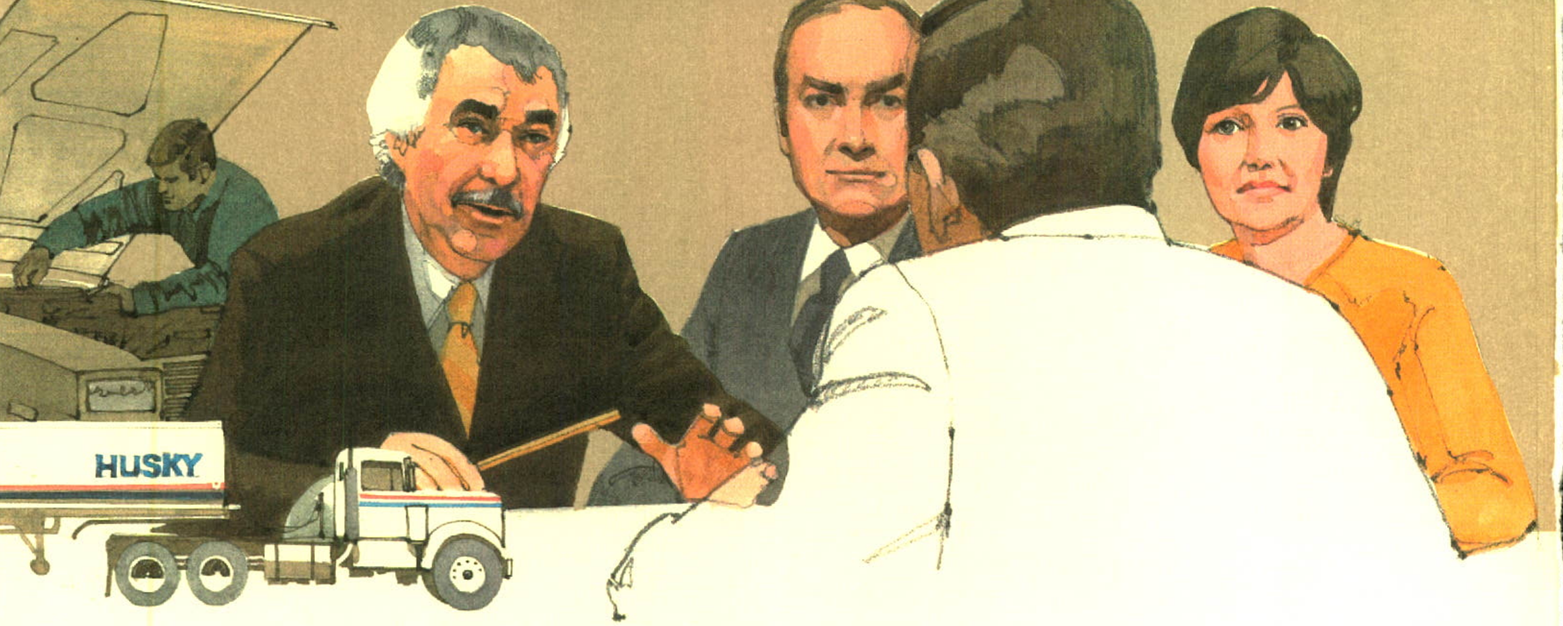
Husky Oil Ltd. 1979 Annual Report

Husky



BOARD OF DIRECTORS
Husky Oil Ltd.

S. Robert Blair
Calgary, Alberta
Chairman of the Board
Husky Oil Ltd.

Robin J. Abercrombie
Calgary, Alberta
Senior Vice-President
Alberta Gas Trunk Line Company Limited

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Regina, Saskatchewan
President and Vice-Chancellor
University of Regina

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Calgary, Alberta
Energy Consultant

David M. Kennedy
Salt Lake City, Utah
Retired Banker

William F. Mitchell
Toronto, Ontario
Chairman
Mitchell Plummer and Co.
Financial Consultant

Dianne I. Narvik
Calgary, Alberta
Senior Vice-President and Secretary
Alberta Gas Trunk Line Company Limited

Glenn E. Nielson
Cody, Wyoming
Executive

Robert L. Pierce, Q.C.
Calgary, Alberta
Executive Vice-President
Alberta Gas Trunk Line Company Limited

William C. Rankin
Calgary, Alberta
Senior Vice-President and Controller
Alberta Gas Trunk Line Company Limited

L. Merrill Rasmussen
Cody, Wyoming
President and Chief Executive Officer
Husky Oil Company

CORPORATE OFFICERS
Husky Oil Ltd.

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Vice-President

William C. Rankin
Vice-President

L. Merrill Rasmussen
Vice-President

Russell A. Robinson
Controller

Lawrence E. Saunders
Treasurer

Robert Strother
Vice-President

James A. Williams
Vice-President

Robert G. P. Maclellan
Secretary

Husky Oil Operations Ltd.

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Chairman of the Board, Chief Executive Officer

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Senior Vice-President

Robert Strother
Senior Vice-President

James A. Williams
Executive Vice-President

Edward R. Blasken
Group Vice-President

Robert Y. Pogontcheff
Group Vice-President

Robert D. Orr
Vice-President

Arthur R. Price
Executive Assistant to the Chairman of the Board, Vice-President

Russell A. Robinson
Vice-President and Controller

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Vice-President

Robert G. P. Maclellan
Secretary

Husky Oil Company

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Chairman of the Board

L. Merrill Rasmussen
President and Chief Executive Officer

Robert M. McManis
Executive Vice-President

Carl E. Jameson
Group Vice-President

John G. McKenzie
Group Vice-President

Lawrence E. Saunders
Group Vice-President and Treasurer

Walter G. Brantz
Vice-President

George S. Dibble, Jr.
Vice-President

M. Dale Ensign
Vice-President

James V. Sheffield
Vice-President

Franklin J. Tilleman
Vice-President

M. Frank Westfall
Vice-President

Donald L. Jensen
Secretary and General Counsel

OTHER SUBSIDIARIES AND AFFILIATES

Robert Strother
President
Husky Oil (International), Inc.

James H. Manning
Executive Vice-President
Husky Oil (International), Inc.

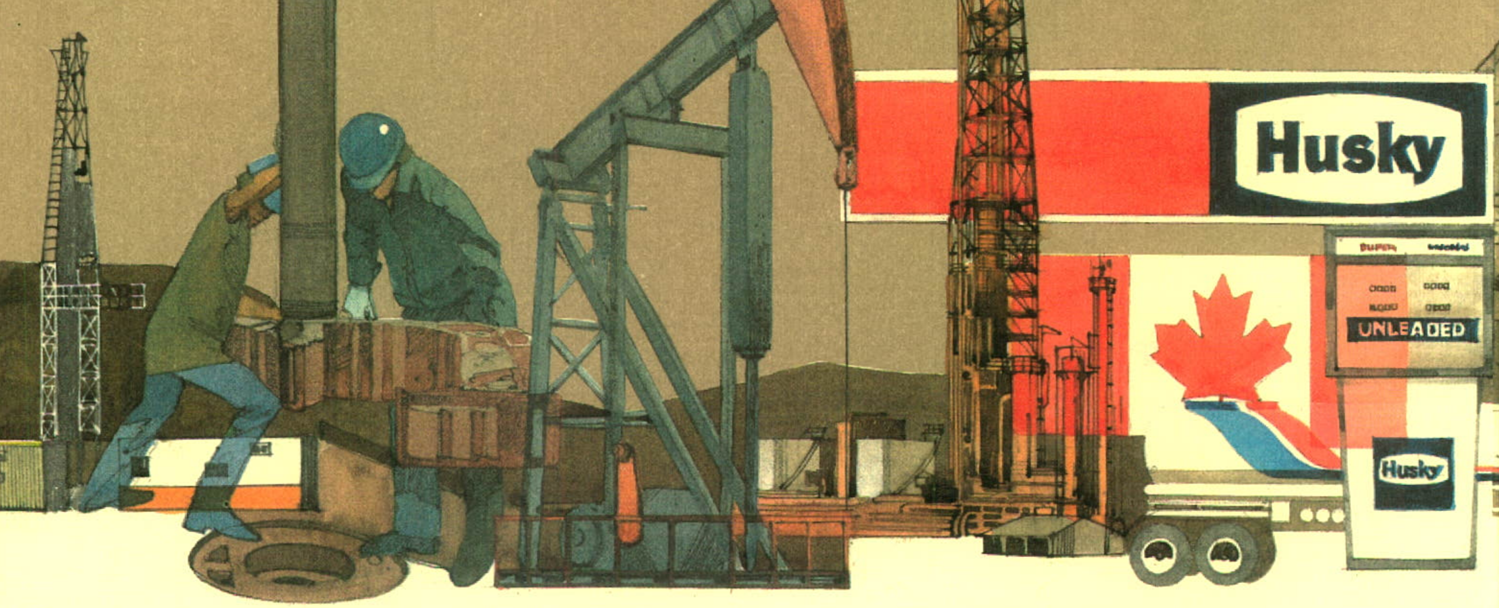
Michael Apostolidis
Executive Vice-President
CanOcean Resources Ltd.

James W. Rimmer
President
Gate City Steel Corporation

James P. Keeter
President
Husky Industries, Inc.

James W. Dowden
President
Husky Oil NPR Operations, Inc.

James E. Nielson
Managing Director
Nielson International

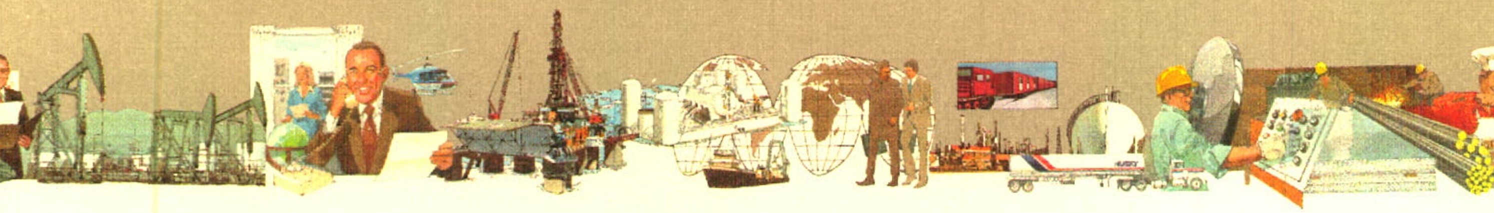


Directors and Officers

SI

SI is the official symbol in all languages for the International System of Units (metric system) which is administered in Canada by The Metric Commission.

In this Annual Report, applicable statistics are stated in the terms used in the previous system of measurement (barrels, feet, inches) as well as SI terms (metres, cubic metres) for purposes of continuity and to familiarize our shareholders with the relationship between the two systems, as applied to the petroleum industry.



Highlights of Operations

HUSKY OIL
Ltd.

815 SIXTH STREET S.W.
CALGARY, ALBERTA, CANADA
T2P 1Y1
TELEPHONE 403-267-6111

March 16, 1978

Dear Shareholder:

We have just been notified of the U. S. District Court's decision in our lawsuit against the U.S. Department of Energy, regarding the profit margin limitation imposed upon Husky by the D.O.E. under the refinery crude oil cost equalization program.

The Court's decision came after the 1977 Annual Report to Shareholders was printed. However, because of the significance of this decision and the discussion concerning this matter contained in footnote Number 13 to the financial statements within the Annual Report, we wanted you to be aware of this development as soon as possible.

The Federal District Court's decision overrules an earlier D.O.E. decision which imposed a profit margin limitation on Husky's U.S. refining and marketing operation no greater than the profit margin realized during exceptional base period years. The Court ruled that the D.O.E.'s decision was "arbitrary and capricious" and has remanded the matter back to the D.O.E. for further proceedings.

We are very pleased with the Court's decision; however, the impact upon earnings will not be known until the proceedings have progressed further. When we can determine the effect upon our earnings, we will report that to you as soon as possible.

Yours very truly,

James E. Nielson

James E. Nielson
President

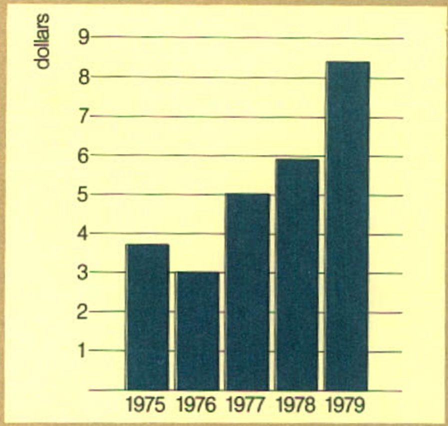
JEN:ew

HUSKY

13. UNITED STATES ENTITLEMENTS PROGRAM

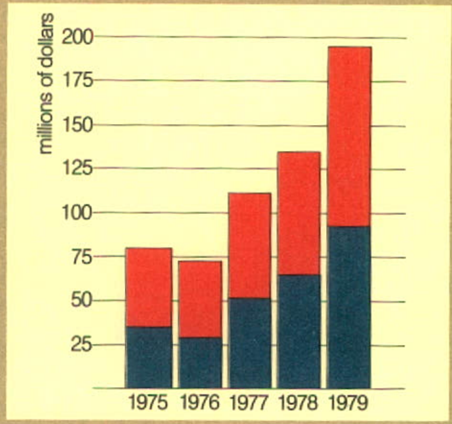
The entitlements program, now administered by the United States Department of Energy (DOE), was instituted in 1974 in an effort to ameliorate inequities arising out of the Federal government's multi-tier crude oil price program. The Company obtained exception from the entitlements program through September 1977 conditioned on maintenance of a profit margin no greater than the profit margin realized by the Company's refining and marketing operations in certain base years. Based on the terms of the exception, the Company has provided entitlement costs of $11,282,000 in the accompanying financial statements. The Company has filed a suit against DOE seeking to enjoin enforcement of the restrictive profit margin limitation. If the Company prevails in the litigation, the Company's 1977 provision for entitlement costs would be reduced or eliminated. DOE has recently issued a proposed decision to decrease the margin further, which, if it were to become effective, could increase the Company's costs by an additional $2,200,000 for 1977. After provision for income taxes, net earnings would be affected by approximately one-half of any change to the entitlements provision made for 1977. It is not possible to predict the ultimate outcome of the matter at this time.

Net Earnings Per Share In Dollars

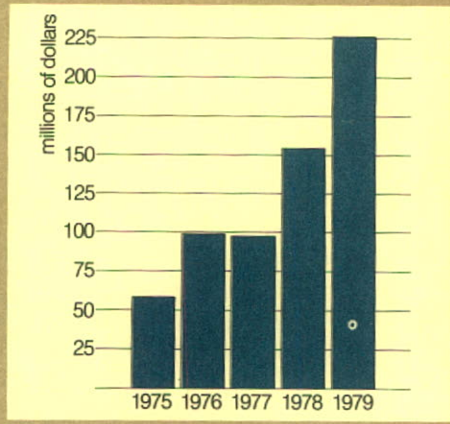


Net Earnings

Working Capital From Operations



Capital Expenditures



FINANCIAL	1979	1978 (Restated)
	thousands of dollars	
Sales and operating revenues	**$1,052,979**	772,752
Working capital provided by operations	**196,196**	135,334
Net earnings	**93,100**	65,197
Net earnings per common share (in dollars)	**8.40**	5.91
Capital expenditures	**226,929**	158,297
Working capital at end of year	**66,092**	60,930
Long-term debt at end of year	**190,835**	148,947

OPERATIONS	1979	*	1978	*
Gross crude oil and gas liquids production (barrels daily)	**51,359**	8 166	48,253	7 668
Net crude oil and gas liquids production (barrels daily)	**40,852**	6 495	35,200	5 594
Gross natural gas production (mcf per day)	**100,066**	2 820	80,302	2 262
Net natural gas production (mcf per day)	**69,157**	1 949	60,829	1 714
Refinery runs (barrels daily)	**63,083**	10 030	60,080	9 547
Refined product sales (barrels daily)	**75,161**	11 951	71,007	11 284
Number of sales outlets	**1,155**		1,222	

**Represents volumes in cubic metres.*

Husky

Report to the Shareholders

Husky's net earnings for the year ended December 31, 1979 were the highest in the history of the Company at $93.1 million, or $8.40 per common share, an increase of 43% over the restated net earnings of $65.2 million, or $5.91 per common share, for the year ended December 31, 1978. The net earnings for 1979 reflect two changes in accounting practice: the translation of foreign currency by the current/non-current method and the valuation of inventories on the "first-in, first-out" method. These changes in accounting practice which are more fully described in Note 2 to the financial statements, make the financial statements of Husky more comparable to others in the Canadian industry and conform with the accounting practice of its parent company, The Alberta Gas Trunk Line Company Limited. Husky's financial results would have shown a strong performance without these accounting changes due to overall improvements in petroleum operations throughout the Company. The result of the translation of foreign currency affected net earnings by approximately 10% in 1979 and 1978 whereas the change in valuation of inventories resulted in higher net earnings of more than 20% in 1979, as compared to 5% in 1978, due to the dramatic increase in the spot price of crude oil in the United States in 1979.

The Company's sales and operating revenues, which exceeded $1 billion for the first time, were $1,053 million in 1979, up approximately 36% over $773 million the previous year. Cash flow from operations improved 45% to $196.2 million from $135.3 million in 1978. Total tax provision for current and deferred income taxes totalled $47.8 million in 1979 compared to $45.3 million the previous year.

Total capital expenditures for 1979 amounted to $226.9 million or an increase of 43% over the $158.3 million spent in 1978. These expenditures improved the Company's conventional exploratory land position and reflected accelerated development in heavy crude oil in the Lloydminster area.

The increase in capital expenditures along with higher receivables and inventories resulted in increased borrowings, both long-term and short-term. These borrowings, and higher interest rates, increased the 1979 interest expense by $16.3 million or 91% to $34.2 million. However, the favorable result of this increased activity in 1979 was a savings in current income taxes of in excess of $26 million when compared to 1978.

In May, 1979 the Alberta Gas Trunk Line Company Limited (AGTL) purchased 18.4 percent of the outstanding common shares of the Company owned directly or indirectly by the Nielson family for $48 (U.S.) per share and announced its intention to make a tender offer at the same price for all the remaining outstanding common shares and warrants. The subsequent tender offer yielded only a small additional percentage of shares to AGTL. These combined with the approximately 48 percent acquired through open market purchases during 1978, increased AGTL's ownership in the Company to approximately 69 percent of the outstanding common shares.

Following AGTL's acquisition of a majority of the Company's shares, a corporate reorganization took place which operationally separated the Canadian and U.S. operations. Husky Oil Company, the U.S. operating entity based in Cody, Wyoming was structured as a separate profit centre having its own staff under the direction of L. Merrill Rasmussen as President and Chief Executive Officer. Mr. Rasmussen, formerly President of Pacific Petroleums Ltd., took over the Husky Oil Company operation upon the resignation of James E. Nielson in July, 1979.

Husky Oil Operations Ltd., the Canadian operating entity, was reorganized so as to develop as soon as possible a separate Canadian management. Because certain financial and administrative functions had previously been directed from Cody, this development involves the transfer or hire of additional staff to fill those functions. In the interim, three officers of AGTL, Robert Blair, William Rankin and Dianne Narvik, are also carrying out executive functions within Husky.

At the 1979 Annual Meeting, Glenn E. Nielson resigned as Chairman of the parent company and its subsidiaries, and was replaced by Robert Blair. In addition, later in the year James E. Nielson resigned as President and CEO of Husky Oil Ltd. and Husky Oil Operations Ltd. Mr. Blair is acting as Chief Executive Officer of those companies and the position of President is vacant at this time.

Husky Oil Operations Ltd. also took over the direction of all overseas activities conducted through a subsidary, Husky Oil (International), Inc., and Robert Strother was appointed President of that Company.

A number of other senior appointments were made in the parent company and its subsidiaries, including several to a new heavy oil division established within the Canadian operating company to reflect increased emphasis on enhanced heavy oil recovery and development projects.

An enterprise jointly owned by the Company and JN Incorporated, a private corporation whose principal shareholder is James E. Nielson, is currently managing the petroleum exploration program on the National Petroleum Reserve–Alaska, previously carried out by Husky Oil NPR Operations, Inc.

The Board wishes to record its appreciation to Glenn Nielson for his contribution to the Company as its founder and leader over the years. We also record with regret and sincere thanks for their service to the Company over the years, the recent resignations as directors of David M. Kennedy, effective February 28, 1980 and William F. Mitchell, who has advised he will not stand for appointment at this year's annual meeting.

Also recorded is the appointment as directors in 1979 of Lloyd I. Barber, O.C., Robin J. Abercrombie, Dianne I. Narvik, William C. Rankin and L. Merrill Rasmussen. During the year,

J. Waddy Bullion, Ronald N. Dalby, George S. Eccles and J. K. McCausland resigned, following various terms of service as directors of the Company.

The Company participated in the drilling of 64 exploratory wells in Canada and the United States during 1979 (excluding heavy oil which is discussed under the next heading of the report). Particularly in Canada, new emphasis was placed on the acquisition of lands in conventional hydrocarbon areas. Several tests were drilled in the Deep Basin area which straddles the Alberta/B.C. border where the Company significantly improved its exploration land position.

Husky Oil International continues to explore and develop its acreage offshore The Philippines. The Company also holds substantial land positions in Pakistan and Senegal and is actively investigating other overseas opportunities.

Exploration activity in the United States during 1979 included the discovery of a natural gas field which is now in production in Wyoming, and natural gas discoveries in Southeast New Mexico and California. Natural gas from an earlier discovery in the Gulf of Mexico was put on stream early in the year.

Expansion and upgrading projects at the refineries at Prince George, British Columbia and Cheyenne, Wyoming have increased their output of gasolines and diesel fuels and will improve selection of product mixes. In Canada further refinery expansion projects, including additional asphalt facilities, are being studied.

Marketing performance, although limited in the United States by industry-wide spot shortages of gasolines and diesel fuels, improved in both countries. Heavy fuel oil and asphalt sales were improved in all Husky marketing areas. Gasohol is being test marketed from selected locations near Spokane, Washington.

In Canada, the conventional exploration and production division is led by James Williams, Executive Vice-President and Robert Orr was recently appointed Vice-President, Exploration. In the United States, this area is handled by Carl Jameson, Group Vice-President.

In 1979 Husky began an accelerated program of exploration and development, involving the drilling of 322 wells and completion of expansions to production facilities, in the Lloydminster heavy crude oil area of Alberta/Saskatchewan. Studies continue into potential upgrading facilities in line with the heavy oil development priorities of the governments involved.

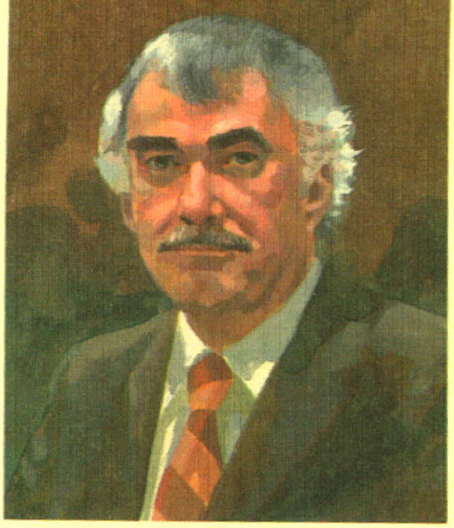
Husky is accelerating its already stepped-up activities in Lloydminster with particular emphasis on the development of large scale enhanced oil recovery projects. The Company has historically recovered approximately 5 percent of the oil-in-place through primary recovery and up to another 5 percent through secondary waterflood recovery methods. Research indicates that Lloydminster recovery rates can be very appreciably improved by the application of enhanced recovery techniques.

The management of Husky believes that the Company's dominant land position in the Lloydminster heavy oil region prompts it to take a leading role in the research and development of enhanced oil recovery. Our objective in Lloydminster, therefore, is to emphasize development of improved methods for enhanced oil recovery and, although our efforts in this area are still in the experimental or pilot stage, some have demonstrated very encouraging results.

The Company has begun discussions with the governments involved in Canada in respect to the type of incentives and cooperation required to carry out large-scale enhanced oil recovery projects.

In Canada, the separate division established for heavy oil research and development receives executive direction from Robert Bagby, Senior Vice-President, supported by Richard Roda, Vice-President.

In the United States, the Company's heavy oil production in California and Wyoming has benefited greatly from the 1979 price decontrol legislation. The new legislation is stimulating development of heavy oil fields and having the effect of intensifying research and development into enhanced oil recovery processes. We are optimistic this activity will begin to produce some new recovery techniques of benefit to the industry as a whole and particularly to heavy oil producers like Husky.



S. Robert Blair

Late in 1979 the Company acquired CanOcean Resources Ltd. (formerly operating as Lockheed Petroleum Services). CanOcean is engaged in the development, production and service of subsea systems for the exploration of hydrocarbons offshore. The main purpose in purchasing CanOcean was to be involved with an organization developing new technology for the oil and gas industry, particularly that related to offshore activity.

The last year and one-half has seen many organizational and personnel changes within the Husky organization. These kind of changes, of course, cause some stress for employees and we sincerely thank all those staff who have exhibited the patience and willingness to adapt and assist in this period of change. The next few years should see challenging and rewarding jobs for Husky employees and management believes it will be an exciting and innovative place to be in the 1980's.

Robert Blair

S. R. Blair
Chairman of the Board
March 21, 1980
Calgary, Alberta

Husky

Canadian Petroleum Operations

HEAVY OIL DIVISION

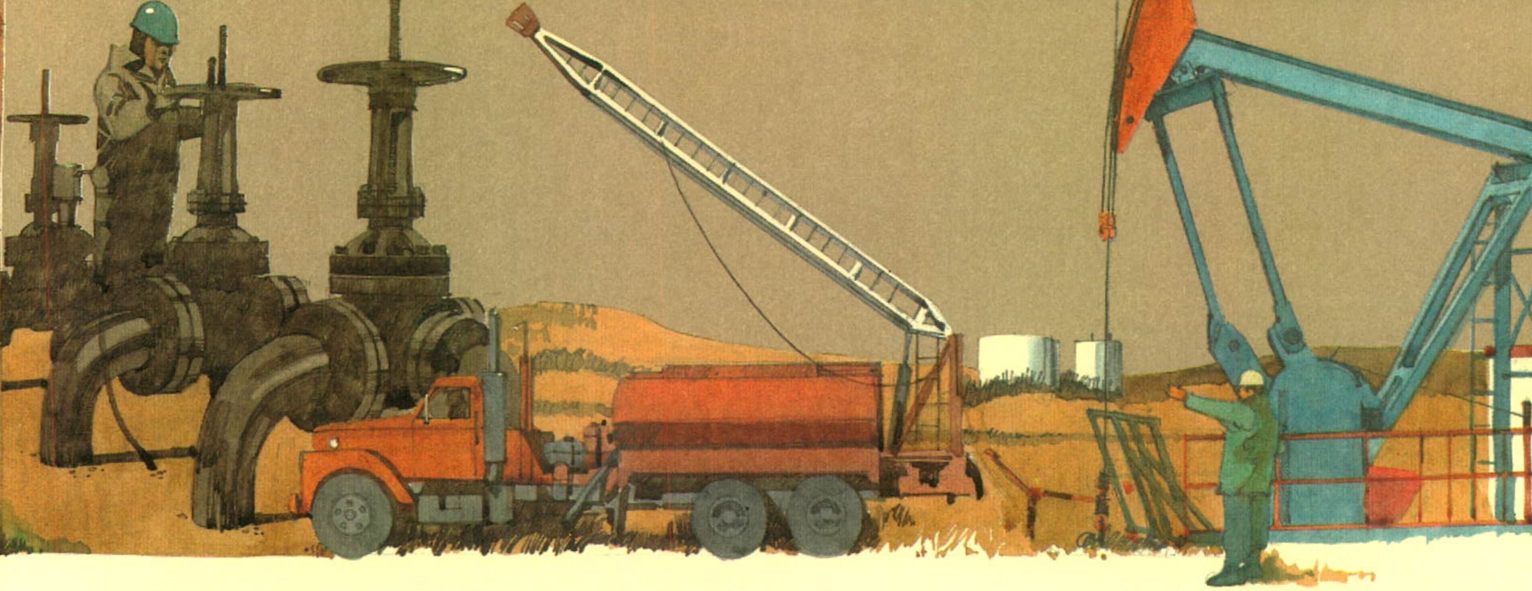
In June, 1979, the Company formed a heavy oil division with separate management direction for the development of all heavy crude oil production in Canada. The Company's heavy oil land holdings include a 19 300 hectare (50,000 acre) tract near Fort McMurray in the Alberta Oil Sands, a 7 000 hectare (18,000 acre) tract in the Cold Lake heavy oil region and a dominant 680 000 hectare (1.7 million acre) position checkerboarded throughout the heavy oil producing region of Lloydminster.

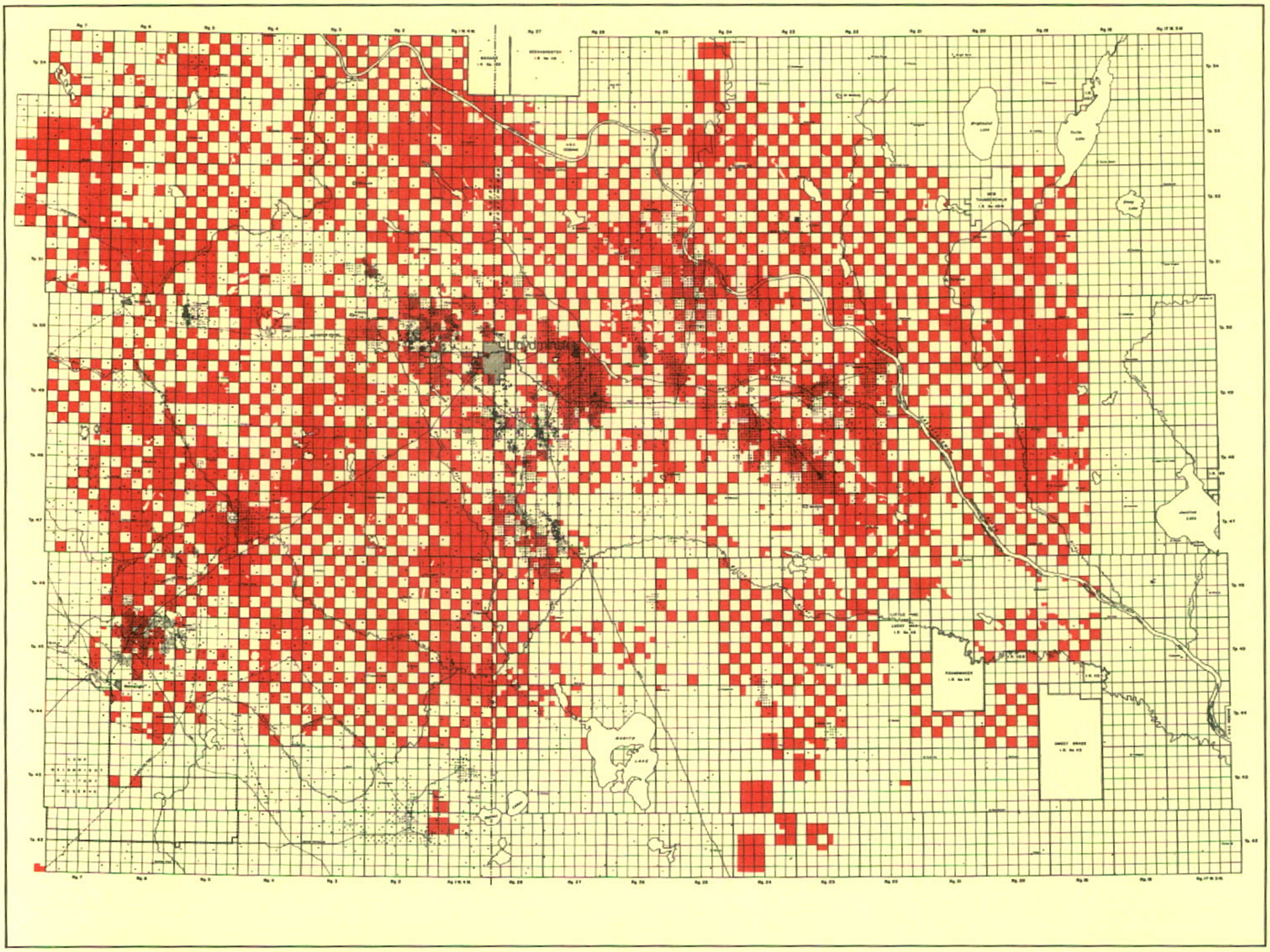
Approximately 250 of Husky's 639 Canadian employees are in the Heavy Oil Division. Largely technical and professional, these personnel are located mainly in the City of Lloydminster and at Husky's Calgary headquarters. A special Enhanced Oil Recovery Group located at Santa Maria, California is also part of the Heavy Oil Division and is exclusively dedicated to the experimentation, research and development of new enhanced recovery methods and to the optimum application of current recovery technology to the Company's heavy oil holdings throughout North America.

Significant additions to Heavy Oil Division staff in 1979 emphasized new well completion and production techniques and additional reorganization later in the year included the formation of a Thermal Operations Group.

At the outset of 1979, the Company concentrated its heavy crude oil production and development activity on the accelerated recovery of the substantial accumulation of hydrocarbons in the Lloydminster region, which covers an area of about 16 835 square kilometres (6,500 square miles) or 1 544 402 hectares (4 million acres), spanning the Alberta/Saskatchewan border. Husky's extensive land position in the area, amounting to about 45% of the established producing acreage, has been developed over a period of some 35 years and includes additional acquisitions made in 1978 and 1979.

The objectives of the accelerated development program include completion of the exploration of the area and demonstration of the applicability of enhanced oil recovery techniques to the Lloydminster reservoirs. The Company drilled 56 exploration, 251 development and 15 enhanced oil recovery wells in Lloydminster during the year. Of this total of 322 wells, 258 were cased for production as oil, oil/natural gas or natural gas wells.

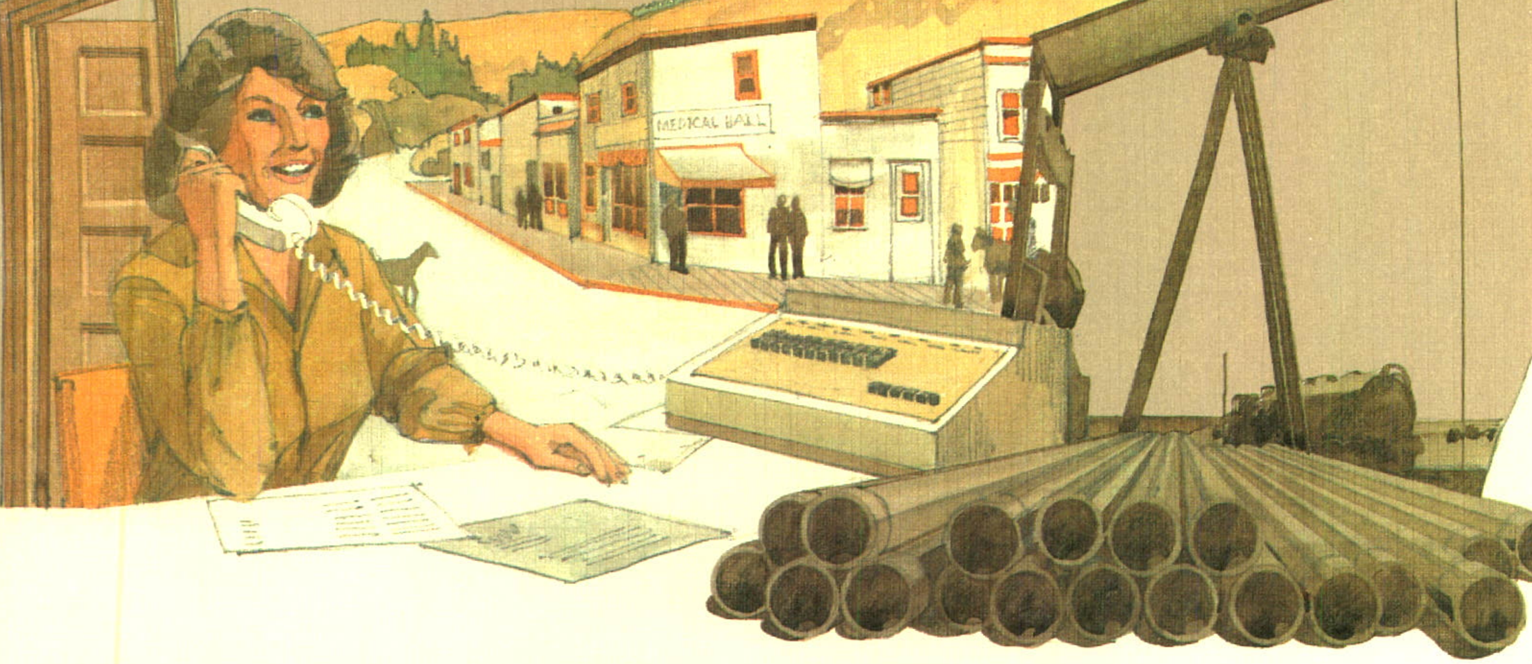




Lloydminster Area, Alberta/Saskatchewan

Areas are not shown to scale

Husky



The Company also completed construction of three major crude oil batteries at Tangleflags, Golden Lake and Standard Hill, Saskatchewan. The new batteries, which receive, clean and ship heavy crude oil to the pipeline, serve a total of 216 wells in their immediate area. Other projects completed during the year include 210 kilometres (130 miles) of flow lines and 80 kilometres (50 miles) of gathering systems. A pipeline crossing of the North Saskatchewan River was constructed to accommodate expansion plans in the area north and east of the Tangleflags oil field on the Saskatchewan side of the border.

The Company began to add special emphasis to enhanced recovery operations in 1979. Previously, the Company's field experiments in enhanced recovery methods in the area involved a number of different recovery pilot programs operated for varying periods in the 1960's. The life of these experiments averaged approximately three years. Two fireflood pilot projects begun in 1969 are presently continuing in operation as is one steamflood begun three years ago.

Information and data gained from the current and earlier pilot programs together with the results of studies and experiments conducted by the Enhanced Oil Recovery Group are being applied at two steamflood projects now under construction at Aberfeldy and Golden Lake, Saskatchewan.

At Aberfeldy, steamflood injection and producing wells have been drilled and construction of surface facilities is near completion. Steam injection planning and drilling is presently underway at Tangleflags. Both projects are expected to be in pilot production in 1980.

The Company first established production in Lloydminster in 1946 and, with the completion of the 1979 program, has in operation in the Lloydminster region a substantial complex comprised of 1,776 producing wells, 295 injection and other wells, 20 major batteries with a number of associated satellites. There are 523 kilometres (325 miles) of gathering and flow lines and a 7 950 cubic metre (50,000 barrel) per day capacity pipeline system to the interprovincial pipeline at Hardisty, Alberta. This pipeline system, with some additional transport of crude oil by truck and including non-operated production, handled some 9 539 cubic metres (60,000 barrels) per day of Lloydminster blended crude in 1979. The "blend" is a result of adding one part natural gas condensate to about four parts heavy crude oil to produce a mixture of lower overall viscosity suitable for pipelining.

The Company plans to continue its accelerated development program in Lloydminster in 1980 and has projected increased enhanced oil recovery operations for the region. Application of enhanced recovery operations are seen as an important factor in the timely recovery of a significantly greater percentage of Lloydminster's oil-in-place.

CONVENTIONAL OIL AND GAS DIVISION

The conventional Oil and Gas Division was constituted in June, 1979 and is responsible for all oil and gas production in Canada excluding heavy crude oil. This Division is also responsible for all light and heavy crude oil exploration operations and for all refining and marketing activity in Canada.

The Division's net crude oil production increased about 10% in Canada in 1979 while net produced volumes of natural gas are up about 8.5% over the previous year. For the year ended December 31, 1979, Husky's total petroleum income from both operated and non-operated properties increased almost 15% over 1978 results.

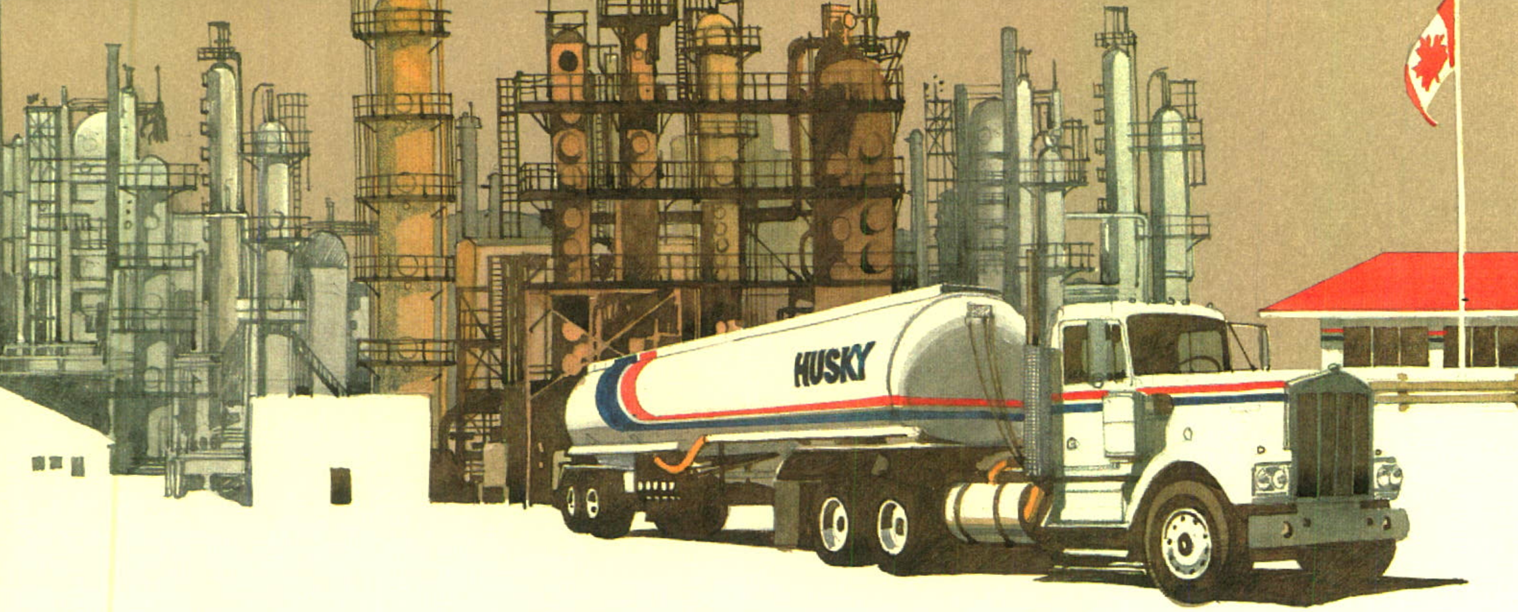
The Division has oil and gas production interests in approximately 1,500 gross wells located primarily in the Province of Alberta. The large majority of this oil and gas production is from varying interests in petroleum producing properties operated for the Company by others (non-operated properties). The principal non-operated properties in the Division include the Westerose oil and gas units, the shallow Quirk Creek field and the Sturgeon Lake field. Approximately two-thirds of the Division's production income is generated from these holdings. Other non-operated Alberta oil and gas production is contributed from properties at the Bells Hill Lake unit, the Bindloss unit and the Eagle Lake unit. The principal production volumes operated by the Company are from the Donalda unit, the Quirk Creek deep plate, the Gleneath unit and the Savanna Creek field.

Exploration operations in 1979 emphasized implementation of a corporate initiative to expand the Company's land positions in areas of light oil and natural gas potential. As a result Husky increased its land position in southern and western Alberta and northeastern British Columbia, particularly in the Elmworth, Cutbank and Lethbridge areas. During the year the Company acquired interests in 84 000 hectares (210,000 gross acres) located immediately north and immediately east of the City of Lethbridge in the Alberta plains. The Company's working interest in the acquisition amounts to about 50 000 hectares (125,000 net acres) and includes approximately 140 000 cubic metres (5 million cubic feet) per day of current natural gas production from a number of wells operating on the property.

This acreage is located on trend with a number of oil discoveries recently made by other companies in Southern Alberta. An extensive seismic program on the tract has been completed and an exploratory drilling program is scheduled to begin early in 1980.

In an aggressive exploration program which included wildcat drilling at Cutbank, Sheep River, Bindloss, Doris Lake, Archie and Dunvegan in Alberta and at Kiskatinaw in northern British Columbia, the Company participated in a total of 36 exploration wells in areas of light oil and natural gas interest during the year.

Fourteen of these tests were drilled in the Deep Basin play near the Alberta/British Columbia border. Two of these, operated by the Company, discovered natural gas at Kiskatinaw, British Columbia and at Cutbank in Alberta. Two other Husky interest wells at Cutbank were cased for evaluation of encouraging natural gas shows during drilling and three were continuing to drill at the end of 1979.



East of Cutbank in the Kakwa area, Husky participation wells resulted in one oil and two natural gas completions. In the course of the exploration program 19 770 gross hectares (51,200 acres) were purchased surrounding the drilling wells. Including 66 400 gross hectares (166,000 acres) in the Cutbank area, Husky has now earned and acquired various interests up to 55% in tracts totalling 96 800 hectares (242,000 acres) in the general Deep Basin area.

The full exploration of the Lloydminster area is one of the objectives of the Company's current program of the accelerated development of crude oil in Western Canada. Exploration activity in Lloydminster in 1979 involved the drilling of a total of 56 exploratory wells which represented a substantial increase over activities of previous years and a 800 kilometre (500 mile) seismic program. The exploratory drilling program resulted in 11 oil, 13 oil/natural gas and 7 natural gas wells.

As the Company's exploration and production operations intensified in 1979, the Company instituted a recruitment program for geological, engineering and other personnel. As a result, a number of personnel experienced and qualified in various segments of the industry have been attracted to the Company.

Expansion of exploration efforts in Canada will continue in 1980.

Refining and Marketing

The Company has two refineries in Canada: a light oil refinery at Prince George, British Columbia and a heavy oil refinery at Lloydminster, Alberta which specializes in the production of asphalt used in road construction and repair and in building construction. A total of 387 marketing outlets are located across Canada from the Quebec/Ontario border to Vancouver Island.

The refining and marketing department's 80% increase in net income in 1979 was a result of improvements in both light and heavy oil sales as well as in refining and distribution operations.

Income from heavy oil sales increased 64% in 1979 primarily reflecting a period of strong demand during an extended warm weather asphalt season. Asphalt inventories, built up in the preceding winter and spring, were fully depleted by the end of the third quarter. For the remainder of the asphalt season the Company marketed all of the asphalt produced on a daily basis from its refineries at Prince George and Lloydminster. In anticipation of continuing strong demand for asphalt, the Company constructed additional storage capacity at Lloydminster in 1979. The two new asphalt tanks will hold a total of 25 000 cubic metres (160,000 barrels) of asphalt and will allow the refinery to run at full capacity for the entire year.

Substantial increases in refining throughput and light oil marketing volumes in 1979 are attributable primarily to the completion of an upgrading and expansion of the Prince George, British Columbia refinery and to successful integration into the Company's system of a significant number of service stations acquired from other companies.

A major part of the upgrading project at Prince George involved the installation of a fluid catalytic cracker complex which doubled the refinery's output of gasolines and distillates to a total of 1 255 cubic metres (7,900 barrels) per day. Early in the second quarter an internal fire occurred within the fractionating tower in the newly installed complex. Repairs and reinstallation of the unit were completed within the second quarter.

Improvements in the performance of the marketing department are also attributable to the Company's more diverse utilization of marketing outlets to correspond with currently changing traffic and social patterns, to a continuing program of development of Car/Truckstops and to general emphasis on sales programs and training and development of marketing personnel.

The diversified uses of marketing outlets include conversion of some service stations to self service operations, operation of convenience stores in conjunction with service stations and installation of specialty automotive maintenance stores as well as tires, batteries and accessories (TBA) stores.

In 1979, the Company recorded a 20% increase in light oil sales volumes. These sales volumes were marketed from essentially the same number of outlets as the company operated the previous year.

The Company's system of Car/Truckstops, located along the TransCanada Highway from the Quebec/Ontario border to the West Coast, continued to make a major contribution to the Company's marketing results. Car/Truckstops are major diesel and gasoline retail outlets with ample general parking and large paved surfaces for convenient commercial truck turn around space. Each incorporates a Husky House restaurant open 24 hours a day.

In a marketing program to increase penetration of the southern Ontario highway gasoline and diesel fuel market, new Car/Truckstops were opened through acquisition and new construction in Windsor in 1977, in Bradford and St. Catharines in 1978 and in London and Kingston in 1979.

Feasibility and engineering studies for upgrading plants in the Lloydminster area were continued in 1979 as a Company priority consistent with the policies of the Government of Canada and the Provinces of Alberta and Saskatchewan. A separate department has been set up in the Company to manage its upgrading activities.

Summary of Refinery Runs

Canada

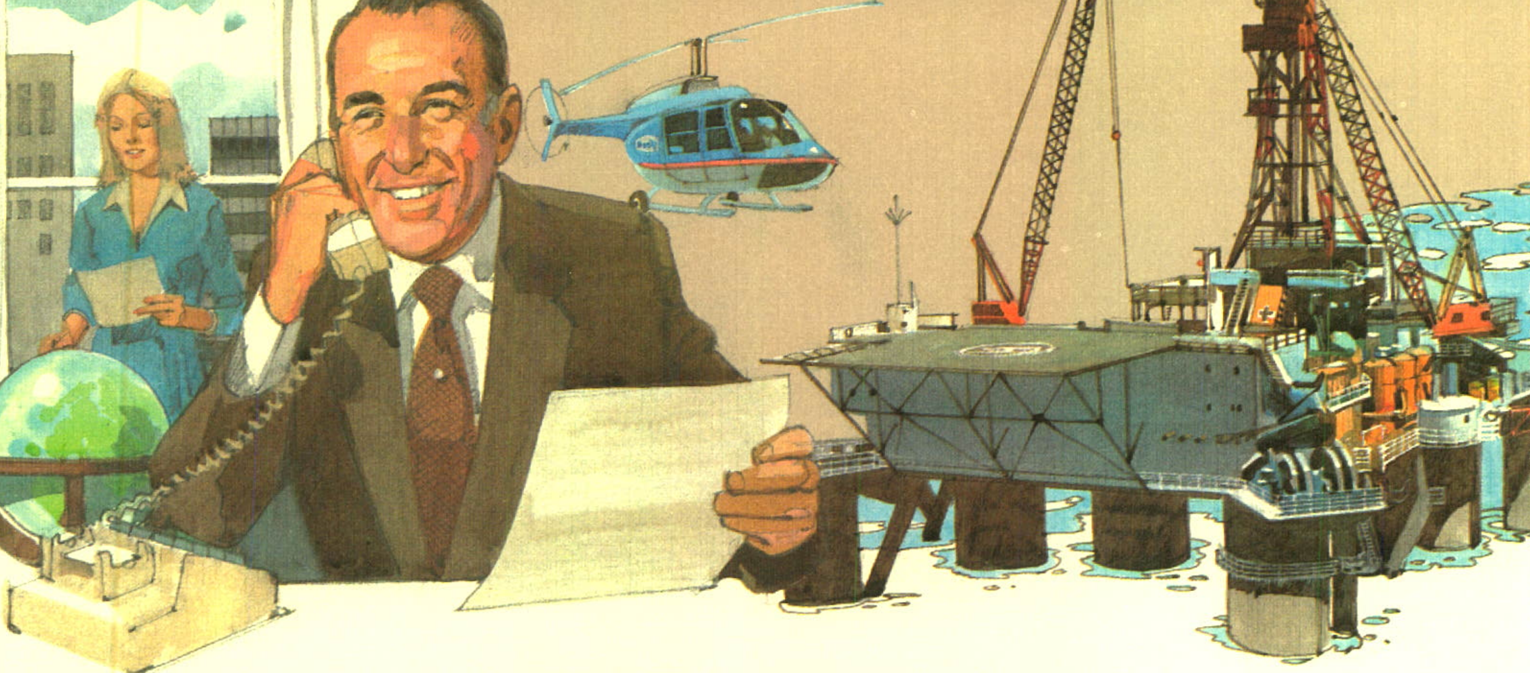
	Thousands of Barrels		Thousands of Cubic Metres	
	1979	1978	**1979**	1978
Refinery				
Lloydminster, Alberta	**3,664**	3,491	**583**	555
Prince George, B.C.	**2,831**	2,164	**450**	344
Total	**6,495**	5,655	**1 033**	899

	Barrels Per Day		Cubic Metres Per Day	
	1979	1978	**1979**	1978
Refinery				
Lloydminster, Alberta	**10,039**	9,565	**1 596**	1 520
Prince George, B.C.	**7,757**	5,930	**1 233**	942
Total	**17,796**	15,495	**2 829**	2 462

United States

	Thousands of Barrels		Thousands of Cubic Metres	
	1979	1978	**1979**	1978
Refinery				
Cheyenne, Wyoming	**8,579**	8,492	**1 364**	1 349
Cody, Wyoming	**4,393**	3,998	**698**	635
North Salt Lake, Utah	**3,558**	3,784	**566**	602
Total	**16,530**	16,274	**2 628**	2 586

	Barrels Per Day		Cubic Metres Per Day	
	1979	1978	**1979**	1978
Refinery				
Cheyenne, Wyoming	**23,505**	23,264	**3 737**	3 699
Cody, Wyoming	**12,035**	10,954	**1 914**	1 742
North Salt Lake, Utah	**9,747**	10,367	**1 550**	1 648
Total	**45,287**	44,585	**7 201**	7 089



Subsidiaries

HUSKY OIL (INTERNATIONAL), INC.

The Company holds overseas land positions offshore The Republic of the Philippines, offshore Senegal, Africa, offshore and onshore Pakistan and participates to a less significant extent in seven blocks in the United Kingdom sector and in 14 blocks in the West German sector of the North Sea.

In 1979, an exploratory well, Matinloc #1, successfully followed an earlier oil discovery, Cadlao #1, located offshore Palawan Island, The Republic of the Philippines, about 275 miles southwest of Manila. The Company plans to complete two wells in this oilfield in an undersea system which would produce from the wellheads directly into a moored storage tanker. Production is scheduled to begin early in 1981.

The Company has a 33⅓% interest in one 840 000 hectare (2.1 million acre) drilling concession partly onshore and largely offshore Palawan Island and an approximate one-third interest in another drilling concession covering approximately 520 000 hectares (1.3 million acres) offshore in the same general area.

Offshore Senegal, the Company recently acquired a 100% interest, subject to certain other rights, in an exploration permit covering almost 2 000 000 hectares (5 million acres). A 1 500 kilometre (900 mile) marine seismic survey is scheduled on this tract early in 1980.

The Company has a 95% interest in a 1 760 000 hectare (4.4 million acre) concession located half onshore and half offshore and covering the Indus River Delta, Pakistan. Mandatory surrender of 25% of this acreage is expected in the first part of 1980.

The Company plans to participate this year in two exploratary wells, one on Block 16/26 and one on nearby block 15/30 of the United Kingdom sector of the North Sea to evaluate an earlier exploratory well which encountered natural gas and condensate in non-commercial quantities. An exploratory well has been scheduled to begin drilling late this year or early in 1981 on Block H8 in the West German sector.

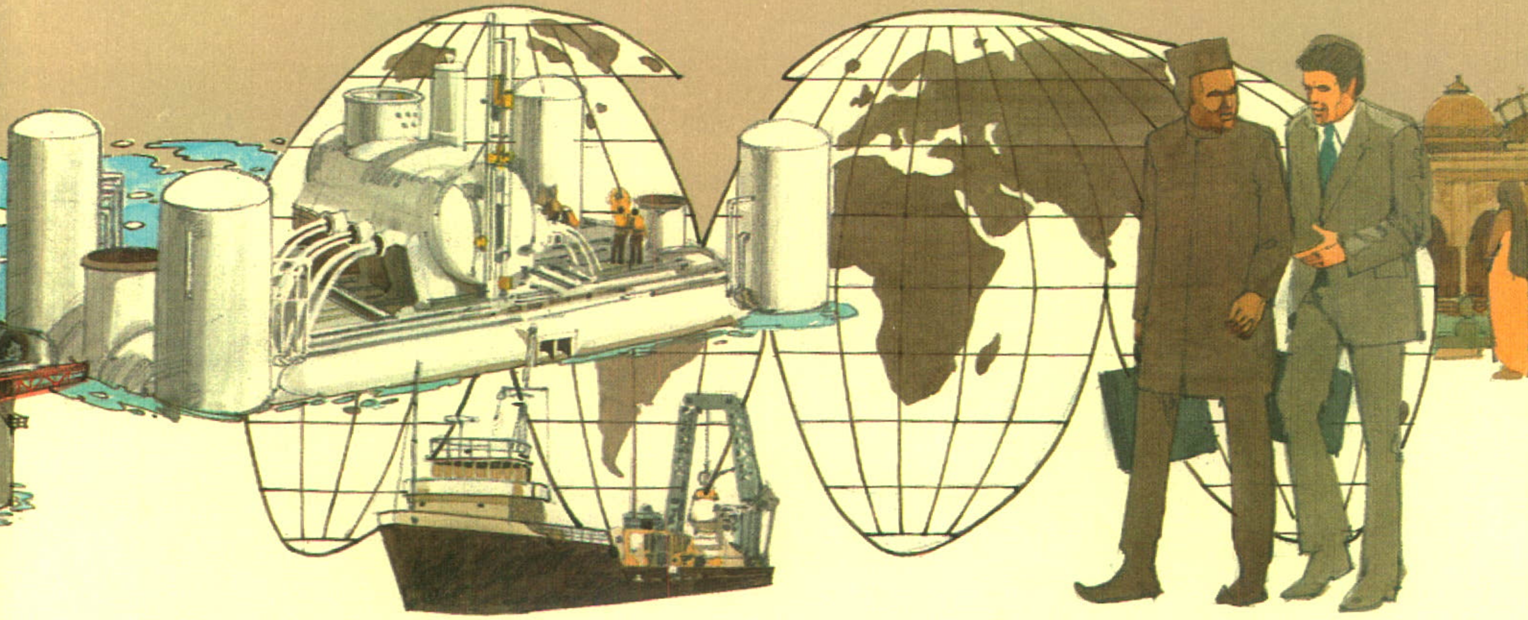
The Company has varying interests of less than 17% in its North Sea blocks.

CANOCEAN RESOURCES LTD.

In December 1979, the Company acquired CanOcean Resources Ltd. (formerly operating as Lockheed Petroleum Services). CanOcean's main business is to develop, produce and service systems for the exploration of hydrocarbons offshore including the design and manufacture of one-atmosphere subsea oil and gas production equipment and project coordination for the offshore installation and commissioning of subsea production systems.

CanOcean's current contract with Petrobras, Brazil's national oil company, for the design, supply and commissioning of a 9-well subsea oil production system is progressing on schedule. Three of the Petrobras wells were brought on production in 1979 at an aggregate total rate of 2 305 cubic metres (14,500 barrels) of oil per day.

CanOcean Resources Ltd. is also active in the development of Canada's offshore Arctic petroleum potential through a number of feasibility studies on subsea and surface production transportation systems.

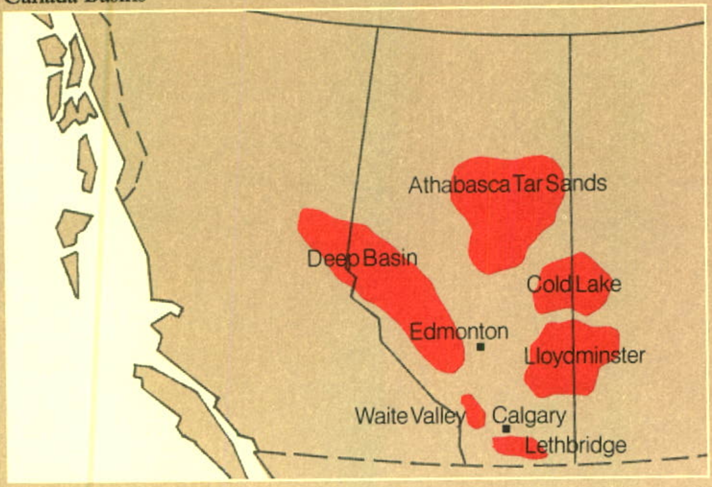


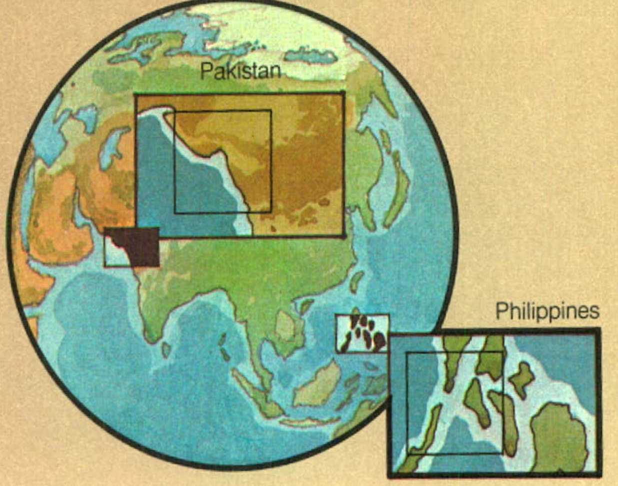
Summary of Wells Drilled*	Gross Wells Oil	Gross Wells Gas	Gross Wells Dry	Gross Wells Total	Net Wells Oil	Net Wells Gas	Net Wells Dry	Net Wells Total
CANADA								
Exploratory drilling	7	17	36	60	6	11	33	50
Development drilling	220	6	32	258	205		31	236
Total	227	23	68	318	211	11	64	286
UNITED STATES								
Exploratory drilling	2	9	14	25		3	6	9
Development drilling	141	43	13	197	39	7	6	52
Total	143	52	27	222	39	10	12	61
INTERNATIONAL								
Exploratory drilling	1		1	2				
Development drilling	1			1				
Total	2		1	3				
Combined CANADA, U.S. and INTERNATIONAL								
Exploratory drilling	10	26	51	87	6	14	39	59
Development drilling	362	49	45	456	244	7	37	288
Total	372	75	96	543	250	21	76	347

*Additional wells drilled in 1979 programs, including those wells awaiting evaluation, are not classifiable in this table and therefore are not included. Well tabulations in other Husky 1979 reports are affected by similar circumstances and therefore may vary non-materially from those used in this Annual Report.

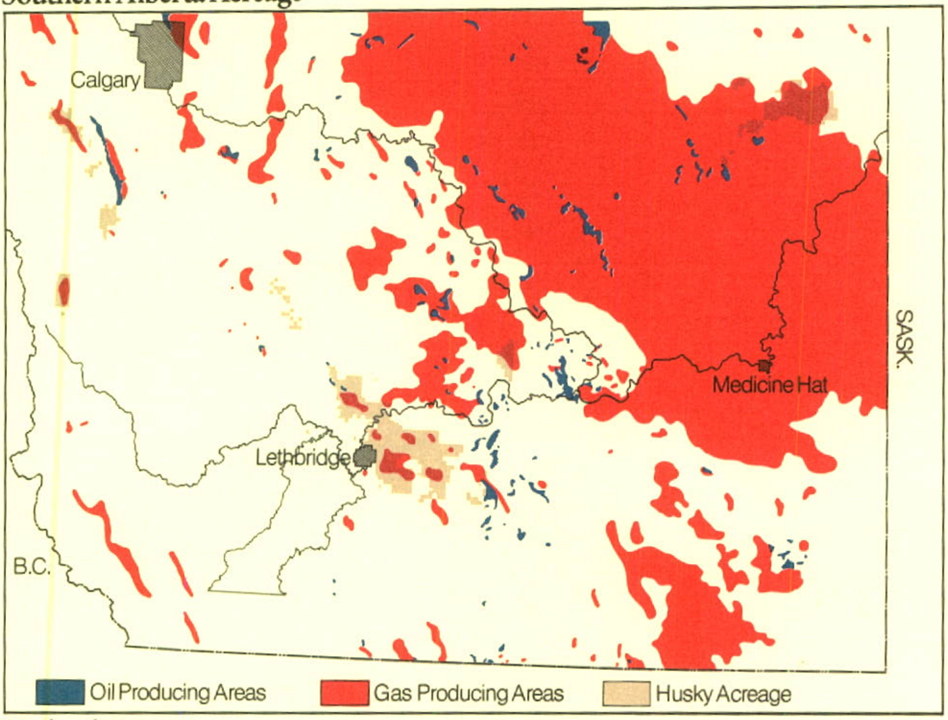
Summary of Gross and Net Production	Oil and Gas Liquids 1979 Gross	1979 Net	1978 Gross	1978 Net	Natural Gas 1979 Gross	1979 Net	1978 Gross	1978 Net
	Thousands of Barrels/Thousands of Cubic Metres				Millions of Cubic Feet/ Millions of Cubic Metres			
CANADA								
Alberta	2,140	1,500	1,757	1,233	15,831	10,770	14,997	9,937
	340	239	279	196	446	303	423	280
Saskatchewan	879	516	912	493	518	475	476	443
	140	82	145	78	15	13	13	13
Lloydminster	8,697	6,934	8,507	5,744	4,972	4,206	5,125	4,548
	1 383	1 102	1 352	913	140	119	144	128
Other Areas	1	1	2	2	204	167	789	647
					6	5	22	18
Total CANADA	11,717	8,951	11,178	7,472	21,525	15,618	21,387	15,575
	1 863	1 423	1 776	1 187	607	440	602	439
UNITED STATES								
California	846	731	620	526	65	55	76	64
	134	116	99	84	2	2	2	2
Colorado	719	565	826	648	229	204	313	268
	114	90	131	103	6	6	9	8
Montana	154	132	195	167				
	24	21	31	26				
New Mexico	705	606	749	643	6,010	5,135	4,458	3,771
	112	96	119	102	169	145	126	106
Texas	272	222	300	245	590	494	891	723
	43	35	47	39	17	14	25	20
Wyoming	3,065	2,598	2,988	2,534	1,841	1,561	1,247	1,069
	487	413	475	403	52	44	35	30
Other Areas	855	692	756	613	6,264	2,175	939	733
	137	111	120	97	177	60	27	20
Total United States	6,616	5,546	6,434	5,376	14,999	9,624	7,924	6,628
	1 051	882	1 022	854	423	271	224	186
INTERNATIONAL	414	414						
	66	66						
Total	18,747	14,911	17,612	12,848	36,524	25,242	29,311	22,203
	2 980	2 371	2 798	2 041	1 030	711	826	625

Canada Basins





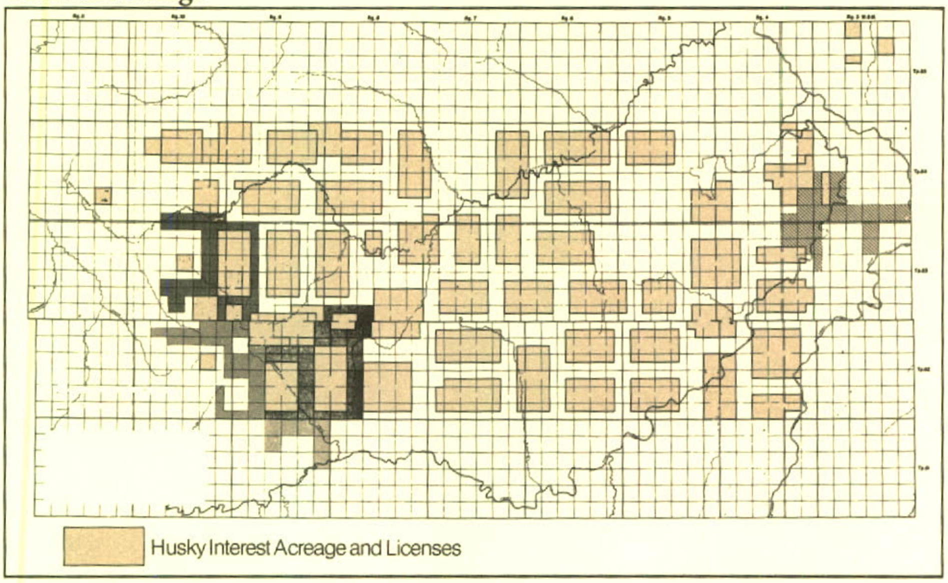
Southern Alberta Acreage



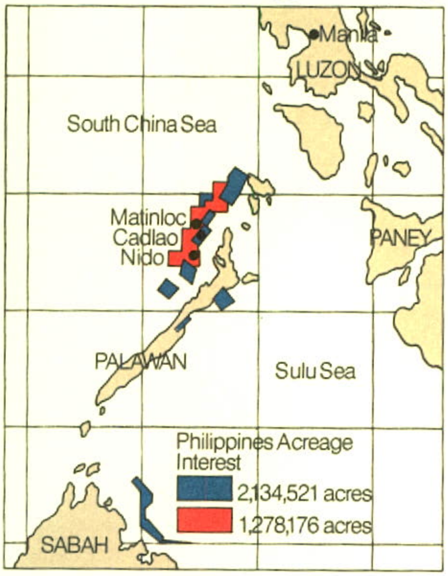
Acreage Locations

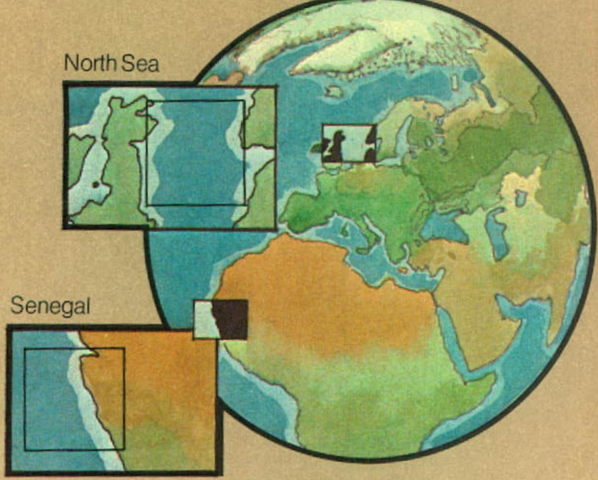
Current areas of particular conventional oil and gas exploration interest include Husky's position in The Philippines, The Cutbank region of the Deep Basin, various southern Alberta holdings and The Paradox Basin of Utah.

Cutbank Acreage

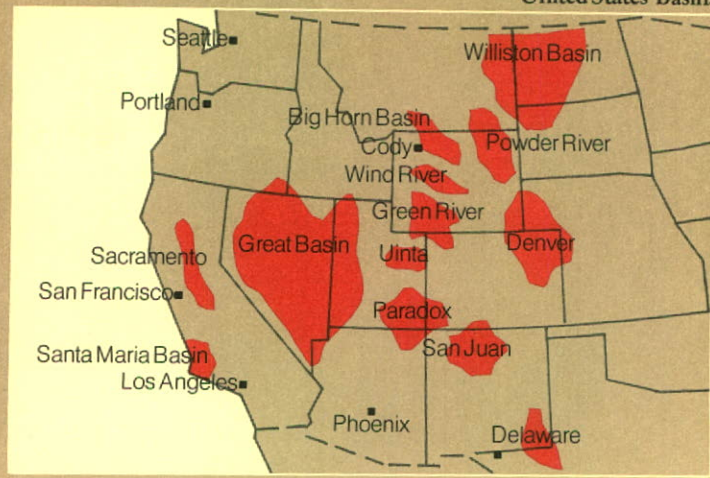


Philippines Acreage

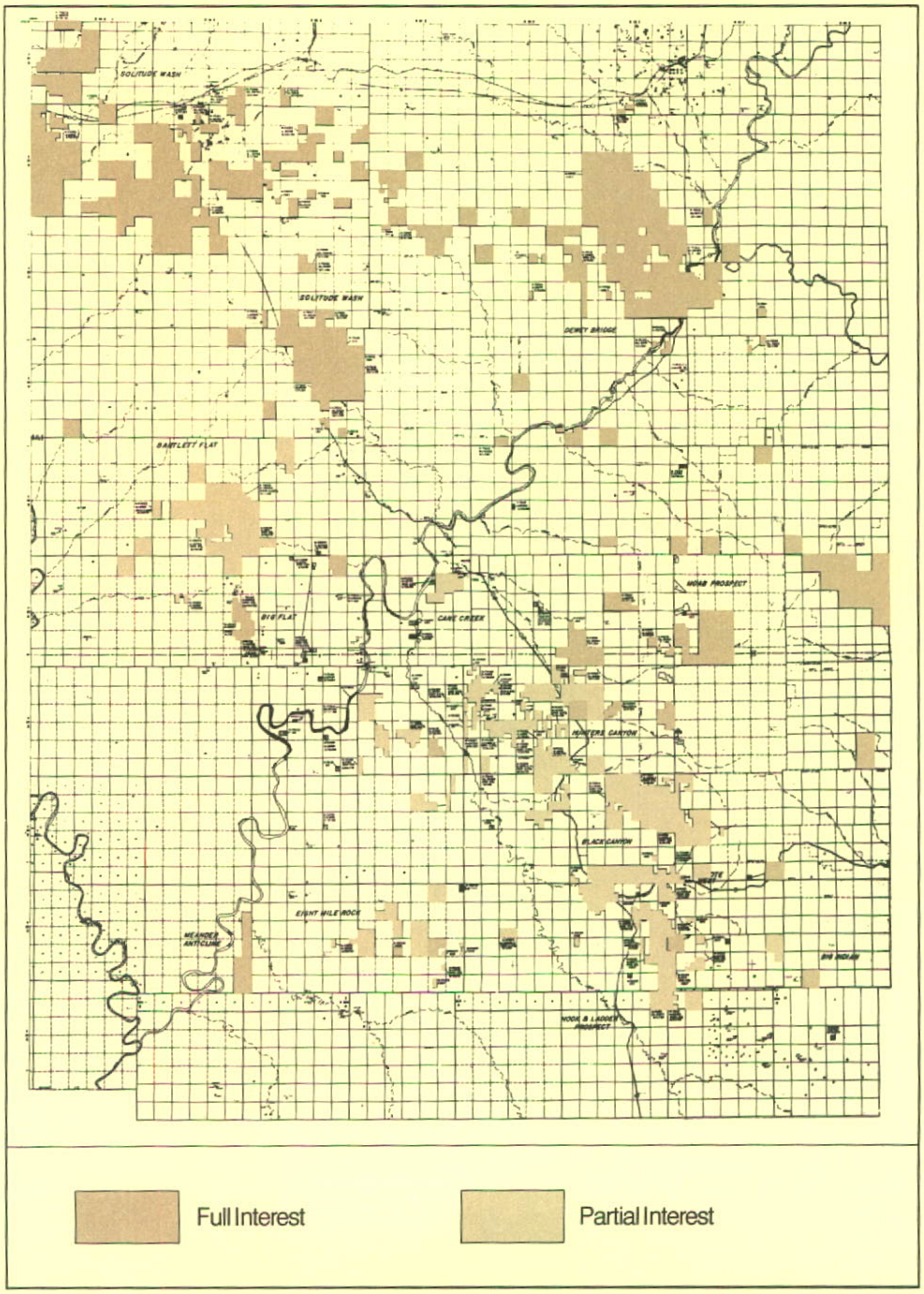




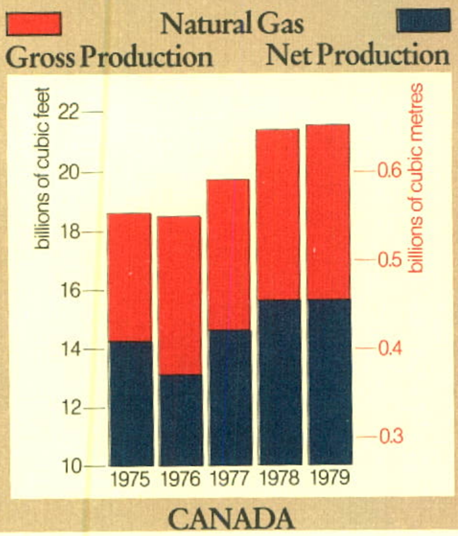
United States Basins

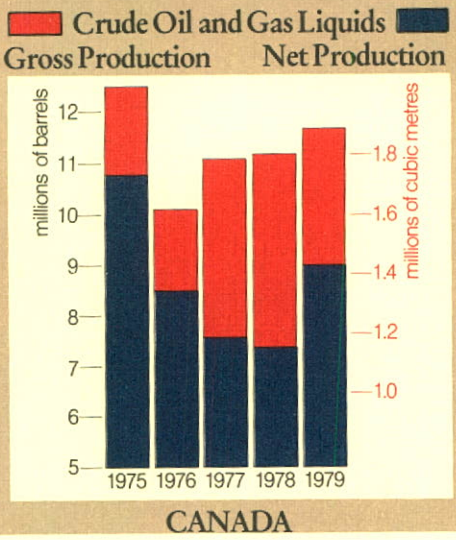


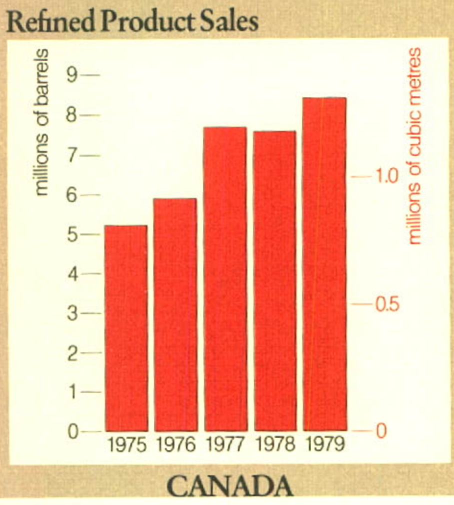
Paradox Basin Acreage



Areas are not shown to scale







Proven Net Reserves	As at December 31, 1979	1978
Crude Oil (barrels)		
Canada	**79,598,000**	73,631,000
United States	**28,045,000**	30,600,000
Total	**107,643,000**	104,231,000
Crude Oil (cubic metres)		
Canada	**12 655 000**	11 701 000
United States	**4 459 000**	4 862 000
Total	**17 114 000**	16 563 000
Natural Gas (thousands of cubic feet)		
Canada	**215,649,000**	215,347,000
United States	**76,229,000**	78,511,000
Total	**291,878,000**	293,858,000
Natural Gas (thousands of cubic metres)		
Canada	**6 076 000**	6 067 000
United States	**2 148 000**	2 212 000
Total	**8 224 000**	8 279 000
Probable Net Reserves		
Crude Oil (barrels)		
Canada	**19,282,000**	18,958,000
United States	**7,862,000**	4,573,000
Total	**27,144,000**	23,531,000
Crude Oil (cubic metres)		
Canada	**3 066 000**	3 019 000
United States	**1 250 000**	720 000
Total	**4 316 000**	3 739 000
Natural Gas (thousands of cubic feet)		
Canada	**37,909,000**	38,136,000
United States	**2,713,000**	1,845,000
Total	**40,622,000**	39,981,000
Natural Gas (thousands of cubic metres)		
Canada	**1 068 000**	1 075 000
United States	**76 000**	52 000
Total	**1 144 000**	1 127 000
Combined Proven and Probable Net Reserves		
Crude Oil (barrels)		
Canada	**98,880,000**	92,589,000
United States	**35,907,000**	35,173,000
Total	**134,787,000**	127,762,000
Crude Oil (cubic metres)		
Canada	**15 721 000**	14 720 000
United States	**5 709 000**	5 582 000
Total	**21 430 000**	20 302 000
Natural Gas (thousands of cubic feet)		
Canada	**253,558,000**	253,483,000
United States	**78,942,000**	80,356,000
Total	**332,500,000**	333,839,000
Natural Gas (thousands of cubic metres)		
Canada	**7 144 000**	7 142 000
United States	**2 224 000**	2 264 000
Total	**9 368 000**	9 406 000

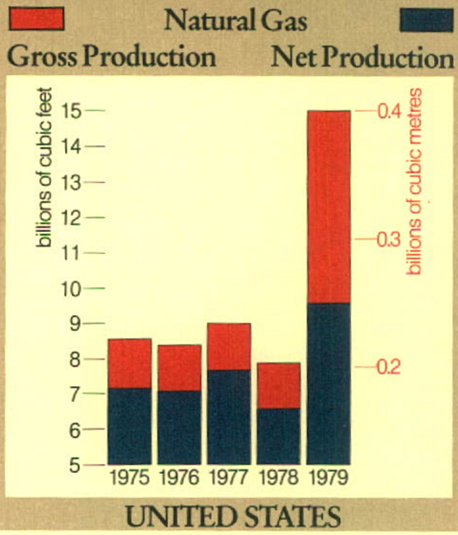
Statistics and Locations

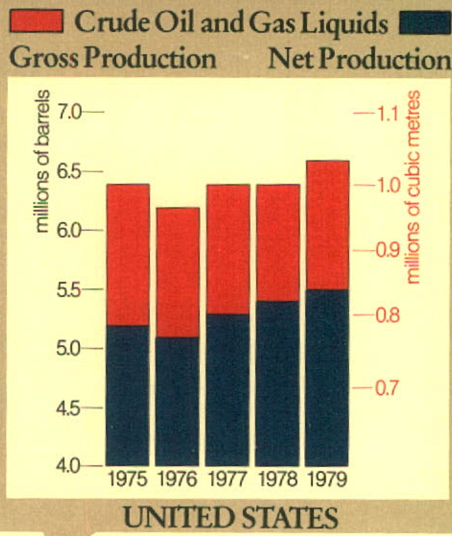
Net Acreage Holdings and Rights on December 31, 1979

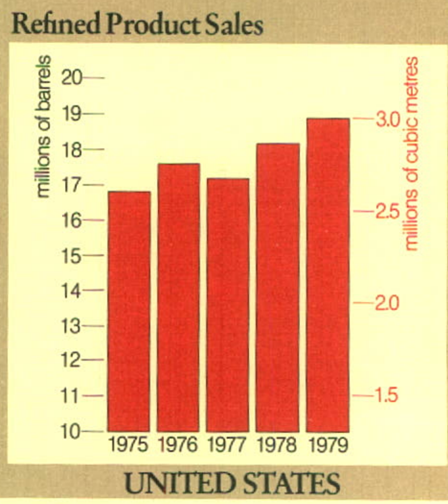
	Net Acres in thousands
CANADA	
Developed	465
Undeveloped	2,246
Total	2,711
UNITED STATES	
Developed	70
Undeveloped	1,034
Total	1,104

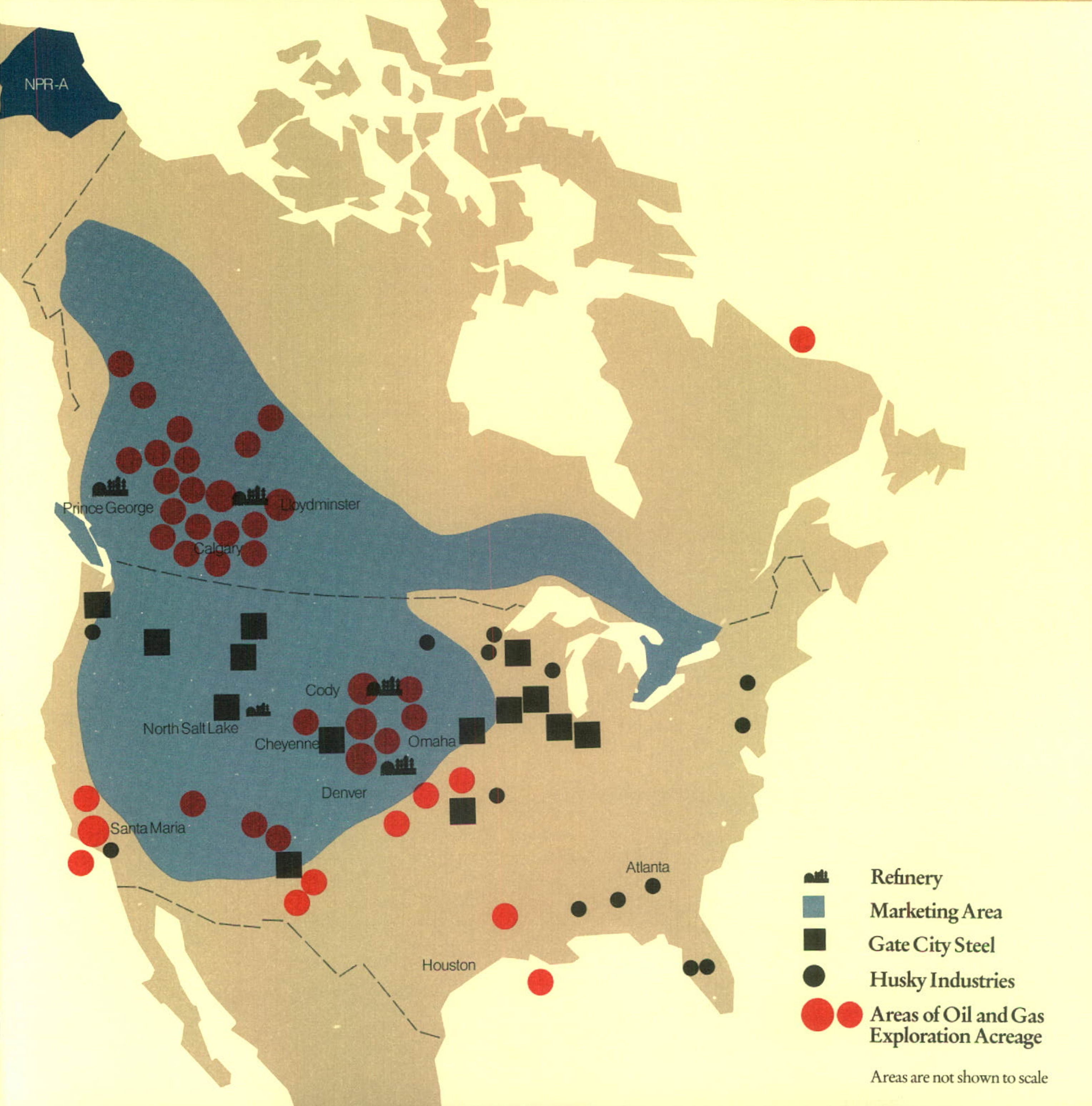
Mining Claims and Permits

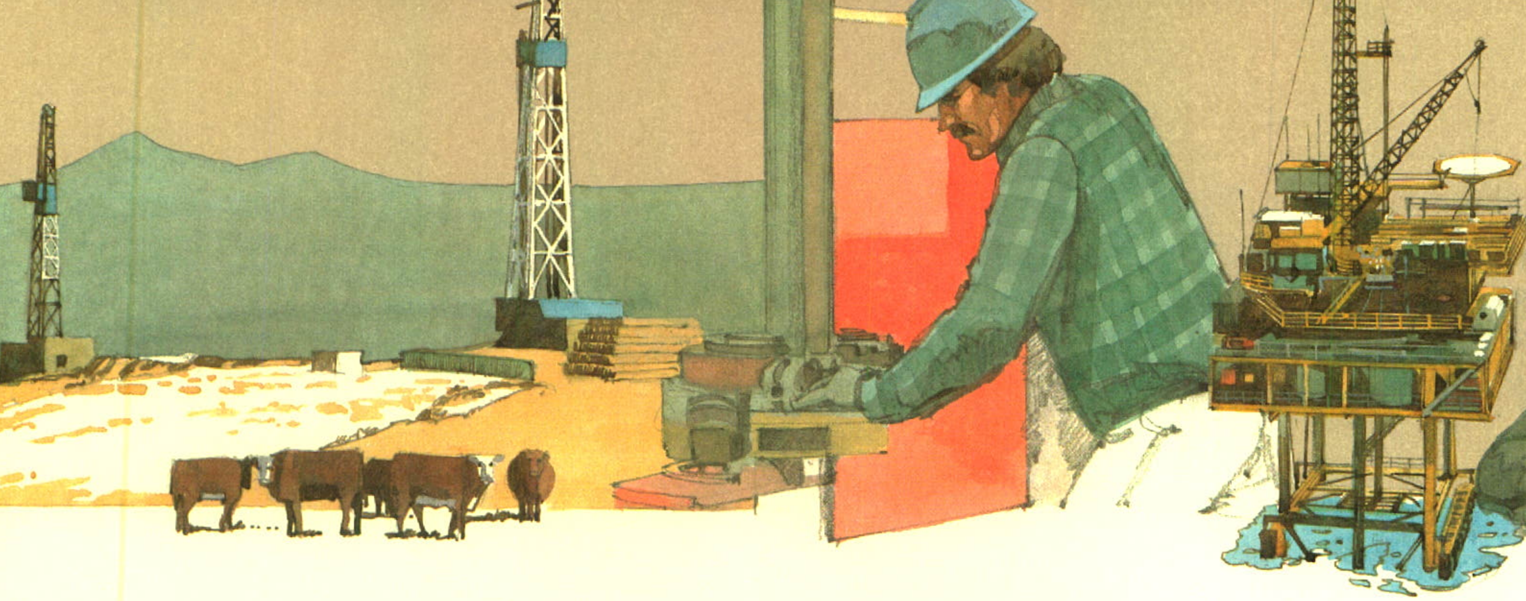
CANADA	1


Natural Gas
Gross Production
Net Production
billions of cubic feet
billions of cubic metres
15
14
13
12
11
10
9
8
7
6
5
0.4
0.3
0.2
1975 1976 1977 1978 1979
UNITED STATES


Crude Oil and Gas Liquids
Gross Production
Net Production
millions of barrels
millions of cubic metres
7.0
6.5
6.0
5.5
5.0
4.5
4.0
1.1
1.0
0.9
0.8
0.7
1975 1976 1977 1978 1979
UNITED STATES


Refined Product Sales
millions of barrels
millions of cubic metres
20
19
18
17
16
15
14
13
12
11
10
3.0
2.5
2.0
1.5
1975 1976 1977 1978 1979
UNITED STATES


NPR-A
Prince George
Lloydminster
Calgary
Cody
North Salt Lake
Cheyenne
Omaha
Denver
Santa Maria
Atlanta
Houston
Refinery
Marketing Area
Gate City Steel
Husky Industries
Areas of Oil and Gas Exploration Acreage
Areas are not shown to scale



United States Petroleum Operations

EXPLORATION AND PRODUCTION

The Company has oil and gas production interests in more than 3,000 gross wells in the United States located over a wide area from Mississippi to California. Most of the Company's conventional oil production is from interests in properties operated for Husky by others (non-operated properties) the most important of which are in the Oregon Basin of Wyoming, the Rangely unit in Western Colorado, the Empire Abo unit in Southeast New Mexico and the Bell Creek field of Southern Montana.

The substantial part of the Company's natural gas production is from non-operated properties including Vermilion Block 329 offshore Louisiana and areas in the Delaware and San Juan Basins of New Mexico. A 1978 natural gas discovery near Sacramento, California, continued development this year.

Company operated natural gas production is located primarily in the Fuller Reservoir field in the Wind River Basin of Wyoming and from holdings in northern and southern New Mexico.

Conventional oil production operated by the Company is primarily from the Cody field and the Little Sand Draw field in the Big Horn Basin of Wyoming, the Altamont-Bluebell field in the Uinta Basin of Utah and the Ackman field in Red Willow County, Nebraska.

Heavy crude oil production operations are conducted by the Company in the Shoshone, Pitchfork and Halfmoon fields in the Big Horn Basin of Wyoming and in the Santa Maria Basin of California.

The deregulation late in the third quarter, of the price of heavy crude oil beneficially affected all the Company's production operations in California and part of production operations in Wyoming. In anticipation of new price structures, the 1979 capital expenditure program was increased at the time to provide for the drilling and completion of several additional wells in the Clark Avenue area of the Santa Maria Basin. The first two development wells drilled in California following the decontrol have been completed and are producing 19 and 31 cubic metres (125 and 200 barrels) of oil per day respectively.

In December the definition of heavy crude oils was revised to include those of 20 degrees API gravity and has released additional Wyoming heavy crude from price controls. The resulting improved return on heavy oil production is expected to stimulate additional development of the Company's properties in both California and Wyoming.

Together with other lower interest wells, production operations in 1979 included participation in 88 development wells mainly in and near the Ackman unit of Nebraska, in the Pitchfork field of the Big Horn Basin, the Cody field of Wyoming and California. Results include 49 oil wells, 18 natural gas wells and 6 service wells. Eight of the development wells were continuing to drill at year-end. Net crude oil production increased approximately 4% in 1979. Net natural gas volumes were up 45% in the same period.

The increased natural gas volumes are primarily attributable to production from the Company's offshore platform in the Gulf of Mexico which began in May and reached 1 245 000 cubic metres per day (44 million cubic feet) during 1979. Husky has a 73% working interest in the Vermilion Block production subject to a royalty which reflects the acquisition of the tract on a royalty bid basis as an alternative to the more traditional cash bonus bid system.

A 1979 field perimeter development well in the Big Horn Basin of Wyoming tested oil at a rate of 37 cubic metres (230 barrels) per day. The well demonstrates potential extension of the Little Sand Draw oil field together with possible extension towards adjacent areas in which Husky has a 100% working interest.

The Company's exploration program for natural gas from the Deep Morrow formation in southeast New Mexico continued in 1979. A 16% Husky interest well, drilled as a significant step-out from other Morrow production, was completed and placed on production at a rate of 311 300 cubic metres (11.0 million cubic feet) per day. As a result of this well, additional Morrow natural gas development is expected in the program in this area where Husky has built up a substantial land position.

An exploratory well, drilled near Sacramento, California in confirmation of a 1978 discovery, encountered natural gas in multiple zones below a depth of 2 147 metres (7,000 feet). Both wells are expected to be producers and further exploration activity in the area is continuing.

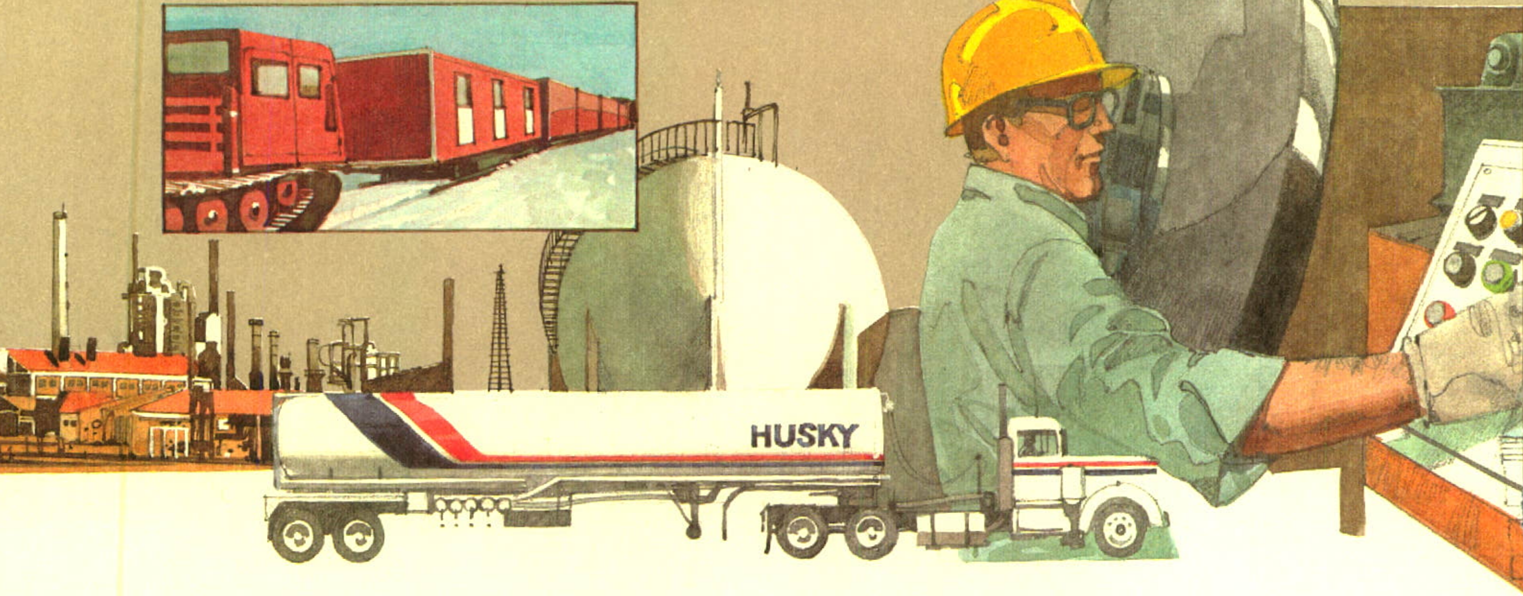
A successful exploratory well drilled at Baxter Siding near the City of Rock Springs in the Green River Basin of Wyoming flowed natural gas from the Dakota formation at a rate of about 198 000 cubic metres (7 million cubic feet) per day through a 3.8 centimetre (1½ inch) choke. A step-out well was subsequently drilled to the southwest and abandoned. A third well in the exploration program encountered natural gas in the Dakota formation and was completed as a producer.

A total of 10 wells have subsequently been drilled in continuing exploration and confirmation of the discovery. Five of these wells have been completed and are expected to begin delivering gas to a pipeline early in 1980. An additional development program is projected for this area in which Husky has interests in 2 400 gross hectares (6,000 acres).

The results of the Company's 1979 exploration drilling program, involving participation in a total of 28 exploratory wells, principally in the inter-mountain area and New Mexico, included completion of two oil and nine natural gas wells and three suspended natural gas wells. Fourteen of the exploratory wells were drilled as part of the continuing activity in a previously announced $36 million joint venture exploration program with Pan Eastern Exploration Company. The Company has a 60% and Pan Eastern a 40% interest in the joint venture programs.

The Company plans intensified and additional exploration activity in the United States in 1980 and will continue expansion and development of production with particular emphasis on holdings which will benefit from improved economics as a result of legislative changes.

Husky has entered into a limited partnership with another company for a three year exploration program in which drilling will be conducted primarily onshore along the coasts of Texas and Louisiana. The first wells of the program are expected to begin drilling in the first quarter of 1980.



REFINING AND MARKETING

Husky's three United States refineries are located at Cody and Cheyenne, Wyoming and North Salt Lake City, Utah.

The Cody and Cheyenne refineries, utilize low gravity-high sulfur and intermediate gravity-high sulfur crude oil feedstocks respectively. Both refineries produce propane, gasoline, diesel fuels, heavy fuel oils and highway asphalts. In addition, the Cody refinery produces packaged roofing asphalts.

The North Salt Lake refinery processes a paraffinic (wax) low sulfur crude oil feedstock and produces propane, gasoline and diesel fuels. The plant also produces reduced crude, a product sold as low sulfur-heavy fuel oil and utilized as refinery feedstock for further processing by the Cheyenne and Cody refineries.

At Cheyenne, an extensive refinery upgrading and expansion project involving the construction and installation of a new crude unit and a delayed coker, is in the completion phase. The crude unit, which increases the refinery's capacity, has been installed and is in operation. Construction of the delayed coker is proceeding.

The project, which is expected to reduce the Company's dependence on seasonal asphalt and fuel oil markets, will also improve the refinery's ability to convert heavy ends and asphalts to gasolines or other light oil products.

Total refining throughput and total refined product sales volumes increased slightly in the United States in 1979. Light oil sales volumes were relatively unchanged during this period of spot shortages of gasoline and diesel fuel in the industry generally.

Husky purchased substantial volumes of gasoline and distillate products from other sources in 1979 to supplement the limited product availability to its own marketing outlets.

The Company has a total of 768 wholesale and retail marketing outlets in the United States including 38 Car/Truckstops which comprise a system of large, 24-hour-a-day outlets strategically located on interstate highways in the Mid-west, Rocky Mountain and Western states.

Sales of automotive related products (tires, batteries and accessories) improved significantly in 1979 following a trend established in recent years as a result of added management emphasis on personnel training and the introduction of extensive TBA marketing development programs. Income from Husky House Restaurants associated with Car/Truckstops also increased significantly in 1979.

As a result of interest from the Department of Energy and anticipating potential consumer demand for a mixture of gasoline and ethanol (ethyl alcohol) as automobile fuel, the Company is currently test marketing the blended product (gasohol) at four marketing outlets in the Spokane, Washington area.

Subsidiaries

GATE CITY STEEL

Gate City Steel Corporation's sales exceeded U.S. $100 million in 1979 for the first time in the Company's history. Total sales for the year increased 17.4% to U.S. $101.5 million and pre-tax earnings increased 27.8% to U.S. $5.4 million.

A wholly-owned subsidiary, Gate City Steel is engaged in warehousing, distribution, and processing of steel and steel products and in the fabrication of concrete reinforcing bar, and fabrication of substations for the electrical utility industry.

Gate City Steel now has 14 plants located in the northern, mid-western and Rocky Mountain regions of the United States.

The Company's Gary, Indiana facility, located in the largest steel producing area in the United States, houses equipment unique in the steel service industry.

The facility is capable of decoiling and processing heavy gauge steel coils up to 1.8 metres (6 feet) in width, 12.7 millimetres (½ inch) in thickness and weighing as much as 36 tonnes (40 tons). The Gary plant also functions as a central warehouse for the Company's other locations.

Market conditions in 1979 were influenced by severe weather conditions in the first half of the year and by labor disturbances in the trucking industry.

HUSKY INDUSTRIES

A 90% owned subsidiary, Husky Industries, Inc. manufactures and markets charcoal briquets and associated outdoor cooking products. The Company's briquet products are manufactured in eight plants located throughout the United States. Three plant facilities are in the general Great Lakes area, four are in the southeastern United States and one is located in Oregon. The Company produces activated carbon used for municipal water treatment, at a ninth plant located in Romeo, Florida.

Husky Industries gross revenue, which increased 31.1% in 1979, was the highest in the history of the Company following a trend established in 1976 of successive yearly improvements in sales. Pre-tax earnings declined, however, 76.7% for the period owing to high start-up costs and lower than anticipated sales at newly acquired locations during the transition to the Husky Industries system. Also a factor was a shortened barbecue season following unusually cold spring weather which caused some inventory accumulations and associated pressure on margins in the industry. Escalating meat prices and high energy costs were also factors in the reduced earnings.

The increase in sales revenue for the Company is the result of continued general operational improvements, the expansion of production capabilities from recent plant acquisitions and a major aggressive marketing effort begun in 1978.

At the National Food Brokers Association Convention, held in San Francisco in December, Husky Industries introduced the largest advertising and promotional campaign in the history of the company, designed to position the Company's Royal Oak briquets firmly as a national brand. During 1979, the packaging of an instant lighting briquet product, "Brix", was redesigned to incorporate the Royal Oak name.

HUSKY OIL NPR OPERATIONS, INC.

In 1979, the Company began its fifth year as contract operator of an exploration program on the National Petroleum Reserve–Alaska, which is currently managed by Nielson International, jointly owned by the Company and JN Incorporated. These operations are conducted under a cost plus fixed fee contract with the U.S. Department of the Interior.

In this year's activity, the Company expects to drill five exploratory wells and is scheduling a seismic/gravity program covering 1 561 kilometres (970 line miles). A major road construction project is also scheduled in the 1979/80 program together with the drilling of three natural gas development wells in the Point Barrow area. The total estimated cost of the current program is approximately $168 million.

At the conclusion of this year's program, Husky will have drilled 25 exploratory wells and completed 13 837 kilometres (8,600 line miles) of geophysical surveys. Two of the exploratory wells were drilled to depths below 6 096 metres (20,000 feet). In addition, the Company will have also drilled eight wells in the Barrow area including development of a new gas field by the end of the current year's operations.

The Company also operates a main base at Camp Lonely, Alaska and manages all support and logistical services associated with petroleum operations under the remote conditions characteristic of this National Petroleum Reserve.

Financial Review

Management's Discussion and Analysis of the Financial and Operating Summary

The following is Management's description of certain significant factors which affected the Company's operations for 1979 and 1978 compared with the previous year.

1979 Compared to 1978

The Company's net earnings for the year ended December 31, 1979 were $93.1 million, or $8.40 per share, compared to $65.2 million, or $5.91 per share, for 1978. The amounts for 1978 have been restated to reflect the translation of the accounts of United States subsidiaries to Canadian dollars and to reflect a change in inventory valuation. (See note 2 of the Notes to the Consolidated Financial Statements). The increase in earnings results primarily from improvement in petroleum operations.

Consolidated sales and operating revenues increased 36% to $1,053.0 million resulting from improved sales in almost all operating segments.

Sales of refined oil products were up just over $200.0 million. Approximately 85% of the increase came from sales in the United States and resulted from the escalation of selling prices of gasoline and other light oil products which reflected sharp increases in spot market prices paid for crude oil. The resulting increased refined product sales income in the United States tends to overshadow a 20% improvement in sales volumes of gasoline and other light oil products in Canada and a 19% gain in volumes of asphalts and other heavy fuels sold in the United States.

Revenues from the production of crude oil and natural gas, including internal transfers, were about $47.0 million higher in 1979. Approximately 40% of the increase was caused by higher prices received for crude oil and natural gas produced in the United States, about 20% resulted from revenues received in 1979 from production in the Philippines, and about 10% reflected higher volumes of natural gas produced in the United States. Most of the balance of the increase resulted from the production of crude oil in Canada which included a 5% increase in the gross production volumes. (Net volumes are not comparable because of a change in Saskatchewan from a royalty surcharge on crude oil to an oil well income tax on September 1, 1978).

The revenues received from production in the Philippines represent a recovery, under an exploration agreement, of certain exploration costs expended by the Company in that area.

Sales from steel and charcoal were up approximately 20% and 34%, respectively.

Cost of sales and operating expenses increased $198.1 million to $747.3 million. Gross profit as a percentage of sales remained constant at 29%. The higher cost of crude oil refined in the United States was responsible for over 40% of the increase. The balance was caused by increased costs throughout the operations and primarily reflected greater sales activity.

Selling, general and administrative expenses were up 23%. The increase was spread throughout the operation and was caused by inflationary increases, government regulations and reporting, and business expansion.

Net interest expense was up 91% to $34.2 million. This significant increase reflects greater short-term and long-term borrowing for capital investment and working capital requirements as well as sharply higher interest rates.

Depreciation, depletion and amortization increased 46% to $72.7 million. Depletion alone was up $16.6 million and was primarily caused by significantly greater expenditures for exploration and development of oil and gas properties, especially in Canada. Additionally, depletion in the Philippines was up by $4.9 million resulting from the Company's policy to amortize certain costs in that area on the basis of the related expected revenues under a cost recovery agreement.

Income taxes increased only 6% while earnings before income taxes were up 28% reflecting a lower effective tax rate in Canada. (See note 6 of the Notes to the Consolidated Financial Statements).

Capital expenditures for 1979 of $226.9 million were $68.6 million greater than 1978. Exploration and development expenditures amounted to $173.0 million compared to $95.6 million in the previous year.

The ratio of net earnings, expressed as a percent return on average total assets invested, increased from 8.7% in 1978 to 9.5% in 1979.

1978 Compared to 1977
(Restated for foreign currency translation and inventory valuation)

The Company's net earnings for the year ended December 31, 1978 were $65.2 million, or $5.91 per share, compared to $52.9 million, or $5.03 per share, for 1977. The increase in earnings results mainly from improvement in all segments of petroleum operations along with some improvement in steel and charcoal operations.

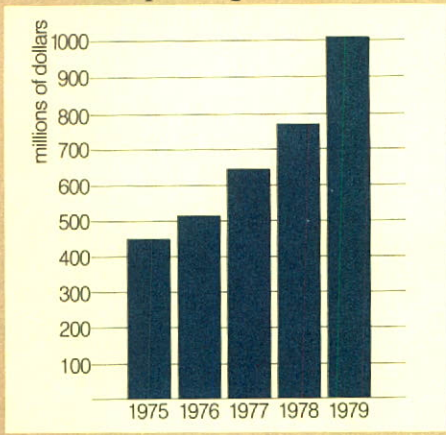
Consolidated sales and operating revenues increased 20% to $772.8 million. This increase can be attributed to three major areas.

Sales of refined oil products improved $73.4 million of which approximately 40% was due to the translation of accounts of the United States subsidiary to Canadian dollars at a lower Canadian dollar exchange rate. Of the balance, approximately 65% was due to higher prices and approximately 35% was due to higher volumes. The price increases were spread throughout light and heavy oil products but the higher volumes were principally due to greater gasoline sales in the United States.

Revenues from the production of crude oil and natural gas, including internal transfers, were up $43.3 million. After currency translation effects which amounted to approximately $15 million, approximately 80% of this increase resulted from higher average prices received for crude oil (63% from Canadian production). Approximately 20% resulted from higher prices received from the production of natural gas (16% from production in Canada). The Canadian Government has been attempting to allow crude oil prices to rise to world levels and permitted a $1.00 per barrel ($6.29 per cubic metre) increase on January 1, 1978 and another $1.00 per barrel ($6.29 per cubic metre) increase on July 1, 1978. However, net of mineral taxes and royalties, the Company received only about one-half of these increases.

Revenues from steel operations improved $20.6 million resulting from foreign currency translation, a firmer market during 1978 and an additional plant added in late 1977.

Sales and Operating Revenues



Cost of sales and operating expenses increased 19% while sales and operating revenues were up 20%. The resulting improved profit margin reflected mainly sales prices which increased slightly faster than costs throughout the Company's operations as well as improved volumes of refined oil products sold. Cost of sales for 1977 also contains a $13.2 million charge relative to the United States Department of Energy entitlements program (see note 9 of the Notes to the Consolidated Financial Statements). Additionally the operator fees from the United States National Petroleum Reserve–Alaska, increased 58% to $5.7 million.

Selling, general and administrative expenses were up 19% mainly representing general increases throughout the operations.

Net interest expense was up 28% and reflected greater short-term and long-term borrowing as well as higher interest rates. Additionally, the adoption of a new accounting standard for leases, as explained below, contributed to the increase.

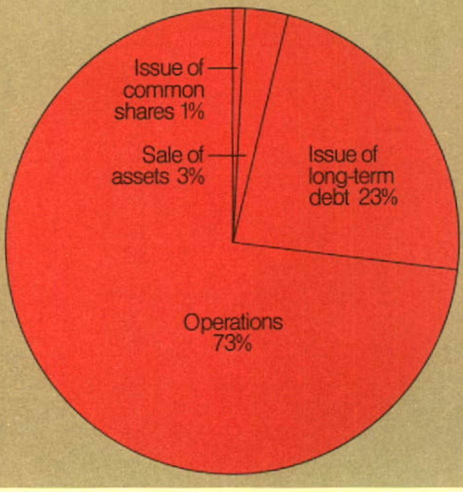
Depreciation, depletion and amortization were up $8.3 million or 20%. This increase reflects greater investment in depreciable property along with an increase in the depletion rates amounting to 24% in Canada and 21% in the United States. Higher depletion rates are an indication of the greater costs required to find and develop new oil and gas reserves. Additionally, the Company adopted a new accounting policy for leases in 1978. Since 1977 net earnings were not restated, 1978 net earnings include depreciation charges of approximately $1.1 million without comparable adjustment to 1977.

The provision for income taxes increased 18% to $45.3 million but resulted mainly from higher earnings. The effective tax rate declined 1% to 41%.

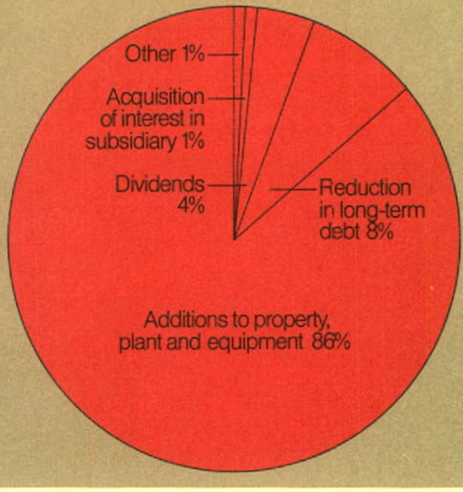
Capital expenditures were $158.3 million in 1978, an increase of $62.2 million over 1977. Approximately three-fourths of the capital expenditures were financed from operations, the balance from other sources.

The ratio of net earnings from operations, expressed as a percent return on average total assets invested remained constant at 8.7% for both years.

Source of Funds



Use of Funds



CAPITAL EXPENDITURES

	1979	1978	1977	1976	1975
			(thousands of dollars)		
Exploration	**$ 79,913**	36,341	33,170	21,144	19,664
Producing properties and pipeline facilities	**93,135**	59,308	35,355	21,154	31,248
Refining and marketing	**38,743**	40,734	19,482	42,866	10,272
Other	**15,138**	21,914	8,063	13,493	7,141
Total	**$226,929**	158,297	96,070	98,657	68,325

Restated–see note 2 in Notes to Consolidated Financial Statements.

MARKET INFORMATION

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Market price per share				
6% Cumulative Redeemable Preferred Shares				
Series A				
1979 High	$43	44	43½	41
Low	41	42⅛	40¾	37¼
1978 High	39½	40	41	40¼
Low	38¼	39	40	39½
Series B				
1979 High	$43	43½	45	40¼
Low	39½	41¾	39¼	35½
1978 High	39½	40	40⅞	40¾
Low	37½	38	40	39½
Common Shares (per Toronto Exchange)				
1979 High	$52¼	60¾	77	77
Low	43	51	56	64
1978 High	30⅞	53⅛	44¾	47⅞
Low	24⅞	27⅜	37½	32⅝
Dividends per Common Share				
1979	$ –	0.50	–	0.50
1978	–	0.50	–	0.50

BUSINESS SEGMENTS

	1979	Year ended December 31, 1978	1977	1976	1975
		(thousands of dollars)			
Information by Industry Segment					
Sales					
Petroleum					
Crude oil and natural gas	**$ 163,306**	123,808	96,098	74,920	65,008
Asphalts and heavy fuels	**114,578**	89,655	75,688	65,246	74,102
Gasoline, light fuels and other	**597,303**	416,015	356,576	272,355	226,263
	875,187	629,478	528,362	412,521	365,373
Steel warehousing and processing	**118,685**	99,074	78,471	67,789	61,816
Charcoal	**59,107**	44,200	38,953	34,907	27,202
Consolidated total	**$1,052,979**	772,752	645,786	515,217	454,391
Operating profit					
Petroleum production, refining and marketing	**$ 158,645**	111,543	93,433	59,068	69,356
Steel warehousing and processing	**10,179**	10,038	5,495	5,147	5,783
Charcoal	**7,732**	9,160	7,490	5,319	4,961
	176,556	130,741	106,418	69,534	80,100
Interest expense	**(34,165)**	(17,892)	(14,012)	(13,083)	(10,988)
General corporate and minority interest	**(1,468)**	(2,378)	(1,230)	(1,153)	(456)
Consolidated earnings before income taxes	**$ 140,923**	110,471	91,176	55,298	68,656
Identifiable assets					
Petroleum production, refining and marketing	**$ 998,404**	737,723	580,423	496,705	411,444
Steel warehousing and processing	**67,025**	58,829	55,970	48,188	36,947
Charcoal	**52,133**	42,094	24,199	19,567	18,601
	1,117,562	838,646	660,592	564,460	466,992
General corporate	**956**	112	48	15	29
Consolidated total	**$1,118,518**	838,758	660,640	564,475	467,021

BUSINESS SEGMENTS

	Year ended December 31, 1979	1978	1977	1976	1975
		(thousands of dollars)			
Information by Geographic Area					
Sales					
Canada	**$ 282,294**	237,666	210,011	147,224	113,586
United States	**762,856**	536,600	438,003	369,401	344,528
Other	**7,979**				
Elimination of intersegment sales	**(150)**	(1,514)	(2,228)	(1,408)	(3,723)
Consolidated total	**$1,052,979**	772,752	645,786	515,217	454,391
Operating profit					
Canada	**$ 83,018**	77,737	63,125	45,260	45,108
United States	**94,942**	56,705	45,036	25,091	35,269
Other	**(1,404)**	(3,701)	(1,743)	(817)	(277)
	176,556	130,741	106,418	69,534	80,100
Interest expense	**(34,165)**	(17,892)	(14,012)	(13,083)	(10,988)
General corporate and minority interest	**(1,468)**	(2,378)	(1,230)	(1,153)	(456)
Consolidated earnings before income taxes	**$ 140,923**	110,471	91,176	55,298	68,656
Identifiable assets					
Canada	**$ 487,798**	359,649	289,982	262,128	203,322
United States	**607,648**	458,924	358,769	294,296	260,015
Other	**22,116**	20,073	11,841	8,036	3,655
	1,117,562	838,646	660,592	564,460	466,992
General corporate	**956**	112	48	15	29
Consolidated total	**$1,118,518**	838,758	660,640	564,475	467,021

Restated–see note 2 in Notes to Consolidated Financial Statements.

Consolidated Statements of Earnings

Husky Oil Ltd. (stated in thousands of dollars)

	Year ended December 31, 1979	1978 (Restated)
Sales and operating revenues	**$1,052,979**	772,752
Costs and expenses		
Cost of sales and operating expenses	747,347	549,219
Selling, general and administrative expenses	58,379	47,511
Interest (net of interest income of $1,495,000 in 1979 and $1,855,000 in 1978)	34,165	17,892
Miscellaneous–net	(2,881)	(1,923)
Depreciation and amortization	33,694	27,390
Depletion	39,044	22,420
Foreign currency exchange loss (gain)	2,224	(1,226)
Minority interest in earnings of consolidated subsidiary	84	998
	912,056	662,281
Earnings before income taxes	140,923	110,471
Income taxes (note 6)		
Current	(1,560)	24,969
Deferred	49,383	20,305
	47,823	45,274
Net earnings	$ 93,100	65,197
Earnings per common share	$ 8.40	5.91

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings

Husky Oil Ltd. (stated in thousands of dollars)

	Year ended December 31, 1979	1978 (Restated)
Balance at beginning of year as previously reported	**$195,393**	151,605
Retroactive adjustment resulting from accounting changes (note 2)	**31,787**	22,050
As restated	**227,180**	173,655
Add		
Transfer from (to) capital surplus arising from the redemption of preferred shares	**3,037**	(305)
Gain on redemption of preferred shares	**35**	66
Net earnings	**93,100**	65,197
	323,352	238,613
Deduct		
Cash dividends		
Preferred shares	**460**	469
Common shares	**11,038**	10,964
	11,498	11,433
Balance at end of year	**$311,854**	227,180

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

Husky Oil Ltd. (stated in thousands of dollars)

Assets	December 31, 1979	1978 (Restated)
Current assets		
Cash	$ 17,490	12,220
Accounts and notes receivable	244,020	163,538
Inventories (note 3)	167,799	128,788
Prepaid expenses	1,329	1,020
Total current assets	430,638	305,566
Notes receivable and miscellaneous assets– at cost less amounts written off	11,490	7,704
Property, plant and equipment–at cost		
Oil and gas properties and equipment	583,267	428,085
Refining, manufacturing, marketing, transportation facilities and other assets	392,642	338,663
Accumulated depreciation and amortization	(203,210)	(171,044)
Accumulated depletion	(103,273)	(74,961)
	669,426	520,743
Other intangible assets–at cost less amounts written off	6,964	4,745
	$1,118,518	838,758

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	December 31, 1979	1978 (Restated)
Current liabilities		
Notes payable to banks (note 4)	$ 146,942	68,538
Accounts payable and accrued liabilities	176,434	153,022
Income taxes payable		2,993
Deferred income taxes	25,578	7,770
Long-term debt due within one year	15,592	12,313
Total current liabilities	364,546	244,636
Long-term debt (note 5)	190,835	148,947
Deferred credits		
Deferred income taxes	123,288	91,738
Other	6,998	2,818
	130,286	94,556
Minority interest in consolidated subsidiary	1,895	3,625
Shareholders' equity (note 7)		
Cumulative, redeemable preferred shares–yield $3; authorized 623,550 shares, issued 151,023 shares in 1979 and 154,964 shares in 1978	7,551	7,748
Common shares; authorized 40,000,000 shares, issued 11,040,273 shares in 1979 and 10,994,023 shares in 1978	11,103	10,994
Undistributable capital surplus arising from purchase and redemption of preferred shares		3,037
Other paid-in capital	100,448	98,035
Retained earnings	311,854	227,180
	430,956	346,994
Contingencies (note 9)	$1,118,518	838,758

Approved on behalf of the Board S. Robert Blair, Director William C. Rankin, Director

Consolidated Statements of Changes in Financial Position

Husky Oil Ltd. (stated in thousands of dollars)

	Year ended December 31, 1979	1978 (Restated)
Funds provided		
Net earnings	$ 93,100	65,197
Add items not affecting working capital		
Depreciation, depletion and amortization	72,738	49,810
Deferred income taxes	31,550	20,333
Gain on disposal of assets	(1,259)	(1,181)
Other	67	1,175
Working capital provided by operations	196,196	135,334
Issue of common shares and capital contributions from the parent company	2,522	1,833
Sale of assets	8,370	2,962
Issue of long-term debt	61,219	25,470
	268,307	165,599
Funds used		
Additions to property, plant and equipment	226,929	158,297
Acquisition of interest in subsidiary	3,518	
Reduction in long-term debt	19,426	11,916
Retirement of preferred shares	162	239
Dividends		
Preferred shares	460	469
Common shares	11,038	10,964
Other	1,612	1,000
	263,145	182,885
Increase (decrease) in working capital	$ 5,162	(17,286)
Changes in components of working capital		
Increase (decrease) in current assets		
Cash	$ 5,270	(230)
Receivables	80,482	48,552
Inventories	39,011	25,102
Prepaid expenses	309	236
	125,072	73,660
Increase (decrease) in current liabilities		
Notes payable	78,404	41,957
Accounts payable and accrued liabilities	23,412	48,059
Income taxes payable	(2,993)	(5,830)
Deferred income taxes	17,808	934
Long-term debt due within one year	3,279	5,826
	119,910	90,946
Increase (decrease) in working capital	$ 5,162	(17,286)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Husky Oil Ltd. December 31, 1979 and 1978

1. Significant Accounting Policies
The consolidated financial statements include the accounts of all subsidiaries. The Company owns 90% of the shares of Husky Industries, Inc.; all other subsidiaries are wholly owned. Approximately 69% of the shares of Husky Oil Ltd. are owned by The Alberta Gas Trunk Line Company Limited.

The accounts of United States subsidiaries have been translated to Canadian dollars as follows. Current assets and current liabilities are translated at the rates in effect at the balance sheet dates. All other assets and liabilities are translated at rates in effect at the time the transactions occurred. Revenue and expense items, except for depreciation, depletion and amortization which are translated at the rate applicable to the related asset, are translated using average rates for the year. Foreign currency exchange gains and losses are included in earnings.

Inventories are valued at the lower of cost on a first-in, first-out basis, or net realizable value, excluding materials and supplies which are stated at average cost.

Substantially all of the Company's exploration and production activities related to oil and gas, are conducted jointly with others and accordingly the accounts reflect only the Company's proportionate interest in such activities.

The Company employs the full cost method of accounting and capitalizes all North American exploration and reserve development cost into three cost centers; the United States, the Lloydminster area of Canada and all other areas in Canada. These costs are depleted, by cost center, on a composite unit-of-production method, based upon proved developed reserves as estimated by Company engineers.

The cost of acquiring, exploring and developing oil and gas interests outside of North America has been capitalized pending the outcome of exploration in each area of interest. These costs are being amortized on a straight-line method at an annual rate of 20% pending reserve development. Unamortized costs will be depleted by the method set forth in the preceding paragraph if sufficient reserves are developed. The unamortized costs of an abandoned area are charged against earnings at the time of abandonment. Unamortized costs at December 31, 1979 and 1978 amounted to $22,533,000 and $18,198,000, respectively.

Depreciation of certain equipment is provided by the unit-of-production method. Depreciation of substantially all other depreciable assets is provided by the straight-line method at rates based upon their estimated useful lives as follows:

Classification	Rate
Buildings and storage tanks	3.3– 5.0%
Refineries and pipelines	4.0– 6.3%
Equipment, machinery and leasehold improvements	10.0–20.0%
Production equipment (excluding equipment depreciated by unit-of-production method)	7.1–10.0%
Transportation equipment, furniture and fixtures, and other depreciable assets	20.0–33.3%

Other intangible assets are being amortized on a straight-line basis over their estimated lives.

Proceeds received pursuant to take-or-pay provisions of gas sales contracts are deferred and taken into income as production occurs or upon expiration of the contract period.

Amounts received from the Saskatchewan Provincial government relative to its oil and gas incentive regulations are credited against provincial royalties.

Incentive recoveries, from provincial governments, relative to exploration activities are accounted for as a reduction of capital expenditures.

The retirement and pension plans of the Company and its subsidiaries are contributory and are available to substantially all permanent employees. The policy is to fund accrued pension costs as determined by actuarial studies. The unfunded past service costs are being funded and charged to operations over periods ranging from 10 to 20 years.

Income tax expense is reduced by flow through of the allowable investment tax credits, frontier exploration allowance, and supplementary depletion from enhanced recovery programs.

Earnings per common share are based on the weighted average number of common shares outstanding during the year. If all outstanding options, warrants, stock bonus shares awarded, or conversion privileges had been exercised at the beginning of the year, earnings per share would not have changed by a material amount.

Effective June 18, 1979, the Company was continued under the Canada Business Corporation Act. Under the Articles of Continuance, shares no longer have a par value and the balance of the undistributable capital surplus has been transferred to retained earnings.

Notes to Consolidated Financial Statements

2. Accounting Changes

During the fourth quarter of 1979, the Company made the following accounting changes on a retroactive basis in order to provide financial information on a basis which is more comparable with other Canadian entities.

(A) The Company adopted the first-in, first-out method of determining cost for substantially all inventories. For the years 1974 through 1978, the cost of inventories was determined on the last-in, first-out method.

(B) The Company adopted the current/non-current method of translating financial statements denominated in United States dollars to Canadian dollars. Previously, such statements were included at $1.00 U.S.=$1.00 Cdn.

The following schedule presents the resulting changes in net earnings and earnings per share for 1979 and 1978 and the changes in retained earnings at January 1 of each year.

	Net Earnings Year ended December 31,		Retained Earnings January 1,		Earnings per Share Year ended December 31,	
	1979	1978	1979	1978	1979	1978
			(in thousands)			
Inventory valuation before income taxes......	$31,829	3,827	34,191	30,364	2.89	0.35
Income taxes..............................	15,280	1,839	16,377	14,538	1.39	0.17
	16,549	1,988	17,814	15,826	1.50	0.18
Foreign currency translation................	11,312	7,749	13,973	6,224	1.03	0.71
Combined................................	$27,861	9,737	31,787	22,050	2.53	0.89

3. Inventories

The major categories of inventories at December 31, are summarized below:

	1979	1978 (Restated)
	(in thousands)	
Crude oil and refined oil products	$ 97,077	69,036
Steel and steel products.........	31,757	28,613
Charcoal briquets and raw materials................	25,855	21,386
	154,689	119,035
Materials and supplies	13,110	9,753
	$167,799	128,788

4. Notes Payable to Banks

A general assignment of receivables and inventories of certain Canadian subsidiaries has been given as security for $87,600,000 in notes payable to banks.

5. Long-term Debt

Long-term debt at December 31 consisted of:

	Maturity	1979	1978 (Restated)
		(in thousands)	
Husky Oil Ltd. and Canadian Subsidiaries			
Secured			
Sinking fund debentures			
6% Series A...........	1984	$ 8,034	8,963
6¾% Series B.........	1987	13,528	14,276
8½% Series C.........	1991	12,137	12,834
Revolving production loans, ¼% over prime..	1985	25,000	
Notes payable–other.....	Various	3,131	4,381
Unsecured			
Notes payable			
9%–($18,006,000 U.S.)	1982	17,480	17,480
¾% over prime........			9,500
		79,310	67,434

5. Long-term Debt

	Maturity	1979	1978 (Restated)
		(in thousands)	
Husky Oil Company and United States Subsidiaries			
Secured			
Capital lease obligations (1979, $12, 811,000 U.S., 1978, $13,584,000 U.S.) ..	Various	13,421	14,338
Notes payable 4½% to 10% (1979, $7,856,000 U.S., 1978, $8,826,000 U.S.)	Various	8,239	9,267
Unsecured			
Notes payable 11¼% (1979, $23,077,000 U.S., 1978, $25,000,000 U.S.)	1991	24,155	26,435
112% of prime plus ¼ of 1% per annum (1979, $20,000,000 U.S., 1978, $20,000,000 U.S.)	1986	20,730	20,730
9% (1979, $12,750,000 U.S., 1978, $15,000,000 U.S.) ..	1984	13,583	15,745
7% to 8½% (1979, $6,508,000 U.S., 1978, $7,152,000 U.S.)	Various	6,850	7,311
Refinanced short-term debt ($34,000,000 U.S.)	1990	40,139	
		127,117	93,826
Total long-term debt		206,427	161,260
Less amount due within one year		15,592	12,313
		$190,835	148,947

The Company will repay short-term loans at the prime rate with proceeds received from long-term loans with interest rates that increase from 102.5% to 107.5% of prime by the beginning of the fifth year, with principal payments commencing in 1984.

Interest on long-term debt was $18,448,000 and $14,872,000 in 1979 and 1978, respectively. Assets of subsidiaries with an aggregate cost of approximately $75,687,000 and $72,787,000 on December 31, 1979 and 1978, respectively, are specifically pledged as collateral. Additionally, the Company has pledged the common shares of certain wholly owned subsidiaries and given a first floating charge on all other assets of the Company and its subsidiaries presently owned or hereafter acquired as security for the Series A, B and C Sinking Fund Debentures.

Aggregate annual maturities of long-term debt for the five years subsequent to December 31, 1979 are: 1980–$15,592,000; 1981–$18,251,000; 1982–$37,059,000; 1983–$19,624,000; 1984–$25,891,000.

If long-term debt payable in United States dollars were translated at current rates, the total debt would be increased by $13,676,000 and $16,220,000 at December 31, 1979 and 1978, respectively.

6. Income Taxes

The income taxes charged to earnings for the years ended December 31, 1979 and 1978 are made up of the following components:

	Canada Federal and Provincial	U.S. Federal and State	Total
		(in thousands) 1979	
Current taxes...............	$ 532	(2,092)	(1,560)
Deferred taxes			
Current		17,832	17,832
Non-current.............	17,473	14,078	31,551
	$18,005	29,818	47,823
		1978 (Restated)	
Current taxes...............	$20,144	4,825	24,969
Deferred taxes			
Current		(28)	(28)
Non-current.............	10,140	10,193	20,333
	$30,284	14,990	45,274

The provision for deferred income taxes consisted of the following timing differences and taxes thereon:

	1979	1978 (Restated)
	(in thousands)	
Lease acquisition, drilling and exploration costs (net of depletion)	$22,090	15,856
Tax and book depreciation	9,742	5,768
Inventories..............................	17,975	1,501
Accrual for probable loss (see note 9)		(1,481)
Other	(424)	(1,339)
	$49,383	20,305

Notes to Consolidated Financial Statements

Husky Oil Ltd. December 31, 1979 and 1978

Total income taxes amounted to $47,823,000 in 1979 and $45,274,000 in 1978, an effective rate of approximately 34% in 1979 and 41% in 1978. These totals are less than the amount of $64,824,000 in 1979 and $50,816,000 in 1978 computed by applying the expected Canadian Federal tax rate to earnings before income taxes. The reasons for these differences are as follows:

	1979		1978 (Restated)	
	Amount (in thousands)	% of Pretax Income	Amount (in thousands)	% of Pretax Income
Computed "expected" tax expense	$64,824	46	$50,816	46
Increase (decrease) in taxes resulting from:				
Royalties, lease rentals and mineral taxes payable to the Crown, net of Provincial rebates	21,023	15	19,533	18
Resource allowance on Canadian production income	(15,739)	(11)	(13,952)	(13)
Earned and supplementary depletion	(8,758)	(6)	(4,723)	(4)
Earnings from United States subsidiaries with lower effective tax rates	(3,915)	(3)	(2,283)	(2)
Investment tax credits	(3,114)	(2)	(1,815)	(2)
Frontier exploration allowance	(1,787)	(1)		
Miscellaneous	(4,711)	(4)	(2,302)	(2)
	$47,823	34	$45,274	41

7. Share Capital

The Series A and B preferred shares require annual sinking funds to redeem 2,100 Series A shares at $53.50 per share and 5,850 Series B shares at $52.50 per share.

At December 31, preferred shares were issued and outstanding as follows:

	1979	1978
Series A	39,273	40,678
Series B	111,750	114,286
	151,023	154,964

Share capital was obtained during the years ended December 31, 1979 and 1978 as follows:

Number Common Shares	Consideration	Credited to Share Capital	Credited to Other Paid-in Capital
		(in thousands)	
	1979		
	Cash contributions from the parent company	$	852
23,700	Cash (issued on exercise of stock purchase warrants)	80	417
22,550	Stock bonus	29	1,144
46,250		$109	2,413
	1978		
41,740	Cash (issued on exercise of stock options and stock purchase warrants)	$ 42	831
27,550	Stock bonus	27	933
69,290		$ 69	1,764

Common shares have been reserved for issue as follows:

1979	1978	
234,020	257,720	Shares for Series E stock purchase warrants at an exercise price of $21.00 per share expiring August 15, 1981.
	18,550	Shares under a share option plan for officers and employees, the rights of which were redeemed for cash during 1979.
2,250	425,850	Shares under a stock bonus plan for key employees.
236,270	702,120	

At December 31, 1978 the shares reserved for issue under the stock bonus plan included 133,500 shares that had been awarded to employees but would be issued at various future dates. During 1979 the Company offered to purchase the rights of employees to receive awarded shares for $48 (U.S.) per share. Employees who held 107,950 shares accepted the offer. The Company issued 22,550 shares during 1979 under the plan and 750 shares were forfeited. The Company does not plan to award any additional stock bonuses.

8. Pension and Retirement Plans

Total pension expense was $3,785,000 and $3,461,000 for 1979 and 1978, respectively, which includes amortization of the past service costs. Based on actuarial reports, the assets of the plans exceed the total actuarially computed value of vested benefits for employees. The unfunded past service costs amounted to $2,890,000 and $3,095,000 at December 31, 1979 and 1978, respectively.

9. Contingencies

The petroleum operations of the Company in the United States are regulated extensively by the United States Department of Energy (DOE), which controls crude oil and refined product allocation and the prices of crude oil and most refined products. The regulations are extremely complex and are continually being changed. This results in many areas of uncertainty which may require further interpretation. The DOE, which is presently auditing part of the year 1973 and all of the year 1974, may and, in some cases, has raised questions that could involve significant sums. Many of the regulations need further clarification, and litigation may be required to obtain resolution. While the ultimate outcome cannot be determined at this time, in the opinion of Management, the Company is in substantial compliance with the regulations as issued and any liabilities which may result would not be material to the financial position of the Company.

The entitlements program, administered by the DOE, was instituted in 1974 in an effort to ameliorate inequities arising out of the United States government's multi-tier crude oil price program. A subsidiary obtained exception from the entitlements program through September, 1977 conditioned on maintenance of a profit margin no greater than the profit margin realized by the subsidiary's refining and marketing operations in certain base years. In the fall of 1977 the subsidiary filed a suit against the DOE seeking to enjoin enforcement of the restrictive profit margin limitation. The Federal District Court entered a decision finding the DOE's requirements, as applied to the subsidiary, to be arbitrary and capricious. On April 12, 1978, the DOE filed an appeal to the Temporary Emergency Court of Appeals (TECA), which, on August 10, 1978, sustained the ruling of the District Court. The matter was remanded to the Agency with directions to reconsider. The DOE reopened the proceedings on October 19, 1978 and requested additional financial information. The information was provided but the DOE has not responded further. The impact this decision will have upon the Company will not be known until DOE completes its reconsideration, as directed by the courts. At December 31, 1979 and 1978 the Company has provided $13,226,000 for entitlement costs relative to 1977. The DOE has been enjoined from requiring the Company to purchase entitlements pending DOE resolution of the issues remanded to DOE by the court. The Company has not paid or provided for any entitlement obligations for 1979 and 1978. In the year the matter is resolved, retained earnings would be affected by approximately one-half of any change to the entitlements provision.

The Company is a defendant in various lawsuits at December 31, 1979. While it is impossible to estimate the ultimate liability with respect to pending litigation, Management believes there will be no material adverse effect on the financial position of the Company.

10. Business Segments

The following is an analysis of certain consolidated financial information by industry lines and geographic areas.

	1979			1978 (Restated) (in thousands)		
Information by Different Industries	Sales	Operating Profit	Identifiable Assets	Sales	Operating Profit	Identifiable Assets
Petroleum	$ 875,187	158,645	998,404	629,478	111,543	737,723
Steel	118,685	10,179	67,025	99,074	10,038	58,829
Charcoal	59,107	7,732	52,133	44,200	9,160	42,094
Combined	1,052,979	176,556	1,117,562	772,752	130,741	838,646
General corporate		(1,384)	956		(1,380)	112
Interest (net)		(34,165)			(17,892)	
Minority interest		(84)			(998)	
Consolidated	$1,052,979	140,923	1,118,518	772,752	110,471	838,758
Information by Different Geographic Areas						
Canada	$ 282,294	83,018	487,798	237,666	77,737	359,649
United States	762,856	94,942	607,648	536,600	56,705	458,924
Other	7,979	(1,404)	22,116		(3,701)	20,073
Adjustments & eliminations	(150)			(1,514)		
Combined	1,052,979	176,556	1,117,562	772,752	130,741	838,646
General corporate		(1,384)	956		(1,380)	112
Interest (net)		(34,165)			(17,892)	
Minority interest		(84)			(998)	
Consolidated	$1,052,979	140,923	1,118,518	772,752	110,471	838,758

The Company operates principally in three industries: petroleum, steel and charcoal. Petroleum operations include the exploration for and the production of crude oil and natural gas, the refining of crude oil, the wholesale and retail marketing of refined petroleum products, and the pipeline transmission of crude oil, natural gas and finished products. Steel operations include warehousing, processing and fabrication, and distribution of steel and steel products. Charcoal operations include the production and marketing of barbecue briquets, activated carbon and other charcoal products.

Operating profit is total revenue less operating expenses. In computing operating profit, none of the following items have been deducted: general corporate expenses, interest expense, minority interest and income taxes. Depreciation, depletion and amortization for petroleum, steel and charcoal, respectively, was $67,319,000, $1,967,000 and $3,452,000 in 1979 and $46,081,000, $1,669,000 and $2,060,000 in 1978. Capital expenditures for the three industries were $216,316,000, $4,959,000 and $5,654,000 in 1979 and $146,539,000, $1,742,000 and $10,016,000 in 1978.

Identifiable assets by industry or geographic areas are those assets that are used in the Company's operations in each industry or area. Corporate assets are principally cash. Transfers between geographic areas, which are recorded at cost, are all related to the petroleum industry segment.

11. Information Filed with the United States Securities and Exchange Commission (Unaudited)

Footnotes to the financial statements in the Form 10-K, which will be filed with the United States Securities and Exchange Commission (SEC), contain data showing: 1) the estimated replacement cost of the Company's property (excluding oil and gas producing assets) and inventory together with the related effects on depreciation, depletion and amortization expense and cost of sales and operating expenses and 2) the results of oil and gas exploration and production operations based on the SEC's reserve recognition accounting. Reserve recognition accounting attempts to report oil and gas exploration and production activities using the discovery of reserves as a basis for recognizing revenue, rather than the sale of oil and gas which is used in conventional financial statements.

12. Quarterly Financial Data (Unaudited)

Summarized quarterly financial data (in thousands of dollars except for per share amounts) for 1979 and 1978 is as follows:

	Three months ended			
	March 31	June 30	Sept. 30	Dec. 31
		(Restated)		
1979				
Net sales and operating revenues.	**$188,295**	**257,866**	**306,041**	**300,777**
Gross profit.........	**52,557**	**72,336**	**86,247**	**94,492**
Net earnings........	**9,103**	**20,757**	**27,298**	**35,942**
Net earnings per common share....	**0.82**	**1.87**	**2.46**	**3.25**
1978				
Net sales and operating revenues.	$152,354	195,673	224,998	199,727
Gross profit.........	44,326	56,542	62,070	60,595
Net earnings........	11,118	14,705	20,516	18,858
Net earnings per common share....	1.01	1.33	1.86	1.70

Auditors' Report

TO THE SHAREHOLDERS OF HUSKY OIL LTD.

We have examined the consolidated balance sheets of Husky Oil Ltd. as at December 31, 1979 and 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The Company is currently involved in litigation seeking relief from the restrictive profit margin limitation imposed by the United States of America, Department of Energy, entitlements program, as discussed in note 9. It is not possible to predict the ultimate outcome of the matter at this time.

In our opinion, subject to the effect (if any) of the ultimate resolution of the matter referred to in the preceding paragraph, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1979 and 1978 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the accounting changes (with which we concur) referred to in note 2, on a consistent basis.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Calgary, Canada
February 12, 1980

Financial and Operating Summary

Husky Oil Ltd.

	1979	1978	1977	1976	1975
Financial (thousands of dollars except per share figures)					
Sales and operating revenues	$1,052,979	772,752	645,786	515,217	454,391
Cost of sales and operating expenses	747,347	549,219	463,057	377,592	314,771
Selling, general and administrative expenses	58,379	47,511	39,971	32,440	28,248
Interest (net of interest income)	34,165	17,892	14,012	13,083	10,988
Depreciation, depletion and amortization	72,738	49,810	41,538	35,789	33,536
Other	(573)	(2,151)	(3,968)	1,015	(1,808)
	912,056	662,281	554,610	459,919	385,735
Earnings before income taxes	140,923	110,471	91,176	55,298	68,656
Income taxes					
Current	(1,560)	24,969	22,656	18,025	21,550
Deferred	49,383	20,305	15,668	7,330	10,485
	47,823	45,274	38,324	25,355	32,035
Net earnings	93,100	65,197	52,852	29,943	36,621
Dividends on preferred shares	460	469	493	523	559
Earnings for common shares	$ 92,640	64,728	52,359	29,420	36,062
Common shares outstanding (weighted average in thousands)	11,030	10,960	10,417	9,784	9,730
Earnings per common share	$ 8.40	5.91	5.03	3.01	3.71
Dividends per common share	$ 1.00	1.00	0.80	0.80	0.65
Preferred shares outstanding at par value	7,551	7,748	8,053	8,443	9,081
Working capital provided by operations	196,196	135,334	112,478	73,748	79,750
Capital expenditures	226,929	158,297	96,070	98,657	68,325
Working capital	66,092	60,930	78,216	63,003	52,862
Long-term debt	190,835	148,947	135,393	157,197	116,182
Operations					
Production–Daily Average					
Net crude oil and gas liquids					
Barrels	40,852	35,200	35,287	37,301	43,949
Cubic metres	6 495	5 594	5 607	5 928	6 984
Net natural gas					
Thousand cubic feet	69,157	60,829	61,061	55,618	58,994
Thousand cubic metres	1 949	1 714	1 720	1 567	1 662
Refining and marketing–Daily Average					
Refinery runs					
Barrels	63,083	60,080	59,521	55,719	56,220
Cubic metres	10 030	9 547	9 458	8 854	8 934
Refined product sales					
Barrels	75,161	71,007	68,638	64,895	60,541
Cubic metres	11 951	11 284	10 907	10 312	9 621

Note: Financial information for the years 1975 through 1978 have been restated to reflect retroactive changes in accounting policies relative to foreign currency translation and inventory valuation. See note 2 of the Notes to the Consolidated Financial Statements.

Company Locations and General Information

Head Office
815 Sixth Street S.W.
P.O. Box 6525
Calgary, Alberta
T2P 3G7

United States Offices
P.O. Box 380
Cody, Wyoming
82414

600 South Cherry Street
Denver, Colorado
80222

1980 South Post Oak Road
Ste. 2000
Houston, Texas
77056

1800 "M" Street N.W.
Ste. 295
Washington, D.C.
20036

Division Production Offices
Calgary, Alberta
Lloydminster, Saskatchewan
Santa Maria, California
Denver, Colorado

Refineries
Lloydminster, Alberta
Prince George, British Columbia
Cheyenne, Wyoming
Cody, Wyoming
Salt Lake City, Utah

Division Marketing Offices
Calgary, Alberta
Winnipeg, Manitoba
Denver, Colorado
Billings, Montana
Salt Lake City, Utah
Spokane, Washington

Husky Industries, Inc.
62 Perimeter Center East
Atlanta, Georgia
30346

Sales Offices:
Branson, Missouri
San Francisco, California
Minneapolis, Minnesota
Montgomery, Alabama
Philadelphia, Pennsylvania
Atlanta, Georgia
Romeo, Florida–
Industrial Division

Plant Locations:
Branson, Missouri
Dickinson, North Dakota
Isanti, Minnesota
Medford, Oregon
Ocala, Florida
Pachuta, Mississippi
Romeo, Florida
Stamford, New York
Waupaca, Wisconsin

Gate City Steel Corporation
P.O. Box 14022
Omaha, Nebraska
68114

District Offices:
Albuquerque, New Mexico
Boise, Idaho
Davenport, Iowa
Denver, Colorado
Gary, Indiana
Idaho Falls, Idaho
Milwaukee, Wisconsin
Omaha, Nebraska
Pocatello, Idaho
Portland, Oregon
St. Paul, Minnesota
Salt Lake City, Utah
Sterling, Illinois
Tulsa, Oklahoma

Overseas
Manila, Luzon
Philippines

Karachi, Pakistan

CanOcean Resources Ltd.
New Westminster,
British Columbia

Husky Oil NPR Operations, Inc.
Houston, Texas
Anchorage, Alaska

Nielson International
Cody, Wyoming

Transfer Agents and Registrars

Common Shares:
Montreal Trust Company
Offices at Calgary, Halifax,
Montreal, Regina, Saint John,
Toronto, Vancouver and Winnipeg

The Chase Manhattan Bank
New York City

Preferred Shares:
Montreal Trust Company
At above offices

Auditors
Peat, Marwick, Mitchell & Co.
Calgary, Canada.

Duplicate Annual Report

Some holders of Husky Oil Ltd. securities receive more than one copy of our Annual Report and other material mailed to shareholders. We make an effort to eliminate duplications of such mailings; however, if securities are registered in different names and addresses, multiple copies will be received. Security holders receiving more than one copy of material should contact either the Company or the appropriate registrar to consolidate their holdings of each security under one name.

Annual Meeting

The Annual General Meeting of Shareholders of Husky Oil Ltd. will be held in the Calgary Convention Centre, Calgary, Alberta on May 1, 1980. Formal notice of this meeting and proxy materials are enclosed.

Company Description

Husky Oil Ltd. is a fully integrated Canadian oil and gas enterprise engaged, through subsidiaries, in the exploration for and production of crude oil and natural gas, the refining of crude oil and the wholesale and retail marketing of refined petroleum products. It is also engaged through subsidiaries in the pipeline transmission of crude oil, natural gas and finished products, in the warehousing and processing of steel products and in the production and marketing of briquets and other charcoal products.

The shares of Husky Oil Ltd. are listed on the Toronto, Montreal and American Stock Exchanges. Approximately 69% of the common shares of Husky Oil Ltd. are owned by The Alberta Gas Trunk Line Company Limited.

Form 10-K

Copies of the Company's 1979 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission, including financial statements and exhibits, will be provided without charge, to shareholders who send written requests to the Office of the Secretary of the Company at Husky Oil Ltd., P.O. Box 6525, 815 Sixth Street S.W., Calgary, Alberta, Canada T2P 3G7.

Contributions

Design–CBS Graphics Canada Ltd., K. R. Cox
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Husky

Husky Oil Ltd.
1979 Annual Report

Husky

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