869	778	1,018	878	1,003	874
<b>Canada – Atlantic Region</b>						
Development						
Oil	2	1.4	3	2.1	2	1.4
<b>China</b>						
Development						
Oil	-	-	1	0.4	1	0.4
Gas	-	-	4	2.0	2	1.0
	-	-	5	2.4	3	1.4

### Service/Stratigraphic Test Wells

	2012	
	Gross	Net
Canada – Western Canada	116	95.0
Canada – Atlantic Region	2	1.7
China	-	-
Indonesia	5	2.0

## Current Activities

Wells Drilling <sup>(1)</sup>	Exploratory		Development	
	Gross	Net	Gross	Net
Canada – Western Canada	9	8.3	27	25.4
Canada – Atlantic Region	-	-	-	-
China	-	-	1	0.4

Service/Stratigraphic Test Wells <sup>(1)</sup>	Gross	Net
Canada	7	6.4

<sup>(1)</sup> Denotes wells that were being drilled at February 19, 2013.

## Costs Incurred

	Total	Western Canada	Atlantic Region	Total Canada	United States	China	Indonesia	Libya
<i>(\$ millions)</i>								
Property acquisition								
Unproven	15	15	-	15	-	-	-	-
Proven	6	6	-	6	-	-	-	-
Exploration	363	247	92	339	-	-	25	-
Development	4,908	3,527	547	4,074	-	833	1	-
<b>2012</b>	<b>5,293</b>	<b>3,795</b>	<b>639</b>	<b>4,434</b>	<b>-</b>	<b>833</b>	<b>26</b>	<b>-</b>

	Total	Western Canada	Atlantic Region	Total Canada	United States	China	Indonesia	Libya
<i>(\$ millions)</i>								
Property acquisition								
Unproven	82	82	-	82	-	-	-	-
Proven	792	792	-	792	-	-	-	-
Exploration	723	342	115	457	1	233	32	-
Development	2,935	2,131	258	2,389	-	546	-	-
<b>2011</b>	<b>4,532</b>	<b>3,347</b>	<b>373</b>	<b>3,720</b>	<b>1</b>	<b>779</b>	<b>32</b>	<b>-</b>

	Total	Western Canada	Atlantic Region	Total Canada	United States	China	Indonesia	Libya
<i>(\$ millions)</i>								
Property acquisition								
Unproven	62	62	-	62	-	-	-	-
Proven	327	327	-	327	-	-	-	-
Exploration	687	210	96	306	-	369	12	-
Development	2,048	1,589	396	1,985	-	60	-	3
<b>2010</b>	<b>3,124</b>	<b>2,188</b>	<b>492</b>	<b>2,680</b>	<b>-</b>	<b>429</b>	<b>12</b>	<b>3</b>



## **Oil and Gas Reserves Disclosures**

Husky's oil and gas reserves are estimated in accordance with the standards contained in the Canadian Oil and Gas Evaluation Handbook ("COGEH") and the reserves data disclosed conforms with the requirements of NI 51-101. Husky's oil and gas reserves are prepared by internal reserves evaluation staff using a formalized process for determining, approving and booking reserves. This process requires all reserves evaluations to be done on a consistent basis using established definitions and guidelines. Approval of individually significant reserves changes requires review by an internal panel of qualified reserves evaluators. The Audit Committee of the Board of Directors has examined Husky's procedures for assembling and reporting reserves data and other information associated with oil and gas activities and has reviewed that information with management. The Board of Directors has approved, on the recommendation of the Audit Committee, the content of Husky's disclosure of its reserves data and other oil and gas information.

The material differences between reserves quantities disclosed under NI 51-101 and those disclosed under the rules of the SEC and the United States Financial Accounting Standards Board (the "U.S. Rules") is that NI 51-101 requires the determination of reserves quantities to be based on forecast pricing assumptions whereas the U.S. Rules require the determination of reserves quantities to be based on constant price assumptions calculated using a 12 month average price for the year (sum of the benchmark price on the first calendar day of each month in the year divided by 12). The following oil and gas reserves disclosure has been prepared in accordance with NI 51-101 effective December 31, 2012. Husky received approval from the CSA to also disclose its reserves using U.S. Rules as supplementary disclosure to the reserves and oil and gas activities disclosure required by NI 51-101. The reserves information prepared in accordance with the U.S. Rules is included in the Company's Form 40-F, which is available at [www.sec.gov](http://www.sec.gov) or on the Company's website at [www.huskyenergy.com](http://www.huskyenergy.com).

Note that the numbers in each column of the tables throughout this section may not add due to rounding.

### **Audit of Oil and Gas Reserves**

McDaniel & Associates Consultants Ltd., an independent firm of qualified oil and gas reserves evaluation engineers, was engaged to conduct an audit of Husky's crude oil, natural gas and NGL reserves estimates. McDaniel & Associates Consultants Ltd. issued an audit opinion stating that Husky's internally generated proved and probable reserves and net present values based on forecast and constant price assumptions are, in aggregate, reasonable, and have been prepared in accordance with generally accepted oil and gas engineering and evaluation practices as set out in the COGEH.

### **Disclosure of Oil and Gas Information**

Unless otherwise noted in this document, all provided reserves estimates have an effective date of December 31, 2012. Gross reserves or gross production are reserves or production attributable to Husky's interest prior to deduction of royalties; net reserves or net production are reserves or production net of such royalties. Gross or net production reported refers to sales volume, unless otherwise indicated. Unless otherwise noted, production and reserves figures are stated on a gross basis. Unless otherwise indicated, oil and gas commodity prices are quoted after the effect of hedging gains and losses. Unless otherwise indicated, all financial information is in accordance with accounting principles generally accepted in Canada. Husky completed a transition to IFRS in 2011 and all 2012, 2011 and 2010 financial information has been prepared using IFRS as issued by the International Accounting Standards Board.

The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

## **Disclosure of Exemption Under National Instrument 51-101**

Husky sought and was granted by the Canadian Securities Administrators (“CSA”) an exemption from the requirement under National Instrument 51-101 “Standards of Disclosure for Oil and Gas Activities” (“NI 51-101”) to involve independent qualified oil and gas reserves evaluators or auditors. Notwithstanding this exemption, the Company involves independent qualified reserves auditors as part of Husky’s corporate governance practices. Their involvement helps assure that the Company’s internal oil and gas reserves estimates are materially correct.

In Husky’s view, the reliability of Husky’s internally generated oil and gas reserves data is not materially less than would be afforded by Husky involving independent qualified reserves evaluators to evaluate and review the reserves data. The primary factors supporting the involvement of independent qualified reserves evaluators apply when (i) their knowledge of, and experience with, a reporting issuer’s reserves data are superior to that of the internal reserves evaluators and (ii) the work of the independent qualified reserves evaluators is significantly less likely to be adversely influenced by self-interest or management of the reporting issuer than the work of internal reserves evaluation staff. In Husky’s view, neither of these factors applies in Husky’s circumstances.

**Summary of Oil and Natural Gas Reserves  
As at December 31, 2012  
Forecast Prices and Costs**

**Canada**

	Light Crude Oil (mmbbls)		Medium Crude Oil (mmbbls)		Heavy Crude Oil (mmbbls)		Bitumen (mmbbls)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<b>Proved</b>								
Developed Producing	137.0	120.1	86.2	76.5	69.1	61.5	58.7	54.7
Developed Non-producing	3.3	3.3	1.8	1.6	14.6	13.5	-	0.0
Undeveloped	24.4	20.3	7.4	6.6	21.7	20.3	252.1	216.7
<b>Total Proved</b>	<b>164.8</b>	<b>143.7</b>	<b>95.4</b>	<b>84.7</b>	<b>105.4</b>	<b>95.4</b>	<b>310.9</b>	<b>271.4</b>
<b>Probable</b>	<b>94.3</b>	<b>76.5</b>	<b>21.9</b>	<b>18.5</b>	<b>35.1</b>	<b>30.8</b>	<b>1,413.8</b>	<b>1,118.1</b>
<b>Total Proved Plus Probable</b>	<b>259.1</b>	<b>220.2</b>	<b>117.4</b>	<b>103.2</b>	<b>140.5</b>	<b>126.2</b>	<b>1,724.7</b>	<b>1,389.5</b>

	Coal Bed Methane (bcf)		Natural Gas (bcf)		NGL (mmbbls)		Total (mmboe)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<b>Proved</b>								
Developed Producing	22.1	20.7	1,586.3	1,396.6	63.8	49.4	682.9	598.5
Developed Non-producing	1.2	1.0	104.1	94.5	1.2	1.1	38.4	35.5
Undeveloped	-	-	359.0	351.7	11.0	9.0	376.5	331.5
<b>Total Proved</b>	<b>23.3</b>	<b>21.8</b>	<b>2,049.3</b>	<b>1,842.8</b>	<b>76.0</b>	<b>59.6</b>	<b>1,097.9</b>	<b>965.5</b>
<b>Probable</b>	<b>5.9</b>	<b>5.6</b>	<b>468.5</b>	<b>431.0</b>	<b>23.1</b>	<b>18.1</b>	<b>1,667.3</b>	<b>1,334.7</b>
<b>Total Proved Plus Probable</b>	<b>29.2</b>	<b>27.3</b>	<b>2,517.8</b>	<b>2,273.7</b>	<b>99.1</b>	<b>77.7</b>	<b>2,765.2</b>	<b>2,300.2</b>

**China<sup>(1)</sup>**

	Light Crude Oil (mmbbls)		Medium Crude Oil (mmbbls)		Heavy Crude Oil (mmbbls)		Bitumen (mmbbls)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<b>Proved</b>								
Developed Producing	7.8	5.9	-	-	-	-	-	-
Developed Non-producing	-	-	-	-	-	-	-	-
Undeveloped	-	-	-	-	-	-	-	-
<b>Total Proved</b>	<b>7.8</b>	<b>5.9</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Probable</b>	<b>1.4</b>	<b>1.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Proved Plus Probable</b>	<b>9.2</b>	<b>7.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

	Coal Bed Methane (bcf)		Natural Gas (bcf)		NGL (mmbbls)		Total (mmboe)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<b>Proved</b>								
Developed Producing	-	-	-	-	0.2	0.1	8.0	6.1
Developed Non-producing	-	-	-	-	-	-	-	-
Undeveloped	-	-	267.1	271.9	6.6	6.9	51.1	52.2
<b>Total Proved</b>	<b>-</b>	<b>-</b>	<b>267.1</b>	<b>271.9</b>	<b>6.7</b>	<b>7.0</b>	<b>59.0</b>	<b>58.2</b>
<b>Probable</b>	<b>-</b>	<b>-</b>	<b>244.5</b>	<b>229.5</b>	<b>5.6</b>	<b>5.2</b>	<b>47.7</b>	<b>44.5</b>
<b>Total Proved Plus Probable</b>	<b>-</b>	<b>-</b>	<b>511.6</b>	<b>501.4</b>	<b>12.3</b>	<b>12.2</b>	<b>106.7</b>	<b>102.8</b>

<sup>(1)</sup> The Block 29/26 Production Sharing Contract which governs the Liwan off-shore project in China entitles Husky to a share of production in excess of its working interest to recover certain costs that were incurred by the Company on behalf of both Husky and its partner during the exploration phase. These volumetric recoveries are included in net reserves in accordance to the COGEH guidelines and represent 4.15 mmboe of net total proved plus probable reserves.

## Indonesia

	Light Crude Oil (mmbbls)		Medium Crude Oil (mmbbls)		Heavy Crude Oil (mmbbls)		Bitumen (mmbbls)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<b>Proved</b>								
Developed Producing	-	-	-	-	-	-	-	-
Developed Non-producing	-	-	-	-	-	-	-	-
Undeveloped	-	-	-	-	-	-	-	-
Total Proved	-	-	-	-	-	-	-	-
<b>Probable</b>	-	-	-	-	-	-	-	-
Total Proved Plus Probable	-	-	-	-	-	-	-	-

	Coal Bed Methane (bcf)		Natural Gas (bcf)		NGL (mmbbls)		Total (mmboe)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<b>Proved</b>								
Developed Producing	-	-	-	-	-	-	-	-
Developed Non-producing	-	-	-	-	-	-	-	-
Undeveloped	-	-	167.2	108.8	7.2	3.6	35.0	21.7
Total Proved	-	-	167.2	108.8	7.2	3.6	35.0	21.7
<b>Probable</b>	-	-	39.4	21.0	1.7	0.6	8.2	4.1
Total Proved Plus Probable	-	-	206.6	129.8	8.8	4.1	43.3	25.8

## Libya

	Light Crude Oil (mmbbls)		Medium Crude Oil (mmbbls)		Heavy Crude Oil (mmbbls)		Bitumen (mmbbls)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<b>Proved</b>								
Developed Producing	-	-	-	-	-	-	-	-
Developed Non-producing	-	-	-	-	-	-	-	-
Undeveloped	-	-	-	-	-	-	-	-
Total Proved	-	-	-	-	-	-	-	-
<b>Probable</b>	0.1	0.1	-	-	-	-	-	-
Total Proved Plus Probable	0.1	0.1	-	-	-	-	-	-

	Coal Bed Methane (bcf)		Natural Gas (bcf)		NGL (mmbbls)		Total (mmboe)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<b>Proved</b>								
Developed Producing	-	-	-	-	-	-	-	-
Developed Non-producing	-	-	-	-	-	-	-	-
Undeveloped	-	-	-	-	-	-	-	-
Total Proved	-	-	-	-	-	-	-	-
<b>Probable</b>	-	-	-	-	-	-	0.1	0.1
Total Proved Plus Probable	-	-	-	-	-	-	0.1	0.1

**Total**

	Light Crude Oil (mmbbls)		Medium Crude Oil (mmbbls)		Heavy Crude Oil (mmbbls)		Bitumen (mmbbls)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<b>Proved</b>								
Developed Producing	144.8	126.0	86.2	76.5	69.1	61.5	58.7	54.7
Developed Non-producing	3.3	3.3	1.8	1.6	14.6	13.5	-	-
Undeveloped	24.4	20.3	7.4	6.6	21.7	20.3	252.1	216.7
Total Proved	172.5	149.6	95.4	84.7	105.4	95.4	310.9	271.4
<b>Probable</b>	95.8	77.6	21.9	18.5	35.1	30.8	1,413.	1,118.1
Total Proved Plus Probable	268.3	227.3	117.4	103.2	140.5	126.2	1,724.	1,389.5

	Coal Bed Methane (bcf)		Natural Gas (bcf)		NGL (mmbbls)		Total (mmboe)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
<b>Proved</b>								
Developed Producing	22.1	20.7	1,586.3	1,396.6	64.0	49.6	690.9	604.6
Developed Non-producing	1.2	1.0	104.1	94.5	1.2	1.1	38.4	35.5
Undeveloped	-	-	793.2	732.4	24.8	19.5	462.7	405.4
Total Proved	23.3	21.8	2,483.5	2,223.5	89.9	70.2	1,192.0	1,045.5
<b>Probable</b>	5.9	5.6	752.4	681.5	30.3	23.9	1,723.3	1,383.4
Total Proved Plus Probable	29.2	27.3	3,236.0	2,905.0	120.3	94.0	2,915.3	2,428.9

**Summary of Net Present Values of Future Net Revenue – Before Income Taxes and Discounted  
As at December 31, 2012  
Forecast Prices and Costs**

**Canada**

(\$ millions)	Before Income Taxes and Discounted at (%/year)			
	5%	10%	15%	20%
<b>Proved</b>				
Developed Producing	12,950	10,615	9,062	7,962
Developed Non-producing	878	700	586	505
Undeveloped	5,419	3,444	2,266	1,506
Total Proved	19,248	14,759	11,915	9,973
<b>Probable</b>	17,449	8,197	4,783	3,171
Total Proved Plus Probable	36,697	22,956	16,698	13,143

**China**

(\$ millions)	Before Income Taxes and Discounted at (%/year)			
	5%	10%	15%	20%
<b>Proved</b>				
Developed Producing	421	426	416	400
Developed Non-producing	-	-	-	-
Undeveloped	2,222	1,917	1,661	1,445
Total Proved	2,643	2,343	2,077	1,845
<b>Probable</b>	2,502	1,784	1,311	989
Total Proved Plus Probable	5,145	4,127	3,388	2,834

**Indonesia**

(\$ millions)	Before Income Taxes and Discounted at (%/year)			
	5%	10%	15%	20%
<b>Proved</b>				
Developed Producing	-	-	-	-
Developed Non-producing	-	-	-	-
Undeveloped	322	232	170	126
Total Proved	322	232	170	126
<b>Probable</b>	58	33	20	13
Total Proved Plus Probable	379	265	190	139

**Libya**

(\$ millions)	Before Income Taxes and Discounted at (%/year)			
	5%	10%	15%	20%
<b>Proved</b>	-	-	-	-
Developed Producing	-	-	-	-
Developed Non-producing	-	-	-	-
Undeveloped	-	-	-	-
Total Proved	-	-	-	-
<b>Probable</b>	8	8	7	7
Total Proved Plus Probable	8	8	7	7

**Total**

(\$ millions)	Before Income Taxes and Discounted at (%/year)			
	5%	10%	15%	20%
<b>Proved</b>				
Developed Producing	13,371	11,041	9,478	8,362
Developed Non-producing	878	700	586	505
Undeveloped	7,963	5,594	4,098	3,077
Total Proved	22,213	17,335	14,162	11,944
<b>Probable</b>	20,017	10,021	6,121	4,179
Total Proved Plus Probable	42,230	27,356	20,283	16,123

**Summary of Net Present Values of Future Net Revenue – After Income Taxes and Discounted  
As at December 31, 2012  
Forecast Prices and Costs**

**Canada**

(\$ millions)	After Income Taxes and Discounted at (%/year)			
	5%	10%	15%	20%
<b>Proved</b>				
Developed Producing	9,669	7,909	6,741	5,914
Developed Non-producing	646	512	426	365
Undeveloped	4,060	2,508	1,583	986
Total Proved	14,375	10,929	8,749	7,265
<b>Probable</b>	12,693	5,745	3,203	2,016
Total Proved Plus Probable	27,068	16,674	11,952	9,281

**China**

(\$ millions)	After Income Taxes and Discounted at (%/year)			
	5%	10%	15%	20%
<b>Proved</b>				
Developed Producing	270	277	273	263
Developed Non-producing	-	-	-	-
Undeveloped	1,852	1,590	1,369	1,182
Total Proved	2,122	1,867	1,641	1,445
<b>Probable</b>	2,084	1,477	1,078	808
Total Proved Plus Probable	4,206	3,344	2,720	2,253

**Indonesia**

(\$ millions)	After Income Taxes and Discounted at (%/year)			
	5%	10%	15%	20%
<b>Proved</b>				
Developed Producing	-	-	-	-
Developed Non-producing	-	-	-	-
Undeveloped	221	160	117	86
Total Proved	221	160	117	86
<b>Probable</b>	34	19	12	8
Total Proved Plus Probable	256	180	129	94

**Libya**

(\$ millions)	After Income Taxes and Discounted at (%/year)			
	5%	10%	15%	20%
<b>Proved</b>				
Developed Producing	-	-	-	-
Developed Non-producing	-	-	-	-
Undeveloped	-	-	-	-
Total Proved	-	-	-	-
<b>Probable</b>	8	8	7	7
Total Proved Plus Probable	8	8	7	7



**Total**

(\$ millions)	After Income Taxes and Discounted at (%/year)			
	5%	10%	15%	20%
<b>Proved</b>				
Developed Producing	9,939	8,186	7,013	6,178
Developed Non-producing	646	512	426	365
Undeveloped	6,133	4,259	3,069	2,254
Total Proved	16,718	12,956	10,508	8,796
<b>Probable</b>	14,819	7,249	4,300	2,839
Total Proved Plus Probable	31,537	20,206	14,808	11,635

**Total Future Net Revenue for Total Proved Plus Probable Reserves - Undiscounted**  
**As at December 31, 2012**  
**Forecast Prices and Costs**

(\$ millions)	Revenue	Royalties	Operating Costs	Development Costs <sup>(1)</sup>	Abandonment and Reclamation Costs <sup>(1)</sup>	Future Net Revenue Before Income Taxes	Income Taxes	Future Net Revenue After Income Taxes
<b>Canada</b>								
<b>Proved</b>								
Developed Producing	42,821	6,628	14,239	913	4,835	16,205	4,077	12,128
Developed Non-producing	2,179	246	575	144	-	1,215	316	899
Undeveloped	24,634	3,601	7,271	4,654	-	9,109	2,156	6,952
<b>Total Proved</b>	<b>69,634</b>		<b>22,084</b>	<b>5,712</b>	<b>4,835</b>	<b>26,529</b>	<b>6,549</b>	<b>19,980</b>
<b>Probable</b>	<b>145,554</b>	<b>31,257</b>	<b>42,383</b>	<b>19,214</b>	<b>-</b>	<b>52,699</b>	<b>13,332</b>	<b>39,367</b>
<b>Total Proved Plus Probable</b>	<b>215,188</b>	<b>41,732</b>	<b>64,467</b>	<b>24,926</b>	<b>4,835</b>	<b>79,228</b>	<b>19,881</b>	<b>59,347</b>
<b>China</b>								
<b>Proved</b>								
Developed Producing	753	-	122	8	244	379	145	234
Developed Non-producing	-	-	-	-	-	-	-	-
Undeveloped	4,201	-	653	964	-	2,584	421	2,163
<b>Total Proved</b>	<b>4,953</b>	<b>-</b>	<b>775</b>	<b>972</b>	<b>244</b>	<b>2,963</b>	<b>566</b>	<b>2,397</b>
<b>Probable</b>	<b>4,035</b>	<b>-</b>	<b>397</b>	<b>9</b>	<b>-</b>	<b>3,629</b>	<b>590</b>	<b>3,039</b>
<b>Total Proved Plus Probable</b>	<b>8,988</b>	<b>-</b>	<b>1,171</b>	<b>982</b>	<b>244</b>	<b>6,592</b>	<b>1,156</b>	<b>5,435</b>
<b>Indonesia</b>								
<b>Proved</b>								
Developed Producing	-	-	-	-	-	-	-	-
Developed Non-producing	-	-	-	-	-	-	-	-
Undeveloped	1,019	-	433	130	-	457	146	311
<b>Total Proved</b>	<b>1,019</b>	<b>-</b>	<b>433</b>	<b>130</b>	<b>-</b>	<b>457</b>	<b>146</b>	<b>311</b>
<b>Probable</b>	<b>190</b>	<b>-</b>	<b>81</b>	<b>-</b>	<b>-</b>	<b>109</b>	<b>44</b>	<b>64</b>
<b>Total Proved Plus Probable</b>	<b>1,209</b>	<b>-</b>	<b>514</b>	<b>130</b>	<b>-</b>	<b>565</b>	<b>190</b>	<b>375</b>
<b>Libya</b>								
<b>Proved</b>								
Developed Producing	-	-	-	-	-	-	-	-
Developed Non-producing	-	-	-	-	-	-	-	-
Undeveloped	-	-	-	-	-	-	-	-
<b>Total Proved</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Probable</b>	<b>14</b>	<b>-</b>	<b>3</b>	<b>2</b>	<b>-</b>	<b>9</b>	<b>-</b>	<b>9</b>
<b>Total Proved Plus Probable</b>	<b>14</b>	<b>-</b>	<b>3</b>	<b>2</b>	<b>-</b>	<b>9</b>	<b>-</b>	<b>9</b>
<b>Total</b>								
<b>Proved</b>								
Developed Producing	43,574	6,628	14,360	922	5,079	16,584	4,222	12,362
Developed Non-producing	2,179	246	575	144	-	1,215	316	899
Undeveloped	29,854	3,601	8,356	5,748	-	12,149	2,723	9,426
<b>Total Proved</b>	<b>75,607</b>	<b>10,475</b>	<b>23,291</b>	<b>6,814</b>	<b>5,079</b>	<b>29,948</b>	<b>7,261</b>	<b>22,687</b>
<b>Probable</b>	<b>149,792</b>	<b>31,257</b>	<b>42,864</b>	<b>19,225</b>	<b>-</b>	<b>56,446</b>	<b>13,967</b>	<b>42,479</b>
<b>Total Proved Plus Probable</b>	<b>225,399</b>	<b>41,732</b>	<b>66,155</b>	<b>26,039</b>	<b>5,079</b>	<b>86,393</b>	<b>21,227</b>	<b>65,166</b>

<sup>(1)</sup> Abandonment and reclamation costs for undeveloped properties are included in development costs.

**Future Net Revenue by Production Group  
As at December 31, 2012  
Forecast Prices and Costs**

	Future Net Revenue Before Income Taxes (discounted at 10%/year)									
	Canada		China		Indonesia		Libya		Total	
	(\$ millions)	(\$/boe)	(\$ millions)	(\$/boe)	(\$ millions)	(\$/boe)	(\$ millions)	(\$/boe)	(\$ millions)	(\$/boe)
<b>Proved</b>										
<b>Developed Producing</b>										
Light Crude Oil & NGL	4,137	29	426	70	-	-	-	-	4,563	30
Medium Crude Oil	1,463	19	-	-	-	-	-	-	1,463	19
Heavy Crude Oil	1,389	23	-	-	-	-	-	-	1,389	23
Natural Gas	2,130	8	-	-	-	-	-	-	2,130	8
Coal Bed Methane	21	6	-	-	-	-	-	-	21	6
Bitumen	1,474	27	-	-	-	-	-	-	1,474	27
<b>Developed Non-producing</b>										
Light Crude Oil & NGL	64	19	-	-	-	-	-	-	64	19
Medium Crude Oil	45	29	-	-	-	-	-	-	45	29
Heavy Crude Oil	440	32	-	-	-	-	-	-	440	32
Natural Gas	150	9	-	-	-	-	-	-	150	9
Coal Bed Methane	1	5	-	-	-	-	-	-	1	5
Bitumen	-	-	-	-	-	-	-	-	-	-
<b>Undeveloped</b>										
Light Crude Oil & NGL	516	25	-	-	-	-	-	-	516	19
Medium Crude Oil	115	17	-	-	-	-	-	-	115	17
Heavy Crude Oil	368	18	-	-	-	-	-	-	368	18
Natural Gas	486	7	1,917	43	232	11	-	-	2,636	20
Coal Bed Methane	-	-	-	-	-	-	-	-	-	-
Bitumen	1,959	9	-	-	-	-	-	-	1,959	9
<b>Total Proved</b>										
Light Crude Oil & NGL	4,717	28	426	33	-	-	-	-	5,143	28
Medium Crude Oil	1,623	19	-	-	-	-	-	-	1,623	19
Heavy Crude Oil	2,197	23	-	-	-	-	-	-	2,197	23
Natural Gas	2,767	8	1,917	43	232	11	-	-	4,916	12
Coal Bed Methane	22	6	-	-	-	-	-	-	22	6
Bitumen	3,434	13	-	-	-	-	-	-	3,434	13
<b>Probable</b>										
Light Crude Oil & NGL	2,484	29	90	14	-	-	8	66	2,582	28
Medium Crude Oil	515	28	-	-	-	-	-	-	515	28
Heavy Crude Oil	658	21	-	-	-	-	-	-	658	21
Natural Gas	493	6	1,694	42	33	8	-	-	2,219	18
Coal Bed Methane	2	3	-	-	-	-	-	-	2	3
Bitumen	4,044	4	-	-	-	-	-	-	4,044	4
<b>Total Proved Plus Probable</b>										
Light Crude Oil & NGL	7,201	28	516	27	-	-	8	66	7,725	28
Medium Crude Oil	2,139	21	-	-	-	-	-	-	2,139	21
Heavy Crude Oil	2,855	23	-	-	-	-	-	-	2,855	23
Natural Gas	3,259	8	3,611	42	265	10	-	-	7,135	13
Coal Bed Methane	24	5	-	-	-	-	-	-	24	5
Bitumen	7,478	5	-	-	-	-	-	-	7,478	5

## Pricing Assumptions

The pricing assumptions disclosed in the table below were derived using the industry averages prescribed by McDaniel & Associates Consultants Ltd, Sproule Associates Limited, and GLJ Petroleum Consultants Ltd.

	Crude Oil		Natural Gas		Inflation rates <sup>(1)</sup>	Exchange rates <sup>(2)</sup>
	WTI (USD \$/bbl)	Brent (USD \$/bbl)	NYMEX (USD \$/mmbtu)	NIT (Cdn \$/GJ)		
<b>Historical</b>						
2008	99.65	96.99	9.04	7.70	-	0.937
2009	61.80	61.54	3.99	3.92	-	0.880
2010	79.46	79.42	4.39	3.91	-	0.971
2011	95.12	111.27	4.04	3.48	-	1.011
2012	94.21	111.54	2.79	2.28	-	1.001
<b>Forecast</b>						
2013	90.71	106.31	3.72	3.15	1.833	1.000
2014	91.64	102.22	4.20	3.60	1.833	1.000
2015	92.30	100.49	4.61	3.98	1.833	1.000
2016	96.17	102.79	5.18	4.51	1.833	1.000
2017	97.29	102.25	5.62	4.92	1.833	1.000

<sup>(1)</sup> Inflation rates for forecasting prices and costs.

<sup>(2)</sup> Exchange rate used to generate the benchmark reference prices.

## Reconciliation of Gross Proved Reserves

	Light Crude Oil & NGL (mmbbls)	Medium Crude Oil (mmbbls)	Heavy Crude Oil (mmbbls)	Natural Gas (bcf)	Bitumen (mmbbls)	Total (mmboe)
<b>Canada – Western Canada</b>						
End of 2011	169.9	89.6	112.7	2,252.6	308.5	1,056.2
Revisions – Technical	(1.7)	8.1	3.2	14.1	1.1	13.1
Revisions – Economic	(1.2)	-	(0.3)	(136.8)	-	(24.3)
Purchases	0.1	-	0.4	-	-	0.5
Sales	-	(0.7)	-	-	-	(0.7)
Discoveries	1.0	0.1	-	5.6	-	2.0
Extensions	14.4	5.1	17.5	139.6	1.7	62.0
Improved Recovery	1.2	2.0	-	0.3	12.7	15.9
Production	(11.0)	(8.8)	(28.1)	(202.8)	(13.2)	(94.9)
<b>End of 2012</b>	<b>172.7</b>	<b>95.4</b>	<b>105.4</b>	<b>2,072.6</b>	<b>310.9</b>	<b>1,029.9</b>
<b>Canada – Atlantic Region</b>						
End of 2011	76.3	-	-	-	-	76.3
Revisions – Technical	4.1	-	-	-	-	4.1
Revisions – Economic	-	-	-	-	-	-
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-
Extensions	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-
Production	(12.4)	-	-	-	-	(12.4)
<b>End of 2012</b>	<b>68.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>68.1</b>
<b>China</b>						
End of 2011	4.9	-	-	-	-	4.9
Revisions – Technical	5.1	-	-	-	-	5.1
Revisions – Economic	-	-	-	-	-	-
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Discoveries	6.6	-	-	267.1	-	51.1
Extensions	1.0	-	-	-	-	1.0
Improved Recovery	-	-	-	-	-	-
Production	(3.1)	-	-	-	-	(3.1)
<b>End of 2012</b>	<b>14.5</b>	<b>-</b>	<b>-</b>	<b>267.1</b>	<b>-</b>	<b>59.0</b>
<b>Indonesia</b>						
End of 2011	7.2	-	-	167.2	-	35.0
Revisions – Technical	-	-	-	-	-	-
Revisions – Economic	-	-	-	-	-	-
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-
Extensions	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-
Production	-	-	-	-	-	-
<b>End of 2012</b>	<b>7.2</b>	<b>-</b>	<b>-</b>	<b>167.2</b>	<b>-</b>	<b>35.0</b>

	Light Crude Oil & NGL (mmbbls)	Medium Crude Oil (mmbbls)	Heavy Crude Oil (mmbbls)	Natural Gas (bcf)	Bitumen (mmbbls)	Total Company (mmboe)
<b>Total</b>						
End of 2011	258.2	89.6	112.7	2,419.8	308.5	1,172.4
Revisions – Technical	7.6	8.1	3.2	14.1	1.1	22.3
Revisions – Economic	(1.2)	-	(0.3)	(136.8)	-	(24.3)
Purchases	0.1	-	0.4	-	-	0.5
Sales	-	(0.7)	-	-	-	(0.7)
Discoveries	7.5	0.1	-	272.7	-	53.1
Extensions	15.5	5.1	17.5	139.6	1.7	63.0
Improved Recovery	1.2	2.0	-	0.3	12.7	15.9
Production	(26.5)	(8.8)	(28.1)	(202.8)	(13.2)	(110.4)
End of 2012	262.5	95.4	105.4	2,506.8	310.9	1,192.0

Major additions to proved reserves in 2012 include:

- the initial booking of the Liwan 3-1 deep water project after government approval that resulted in an addition of 51 mmboe of natural gas and NGL in proved undeveloped reserves;
- the improved recovery and expansion at some heavy oil thermal projects that resulted in the booking of an additional 13 mmboe in proved reserves; and
- the extension through additional drilling locations at liquids-rich Ansell in the Alberta Deep Basin area that resulted in the booking of an additional 27 mmboe of natural gas and NGL in proved reserves.

## Reconciliation of Gross Probable Reserves

	Light Crude Oil & NGL (mmbbls)	Medium Crude Oil (mmbbls)	Heavy Crude Oil (mmbbls)	Natural Gas (bcf)	Bitumen (mmbbls)	Total (mmboe)
<b>Canada – Western Canada</b>						
End of 2011	50.6	19.2	37.9	561.1	1,400.7	1,601.9
Revisions – Technical	0.5	2.8	(2.6)	(46.0)	2.8	(4.2)
Revisions – Economic	(0.1)	-	(0.1)	(80.4)	-	(13.6)
Revisions – Transfer to Proved	(3.1)	(1.0)	(4.9)	(23.0)	(3.2)	(16.1)
Purchases	-	-	-	-	-	-
Sales	-	(0.1)	-	-	-	(0.1)
Discoveries	0.9	-	-	3.3	-	1.4
Extensions	7.0	0.8	4.9	59.4	1.6	24.1
Improved Recovery	-	0.3	-	-	11.9	12.2
Production	-	-	-	-	-	-
End of 2012	55.8	21.9	35.1	474.4	1,413.8	1,605.6
<b>Canada – Atlantic Region</b>						
End of 2011	65.0	-	-	-	-	65.0
Revisions – Technical	(0.7)	-	-	-	-	(0.7)
Revisions – Economic	-	-	-	-	-	-
Revisions – Transfer to Proved	(2.6)	-	-	-	-	(2.6)
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-
Extensions	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-
Production	-	-	-	-	-	-
End of 2012	61.7	-	-	-	-	61.7
<b>China</b>						
End of 2011	3.2	-	-	-	-	3.2
Revisions – Technical	(0.4)	-	-	-	-	(0.4)
Revisions – Economic	-	-	-	-	-	-
Revisions – Transfer to Proved	(1.4)	-	-	-	-	(1.4)
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Discoveries	5.5	-	-	244.5	-	46.3
Extensions	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-
Production	-	-	-	-	-	-
End of 2012	6.9	-	-	244.5	-	47.7
<b>Indonesia</b>						
End of 2011	1.7	-	-	39.4	-	8.2
Revisions – Technical	-	-	-	-	-	-
Revisions – Economic	-	-	-	-	-	-
Revisions – Transfer to Proved	-	-	-	-	-	-
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-
Extension	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-
Production	-	-	-	-	-	-
End of 2012	1.7	-	-	39.4	-	8.2

	Light Crude Oil & NGL (mmbbls)	Medium Crude Oil (mmbbls)	Heavy Crude Oil (mmbbls)	Natural Gas (bcf)	Bitumen (mmbbls)	Total (mmboe)
<b>Libya</b>						
End of 2011	-	-	-	-	-	-
Revisions – Technical	0.1	-	-	-	-	0.1
Revisions – Economic	-	-	-	-	-	-
Revisions – Transfer to Proved	-	-	-	-	-	-
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-
Extension	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-
Production	-	-	-	-	-	-
End of 2012	0.1	-	-	-	-	0.1

	Light Crude Oil & NGL (mmbbls)	Medium Crude Oil (mmbbls)	Heavy Crude Oil (mmbbls)	Natural Gas (bcf)	Bitumen (mmbbls)	Total Company (mmboe)
<b>Total</b>						
End of 2011	120.5	19.2	37.9	600.5	1,400.7	1,678.4
Revisions – Technical	(0.5)	2.8	(2.6)	(46.0)	2.8	(5.3)
Revisions – Economic	(0.1)	-	(0.1)	(80.4)	-	(13.6)
Revisions – Transfer to Proved	(7.1)	(1.0)	(4.9)	(23.0)	(3.2)	(20.1)
Purchases	-	-	-	-	-	-
Sales	-	(0.1)	-	-	-	(0.1)
Discoveries	6.4	-	-	247.8	-	47.7
Extension	7.0	0.8	4.9	59.4	1.6	24.1
Improved Recovery	-	0.3	-	-	11.9	12.2
Production	-	-	-	-	-	-
End of 2012	126.1	21.9	35.1	758.3	1,413.8	1,723.3

Major changes to probable reserves in 2012 include:

- the initial booking of the Liwan 3-1 deep water project after government approval that resulted in an addition of 46 mmboe of natural gas and NGL in probable undeveloped reserves;
- the improved recovery and expansion at some heavy oil thermal projects that resulted in the booking of an additional 12 mmboe in probable reserves; and
- the extension through additional drilling locations at liquids-rich Ansell in the Alberta Deep Basin area that resulted in the booking of an additional 9 mmboe of natural gas and NGL in probable reserves.



## Reconciliation of Gross Proved Plus Probable Reserves

	Light Crude Oil & NGL (mmbbls)	Medium Crude Oil (mmbbls)	Heavy Crude Oil (mmbbls)	Natural Gas (bcf)	Bitumen (mmbbls)	Total (mmbboe)
<b>Canada – Western Canada</b>						
End of 2011	220.5	108.8	150.6	2,813.7	1,709.3	2,658.1
Revisions – Technical	(1.1)	10.9	0.5	(31.9)	3.9	8.8
Revisions – Economic	(1.3)	-	(0.4)	(217.2)	-	(37.9)
Revisions – Transfer to Proved	(3.1)	(1.0)	(4.9)	(23.0)	(3.2)	(16.1)
Purchases	0.1	-	0.4	-	-	0.5
Sales	-	(0.8)	-	-	-	(0.8)
Discoveries	1.8	0.1	-	8.9	-	3.4
Extensions	21.5	5.9	22.4	198.9	3.3	86.1
Improved Recovery	1.2	2.3	-	0.3	24.6	28.1
Production	(11.0)	(8.8)	(28.1)	(202.8)	(13.2)	(94.9)
End of 2012	228.5	117.4	140.5	2,546.9	1,724.7	2,635.5
<b>Canada – Atlantic Region</b>						
End of 2011	141.3	-	-	-	-	141.3
Revisions – Technical	3.4	-	-	-	-	3.4
Revisions – Economic	-	-	-	-	-	-
Revisions – Transfer to Proved	(2.6)	-	-	-	-	(2.6)
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-
Extensions	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-
Production	(12.4)	-	-	-	-	(12.4)
End of 2012	129.7	-	-	-	-	129.7
<b>China</b>						
End of 2011	8.0	-	-	-	-	8.0
Revisions – Technical	4.7	-	-	-	-	4.7
Revisions – Economic	-	-	-	-	-	-
Revisions – Transfer to Proved	(1.4)	-	-	-	-	(1.4)
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Discoveries	12.1	-	-	511.6	-	97.4
Extensions	1.0	-	-	-	-	1.0
Improved Recovery	-	-	-	-	-	-
Production	(3.1)	-	-	-	-	(3.1)
End of 2012	21.5	-	-	511.6	-	106.7
<b>Indonesia</b>						
End of 2011	8.8	-	-	206.6	-	43.3
Revisions – Technical	-	-	-	-	-	-
Revisions – Economic	-	-	-	-	-	-
Revisions – Transfer to Proved	-	-	-	-	-	-
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-
Extensions	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-
Production	-	-	-	-	-	-
End of 2012	8.8	-	-	206.6	-	43.3

	Light Crude Oil & NGL (mmbbls)	Medium Crude Oil (mmbbls)	Heavy Crude Oil (mmbbls)	Natural Gas (bcf)	Bitumen (mmbbls)	Total (mmboe)
<b>Libya</b>						
End of 2011	-	-	-	-	-	-
Revisions – Technical	0.1	-	-	-	-	0.1
Revisions – Economic	-	-	-	-	-	-
Revisions – Transfer to Proved	-	-	-	-	-	-
Purchases	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Discoveries	-	-	-	-	-	-
Extensions	-	-	-	-	-	-
Improved Recovery	-	-	-	-	-	-
Production	-	-	-	-	-	-
End of 2012	0.1	-	-	-	-	0.1

	Light Crude Oil & NGL (mmbbls)	Medium Crude Oil (mmbbls)	Heavy Crude Oil (mmbbls)	Natural Gas (bcf)	Bitumen (mmbbls)	Total Company (mmboe)
<b>Total</b>						
End of 2011	378.7	108.8	150.6	3,020.3	1,709.3	2,850.8
Revisions – Technical	7.1	10.9	0.5	(31.9)	3.9	17.1
Revisions – Economic	(1.3)	-	(0.4)	(217.2)	-	(37.9)
Revisions – Transfer to Proved	(7.1)	(1.0)	(4.9)	(23.0)	(3.2)	(20.1)
Purchases	0.1	-	0.4	-	-	0.5
Sales	-	(0.8)	-	-	-	(0.8)
Discoveries	13.9	0.1	-	520.5	-	100.8
Extensions	22.5	5.9	22.4	198.9	3.3	87.1
Improved Recovery	1.2	2.3	-	0.3	24.6	28.1
Production	(26.5)	(8.8)	(28.1)	(202.8)	(13.2)	(110.4)
End of 2012	388.6	117.4	140.5	3,265.1	1,724.7	2,915.3

### Undeveloped Reserves

Undeveloped reserves are attributed internally in accordance with standards and procedures contained in the COGEH. Proved undeveloped oil and gas reserves are those reserves that can be estimated with a high degree of certainty to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Probable undeveloped oil and gas reserves are those reserves that are less certain to be recovered than proved reserves and are expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production. There are numerous uncertainties inherent in estimating quantities of crude oil and natural gas reserves. Classifications of reserves as proved or probable are only attempts to define the degree of uncertainty associated with the estimates. In addition, whereas proved reserves are those reserves that can be estimated with a high degree of certainty to be economically producible, probable reserves are those reserves that are as likely as not to be recovered. Therefore, probable reserves estimates, by definition, have a higher degree of uncertainty than proved reserves.

Husky funds capital programs by cash generated from operating activities, cash on hand, equity issuances, and short-term and long-term debt. Decisions to develop proved undeveloped and probable undeveloped reserves are based on various factors including economic conditions, technical performance and size of the development program. Approximately 39% of Husky's gross proved undeveloped reserves are assigned to the Sunrise Energy Project. This project is under development with first production expected in 2014. Approximately 12% of Husky's gross proved undeveloped reserves are assigned to the natural gas liquids-rich Ansell area. This project has ongoing drilling with the recent acquisition of gas plant capacity. Approximately 11% of Husky's gross proved undeveloped reserves are assigned to the first booking of the Liwan 3-1 deep water project. This project is under development with first production expected in late 2013/early 2014.

As at December 31, 2012, there were no material proved undeveloped reserves that have remained undeveloped for greater than five years.

*Proved Undeveloped Reserves*

<b>First attributed</b>	<b>Light Crude Oil &amp; NGL (mmbbls)</b>	<b>Medium Crude Oil (mmbbls)</b>	<b>Heavy Crude Oil (mmbbls)</b>	<b>Bitumen (mmbbls)</b>	<b>Natural Gas (bcf)</b>	<b>Total Oil &amp; NGL (mmbbls)</b>
Year						
Prior	55.0	9.6	47.7	137.8	526.0	250.1
2010	17.1	4.7	7.5	65.6	294.1	94.8
2011	7.0	6.0	10.1	68.8	33.8	91.9
2012	16.6	3.7	8.1	12.3	399.4	40.7

*Probable Undeveloped Reserves*

<b>First attributed</b>	<b>Light Crude Oil &amp; NGL (mmbbls)</b>	<b>Medium Crude Oil (mmbbls)</b>	<b>Heavy Crude Oil (mmbbls)</b>	<b>Bitumen (mmbbls)</b>	<b>Natural Gas (bcf)</b>	<b>Total Oil &amp; NGL (mmbbls)</b>
Year						
Prior	132.2	7.9	41.0	1,795.1	262.7	1,976.2
2010	7.1	3.8	8.7	2.8	47.0	22.4
2011	6.3	1.9	12.5	362.2	21.2	382.9
2012	11.5	0.7	5.9	12.3	299.0	30.4

**Future Development Costs**

*Forecast Prices and Costs*

The Company expects to fund its future development costs by cash generated from operating activities, cash on hand, and short-term and long-term debt. The Company also has access to available amounts through credit facilities on which it can draw funds and the ability to issue equity through shelf prospectuses, subject to market conditions. The cost associated with this funding would not affect reserves and would not be material in comparison with future net revenues.

<b>Year</b>	<b>Canada</b>		<b>China</b>		<b>Indonesia</b>		<b>Libya</b>	
	<b>Proved Reserves (\$ millions)</b>	<b>Proved Plus Probable Reserves (\$ millions)</b>	<b>Proved Reserves (\$ millions)</b>	<b>Proved Plus Probable Reserves (\$ millions)</b>	<b>Proved Reserves (\$ millions)</b>	<b>Proved Plus Probable Reserves (\$ millions)</b>	<b>Proved Reserves (\$ millions)</b>	<b>Proved Plus Probable Reserves (\$ millions)</b>
2013	1,722	2,341	819	828	74	74	-	1
2014	1,099	1,661	-	-	56	56	-	1
2015	796	1,530	-	-	-	-	-	1
2016	358	1,297	15	15	-	-	-	-
2017	509	1,678	222	222	-	-	-	-
Remaining	6,063	21,253	160	160	-	-	-	-
<b>Total</b>	<b>10,547</b>	<b>29,761</b>	<b>1,216</b>	<b>1,225</b>	<b>130</b>	<b>130</b>	<b>-</b>	<b>2</b>

<b>Year</b>	<b>Total (\$ millions)</b>	
	<b>Proved Reserves</b>	<b>Proved Plus Probable Reserves</b>
2013	2,615	3,243
2014	1,155	1,718
2015	796	1,531
2016	373	1,313
2017	732	1,901
Remaining	6,223	21,413
<b>Total</b>	<b>11,893</b>	<b>31,118</b>

## Additional Information Concerning Abandonment and Reclamation Costs

The Company estimates the costs associated with abandonment and reclamation costs for surface leases, wells, facilities, and pipelines through its previous experience, where available, or by estimating such costs. With respect to abandonment and reclamation costs for surface leases, wells, facilities, and pipelines, the Company expects to incur these costs on approximately 29,750 net wells for a total undiscounted amount of \$5.1 billion. Discounted at 10% per year, the total abandonment costs, net of estimated salvage value, for wells is \$1.2 billion. This amount was deducted in estimating the future net revenue. Of the undiscounted portion of the total abandonment and reclamation costs, \$187 million is expected to be paid in the next three years.

### Production Estimates

#### Yearly Production Estimates for 2013

	Light Crude Oil (mmbbls)	Medium Crude Oil (mmbbls)	Heavy Crude Oil (mmbbls)	Bitumen (mmbbls)	Natural Gas (bcf)
<b>Canada</b>					
Total Gross Proved	24.2	9.1	25.2	12.7	171.7
Total Gross Probable	5.5	0.4	2.0	0.3	9.7
Total Gross Proved plus Probable	29.7	9.4	27.2	12.9	181.4
<b>International</b>					
Total Gross Proved	2.8	-	-	-	4.9
Total Gross Probable	0.2	-	-	-	-
Total Gross Proved plus Probable	3.0	-	-	-	4.9
<b>Total</b>					
Total Gross Proved	27.0	9.1	25.2	12.7	176.6
Total Gross Probable	5.7	0.4	2.0	0.3	9.7
Total Gross Proved plus Probable	32.7	9.4	27.2	12.9	186.3

No individual property accounts for 20% or more of the estimated production disclosed.

## Infrastructure and Marketing

During the first quarter of 2012, the Company completed an evaluation of activities of the Company's former Midstream segment as a service provider to the Upstream or Downstream operations. As a result, and consistent with the Company's strategic view of its integrated business, the previously reported Midstream segment activities are now aligned and reported within the Company's core exploration and production, Upstream Infrastructure and Marketing, or in its upgrading and refining businesses. The Company believes this change in segment presentation allows management and third parties to more effectively assess the Company's performance.

The Infrastructure and Marketing business is comprised of the marketing of the Company's and other producers' crude oil, natural gas, NGL, sulphur and petroleum coke, pipeline transportation and blending of crude oil and natural gas and storage of crude oil, diluent and natural gas.

### Infrastructure

Husky has been involved in the gathering, transporting and storage of heavy crude oil in the Lloydminster area since the early 1960s. Husky's crude oil pipeline systems include more than 2,000 kilometers of pipeline and are capable of transporting up to 710 mbbls/day of blended heavy crude oil, diluent and synthetic crude oil, assuming the systems are fully powered. The pipeline systems transport blended heavy crude oil to Lloydminster, accessing markets through Husky's Upgrader and asphalt refinery in Lloydminster. Blended heavy crude oil from the field and synthetic crude oil from the upgrading operations are transported south to Hardisty, Alberta to a connection with the major export trunk pipelines: Enbridge Pipeline multi-line system, Kinder Morgan Express Pipeline, TransCanada's Keystone Pipeline and the smaller IPF Pipeline. The blended crude oil is transported to eastern and southern markets on these pipelines. Husky's crude oil pipeline systems also have feeder pipeline interconnections with the IPF Pipeline at Cold Lake, the Echo Pipeline at Hardisty, the Gibsons Hardisty Terminal, the Enbridge Hardisty Caverns and Merchant Terminal, the Enbridge Athabasca Pipeline and the Talisman Chauvin Pipeline.

The following table shows the average daily pipeline throughput for the periods indicated:

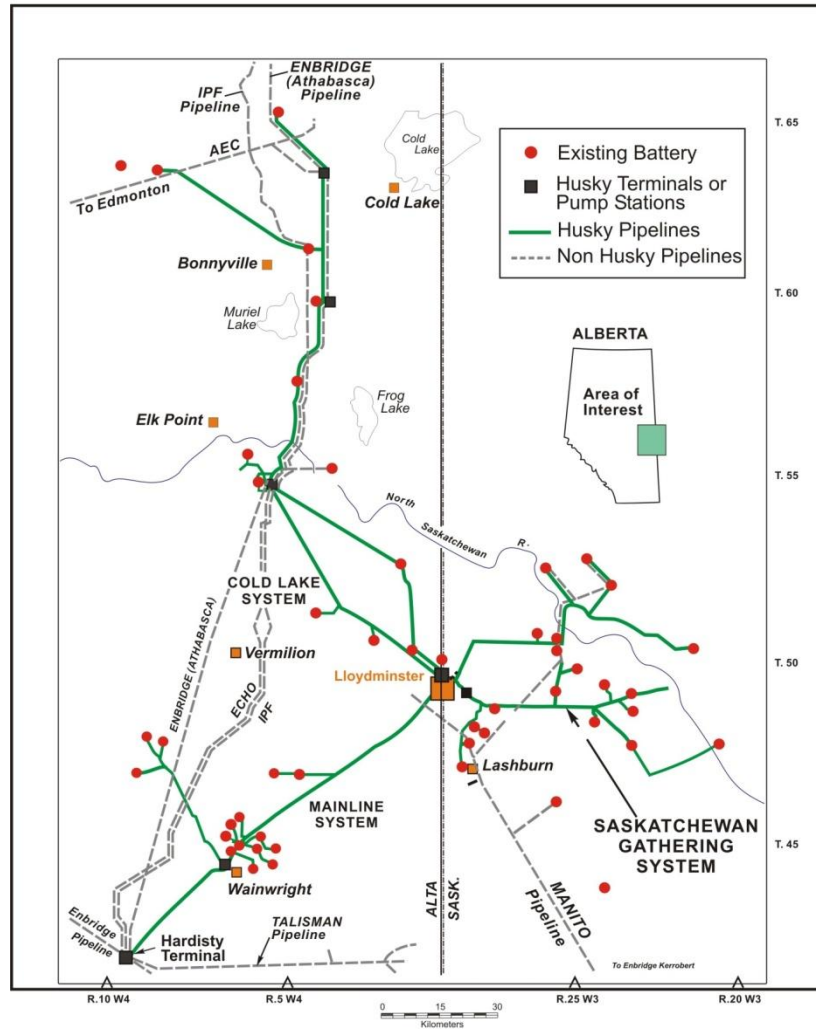
<i>(mbbls/day)</i>	Years ended December 31,		
	2012	2011	2010
Combined Pipeline Throughput	581	559	512

<sup>(1)</sup> Throughput includes the Husky internal and third-party volumes

In recent years Husky has incurred a number of expansions on its pipeline system and Hardisty terminal facilities to capitalize on anticipated increases in heavy oil production from the Lloydminster and Cold Lake areas and to service the new incremental take-away capacity from the Keystone Pipeline. In May 2012, a new 300,000 barrel tank at the Hardisty terminal was placed in service which facilitates moving crude oil volumes to the U.S. Petroleum Administration for Defense Districts ("PADD") II and PADD III markets.

Husky's heavy crude oil processing facilities are located throughout the Lloydminster area and are connected to Husky's pipeline system. These facilities process Husky's and other producers' raw heavy crude oil from the field production by removing sand, water and other impurities to produce clean dry heavy crude oil. There are also third-party processing facilities connected to Husky's pipeline. The heavy crude oil is blended with a diluent to reduce both viscosity and density in order to meet pipeline specifications for transportation.

## Heavy Oil Pipeline Systems

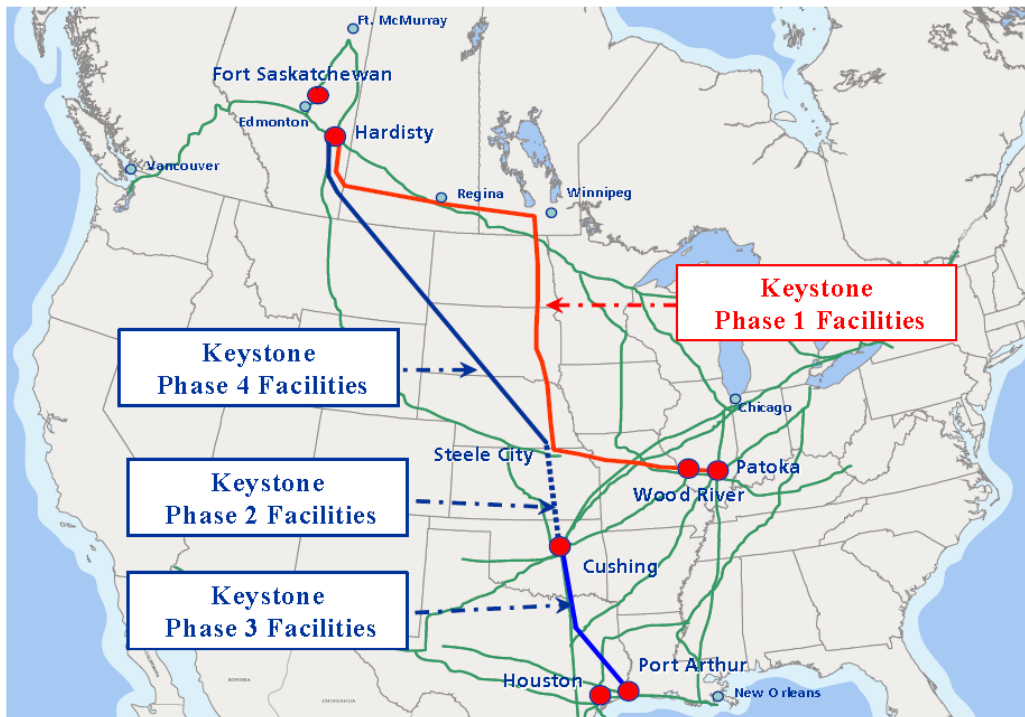


In 2010, Husky commenced its pipeline commitment on the Keystone pipeline system which ships Canadian crude oil from Hardisty, Alberta to Patoka, Illinois. This commitment was part of a corporate initiative, agreed upon in 2006, to expand the market for Husky's crude oil into the midwest United States. This initiative was further supported through the acquisition of the Lima Refinery in 2007, which now enables Husky's Canadian synthetic crude oil production (along with additional third-party purchases) to be processed at the refinery.

Due to Husky's ongoing Keystone pipeline commitment, the Lima Refinery now has the option, depending on the economics, to access a significant amount of Canadian crude oil as part of its crude feedstock requirements.

Keystone Pipeline has also enabled Husky to sell heavy crude supply on the Gulf Coast, through interconnecting pipeline systems. This provides the benefits of diversifying Husky's commodity markets and improving the Company's Upstream production netback.

The Canadian pipeline system in 2012 was subject to significant apportionment, affecting both Canadian export volumes and the crude prices in Western Canada. Through the reliability of Husky's proprietary pipeline system, the capability of the Hardisty terminal and Husky's commitment on the Keystone pipeline, Husky was able to avoid any production shut ins, ensure sufficient storage for any apportioned volumes and access the US market through our committed flow on the Keystone pipeline.



Results from Husky's third party pipeline and infrastructure businesses are included in Upstream Infrastructure and Marketing and results associated with Husky internal production volumes are included in Upstream Exploration and Production.

### ***Cogeneration***

The Company holds a 50% interest in a 90 MW natural gas fired cogeneration facility adjacent to Husky's Rainbow Lake processing plant. The cogeneration facility produces electricity for the Power Pool of Alberta and thermal energy (steam) for the Rainbow Lake processing plant. It provides power directly to the Power Pool of Alberta under an agreement with the Alberta Electric System Operator to provide additional electricity generating capacity and system stability for northwestern Alberta. The power plant has the capability of being expanded to approximately 110 MW in total. ATCO Power is the operator of the facility and a hands-on operator of the Rainbow #5 electricity generator. Husky contract-operates the Rainbow #4 electricity generator, the Once-Through Steam Generator and the Water Treatment Plant. All of this equipment constitutes part of the cogeneration facility. Results from this joint venture are included in Upstream Exploration and Production.

Effective January 1, 2011, Husky sold its 50% interest in a 215 MW natural gas fired cogeneration facility at the site of the Lloydminster Upgrader.

### ***Natural Gas Storage Facilities***

Husky has been operating a natural gas storage facility at Hussar, Alberta since April 2000. Husky also operates and has a 50% interest in a natural gas storage facility at East Cantuar near Swift Current, Saskatchewan. Husky also contracts additional natural gas storage under long-term arrangements. At December 31, 2012, Husky managed a total natural gas storage capacity of approximately 45.5 bcf. The Company is continuing to evaluate additional storage opportunities within Western Canada. Results from Husky's natural gas storage business are included in Upstream Infrastructure and Marketing.

### ***Commodity Marketing***

Husky is a marketer of both its own and third-party production of crude oil, synthetic crude oil, NGL, natural gas and sulphur. The Company also markets petroleum coke, a by-product from the Lloydminster Upgrader.

Husky supplies feedstock to its Lloydminster Upgrader and asphalt refinery from its own and third-party heavy oil production sourced from the Lloydminster and Cold Lake areas. The Company also sells blended heavy crude oil directly to refiners based in the United States and Canada. Husky's extensive infrastructure in the Lloydminster area supports its heavy crude oil refining and marketing operations.

Husky markets light and medium crude oil and NGL sourced from Husky's own production and third-party production. Light crude oil is acquired for processing by third-party refiners at Edmonton, Alberta and by Husky's refinery at Prince George, British Columbia. Husky markets the synthetic crude oil produced at its Upgrader in Lloydminster to refiners in Canada and the United States.

Husky markets natural gas sourced from its own production and third-party production. The Company is currently committed to gas sales contracts with third parties, which in aggregate do not exceed amounts forecast to be deliverable from Husky's reserves. The natural gas sales contracted are primarily at market prices. At December 31, 2012, Husky's long-term fixed price natural gas sales contracts totaled 26.6 bcf over three years deliverable at the rate of 43% in 2013, 43% in 2014 and 14% in 2015. Husky has acquired rights to firm pipeline capacity to transport the natural gas to most of these contracted markets. The Company manages and trades natural gas in conjunction with Husky owned and operated natural gas storage facilities.

Husky has developed its commodity marketing operations to include the acquisition of third-party volumes in order to increase volumes and enhance the value of its midstream assets. The Company plans to expand its marketing operations by continuing to increase marketing activities. The Company believes that this increase will generate synergies with the marketing of its own production volumes and the optimization of its assets. Results from Husky's commodity marketing business are included in Upstream Infrastructure and Marketing.



## **Downstream Operations**

### **U.S. Refining and Marketing**

#### **Lima, Ohio Refinery**

The Lima Refinery, located in Ohio between Toledo and Dayton, has an atmospheric crude throughput capacity of 160 mbbbls per stream day. The refinery currently processes both light sweet crude oil feedstock sourced from the United States and Africa and since 2010, with the commissioning of the Keystone Pipeline system, Canadian synthetic crudes, including Husky Synthetic Blend (“HSB”) produced by the Lloydminster Upgrader. The refinery produces gasoline, gasoline blend stocks, diesel, jet fuel, petrochemical feedstock and other by-products. The feedstock is received via the Mid-Valley and Marathon Pipelines and the refined products are transported via the Buckeye and Inland pipeline systems and by rail car to primary markets in Ohio, Illinois, Indiana and southern Michigan.

During 2012, crude oil feedstock throughput at the Lima Refinery averaged 150 mbbbls/day. Production of gasoline averaged 77 mbbbls/day, total distillates averaged 56 mbbbls/day and total butanes averaged 17 mbbbls/day.

In 2012, ordering of equipment and site construction commenced on a 20 mbbbls/day kerosene hydrotreater which is planned to increase jet fuel production. The kerosene hydrotreater is approximately 80% complete and is expected to be operational in the first quarter of 2013.

The Lima Refinery is scheduled to complete a major turnaround in 2014 on 70% of its operating units and is expected to be shut down for 45 days during this turnaround. The remaining 30% of operating units are scheduled to be addressed in a major turnaround currently planned for 2015. Husky continues to implement short-term reliability and profitability improvement projects.

#### **BP-Husky Toledo, Ohio Refinery**

The BP-Husky Toledo Refinery, in which Husky holds a 50% interest, has an atmospheric crude throughput capacity of 160 mbbbls per stream day. Products include low sulphur gasoline, ultra low sulphur diesel, aviation fuels, propane, kerosene and asphalt. The refinery is located in one of the highest energy consumption regions in the United States.

Husky, together with its partner BP, plan to expand the refinery’s bitumen processing capacity to align with the first two 60 mbbbls/day phases of the Sunrise Energy Project SAGD development. BP currently markets 100% of the refinery’s output; however, once Sunrise Phase I reaches design production rates, Husky will have the right to market its own share of the refined products.

In 2010, Husky and BP announced the sanction of the Continuous Catalyst Regeneration Reformer Project at the BP-Husky Toledo Refinery. This project is expected to improve the efficiency and competitiveness of the refinery by reducing energy consumption and lowering operating costs with the replacement of two naphtha reformers and one hydrogen plant with a 42,000 bbls/day continuous catalyst regeneration reformer system plant. Project construction formally commenced in August 2010. Mechanical completion was achieved in the fourth quarter of 2012 with startup expected in the first quarter of 2013.

During the year ended December 31, 2012, crude oil feedstock throughput averaged 61 mbbbls/day (Husky’s share). Production of gasoline averaged 38 mbbbls/day, middle distillates averaged 17 mbbbls/day and other fuel and feedstock averaged 9 mbbbls/day.

### **Upgrading Operations**

Husky owns and operates the Husky Lloydminster Upgrader, a heavy oil upgrading facility located in Lloydminster, Saskatchewan. The Upgrader is designed to process blended heavy crude oil feedstock into high quality, low sulphur synthetic crude oil. Synthetic crude oil is used as refinery feedstock for the production of premium transportation fuels in Canada and the United States. In addition, the Upgrader recovers the diluent, which is blended with the heavy crude oil prior to pipeline transportation to reduce viscosity and facilitate its movement, and returns it to the field to be reused.

The Upgrader was commissioned in 1992 with an original design capacity of 46 mbbbls/day of synthetic crude oil. Current production is considerably higher than the original design rate capacity as a result of throughput modifications and improved reliability. In 2007, the Upgrader commenced production of off-road diesel for locomotive and other uses. The Upgrader's current rated production capacity is 82 mbbbls/day of synthetic crude oil, diluents, low sulphur diesel and ultra low sulphur diesel.

Production at the Upgrader averaged 61 mbbbls/day of synthetic crude oil, 13 mbbbls/day of diluent and 4 mbbbls/day of low sulphur diesel in 2012. In addition, the Upgrader also produced, as by-products of its upgrading operations, approximately 361 lt/day of sulphur and 1,023 lt/day of petroleum coke during 2012. These products are sold in Canadian and international markets.

## **Canadian Refined Products**

Husky's Canadian Refined Products operations include refining of light crude oil, manufacturing of fuel and fuel grade ethanol, manufacturing of asphalt products from heavy crude oil and acquisition by purchase and exchange of refined petroleum products. Husky's retail distribution network includes the wholesale, commercial and retail marketing of refined petroleum products and provides a platform for non-fuel related convenience product businesses.

Light oil refined products are produced at the Husky refinery at Prince George, British Columbia and are also acquired from third-party refiners and marketed through Husky and Mohawk branded retail and commercial petroleum outlets and through direct marketing to third-party dealers and end users. Asphalt and residual products are produced at Husky's asphalt refinery at Lloydminster, Alberta and are marketed directly or through Husky's eight emulsion plants, five of which are also asphalt terminals located throughout Western Canada.

### **Prince George Refinery**

Husky's light oil refinery in Prince George, British Columbia, meets the refined products marketing needs of Husky and third-party retail outlets in the central and northern regions of the province. Feedstock is delivered to the refinery by pipeline from northeastern British Columbia. Prince George Refinery production is equal to approximately 18% of Husky's total refined product supply requirements.

The refinery produces all grades of unleaded gasoline, seasonal diesel fuels, mixed propane and butane, and heavy fuel oil. It markets road asphalt, shipped by rail from Husky's Lloydminster, Alberta, asphalt refinery. In 2012, refinery throughput averaged 11.1 mbbbls/day.

The refinery uses two types of desulphurization technologies. For clean gasoline (low sulphur gasoline), the refinery uses Prime G+ hydrodesulphurization technology. For clean diesel (ultra low sulphur diesel), the refinery increased the capacity of its existing unifier and reformer units, and increased the hydrogen supply through installation of a new steam methane reformer.

### **Lloydminster Asphalt Refinery**

Husky's Lloydminster Asphalt Refinery processes heavy crude oil into asphalt products used in road construction and maintenance and industrial asphalt products. The refinery has a throughput capacity of 29 mbbbls/day of heavy crude oil. The refinery also produces straight run gasoline, bulk distillates and residuals. The straight run gasoline stream is removed and re-circulated into the heavy oil pipeline network as pipeline diluent and the distillate stream is used by the Upgrader to make low sulphur diesel. The bulk distillates are hydrogen deficient and are transferred directly to the Upgrader and then treated for blending into the HSB stream. Residuals are a blend of medium and light distillate and gas oil streams, which are sold directly to customers typically as drilling and well fracturing fluids or used in asphalt cutbacks and emulsions.

Refinery throughput averaged 28.3 mbbbls/day of blended heavy crude oil feedstock during 2012. In 2012, daily sales volumes of asphalt averaged 15.7 mbbbls/day and daily sales volumes of residual and other products averaged 10.5 mbbbls/day. Due to the seasonal demand for asphalt products, most Canadian asphalt refineries typically operate at full capacity only during the normal paving season in Canada and the northern United States. Husky has implemented various plans to increase refinery throughput during the other months of the year, such as increasing storage capacity and developing U.S. markets for asphalt products. This is intended to allow Husky to run at or near full capacity year round.

## **Asphalt Distribution Network**

Husky's Pounder Emulsions division has a significant market share in Western Canada for road application emulsion products. Additional non-asphalt based road maintenance products are also marketed and distributed through Pounder Emulsions. The Company's sales to the U.S. and eastern Canada accounted for 60% of asphalt sales in 2012. Exported asphalt products are shipped as far as Texas and New York in the U.S. and Quebec, Canada. Husky typically sells in excess of 5.5 mmbbls of asphalt cement each year. All of Husky's asphalt requirements are supplied by Husky's asphalt refinery.

Husky's asphalt distribution network consists of emulsion plants and asphalt terminals located at Kamloops, British Columbia, Edmonton and Lethbridge, Alberta, Yorkton, Saskatchewan and Winnipeg, Manitoba and three emulsion plants located at Watson Lake, Yukon and Lloydminster and Saskatoon, Saskatchewan. Husky also terminals asphalt at its Prince George Refinery and uses an independently operated terminal at Langley, British Columbia. In 2012, the sales volume of asphalt products was 26.2 mmbbls/day.

In 2013, Husky plans to direct its efforts to increasing terminal capacity at the Yorkton and Edmonton facilities, develop retail capacity in U.S. markets, expand sales of road stabilization, preservation and recycling products, increase sales of drilling and completion products, implement safety and reliability improvements and develop new products, markets and specifications.

## **Ethanol Plants**

In September 2006, Husky commissioned an ethanol plant in Lloydminster, Saskatchewan. This plant has an annual nameplate capacity of 130 million litres. In December 2007, the Minnedosa, Manitoba ethanol plant was commissioned also with an annual nameplate capacity of 130 million litres; the plant is operating above that capacity. In 2012, ethanol production averaged 721,200 litres/day.

Husky's ethanol production supports its ethanol-blended gasoline marketing program. When added to gasoline, ethanol promotes more complete fuel combustion, prevents fuel line freezing and reduces carbon monoxide emissions, ozone precursors and net emissions of greenhouse gases. Environment Canada has designated ethanol blended gasoline as an "Environmental Choice" product. Husky sells a large portion of its production to other major oil companies for their ethanol blending requirements in Western Canada.

During 2012, the Lloydminster plant commissioned a CO<sub>2</sub> capture facility. The plant is currently capturing CO<sub>2</sub> for use in Husky's heavy oil reservoir enhancement project.

Husky continued to position its refined products business segment as the leader in ethanol blended fuels in Western Canada.

## **Other Supply Arrangements**

In addition to the refined petroleum products supplied by the Prince George Refinery of 2.7 mmbbls/day and by the Husky Lloydminster Upgrader of 3.9 mmbbls/day, Husky has rack-based pricing purchase agreements for refined products with all major Canadian refiners. During 2012, Husky purchased approximately 40.0 mmbbls/day of refined petroleum products from refiners and acquired approximately 8.7 mmbbls/day of refined petroleum products pursuant to exchange agreements with third-party refiners.

## **Branded Petroleum Product Outlets and Commercial Distribution**

As of December 31, 2012, there were 512 independently operated Husky and Mohawk branded petroleum product outlets. These petroleum product outlets include travel centres, convenience stores, cardlock operations and bulk distribution facilities located from the Ontario/Quebec border to the West Coast. The travel centre network is strategically located on major highways and serves the retail market and commercial transporters with quality products and full-service Husky House restaurants. At most locations, the travel centre network also features the proprietary "Route Commander" cardlock system that enables commercial users to purchase products using a card system that electronically processes transactions and provides detailed billing, sales tax and other information. A variety of full and self-serve retail locations under the Husky and Mohawk brand names serve urban and rural

markets, while Husky and Mohawk bulk distributors offer direct sales to commercial and farm markets in Western Canada.

Independent retailers or agents operate all Husky and Mohawk branded petroleum product outlets. Retail outlets feature varying services such as convenience stores, service bays, 24-hour service, car washes, Husky House full-service, family-style restaurants, proprietary and co-branded quick serve restaurants and bank machines. In addition to ethanol-blended gasoline, Husky offers additive-enhanced DieselMax and propane services together with Chevron lubricants. Husky supplies refined petroleum products to its branded independent retailers on an exclusive basis and provides financial and other assistance for location improvements, marketing support and related services. Husky's brands are promoted through Husky's sponsorship of Alpine Canada, the Western Hockey League and various university athletics, as well as advertising designed to reach both national and regional audiences.

The following table shows the number of Husky and Mohawk branded petroleum outlets by province as of December 31, 2012:

	British Columbia & Yukon	Alberta	Sask.	Manitoba	Ontario	2012 Total	2011 Total
<b>Branded Petroleum Outlets</b>							
Retail Owned Outlets	54	67	13	16	77	227	247
Leased	37	43	5	11	38	134	149
Independent Retailers	51	68	13	6	13	151	153
<b>Total</b>	<b>142</b>	<b>178</b>	<b>31</b>	<b>33</b>	<b>128</b>	<b>512</b>	<b>549</b>
Cardlocks <sup>(1)</sup>	23	31	5	6	19	84	88
Convenience Stores <sup>(1)</sup>	86	98	17	25	115	341	140
Restaurants	10	12	4	2	14	42	47

<sup>(1)</sup> Located at branded petroleum outlets.

Husky also markets refined petroleum products directly to various commercial markets, including independent dealers, national rail companies and major industrial and commercial customers in Western Canada and the northwestern United States. In 2012, daily sales volumes of gasoline, diesel fuel and liquefied petroleum gas were 26.2 mbbls/day, 27.2 mbbls/day, and 0.8 mbbls/day, respectively.

The following table shows average daily sales volumes of light refined petroleum products for the periods indicated:

<i>(mbbls/day)</i>	Years ended December 31,		
	2012	2011	2010
Gasoline	26.2	27.7	24.9
Diesel fuel	27.2	26.0	25.7
Liquefied Petroleum Gas	0.8	0.6	0.7
	54.2	54.3	51.3

## INDUSTRY OVERVIEW

The operations of the oil and gas industry are governed by a considerable number of laws and regulations mandated by multiple levels of government and regulatory authorities in Canada, the U.S. and other foreign jurisdictions. These laws and regulations, along with global economic conditions, have shaped the developing trends of the industry. The following discussion summarizes the trends, legislation and regulations that have the most significant impact on the short and long-term operations of the oil and gas industry.

### Crude Oil and Natural Gas Production

Production from oil sands projects is expected to continue to accelerate as the dominant source of crude oil product in the decades to come. Production of bitumen from both mining and in-situ operations is forecast to increase by 15% in 2013 compared with 2012. Of the remaining established crude oil and bitumen reserves in Alberta, 135 billion barrels or 80% is considered recoverable by in-situ methods and 34 billion barrels is suited to surface mining. The majority of in-situ production is not upgraded prior to reaching markets.<sup>1</sup>

In its June 2012 forecast, the Canadian Association of Petroleum Producers (“CAPP”) projected total Canadian production to increase by approximately 94% to 6.2 mmbbls/day by 2030, of which 5.0 mmbbls/day would be from oil sands. Production above 2.5 mmbbls/day would be sourced from new oil sands projects that were not under construction at the forecast date. In addition, conventional crude oil production has reversed its long-standing declining trend. Production is ramping up based on the successful application of horizontal drilling and multi-stage hydraulic fracturing techniques to tight oil reservoirs. Current estimate of the ultimate potential reserves recoverable may still be conservative as these technologies are in their early stages. As a result, conventional production is forecast to decline again after 2016.<sup>2</sup>

Natural gas production is forecast to increase by 1% in 2013 compared with 2012. Natural gas production in Canada has declined 15% since 2008 while production in the U.S. increased by an estimated 18% during the same period. Consumption of natural gas in the U.S. has increased by 9.4% in the same period. Ample natural gas supply and high storage levels have resulted in continued low prices. Although the natural gas rig count has declined, natural gas markets are expected to remain well supplied in the near-term as a backlog of shale gas wells near markets in the U.S. Gulf Coast, mid-continent and eastern states continue to be completed and tied-in. As a result, investment in Canadian natural gas exploration and development is expected to be focused on tight and shale resource plays that utilize new technology and are in NGL prone areas.<sup>3</sup>

The Energy Information Administration (“EIA”) Short-Term Energy Outlook was published on February 13, 2013 and provides insights to the near-term energy environment. World energy demand is expected to continue to increase in 2013 and 2014, mostly in countries outside of the Organization for Economic Cooperation and Development (“OECD”). World liquid fuels consumption grew by 1.4% to reach 89.2 mmbbls/day in 2012 and is expected to grow by on average of 1.4% per year in 2013 and 2014. OPEC’s surplus capacity is expected to rise from 2.7 mmbbls/day in January 2013 to an average of 2.9 mmbbls/day for 2013 and 3.4 mmbbls/day for 2014.<sup>2</sup>

### Commodity Pricing

Crude oil and natural gas producers are entitled to negotiate purchase and sale contracts directly with respective buyers and these contracts are typically based on the prevailing market price of the commodity. The market price for crude oil is determined largely by global factors and the contract price considers oil quality, transportation and other terms of the agreement. The price for natural gas is determined primarily by North America fundamentals because virtually all natural gas production in North America is consumed by North American customers, predominantly in the U.S. Commodity prices are based on supply and demand which may fluctuate due to market uncertainty and other factors beyond the control of entities operating in the industry.

The trend of volatile commodity prices is expected to continue. The EIA projects that the spot price of Brent, an imported light sweet benchmark crude oil produced in the North Sea, will fall from an average of U.S. \$112/bbl in 2012 to annual averages of U.S. \$109/bbl and U.S. \$101/bbl in 2013 and 2014, respectively. This forecasted

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<sup>1</sup> “Crude Oil Forecast, Markets and Pipelines”, June 2012, Canadian Association of Petroleum Producers.

<sup>2</sup> “Short-Term Energy Outlook,” February 12, 2013, Energy Information Administration U.S. Department of Energy.

<sup>3</sup> “Canadian Energy Overview 2011”, July 2012, National Energy Board.

decrease reflects the increasing supply of liquid fuels from non-OPEC countries. Averaging U.S. \$94/bbl in 2012, the projected West Texas Intermediate (“WTI”) price is U.S. \$93/bbl in 2013 and U.S. \$92/bbl in 2014. WTI futures for May 2013 delivery during the five-day period ending February 7, 2013 averaged U.S. \$97.55/bbl.<sup>4</sup>

## **Market Access**

Transportation and market access in North America for crude oil emerged as a major issue in 2012, contributing to regional price volatility. Western Canada’s crude has very limited access to world markets. Higher than expected production from Alberta and Saskatchewan conventional oil developments, the growth of Bakken production in North Dakota, and new U.S. shale oil production have added to the challenges the Canadian industry is facing in accessing markets.

Crude oil with access to waterborne transportation receives a higher Brent based price due to its increased mobility compared to onshore North American crude which is valued based on WTI. Most western Canadian onshore crude is transported to Cushing, Oklahoma where the price for WTI is set. As a result of limited capacity to transport crude oil from Cushing to the Gulf Coast refining centres and from an increase of onshore production from emerging resource plays like the North Dakota Bakken and Canadian oil sands, the price differential between Brent crude and WTI crude averaged U.S. \$18/bbl in 2012.

In addition to the price differential between Brent crude and WTI crude and pipeline constraints, the increased supply in the U.S. has resulted in volatility in Canadian crude prices. In 2012, Western Canadian Synthetic crude oil prices traded at a discount to WTI averaging U.S. \$2/bbl compared to a premium averaging U.S. \$7/bbl in 2011.

Current pipeline capacity exiting western Canada totals 3.5 mmbbls/day, 300 mbbls/day of which runs to the west coast. A number of pipeline proposals have been announced that would increase market access between 2014 and 2017. The proposed pipeline projects are the Keystone XL to the U.S. Gulf Coast, the Alberta Clipper expansion to Superior, Wisconsin, and the Trans Mountain Expansion and Enbridge Northern Gateway to the west coast. The proposed pipelines, if completed, would add approximately 2 mmbbls/day of pipeline capacity. However, considerable uncertainty exists around when and if each of these will be in service.<sup>1</sup>

## **Royalties, Incentives and Income Taxes**

### ***Canada***

The amount of royalties payable on production from privately owned lands is negotiated between the mineral freehold owner and the lessee and this production may also be subject to certain provincial taxes and royalties. Royalty rates for production from Crown lands are determined by provincial governments. When setting royalty rates, commodity prices, levels of production and operating and capital costs are considered. Royalties payable are generally calculated as a percentage of the value of gross production and generally depend on prescribed reference prices, well productivity, geographical location, field discovery date, method of recovery, depth of well, and the type or quality of the petroleum product produced. Other royalties and royalty-like interests are, from time-to-time, carved out of the owner’s working interest through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties, net profits interests or net carried interests.

Royalty rates pertaining to Husky operations in Western Canada averaged 10% in 2012 compared with 14% in 2011 due to lower natural gas prices and royalty credit adjustments. In the Company’s Atlantic Region, the average royalty rate was 11% in 2012 compared with 17% in 2011 due to higher eligible costs associated with the SeaRose offstation and lower Terra Nova production which is subject to higher royalty rates.

The Canadian federal corporate income tax rate was 15% in 2012, a decrease from 16.5% in 2011 and 18% in 2010. Provincial rates ranged between 10 and 14% in 2012.

### ***Other Jurisdictions***

Royalty rates in the Company’s Asia Pacific Region averaged 24% in 2012 compared with 30% in 2011 mainly due to reductions in windfall profit taxes that became effective in November of 2011.

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<sup>4</sup> “Short-Term Energy Outlook,” February 12, 2013, Energy Information Administration U.S. Department of Energy.

Operations in the U.S are subject to the U.S. federal tax rate of 34% and various state-level taxes. Operations in China are subject to the Chinese tax rate of 25%. Operations in Indonesia are subject to tax at a rate of 40% as governed by each project's PSC.

The Company's consolidated effective tax rate was 29% for both 2012 and 2011. Royalty rates averaged 11% of gross revenue in 2012 compared with 16% in 2011.

### **Land Tenure Regulation**

In Canada, rights to natural resources are largely owned by the provincial and federal governments. Rights are granted to explore for and produce oil and natural gas subject to shared jurisdiction agreements, ELs, significant discovery and production licenses, leases, permits, and provincial legislation which may include contingencies such as obligations to perform work or make payments.

For international jurisdictions, rights to natural resources are largely owned by national governments that grant rights in forms such as ELs and permits, production licenses, and production sharing agreements. Companies in the oil and gas industry are subject to ongoing compliance with the regulatory requirements established by the relevant country for the right to explore, develop and produce petroleum and natural gas in that particular jurisdiction.

### **Environmental Regulations**

All phases of the oil and natural gas business are subject to environmental regulation pursuant to a variety of federal, provincial, state and local laws and regulations, as well as international conventions (collectively, "environmental legislation").

Environmental legislation imposes, among other things, restrictions, liabilities, and obligations in connection with the generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances to the environment. Environmental legislation also requires that wells, facilities and other properties associated with Husky's operations be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. In addition, certain types of operations, including exploration and development projects and significant changes to certain existing projects, may require the submission and approval of environmental impact assessments.

The scope of recent environmental regulation and initiatives has had an impact on many areas important to industry operations which include but are not limited to, climate change, pipeline integrity, reclamation, hydraulic fracturing and land use.

### **Climate Change**

#### ***International Climate Change Regulations***

A significant breakthrough resulting from the 15th Conference of the Parties held in 2009 was the Copenhagen Accord, which endorsed the need to reduce global emissions. The Accord includes commitments from all the major emitters including the U.S., China, India, and Brazil, and provides for international review of both developed and developing countries' targets and actions. In 2010, Canada committed to reducing its greenhouse gas emissions by 17% below 2005 levels by 2020, which is aligned with the U.S. target.

#### ***Canadian Federal Greenhouse Gas Regulations***

The Canadian federal government has begun addressing emissions of specific sectors of the economy, including working closely with the U.S. government to establish common North American vehicle emissions standards, as well as performance standards for thermal electricity generation. Also in line with the U.S., Canada has adopted renewable fuels regulations, requiring fuel producers and importers to have at least 5% of their gasoline supply come from renewable sources such as ethanol and at least 2% of their diesel supply from bio-diesel.

## ***Canadian Provincial Greenhouse Gas Regulations***

In the absence of a federal policy, Ontario, British Columbia (“B.C.”) and Québec have committed to moving forward with a cap-and-trade system designed under the Western Climate Initiative (“WCI”). The WCI initiative was designed to reduce greenhouse gas emissions at the regional level from 15% below 2005 levels by 2020. The reduction would be a result of capping emissions on large industrial facilities within these provinces.

### ***U.S. Greenhouse Gas Regulations***

The U.S. also does not have a federal policy for the reduction of greenhouse gas emissions. The United States Environmental Protection Agency (“EPA”) has begun implementing greenhouse gas regulations. In particular, the so-called ‘Tailoring Rule’ now requires sources emitting greater than 100,000 tons per year of greenhouse gas to obtain a permit for those emissions, even if they are not otherwise required to obtain a new or modified permit. The Tailoring Rule may also require the installation and operation of pollution control technology as a part of any project that results in a significant greenhouse gas emissions increase. The EPA has promulgated regulations requiring greenhouse gas emissions reporting from certain U.S. operations. The EPA also issued greenhouse gas emission guidelines for existing refineries and new source performance standards for new refineries and modifications to existing refineries. Although proposed rules have not been issued, they are expected by 2013. These and other EPA regulations regarding greenhouse gas emissions are subject to legislative and judicial challenges, including current congressional proposals to block or delay the EPA’s authority to regulate greenhouse gas emissions.

### **Pipeline Integrity**

Recent high-profile oil spill events have led to a review by industry regulators. In 2012, the Alberta Energy Resources Conservation Board (“ERCB”) hired Group 10, a third-party consultant, to review the industry’s pipeline integrity, spill response and emergency response. Husky participated in the interview process and the final report is expected by the end of the first quarter of 2013.

The British Columbia Oil and Gas Commission is conducting a review of all pipeline segments and the B.C. Ministry of Environment has recently issued a land based spill preparedness and response policy intentions paper for comment on the Government of B.C. website.

The Canadian Energy Pipeline Association (“CEPA”) announced CEPA Integrity First, an industry-wide initiative to improve pipeline safety and environmental and social performance. The program is based on sharing best practices and applying advanced technology, and highlights pipeline incident prevention, emergency response, reclamation and education. The prevention section focuses on programs and processes related to pipeline integrity, the emergency response section concentrates on programs CEPA members have in place, the reclamation section addresses the quality of post-incident activities, and the education section provides additional information about pipelines in Canada. CEPA is taking the lead with CAPP, providing support and context around pipelines owned and operated by producing companies, as well as emphasis on the importance of reliable and safe energy infrastructure to the oil and gas industry and all Albertans.

### **Reclamation**

The ERCB maintains the regulatory process for the abandonment of a well. Over the years, the ERCB has made several adjustments to ensure effective well abandonment in Alberta. These adjustments include the introduction of new directives and additions to current regulations. In 1991, the ERCB first introduced Directive 020: *Well Abandonment*, which sets strict requirements for environmental protection and public safety in areas around abandoned wells. In June 2010, the requirements for abandoned wells were enhanced. These enhancements included required notification to the ERCB prior to any abandonment operation, additional abandonment criteria for critical sour wells, and a specialized cap on vented wells to prevent gas pressure build up in the well.

In 2012, the Alberta Department of Energy and the ERCB identified a large number of historically abandoned wellbores within urban areas and on residential properties. Amendments to Alberta Municipal Affairs subdivision regulations are forthcoming to ensure that all future developments will have a five-meter setback, future wells to be abandoned must be identified and the location confirmed by the developer, and the integrity must be verified by the licensee prior to development approval.



## **Hydraulic Fracturing**

Hydraulic fracturing is a method of increasing well production by injecting fluid under high pressure down a well, which causes the surrounding rock to crack or fracture. The fluid typically consists of water, sand, chemicals and other additives and flows into the cracks where the sand remains to keep the cracks open and allow natural gas or liquids to be recovered. Fracturing fluids are produced back to the surface through the wellbore and are stored for reuse or future disposal in accordance with regional regulations, which may include injection into underground wells. The design of the well bores protects groundwater aquifers from the fracturing process.

The Government of Canada manages use of chemicals through its Chemical Management Plan and New Substances Program. Some provinces require the details of fracturing fluids to be submitted to regulators. In Alberta, the ERCB requires that all fracturing operations submit reports regarding the quantity of fluids and additives. In the U.S., the process is regulated by state and local governments. However, the EPA is considering undertaking a broad study as it pertains to the national Clean Water Act which may or may not result in future federal regulations.

## **Land Use**

In 2012, the Government of Alberta approved the Lower Athabasca Regional Plan (“LARP”), which covers the lower Athabasca region and includes Husky’s oil sands assets and major projects. The LARP was developed to manage cumulative effects within the region using three formal management frameworks; Air Quality, Surface Water Quality and Groundwater Quality. The use of each framework establishes approaches to ensure trends are identified and assessed, regional limits are not exceeded and that air and water remain healthy for the region’s residents and ecosystems during oil sands development.

## **Industry Collaboration Initiatives**

Husky is working with industry on several regulatory initiatives, most recently on increasing transparency around hydraulic fracturing procedures.

In early 2012, Husky joined the International Petroleum Industry Environmental, Conservation Association (“IPIECA”), the global oil and gas industry association for environmental and social issues and is participating in its Water Task Force. Husky also participates in industry reporting through CAPP; the Company’s water use numbers are included in the CAPP Responsible Canadian Energy Reporting. As a member of several CAPP Water Groups and Committees, Husky is committed to adhering to the Guiding Principles for Hydraulic Fracturing and Hydraulic Fracturing Operating Practices for shale and tight gas development.

Husky pursues memberships in sustainability focused groups including Oil Spill Response (OSRL), China Offshore Oil Operation Safety Office (COOSO), IPEICA, Wood Buffalo Environmental Association (WBEA), Parkland Air Management Zone (PAMZ), Calgary Regional Airshed Zone (CRAZ), Lakeland Industry and Community Association (LICA), Southeast Saskatchewan Airshed Association (SESAA), Regional Aquatics Monitoring Program (RAMP), Alberta Biodiversity Monitoring Institute (ABMI), Carbon Disclosure Project, Integrated CO<sub>2</sub> Network (ICO<sub>2</sub>N), Orphan Well Association, Cumulative Effects Management Association (CEMA), Canadian Land Reclamation Association (CLRA), Environmental Services Association of Alberta (ESAA), North Saskatchewan, Watershed Alliance, Beaver River Watershed Alliance, Clearwater Mutual Aid CO-OP, Western Canadian Spill Services, One Ocean, Eastern Canada Response Corporation (ECRC), Ottawa River Coalition (ORC), Ohio Chemistry Trade Council (OCTC) and the Environmental Citizens Action Committee.

## **Husky’s Sustainability Commitment**

Husky’s sustainability is a key pillar of the financial well being of the Company. At the end of 2010, the Company presented its business strategy and set out a five-year plan with clearly defined financial goals and performance targets. Almost two years into that plan, the Company is meeting or exceeding its key performance indicators. While sustainability begins with a strong financial foundation, success is directly linked to how the Company conducts its business, whether it is by improving safety, enhancing environmental performance through innovative ways to protect the environment, or in delivering lasting benefits to the communities. For further information, please see the Company’s 2012 Sustainability Report at [www.huskyenergy.com](http://www.huskyenergy.com).

## RISK FACTORS

The following provides a list of the most significant risks relating to Husky and its operations that could cause the Company's actual results to differ materially from those projected in the Company's forward-looking statements contained in this AIF. Husky has developed an enterprise risk matrix to identify risks to its people, the environment, its assets and its reputation, and to systematically mitigate these risks to an acceptable level.

### **Operational, Environmental and Safety Incidents**

Husky's businesses are subject to inherent operational risks and hazards in respect of safety and the environment that require continuous vigilance. The Company seeks to minimize these operational risks and hazards by carefully designing and building its facilities and conducting its operations in a safe and reliable manner. However, failure to manage these operational risks and hazards effectively could result in unexpected incidents, including the release of restricted substances, fires, explosions, well blow-outs, marine catastrophe or mechanical failures and pipeline failures. The consequences of such events include personal injuries, loss of life, environmental damage, property damage, loss of revenues, fines, penalties, legal liabilities, disruption to operations, asset repair costs, remediation and reclamation costs, monitoring post-cleanup and/or reputational impacts which may affect the Company's license to operate. Remediation may be complicated by a number of factors including shortages of specialized equipment or personnel, extreme operating environments and the absence of appropriate or proven countermeasures to effectively remedy such consequences. Emergency preparedness, business continuity and security policies and programs are in place for all operating areas, and are routinely exercised. The Company, in accordance with industry practice, maintains insurance coverage against losses from certain of these risks and hazards. Nonetheless, insurance proceeds may not be sufficient to cover all losses, and insurance coverage may not be available for all types of operational risks and hazards.

### **Commodity Price Volatility**

Husky's results of operations and financial condition are dependent on the prices received for its crude oil and natural gas production. Lower prices for crude oil and natural gas could adversely affect the value and quantity of Husky's oil and gas reserves. Husky's reserves include significant quantities of heavier grades of crude oil that trade at a discount to light crude oil. Heavier grades of crude oil are typically more expensive to produce, process, transport and refine into high value refined products. Refining and transportation capacity for heavy crude oil is limited and planned increases of North American heavy crude oil production may create the need for additional heavy oil refining and transportation capacity. As a result, wider price differentials could have adverse effects on Husky's financial performance and condition, reduce the value and quantities of Husky's heavier crude oil reserves and delay or cancel projects that involve the development of heavier crude oil resources. There is no guarantee that planned pipeline development projects will provide sufficient transportation capacity and access to refining capacity to accommodate expected increases in North American heavy crude oil production.

Prices for crude oil are based on world supply and demand. Supply and demand can be affected by a number of factors including, but not limited to, actions taken by OPEC, non-OPEC crude oil supply, social conditions in oil producing countries, the occurrence of natural disasters, general and specific economic conditions, prevailing weather patterns and the availability of alternate sources of energy.

Husky's natural gas production is currently located entirely in Western Canada and is, therefore, subject to North American market forces. North American natural gas supply and demand is affected by a number of factors including, but not limited to, the amount of natural gas available to specific market areas either from the well head or from storage facilities, prevailing weather patterns, the price of crude oil, the U.S. and Canadian economies, the occurrence of natural disasters and pipeline restrictions.

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 fluctuations in crude oil and natural gas prices are beyond Husky's control and accordingly, could have a material adverse effect on the Company's business, financial condition and cash flow. For information on 2012 commodity price sensitivities, refer to Section 3.0 of the 2012 Annual MD&A.

## **Reservoir Performance Risk**

Lower than projected reservoir performance on the Company's key growth projects could have a material impact on the Company's financial position, medium to long-term business strategy and cash flow. Inaccurate appraisal of large project reservoirs could result in missed production, revenue and earnings targets and negatively affect the Company's reputation, investor confidence and the Company's ability to deliver on its growth strategy.

In order to maintain the Company's future production of crude oil, natural gas and natural gas liquids and maintain the value of the reserves portfolio, additional reserves must be added through discoveries, extensions, improved recovery, performance related revisions and acquisitions. The production rate of oil and gas properties tends to decline as reserves are depleted while the associated unit operating costs increase. In order to mitigate the effects of this, the Company must undertake successful exploration and development programs, increase the recovery factor from existing properties through applied technology, and identify and execute strategic acquisitions of proved developed and undeveloped properties and unproved prospects. Maintaining an inventory of developable projects depends on, among other things, obtaining and renewing rights to explore, develop and produce oil and natural gas, drilling success, completing long-lead time capital intensive projects on budget and on schedule and the application of successful exploitation techniques on mature properties.

## **Restricted Market Access**

Husky's results depend upon the Company's ability to deliver products to the most attractive markets. The Company's results could be impacted by restricted market access resulting from a lack of pipeline or other transportation alternatives to attractive markets as well as regulatory and/or other marketplace barriers. With growing conventional and oil sands production across North America and limited availability of infrastructure to carry the Company's products to the marketplace, oil and natural gas transportation capacity is expected to be restricted in the next few years. Restricted market access may potentially have a material impact on the Company's financial position, medium to long-term business strategy, cash flow and corporate reputation.

## **Security and Terrorist Threats**

A security threat or terrorist attack on a facility owned or operated by the Company could result in the interruption or cessation of key elements of its operations, which could have a material impact on the Company's financial position, business strategy and cash flow.

## **International Operations**

International operations can expose the Company to uncertain political, economic and other risks. The Company's operations in certain jurisdictions may be adversely affected by political, economic or social instability or events. These events may include, but are not limited to, onerous fiscal policy, renegotiation or nullification of agreements, imposition of onerous regulation, changes in laws governing existing operations, financial constraints, including currency and exchange rate fluctuations, and unreasonable taxation. This could adversely affect the Company's interest in its foreign operations and future profitability.

## **Gas Offtake**

The potential inability to deliver an effective gas storage solution as inventories grow over the life of the White Rose field may potentially result in prolonged shutdown of these operations, which may have a material impact on the Company's financial position, medium to long-term business strategy and cash flow.

## **Skills and Human Resource Shortage**

The Company recognizes that a robust, productive, and healthy workforce drives efficiency, effectiveness, and financial performance. Attracting and retaining qualified and skilled labour is critical to the successful execution of Husky's current and future business strategies. However, a tight labour market, an insufficient number of qualified candidates, and an aging workforce are factors that precipitate a human resource risk for the Company. Failure to retain current employees and attract new skilled employees could materially affect the Company's ability to conduct its business.

## **Major Project Execution**

The Company manages a variety of major projects relating to oil and gas exploration, development and production. Risks associated with the execution of Husky's major projects, as well as the commissioning and integration of new assets into its existing infrastructure, may result in cost overruns, project or production delays, and missed financial targets, thereby eroding project economics. Typical project execution risks include: the availability and cost of capital, inability to find mutually agreeable parameters with key project partners for large growth projects, availability of manufacturing and processing capacity, faulty construction and design errors, labour disruptions, bankruptcies, productivity issues affecting Husky directly or indirectly, unexpected changes in the scope of a project, health and safety incidents, need for government approvals or permits, unexpected cost increases, availability of qualified and skilled labour, availability of critical equipment, severe weather, and availability and proximity of pipeline capacity.

## **Partner Misalignment**

Joint venture partners operate a portion of Husky's assets in which the Company has an ownership interest. Husky is at times dependent upon its partners for the successful execution of various projects. If a dispute with partners were to occur over the development and operation of a project or if partners were unable to fund their contractual share of the capital expenditures, a Husky project may be delayed and the Company may be partially or totally liable for its partner's share of the project.

## **Reserves Data, Future Net Revenue and Resource Estimates**

The reserves data in this AIF represent estimates only. The accurate assessment of oil and gas reserves is critical to the continuous and effective management of the Company's Upstream assets. Reserves estimates support various investment decisions about the development and management of resource plays. In general, estimates of economically recoverable crude oil and gas reserves and the future net cash flow therefrom are based upon a number of variable factors and assumptions, such as product prices, future operating and capital costs, historical production from the properties, and the assumed effects of regulation by governmental agencies, including with respect to royalty payments, all of which may vary considerably from actual results. All such estimates are to some degree uncertain and classifications of reserves are only attempts to define the degree of uncertainty involved. For those reasons, estimates of the economically recoverable oil and gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom, prepared by different engineers or by the same engineers at different times, may vary substantially. All reserves estimates involve a degree of ambiguity and, at times, rely on indirect measurement techniques to estimate the size and recoverability of the resource. While new technologies have increased the accuracy and efficacy of these techniques, there remains the potential for human or systemic error in recording and reporting the magnitude of the Company's oil and gas reserves. Inaccurate appraisal of large project reservoirs could result in missed production, revenue and earnings targets, and could negatively affect the Company's reputation, investor confidence, and the Company's ability to deliver on its growth strategy.

## **Government Regulation**

Given the scope and complexity of Husky's operations, the Company may be subject to regulation and intervention by governments at the federal, provincial, state and municipal levels in the countries in which it conducts its operations or exploratory activities. As these governments continually balance competing demands from different interest groups and stakeholders, the Company recognizes that the magnitude of regulatory risks has the potential to change over time. Changes in government policy, legislation or regulation could impact the Company's existing and planned projects as well as impose costs of compliance, increase capital expenditures and operating expenses, and expose the Company to other risks including environmental and safety risks. Examples of the Company's regulatory risks include, but are not limited to, uncertain or negative interactions with governments, uncertain energy policies, environmental and safety controls related to the reduction of greenhouse gasses and other emissions, penalties, taxes, royalties, government fees, reserves access, limitations or increase in costs relating to the exportation of commodities, restrictions on the acquisition of exploration and production rights and land tenure, expropriation or cancellation of contract rights, limitations on control over the development and abandonment of fields, and loss of licenses to operate.

## **Environmental Regulation**

Husky anticipates that changes in environmental legislation may require reductions in emissions from its operations and result in increased capital expenditures. Further changes in environmental legislation could occur, which may result in stricter standards and enforcement, larger fines and liabilities, and increased capital expenditures and operating costs, which could have a material adverse effect on Husky's financial condition and results of operations.

The 2010 Deepwater Horizon oil spill in the Gulf of Mexico has led to numerous public and governmental expressions of concern about the safety and potential environmental impact of offshore oil and gas operations. Stricter regulation of offshore oil and gas operations has already been implemented by the U.S. with respect to operations in the Outer Continental Shelf, including in the Gulf of Mexico. Further regulation, increased financial assurance requirements and increased caps on liability are likely to be applied to offshore oil and gas operations in these areas. In the event that similar changes in environmental regulation occur with respect to Husky's operations in the Atlantic or Asia Pacific Regions, such changes could increase the cost of complying with environmental regulation in connection with these operations and have a material adverse impact on Husky's operations.

## **Climate Change Regulation**

Husky continues to monitor international efforts to address climate change, including developments on the Kyoto Protocol and the Copenhagen Accord. Canada has withdrawn from participation in the Kyoto Protocol. The effect of these initiatives on the Company's operations cannot be determined with any certainty at this time. The Alberta and BC governments have regulations in place with the Saskatchewan government anticipated to soon follow with similar regulation. These regulations include limiting the intensity limits for large emitters of greenhouse gases in Alberta emitting 100,000 tonnes or more of greenhouse gas in any year. Under the regulations, 12-15% intensity reduction will be applied to the average of that facility's 2003-2005 baseline emissions intensity for established facilities. New facilities are required to reduce emissions starting with the fourth year of commercial operation by 2%, and then by 2% every year after, until the 12-15% reduction target has been achieved. These regulations impact all of Husky's Upstream operations in B.C., the Prince George Refinery, the Ram River gas plant and the Tucker thermal oil facility. In addition, the Federal Government of Canada has announced pending regulations in respect of greenhouse gases and other pollutants. Although the impact of these regulations is uncertain, they may adversely affect the Company's operations and increase costs. These regulations may become more onerous over time as public and political pressures increase to implement initiatives that further reduce the emission of greenhouse gases.

While the U.S. EPA regulations are currently in effect, they have not yet had a material impact on Husky. However, the Company's operations may be materially impacted by future application of these rules or by future U.S. greenhouse gas legislation applying to the oil and gas industry or the consumption of petroleum products or by these or any further restrictive regulations issued by the EPA. Such legislation or regulation could require Husky's U.S. refining operations to significantly reduce emissions and/or purchase allowances, which may increase capital and operating expenditures.

## **Financial Risks**

Husky's financial risks are largely related to commodity price risk, foreign currency risk, interest rate risk, credit risk, and liquidity risk. From time to time, Husky uses derivative financial instruments to manage its exposure to these risks. These derivative financial instruments are not intended for trading or speculative purposes. For further details on the Company's derivative financial instruments, including assumptions made in the calculation of fair value and additional discussion of exposure to risks and mitigation activities see Note 22 Financial Instrument and Risk Management within the Company's 2012 audited consolidated financial statements and Section 7.0 of the Company's 2012 Annual MD&A, which are incorporated herein by reference. For a discussion on commodity price risk, refer to the Commodity Price Volatility section above.

### ***Foreign Currency Risk***

Husky's results are affected by the exchange rates between various currencies including the Canadian and U.S. dollar. The majority of Husky's expenditures are in Canadian dollars while the majority of the Company's revenues are received in U.S. dollars 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. In addition, a change in the value of the Canadian dollar against the U.S. dollar will result in an increase or decrease in Husky's U.S. dollar denominated debt and related interest expense, as expressed in Canadian dollars. The fluctuations in exchange rates are beyond Husky's control and accordingly, could have a material adverse effect on the Company's business, financial condition and cash flow.

The Company enters into short-dated foreign exchange contracts to fix the exchange rate for conversion of U.S. revenue dollars to hedge against these potential fluctuations. Husky also designates a portion of its U.S. debt as a hedge of the Company's net investment in the U.S. refining operations which are considered as a foreign functional currency. At December 31, 2012, the amount that the Company designated was U.S. \$2.8 billion (December 31, 2011 – U.S. \$1.3 billion).

### ***Interest Rate Risk***

Interest rate risk is the impact of fluctuating interest rates on earnings, cash flows and valuations. In order to manage interest rate risk and the resulting interest expense, Husky mitigates some of its exposure to interest rate changes by maintaining a mix of both fixed and floating rate debt through the use of its credit facilities and various financial instruments. The optimal mix maintained will depend on market conditions. Husky may also enter into interest rate swaps from time to time as an additional means of managing current and future interest rate risk.

### ***Credit Risk***

Credit risk represents the financial loss that the Company would suffer if the Company's counterparties in a transaction fail to meet or discharge their obligation to the Company. Husky actively manages this exposure to credit and contract execution risk from both a customer and a supplier perspective. Internal credit policies govern Husky's credit portfolio and limit transactions according to a counterparty's and a supplier's credit quality. Counterparties for all financial derivatives transacted by Husky are major financial institutions or counterparties with investment grade credit ratings.

### ***Liquidity Risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Company's process for managing liquidity risk includes ensuring, to the extent possible, that it has access to multiple sources of capital including: cash and cash equivalents, cash from operating activities, undrawn credit facilities, and the availability to raise capital from various debt capital markets, including under its shelf prospectuses. The availability of capital under its shelf prospectuses is dependent on market conditions.

### **Competition**

The energy industry is highly competitive with respect to gaining access to the resources required to increase oil and gas reserves and production and gain access to markets. Husky competes with others to acquire prospective lands, retain drilling capacity and field operating and construction services, obtain sufficient pipeline and other transportation capacity, gain access to and retain adequate markets for its products and services, and gain access to capital markets. Husky's ability to successfully complete development projects could be adversely affected if it is unable to acquire economic supplies and services due to competition. Subsequent increases in the cost of or delays in acquiring supplies and services could result in uneconomic projects. Husky's competitors comprise all types of energy companies, some of which have greater resources.

### **Internal Credit Risk**

Credit ratings affect Husky's ability to obtain short-term and long-term financing and the cost of such financing. Additionally, the ability of Husky to engage in ordinary course derivative or hedging transactions and maintain ordinary course contracts with customers and suppliers on acceptable terms depends on Husky's credit ratings. A reduction in the current rating on Husky's debt by one or more of its rating agencies, particularly a downgrade below investment grade ratings, or a negative change in Husky's ratings outlook could adversely affect Husky's cost of financing and its access to sources of liquidity and capital. Credit ratings are intended to provide investors with an independent measure of credit quality of any issuer of securities. The credit ratings accorded to Husky's securities by

the rating agencies are not recommendations to purchase, hold or sell the securities inasmuch as such ratings do not comment as to market price or suitability for a particular investor. Any rating may not remain in effect for any given period of time or may be revised or withdrawn entirely by a rating agency in the future if in its judgment circumstances so warrant.

### **General Economic Conditions**

General economic conditions may have a material adverse effect on the Company's results of operations, liquidity and financial condition. A decline in economic activity will reduce demand for petroleum products and adversely affect the price the Company receives for its commodities. The Company's cash flow could decline, assets could be impaired, future access to capital could be restricted and major development projects could be delayed or abandoned.

### **Cost or Availability of Oil and Gas Field Equipment**

The cost or availability of oil and gas field equipment adversely affects the Company's ability to undertake exploration, development and construction projects. The oil and gas industry is cyclical in nature and is prone to shortages of supply of equipment and services including land and offshore drilling rigs, land and offshore geological and geophysical services, engineering and construction services and construction materials. These materials and services may not be available when required at reasonable prices.

### **Climatic Conditions**

Extreme climatic conditions may have significant adverse effects on operations. The predictability of the demand for energy is affected to a large degree by the predictability of weather and climate. In addition, the Company's exploration, production and construction operations or disruptions to the operations of major customers or suppliers can be affected by extreme weather, which may result in cessation or diminishment of production, delay of exploration and development activities or delay of plant construction. All of these could potentially cause financial losses.

## HUSKY EMPLOYEES

The number of Husky's permanent employees was as follows:

	As at December 31,		
	2012	2011	2010
	5,178	4,726	4,380

## DIVIDENDS

The following table shows the aggregate amount of the dividends per common share and Series 1 Preferred Shares of the Company declared payable in respect of its last three years ended December 31:

	2012	2011	2010
Dividends per Common Share	\$ 1.20	\$ 1.20	\$ 1.20
Dividends per Series 1 Preferred Share	\$ 1.11	\$ 0.87	\$ -

### Dividend Policy and Restrictions

#### Common Share Dividends

The Board of Directors has established a dividend policy that pays quarterly dividends of \$0.30 (\$1.20 annually) per common share. The declaration and payment of dividends are at the discretion of the Board of Directors, which will consider earnings, capital requirements and financial condition of Husky, the satisfaction of the applicable solvency test in Husky's governing corporate statute, the *Business Corporations Act* (Alberta), and other relevant factors.

In February 2011, Husky's shareholders approved amendments to the common share terms to provide the shareholders with the ability to receive dividends in common shares or in cash. Quarterly dividends may be declared in an amount expressed in dollars per common share and 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 is calculated by dividing the total value by the total volume of common shares traded over the five trading day period immediately prior to the payment date of the dividend on the common shares.

Husky's dividend policy will continue to be reviewed and there can be no assurance that further dividends will be declared or the amount of any future dividend.

#### Series 1 Preferred Share Dividends

Holders of Series 1 Preferred Shares are entitled to receive a cumulative quarterly fixed dividend, payable on the last day of March, June, September and December in each year, yielding 4.45% annually for the initial period ending March 31, 2016, as and when declared by the Board of Directors. Thereafter, the dividend rate will be reset every five years at a rate equal to the 5-year Government of Canada bond yield plus 1.73%. Holders of Series 1 Preferred Shares will have the right, at their option, to convert their shares into Series 2 Preferred Shares, subject to certain conditions, on March 31, 2016 and on March 31 every five years thereafter. Holders of the Series 2 Preferred Shares are entitled to receive a cumulative quarterly floating rate dividend at a rate equal to the three-month Government of Canada Treasury Bill yield plus 1.73% as and when declared by the Board of Directors.



## DESCRIPTION OF CAPITAL STRUCTURE

### Common Shares

Husky is authorized to issue an unlimited number of no par value common shares. Holders of common shares are entitled to receive notice of and attend all meetings of shareholders, except meetings at which only holders of a specified class or series of shares are entitled to vote, and are entitled to one vote per common share held. Holders of common shares are also entitled to receive dividends as declared by the Board of Directors on the common shares payable in whole or in part as a stock dividend in fully paid and non-assessable common shares or by the payment of cash. Holders are also entitled to receive the remaining property of Husky upon dissolution in equal rank with the holders of all other common shares. See “Dividend Policy and Restrictions.”

If the Board of Directors declares a dividend on the common shares payable in whole or in part as a stock dividend, shareholders of record wishing to accept a payment of future stock dividends declared by the Board of Directors in the form of common shares are required to complete and 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. The Stock Dividend Confirmation Notice permits shareholders to confirm that they will accept common shares as payment of the dividend on all or a stated number of their common shares. A Stock Dividend Confirmation Notice will remain in effect for all stock dividends on the common shares to which it relates and which are held by the shareholder unless the shareholder delivers a revocation notice to Husky’s transfer agent, in which case the Stock Dividend Confirmation Notice will not be effective for any dividends having a declaration date that is more than five business days following receipt of the revocation notice by Husky’s transfer agent.

In the event a shareholder fails to deliver a Stock Dividend Confirmation Notice at least five business days prior to the record date of a declared dividend, or delivers a Stock Dividend Confirmation Notice confirming that the holder of common shares accepts the common shares as payment of the dividend on some but not all of the holder’s common shares, the dividend on common shares for which no Stock Dividend Confirmation Notice was delivered or the dividend on those of the holder’s common shares in respect of which the holder did not deliver a Stock Dividend Confirmation Notice, will be paid in cash.

### Preferred Shares

Husky is authorized to issue an unlimited number of no par value preferred shares. The preferred shares as a class have attached thereto the rights, privileges, restrictions and conditions set forth below.

The preferred shares may from time to time be issued in one or more series, and the Board of Directors may fix from time to time before such issue the number of preferred shares which is to comprise each series and the designation, rights, privileges, restrictions and conditions attached to each series of preferred shares including, without limiting the generality of the foregoing, any voting rights, the rate or amount of dividends or, the method of calculating dividends, the dates of payment thereof, the terms and conditions of redemption, purchase and conversion if any, and any sinking fund or other provision.

The preferred shares of each series shall, with respect to the payment of dividends and the distribution of assets or return of capital in the event of liquidation, dissolution or winding up of Husky, whether voluntary or involuntary, or any other return of capital or distribution of assets of Husky amongst its shareholders for the purpose of winding up its affairs, be entitled to preference over the common shares of Husky and over any other shares of Husky ranking by their terms junior to the preferred shares of that series. The preferred shares of any series may also be given such other preferences over the common shares of Husky and any other such preferred shares.

If any cumulative dividends or amounts payable on the return of capital in respect of a series of preferred shares are not paid in full, all series of preferred shares shall participate ratably in respect of accumulated dividends and return of capital.

In 2011, Husky issued 12 million Series 1 Preferred Shares and authorized the issuance of 12 million Series 2 Preferred Shares. See “Dividend Policy and Restrictions – Series 1 Preferred Share Dividends.”

## Liquidity Summary

The following information relating to Husky's credit ratings is provided as it relates to Husky's financing costs, liquidity and operations. Specifically, credit ratings affect Husky's ability to obtain short-term and long-term financing and the cost of such financing. Additionally, the ability of Husky to engage in certain collateralized business activities on a cost effective basis depends on Husky's credit ratings. A reduction in the current rating on Husky's debt by one or more of its rating agencies, particularly a downgrade below investment grade ratings, or a negative change in Husky's ratings outlook could adversely affect Husky's cost of financing and its access to sources of liquidity and capital. In addition, changes in credit ratings may affect Husky's ability to enter, and the associated costs of entering, (i) into ordinary course derivative or hedging transactions, which may require Husky to post additional collateral under certain of its contracts, and (ii) into and maintaining ordinary course contracts with customers and suppliers on acceptable terms.

	Outlook	Rating
<b>Moody's</b>		
Senior Unsecured Debt	Stable	Baa2
<b>Standard and Poor's</b>		
Senior Unsecured Debt	Stable	BBB+
Series 1 Preferred Shares	Stable	P-2 (low)
<b>Dominion Bond Rating Service</b>		
Senior Unsecured Debt	Stable	A (low)
Series 1 Preferred Shares	Stable	Pfd-2 (low)

Credit ratings are intended to provide investors with an independent measure of credit quality of any issuer of securities. The credit ratings accorded to Husky's securities by the rating agencies are not recommendations to purchase, hold or sell the securities inasmuch as such ratings do not comment as to market price or suitability for a particular investor. Any rating may not remain in effect for any given period of time or may be revised or withdrawn entirely by a rating agency in the future if in its judgment circumstances so warrant.

### Moody's

Moody's credit rating system ranges from Aaa (highest) to C (lowest). Debt securities rated within the Baa category are considered medium grade debts; they are neither highly protected nor poorly secured. Interest payments and principal security appear to be adequate at the time of the rating; however, they are subject to potential adverse circumstances over time. As a result, these debt securities possess some speculative characteristics. The addition of a 1, 2 or 3 modifier indicates an additional relative standing within the general rating classification. The addition of the modifier 1 indicates the debt is positioned in the top one third of the general rating classification, 2 indicates the mid one third and 3 indicates the bottom one third.

### Standard and Poor's

Standard and Poor's credit rating system for debt ranges from AAA (highest) to D (lowest). Debt securities rated within the BBB category are considered to possess adequate protection parameters. However, they could potentially change subject to adverse economic conditions or other circumstances that may result in reduced capacity of the debtor to continue to meet principal and interest payments. As a result, these debt securities possess some speculative characteristics. The addition of the modifier + or - indicates the debt is positioned above (+) or below (-) the mid range of the general category.

Standard and Poor's began rating Husky's Series 1 Preferred Shares on its Canadian preferred share scale on March 11, 2011. Preferred share ratings have a direct correlation to the degree of credit worthiness provided by the debt ratings system except that ratings on preferred shares refer to the entity's ability to fulfill the obligations specific to the preferred shares. A P-2 (low) rating on the Canadian preferred share rating scale is equivalent to a BBB- rating on the debt rating scale.

## **Dominion Bond Rating Service**

Dominion Bond Rating Service's credit rating system for debt ranges from AAA (highest) to D (lowest). Debt securities rated within the A category are considered to be of satisfactory credit quality. Protection of interest and principal is considered acceptable, but the debtor is susceptible to adverse changes in financial and economic conditions, or there may be other adverse conditions present which reduce the strength of the debtor and its rated debt. The addition of the high or low modifier denotes that the rating is either above or below the mid range of the general rating category.

Dominion Bond Rating Service began rating Husky's Series 1 Preferred Shares on its Canadian preferred share scale on March 10, 2011. Preferred share ratings have a direct correlation to the degree of credit worthiness provided by the debt ratings system except that ratings on preferred shares refers to the entity's ability to fulfill the obligations specific to the preferred shares. A Pfd-2(low) rating on the Canadian preferred share rating scale is equivalent to an A category rating on the debt rating scale.

## MARKET FOR SECURITIES

Husky's common shares and Series 1 Preferred Shares are listed and posted for trading on the Toronto Stock Exchange under the respective trading symbols "HSE" and "HSE.PR.A". The Series 1 Preferred Shares began trading on the Toronto Stock Exchange on March 18, 2011.

The following table discloses the trading price range and volume of Husky's common shares traded on the Toronto Stock Exchange during Husky's financial year ended December 31, 2012:

	High	Low	Volume (000's)
January	24.98	23.78	21,934
February	26.99	24.43	16,848
March	26.99	24.84	23,509
April	25.84	23.70	16,899
May	25.86	22.76	22,716
June	25.72	22.04	22,753
July	26.25	24.52	15,010
August	27.14	24.58	18,850
September	27.18	25.89	19,604
October	28.33	26.41	19,168
November	28.20	26.08	18,523
December	29.50	27.78	24,228

The following table discloses the trading price range and volume of the Series 1 Preferred Shares traded on the Toronto Stock Exchange during Husky's financial year ended December 31, 2012:

	High	Low	Volume (000's)
January	26.25	25.70	933
February	26.18	25.75	243
March	26.20	25.47	365
April	26.17	25.76	529
May	26.30	25.39	152
June	25.94	25.30	454
July	26.33	25.60	172
August	26.36	25.75	92
September	26.25	25.71	243
October	26.09	25.68	184
November	25.77	25.32	330
December	26.15	25.54	149

## DIRECTORS AND OFFICERS

The following are the names and residences of the directors and officers of Husky as of the date of this AIF, their positions and offices with Husky and their principal occupations for at least five preceding years. Each director will hold office until the Company's next annual general meeting or until his or her successor is appointed or elected.

### Directors

Name & Residence	Office or Position	Principal Occupation During Past 5 Years
Li, Victor T.K. Hong Kong	Co-Chair Director of Husky since August 2000	<p>Mr. Li is Managing Director and Deputy Chairman of Cheung Kong (Holdings) Limited (a public investment holding and project management company).</p> <p>Mr. Li is also Deputy Chairman and Executive Director of Hutchison Whampoa Limited (an investment holding company); Chairman and Executive Director of Cheung Kong Infrastructure Holdings Limited (an infrastructure company) and of CK Life Sciences Int'l, (Holdings) Inc. (a biotechnology company); Executive Director of Power Assets Holdings Limited (a holding company); and a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited. Mr. Li is also the Deputy Chairman of each of the Li Ka Shing Foundation, the Li Ka Shing (Overseas) Foundation and the Li Ka Shing Canada Foundation.</p> <p>Mr. Li is a member of the Standing Committee of the 11th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China and he is also a member of the Council for Sustainable Development of the Hong Kong Special Administrative Region and Vice Chairman of the Hong Kong General Chamber of Commerce and was previously a member of the Commission on Strategic Development of the Hong Kong Special Administrative Region. Mr. Li is also the Honorary Consul of Barbados in Hong Kong.</p> <p>Mr. Li holds a Bachelor of Science degree in Civil Engineering and a Masters of Science degree in Structural Engineering, both received from Stanford University in 1987. He obtained an honorary degree, Doctor of Laws, honoris causa (LL.D) from The University of Western Ontario in 2009.</p>
Fok, Canning K.N. Hong Kong	Co-Chair and Chair of the Compensation Committee Director of Husky since August 2000	Mr. Fok is Group Managing Director and Executive Director of Hutchison Whampoa Limited.

Mr. Fok is Chairman and a Director of Hutchison Harbour Ring Limited, Hutchison Telecommunications Hong Kong Holdings Limited, Hutchison Telecommunications (Australia) Limited, Power Assets Holdings Limited and Hutchison Port Holdings Management Pte. Limited as the trustee-manager of Hutchison Port Holdings Trust. Mr. Fok is the Deputy Chairman and a Director of Cheung Kong Infrastructure Holdings Limited, a Director of Cheung Kong (Holdings) Limited and an Alternate Director to a Director of Hutchison Telecommunications Hong Kong Holdings Limited. Mr. Fok was also Chairman and a Director of Partner Communications Company Ltd. from 1998 to 2009 and Chairman and non-executive Director of Hutchison Telecommunications International Limited from 2004 to 2010.

Mr. Fok obtained a Bachelor of Arts degree from St. John's University, Minnesota in 1974 and a Diploma in Financial Management from the University of New England, Australia in 1976. He has been a member of the Institute of Chartered Accountants in Australia since 1979.

Bradley, Stephen E.  
Hong Kong

Member of Corporate Governance  
Committee  
Director of Husky since July 2010

Mr. Bradley is a director of Broadlea Group Ltd., Senior Representative (China), Grosvenor Ltd., Vice Chairman, ICAP (Asia Pacific) and a director of Swire Properties Ltd. (Hong Kong).

Mr. Bradley entered the British Diplomatic Service in 1981 and served in various capacities including Director of Trade & Investment Promotions (Paris) from 1999 to 2002; Minister, Deputy Head of Mission & Consul-General (Beijing) from 2002 to 2003 and HM Consul-General (Hong Kong) from 2003 to 2008. Mr. Bradley retired from the Diplomatic Service in 2009.

Mr. Bradley obtained a Bachelor of Arts degree from Balliol College, Oxford University in 1980 and a post-graduate diploma from Fudan University, Shanghai in 1981.

Ghosh, Asim  
Alberta, Canada

President & Chief Executive Officer  
Director of Husky since May 2009

Mr. Ghosh was appointed the President and Chief Executive Officer of Husky on June 1, 2010. Prior thereto Mr. Ghosh was the Managing Director and Chief Executive Officer of Vodafone India Limited (formerly Vodafone Essar Limited) (a telecommunications company) until March 2009.

Mr. Ghosh began his career with Procter & Gamble in Canada in 1971 and subsequently worked with Rothmans International in what was then its Carling O'Keefe subsidiary from 1980 to 1988, his last position being Senior Vice President of the brewery operations. In 1989, Mr. Ghosh moved to India as the Chief Executive Officer of the Pepsi Foods (Frito Lay) start up in India. From 1991 to 1998 he held senior executive positions and then the position of Chief Executive Officer of the A S Watson Industries subsidiary (a manufacturer of consumer goods) of Hutchison Whampoa Limited. In August 1998, he became Managing Director and Chief Executive Officer of the company that would become Vodafone India Limited.

Mr. Ghosh was Chairman of the Cellular Operators Association of India and of the National Telecom Committee of the Confederation of Indian Industries. He is an independent director of Kotak Mahindra Bank Limited, a listed bank in India, and was on the Board of Directors of Vodafone India Limited until February 2010. Mr. Ghosh is also a director of the Li Ka Shing (Canada) Foundation and a member of the Board of Directors of the Canadian Council of Chief Executives.

Mr. Ghosh obtained an undergraduate degree in Electrical Engineering from the Indian Institute of Technology in 1969 and received a Master's degree in Business Administration from the Wharton School, University of Pennsylvania in 1971.

Glynn, Martin J.G.  
British Columbia,  
Canada

Chair of the Corporate Governance  
Committee and a Member of the  
Compensation Committee  
Director of Husky since August 2000

Mr. Glynn is a director of VinaCapital Vietnam Opportunity Fund Limited (an investment fund), Sun Life Financial Inc., Sun Life Assurance Company of Canada and UBC Investment Management Trust Inc.

Mr. Glynn was a director from 2000 to 2006 and President and Chief Executive Officer of HSBC Bank USA N.A. from 2003 until his retirement in 2006. Mr. Glynn was a director of HSBC Bank Canada from 1999 to 2006 and President and Chief Executive Officer from 1999 to 2003.

Mr. Glynn obtained a Bachelor of Arts, Honours degree from Carleton University, Canada in 1974 and a Master's degree in Business Administration from University of British Columbia in 1976.

Koh, Poh Chan Hong Kong	Director of Husky since August 2000	Ms. Koh is Finance Director of Harbour Plaza Hotel Management (International) Ltd. (a hotel management company).
		Ms. Koh is qualified as a Fellow Member (FCA) of the Institute of Chartered Accountants in England and Wales and is an Associate of the Canadian Institute of Chartered Accountants (CPA, CA) and the Chartered Institute of Taxation in the U.K. (CTA).
		Ms. Koh graduated from the London School of Accountancy in 1971 and become a member of the Institute of Chartered Accountants in England and Wales in 1973.
Kwok, Eva L. British Columbia, Canada	Member of the Compensation Committee and the Corporate Governance Committee Director of Husky since August 2000	Mrs. Kwok is Chairman, a director and Chief Executive Officer of Amara Holdings Inc. (a private investment holding company). Mrs. Kwok is also a director of CK Life Sciences Int'l., (Holdings) Inc. and Cheung Kong Infrastructure Holdings Limited. Mrs. Kwok is also a director of the Li Ka Shing (Canada) Foundation.
		Mrs. Kwok was a director of Shoppers Drug Mart Corporation from 2004 to 2006 and of the Bank of Montreal Group of Companies until March 2009.
		Mrs. Kwok obtained a Master's degree in Science from the University of London in 1967.
Kwok, Stanley T.L. British Columbia, Canada	Chair of the Health, Safety and Environment Committee Director of Husky since August 2000	Mr. Kwok is a director and President of Stanley Kwok Consultants (a planning and development company). Mr. Kwok is also a director and President of Amara Holdings Inc. and a director of Cheung Kong (Holdings) Limited and CTC Bank of Canada.
		Mr. Kwok obtained a Bachelor of Science degree (Architecture) from St. John's University, Shanghai in 1949 and an A.A. Diploma from the Architectural Association School of Architecture in London, England in 1954.
Ma, Frederick S. H. GBS, JP Hong Kong	Member of the Audit Committee and the Health, Safety and Environment Committee Director of Husky since July 2010	Mr. Ma has held senior management positions in international financial institutions and Hong Kong publicly listed companies in his career. He was also a former Principal Official with the Hong Kong Special Administrative Region (SAR) Government.



He is a non-executive director of China Resources Land Limited, a Hong Kong listed company; a non-executive director and Chairman of the Audit Committee of Agricultural Bank of China, which is listed in Hong Kong and Shanghai; a non-executive director of COFCO Corporation and a non-executive director of Hutchison Port Holdings Management Pte. Limited, as the trustee-manager of Hutchison Port Holdings Trust.

In July 2002, Mr. Ma joined the Government of the Hong Kong SAR as the Secretary for Financial Services and the Treasury. He assumed the post of Secretary for Commerce and Economic Development in July 2007 but resigned from the Government in July 2008 due to medical reasons. In October 2008, he was appointed an Honorary Professor of the School of Economics and Finance at the University of Hong Kong. In July 2009, he was appointed as a Member of the International Advisory Council of China Investment Corporation.

Mr. Ma obtained a Bachelor of Arts (Honours) degree in Economics and History from the University of Hong Kong in 1973.

Magnus, George C.  
Hong Kong

Member of the Audit Committee  
Director of Husky since July 2010

Mr. Magnus has been a non-executive Director of Cheung Kong (Holdings) Limited since November 2005. He has also been a non-executive Director of Hutchison Whampoa Limited, Cheung Kong Infrastructure Holdings Limited and Power Assets Holdings Limited (formerly Hongkong Electric Holdings Limited) since 2005.

Mr. Magnus acted as an Executive Director of Cheung Kong (Holdings) Limited from 1980 and as Deputy Chairman from 1985 until his retirement from these positions in October 2005. He served as Deputy Chairman of Hutchison Whampoa Limited from 1985 to 1993 and as Executive Director from 1993 to 2005. He also served as Chairman of Hongkong Electric Holdings Limited (now known as Power Assets Holdings Limited) from 1993 to 2005.

Mr. Magnus obtained a Master's degree in Economics from King's College, Cambridge University in 1959.

McGee, Neil D. Luxembourg	Member of the Health, Safety and Environment Committee Director of Husky since November 2012	Mr. McGee is the Managing Director of Hutchison Whampoa Luxembourg Holdings S.à r.l. Prior to his joining Hutchison Whampoa Luxembourg, he served as Group Finance Director of Power Assets Holdings Limited from 2006 to 2012, Chief Financial Officer of Husky Oil Limited from 1998 to 2000 and Husky Energy Inc. from 2000 to 2005.  Prior to joining Husky, Mr. McGee held various financial, legal and corporate secretarial positions within the Hutchison Whampoa Group. Mr. McGee holds a Bachelor of Arts degree and a Bachelor of Laws degree from the Australian National University.
Russel, Colin S. Gloucestershire, United Kingdom	Member of the Audit Committee and the Health, Safety and Environment Committee Director of Husky since February 2008	Mr. Russel is the founder and Managing Director of Emerging Markets Advisory Services Ltd. (a business advisory company).  Mr. Russel is a director of Cheung Kong Infrastructure Holdings Limited, CK Life Sciences Int'l., (Holdings) Inc. and ARA Asset Management Pte. Ltd. Mr. Russel was the Canadian Ambassador to Venezuela, Consul General for Canada in Hong Kong, Director for China of the Department of Foreign Affairs, Ottawa, Director for East Asian Trade in Ottawa, Senior Trade Commissioner for Canada in Hong Kong, Director for Japan Trade in Ottawa and was in the Trade Commissioner Service for Canada in Spain, Hong Kong, Morocco, the Philippines, London and India.  Mr. Russel is a Professional Engineer and Qualified Commercial Mediator. He received his degree in Electrical Engineering in 1962 and a Master's degree in Business Administration in 1971 both from McGill University, Canada.
Shaw, Wayne E. Ontario, Canada	Member of the Corporate Governance Committee and the Health, Safety and Environment Committee Director of Husky since August 2000	Mr. Shaw is a Senior Partner with Stikeman Elliott LLP, Barristers and Solicitors. Mr. Shaw is also a director of the Li Ka Shing (Canada) Foundation.  Mr. Shaw obtained a Bachelor of Arts degree and a Bachelor of Laws degree both from University of Alberta (1967). He is a member of the Law Society of Ontario.
Shurniak, William Saskatchewan, Canada	Deputy Chair and Chair of the Audit Committee Director of Husky since August 2000	Mr. Shurniak is an independent non-executive director of Hutchison Whampoa Limited and from May 2005 to June 2011 he was a director and Chairman of Northern Gas Networks Limited (a private distributor of natural gas in Northern England).

Mr. Shurniak also held the following positions until his return to Canada in 2005: Director and Chairman of ETSA Utilities (a utility company) since 2000, Powercor Australia Limited (a utility company) since 2000, CitiPower Pty Ltd. (a utility company) since 2002, and a director of Envestra Limited (a natural gas distributor) since 2000, CrossCity Motorways Pty Ltd. (an infrastructure and transportation company) since 2002 and Lane Cove Tunnel Company Pty Ltd. (an infrastructure and transportation company) since 2004.

Mr. Shurniak obtained an Honorary Doctor of Laws degree from the University of Saskatchewan in May 1998 and from The University of Western Ontario in October 2000. In 2009 he was awarded the Saskatchewan Order of Merit by the government of the Province of Saskatchewan. In December 2012 Mr. Shurniak was a recipient of The Queen Elizabeth II Diamond Jubilee Medal from the Lieutenant Governor of Saskatchewan.

Sixt, Frank J.  
Hong Kong

Member of the Compensation  
Committee  
Director of Husky since August 2000

Mr. Sixt is Group Finance Director and Executive Director of Hutchison Whampoa Limited.

Mr. Sixt is also Chairman and a non-executive Director of TOM Group Limited (an investment holding company); an Executive Director of Cheung Kong Infrastructure Holdings Limited and Power Assets Holdings Limited; a non-executive Director of Cheung Kong (Holdings) Limited, Hutchison Telecommunications Hong Kong Holdings Limited and Hutchison Port Holdings Management Pte. Limited as the trustee-manager of Hutchison Port Holdings Trust and a Director of Hutchison Telecommunications (Australia) Limited. Mr. Sixt is also a Director of the Li Ka Shing (Canada) Foundation. He was previously a Director of Partner Communications Ltd. from 1998 to 2009 and a non-executive Director of Hutchison Telecommunications International Limited from 2004 to 2011.

Mr. Sixt obtained a Master's degree in Arts from McGill University, Canada in 1978 and a Bachelor's degree in Civil Law from Université de Montréal in 1978. He is a member of the Bar and of the Law Society of the Provinces of Quebec and Ontario, Canada.

## Officers

<b>Name and Residence</b>	<b>Office or Position</b>	<b>Principal Occupation During Past 5 Years</b>
Cowan, Alister Alberta, Canada	Chief Financial Officer	Chief Financial Officer of Husky since July 2008. He was previously Executive Vice President and Chief Financial Officer, British Columbia Hydro & Power Authority from 2004 to 2008, Vice President, Direct Energy Marketing Limited from 2003 to 2004 and Vice President and Comptroller, TransAlta Corporation from 2000 to 2003.
Peabody, Robert J. Alberta, Canada	Chief Operating Officer	Chief Operating Officer of Husky since January 2006.
Girgulis, James D. Alberta, Canada	Senior Vice President, General Counsel and Secretary	Vice President, Legal and Corporate Secretary of Husky since August 2000. Senior Vice President, General Counsel and Secretary since April 2012.

As at February 27, 2013, the directors and officers of Husky, as a group, beneficially owned or controlled or directed, directly or indirectly, 661,875 common shares of Husky representing less than 1% of the issued and outstanding common shares.

## Conflicts of Interest

The officers and directors of Husky may also become officers and/or directors of other companies engaged in the oil and gas business generally and which may own interests in oil and gas properties in which Husky holds or may in the future, hold an interest. As a result, situations may arise where the interests of such directors and officers conflict with their interests as directors and officers of other companies. In the case of the directors, the resolution of such conflicts is governed by applicable corporate laws which require that directors act honestly, in good faith and with a view to the best interests of Husky and, in respect of the *Business Corporations Act* (Alberta), Husky's governing statute, that directors declare, and refrain from voting on, any matter in which a director may have a conflict of interest.

## Corporate Cease Trade Orders or Bankruptcies

None of those persons who are directors or executive officers of Husky is or have been within the past ten years, a director, chief executive officer or chief financial officer of any company, including Husky and any personal holding companies of such person, that, while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation, for a period of more than 30 consecutive days, or after such persons ceased to be a director, chief executive officer or chief financial officer of the company was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation, for a period of more than 30 consecutive days, which resulted from an event that occurred while such person was acting in such capacity.

In addition, none of those persons who are directors or executive officers of Husky is, or has been within the past ten years, a director or executive officer of any company, including Husky and any personal holding companies of such persons, that while such person was acting in that capacity, or within a year of that person ceasing to act in that capacity became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, other than as follows. Eva L. Kwok was a director of Air Canada in 2003 at the time it became subject to creditor protection under the Companies Creditors Arrangement Act (Canada). Victor T. K. Li was a director of Star River Investment Limited, a Hong Kong company, until June 4, 2005, which commenced creditors voluntary wind up on September 28, 2004. Star River Investments Limited was owned as to 50% by Cheung Kong (Holdings) Limited and a wholly owned subsidiary of Cheung Kong (Holdings) Limited was the petitioning creditor. The company was subsequently dissolved on June 4, 2005. Mr. Glynn was director of MF

Global Holdings Ltd. when it filed for Chapter 11 bankruptcy in the United States on October 31, 2011. Mr. Glynn is no longer a director of MF Global Holdings Ltd.

## **Individual Penalties, Sanctions or Bankruptcies**

None of the persons who are directors or executive officers of Husky (or any personal holding companies of such persons) have, within the past ten years become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or were subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold his or her assets.

None of the persons who are directors or executive officers of the Company (or any personal holding companies of such persons) have been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or have entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

## **AUDIT COMMITTEE**

The members of Husky's Audit Committee (the "Committee") are William Shurniak (Chair), Colin S. Russel, Frederick S.H. Ma and George C. Magnus. Each of the members of the Committee are independent in that each member does not have a direct or indirect material relationship with the Company. Multilateral Instrument 52-110 — "Audit Committees" provides that a material relationship is a relationship which could, in the view of the Company's Board of Directors, reasonably interfere with the exercise of a member's independent judgment.

The Committee's Mandate provides that the Committee is to be comprised of at least three (3) members of the Board, all of whom shall be independent and meet the financial literacy requirements of applicable laws and regulations. Each member of the Committee is financially literate in that each has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

The education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as an Audit Committee member is as follows.

William Shurniak (Chair) — Mr. Shurniak is an independent, non-executive director and member of the audit committee of Hutchison Whampoa Limited and from May 2005 to June 2011, a director and Chairman of Northern Gas Networks Limited, a private company in the U.K.. He has broad banking experience and prior to his moving back to Canada in 2005, he spent five years in Australia where he was a director of a public company engaged in the distribution of natural gas. He was also a director and member of the audit committees of five other private companies, three of which are regulated electricity distribution companies.

Colin S. Russel — Mr. Russel is the founder and Managing Director of Emerging Markets Advisory Services Ltd. Mr. Russel is a director and an audit committee member of Cheung Kong Infrastructure Holdings Limited, CK Life Sciences Int'l., (Holdings) Inc. and ARA Asset Management Pte. Ltd.

Frederick S.H. Ma — Mr. Ma has served in senior positions in the private sector and has held Principal Official positions (minister equivalent) with the Hong Kong SAR Government. Mr. Ma is currently a member of the International Advisory Council of China Investment Corporation, China's Sovereign Fund as well as an Honorary Professor of the University of Hong Kong.

George C. Magnus — Mr. Magnus has been a non-executive Director of Cheung Kong (Holdings) Limited since November 2005. He is also a non-executive Director of Hutchison Whampoa Limited, Cheung Kong Infrastructure Holdings Limited and Power Assets Holdings Limited (formerly Hongkong Electric Holdings Limited).

Husky's Audit Committee Mandate is attached hereto as Schedule "A."

## External Auditor Service Fees

The following table provides information about the fees billed to the Company for professional services rendered by KPMG LLP, the Company's external auditor, during the fiscal years indicated:

<i>(\$ thousands)</i>	<b>2012</b>	<b>2011</b>
Audit Fees	3,822	2,113
Audit-related Fees	152	977
Tax Fees	230	160
All Other Fees	-	-
	<b>4,204</b>	<b>3,250</b>

Audit fees consist of fees for the audit of the Company's annual financial statements or services that are normally provided in connection with statutory and regulatory filings, including the Sarbanes-Oxley Act of 2002. Audit-related fees included fees for attest services not required by statute or regulation and services with respect to acquisitions and dispositions. Tax fees included fees for tax planning and various taxation matters.

The Company's Audit Committee has the sole authority to review in advance, and grant any appropriate pre-approvals, of all non-audit services to be provided by the independent auditors and to approve fees, in connection therewith. The Audit Committee pre-approved all of the audit-related and tax services provided by KPMG LLP in 2012.

## LEGAL PROCEEDINGS

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 or other matters or 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.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

None of the Company's directors, executive officers or persons or companies that beneficially own or control or direct, directly or indirectly or a combination of both, more than 10% of Husky's common shares, or their associates and affiliates, had any material interest, direct or indirect, in any transaction with the Company within the three most recently completed financial years or during the current financial year that has materially affected or would reasonably be expected to materially affect the Company.

## TRANSFER AGENTS AND REGISTRARS

Husky's transfer agent and registrar is Computershare Trust Company of Canada. In the United States, the transfer agent and registrar is Computershare Trust Company, Inc. The registers for transfers of the Company's common and preferred shares are maintained by Computershare Trust Company of Canada at its principal offices in the cities of Calgary, Alberta and Toronto, Ontario. Queries should be directed to Computershare Trust Company at 1-888-564-6253 or 1-514-982-7555.

## **INTERESTS OF EXPERTS**

Certain information relating to the Company's reserves included in this AIF has been calculated by the Company and audited and opined upon as of December 31, 2012 by McDaniel & Associates Consultants Ltd. ("McDaniel"), independent petroleum engineering consultants retained by Husky, and has been so included in reliance on the opinion and analysis of McDaniel, given upon the authority of said firm as experts in reserves engineering. The partners of McDaniel as a group beneficially own, directly or indirectly, less than 1% of the Company's securities of any class.

KPMG LLP are the auditors of the Company and have confirmed that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta and within the meaning of the U.S. Securities Act of 1933 and the applicable rules and regulations thereunder adopted by the SEC and the Public Company Accounting Oversight Board (United States).

## **ADDITIONAL INFORMATION**

Additional information, including directors' and officers' remuneration, principal shareholders of Husky's common shares and a description of options to purchase common shares will be contained in Husky's Management Information Circular prepared in connection with the annual meeting of shareholders to be held on May 7, 2013.

Additional financial information is provided in Husky's audited consolidated financial statements and Management's Discussion and Analysis for the most recently completed fiscal year ended December 31, 2012.

Additional information relating to Husky Energy Inc. is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on EDGAR at [www.sec.gov](http://www.sec.gov).

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this AIF are forward looking statements within the meaning of Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended, and forward-looking information within the meaning of applicable Canadian securities legislation (collectively "forward-looking statements"). The Company hereby provides cautionary statements identifying important factors that could cause actual results to differ materially from those projected in these forward-looking statements. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely," "are expected to," "will continue," "is anticipated," "is targeting," "estimated," "intend," "plan," "projection," "could," "aim," "vision," "goals," "objective," "target," "schedules" and "outlook") are not historical facts, are forward-looking and may involve estimates and assumptions and are subject to risks, uncertainties and other factors some of which are beyond the Company's control and difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

In particular, forward-looking statements in this AIF include, but are not limited to, references to:

- with respect to the business, operations and results of the Company generally: the Company's general strategic plans and growth strategies;
- with respect to the Company's Asia Pacific Region: anticipated timing of first gas production and ramping up of production at the Company's Liwan 3-1 Gas Project; scheduled timing of topside platform completions and floatover for the Liwan Gas Project; anticipated timing of first gas at the Madura Strait Block; and development plans for the single well Liuhua 34-2 field;
- with respect to the Company's Atlantic Region: scheduled timing of completion of construction of the new build rig West Mira; drilling plans, including anticipated timing of drilling, at the North Amethyst field; development plans at the West White Rose field, including expected timing of a decision on a preferred development option; anticipated timing of development drilling at the South White Rose extension field; 2013 drilling plans at the Terra Nova field; exploration and drilling plans at the Mizzen field; and anticipated timing of socio-economic study work in respect of the Company's Greenland concessions;
- with respect to the Company's Oil Sands properties: planned timing of first production at the Company's Sunrise Oil Sands project; expected timing of completion of the Design Basis Memorandum for the next phase of the Company's Sunrise Oil Sands project; expected timing of production from the Company's Tucker Oil Sands project; additional drilling and field development plans at the Company's Tucker Oil Sands project through 2015; and planned timing of a pilot application for the Company's Saleski oil sands project;
- with respect to the Company's Heavy Oil properties: anticipated timing of first production at the Company's Sandall thermal development project; anticipated timing of first production at the Company's Rush Lake thermal development project; and ability of the Company's undeveloped land position and the development and application of improved recovery technologies to maintain heavy crude oil production in the Lloydminster area;
- with respect to the Company's Western Canadian oil and gas resource plays: 2013 drilling and development plans at the Company's Redwater Red Deer and Alliance plays; and 2013 well workover plans at the Company's Macklin Saskatchewan ASP flood project; and
- with respect to the Company's Downstream operating segment: anticipated timing and duration of scheduled turnarounds at the Lima Refinery; anticipated timing of operations of the kerosene hydrotreater at the Lima Refinery; expansion plans for bitumen processing capacity at the BP-Husky Toledo Refinery; expected timing of startup of the Continuous Catalyst Regeneration Reformer project at the BP-Husky Toledo Refinery.

In addition, statements relating to "reserves" and "resources" are deemed to be forward-looking statements as they involve the implied assessment based on certain estimates and assumptions that the reserves or resources described can be profitably produced in the future.

Although the Company believes that the expectations reflected by the forward-looking statements presented in this AIF are reasonable, the Company's forward-looking statements have been based on assumptions and factors



concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to the Company about itself and the businesses in which it operates. Information used in developing forward-looking statements has been acquired from various sources including third party consultants, suppliers, regulators and other sources. The material factors and assumptions used to develop the forward-looking statements include, but are not limited to:

- with respect to the business, operations and results of the Company generally: the absence of significant adverse changes to commodity prices, interest rates, applicable royalty rates and tax laws, and foreign exchange rates; the absence of significant adverse changes to energy markets, competitive conditions, the supply and demand for crude oil, natural gas, NGL and refined petroleum products, or the political, economic and social stability of the jurisdictions in which the Company operates; continuing availability of economical capital resources, labour and services; demand for products and cost of operations; the absence of significant adverse legislative and regulatory changes, in particular changes to the legislation and regulation governing fiscal regimes and environmental issues; and stability of general domestic and global economic, market and business conditions;
- with respect to the Company's Asia Pacific Region, Atlantic Region, Oil Sands properties, Heavy Oil properties and Western Canadian oil and gas resource plays: the accuracy of future production rates and reserve and resource estimates; the securing of sales agreements to underpin the commercial development and regulatory approvals for the development of the Company's properties; the absence of significant delays of the procurement, development, construction or commissioning of our projects, for which the Company or a third party is the designated operator, that may result from the inability of suppliers to meet their commitments, lack of regulatory or third-party approvals or other governmental actions, harsh weather or other calamitous event; the absence of significant disruption of operations such as may result from harsh weather, natural disaster, accident, civil unrest or other calamitous event; the absence of significant unexpected technological or commercial difficulties that adversely affect exploration, development, production, processing or transportation; the sufficiency of budgeted capital expenditures in carrying out planned activities; and the absence of significant increase in the cost of major growth projects; and
- with respect to the Company's Downstream operating segment: the absence of significant delays of the development, construction or commissioning of our projects that may result from the inability of suppliers to meet their commitments, lack of regulatory or third-party approvals or other governmental actions, harsh weather or other calamitous event; the absence of significant disruption of operations such as may result from harsh weather, natural disaster, accident, civil unrest or other calamitous event; the absence of significant unexpected technological or commercial difficulties that adversely affect processing or transportation; the sufficiency of budgeted capital expenditures in carrying out planned activities; and the absence of significant increase in the cost of major growth projects.

Because actual results or outcomes could differ materially from those expressed in any forward-looking statements, investors should not place undue reliance on any such forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes will not occur. Some of these risks, uncertainties and other factors are similar to those faced by other oil and gas companies and some are unique to Husky. The risks, uncertainties and other factors, many of which are beyond Husky's control, that could cause actual results to differ (potentially significantly) from those expressed in the forward-looking statements include, but are not limited to:

- with respect to the business, operations and results of the Company generally: those risks, uncertainties and other factors described under "Risk Factors" in this AIF and throughout our Management's Discussion and Analysis for the year ended December 31, 2012; the demand for the Company's products and prices received for crude oil and natural gas production and refined petroleum products; the economic conditions of the markets in which the Company conducts business; the exchange rate between the Canadian and U.S. dollar; the ability to replace reserves of oil and gas, whether sourced from exploration, improved recovery or acquisitions; potential actions of governments, regulatory authorities and other stakeholders that may impose operating costs or restrictions in the jurisdictions where the Company has operations; changes to royalty regimes; changes to government fiscal, monetary and other financial policies; changes in workforce demographics; and the cost and availability of capital, including access to capital markets at acceptable rates;
- with respect to the Company's Asia Pacific Region, Atlantic Region, Oil Sands properties, Heavy Oil properties and Western Canadian oil and gas resource plays: the availability of prospective drilling rights; the costs to

acquire exploration rights, undertake geological studies, appraisal drilling and project development; the availability and cost of labour, technical expertise, material and equipment to efficiently, effectively and safely undertake capital projects; the costs to operate properties, plants and equipment in an efficient, reliable and safe manner; prevailing climatic conditions in the Company's operating locations; regulations to deal with climate change issues; the competitive actions of other companies, including increased competition from other oil and gas companies; business interruptions because of unexpected events such as fires, blowouts, freeze-ups, equipment failures and other similar events affecting the Company or other parties whose operations or assets directly or indirectly affect the Company and that may or may not be financially recoverable; the co-operation of business partners especially where the Company is not operator of production projects or developments in which it has an interest; the inability to obtain regulatory approvals to operate existing properties or develop significant growth projects; risk associated with transportation of production or product to market or transportation of feedstock to processing facilities resulting from an interruption in pipeline and other transportation services both owned and contracted due to calamitous event or regulatory obligation; and the inability to reach estimated production levels from existing and future oil and gas development projects as a result of technological or commercial difficulties; and

- with respect to the Company's Downstream operating segment: the costs to operate properties, plants and equipment in an efficient, reliable and safe manner; prevailing climatic conditions in the Company's operating locations; regulations to deal with climate change issues; the competitive actions of other companies, including increased competition from other oil and gas companies; business interruptions because of unexpected events such as fires, blowouts, freeze-ups, equipment failures and other similar events affecting Husky or other parties whose operations or assets directly or indirectly affect the Company and that may or may not be financially recoverable; risk associated with transportation of production or product to market or transportation of feedstock to processing facilities resulting from an interruption in pipeline and other transportation services both owned and contracted due to calamitous event or regulatory obligation; and the inability to obtain regulatory approvals to operate existing properties or develop significant growth projects.

These and other factors are discussed throughout this AIF and in the Management's Discussion and Analysis for the year ended December 31, 2012 available on SEDAR at [www.sedar.com](http://www.sedar.com) and on EDGAR at [www.sec.gov](http://www.sec.gov).

In the discussions above, the Company has categorized the material factors and assumptions used to develop the forward-looking statements, and the risks, uncertainties and other factors that could influence actual results, by region, properties, plays and segments. These categories reflect the Company's current views regarding the factors, assumptions, risks and uncertainties most relevant to the particular region, property, play or segment. Other factors, assumptions, risks or uncertainties could impact a particular region, property, play or segment, and a factor, assumption, risk or uncertainty categorized under a particular region, property, play or segment could also influence results with respect to another region, property, play or segment.

Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable securities laws, the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of such factors and to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. The impact of any one factor on a particular forward-looking statement is not determinable with certainty as such factors are dependent upon other factors, and the Company's course of action would depend upon its assessment of the future considering all information then available.

## Husky Energy Inc.

### Audit Committee Mandate

#### Purpose

The Audit Committee (the "Committee") is a committee of the Board of Directors (the "Board") of Husky Energy Inc. (the "Corporation"). The Committee's primary function is to assist the Board in carrying out its responsibilities with respect to:

1. the quarterly and annual financial statements and quarterly and annual MD&A, which are to be provided to shareholders and the appropriate regulatory agencies;
2. earnings press releases before the Corporation publicly discloses this information;
3. the system of internal controls that management has established;
4. the internal and external audit process;
5. the appointment of external auditors;
6. the appointment of qualified reserves evaluators or auditors;
7. the filing of statements and reports with respect to the Corporation's oil and gas reserves; and
8. the identification, management and mitigation of major financial risk exposures of the Corporation.

In addition, the Committee provides an avenue for communication between the Board and each of the Chief Financial Officer of the Corporation and other senior financial management, internal audit, the external auditors, external qualified reserves evaluators or auditors and internal qualified reserves evaluators. It is expected that the Committee will have a clear understanding with the external auditors and the external reserve evaluators or auditors that an open and transparent relationship must be maintained with the Committee.

While the Committee has the responsibilities and powers set forth in this Mandate, the role of the Committee is oversight. The members of the Committee are not full time employees of the Corporation and may or may not be accountants or auditors by profession or experts in the fields of accounting, or auditing and, in any event, do not serve in such capacity. Consequently, it is not the duty of the Committee to plan or conduct financial audits or reserve audits or evaluations, or to determine that the Corporation's financial statements are complete, accurate and are in accordance with applicable accounting or reserve principles.

This is the responsibility of management and the external auditors and, as to reserves, the external reserve evaluators or auditors. Management and the external auditors will also have the responsibility to conduct investigations and to assure compliance with laws and regulations and the Corporation's business conduct guidelines.

#### Composition

The Committee will consist of not less than three directors, all of whom will be independent and will satisfy the financial literacy requirements of securities regulatory requirements.

One of the members of the Committee will be an audit committee financial expert as defined in applicable securities regulatory requirements.

Members of the Committee will be appointed annually at a meeting of the Board, on the recommendation of the Corporate Governance Committee to the Co-Chairs of the Board and will be listed in the annual report to shareholders.

Committee members may be removed or replaced at any time by the Board, and will, in any event, cease to be a member of the Committee upon ceasing to be a member of the Board. Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board.

The Committee Chair will be appointed by the Board, on the recommendation of the Corporate Governance Committee to the Co-Chairs of the Board.

## **Meetings**

The Committee will meet at least four times annually on dates determined by the Chair or at the call of the Chair or any other Committee member, and as many additional times as the Committee deems necessary.

Committee members will strive to be present at all meetings either in person, by telephone or other communications facilities as permit all persons participating in the meeting to hear each other.

A majority of Committee members, present in person, by telephone, or by other permissible communication facilities will constitute a quorum.

The Committee will appoint a secretary, who need not be a member of the Committee, or a director of the Corporation. The secretary will keep minutes of the meetings of the Committee. Minutes will be sent to all Committee members, on a timely basis.

As necessary or desirable, but in any case at least quarterly, the Committee shall meet with members of management and representatives of the external auditors and internal audit in separate executive sessions to discuss any matters that the Committee or any of these groups believes should be discussed privately.

As necessary or desirable, but in any case at least annually, the Committee will meet the management and representatives of the external reserves evaluators or auditors and internal reserves evaluators in separate executive sessions to discuss matters that the Committee or any of these groups believes should be discussed privately.

## **Authority**

Subject to any prior specific directive by the Board, the Committee is granted the authority to investigate any matter or activity involving financial accounting and financial reporting, the internal controls of the Corporation and the reporting of the Corporation's reserves and oil and gas activities.

The Committee has the authority to engage and set the compensation of independent counsel and other advisors, at the Corporation's expense, as it determines necessary to carry out its duties.

In recognition of the fact that the external auditors are ultimately accountable to the Committee, the Committee will have the authority and responsibility to recommend to the Board the external auditors that will be proposed for nomination at the annual general meeting. The external auditors will report directly to the Committee, and the Committee will evaluate and, where appropriate, replace the external auditors. The Committee will approve the fees and terms for all audit engagements and all non-audit engagements with the external auditors. The Committee will consult with management and the internal audit group regarding the engagement of the external auditors but will not delegate these responsibilities.

The external qualified reserves evaluators or auditors will report directly to the Committee, and the Committee will evaluate and, where appropriate, replace the external qualified reserves evaluators or auditors. The Committee will approve the fees and terms for all reserves evaluators or audit engagements. The Committee will consult with management and the internal qualified reserves evaluators group regarding the engagement of the external qualified reserves evaluators or auditors but will not delegate these responsibilities.

## **Specific Duties & Responsibilities**

The Committee will have the oversight responsibilities and specific duties as described below.

### ***Audit***

1. Review and reassess the adequacy of this Mandate annually and recommend any proposed changes to the Corporate Governance Committee and the Board for approval.
2. Review with the Corporation's management, internal audit and the external auditors and recommend to the Board for approval the Corporation's annual financial statements and annual MD&A which is to be provided to shareholders and the appropriate regulatory agencies and any financial statement contained in a prospectus, information circular, registration statement or other similar document.

3. Review with the Corporation's management, internal audit and the external auditors and approve the Corporation's quarterly financial statements and quarterly MD&A which is to be provided to shareholders and the appropriate regulatory agencies.
4. Review with the Corporation's management and approve earnings press releases before the Corporation publicly discloses this information.
5. Be responsible for the oversight of the work of the external auditors, including the resolution of disagreements between management of the Corporation and the external auditors regarding financial reporting.
6. Review with the Corporation's management, internal audit and the external auditors the Corporation's accounting and financial reporting controls and obtain annually, in writing from the external auditors their observations, if any, on material weaknesses in internal controls over financial reporting as noted during the course of their work.
7. Review with the Corporation's management, internal audit and the external auditors significant accounting and reporting principles, practices and procedures applied by the Corporation in preparing its financial statements, and discuss with the external auditors their judgments about the quality (not just the acceptability) of the Corporation's accounting principles used in financial reporting.
8. Review the scope of internal audit's work plan for the year and receive a summary report of major findings by internal audit and how management is addressing the conditions reported.
9. Review the scope and general extent of the external auditors' annual audit, such review to include an explanation from the external auditors of the factors considered in determining the audit scope, including the major risk factors, and the external auditors confirmation whether or not any limitations have been placed on the scope or nature of their audit procedures.
10. Inquire as to the independence of the external auditors and obtain from the external auditors, at least annually, a formal written statement delineating all relationships between the external auditors and the Corporation as contemplated by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees.
11. Arrange with the external auditors that (a) they will advise the Committee, through its Chair and management of the Corporation, of any matters identified through procedures followed for the review of interim quarterly financial statements of the Corporation, such notification is to be made prior to the related press release and (b), for written confirmation at the end of each of the first three quarters of the year, that they have nothing to report to the Committee, if that is the case, or the written enumeration of required reporting issues.
12. Review at the completion of the annual audit, with senior management, internal audit and the external auditors the following:
  - i. the annual financial statements and related footnotes and financial information to be included in the Corporation's annual report to shareholders;
  - ii. results of the audit of the financial statements and the related report thereon and, if applicable, a report on changes during the year in accounting principles and their application;
  - iii. significant changes to the audit plan, if any, and any serious disputes or difficulties with management encountered during the audit;
  - iv. inquire about the cooperation received by the external auditors during their audit, including access to all requested records, data and information; and
  - v. inquire of the external auditors whether there have been any material disagreements with management, which, if not satisfactorily resolved, would have caused them to issue a non-standard report on the Corporation's financial statements.
13. Discuss (a) with the external auditors, without management being present, (i) the quality of the Corporation's financial and accounting personnel, and (ii) the completeness and accuracy of the Corporation's financial statements, and (b) elicit the comments of senior management regarding the responsiveness of the external auditors to the Corporation's needs.
14. Meet with management to discuss any relevant significant recommendations that the external auditors may have, particularly those characterized as 'material' or 'serious' (typically, such recommendations will be presented by the external auditors in the form of a Letter of Comments and Recommendations to the Committee) and review the responses of management to the Letter of Comments and Recommendations and receive follow-up reports on action taken concerning the aforementioned recommendations.
15. Review and approve disclosures required to be included in periodic reports filed with Canadian and U.S. securities regulators with respect to non-audit services performed by the external auditors.
16. Establish adequate procedures for the review of the Corporation's disclosure of financial information extracted or derived from the Corporation's financial statements, and periodically assess the adequacy of those procedures.

17. Establish procedures for (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, and (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
18. Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors.
19. Review the appointment and replacement of the senior internal audit executive.
20. Review with management, internal audit and the external auditors the methods used to establish and monitor the Corporation's policies with respect to unethical or illegal activities by the Corporation's employees that may have a material impact on the financial statements or other reporting of the Corporation.
21. Reviewing generally, as part of the review of the annual financial statements, a report, from the Corporation's general counsel concerning legal, regulatory and compliance matters that may have a material impact on the financial statements or other reporting of the Corporation.
22. Review and discuss with management, on a regular basis, the identification, management and mitigation of major financial risk exposures across the Corporation.

### ***Reserves***

23. Review, with reasonable frequency, the Corporation's procedures relating to the disclosure of information with respect to the Corporation's oil and gas reserves, including the Corporation's procedures for complying with the disclosure requirements and restrictions of applicable regulatory requirements.
24. Review with management the appointment of the external qualified reserves evaluators or auditors, and in the case of any proposed change in such appointment, determine the reasons for the change and whether there have been disputes between management and the appointed external qualified reserves evaluators or auditors.
25. Review, with reasonable frequency, the Corporation's procedures for providing information to the external qualified reserves evaluators or auditors who report on reserves and data for the purposes of compliance with applicable securities regulatory requirements.
26. Meet, before the approval and release of the Corporation's reserves data and the report of the qualified reserve evaluators or auditors thereon, with senior management, the external qualified reserves evaluators or auditors and the internal qualified reserves evaluators to determine whether any restrictions affect their ability to report on reserves data without reservation and to review the reserves data and the report of the qualified reserves evaluators or auditors.
27. Recommend to the Board for approval of the content and filing of required statements and reports relating to the Corporation's disclosure of reserves data as prescribed by applicable regulatory requirements.

### ***Miscellaneous***

28. Review and approve (a) any change or waiver in the Corporation's Code of Business Conduct for the President and Chief Executive Officer and senior financial officers and (b) any public disclosure made regarding such change or waiver and, if satisfied, refer the matter to the Board for approval.
29. Act in an advisory capacity to the Board.
30. Carry out such other responsibilities as the Board may, from time to time, set forth.
31. Advise and report to the Co-Chairs of the Board and the Board, relative to the duties and responsibilities set out above, from time to time, and in such details as is reasonably appropriate.

Effective Date: November 20, 2010

## Husky Energy Inc.

### Report on Reserves Data by Qualified Reserves Evaluator

To the Board of Directors of Husky Energy Inc. (“Husky”):

1. Our staff has evaluated Husky’s reserves data as at December 31, 2012. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2012, estimated using forecast prices and costs.
2. The reserves data are the responsibility of Husky’s management. As the Internal Qualified Reserves Evaluator our responsibility is to certify that the reserves data has been properly calculated in accordance with generally accepted procedures for the estimation of reserves data.

We carried out our evaluation in accordance with generally accepted procedures for the estimation of oil and gas reserves data and standards set out in the Canadian Oil and Gas Evaluation Handbook (the “COGE Handbook”) prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society). Our internal reserves evaluators are not independent of Husky, within the meaning of the term “independent” under those standards.

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with the principles and definitions presented in the COGE Handbook.
4. The following table sets forth the evaluated estimated future net revenue (before deducting income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of Husky evaluated for the year ended December 31, 2012 and reported to the Audit Committee of the Board of Directors:

Location of Reserves (Country or Foreign Geographic Area)	Proved Plus Probable Net Present Value of Future Net Revenue (Before Income Taxes, 10% Discount Rate) (\$ millions)
Canada	\$ 22,956
China	\$ 4,127
Indonesia	\$ 265
Libya	\$ 8
	\$ 27,356

5. In our opinion, the reserves data evaluated by us have, in all material respects, been determined in accordance with the principles and definitions presented in the COGE Handbook.
6. We have no responsibility to update our evaluation for events and circumstances occurring after the date of this report.
7. Because, the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

/s/ Frederick Au-Yeung  
 Frederick Au-Yeung, P. Eng  
 Manager, Reserves

Calgary, Alberta  
 January 28, 2013

## Husky Energy Inc.

### Report of Management and Directors on Oil and Gas Disclosure

Management of Husky Energy Inc. (“Husky”) are responsible for the preparation and disclosure of information with respect to Husky’s oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2012, estimated using forecast prices and costs.

Husky’s oil and gas reserves evaluation process involves applying generally accepted procedures for the estimation of oil and gas reserves data for the purposes of complying with the legal requirements of NI 51-101. Husky’s internal qualified reserves evaluator is the Manager of Reservoir Engineering, who is an employee of Husky and has evaluated Husky’s oil and gas reserves data and certified that Husky’s reserves data process has been followed. The Report on Reserves Data by Husky’s internal qualified reserves evaluator accompanies this report and will be filed with securities regulatory authorities concurrently with this report.

The Audit Committee of the Board of Directors has:

- (a) reviewed Husky’s procedures for providing information to the internal qualified reserves evaluator and the independent qualified reserves auditors;
- (b) met with the internal qualified reserves evaluator and external reserves auditors to determine whether any restrictions placed by management affected the ability of the internal qualified reserves evaluator and the independent qualified auditors to report without reservation; and
- (c) reviewed the reserves data with management, the internal qualified reserves evaluator and the independent qualified reserves auditors.

The Audit Committee of the Board of Directors has reviewed Husky’s procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The Board of Directors has approved, on the recommendation of the Audit Committee:

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data and other oil and gas information;
- (b) the filing of Form 51-101F2, which is the Report on Reserves Data of Husky’s internal qualified reserves evaluator; and
- (c) the content and filing of this report.

Husky sought and was granted by the Canadian Securities Administrators an exemption from the requirement under National Instrument 51-101 “*Standards of Disclosure for Oil and Gas Activities*” to involve independent qualified oil and gas reserves evaluators or auditors. Notwithstanding this exemption, we involve independent qualified reserves auditors as part of Husky’s corporate governance practices. Their involvement helps assure that our internal oil and gas reserves estimates are materially correct.

In Husky’s view, the reliability of Husky’s internally generated oil and gas reserves data is not materially less than would be afforded by Husky involving independent qualified reserves evaluators or independent qualified reserves auditors to evaluate or audit and review the reserves data. The primary factors supporting the involvement of independent qualified reserves evaluators or independent qualified reserves auditors apply when (i) their knowledge of, and experience with, a reporting issuer’s reserves data are superior to that of the internal reserves evaluators and (ii) the work of the independent qualified reserves evaluator or independent qualified reserves auditors is significantly less likely to be adversely influenced by self-interest or management of the reporting issuer than the work of internal reserves evaluation staff. In Husky’s view, neither of these factors applies in Husky’s circumstances.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.



/s/ Asim Ghosh March 8, 2013  
Asim Ghosh  
*President & Chief Executive Officer*

/s/ Rob Peabody March 8, 2013  
Rob Peabody  
*Chief Operating Officer*

/s/ William Shurniak March 8, 2013  
William Shurniak  
*Director*

/s/ Colin S. Russel March 8, 2013  
Colin S. Russel  
*Director*

**Husky Energy Inc.****Independent Engineer's Audit Opinion****Husky Energy Inc.**

707 - 8th Avenue S.W.  
Calgary, Alberta  
T2P 3G7

To Whom It May Concern:

Pursuant to Husky's request we have conducted an audit of the reserves estimates and the respective net present value of these reserves of Husky Energy Inc., as at December 31, 2012. The Company's detailed reserves information were provided to us for this audit. Our responsibility is to express an independent opinion on the reserves and the respective present worth value estimates, in the aggregate, based on our audit tests and procedures.

We conducted our audit in accordance with generally accepted audit standards as recommended by the Society of Petroleum Engineers and as recommended in the Canadian Oil and Gas Evaluation Handbook (COGEH) Volume 1 Section 12. Those standards require that we review and assess the policies, procedures, documentation and guidelines of the Company with respect to the estimation, review and approval of Husky's reserves information. An audit includes examining, on a test basis, to confirm that there is adherence on the part of Husky's internal reserves evaluators and other employees to the reserves management and administration policies and procedures established by the Company. An audit also includes conducting reserves evaluation on a sufficient number of the Company's properties as considered necessary in order to express an opinion.

Based on the results of our audit, it is our opinion that Husky's internally generated proved and probable reserves and net present values based on forecast and constant price assumptions are, in aggregate, reasonable, and have been prepared in accordance with generally accepted oil and gas engineering and evaluation practices as set out in the Canadian Oil and Gas Evaluation Handbook.

The results of the Husky internally generated reserves and net present values (based on forecast prices) supplied to us as part of the audit process are summarized in the attached table.

Sincerely,

**McDaniel & Associates Consultants Ltd.**

/s/ B. J. Wurster, P. Eng.

B. J. Wurster, P. Eng.

*Vice President*

Calgary, Alberta  
January 21, 2013

**Total Company Reserve and Net Present Value  
Forecast Prices and Costs as at December 31, 2012**

	Company Share of Remaining Reserves (mmbbls, bcf, mboe)		Company share of Net Present Value Before Income Tax (MM\$)				
	Gross	Net	0%	5%	10%	15%	20%
<b>Proved</b>							
Developed Producing							
Light Crude Oil	145	126	7,769	5,608	4,563	3,902	3,434
Medium Crude Oil	86	77	1,817	1,790	1,463	1,221	1,046
Heavy Crude Oil	69	62	1,094	1,407	1,389	1,330	1,265
Natural Gas	1,586	1,397	3,913	2,854	2,130	1,687	1,397
Coal Bed Methane	22	21	33	26	21	18	15
Bitumen	59	55	1,957	1,686	1,474	1,321	1,204
Natural Gas Liquids <sup>(1)</sup>	64	50	-	-	-	-	-
<b>Total</b>	<b>691</b>	<b>605</b>	<b>16,584</b>	<b>13,371</b>	<b>11,041</b>	<b>9,478</b>	<b>8,362</b>
Developed Non-Producing							
Light Crude Oil	3	3	201	102	64	47	37
Medium Crude Oil	2	2	77	56	45	37	32
Heavy Crude Oil	15	14	633	517	440	381	336
Natural Gas	104	95	302	201	150	120	99
Coal Bed Methane	1	1	2	1	1	1	1
Bitumen	-	-	-	-	-	-	-
Natural Gas Liquids <sup>(1)</sup>	1	1	-	-	-	-	-
<b>Total</b>	<b>38</b>	<b>35</b>	<b>1215</b>	<b>878</b>	<b>700</b>	<b>586</b>	<b>505</b>
Undeveloped							
Light Crude Oil	24	20	885	655	516	422	356
Medium Crude Oil	7	7	262	170	115	80	56
Heavy Crude Oil	22	20	656	485	368	283	219
Natural Gas	793	732	4,509	3,345	2,636	2,144	1,778
Coal Bed Methane	-	-	-	-	-	-	-
Bitumen	252	217	5,838	3,309	1,959	1,168	669
Natural Gas Liquids <sup>(1)</sup>	25	19	-	-	-	-	-
<b>Total</b>	<b>463</b>	<b>405</b>	<b>12,149</b>	<b>7,963</b>	<b>5,594</b>	<b>4,098</b>	<b>3,077</b>
<b>Total Proved</b>							
Light Crude Oil	173	150	8,855	6,365	5,143	4,371	3,827
Medium Crude Oil	95	85	2,156	2,016	1,623	1,338	1,134
Heavy Crude Oil	105	95	2,383	2,410	2,197	1,994	1,820
Natural Gas	2,484	2,223	8,723	6,400	4,916	3,951	3,274
Coal Bed Methane	23	22	35	27	22	18	16
Bitumen	311	271	7,795	4,995	3,434	2,489	1,873
Natural Gas Liquids <sup>(1)</sup>	90	70	-	-	-	-	-
<b>Total</b>	<b>1,192</b>	<b>1,045</b>	<b>29,948</b>	<b>22,213</b>	<b>17,335</b>	<b>14,162</b>	<b>11,944</b>
<b>Probable</b>							
Developed Producing							
Light Crude Oil	96	78	5,916	3,503	2,582	2,069	1,727
Medium Crude Oil	22	19	1,246	751	515	380	294
Heavy Crude Oil	35	31	1,223	875	658	510	403
Natural Gas	752	681	5,695	3,355	2,219	1,553	1,129
Coal Bed Methane	6	6	5	4	2	1	1
Bitumen	1,414	1,118	42,361	11,530	4,044	1,607	625
Natural Gas Liquids <sup>(1)</sup>	30	24	-	-	-	-	-
<b>Total</b>	<b>1,723</b>	<b>1,383</b>	<b>56,446</b>	<b>20,017</b>	<b>10,021</b>	<b>6,121</b>	<b>4,179</b>
<b>Total Proved Plus Probable</b>							
Light Crude Oil	268	227	14,771	9,868	7,725	6,440	5,553
Medium Crude Oil	117	103	3,402	2,767	2,139	1,718	1,428
Heavy Crude Oil	140	126	3,606	3,285	2,855	2,504	2,223
Natural Gas	3,236	2,905	14,418	9,754	7,135	5,505	4,403
Coal Bed Methane	29	27	41	31	24	20	17
Bitumen	1,725	1,390	50,155	16,525	7,478	4,096	2,498
Natural Gas Liquids <sup>(1)</sup>	120	94	-	-	-	-	-
<b>Total</b>	<b>2,915</b>	<b>2,429</b>	<b>86,393</b>	<b>42,230</b>	<b>27,356</b>	<b>20,283</b>	<b>16,123</b>

<sup>(1)</sup> Natural Gas Liquid volumes are identified separately but the value is included with the Natural Gas.

**Consolidated Financial Statements and  
Auditors' Report to Shareholders**

**For the Year Ended December 31, 2012**

# 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., which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011, the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, 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 International Financial Reporting Standards as issued by the International Accounting Standards Board, 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 consolidated financial position of Husky Energy Inc. as at December 31, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### *Other Matter*

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Husky Energy Inc.'s internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2013 expressed an unmodified (unqualified) opinion on the effectiveness of Husky Energy Inc.'s internal control over financial reporting.

/s/ KPMG LLP  
KPMG LLP  
Chartered Accountants

February 27, 2013  
Calgary, Canada

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited Husky Energy Inc.'s ("the Company") internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2012 and December 31, 2011, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the two-year period ended December 31, 2012, and our report dated February 27, 2013 expressed an unmodified (unqualified) opinion on those consolidated financial statements.

/s/ KPMG LLP  
KPMG LLP  
Chartered Accountants

February 27, 2013  
Calgary, Canada

**Management's Discussion and Analysis**

**March 8, 2013**

<u>Exhibit No.</u>	<u>Description</u>
23.1	Consent of KPMG LLP, independent registered public accounting firm.
23.2	Consent of McDaniel and Associates Consultants Ltd., independent engineers.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer pursuant to Rule 13(a)-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).
32.2	Certification of Chief Financial Officer pursuant to Rule 13(a)-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).
99.1	Supplemental Disclosures of Oil and Gas Activities.



## Consent of Independent Registered Public Accounting Firm

The Board of Directors of Husky Energy Inc.

We consent to the incorporation by reference in the registration statement (No. 333-174554) on Form F-10 of Husky Energy Inc. of:

- our independent auditors' report dated February 27, 2013, with respect to the consolidated balance sheets of Husky Energy Inc. as at December 31, 2012 and December 31, 2011, the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information;
- our independent auditors' report of registered public accounting firm dated February 27, 2013, with respect to the consolidated balance sheets of Husky Energy Inc. as at December 31, 2012 and December 31, 2011, the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information; and
- our report of independent registered public accounting firm dated February 27, 2013 on the effectiveness of internal control over financial reporting as at December 31, 2012,

which reports appear in the December 31, 2012 annual report on Form 40-F of Husky Energy Inc. for the fiscal year ended December 31, 2012, and further consent to the use of such reports in such annual report on Form 40-F.

/s/ KPMG LLP  
KPMG LLP  
Chartered Accountants

Calgary, Canada  
March 8, 2013

## Consent of Independent Engineers

We refer to our report auditing estimates of the natural gas, natural gas liquids and oil reserves attributable to Husky Energy Inc. (the “Company”) as of December 31, 2012 (the “Report”).

We hereby consent to references to our name in the Company’s Annual Report on Form 40-F to be filed with the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, and the Company’s registration statement on Form F-10 (File No. 333-174554). We also confirm that we have read the Company’s Annual Information Form for the year ended December 31, 2012, dated March 8, 2013, and that we have no reason to believe that there are any misrepresentations in the information contained in it that was derived from the Report or that is within our knowledge as a result of the services we performed in connection with such Report.

Sincerely,

**McDaniel & Associates Consultants Ltd.**

/s/ B.J. Wurster, P. Eng.

B.J. Wurster, P.Eng.

Vice President

Calgary, Alberta, Canada

March 8, 2013

**Certification Pursuant to  
Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934,  
As Adopted Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Asim Ghosh, certify that:

1. I have reviewed this annual report on Form 40-F of Husky Energy Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 8, 2013

/s/ Asim Ghosh

Asim Ghosh

President & Chief Executive Officer

**Certification Pursuant to  
Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934,  
As Adopted Pursuant to  
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Alister Cowan, certify that:

1. I have reviewed this annual report on Form 40-F of Husky Energy Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 8, 2013

/s/ Alister Cowan  
Alister Cowan  
Chief Financial Officer

**Certification Pursuant to  
18 U.S.C. Section 1350,  
As Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Husky Energy Inc. (the "Company") on Form 40-F for the fiscal year ending December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), **I, Asim Ghosh, President & Chief Executive Officer of the Company**, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 8, 2013

/s/ Asim Ghosh

Asim Ghosh

President & Chief Executive Officer

**Certification Pursuant to  
18 U.S.C. Section 1350,  
As Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Husky Energy Inc. (the "Company") on Form 40-F for the fiscal year ending December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), **I, Alister Cowan, Chief Financial Officer of the Company**, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 8, 2013

/s/ Alister Cowan  
\_\_\_\_\_  
Alister Cowan  
Chief Financial Officer

**Disclosure about Oil and Gas Producing Activities – Accounting Standards Codification 932, “Extractive Activities – Oil and Gas” (unaudited)**

The following disclosures have been prepared in accordance with FASB Accounting Standards Codification 932, “Extractive Activities – Oil and Gas”. In December 2009, Husky adopted revised oil and gas reserve estimation and disclosure requirements that conformed the definition of proved reserves to the SEC Modernization of Oil and Gas Reporting rules, issued by the SEC in 2008. An accounting standards update revised the definition of proved oil and gas reserves to require that the average, first-day-of-the-month price during the 12-month period before the end of the year rather than the year-end price, must be used when estimating whether reserve quantities are economic to produce. This same 12-month average price is also used in calculating the aggregate amount of (and changes in) future cash inflows related to the standardized measure of discounted future net cash flows. The rules also allow for the use of reliable technologies to estimate proved oil, natural-gas, and natural-gas liquids (NGLs) reserves if those technologies have been demonstrated to result in reliable conclusions about reserve volumes.

The unaudited supplemental information on oil and gas exploration and production activities for 2012, 2011, and 2010 has been presented in accordance with the revised reserve estimation and disclosure rules, which were not applied retrospectively.

Husky completed a transition to International Financial Reporting Standards in 2011 and all 2012, 2011 and 2010 financial information has been prepared using IFRS as issued by the International Accounting Standards Board.

**Oil and Gas Reserves**

Proved oil and gas reserves are those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations.

Proved developed oil and gas reserves are proved reserves that can be expected to be recovered:(i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and (ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Proved undeveloped oil and gas reserves are proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

Canadian provincial royalties are determined based on a graduated percentage scale, which varies with prices and production volumes. Canadian reserves, as presented on a net basis, assume prices and royalty rates in existence at the time the estimates were made, and Husky’s estimate of future production volumes. Future fluctuations in prices, production rates, or changes in political or regulatory environments could cause Husky’s share of future production from Canadian reserves to be materially different from that presented.

Subsequent to December 31, 2012, no major discovery or other favourable or adverse event is believed to have caused a material change in the estimates of developed or undeveloped reserves as of that date.

Note that the numbers in each column of the tables throughout this exhibit may not add due to rounding.

## Results of Operations for Producing Activities <sup>(1)</sup> (unaudited)

(\$ millions)	Year Ended December 31, 2012		
	Canada	International	Total
Revenues, net of Royalties	5,367	264	5,631
Production and Operating Expenses	1,798	31	1,829
Depreciation, Depletion, Amortization & Impairment	2,093	11	2,104
Exploration & Evaluation Expenses	305	45	350
Earnings Before Taxes	1,170	177	1,347
Income Taxes	339	51	391
Results of Operations	831	126	956

(\$ millions)	Year Ended December 31, 2011		
	Canada	International	Total
Revenues, net of Royalties	5,884	241	6,125
Production Expenses	1,647	25	1,672
Depreciation, Depletion, Amortization & Impairment	1,976	20	1,996
Exploration & Evaluation Expenses	372	98	470
Earnings before Taxes	1,889	98	1,987
Income Tax Expense	519	26	545
Results of Operations	1,370	72	1,442

<sup>(1)</sup> The costs in this schedule exclude corporate overhead, interest expense and other operating costs, which are not directly related to producing activities.

## Costs Incurred in Oil and Gas Property Acquisition, Exploration and Development Activities (unaudited)

(\$ millions)	Canada	International	Total
<b>2012</b>			
Property Acquisition			
Proved	6	-	6
Unproved	15	-	15
Exploration	338	25 <sup>(1)</sup>	363
Development	4,075	834 <sup>(2)</sup>	4,909
Total Costs Incurred	4,434	859	5,293
<b>2011</b>			
Property Acquisition			
Proved	792	-	792
Unproved	82	-	82
Exploration	457	266	723
Development	2,389	546	2,935
Total Costs Incurred	3,720	812	4,532
<b>2010</b>			
Property Acquisition			
Proved	327	-	327
Unproved	62	-	62
Exploration	306	381	687
Development	1,985	63	2,048
Total Costs Incurred	2,680	444	3,124

<sup>(1)</sup> Total international exploration costs of \$25 million pertain entirely to Indonesia.

<sup>(2)</sup> Total international development costs of \$834 million pertain to the following countries: China – \$833 million and Indonesia - \$1 million.



Acquisition costs include costs incurred to purchase, lease, or otherwise acquire oil and gas properties.

Exploration costs include the costs of geological and geophysical activity, retaining undeveloped properties and drilling and equipping exploration wells.

Development costs include the costs of (i) drilling and equipping development wells and (ii) facilities to extract, treat, gather and store oil and gas.

Exploration and development costs include administrative costs and depreciation of support equipment directly associated with these activities.

The following table sets forth a summary of oil and gas property costs not being amortized at December 31, 2012, by the year in which the costs were incurred:

**Withheld Costs (unaudited)**

<i>(\$ millions)</i>	<b>Total</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>Prior to 2009</b>
Property Acquisitions					
Canada	173	25	148	-	-
International	-	-	-	-	-
	173	25	148	-	-
Exploration					
Canada	365	339	26	-	-
International	275	17	235	23	-
	640	356	261	23	-
Development					
Canada	2,811	662	2,053	96	-
International	2,061	939	539	8	575
	4,872	1,601	2,592	104	575
Capitalized Interest					
Canada	110	54	24	16	16
International	259	118	62	79	-
	369	172	86	95	16
	6,054	2,154	3,087	222	591

### Capitalized Costs Relating to Oil and Gas Producing Activities (unaudited)

<i>(\$ millions)</i>	<b>Canada</b>	<b>International</b>	<b>Total</b>
<b>2012</b>			
Proved Properties <sup>(1)</sup>	36,362	2,464	38,826
Unproved Properties	496	314	810
	36,858	2,778	39,636
Accumulated DD&A	(17,629)	(318)	(17,947)
Net Capitalized Costs	19,229	2,460	21,689
<b>2011</b>			
Proved Properties <sup>(1)</sup>	32,101	1,539	33,640
Unproved Properties	421	325	746
	32,522	1,864	34,386
Accumulated DD&A	(15,586)	(312)	(15,898)
Net Capitalized Costs	16,936	1,552	18,488
<b>2010</b>			
Proved Properties <sup>(1)</sup>	28,247	896	29,143
Unproved Properties	252	220	472
	28,499	1,116	29,615
Accumulated DD&A	(13,628)	(287)	(13,915)
Net Capitalized Costs	14,871	829	15,700

<sup>(1)</sup> Capitalized costs related to proved properties include the ARO. The ARO for the years presented were as follows:

<i>(\$ millions)</i>	<b>Canada</b>	<b>International</b>	<b>Total</b>
2012	2,363	129	2,491
2011	1,369	20	1,389
2010	836	15	851

## Oil and Gas Reserve Information

In Canada, Husky's proved crude oil, NGL and natural gas reserves are located in the provinces of Alberta, Saskatchewan, British Columbia, and offshore East Coast of Canada. Husky's international proved reserves are located in China and Indonesia.

Reserves	Canada		International		Crude Oil & NGL (mmbbls)	Total Natural Gas (bcf)	Total Company (mmeboe)
	Crude Oil & NGL (mmbbls)	Natural Gas (bcf)	Crude Oil & NGL (mmbbls)	Natural Gas (bcf)			
Net Proved Reserves <sup>(1) (2) (3) (4)</sup>							
End of Year 2009	558	1,513	8	-	566	1,513	818
Revisions	(6)	(41)	1	-	(5)	(41)	(12)
Purchases	2	161	-	-	2	161	28
Sales	-	(1)	-	-	-	(1)	-
Improved Recovery	4	1	-	-	4	1	4
Discoveries and Extensions	87	129	5	147	92	277	139
Production	(63)	(175)	(3)	-	(66)	(175)	(95)
End of Year 2010	582	1,587	11	147	593	1,734	882
Revisions	(1)	35	(1)	(10)	(2)	24	2
Purchases	37	342	-	-	37	342	94
Sales	(2)	(2)	(1)	(29)	(3)	(31)	(8)
Improved Recovery	13	1	-	-	13	1	13
Discoveries and Extensions	87	75	-	-	87	75	99
Production	(65)	(213)	(2)	-	(67)	(213)	(102)
End of Year 2011	651	1,824	7	108	658	1,932	980
Revisions	25	(357)	3	-	28	(357)	(30)
Purchases	-	-	-	-	-	-	-
Sales	(1)	-	-	-	(1)	-	(1)
Improved Recovery	16	-	-	-	16	-	16
Discoveries and Extensions	35	140	8	271	43	411	111
Production	(66)	(190)	(2)	-	(68)	(190)	(100)
End of Year 2012	660	1,417	16	379	676	1,796	976
Net Proved Developed Reserves <sup>(1) (2) (3) (4)</sup>							
End of Year 2009	360	1,265	8	-	368	1,265	579
End of Year 2010	335	1,327	6	-	341	1,327	562
End of Year 2011	370	1,567	3	-	373	1,567	635
End of Year 2012	381	1,191	6	-	387	1,191	585
Net Proved Undeveloped Reserves <sup>(1) (2) (3) (4)</sup>							
End of Year 2009	198	248	-	-	198	248	239
End of Year 2010	247	260	5	147	252	407	320
End of Year 2011	281	257	4	108	285	365	345
End of Year 2012	279	226	10	379	289	605	391

(1) Net reserves are the Company's lesser royalty, overriding royalty and working interest share of the gross remaining reserves, after deduction of any crown, freehold and overriding royalties. Such royalties are subject to change by legislation or regulation and can also vary depending on production rates, selling prices and timing of initial production.

(2) Reserves are the estimated remaining quantities of oil and gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations.

(3) Proved oil and gas reserves are those quantities of oil and gas which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations.

(4) Proved developed oil and gas reserves are proved reserves that can be expected to be recovered: (i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and (ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well. Proved undeveloped oil and gas reserves are proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

The Company's reserve replacement ratio<sup>(a)</sup> for the last three years was as follows:

<b>Net Proved Oil and Gas Reserves</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Excluding Acquisition & Divestiture	96%	112%	138%
Including Acquisition & Divestiture	96%	196%	167%

<sup>(a)</sup> Reserve replacement ratio calculated as net reserve additions during the period divided by total production during the period. Net reserve additions include: revisions, purchases, sales, improved recovery, and discoveries and extensions.

### **Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves (unaudited)**

The following information has been developed utilizing procedures prescribed by FASB Accounting Standards Codification 932, "Extractive Activities – Oil and Gas" and based on crude oil and natural gas reserve and production volumes estimated by the Company's reserves evaluation staff. It may be useful for certain comparison purposes, but should not be solely relied upon in evaluating Husky or its performance. Further, information contained in the following table should not be considered as representative of realistic assessments of future cash flows, nor should the standardized measure of discounted future net cash flows be viewed as representative of the current value of Husky's reserves.

The future cash flows presented below are based on average sales prices and cost rates, and statutory income tax rates in existence as of the date of the projections. It is expected that material revisions to some estimates of crude oil and natural gas reserves may occur in the future, development and production of the reserves may occur in periods other than those assumed, and actual prices realized and costs incurred may vary significantly from those used.

Management does not rely upon the following information in making investment and operating decisions. Such decisions are based upon a wide range of factors, including estimates of probable as well as proved reserves, and varying price and cost assumptions considered more representative of a range of possible economic conditions that may be anticipated.

The computation of the standardized measure of discounted future net cash flows relating to proved oil and gas reserves at December 31, 2012 was based on the NYMEX 2012 average natural gas cash market price of U.S. \$2.78/mmbtu (2011 average – U.S. \$4.15/mmbtu; 2010 average – U.S. \$4.45/mmbtu) and on crude oil prices computed with reference to the 2012 average WTI spot price of U.S. \$95.38/bbl (2011 average – U.S. \$95.95/bbl; 2010 average – U.S. \$79.43/bbl).

<b>Standardized Measure (unaudited) (\$ millions)</b>	<b>Canada<sup>(1)</sup></b>			<b>International<sup>(1)</sup></b>			<b>Total<sup>(1)</sup></b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Future Cash Inflows	43,058	50,824	40,840	5,850	1,510	1,582	48,908	52,334	42,422
Future Production Costs	15,803	18,342	14,682	1,099	503	576	16,902	18,845	15,258
Future Development Costs	8,138	7,932	7,605	1,293	161	182	9,431	8,093	7,787
Future Income Taxes	4,724	6,286	4,752	670	282	255	5,394	6,568	5,007
Future Net Cash Flows	14,393	18,264	13,801	2,788	564	570	17,181	18,828	14,371
Annual 10% Discount Factor	5,747	8,217	6,010	724	199	216	6,471	8,416	6,226
<b>Standardized Measure of Discounted Future Net Cash Flows</b>	<b>8,646</b>	<b>10,047</b>	<b>7,791</b>	<b>2,064</b>	<b>365</b>	<b>354</b>	<b>10,710</b>	<b>10,412</b>	<b>8,145</b>

<sup>(1)</sup> The schedules above are calculated using year average prices and year-end costs, statutory income tax rates and existing proved oil and gas reserves for 2010, 2011 and 2012. The value of exploration properties and probable reserves, future exploration costs, future change in oil and gas prices and in production and development costs are excluded.

**Changes in Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves (unaudited)**

(\$ millions)	Canada <sup>(1)</sup>			International <sup>(1)</sup>			Total <sup>(1)</sup>		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Present Value at January 1	10,047	7,791	6,522	365	354	270	10,412	8,145	6,792
Sales and Transfers, net of Production Costs	(3,538)	(4,239)	(3,129)	(235)	(216)	(227)	(3,773)	(4,455)	(3,356)
Net Change in Sales and Transfer Prices, net of Development and Production Costs	(1,353)	3,281	2,982	(15)	266	99	(1,368)	3,547	3,081
Development Cost Incurred that Reduced Future Development Costs	3,093	2,500	2,697	733	7	6	3,826	2,507	2,703
Changes in Estimated Future Development Costs	(2,234)	(1,921)	(2,639)	(1,551)	26	(1)	(3,785)	(1,895)	(2,640)
Extensions, Discoveries and Improved Recovery, net of Related Costs	937	1,601	1,235	2,774	10	169	3,711	1,611	1,404
Revisions of Quantity Estimates	(460)	156	(68)	426	(47)	43	(34)	109	(25)
Accretion of Discount	1,194	908	911	(101)	55	39	1,093	963	950
Sale of Reserves in Place	(12)	(28)	(4)	-	(59)	-	(12)	(87)	(4)
Purchase of Reserves in Place	9	1,096	247	-	-	-	9	1,096	247
Changes in Timing of Future Net Cash Flows and Other	320	(358)	(579)	(4)	(20)	-	316	(378)	(579)
Net Change in Income Taxes	643	(740)	(384)	(328)	(11)	(44)	315	(751)	(428)
Net Increase (Decrease)	(1,401)	2,256	1,269	1,699	11	84	298	2,267	1,353
Present Value at December 31	8,646	10,047	7,791	2,064	365	354	10,710	10,412	8,145

<sup>(1)</sup> The schedules above are calculated using year-end average prices and year-end costs, statutory income tax rates and existing proved oil and gas reserves for 2010, 2011, and 2012. The value of exploration properties and probable reserves, future exploration costs, future changes in oil and gas prices and in production and development costs are excluded.