

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Condensed Consolidated Balance Sheets

<i>(millions of Canadian dollars)</i>	June 30, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	2,512	2,866
Accounts receivable	1,300	1,355
Income taxes receivable	130	112
Inventories	1,481	1,232
Prepaid expenses	77	123
	5,500	5,688
Restricted cash <i>(notes 4, 9)</i>	149	128
Exploration and evaluation assets <i>(note 5)</i>	987	997
Property, plant and equipment, net <i>(note 6)</i>	25,530	25,800
Right-of-use assets, net <i>(note 7)</i>	1,438	—
Goodwill	662	690
Investment in joint ventures	1,324	1,319
Long-term income taxes receivable	212	243
Other assets	352	360
Total Assets	36,154	35,225
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	2,875	3,159
Short-term debt <i>(note 8)</i>	200	200
Long-term debt due within one year <i>(note 8)</i>	1,382	1,433
Lease liabilities <i>(note 7)</i>	163	—
Asset retirement obligations <i>(note 9)</i>	235	202
	4,855	4,994
Long-term debt <i>(note 8)</i>	4,598	4,114
Other long-term liabilities <i>(note 10)</i>	550	1,107
Lease liabilities <i>(note 7)</i>	1,356	—
Asset retirement obligations <i>(note 9)</i>	2,153	2,222
Deferred tax liabilities	2,933	3,174
Total Liabilities	16,445	15,611
Shareholders' equity		
Common shares <i>(note 11)</i>	7,293	7,293
Preferred shares <i>(note 11)</i>	874	874
Contributed surplus	2	2
Retained earnings	10,702	10,273
Accumulated other comprehensive income	826	1,160
Non-controlling interest	12	12
Total Shareholders' Equity	19,709	19,614
Total Liabilities and Shareholders' Equity	36,154	35,225

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

Condensed Consolidated Statements of Income

<i>(millions of Canadian dollars, except share data)</i>	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Gross revenues	5,400	5,796	9,887	10,893
Royalties	(83)	(99)	(154)	(179)
Marketing and other	(14)	187	144	352
Revenues, net of royalties	5,303	5,884	9,877	11,066
Expenses				
Purchases of crude oil and products	3,522	3,660	6,067	7,013
Production, operating and transportation expenses <i>(note 12)</i>	743	734	1,496	1,362
Selling, general and administrative expenses <i>(note 12)</i>	182	186	328	355
Depletion, depreciation, amortization and impairment <i>(notes 6, 7)</i>	643	639	1,273	1,257
Exploration and evaluation expenses	86	40	116	70
Gain on sale of assets	—	—	(2)	(4)
Other – net	(103)	(11)	(59)	1
	5,073	5,248	9,219	10,054
Earnings from operating activities	230	636	658	1,012
Share of equity investment income	23	26	45	35
Financial items <i>(note 13)</i>				
Net foreign exchange gains	2	3	32	25
Finance income	16	13	36	33
Finance expenses	(105)	(74)	(188)	(158)
	(87)	(58)	(120)	(100)
Earnings before income taxes	166	604	583	947
Provisions for (recovery of) income taxes				
Current	46	18	92	36
Deferred	(250)	138	(207)	215
	(204)	156	(115)	251
Net earnings	370	448	698	696
Earnings per share <i>(note 11)</i>				
Basic	0.36	0.44	0.68	0.68
Diluted	0.36	0.44	0.67	0.68
Weighted average number of common shares outstanding <i>(note 11)</i>				
Basic <i>(millions)</i>	1,005.1	1,005.1	1,005.1	1,005.1
Diluted <i>(millions)</i>	1,005.1	1,006.2	1,005.1	1,005.8

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

Condensed Consolidated Statements of Comprehensive Income

<i>(millions of Canadian dollars)</i>	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Net earnings	370	448	698	696
Other comprehensive income (loss)				
Items that will not be reclassified into earnings, net of tax:				
Actuarial gain on pension plans	—	1	—	1
Items that may be reclassified into earnings, net of tax:				
Derivatives designated as cash flow hedges <i>(note 15)</i>	1	(2)	(5)	(1)
Equity investment - share of other comprehensive income	(1)	—	(5)	—
Exchange differences on translation of foreign operations	(210)	181	(447)	461
Hedge of net investment <i>(note 15)</i>	58	(56)	123	(145)
Other comprehensive income (loss)	(152)	124	(334)	316
Comprehensive income	218	572	364	1,012

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

Condensed Consolidated Statements of Changes in Shareholders' Equity

<i>(millions of Canadian dollars)</i>	Attributable to Equity Holders							
	Common Shares	Preferred Shares	Contributed Surplus	Retained Earnings	AOCI ⁽¹⁾		Non-Controlling Interest	Total Shareholders' Equity
					Foreign Currency Translation	Hedging		
Balance as at December 31, 2017	7,293	874	2	9,207	559	21	11	17,967
Net earnings	—	—	—	696	—	—	—	696
Other comprehensive income (loss)								
Actuarial gain on pensions plans (net of tax of less than \$1 million)	—	—	—	1	—	—	—	1
Derivatives designated as cash flow hedges (net of tax recovery of less than \$1 million)	—	—	—	—	—	(1)	—	(1)
Exchange differences on translation of foreign operations (net of tax of \$43 million)	—	—	—	—	461	—	—	461
Hedge of net investment (net of tax recovery of \$23 million) <i>(note 15)</i>	—	—	—	—	(145)	—	—	(145)
Total comprehensive income	—	—	—	697	316	(1)	—	1,012
Transactions with owners recognized directly in equity:								
Dividends declared on common shares <i>(note 11)</i>	—	—	—	(151)	—	—	—	(151)
Dividends declared on preferred shares <i>(note 11)</i>	—	—	—	(17)	—	—	—	(17)
Balance as at June 30, 2018	7,293	874	2	9,736	875	20	11	18,811
Balance as at December 31, 2018	7,293	874	2	10,273	1,154	6	12	19,614
Net earnings	—	—	—	698	—	—	—	698
Other comprehensive income (loss)								
Derivatives designated as cash flow hedges (net of tax recovery of \$2 million) <i>(note 15)</i>	—	—	—	—	—	(5)	—	(5)
Equity investment - share of other comprehensive income (net of tax recovery of \$1 million)	—	—	—	—	—	(5)	—	(5)
Exchange differences on translation of foreign operations (net of tax recovery of \$48 million)	—	—	—	—	(447)	—	—	(447)
Hedge of net investment (net of tax of \$17 million) <i>(note 15)</i>	—	—	—	—	123	—	—	123
Total comprehensive income (loss)	—	—	—	698	(324)	(10)	—	364
Transactions with owners recognized directly in equity:								
Dividends declared on common shares <i>(note 11)</i>	—	—	—	(252)	—	—	—	(252)
Dividends declared on preferred shares <i>(note 11)</i>	—	—	—	(17)	—	—	—	(17)
Balance as at June 30, 2019	7,293	874	2	10,702	830	(4)	12	19,709

⁽¹⁾ Accumulated other comprehensive income.

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

Condensed Consolidated Statements of Cash Flows

<i>(millions of Canadian dollars)</i>	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Operating activities				
Net earnings	370	448	698	696
Items not affecting cash:				
Accretion (notes 9, 13)	26	25	53	49
Depletion, depreciation, amortization and impairment (notes 6, 7)	643	639	1,273	1,257
Exploration and evaluation expenses (note 5)	23	7	23	7
Deferred income taxes	(250)	138	(207)	215
Foreign exchange	(2)	(2)	(14)	(1)
Stock-based compensation (notes 11, 12)	13	33	20	54
Gain on sale of assets	—	—	(2)	(4)
Unrealized mark to market loss (gain) (note 15)	(4)	(26)	53	(112)
Share of equity investment income	(23)	(26)	(45)	(35)
Other	5	19	(4)	21
Settlement of asset retirement obligations (note 9)	(41)	(22)	(113)	(71)
Deferred revenue	(5)	(25)	(21)	(45)
Distribution from equity investment	47	—	47	72
Change in non-cash working capital (note 14)	(42)	(199)	(456)	(565)
Cash flow – operating activities	760	1,009	1,305	1,538
Financing activities				
Long-term debt issuance (note 8)	—	—	1,000	—
Long-term debt repayment (note 8)	(402)	—	(402)	—
Debt issue costs (note 8)	—	—	(9)	—
Dividends on common shares (note 11)	(126)	(75)	(252)	(151)
Dividends on preferred shares (note 11)	(8)	(8)	(17)	(17)
Finance lease payments (note 7)	(58)	—	(116)	—
Other	—	(2)	—	(6)
Change in non-cash working capital (note 14)	(5)	(14)	19	75
Cash flow – financing activities	(599)	(99)	223	(99)
Investing activities				
Capital expenditures	(858)	(708)	(1,670)	(1,345)
Capitalized interest (note 13)	(44)	(26)	(84)	(47)
Corporate acquisition	—	—	—	(9)
Proceeds from asset sales	—	—	(1)	2
Investment in joint ventures	(37)	—	(37)	(40)
Other	(21)	11	(27)	(5)
Change in non-cash working capital (note 14)	94	79	(36)	31
Cash flow – investing activities	(866)	(644)	(1,855)	(1,413)
Increase (decrease) in cash and cash equivalents	(705)	266	(327)	26
Effect of exchange rates on cash and cash equivalents	(28)	16	(27)	44
Cash and cash equivalents at beginning of period	3,245	2,301	2,866	2,513
Cash and cash equivalents at end of period	2,512	2,583	2,512	2,583
Supplementary Cash Flow Information				
Net interest paid	(116)	(62)	(187)	(129)
Net income taxes received (paid)	6	(37)	(78)	(60)

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 1 Description of Business and Segmented Disclosures

Management has identified segments for the business of Husky Energy Inc. (“Husky” or the “Company”) based on differences in products, services and management responsibility. The Company’s business is conducted predominantly through two major business segments – Upstream and Downstream.

Upstream operations in the Integrated Corridor and Offshore include exploration for, and development and production of, crude oil, bitumen, natural gas and natural gas liquids (“NGL”) (“Exploration and Production”) and the marketing of the Company’s and other producers’ crude oil, natural gas, NGL, sulphur and petroleum coke. Additionally, Upstream operations include pipeline transportation, the blending of crude oil and natural gas and storage of crude oil, diluent and natural gas (“Infrastructure and Marketing”). Infrastructure and Marketing markets and distributes products to customers on behalf of Exploration and Production and is grouped in the Upstream business segment based on the nature of its interconnected operations. The Company’s Upstream operations are located primarily in Alberta, Saskatchewan, and British Columbia (“Western Canada”), offshore east coast of Canada (“Atlantic”) and offshore China and offshore Indonesia (“Asia Pacific”).

Downstream operations in the Integrated Corridor in Canada includes upgrading of heavy crude oil feedstock into synthetic crude oil (“Upgrading”), refining crude oil, producing ethanol and marketing of heavy and synthetic crude oil, refined petroleum products including gasoline, diesel, ethanol blended fuels, asphalt and ancillary products (“Canadian Refined Products”). It also includes refining of crude oil in the U.S. to produce and market diesel fuels, gasoline, jet fuel and asphalt (“U.S. Refining and Marketing”). Upgrading, Canadian Refined Products and U.S. Refining and Marketing all process and refine natural resources into marketable products and are grouped together as the Downstream business segment due to the similar nature of their products and services.

Segmented Financial Information

	Upstream						Downstream						Corporate and Eliminations ⁽³⁾		Total			
	Exploration and Production ⁽¹⁾		Infrastructure and Marketing ⁽²⁾		Total		Upgrading		Canadian Refined Products		U.S. Refining and Marketing		Total		2019	2018	2019	2018
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018				
Three months ended June 30,																		
<i>(\$ millions)</i>																		
Gross revenues	1,252	1,284	648	634	1,900	1,918	457	444	804	869	2,791	3,035	4,052	4,348	(552)	(470)	5,400	5,796
Royalties	(83)	(99)	—	—	(83)	(99)	—	—	—	—	—	—	—	—	—	—	(83)	(99)
Marketing and other	—	—	(14)	187	(14)	187	—	—	—	—	—	—	—	—	—	—	(14)	187
Revenues, net of royalties	1,169	1,185	634	821	1,803	2,006	457	444	804	869	2,791	3,035	4,052	4,348	(552)	(470)	5,303	5,884
Expenses																		
Purchases of crude oil and products	—	1	686	602	686	603	375	251	671	711	2,342	2,565	3,388	3,527	(552)	(470)	3,522	3,660
Production, operating and transportation expenses	385	384	5	15	390	399	54	46	83	72	216	217	353	335	—	—	743	734
Selling, general and administrative expenses	69	77	2	1	71	78	3	2	13	11	9	7	25	20	86	88	182	186
Depletion, depreciation, amortization and impairment	430	434	4	1	434	435	28	29	33	28	122	125	183	182	26	22	643	639
Exploration and evaluation expenses	86	40	—	—	86	40	—	—	—	—	—	—	—	—	—	—	86	40
Other – net	(35)	27	(2)	—	(37)	27	—	—	—	—	(76)	(29)	(76)	(29)	10	(9)	(103)	(11)
	935	963	695	619	1,630	1,582	460	328	800	822	2,613	2,885	3,873	4,035	(430)	(369)	5,073	5,248
Earnings (loss) from operating activities	234	222	(61)	202	173	424	(3)	116	4	47	178	150	179	313	(122)	(101)	230	636
Share of equity investment income	15	17	8	9	23	26	—	—	—	—	—	—	—	—	—	—	23	26
Financial items																		
Net foreign exchange gain	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2	3	2	3
Finance income	(1)	1	—	—	(1)	1	—	—	—	—	—	—	—	—	17	12	16	13
Finance expenses	(48)	(22)	—	—	(48)	(22)	—	—	(4)	(3)	(5)	(3)	(9)	(6)	(48)	(46)	(105)	(74)
	(49)	(21)	—	—	(49)	(21)	—	—	(4)	(3)	(5)	(3)	(9)	(6)	(29)	(31)	(87)	(58)
Earnings (loss) before income taxes	200	218	(53)	211	147	429	(3)	116	—	44	173	147	170	307	(151)	(132)	166	604
Provisions for (recovery of) income taxes																		
Current	33	(106)	(2)	84	31	(22)	6	36	(1)	19	2	2	7	57	8	(17)	46	18
Deferred	17	166	(13)	(27)	4	139	(7)	(4)	1	(7)	37	30	31	19	(285)	(20)	(250)	138
	50	60	(15)	57	35	117	(1)	32	—	12	39	32	38	76	(277)	(37)	(204)	156
Net earnings (loss)	150	158	(38)	154	112	312	(2)	84	—	32	134	115	132	231	126	(95)	370	448
Intersegment revenues	461	356	—	—	461	356	60	75	31	39	—	—	91	114	—	—	552	470
Expenditures on exploration and evaluation assets	11	90	—	—	11	90	—	—	—	—	—	—	—	—	—	—	11	90
Expenditures on property, plant and equipment	555	434	—	(15)	555	419	12	33	54	18	202	118	268	169	24	30	847	618

⁽¹⁾ Includes allocated depletion, depreciation and amortization related to assets in Infrastructure and Marketing as these assets provide a service to Exploration and Production.

⁽²⁾ Includes \$30 million of revenue (three months ended June 30, 2018 - \$48 million) and \$91 million of associated costs (three months ended June 30, 2018 - \$45 million) for construction contracts, all of which relates to contracts in progress accounted for under the percentage of completion method.

⁽³⁾ Eliminations relate to sales and operating revenues between segments recorded at transfer prices based on current market prices. Segment results include transactions between business segments.

Six months ended June 30, (\$ millions)	Upstream						Downstream								Corporate and Eliminations ⁽³⁾		Total	
	Exploration and Production ⁽¹⁾		Infrastructure and Marketing ⁽²⁾		Total		Upgrading		Canadian Refined Products		U.S. Refining and Marketing		Total		2019	2018	2019	2018
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018				
Gross revenues	2,436	2,368	1,058	1,080	3,494	3,448	857	909	1,458	1,590	5,074	5,806	7,389	8,305	(996)	(860)	9,887	10,893
Royalties	(154)	(179)	—	—	(154)	(179)	—	—	—	—	—	—	—	—	—	—	(154)	(179)
Marketing and other	—	—	144	352	144	352	—	—	—	—	—	—	—	—	—	—	144	352
Revenues, net of royalties	2,282	2,189	1,202	1,432	3,484	3,621	857	909	1,458	1,590	5,074	5,806	7,389	8,305	(996)	(860)	9,877	11,066
Expenses																		
Purchases of crude oil and products	—	1	1,087	1,023	1,087	1,024	632	490	1,174	1,289	4,170	5,070	5,976	6,849	(996)	(860)	6,067	7,013
Production, operating and transportation expenses	800	741	8	17	808	758	106	92	152	132	431	380	689	604	(1)	—	1,496	1,362
Selling, general and administrative expenses	148	153	3	2	151	155	5	4	27	24	16	12	48	40	129	160	328	355
Depletion, depreciation, amortization and impairment	852	881	6	1	858	882	57	57	67	57	238	219	362	333	53	42	1,273	1,257
Exploration and evaluation expenses	116	70	—	—	116	70	—	—	—	—	—	—	—	—	—	—	116	70
Gain on sale of assets	(2)	(4)	—	—	(2)	(4)	—	—	—	—	—	—	—	—	—	—	(2)	(4)
Other – net	115	31	—	2	115	33	—	—	—	—	(184)	(23)	(184)	(23)	10	(9)	(59)	1
	2,029	1,873	1,104	1,045	3,133	2,918	800	643	1,420	1,502	4,671	5,658	6,891	7,803	(805)	(667)	9,219	10,054
Earnings (loss) from operating activities	253	316	98	387	351	703	57	266	38	88	403	148	498	502	(191)	(193)	658	1,012
Share of equity investment income	27	21	18	14	45	35	—	—	—	—	—	—	—	—	—	—	45	35
Financial items																		
Net foreign exchange gain	—	—	—	—	—	—	—	—	—	—	—	—	—	—	32	25	32	25
Finance income	—	10	—	—	—	10	—	—	—	—	—	—	—	—	36	23	36	33
Finance expenses	(82)	(51)	—	—	(82)	(51)	—	—	(8)	(6)	(9)	(7)	(17)	(13)	(89)	(94)	(188)	(158)
	(82)	(41)	—	—	(82)	(41)	—	—	(8)	(6)	(9)	(7)	(17)	(13)	(21)	(46)	(120)	(100)
Earnings (loss) before income taxes	198	296	116	401	314	697	57	266	30	82	394	141	481	489	(212)	(239)	583	947
Provisions for (recovery of) income taxes																		
Current	33	(205)	—	147	33	(58)	29	81	7	44	7	4	43	129	16	(35)	92	36
Deferred	13	286	31	(38)	44	248	(14)	(8)	1	(22)	81	27	68	(3)	(319)	(30)	(207)	215
	46	81	31	109	77	190	15	73	8	22	88	31	111	126	(303)	(65)	(115)	251
Net earnings (loss)	152	215	85	292	237	507	42	193	22	60	306	110	370	363	91	(174)	698	696
Intersegment revenues	827	632	—	—	827	632	126	150	43	78	—	—	169	228	—	—	996	860
Expenditures on exploration and evaluation assets	26	129	—	—	26	129	—	—	—	—	—	—	—	—	—	—	26	129
Expenditures on property, plant and equipment	1,159	914	1	—	1,160	914	16	44	77	29	331	173	424	246	60	56	1,644	1,216
As at June 30, 2019 and December 31, 2018																		
Total exploration and evaluation assets, property, plant and equipment, net	17,827	17,814	49	51	17,876	17,865	1,033	1,074	1,183	1,208	6,112	6,336	8,328	8,618	313	314	26,517	26,797
Total right-of-use assets, net	755	—	94	—	849	—	—	—	132	—	157	—	289	—	300	—	1,438	—
Total assets	19,847	19,175	1,504	1,301	21,351	20,476	1,178	1,149	1,656	1,431	8,462	8,566	11,296	11,146	3,507	3,603	36,154	35,225

⁽¹⁾ Includes allocated depletion, depreciation and amortization related to assets in Infrastructure and Marketing as these assets provide a service to Exploration and Production.

⁽²⁾ Includes \$93 million of revenue (six months ended June 30, 2018 - \$65 million) and \$161 million of associated costs (six months ended June 30, 2018 - \$62 million) for construction contracts, all of which relates to contracts in progress accounted for under the percentage of completion method.

⁽³⁾ Eliminations relate to sales and operating revenues between segments recorded at transfer prices based on current market prices. Segment results include transactions between business segments.

Disaggregation of Revenue

Three months ended June 30, (<i>\$ millions</i>)	Upstream						Downstream						Corporate and Eliminations		Total			
	Exploration and Production		Infrastructure and Marketing		Total		Upgrading		Canadian Refined Products		U.S. Refining and Marketing		Total		2019	2018	2019	2018
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018				
Primary Geographical Markets																		
Canada	1,000	1,005	648	634	1,648	1,639	457	444	804	869	—	—	1,261	1,313	(552)	(470)	2,357	2,482
United States	—	—	—	—	—	—	—	—	—	—	2,791	3,035	2,791	3,035	—	—	2,791	3,035
China	252	279	—	—	252	279	—	—	—	—	—	—	—	—	—	—	252	279
Total revenue	1,252	1,284	648	634	1,900	1,918	457	444	804	869	2,791	3,035	4,052	4,348	(552)	(470)	5,400	5,796
Major Product Lines																		
Light & medium crude oil	139	249	—	—	139	249	—	—	—	—	—	—	—	—	—	—	139	249
Heavy crude oil	166	189	—	—	166	189	—	—	—	—	—	—	—	—	—	—	166	189
Bitumen	639	495	—	—	639	495	—	—	—	—	—	—	—	—	—	—	639	495
Total crude oil	944	933	—	—	944	933	—	—	—	—	—	—	—	—	—	—	944	933
NGL	70	91	—	—	70	91	—	—	—	—	—	—	—	—	—	—	70	91
Natural gas	238	260	—	—	238	260	—	—	—	—	—	—	—	—	—	—	238	260
Total exploration and production	1,252	1,284	—	—	1,252	1,284	—	—	—	—	—	—	—	—	—	—	1,252	1,284
Total infrastructure and marketing	—	—	648	634	648	634	—	—	—	—	—	—	—	—	—	—	648	634
Synthetic crude	—	—	—	—	—	—	394	364	—	—	—	—	394	364	—	—	394	364
Gasoline	—	—	—	—	—	—	—	—	249	283	1,551	1,669	1,800	1,952	—	—	1,800	1,952
Diesel & distillates	—	—	—	—	—	—	57	76	287	318	1,024	1,119	1,368	1,513	—	—	1,368	1,513
Asphalt	—	—	—	—	—	—	—	—	116	119	35	31	151	150	—	—	151	150
Other	—	—	—	—	—	—	6	4	152	149	181	216	339	369	—	—	339	369
Total refined products	—	—	—	—	—	—	457	444	804	869	2,791	3,035	4,052	4,348	—	—	4,052	4,348
Total revenue	1,252	1,284	648	634	1,900	1,918	457	444	804	869	2,791	3,035	4,052	4,348	(552)	(470)	5,400	5,796

Six months ended June 30, (\$ millions)	Upstream						Downstream						Corporate and Eliminations		Total			
	Exploration and Production		Infrastructure and Marketing		Total		Upgrading		Canadian Refined Products		U.S. Refining and Marketing		Total		2019	2018	2019	2018
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018				
Primary Geographical Markets																		
Canada	1,903	1,809	1,058	1,080	2,961	2,889	857	909	1,458	1,590	—	—	2,315	2,499	(996)	(860)	4,280	4,528
United States	—	—	—	—	—	—	—	—	—	—	5,074	5,806	5,074	5,806	—	—	5,074	5,806
China	533	559	—	—	533	559	—	—	—	—	—	—	—	—	—	—	533	559
Total revenue	2,436	2,368	1,058	1,080	3,494	3,448	857	909	1,458	1,590	5,074	5,806	7,389	8,305	(996)	(860)	9,887	10,893
Major Product Lines																		
Light & medium crude oil	248	526	—	—	248	526	—	—	—	—	—	—	—	—	—	—	248	526
Heavy crude oil	289	306	—	—	289	306	—	—	—	—	—	—	—	—	—	—	289	306
Bitumen	1,186	803	—	—	1,186	803	—	—	—	—	—	—	—	—	—	—	1,186	803
Total crude oil	1,723	1,635	—	—	1,723	1,635	—	—	—	—	—	—	—	—	—	—	1,723	1,635
NGL	153	185	—	—	153	185	—	—	—	—	—	—	—	—	—	—	153	185
Natural gas	560	548	—	—	560	548	—	—	—	—	—	—	—	—	—	—	560	548
Total exploration and production	2,436	2,368	—	—	2,436	2,368	—	—	—	—	—	—	—	—	—	—	2,436	2,368
Total infrastructure and marketing	—	—	1,058	1,080	1,058	1,080	—	—	—	—	—	—	—	—	—	—	1,058	1,080
Synthetic crude	—	—	—	—	—	—	723	755	—	—	—	—	723	755	—	—	723	755
Gasoline	—	—	—	—	—	—	—	—	447	503	2,726	3,135	3,173	3,638	—	—	3,173	3,638
Diesel & distillates	—	—	—	—	—	—	124	145	574	624	1,957	2,124	2,655	2,893	—	—	2,655	2,893
Asphalt	—	—	—	—	—	—	—	—	171	168	43	76	214	244	—	—	214	244
Other	—	—	—	—	—	—	10	9	266	295	348	471	624	775	—	—	624	775
Total refined products	—	—	—	—	—	—	857	909	1,458	1,590	5,074	5,806	7,389	8,305	—	—	7,389	8,305
Total revenue	2,436	2,368	1,058	1,080	3,494	3,448	857	909	1,458	1,590	5,074	5,806	7,389	8,305	(996)	(860)	9,887	10,893

Note 2 Basis of Presentation

The condensed interim consolidated financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”). These condensed interim consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the consolidated financial statements and the notes thereto in the Company’s 2018 Annual Report.

The condensed interim consolidated financial statements have been prepared, for all periods presented, following the same accounting policies and methods of computation as described in Note 3 to the consolidated financial statements for the fiscal year ended December 31, 2018, except for the newly issued standards and amendments as discussed below.

Certain prior period amounts have been reclassified to conform with the current period presentation.

These condensed interim consolidated financial statements were approved by the Audit Committee of the Board of Directors on July 24, 2019.

Note 3 Significant Accounting Policies

Recent Accounting Standards

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Change in Accounting Policies

Leases

In January 2016, the IASB issued IFRS 16 Leases (“IFRS 16”), which replaces the existing IFRS guidance on leases: IAS 17 Leases (“IAS 17”). Under IAS 17, lessees were required to determine if the lease is a finance or operating lease, based on specified criteria of whether the lease transferred significantly all the risks and rewards associated with ownership of the underlying asset. Finance leases are recognized on the balance sheet while operating leases are recognized in the Consolidated Statements of Income when the expense is incurred. Under IFRS 16, lessees must recognize a lease liability and a right-of-use asset for most lease contracts. The recognition of the present value of minimum lease payments for certain contracts previously classified as operating leases resulted in increases to assets, liabilities, depletion, depreciation and amortization, and finance expense, and decreases to production, operating and transportation expense, purchases of crude oil and products, and selling, general and administrative expenses.

The Company has adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Accordingly, comparative information in the Company’s financial statements are not restated.

On adoption, lease liabilities were measured at the present value of the remaining lease payments discounted using the Company’s incremental borrowing rate on January 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability. For leases previously classified as operating leases, the Company applied the exemption not to recognize right-of-use assets and liabilities for leases with a lease term of less than 12 months, excluded initial direct costs from measuring the right-of-use asset at the date of initial application, and applied a single discount rate to a portfolio of leases with similar characteristics. For leases that were previously classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and lease liability remain unchanged upon transition and were determined at the carrying amount immediately before the adoption date. Additionally, instead of an impairment review, the Company adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application.

No adjustments were required upon transition to IFRS 16 for leases where the Company is a lessor. Under IFRS 16, the Company is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, the Company reassessed the classification of any sub-lease contracts previously assessed under IAS 17. No changes to sublease classification or associated accounting treatment was required.

Financial Statement Impact

The recognition of the present value of minimum lease payments resulted in an additional \$1.3 billion of right-of-use assets and associated lease liabilities. The Company has recognized lease liabilities in relation to lease arrangements previously disclosed as operating lease commitments under IAS 17 that meet the criteria of a lease under IFRS 16. Upon recognition, the Company's weighted average incremental borrowing rate used in measuring lease liabilities was 3.58 percent.

The nature of the Company's leasing activities includes offshore drilling rigs, vessels and associated equipment for the use of developing reserves on oil and gas properties, tanks and terminals with dedicated storage capacity, pipelines where the Company has a right to substantially all the economic benefits, dedicated rail cars, retail marketing locations, and office space. Refer to Note 7 for the values recognized upon implementation in each asset class.

Note 4 Restricted Cash

In accordance with the provisions of the regulations of the People's Republic of China, the Company is required to deposit funds into separate accounts restricted to the funding of future asset retirement obligations in offshore China. As at June 30, 2019, the Company had deposited funds of \$149 million (December 31, 2018 – \$128 million), which are classified as non-current and included in restricted cash in the condensed interim consolidated balance sheets.

Note 5 Exploration and Evaluation Assets

Exploration and Evaluation Assets

(\$ millions)

December 31, 2018	997
Additions	27
Disposals	—
Transfers to property, plant and equipment (note 6)	(12)
Expensed exploration expenditures previously capitalized	(23)
Exchange adjustments	(2)
June 30, 2019	987

Note 6 Property, Plant and Equipment

Property, Plant and Equipment

(\$ millions)	Oil and Gas Properties	Processing, Transportation and Storage	Upgrading	Refining	Retail and Other	Total
Cost						
December 31, 2018	44,196	101	2,659	10,691	3,095	60,742
Transfers to right-of-use assets ⁽¹⁾ (note 7)	(336)	—	—	(180)	—	(516)
Additions ⁽²⁾	1,166	—	16	408	59	1,649
Acquisitions	5	—	—	—	—	5
Transfers from exploration and evaluation (note 5)	12	—	—	—	—	12
Transfers from right-of-use assets ⁽³⁾ (note 7)	68	—	—	—	—	68
Intersegment transfers	2	—	—	—	(2)	—
Changes in asset retirement obligations	42	1	—	—	(6)	37
Disposals and derecognition	(9)	(1)	—	(8)	5	(13)
Exchange adjustments	(182)	(1)	—	(397)	(3)	(583)
June 30, 2019	44,964	100	2,675	10,514	3,148	61,401
Accumulated depletion, depreciation, amortization and impairment						
December 31, 2018	(27,379)	(50)	(1,585)	(3,933)	(1,995)	(34,942)
Transfers to right-of-use assets ⁽¹⁾ (note 7)	12	—	—	40	—	52
Depletion, depreciation, amortization and impairment	(838)	(1)	(57)	(241)	(77)	(1,214)
Intersegment transfers	—	—	—	—	—	—
Disposals and derecognition	8	—	—	8	—	16
Exchange adjustments	73	—	—	143	1	217
June 30, 2019	(28,124)	(51)	(1,642)	(3,983)	(2,071)	(35,871)
Net book value						
December 31, 2018	16,817	51	1,074	6,758	1,100	25,800
June 30, 2019	16,840	49	1,033	6,531	1,077	25,530

⁽¹⁾ Transfer to right-of-use assets due to the adoption of IFRS 16 on January 1, 2019.

⁽²⁾ Includes \$5 million of interest expense on lease liabilities allocated to the carrying amount of assets in Oil and Gas Properties.

⁽³⁾ Includes capitalized depreciation from right-of-use assets.

Note 7 Right-of-use Assets and Lease Liabilities

Right-of-use Assets

(\$ millions)	Oil and Gas Properties	Processing, Transportation and Storage	Upgrading	Refining	Retail and Other	Total
January 1, 2019						
Transfers from property, plant and equipment, net (note 6)	324	—	—	140	—	464
Initial recognition	721	100	—	70	412	1,303
	1,045	100	—	210	412	1,767
Additions	1	—	—	9	4	14
Transfers to property, plant and equipment (note 6)	(68)	—	—	—	—	(68)
Disposals and derecognition	(7)	—	—	—	—	(7)
Revaluation	(206)	—	—	—	—	(206)
Depreciation	(10)	(6)	—	(24)	(19)	(59)
Other	—	—	—	(3)	—	(3)
June 30, 2019	755	94	—	192	397	1,438

Lease Liabilities

Balance Sheets

(\$ millions)	June 30, 2019
Current lease liabilities ⁽¹⁾	163
Non-current lease liabilities ⁽¹⁾	1,356

⁽¹⁾ Includes \$481 million previously recorded in accrued liabilities and other long-term liabilities.

Results of Operations

(\$ millions)	Three months ended June 30, 2019	Six months ended June 30, 2019
Interest expense on lease liabilities ⁽¹⁾ (note 13)	34	55
Expenses relating to short-term leases	7	12

⁽¹⁾ Includes \$2 million and \$5 million of interest allocated to the carrying amount of assets in Oil and Gas Properties for three and six months ended June 30, 2019, respectively.

Cash Flow Summary

(\$ millions)	Three months ended June 30, 2019	Six months ended June 30, 2019
Total cash flow used for leases	92	171

Note 8 Debt and Credit Facilities

Short-term Debt

(\$ millions)	June 30, 2019	December 31, 2018
Commercial paper ⁽¹⁾	200	200

⁽¹⁾ The commercial paper is supported by the Company's syndicated credit facilities and the Company is authorized to issue commercial paper up to a maximum of \$1.0 billion having a term not to exceed 365 days. The weighted average interest rate as at June 30, 2019, was 2.01 percent per annum (December 31, 2018 – 2.20 percent).

(\$ millions)	Maturity	Canadian \$ Amount		U.S. \$ Denominated	
		June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Long-term Debt					
Long-term debt					
5.00% notes	2020	—	400	—	—
3.95% notes ⁽¹⁾	2022	655	682	500	500
4.00% notes ⁽¹⁾	2024	982	1,023	750	750
3.55% notes	2025	750	750	—	—
3.60% notes	2027	750	750	—	—
4.40% notes	2029	982	—	750	—
6.80% notes ⁽¹⁾	2037	506	528	387	387
Debt issue costs ⁽²⁾		(27)	(19)	—	—
Long-term debt		4,598	4,114	2,387	1,637
Long-term debt due within one year					
6.15% notes ⁽¹⁾	2019	—	410	—	300
7.25% notes ⁽¹⁾	2019	982	1,023	750	750
5.00% notes	2020	400	—	—	—
Long-term debt due within one year		1,382	1,433	750	1,050

⁽¹⁾ The U.S. dollar denominated debt is designated as a hedge of the Company's net investment in selected foreign operations with a U.S. dollar functional currency. Refer to Note 15 for Foreign Currency Risk Management.

⁽²⁾ Calculated using the effective interest rate method.

Credit Facilities

As at June 30, 2019, the covenants under the Company's syndicated credit facilities are debt to capital covenants, calculated as total debt (long-term debt including long-term debt due within one year and short-term debt) and certain adjusting items specified in the agreement divided by total debt, shareholders' equity and certain adjusting items specified in the agreement. These covenants are used to assess the Company's financial strength. If the Company does not comply with the covenants under the syndicated credit facilities, there is the risk that repayment could be accelerated. The Company was in compliance with the syndicated credit facility covenants at June 30, 2019, and assessed the risk of non-compliance to be low. As at June 30, 2019, the Company had no direct borrowings under its \$2.0 billion facility expiring June 19, 2022 (December 31, 2018 – no direct borrowings), and no direct borrowings under its \$2.0 billion facility expiring March 9, 2024 (December 31, 2018 – no direct borrowings).

Notes

On January 29, 2018, the Company filed a universal short form base shelf prospectus (the "2018 U.S. Shelf Prospectus") with the Alberta Securities Commission. On January 30, 2018, the Company's related U.S. registration statement with the SEC containing the 2018 U.S. Shelf Prospectus became effective which enables the Company to offer up to US\$3.0 billion of debt securities, common shares, preferred shares, subscription receipts, warrants and units of the Company in the U.S. up to and including February 29, 2020.

On December 4, 2018, the Company entered into cash flow hedges using forward interest rate swaps to fix the underlying U.S. \$500 million 10-year note fixed rate to December 15, 2019. During the three months ended March 31, 2019, the Company discontinued these cash flow hedges and these interest rate swaps were settled and derecognized during the period. Refer to Note 15.

On March 15, 2019, the Company issued US\$750 million senior unsecured notes. The notes bear an annual interest rate of 4.40 percent and are due on April 15, 2029. The Company intends to use the net proceeds of the offering for general corporate purposes, which may include, among other things, the repayment of certain outstanding debt securities maturing in 2019. The Company may invest funds it does not immediately require in short-term marketable debt securities.

On May 1, 2019, the Company filed a universal short form base shelf prospectus (the "2019 Canadian Shelf Prospectus") with applicable securities regulators in each of the provinces of Canada that enables the Company to offer up to \$3.0 billion of common shares, preferred shares, debt securities, subscription receipts, warrants and other units in Canada up to and including June 1, 2021.

On June 17, 2019, the Company repaid the maturing 6.15 percent notes issued under a trust indenture dated June 14, 2002. The amount paid to note holders was \$402 million.

On June 27, 2019, the maturity date for one of the Company's \$2.0 billion revolving syndicated credit facilities, previously set to expire on March 9, 2020, was extended to March 9, 2024.

At June 30, 2019, the Company had unused capacity of \$3.0 billion under its 2019 Canadian Shelf Prospectus and US\$2.25 billion under the 2018 U.S. Shelf Prospectus and related U.S. registration statement.

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

Note 9 Asset Retirement Obligations

A reconciliation of the carrying amount of asset retirement obligations at June 30, 2019, is set out below:

Asset Retirement Obligations

(\$ millions)

December 31, 2018	2,424
Additions	26
Liabilities settled	(113)
Revaluation	11
Exchange adjustment	(13)
Accretion (note 13)	53
June 30, 2019	2,388
Expected to be incurred within one year	235
Expected to be incurred beyond one year	2,153

The Company has deposited \$149 million (December 31, 2018 – \$128 million) into the restricted cash account for funding of future asset retirement obligations in offshore China. These amounts have been reflected in restricted cash in the condensed interim consolidated balance sheets.

Note 10 Other Long-term Liabilities

Other Long-term Liabilities

(\$ millions)

	June 30, 2019	December 31, 2018
Employee future benefits	211	205
Finance lease obligation (note 7)	—	467
Stock-based compensation	23	42
Deferred revenue	175	205
Other	141	188
End of period	550	1,107

Note 11 Share Capital

Common Shares

Common Shares	Number of Shares	Amount (\$ millions)
December 31, 2018	1,005,121,738	7,293
June 30, 2019	1,005,121,738	7,293

Common Share Dividends (\$ millions)	Three months ended June 30,				Six months ended June 30,			
	2019		2018		2019		2018	
	Declared	Paid	Declared	Paid	Declared	Paid	Declared	Paid
	126	125	75	76	252	251	151	76

There were \$126 million of common share dividends declared and payable in the second quarter of 2019 (June 30, 2018 – \$75 million). The dividends were paid on July 2, 2019, to shareholders of record at the close of business on June 10, 2019.

Preferred Shares

Cumulative Redeemable Preferred Shares	Number of Shares	Amount (\$ millions)
December 31, 2018	36,000,000	874
June 30, 2019	36,000,000	874

Cumulative Redeemable Preferred Share Dividends (\$ millions)	Three months ended June 30,				Six months ended June 30,			
	2019		2018		2019		2018	
	Declared	Paid	Declared	Paid	Declared	Paid	Declared	Paid
Series 1 Preferred Shares	1	2	1	1	3	2	3	3
Series 2 Preferred Shares ⁽¹⁾	—	—	—	—	—	—	—	—
Series 3 Preferred Shares	3	3	3	3	6	3	6	6
Series 5 Preferred Shares	3	2	3	3	5	2	5	5
Series 7 Preferred Shares	1	2	1	1	3	2	3	3
	8	9	8	8	17	9	17	17

⁽¹⁾ Series 2 Preferred Share dividends declared and paid in the three and six months ended June 30, 2019 was less than \$1 million (three and six months ended June 30, 2018 was less than \$1 million).

As at June 30, 2019, there were \$8 million of preferred share dividends declared and payable for the second quarter of 2019 (June 30, 2018 – \$8 million). The dividends were paid on July 2, 2019 to shareholders of record at the close of business on June 10, 2019.

Stock-based Compensation

The following table summarizes the total expense recognized in selling, general and administrative expenses in the condensed interim consolidated statements of income for the Company's stock option plan and performance share units ("PSU") for the three and six months ended June 30, 2019 and 2018:

Stock-based Compensation (\$ millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Stock option plan	(2)	16	(3)	22
PSU	15	17	23	32
Stock-based compensation	13	33	20	54

Earnings per Share

Earnings per Share (\$ millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Net earnings	370	448	698	696
Effect of dividends declared on preferred shares in the period	(8)	(8)	(17)	(17)
Net earnings - basic	362	440	681	679
Dilutive effect of accounting for stock options ⁽¹⁾	(5)	—	(8)	—
Net earnings - diluted	357	440	673	679
<i>(millions)</i>				
Weighted average common shares outstanding – basic	1,005.1	1,005.1	1,005.1	1,005.1
Effect of stock dividends declared	—	1.1	—	0.7
Weighted average common shares outstanding – diluted	1,005.1	1,006.2	1,005.1	1,005.8
<i>(dollars per share)</i>				
Earnings per share – basic (\$/share)	0.36	0.44	0.68	0.68
Earnings per share – diluted (\$/share)	0.36	0.44	0.67	0.68

⁽¹⁾ For the three and six months ended June 30, 2019, equity-settlement of stock of options was used to calculate diluted earnings per share as it was considered more dilutive than cash-settlement (three and six months ended June 30, 2018 - cash-settlement method was used). Stock-based compensation expense was \$3 million and \$5 million based on equity-settlement for the three and six months ended June 30, 2019 (three and six months ended June 30, 2018 – expense of \$3 million and \$5 million), respectively. Stock-based compensation would have been a recovery of \$2 million and \$3 million based on cash-settlement for the three and six months ended June 30, 2019 (three and six months ended June 30, 2018 – expense of \$16 million and \$22 million), respectively.

For the three and six months ended June 30, 2019, 20 million tandem options (three and six months ended June 30, 2018 – 13 million and 15 million tandem options) were excluded from the calculation of diluted earnings per share as these options were anti-dilutive.

Note 12 Production, Operating and Transportation and Selling, General and Administrative Expenses

The following table summarizes production, operating and transportation expenses in the condensed interim consolidated statements of income for the three and six months ended June 30, 2019 and 2018:

Production, Operating and Transportation Expenses (\$ millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Services and support costs	288	259	557	485
Salaries and benefits	192	180	382	343
Materials, equipment rentals and leases	64	63	122	116
Energy and utility	104	97	259	213
Licensing fees	53	66	105	112
Transportation	5	6	10	11
Other	37	63	61	82
Total production, operating and transportation expenses	743	734	1,496	1,362

The following table summarizes selling, general and administrative expenses in the condensed interim consolidated statements of income for the three and six months ended June 30, 2019 and 2018:

Selling, General and Administrative Expenses (\$ millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Employee costs ⁽¹⁾	101	89	188	178
Stock-based compensation expense ⁽²⁾	13	33	20	54
Contract services	32	25	60	49
Equipment rentals and leases	3	9	6	19
Maintenance and other	33	30	54	55
Total selling, general and administrative expenses	182	186	328	355

⁽¹⁾ Employee costs are comprised of salary and benefits earned during the period, plus cash bonuses awarded during the period. Annual bonus awards to be settled in shares are included in stock-based compensation expense.

⁽²⁾ Stock-based compensation expense represents the cost to the Company for participation in share-based payment plans.

Note 13 Financial Items

Financial Items (\$ millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Foreign exchange				
Non-cash working capital loss	(39)	(2)	(31)	—
Other foreign exchange gain	41	5	63	25
Net foreign exchange gain	2	3	32	25
Finance income	16	13	36	33
Finance expenses				
Long-term debt	(87)	(74)	(160)	(154)
Lease liabilities ⁽¹⁾ (note 7)	(34)	—	(55)	—
Other	(2)	(1)	(4)	(2)
	(123)	(75)	(219)	(156)
Interest capitalized ⁽²⁾	44	26	84	47
	(79)	(49)	(135)	(109)
Accretion of asset retirement obligations (note 9)	(26)	(25)	(53)	(49)
Finance expenses	(105)	(74)	(188)	(158)
Total financial items	(87)	(58)	(120)	(100)

⁽¹⁾ Includes \$2 million and \$5 million of interest allocated to the carrying amount of assets in Oil and Gas Properties for the three and six months ended June 30, 2019, respectively.

⁽²⁾ Interest capitalized on project costs is calculated using the Company's annualized effective interest rate of 5 percent (2018 – 5 percent).

Note 14 Cash Flows – Change in Non-cash Working Capital

Non-cash Working Capital (\$ millions)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Decrease (increase) in non-cash working capital				
Accounts receivable	182	(65)	(1)	(130)
Inventories	63	(85)	(385)	(169)
Prepaid expenses	51	79	45	65
Accounts payable and accrued liabilities	(249)	(63)	(132)	(225)
Change in non-cash working capital	47	(134)	(473)	(459)
Relating to:				
Operating activities	(42)	(199)	(456)	(565)
Financing activities	(5)	(14)	19	75
Investing activities	94	79	(36)	31

Note 15 Financial Instruments and Risk Management

Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, restricted cash, accounts payable and accrued liabilities, short-term debt, long-term debt, and portions of other assets and other long-term liabilities. Derivative instruments are classified as fair value through profit or loss ("FVTPL"). The Company's remaining financial instruments are measured at amortized cost. For financial instruments measured at amortized cost, the carrying values approximate their fair value with the exception of long-term debt.

The following table summarizes the Company's financial instruments that are carried at fair value in the condensed interim consolidated balance sheets:

Financial Instruments at Fair Value (\$ millions)	As at June 30, 2019	As at December 31, 2018
Commodity contracts – FVTPL		
Natural gas ⁽¹⁾	4	(9)
Crude oil ⁽²⁾	16	89
Crude oil call options ⁽³⁾	4	—
Crude oil put options ⁽³⁾	3	—
Foreign currency contracts – FVTPL		
Foreign currency forwards	(21)	(1)
Other assets – FVTPL	1	1
Derivatives designated as a cash flow hedge - forward starting swaps	—	(14)
Hedge of net investment ⁽⁴⁾⁽⁵⁾	(723)	(846)
Total financial instruments at fair value	(716)	(780)

⁽¹⁾ Natural gas contracts includes a \$15 million decrease as at June 30, 2019 (December 31, 2018 – \$10 million decrease) to the fair value of held-for-trading inventory, recognized in the condensed interim consolidated balance sheets, related to third party physical purchase and sale contracts for natural gas held in storage. Total fair value of the related natural gas storage inventory was \$8 million at June 30, 2019 (December 31, 2018 – \$15 million).

⁽²⁾ Crude oil contracts includes a \$13 million increase at June 30, 2019 (December 31, 2018 – \$67 million increase) to the fair value of held-for-trading inventory, recognized in the condensed interim consolidated balance sheets, related to third party crude oil physical purchase and sale contracts. Total fair value of the related crude oil inventory was \$194 million at June 30, 2019 (December 31, 2018 – \$185 million).

⁽³⁾ Excludes net unsettled premiums of \$4 million

⁽⁴⁾ Hedging instruments are presented net of tax.

⁽⁵⁾ Represents the translation of the Company's U.S. dollar denominated long-term debt designated as a hedge of the Company's net investment in selected foreign operations with a U.S. dollar functional currency

The fair value of long-term debt represents the present value of future cash flows associated with the debt. Market information, such as treasury rates and credit spreads, are used to determine the appropriate discount rates. These fair value determinations are compared to quotes received from financial institutions to ensure reasonability. As at June 30, 2019, the carrying value of the Company's long-term debt was \$6.0 billion and the estimated fair value was \$6.3 billion (December 31, 2018 carrying value of \$5.5 billion, estimated fair value – \$5.7 billion).

All financial assets and liabilities are classified as Level 2 fair value measurements, except the commodity put and call options under a short-term hedging program, which are classified as Level 1 fair value measurement, as they are determined using quoted market prices. During the three and six months ended June 30, 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

Risk Management Overview

The Company is exposed to risks related to the volatility of commodity prices, foreign exchange rates, and interest rates. It is also exposed to financial risks related to liquidity, credit, and contract risks. Risk management strategies and policies are employed to ensure that any exposures to risk are in compliance with the Company's business objectives and risk tolerance levels. Responsibility for the oversight of risk management is held by the Company's Board of Directors and is implemented and monitored by senior management within the Company.

Market Risk

Commodity Price Risk Management

The Company uses derivative commodity instruments from time to time to manage exposure to price volatility on a portion of its crude oil and natural gas production, and it also uses firm commitments for the purchase or sale of crude oil and natural gas. These contracts meet the definition of a derivative instrument and have been recorded at their fair value in accounts receivable, inventory, other assets, accounts payable and accrued liabilities and other long-term liabilities. All derivatives are measured at fair value through profit or loss other than non-financial derivative contracts that meet the Company's own use requirements.

At June 30, 2019, the Company was party to crude oil purchase and sale derivative contracts to mitigate its exposure to fluctuations in the benchmark price between the time a sales agreement is entered into and the time inventory is delivered. The Company was also party to third party physical natural gas purchase and sale derivative contracts in order to mitigate commodity price fluctuations. For the three and six months ended June 30, 2019, the net unrealized gain recognized on the derivative contracts was \$4 million and a net unrealized loss of \$53 million (three and six months ended June 30, 2018 – net unrealized gain of \$26 million and \$112 million), respectively.

During the six months ended June 30, 2019, the Company entered into a commodity short-term hedging program using put and call options to manage risks related to volatility of commodity prices.

Western Texas Intermediate Crude Oil Call and Put Option Contracts⁽¹⁾

Type	Transaction	Term	Volume (bbls/day)	Call Price (US\$bbl)	Put Price (US\$bbl)
Call options	Sold	July - September 2019	29,945	65.42	—
Put options	Bought	July - September 2019	33,242	—	61.57
Put options	Sold	July - September 2019	6,319	—	48.20

⁽¹⁾ Prices reported are the weighted average prices for the period.

For the three and six months ended June 30, 2019, the Company incurred an unrealized gain of \$7 million (three and six months ended June 30, 2018 – nil). For the three and six months ended June 30, 2019, the Company incurred a realized gain of \$1 million (three and six months ended June 30, 2018 – nil). These amounts are recorded in other - net in the condensed consolidated statements of income.

Foreign Exchange Risk Management

The Company's results are affected by the exchange rates between various currencies and the Company's functional currency in Canadian dollars. As the majority of the Company's revenues are denominated in U.S. dollars or based upon a U.S. benchmark price, fluctuations in the value of the Canadian dollar relative to the U.S. dollar may affect revenues significantly. To limit the exposure to foreign exchange risk, the Company hedges against these fluctuations by entering into short-dated foreign exchange contracts to fix the exchange rate for conversion of U.S. revenue dollars.

Foreign exchange fluctuations will result in a change in value of the U.S. dollar denominated debt and related finance expense when expressed in Canadian dollars. At June 30, 2019, the Company had designated US\$2.4 billion denominated debt as a hedge of the Company's selected net investments in its foreign operations with a U.S. dollar functional currency (December 31, 2018 – US\$2.7 billion). For the three and six months ended June 30, 2019, the Company incurred an unrealized gain of \$58 million and \$123 million (three and six months ended June 30, 2018 – unrealized loss of \$56 million and \$145 million), respectively, arising from the translation of debt, net of tax of \$7 million and \$17 million (three and six months ended June 30, 2018 – net of tax recovery of \$9 million and \$23 million), respectively, which was recorded in hedge of net investment within other comprehensive income (loss).

Interest Rate Risk Management

The Company is exposed to fluctuations in short-term interest rates as Husky maintains a portion of its debt capacity in revolving and floating rate bank facilities and commercial paper and invests surplus cash in short-term debt instruments and money market instruments. The Company is also exposed to interest rate risk when fixed rate debt instruments are maturing and require refinancing or when new debt capital needs to be raised.

By maintaining a mix of both fixed and floating rate debt, the Company mitigates some of its exposure to interest rate changes. The optimal mix maintained will depend on market conditions. The Company may also enter into fair value or cash flow hedges using interest rate swaps.

On March 13, 2019, the Company discontinued the cash flow hedges that were entered into in the fourth quarter of 2018 with respect to forward starting interest rate swaps. These forward interest rate swaps were settled and derecognized. As at June 30, 2019, an accrued loss of \$15 million, net of tax recovery of \$6 million, had been deferred in derivatives designated as cash flow hedges within other comprehensive income (loss). The accrued loss is being amortized into net earnings over the 10-year remaining life of the underlying long-term debt to which the hedging relationship was originally designated.

At June 30, 2019, the net balance deferred in other comprehensive income (loss) related to derivatives designated as cash flow hedges was a loss of \$3 million (December 31, 2018 - gain of \$13 million), net of tax recovery of \$2 million (December 31, 2018 - net of tax of \$4 million). The amortization of the net accrued loss upon settling the interest rate swaps resulted in a decrease to finance expense of less than \$1 million for the three and six months ended June 30, 2019 (three and six months ended June 30, 2018 - the amortization of a net accrued gain resulted in an offset to finance expense of less than \$1 million).