CDEV

Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

Annual Report 2013

Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

Contents

Corporate Address:

1240 Bay Street, Suite 302
Toronto, ON M5R 2A7

Telephone: (416) 966-2221
Facsimile: (416) 966-5485
Website: www.cdev.gc.ca

Report to the Minister

The Honourable James M. Flaherty
Minister of Finance

Dear Minister Flaherty:

I am pleased to report on the consolidated results of operations for Canada Development Investment Corporation (CDEV) for the year ended December 31, 2013.

CDEV, through Canada GEN Investment Corporation, CDEV's wholly owned subsidiary continues to manage Canada's investment in General Motors. We sold 30 million common shares in September 2013 for proceeds of over $1.1 billion which we paid as a dividend. The value of our GM holdings increased $0.8 billion during the year even after the sale. Canada GEN now owns an approximate 7% holding in GM common shares.

CDEV continued to undertake work under the Government's ongoing review of corporate asset holdings. During the year, we continued our work to sell Ridley Terminals Inc. acting as agent of the Government. At the Government's request, we also initiated activities in preparation for a potential sale of the Dominion Coal Blocks in British Columbia.

Canada Hibernia Holding Corporation (CHHC), our other major wholly-owned subsidiary, had a successful year. CHHC sold 4.3 million barrels of crude oil during the year, similar to the volume sold in 2012. The average crude oil price was $115 per barrel which is $2 higher than in 2012. CHHC paid $136 million in provincial royalties, $43 million in net profits interest, $74 million in provincial and federal income taxes, as well as $142 million in dividends to CDEV, $22 million higher than in 2012.

In 2013 CDEV paid $1.304 billion in dividends. Cash was generated from proceeds from the sale of GM common shares, dividends from GM preferred shares and CHHC profits.

Canada Eldor Inc., our third wholly-owned subsidiary, which is responsible for administration of outstanding issues pursuant to prior divestitures, continued to pay Cameco for mine site restoration work near Uranium City, Saskatchewan.

During 2013 CDEV did not borrow from the Government nor did it receive any appropriations.

On behalf of the Board of Directors,

N. William C. Ross
Chairman
Canada Development Investment Corporation

March 6, 2014

Directors and Officers as at March 6, 2014

Minister Responsible for CDEV

The Honourable James M. Flaherty
Minister of Finance

Board of Directors

N. William C. Ross, LL.M. (2) (3)
Chairman
Canada Development Investment Corporation
Senior Counsel
WeirFoulds LLP
Toronto, Ontario

John James Hillyard, MBA (2) (3)
Director
St. John's, Newfoundland and Labrador

Ted Howell, CA, MBA (1) (3)
Director
St. John's, Newfoundland and Labrador

Nicholas Wemyss, PGeo (2) (3)
Director
Victoria, British Columbia

Mary Beth Montcalm, PhD (2)
Director
Toronto, Ontario

Mary Ritchie, FCPA, FCA (1)
CEO
Richford Holdings Ltd.
Edmonton, Alberta

Benita M. Warmbold, FCPA, FCA (1) (2)
Senior Vice-President and Chief Financial Officer
Canada Pension Plan Investment Board
Toronto, Ontario

Officers

Michael Carter
Executive Vice-President

Andrew Stafl, CPA, CA
Vice-President, Finance

Zoltan Ambrus
Vice-President

Patrice S. Walch-Watson
Corporate Secretary

Committees of the Board

(1) Audit Committee

(2) Nominating and Governance Committee

(3) Human Resources and Compensation Committee

Canada Development Investment Corporation paid $1.3 billion in dividends.

Canada GEN sold 30 million GM common shares for proceeds of $1.1 billion.

Canada Hibernia Holding Corporation generated $313 million in net crude oil revenue during the year with sales volume of 4.3 million barrels.

We continued to prepare the sale process for Ridley Terminals Inc., working together with government officials, our advisors and the company.

Corporate Governance Practices

CDEV (formerly "CDIC") reports to Parliament through the Minister of Finance. In November 2007, the Minister informed CDEV that "going forward, the operations of the CDIC should reflect a future focused on the ongoing management of its current holdings in a commercial manner, providing assistance to the government in new directions suited to CDIC's capabilities, while maintaining the capacity to divest CDIC's existing holdings, and any other government interests assigned to it for divestiture, upon the direction of the Minister of Finance". Since 2007, the Corporation has carried out new assignments, including acquiring and divesting assets and providing advice to the government on other government interests.

CDEV's Board of Directors supervises and oversees the conduct of the business and affairs of CDEV. The Board currently consists of the Chairman and six other directors. The members of the Board bring significant public and private experience, skills and expertise to their roles. The Chairman of the Board assesses the effectiveness of the Board and its committees with input from all of the directors. All members of the Board are independent of CDEV management.

Attendance at directors' meetings is outstanding and each director dedicates appropriate time outside of board meetings to the affairs and governance of the Corporation. CDEV and each subsidiary have separate and active boards of directors that meet regularly.

The Board annually reviews and approves the Corporate Plan of the Corporation and monitors its implementation over the planning period, evaluating the strategic direction in light of the changing business environment and assignments provided to it. Risks are identified and managed throughout the year. The Board conducts an annual retreat meeting where they consider, among other things, the goals of the Corporation from a strategic point of view.

To assist it in carrying out its stewardship of CDEV, the Board has established three committees, being the Nominating and Governance Committee, the Human Resources and Compensation Committee and the Audit Committee. The Nominating and Governance Committee deals with matters related to corporate governance. It continues to review CDEV's governance practices in the spirit of continuous improvement and to address new requirements. In addition, this Committee assists in determining the desired composition and structure of the Board and recommending to the Governor in Council candidates for Board membership and for the position of Chair, as needed. The Human Resources and Compensation Committee assists the Board in matters pertaining to human resources and compensation strategy, policies and practices, including reviewing compensation of the executives. The Audit Committee monitors the integrity of the Corporation's consolidated financial statements and the maintenance of proper controls and accounting procedures of the Corporation and communicates directly with the Corporation's auditors.

The Board has an effective working relationship with CDEV's management. The allocation of responsibilities between the Board and management is reviewed on a regular basis. A Board of Directors' charter has been adopted which denotes roles and responsibilities, primarily in terms of Board stewardship.

Effective communication with the Crown and the public is conducted through the board-approved Corporate Plan, Corporate Plan Summary, and the Annual Report, as well as through the corporate website, and an annual public stakeholders meeting. As well, meetings are held as required with the Minister of Finance and other officials of the Government of Canada.

Compensation paid to directors is set by Order in Council. The Board members receive an annual retainer for their services, plus a fixed per diem for travel time, attending meetings and other responsibilities as needed. Directors are also reimbursed for reasonable expenses incurred. CDEV will continue to monitor the government's evolving guidance in governance matters and public sector best practices and implement changes in its governance practices as required.

Management Discussion and Analysis of Results

The public communications of Canada Development Investment Corporation ("CDEV"), including this annual report, may include forward-looking statements that reflect our expectations regarding CDEV's objectives, strategies, outlooks, plans, anticipations, estimates and intentions.

By their nature, forward-looking statements involve numerous factors and assumptions, and they are subject to inherent risks and uncertainties, both general and specific. In particular, any predictions, forecasts, projections or other elements of forward-looking statements may not be achieved. A number of risks, uncertainties and other factors could cause actual results to differ materially from what we currently expect.

Corporate Overview

CDEV, a federal crown corporation, was incorporated in 1982 to provide a commercial vehicle for Government equity investment and to manage commercial holdings of the Government. CDEV's primary objective is to carry out its activities in the best interests of Canada, operating in a commercial manner. In addition to certain activities of our own, we have three wholly-owned subsidiaries for which we are responsible: Canada Hibernia Holding Corporation ("CHHC"), Canada Eldor Inc. ("CEI"), and Canada GEN Investment Corporation ("GEN"). CHHC owns and manages the federal government's interest in the Hibernia offshore oil development project ("Hibernia"). CEI has no operations, but has responsibility for servicing liabilities, chiefly arising from an agreement of purchase and sale with Cameco Inc. entered into in 1988. GEN was incorporated in 2009 and holds common and preferred stock of General Motors Company ("GM").

Our Vision: To be the Government of Canada's primary resource for the evaluation, management and divestiture of its commercial assets.

Our Mission: Acting in the best interests of Canada, on behalf of the Minister of Finance, we bring excellent business judgement and commercial practices to the evaluation, management and divestiture of assets of the Government of Canada.

Since CDEV's inception in 1982, we have been effective in the management and divestiture of corporate interests of the Crown. The assets sold on behalf of the Crown by CDEV through 2013 include Canadair Limited, de Havilland Aircraft of Canada Limited, Teleglobe Canada, Fishery Products International Limited, Canada Development Corporation, Nordion International Inc., Telesat Canada, shares of Cameco Corporation, a portion of the common share holdings in General Motors we owned, and interests in Chrysler. Proceeds to the Crown from these divestment activities totaled approximately $4.4 billion through 2013. In addition, CHHC has paid a total of $1.81 billion in cumulative dividends from operations.

CDEV has a management team based in Toronto headed by the Executive Vice-President, whose role is to work closely with external consultants, contractor specialists and the Board to ensure the effective functioning of CDEV and its subsidiaries. CHHC has a management team based in Calgary that is experienced in the oil industry. This team, headed by its President and CEO, provides expertise in technical, marketing, transportation and financial areas of the operation. Management attends meetings and has regular discussions with Department of Finance officials, and our Chairman has contact with the Minister.

Corporate Performance

Canada Investment Development Corporation

In 2009, the Minister of Finance requested that CDEV participate in the Government's on-going review of corporate asset holdings, referred to as the Corporate Asset Management Review ("CAMR") programme. In this role, we retain advisors to provide financial, legal or technical analysis of those corporate holdings of Canada as requested by the Minister. We monitor the advisors and review their reports prior to their submission to the Minister. CDEV has been given mandates by the Government to manage the sale of Ridley Terminals Inc., a coal terminal in Prince Rupert, British Columbia and the potential sale of portions of the Dominion Coal Blocks in British Columbia. We hired financial and legal advisors and are preparing the sales processes for these assets in consultation with the ministries responsible for the assets.

We paid dividends of $1,304 million in 2013, largely generated from the cash proceeds from the sale of 30 million GM common shares in September and earnings from CHHC.

Canada Hibernia Holding Corporation

Net crude oil revenue, after deducting marketing fees, royalties and net profits interest, increased 5% to $313 million from $298 million in 2012. The increase is primarily due to improved production rates and marginally higher realized crude oil prices. CHHC sold 4.30 million barrels of crude oil in 2013 as compared to 4.16 million barrels in 2012, an increase of 3%. The increase is consistent with higher total production at Hibernia, averaging 135,500 barrels per day compared to 130,200 barrels per day in 2012. This 4% production increase is the result of lower production downtime during the year, as 2012 production rates were impacted by the triennial platform shutdown and turnaround. Although Dated Brent Crude Oil prices decreased 3% to average US $109 per barrel from US $112 per barrel in 2012, the weakening of the Canadian dollar during the year resulted in CHHC realizing $115 per barrel in 2013 as compared to $113 per barrel in 2012. CHHC does not enter into fixed price commodity contracts and sells its oil at market prices.

After tax comprehensive income increased by 1% to $174 million compared to $173 million in 2012, as higher net crude oil revenue was largely offset by higher expenses recorded for operating and production, depletion and depreciation, and income taxes. CHHC paid dividends to CDEV of $142 million during 2013 as compared to $120 million in the prior year.

Hibernia Owners are currently focused on development of the Hibernia Southern Extension Unit (“HSE Unit”) and planning for the future development of the Ben Nevis Avalon (“BNA”) reservoir, in addition to optimizing recovery and production activities and drilling additional well pairs in the existing Hibernia field. Capital work continued in 2013 in respect of HSE Unit development, including the construction and installation of subsea facilities. The drilling of subsea water injection wells commenced in early 2014 following weather and equipment related delays experienced in late 2013. The drilling of additional producer-injector well pairs in the HSE Unit is expected to add considerable incremental production, and completion of the currently approved projects is expected for late 2016 or early 2017. Owners are also evaluating further development options for the BNA crude oil reservoir in the Hibernia field, with project decisions expected to occur as early as 2014. Further, the construction of a new gas lift system, designed to improve well productivity and enhance production, is ongoing and is expected to be completed in late 2014.

Canada GEN Investment Corporation

At year end, GEN held approximately 7% or $4.8 billion of the outstanding common shares of GM as well as $449 million in GM preferred shares. Our GM holdings are managed in a commercial manner over the long term. During 2013, GM common shares traded in a range of approximately US $26 to US $42 per share. GEN retains a financial advisor to provide advice to management regarding the investment. See the table below for further information on the historic values of the GM common shares.

On September 10, 2013, GEN sold 30 million GM common shares at a price of US $36.65 per share. GEN recognized a gain of $680 million on the sale and as a result CDEV paid a dividend of $1.1 billion.

Canada Eldor Inc.

CEI continues to pay for costs relating to the decommissioning of former mine site properties in Saskatchewan and for retiree benefits of certain former employees. During 2013, Cameco, which manages decommissioning the mine site, received a ten year renewal of their license from The Canadian Nuclear Safety Commission. A plan is in place that should allow for the eventual transfer of the mine site properties to the Institutional Control programme of the Province of Saskatchewan.

Analysis of External Business Environment

The ongoing management of our holdings will be dependent on market and economic conditions specific to the underlying company or investment.

CHHC derives its cash flow exclusively from oil production from the Hibernia project assets and operations, which include Hibernia field production facilities and its time charter crude oil tanker asset. Cash flow fluctuates depending on oil production volumes, crude oil prices, the USD/CAD exchange rate, royalty and net profits interest burden, operating costs, income tax rates, and capital expenditure levels. CHHC is also a party to operating, royalty and other agreements, and is affected by regulatory changes under the Canada-Newfoundland and Labrador Offshore Petroleum Board and other regulators.

Any future realization of value for the GM investments will depend upon both the capabilities of the management of GM and the health of the automotive markets in which it competes. GM operates in an environment that is dependent on consumer spending. The economic environment in 2013 in North America improved from 2012 as evidenced by US light vehicle sales increasing 8% to 15.6 million units while sales in Western Europe stabilized somewhat from the prior year. The S&P 500 index was up approximately 30% from December 2012 (1,426 index value) to December 2013 (1,848). The GM common share price increased more than 40% in 2013 from approximately US $29 per share at the end of 2012 to approximately US $41 per share at the end of 2013. Shortly after year end GM declared an initial quarterly dividend of US $0.30 per common share payable in March 2014.

CEI will be affected by ongoing changes in the regulatory requirements enacted in particular by the Canadian Nuclear Safety Commission and the Government of Saskatchewan.

Risks and Contingencies

As with any oil development project, CHHC's interest in the Hibernia project faces geological and production risks. These particularly apply to the HSE Unit and its reserves, which have not yet been fully developed. The operator of the project maintains high standards in all aspects of the operation including safety, efficiency and environmental protection. CHHC employs prudent risk management practices in consultation with the operator and maintains suitable insurance coverage that it regards as economically sound.

Another significant risk to CHHC's earnings and cash flow is the change in crude oil prices which can fluctuate due to global economic events and conditions. A $1.00 per barrel change in the price of oil realized by CHHC would impact earnings before tax by $2.7 million ($2.6 million in 2012). CHHC does not engage in crude oil hedging activities. However, given the relatively low cost of production, changes in crude oil prices are not likely to affect CHHC's ability to meet its obligations.

The present value cost for decommissioning and abandonment of the Hibernia wells and facilities of $65 million is estimated based on known procedures and costs today for undertaking the decommissioning in approximately the year 2054. It is possible that these costs may change materially before decommissioning due to regulatory changes, technological changes and inflation among other variables. CHHC has deposited $97 million with the Consolidated Revenue Fund to specifically provide for decommissioning and abandonment costs. CHHC is dependent on oil tankers to ship crude oil to its customers or the Newfoundland Transshipment facility. To reduce single source tanker risk in case of reduced tanker availability, CHHC has entered into agreements to access alternate shipping services.

The investment in GM common shares is subject to significant fluctuations in value due to overall stock market performance and to risks of the automobile industry and the relative performance of GM within it. Changes in share price do not impact GEN's cash flow or the ability to meet its obligations. GEN has not undertaken hedging of its GM holdings.

Almost all of GEN's assets and the revenues of GEN and CHHC are impacted by foreign exchange fluctuations. CHHC's crude oil sales are priced in US dollars. Dividends from the GM preferred and common shares are received in US dollars. The assets of GEN are denominated in US dollars. As GEN's assets are divested, any future cash proceeds will be impacted by changes in the exchange rate. The CAD/USD exchange rate increased to 1.0636 at December 31, 2013 from 0.9949 at December 31, 2012, a 7% appreciation in the USD.

Risks and Contingencies (continued)

CEI is subject to liabilities due to its undertakings to Cameco as part of a 1988 Purchase and Sale agreement. The $17 million provision determined for mine site restoration is based on estimates for expected restoration and monitoring work over a ten year period. The actual costs may vary materially due to changes in inflation, changes in cost estimates in a difficult northern environment and changes in regulatory requirements. CEI has deposited $26 million with the Consolidated Revenue Fund from which unknown future liabilities could be settled.

The two contingencies disclosed in our financial statements have been analyzed by management and our legal counsel. Management believes that the probable resolution will be favourable to CDEV and its subsidiaries.

Financial Statements for the Year Ended December 31, 2013

The consolidated financial statements for 2013 with comparative figures for 2012 have been prepared in accordance with International Financial Reporting Standards.

Consolidated net revenue for 2013 was $1,032 million, a significant increase from $336 million in the prior year. The increase is mainly attributable to the gain on sale of the GM common shares of $680 million. In addition, net crude oil sales increased by 5% to $313 million from $298 million in 2012, due primarily to higher crude oil sales volumes and higher average oil prices. The increase in sales volume was primarily due to improved production rates resulting from reduced downtime as compared to 2012.

Total expenses for the year, excluding finance costs and the change in fair value of the GM preferred shares, increased to $84 million, from $75 million in the prior year. The increase is largely due to a change in the provision for site restoration, higher depletion and depreciation expense and higher operating and production expenses. The change in the provision for site restoration was a $2 million decrease in 2013 primarily due to a reversal of provisions, compared to a $8 million increase in 2012. Depletion and depreciation increased by $6 million over 2012 as a result of higher production volumes and lower estimated remaining reserve volumes. Operating and production expenses increased by $7 million over the prior year due to higher costs for well workovers, repairs and research and development activities, as well as reduced transportation cost recoveries due to the elimination of a transportation cost-sharing arrangement early in the year. As well, we incurred a foreign exchange loss of $4 million in 2013 compared to a gain of $1 million in the prior year. The foreign exchange loss is mainly related to the sale of the GM common shares and partially offset by foreign exchange gains related to crude oil sales by CHHC as a result of the strengthening of the US dollar.

GEN received $37 million in preferred share dividends from GM in 2013, a 4% increase over 2012 as a result of an appreciation in the USD. In 2013, GEN experienced a $30 million unrealized gain on the GM preferred shares held, comprised of a fair value gain of $1 million and a foreign exchange gain of $29 million. The preferred shares were valued at US $26.20 per share at December 31, 2013 compared to US $26.13 at December 31, 2012. In the prior year, GEN had a $7 million unrealized loss, comprised of a $9 million unrealized foreign exchange loss offset by a fair value gain of $2 million.

Despite the decrease in the number of shares held, the market value of the GM common shares increased to $4.8 billion at December 31, 2013 from $4.0 billion at December 31, 2012 as a result of an increase in the market price, adjusted for foreign exchange. The change in the value of the GM common share investment is reflected as an increase in other comprehensive income (OCI) of $1,228 million for the year ended December 31, 2013. During the prior year, OCI reflected an increase of $1,127 million in the value of GM common share investment. For more details on OCI changes relating to the GM common shares please see the table below.

GM Common Shares Other Comprehensive Income (OCI)

Quarter ending	# of shares	Price GM Common Shares (US$) [2]	US exchange rate [1]	Investment Value (C$ millions)	Quarterly OCI/(loss) (C$ millions)	Year-to-date OCI/(loss) (C$ millions)
31-Dec-11	140,084,746	$20.28	1.0170	2,889	(51)	(1,840)
2012						
31-Mar-12	140,084,746	$25.64	0.9991	3,589	699	699
30-Jun-12	140,084,746	$19.72	1.0191	2,815	(773)	(74)
30-Sep-12	140,084,746	$22.75	0.9837	3,135	320	246
31-Dec-12	140,084,746	$28.82	0.9949	4,017	882	1,127
2013						
31-Mar-13	140,084,746	$27.81	1.0156	3,957	(60)	(60)
30-Jun-13	140,084,746	$33.34	1.0512	4,910	953	893
10-Sep-13	*(30,000,000)*	*$36.65*	*1.0357*		*(680)*	*(3)*
30-Sep-13	110,084,746	$35.95	1.0285	4,070	300	513
31-Dec-13	110,084,746	$40.87	1.0636	4,785	715	1,228

Notes

(1) exchange rate used is Bank of Canada noon rate (USD in CAD)

(2) quoted closing bid price per share at quarter end (transaction price Sept 10)

(3) realized gain on shares sold on Sept 10 transferred to profit and loss

Property and equipment of $124 million at December 31, 2013 decreased as compared to December 31, 2012 by $39 million due to depletion and depreciation and a reduction in capital costs related to the decommissioning obligation exceeding capital expenditures for the year. Income taxes recoverable decreased to $1 million at December 31, 2013 from $2 million at December 31, 2012 resulting mainly from differences in tax installments made relative to calculations of income tax expense due.

Accounts payable of $27 million as at December 31, 2013 were lower by $32 million mainly due to lower royalty and NPI amounts payable as a result of lower sales volumes shipped in December 2013 compared to December 2012. CHHC's decommissioning obligation decreased by $29 million to $65 million primarily due to a revision in the discount rate that is applied to calculate the Company's decommissioning obligation. The discount rate used at December 31, 2013 was 3.24%, versus 2.36% at December 31, 2012.

We paid dividends during 2013 totaling $1,304 million which included $459 million in dividends from contributed surplus related to the sale of the GM common shares. The dividends were funded from dividends received on the GM preferred shares held, from CHHC earnings, and proceeds from the sale of the GM common shares. Dividends paid in the comparative period in 2012 were $146 million.

Management's Responsibility For Financial Statements

The accompanying consolidated financial statements of Canada Development Investment Corporation ("CDEV") are the responsibility of management and were authorized for issue by the Board of Directors on March 6, 2014. The consolidated financial statements have been prepared by the Corporation in accordance with International Financial Reporting Standards. The financial statements of the Corporation's three wholly-owned subsidiaries for which it has responsibility have been consolidated with those of the Corporation. When alternative accounting methods exist, the Corporation has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on best estimates and judgments. The Corporation has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with information contained in the consolidated financial statements.

CDEV maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the consolidated financial records are reliable, form a proper basis for the preparation of consolidated financial statements and that CDEV's assets are properly accounted for and adequately safeguarded.

The Board of Directors carries out its responsibilities for the consolidated financial statements in this report principally through its Audit Committee. The Audit Committee reviews CDEV's annual consolidated financial statements and reports its findings to the Board for its consideration and approval. The Audit Committee also meets with the Corporation's auditors to discuss auditing matters and financial reporting issues. Due to its size, and as permitted by Order in Council, CDEV is exempt from the requirement to carry out internal audits but has carried them out periodically on the direction of the Board.

These consolidated financial statements have been audited by the Corporation's auditors, the Auditor General of Canada and KPMG LLP, whose report is presented separately.

As Executive Vice-President of CDEV and Vice-President, Finance, we have reviewed its consolidated financial statements and based upon our knowledge, having exercised due diligence, believe they fairly present in all material respects the financial position as at December 31, 2013, and financial performance and cash flows for the year ended December 31, 2013.

Michael Carter
Executive Vice-President
Canada Development Investment Corporation

Andrew Stafl, CPA, CA
Vice-President, Finance
Canada Development Investment Corporation

March 6, 2014

Independent Auditors' Report

To the Minister of Finance

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Canada Development Investment Corporation, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in shareholder's equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Development Investment Corporation as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of Canada Development Investment Corporation and its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, any directives issued by the Governor in Council to the Canada Development Investment Corporation, and the articles and by-laws of Canada Development Investment Corporation and its wholly-owned subsidiaries.

KPMG LLP

Sylvain Ricard, CPA, CA
Assistant Auditor General
for the Auditor General of Canada

Chartered Professional Accountants,
Licensed Public Accountants

6 March 2014
Ottawa, Canada

Consolidated Statement of Financial Position

As at December 31
(Thousands of Canadian Dollars)

		2013		2012
				Revised (note 21)
Assets				
Current assets:				
Cash and cash equivalents (note 5)	$	101,768	$	97,325
Accounts receivable		58,205		62,083
Income taxes recoverable		902		1,946
Inventory		3,017		4,042
Prepaid expenses		321		309
Cash on deposit in the Consolidated Revenue Fund (note 6)		4,049		2,742
		168,262		168,447
Non-current assets:				
Cash on deposit in the Consolidated Revenue Fund (note 6)		118,831		119,070
Cash and cash equivalents held in escrow (note 7)		5,969		5,969
Property and equipment (note 8)		124,431		163,067
Investments (note 9)		5,234,310		4,435,652
Deferred tax asset (note 11)		9,841		4,378
		5,493,382		4,728,136
	$	5,661,644	$	4,896,583
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities		27,195	$	58,807
Current portion of finance lease obligation		2,062		1,809
Current portion of defined benefit obligation		270		270
Current portion of provision for site restoration (note 10(b))		3,748		2,416
		33,275		63,302
Non-current liabilities:				
Finance lease obligation		-		1,947
Provision for decommissioning obligation (note 10(a))		64,676		94,017
Provision for site restoration (note 10(b))		13,047		16,930
Defined benefit obligation		1,925		2,207
		79,648		115,101
Shareholder's equity:				
Share capital (note 12)		1		1
Contributed surplus (note 12)		2,757,143		3,216,294
Accumulated deficit		(308,885)		(370,768)
Accumulated other comprehensive income		3,100,462		1,872,653
		5,548,721		4,718,180
Commitments (note 15)				
Contingencies (note 16)				
Subsequent Event (note 22)				
	$	5,661,644	$	4,896,583

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

On behalf of the Board: ______________________ Director ______________________ Director

Consolidated Statement of Comprehensive Income

Year ended December 31
(Thousands of Canadian Dollars)

		2013		2012
Revenue:				
Net crude oil revenue (note 14)	$	312,895	$	297,987
Dividends (note 9)		37,372		35,991
Gain on sale of investment (note 9)		679,601		-
Interest income		2,155		2,319
		1,032,023		336,297
Expenses:				
Depletion and depreciation (note 8)		43,234		37,114
Production and operating expenses (note14)		25,497		18,610
Change in fair value of investment in preferred shares (note 9)		(30,000)		7,000
Professional fees		8,276		8,209
Foreign exchange loss (gain)		4,376		(567)
Salaries and benefits		3,215		2,924
Change in estimates of provision for site restoration (note 10)		(1,894)		8,204
Other expenses		908		829
Defined benefit expense		77		92
		53,689		82,415
Finance costs:				
Unwind of discount on decommissioning obligations (note 10)		2,416		1,764
Interest on finance lease obligation		88		121
Unwind of discount on provision for site restoration (note 10)		237		170
		2,741		2,055
Profit before income taxes		975,593		251,827
Income taxes (note 11):				
Current		74,709		70,455
Deferred		(5,463)		(3,191)
		69,246		67,264
Profit		906,347		184,563
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Net actuarial gains (losses) on defined benefit obligations		83		(199)
Items that may be reclassified subsequently to profit or loss:				
Change in fair value of available-for-sale financial assets		1,907,410		1,127,438
Realized gain on available-for-sale financial assets transferred to profit or loss		(679,601)		-
		1,227,809		1,127,438
		1,227,892		1,127,239
Comprehensive income	$	2,134,239	$	1,311,802

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

Consolidated Statement of Changes in Shareholder's Equity

Year ended December 31
(Thousands of Canadian Dollars)

	2013	2012
Share capital		
Balance, beginning and end of year	$ 1	$ 1
Contributed surplus		
Balance, beginning of year	3,216,294	3,216,294
Dividends	(459,151)	-
Balance, end of year	2,757,143	3,216,294
Accumulated deficit		
Balance, beginning of year	(370,768)	(402,738)
Correction of prior period misstatement (note 21)	-	(6,534)
Revised balance, beginning of year	(370,768)	(409,272)
Profit	906,347	184,563
Actuarial gain (loss) on defined benefit obligations	83	(199)
Dividends	(844,547)	(145,860)
Balance, end of year	(308,885)	(370,768)
Accumulated other comprehensive income		
Balance, beginning of year	1,872,653	745,215
Realized gain on available-for-sale financial assets transferred to profit or loss	(679,601)	-
Change in fair value of available-for-sale financial assets	1,907,410	1,127,438
Balance, end of year	3,100,462	1,872,653
Total shareholder's equity	$ 5,548,721	$ 4,718,180

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

Consolidated Statement of Cash Flows

Year ended December 31
(Thousands of Canadian Dollars)

	2013	2012
Cash provided by (used in):		
Operating activities:		
Profit	$ 906,347	$ 184,563
Adjustments for:		
Depletion and depreciation	43,234	37,114
Income tax expense	69,246	67,264
Defined benefits paid in excess of expenses	(199)	(364)
Finance interest	88	121
Interest income from Consolidated Revenue Fund (note 6)	(1,068)	(1,034)
Unwind of discount on decommissioning obligations	2,416	1,764
Net foreign exchange loss (gain)	4,311	(108)
Change in fair value of investment in preferred shares	(30,000)	7,000
Gain on sale of investments (note 9)	(679,601)	-
Change in provision for site restoration	(2,551)	(7,594)
Decommissioning obligations settled	(898)	(2,162)
Income taxes paid	(73,665)	(90,252)
	237,660	196,312
Change in non-cash working capital (note 13)	(22,922)	(7,298)
	214,738	189,014
Financing activities:		
Dividends paid	(844,547)	(145,860)
Dividend paid from contributed surplus	(459,151)	-
Finance interest paid	(88)	(121)
Lease obligation payments	(1,497)	(1,365)
	(1,305,283)	(147,346)
Investing activities:		
Proceeds on sale of investments	1,134,244	-
Purchase of property and equipment (note 8)	(34,916)	(33,505)
Withdrawal from Consolidated Revenue Fund (note 6)	-	14,000
Cash and cash equivalents held in escrow	-	(419)
Change in non-cash working capital (note 13)	(4,340)	2,584
	1,094,988	(17,340)
Change in cash and cash equivalents	4,443	24,328
Cash and cash equivalents, beginning of year	97,325	72,997
Cash and cash equivalents, end of year	$ 101,768	$ 97,325
Supplementary disclosure of cash flow from operating activities:		
Amount of interest received during the year	$ 2,139	$ 2,394
Amount of dividends received during the year	$ 37,372	$ 35,991

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

1. Reporting entity:

Canada Development Investment Corporation ("the Corporation" or "CDEV") was incorporated in 1982 under the provisions of the *Canada Business Corporations Act* and is wholly-owned by Her Majesty in Right of Canada. The Corporation is an agent Crown corporation listed in Schedule III, Part II of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. In November 2007, the Minister of Finance informed CDEV that its mandate "should reflect a future focused on the ongoing management of its current holdings in a commercial manner, providing assistance to the Government of Canada ("Government") in new policy directions suited to CDEV's capabilities, while maintaining the capacity to divest CDEV's existing holdings, and any other government interests assigned to it for divestiture, upon the direction of the Minister of Finance". In late 2009, the Corporation began assisting the Department of Finance in its Corporate Asset Management Review programme involving the review of certain Government corporate assets.

The address of the Corporation's registered office is 79 Wellington Street West, Suite 3000, Box 270, TD Centre, Toronto, Ontario, M5K 1N2. The address of the Corporation's principal place of business is 1240 Bay Street, Suite 302, Toronto, Ontario, M5R 2A7.

The Corporation consolidates three wholly-owned subsidiaries: Canada Eldor Inc. ("CEI"), Canada Hibernia Holding Corporation ("CHHC"), and Canada GEN Investment Corporation ("GEN").

CEI was incorporated under the provisions of the *Canada Business Corporations Act*. It is subject to the *Financial Administration Act*, is an agent of Her Majesty in Right of Canada and is not subject to the provisions of the *Income Tax Act*. During 1988, CEI sold substantially all of its assets and operations to Cameco Corporation ("Cameco") in exchange for share capital of the purchaser and a promissory note. As a result of the sale of the Cameco shares and the assumption of certain of CEI's remaining debt by the Government in 1995, CEI is left with the net cash proceeds from the final sale of Cameco shares as its only significant asset. CEI's remaining obligations include site restoration and retiree defined benefit obligations.

CHHC was incorporated under the provisions of the *Canada Business Corporations Act* and was acquired by CDEV in March 1993. CHHC is subject to the *Financial Administration Act* and the *Income Tax Act*. CHHC's sole purpose is the holding and management of its interest in the Hibernia Development Project. CHHC holds an 8.5% working interest in the Hibernia Development Project ("Hibernia Project") and an 8.5% equity interest in the Hibernia Management and Development Company Ltd. ("HMDC"). CHHC's interest in the Hibernia Project has been recorded in CHHC's financial statements which are consolidated into CDEV's financial statements.

In 2010, CHHC and other participants signed agreements with the Province of Newfoundland and Labrador (the "Province"), and received regulatory approval from the Canada-Newfoundland and Labrador Offshore Petroleum Board ("C-NLOPB") for further development of the Hibernia Southern Extension Unit ("HSE Unit"). CHHC's unit interest is 5.08%. In February 2011, CHHC and other participants signed the remaining necessary agreements with the Province and the Government for the project and authorized full funding of the HSE Unit development.

GEN was incorporated under the provisions of the *Canada Business Corporations Act* and was acquired by the Corporation on May 30, 2009. GEN is subject to the *Financial Administration Act* but is not subject to the *Income Tax Act*. GEN owns common shares of General Motors Company ("GM") and Series A Fixed Rate Cumulative Perpetual Preferred Stock of GM with a liquidation preference value of US$25/preferred share. GEN received the shares of GM as a result of loans made by Export Development Canada's Canada Account ("EDC") (a related party to CDEV and GEN) to GM.

2. Basis of preparation:

a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on March 6, 2014.

b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- inventory is measured at the lower of cost to produce or net realizable value

The methods used to measure fair values are discussed in note 3.

c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

d) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 8 – Property and equipment
- Note 9 – Investments
- Note 10 – Provisions
- Note 16 – Contingencies

Considerable judgment is used in measuring and recognizing provisions and the exposure to contingent liabilities. Judgment is necessary to determine the likelihood that pending litigation or other claims will succeed, or a liability will arise and to quantify the possible range of the final settlement. Some uncertainties relate to CEI's future costs of fulfilling its obligations for site restoration including the estimation of future costs, including inflation, timing and other variables to complete restoration. Significant judgment is also necessary when determining whether there is an indication that a financial or non-financial asset may be impaired.

A provision is set up for decommissioning costs which will be incurred when certain of CHHC's tangible long-lived assets are retired. Assumptions, based on current economic factors which management believes are reasonable, have been made to estimate the future obligation. However, the actual cost of decommissioning is uncertain and cost estimates may change in response to numerous factors including changes in legal requirements, technological advances, inflation and the timing of expected decommissioning and restoration. The impact to comprehensive income over the remaining economic life of the assets could be significant due to the changes in cost estimates as new information becomes available. In addition, CHHC determines the appropriate discount rate at the end of each reporting period. This discount rate, which is not credit adjusted, is used to determine the present value of the estimated future cash outflows required to settle the obligation and may change in response to numerous market factors.

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of oil reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material.

2. Basis of preparation (continued):

d) Use of estimates and judgments (continued):

The fair value determination of certain financial instruments and the evaluation of impairment involve the use of significant estimates and assumptions.

Judgment was used in determining not to consolidate the results of PPP Canada Inc. (“PPP”) which is wholly-owned by the Corporation as discussed in note 3(b).

The adoption of IFRS 11, *Joint Arrangements* required management to evaluate its sole joint arrangement, the Hibernia Project (including its interests in HMDC and the HSE Unit), to determine whether the arrangement is a joint venture or a joint operation. This determination required judgment based on the structure of the arrangement including the existence of joint control, the legal form of any separate vehicle, the contractual rights and obligations of the parties to the arrangement, and other relevant facts and circumstances. Based on its evaluation, management has classified its joint arrangement as a joint operation.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently by the Corporation and its subsidiaries to all years presented in these consolidated financial statements, unless otherwise disclosed.

a) Changes in accounting policies:

The following accounting standards and amendments issued by the IASB are effective for the first time in the current financial year and have been adopted by the Corporation effective January 1, 2013. These pronouncements were adopted in accordance with the applicable transitional provisions with no impact on the Corporation’s consolidated financial statements other than additional disclosures:

- IFRS 10, *Consolidated Financial Statements* (“IFRS 10”)
  IFRS 10 replaces portions of IAS 27 *Consolidated and Separate Financial Statements* and interpretation SIC-12 *Consolidation – Special Purpose Entities*. The key features of IFRS 10 include consolidation using a single control model, a new definition of control, and continuous reassessment. As a result of the adoption of IFRS 10, the Corporation has changed its accounting policy with respect to determining whether it has control over and consequently whether it consolidates its investees. The Corporation re-assessed the control conclusion for its investees at January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries or investees.

- IFRS 11, *Joint Arrangements* (“IFRS 11”)
  IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*. IFRS 11 applies to interests in joint arrangements where there is joint control. IFRS 11 requires joint arrangements to be classified as either joint operations (where the jointly controlling parties have rights to the assets and obligations for the liabilities of the arrangement) or joint ventures (where the jointly controlling parties only have rights to the net assets of the arrangement). An entity accounts for a joint operation by recognizing its portion of the assets, liabilities, revenues and expenses in accordance with the contractual arrangement. The option to account for joint ventures using proportionate consolidation was removed, and equity accounting is required. The Corporation has classified CHHC’s interests in the Hibernia Project (including its interests in HMDC and the HSE Unit) as a joint operation and concluded that the adoption of IFRS 11 did not result in any changes in the accounting for its joint arrangements. Accordingly, CHHC continues to record its portion of the assets, liabilities, revenues and expenses of the joint operation in the financial statements.

- IFRS 12, *Disclosure of Interests in Other Entities* (“IFRS 12”)
  IFRS 12 includes disclosure requirements about subsidiaries, joint ventures, joint operations and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. The requirements of IFRS 12 relate to disclosures only and are applicable for the first annual period after adoption. The adoption of IFRS 12 resulted in incremental disclosures primarily with respect to the Corporation’s interest in the Hibernia Project (see note 3(c)).

3. Significant accounting policies (continued):

a) Changes in accounting policies: (continued):

- IFRS 13, *Fair Value Measurement* ("IFRS 13")
  IFRS 13 establishes a single source of guidance for fair value measurements, when fair value is required or permitted by IFRS. IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires enhanced disclosures about fair value measurements. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at January 1, 2013. IFRS 13 is to be applied prospectively. Disclosures required under IFRS 13 are included in notes 9 and 18.

- IAS 19, *Employee Benefits (Revised 2011)* ("IAS 19")
  The amendments to IAS 19, among other things, eliminate the corridor method that defers the recognition of gains and losses, to streamline the presentation of changes in assets and liabilities arising from employee benefit plans and to enhance the disclosure requirements. The Corporation continues to immediately recognize in accumulated deficit all defined benefit remeasurement adjustments recognized in other comprehensive income and therefore the adoption of IAS 19 amendments did not have an impact on the consolidated financial statements.

- Amendments to IAS 27, *Separate Financial Statements* ("IAS 27") *and* IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28")
  IAS 27 was amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements. IAS 28 was amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13. Adoption of these amendments did not have an impact on the consolidated financial statements.

- Annual Improvements to IFRS 2009–2011 Cycle
  The IASB published Annual Improvements 2009-2011 Cycle in May 2012 as part of its annual improvements process. The amendments are generally intended to clarify requirements rather than result in substantive changes to current practice and their adoption had no impact on the consolidated financial statements.

b) Basis of consolidation:

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of the Corporation and all of its subsidiaries after the elimination of intercompany transactions and balances. Subsidiaries are defined as corporations controlled by CDEV. The Corporation controls an entity when it is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the entity.

Although the Corporation owns all of the outstanding shares of PPP, it does not consolidate its operations because the Corporation does not meet the criteria for control of PPP. In May, 2008, the Governor-in-Council declared PPP a parent Crown Corporation for the purposes of Part X, except section 90, of the *Financial Administration Act*. As a result, the Corporation is not involved in PPP's operations and does not have the current ability to direct its activities. The Corporation is also not exposed (nor has rights) to variable returns from PPP.

c) Joint arrangements:

CHHC has a material joint operation, the Hibernia Project (including its interests in HMDC and the HSE Unit). The Hibernia Project explores for, develops and produces oil reserves from the Hibernia offshore oilfield, which is located east of St. John's NL, Canada. The oil exploration, development and production activities are conducted jointly through HMDC, as operator and agent of the account maintained on behalf of the participants ("the joint account"). HMDC's principal place of business is located in St. John's, NL, Canada. The Hibernia Project is of strategic importance to the CHHC as it is the Company's sole business activity from which it derives all of its crude oil revenues.

CHHC has an 8.5% working interest in the original Hibernia Project area (with a corresponding 8.5% equity interest in HMDC) and has a 5.08% unit working interest in the southern HSE Unit development. This unit interest ownership is subject to change as a result of future redeterminations.

Under the terms of the joint operation, CHHC has a direct share in the assets employed by the operation and is liable for its share of the liabilities incurred. Accordingly, CHHC has recorded in its financial statements its contractual share of the assets, liabilities, revenues and expenses of the joint operation.

All Hibernia Project expenditures, other than those costs relating to the transportation of oil, marketing fees, royalties, net profits interest, incidental net profits interest and insurance, are charged to the joint account which is the responsibility of the participants in proportion to their working interest. The joint account is funded directly by CHHC and the other participants.

3. Significant accounting policies (continued):

d) Cash and cash equivalents:

Cash and cash equivalents include short-term investments, which are considered to be highly liquid investments with original maturities of three months or less.

e) Inventory:

Inventory of crude oil is an asset that is held for sale in the ordinary course of business, and is valued at the lower of cost to produce or net realizable value. Cost to produce includes production and operating expenses, transportation costs and depletion and depreciation. Crude oil lifted below or above CHHC's working interest share of production results in production underlifts or overlifts. Net underlifts are recorded at the lower of cost to produce or net realizable value in inventory and net overlifts are recorded in accounts payable and accrued liabilities at fair market value. CHHC follows the first-in, first-out basis of accounting for inventories.

f) Property and equipment:

i. Recognition and measurement:

Items of property and equipment, which include oil development and production assets, are measured at acquisition cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into cash generating units ("CGU's") for impairment testing. The Corporation has grouped its development and production assets into one CGU. When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within "Revenue" or "Expenses" in the consolidated statement of comprehensive income.

ii. Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the consolidated statement of comprehensive income as incurred. Such capitalized oil interests represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

iii. Depletion and depreciation:

The net carrying value of property and equipment is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

The depletion and depreciation methods for certain oil production assets for the current and comparative periods are as follows:

Drilling costs	Unit of production
Crude oil tanker	Straight line over life of lease
Offshore production facilities	Unit of production

CHHC has deemed the estimated useful life of the offshore production facilities, which includes the gravity base structure, topsides and offshore loading system, to be consistent with the reserve lives of the areas for which they serve, with the exception of facility turnarounds and major overhauls which may be necessary to extend the life of these facilities. As a result, CHHC includes the cost of these assets within their associated major component for the purpose of depletion using the unit of production method.

3. Significant accounting policies (continued):

f) Property and equipment (continued):

Leased assets that are recognized as finance leases are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term.

Depreciation methods, useful lives and residual values are reviewed at each reporting date. Depletion and depreciation on assets under construction begins only when the asset is complete and is put into service.

g) Leased assets:

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases, which are not recognized on the Corporation's consolidated statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

h) Financial instruments:

(i) Recognition:

All financial assets and financial liabilities are initially recognized on the date at which the Corporation becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized or derecognized on a trade date basis.

Transaction costs of financial instruments at fair value through profit or loss are recognized in profit or loss immediately. Transaction costs of other financial instruments are included in the initial measurement of the financial instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability. The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

(ii) Classification and measurement:

(a) Financial Assets

Financial instruments are, for measurement purposes, grouped into classes. The classification depends on the purpose and is determined at initial recognition. The Corporation has the following financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such upon initial recognition. Financial assets are designated as fair value through profit or loss if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. Derivatives are also classified as fair value through profit or loss unless they are designated as hedges. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Corporation designated its cash on deposit in the Consolidated Revenue Fund and its preferred shares of GM as fair value through profit or loss.

3. Significant accounting policies (continued):

h) Financial instruments (continued):

Held-to-maturity financial assets

Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Corporation from classifying investment securities as held-to-maturity for the current and the following two financial years. Classification of held-to-maturity occurs only when the Corporation has the intention and ability to hold the asset to maturity. Cash equivalents held in escrow are classified as held-to-maturity.

Loans and receivables

Loans and receivables, comprised of cash and cash equivalents and accounts receivable, are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The common shares of GM are designated as available-for-sale financial assets. This investment is carried at fair value with subsequent changes in fair value, other than impairment losses, recognized in other comprehensive income, and presented within equity. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(b) Financial liabilities

All of the Corporation's financial liabilities are classified as other financial liabilities and are initially measured at fair value plus any directly attributable transaction costs. Subsequent to the initial recognition and measurement, these non-derivative financial liabilities are measured at amortized cost using the effective interest method. The Corporation's non-derivative financial liabilities consist of accounts payable and accrued liabilities.

(iii) Disclosures

Fair value measurements recognized in the consolidated statement of financial position are classified using a three level fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices available in active markets for identical assets and liabilities. Fair value of assets and liabilities included in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period during which the change has occurred. The required disclosures are included in note 18(d).

3. Significant accounting policies (continued):

i) Impairment:

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are recognized in the consolidated statement of comprehensive income.

For available-for-sale assets, if there is objective evidence of impairment, any losses recognized in other comprehensive income are reclassified to income. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be attributed objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the consolidated statement of comprehensive income. For available-for-sale equity investments, impairment losses cannot be reversed.

(ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For the purpose of impairment testing, development and production assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("CGU's"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statement of comprehensive income.

In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

3. Significant accounting policies (continued):

j) Foreign currency transactions:

Transactions in foreign currencies are translated to Canadian dollars at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the period end date exchange rates. Non-monetary items which are measured using historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognized in other comprehensive income.

k) Provisions and contingencies:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are not recognized for future operating losses.

Decommissioning obligations:

The decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as unwind of discount on decommissioning obligations within finance costs in the statement of comprehensive income whereas increases/decreases due to changes in the estimated future cash flows are capitalized in the statement of financial position as part of property and equipment. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

Contingent liabilities are possible obligations whose existence will only be confirmed by future events not wholly within the control of the Corporation, or present obligations where it is not probable that an outflow of economic resources will be required or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of economic resources is considered remote.

l) Income taxes:

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax is the expected tax payable on profit before income taxes for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued):

m) Revenue recognition:

Revenue from the sale of crude oil is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. Revenue from the sale of crude oil is recognized when the bill of lading for a shipment is obtained. The bill of lading transfers the significant risks and rewards of ownership to the buyer. Net crude oil revenue is presented net of marketing fees, royalties and net profits interest.

Dividend income is recognized when the shareholder's right to receive payment is established. This occurs upon the dividend payment date for preferred shares and the dividend date of record for dividends on common shares.

n) Finance costs and income:

Finance costs comprise interest expense on finance lease, unwinding of the discount on decommissioning obligations, unwinding of the discount on provision for site restoration and impairment losses recognized on financial assets. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

4. Recent accounting pronouncements issued but not yet effective:

A number of new standards, amendments to standards and interpretations are effective for future annual periods, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Corporation are set out below. The Corporation does not plan to adopt these standards early.

IAS 32, *Financial Instruments: Presentation* ("IAS 32")

In December 2011, the IASB issued amendments to IAS 32 which are effective for annual periods beginning on or after January 1, 2014. The amendments clarify the meaning and the application of the IAS 32 criteria for offsetting financial assets and financial liabilities. The Corporation does not expect the amendments to have a material impact on its consolidated financial statements because of the nature of the Corporation's operations and the types of financial assets and financial liabilities that it holds.

IFRS 9, *Financial Instruments* ("IFRS 9")

In November 2009, the IASB issued IFRS 9 with further revisions in October 2010 and November 2013 to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The IASB has deferred the mandatory effective date and will decide upon a new date when closer to the completion of the entire IFRS 9 project, however early adoption is permitted. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The Corporation continues to evaluate the potential impact of IFRS 9 on its consolidated financial statements.

IAS 36, *Impairment of Assets* ("IAS 36")

In May 2013, the IASB issued amendments to IAS 36, which are effective for annual periods beginning on or after January 1, 2014. The narrow-scope amendments clarify that the disclosures about the recoverable amount of impaired assets are only required where the recoverable amount of impaired assets is based on fair value less costs of disposal. The Corporation does not expect the amendments to have a material impact on the consolidated financial statements because the Corporation has not had and does not anticipate impairments relevant to this standard.

Annual Improvements 2011–2013 and 2010–2012 Cycle

In December 2013, the IASB published Annual Improvements 2011–2013 and 2010-2012 Cycle, which introduce amendments to IFRSs. The amendments are generally intended to clarify requirements rather than result in substantive changes to current practice. The annual improvements have an effective date of July 1, 2014, with early application permitted. The Corporation has assessed that the amendments will not have an impact on its consolidated financial statements.

4. Recent accounting pronouncements issued but not yet effective (continued):

IFRIC 21, *Levies* ("IFRIC 21")

In May 2013, the IASB issued IFRIC 21. The IFRIC provides guidance on accounting for levies in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executory contracts or other contractual arrangements. This IFRIC is effective for annual periods commencing on or after January 1, 2014 and is to be applied retrospectively. The extent of the impact of adoption of the amendments to the Corporation, if any, has not yet been determined.

5. Cash and cash equivalents:

Cash and cash equivalents on the consolidated statement of financial position include cash, term deposits and bankers' acceptances. Interest revenue arising on cash and cash equivalents was earned at interest rates ranging from 0.9% to 1.4% for 2013 (2012 - 1.0% to 1.4%). The details are as follows:

		2013		2012
Bank balances	$	31,382	$	24,923
Short term investments		70,386		72,402
Cash and cash equivalents	$	101,768	$	97,325

6. Cash on deposit in the Consolidated Revenue Fund:

The Corporation has deposited cash in the Consolidated Revenue Fund ("CRF") of the Government of Canada established under Section 129(1) of the *Financial Administration Act*. Cash on deposit in the CRF is as follows:

		2013		2012
Balance, beginning of year	$	121,812	$	134,778
Allocated interest		1,068		1,034
Withdrawal		-		(14,000)
Balance, end of year	$	122,880	$	121,812
Represented by:				
Current portion	$	4,049	$	2,742
Non-current portion		118,831		119,070
	$	122,880	$	121,812

At December 31, 2013, the balance in the CRF consists of deposits of $26,327 held for CEI and $96,553 held for CHHC.

CEI has deposited cash in the CRF to provide for obligations resulting from the sale of assets and other potential future liabilities related to site restoration. The non-current portion in the CRF has been allocated by CEI to provide for non-current liabilities and other potential future liabilities related to site restoration obligations.

CHHC has deposited cash in the CRF to provide for future abandonment of the Hibernia facility and to provide for security against future risks. CHHC has reduced certain of its third party insurance coverage as a result of the risk fund.

Funds held in these accounts are interest bearing at a rate of 90% of the three-month treasury bill tender rate. The average interest rate was 0.88% during the year (2012 - 0.85%). Access to these funds is unrestricted.

Year ended December 31, 2013 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

7. Cash and cash equivalents held in escrow:

In the granting of drilling and other work authorizations associated with Hibernia development and production, the C-NLOPB requires evidence of financial responsibility. CHHC maintains an escrow account in the amount of $2,550 (2012 - $2,550) to satisfy this requirement. The C-NLOPB has the right to make claims against the cash equivalents held in escrow under certain circumstances and CHHC retains any interest earned on the account. The current escrow agreement will expire on June 1, 2015, and is renewed every three years.

Similarly the C-NLOPB requires a letter of credit as evidence that certain research and development commitments will be carried out. CHHC maintains an escrow account in the amount of $3,419 (2012 - $3,419) to secure the letter of credit and satisfy this obligation. The C-NLOPB has the right to make claims on the letter of credit if sufficient qualifying commitments have not been made by the maturity date. CHHC retains any interest earned on the account.

8. Property and equipment:

		Drilling costs		Crude oil tanker		Offshore production facilities		Total
Cost								
Balance at December 31, 2011	$	29,237	$	13,547	$	167,680	$	210,464
Additions for the year		22,922		–		10,583		33,505
Decommissioning adjustments		–		–		26,772		26,772
Balance at December 31, 2012	$	52,159	$	13,547	$	205,035	$	270,741
Additions for the year		20,832		–		14,084		34,916
Decommissioning adjustments		–		–		(30,858)		(30,858)
Balance at December 31, 2013	$	72,991	$	13,547	$	188,261	$	274,799
Depletion and depreciation								
Balance at December 31, 2011	$	29,236	$	5,520	$	36,568	$	71,324
Depletion and depreciation		17,859		2,760		15,731		36,350
Balance at December 31, 2012	$	47,095	$	8,280	$	52,299	$	107,674
Depletion and depreciation		25,677		2,760		14,257		42,694
Balance at December 31, 2013	$	72,772	$	11,040	$	66,556	$	150,368
Carrying amounts:								
At December 31, 2012	$	5,064	$	5,267	$	152,736	$	163,067
At December 31, 2013	$	219	$	2,507	$	121,705	$	124,431

Certain costs have been excluded from the calculations of depletion and depreciation, including costs of equipment and facilities currently under construction of $33,635 at December 31, 2013 (2012 – $20,796). Future development costs of $804,900 (2012 - $607,111) have been included in the calculation. There was no impairment to property and equipment for the years ended December 31, 2013 and 2012. Offshore production facilities include $49,476 (2012 - $80,335) of capitalized costs relating to decommissioning obligations, which will be depreciated over the life of the asset.

Year ended December 31, 2013 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

9. Investments:

		2013		2012
Financial assets at fair value through profit or loss:				
Preferred shares in GM	$	449,000	$	419,000
16,101,695 Series A Fixed Rate Cumulative Perpetual Preferred Stock Dividend rate 9.0% paid quarterly, liquidation preference value: US $25 per share				
Available-for-sale assets:				
Common shares of GM		4,785,310		4,016,652
110,084,746 common shares (2012 -140,084,746 common shares)				
	$	5,234,310	$	4,435,652

The changes in investment balances by each classification of financial instruments reflected in the consolidated statement of comprehensive income are as follows:

		2013		2012
Change in fair value of assets at fair value through profit or loss:				
Preferred shares of GM				
Unrealized foreign exchange (gain) loss	$	(29,000)	$	9,000
Unrealized fair value gain		(1,000)		(2,000)
	$	(30,000)	$	7,000
Change in fair value of available-for-sale assets (in Other Comprehensive Income):				
Common shares of GM				
Realized gain on sale of investment	$	(679,601)	$	-
Change in fair value of available-for-sale financial assets		1,907,410		1,127,438
	$	1,227,809	$	1,127,438

Financial assets at Fair Value through profit or loss:

The GM preferred shares, which do not trade publicly, are designated as fair value through profit or loss. They could not be classified as available-for–sale due to the inability to measure the embedded option by the issuer to redeem the shares after December 30, 2014. Since this option cannot be reasonably valued separately, the entire preferred share instrument is measured at fair value. Fair value has been determined based on the net present value of cash flows discounted at an interest rate of 4.0% (2012 – 6.5%) based on comparable preferred equity instruments, comparative debt instruments and the particular attributes of the preferred share issue. The valuation assumes the shares are repurchased by GM shortly after December 30, 2014 at the liquidation preference value of US $25 per preferred share. The change in value has been recorded in profit as a change in fair value of investment in preferred shares of $30,000 gain (2012 – $7,000 loss). There are no sales restrictions on the preferred shares. Preferred share dividends from GM are received quarterly in US dollars. In 2013, GEN received $37,372 (2012 - $35,991) in preferred share dividends.

Available-for-sale financial assets:

The investment in the common shares of GM is designated as available-for-sale financial assets.

The GM common shares have a quoted market price in an active market and, accordingly, the shares held at December 31, 2013 and 2012 were measured at fair value with any changes recorded in other comprehensive income. On September 10, 2013 GEN sold 30,000,000 shares at a price of US $36.65 per share resulting in a realized gain of $679,601. The balance in accumulated other comprehensive income at December 31, 2013 and 2012 relates solely to the changes in fair value of the GM common shares.

Fair value of the GM common shares is determined by the last bid price for the security from the exchange where it is principally traded.

Year ended December 31, 2013 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

10. Provisions:

Changes to provisions for decommissioning obligations and site restoration were as follows:

	Decommissioning obligations	Site restoration
Balance at December 31, 2012	$ 94,017	$ 19,346
Additional provisions	1,372	623
Reversal of provisions	(5,675)	(2,079)
Obligations settled	(898)	(894)
Changes in discount rate	(26,556)	(438)
Unwind of discount	2,416	237
Balance at December 31, 2013	$ 64,676	$ 16,795
Current	-	3,748
Non-current	64,676	13,047
Provisions	$ 64,676	$ 16,795

a) Provision for decommissioning obligations:

The provision for decommissioning obligations is based on CHHC's net ownership interest in wells and facilities and management's estimate of costs to abandon and reclaim those wells and facilities as well as an estimate of the future timing of the costs to be incurred. CHHC estimates the total future undiscounted liability to be $239,063 at December 31, 2013, (2012 - $233,500). Estimates of decommissioning obligation costs can change significantly based on factors such as operating experience and changes in legislation and regulations.

These obligations will be settled based on the expected timing of abandonment, which currently extends up to the year 2054 and is based upon the useful lives of the underlying assets. At December 31, 2013 a risk-free rate of 3.24% (2012 – 2.36%); and an inflation rate at December 31, 2013 of 2.0% (2012 – 2.0%) were used to calculate the provision.

b) Provision for site restoration:

Under the terms of the purchase and sale agreement in 1988 between CEI and Cameco, CEI is responsible for obligations relating to the sale of assets to Cameco. Provision for site restoration as at the date of the consolidated statement of financial position is related to the decommissioning of a former mine site. Cameco is responsible for the monitoring and management of this site. CEI accrues for these costs based on estimates provided by Cameco. These estimates are based on variables and assumptions which are subject to uncertainty including the time to completion and the costs over this period. The costs are estimated over a period ending in 2023 (2012 – 2022). The future estimate of costs for site restoration has been discounted at a rate of 1.95% (2012 – 1.38%) and an inflation rate of 2.0% (2012 – 2.0%) was used to calculate the provision at December 31, 2013. The current estimate for costs and the amount accrued as at December 31, 2013 is $16,795 (2012 - $19,346).

Year ended December 31, 2013 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

11. Income taxes:

CDEV, CEI and GEN are not subject to income tax in Canada. CHHC is subject to income tax. Dividends received by GEN are not subject to income tax within the United States.

a) Income tax expense:

The components of income tax expense are as follows:

		2013		2012
Current tax expense				
Current period	$	74,366	$	70,455
Adjustment for prior periods		343		-
	$	74,709	$	70,455
Deferred tax expense				
Origination and reversal of temporary differences		(5,463)		(3,191)
Changes in tax rates applied to temporary differences		-		-
	$	(5,463)	$	(3,191)
Total income tax expense	$	69,246	$	67,264

b) Reconciliation of effective tax rate

The statutory combined federal and provincial income tax rates applicable to CHHC remained stable at 28.3% in 2013 to 28.4% in 2012. A reconciliation of the amount recorded for income tax expense from the expected amount by applying the Company's combined federal and provincial income tax rate to profit before income tax is as follows:

		2013		2012
Net profit for the year (see note 20)	$	174,069	$	172,679
Total income tax expense		69,246		67,264
Profit before income tax	$	243,315	$	239,943
Income tax using CHHC's combined federal and provincial Canadian tax rate of 28.3% (2012 - 28.4%)	$	68,858	$	68,143
Non-deductible expenses and other		(7)		13
Investment tax credits		(406)		(554)
Under provided in prior periods		801		227
Revisions and reassessments to prior years' tax returns		-		(565)
	$	69,246	$	67,264

Year ended December 31, 2013 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

11. Income taxes (continued):

b) Reconciliation of effective tax rate (continued)

Unrecognized deferred tax assets:

At December 31, 2013, CHHC has not recognized the tax benefit in respect of investment tax credits, net of tax on utilization, associated with experimental development claims for the 2006 taxation year. The claim for investment tax credits is under dispute with the Canada Revenue Agency and management has determined the recoverability of these credits is uncertain.

Unrecognized tax assets totaled $1,384 at December 31, 2013 and 2012.

Recognized deferred tax assets (liabilities):

Deferred tax assets refer to estimated deductible temporary differences between carrying value and tax basis of certain assets. The amount of deferred tax assets and liabilities are as follows:

	Inventory	Property and Equipment	Provisions	Accrued liabilities	Total
At December 31, 2012	$ (776)	$ (22,553)	$ 26,756	$ 951	$ 4,378
Credited/ (charged) to the statement of comprehensive income	151	13,599	(8,453)	166	5,463
At December 31, 2013	$ (625)	$ (8,954)	$ 18,303	$ 1,117	$ 9,841

12. Share capital and contributed surplus:

	2013	2012
Share Capital:		
Authorized - unlimited number of common shares		
Issued and fully paid - 101 common shares (2012 - 101)	$ 1	$ 1

The holder of common shares is entitled to receive dividends as declared from time to time, and is entitled to one vote per share at meetings of the Corporation.

Contributed surplus is a component of shareholder's equity used to record the transfer of capital to the Corporation by a related party where there is no requirement to repay the amount under any circumstances. In 2013, a dividend of $459,151 was paid from contributed surplus from the sale of GM common shares representing the proportionate value of the asset initially received as contributed surplus.

Year ended December 31, 2013 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

13. Supplemental cash flow disclosure:

Changes in non-cash working capital balances for the years ended December 31 include the following:

		2013		2012
Decrease (increase) in accounts receivable	$	3,878	$	(28,963)
Decrease in inventory		484		165
Increase in prepaid expenses		(12)		(4)
(Decrease) increase in accounts payable and accrued liabilities		(31,612)		24,088
Change in non-cash working capital items	$	(27,262)	$	(4,714)
Relating to:				
Operating activities	$	(22,922)	$	(7,298)
Investing activities		(4,340)		2,584
Change in non-cash working capital items	$	(27,262)	$	(4,714)

14. Net crude oil revenue:

a) Net crude oil revenue for the years ended December 31 is as follows:

		2013		2012
Gross crude oil revenue	$	492,136	$	470,950
Less: marketing fees		(348)		(353)
Less: royalties		(135,753)		(131,281)
Less: net profits interest		(43,140)		(41,329)
Net crude oil revenue	$	312,895	$	297,987

b) Production and operating expenses for the years ended December 31 are as follows:

		2013		2012
Hibernia joint account production and operating expense	$	21,018	$	16,366
Crude oil tanker operating expense		7,689		7,762
Recoveries of crude oil tanker operating expense		(2,554)		(5,165)
Facility use fees net of incidental net profits interest		(656)		(353)
Total production and operating expense	$	25,497	$	18,610

Year ended December 31, 2013 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

15. Commitments:

a) CHHC's share of HMDC's annual contract commitments and lease obligations for office, equipment and warehouse land and building, together with CHHC's office lease obligations, are approximately as follows:

Within one year	$	17,620
One to five years		38,049
More than five years		1,638
	$	57,307

b) HMDC has provided a $70,000 non-negotiable demand promissory note as part of the Operator's requirement to provide proof of financial responsibility to the C-NLOPB in the event of potential claims under certain sections of the Canada Newfoundland Atlantic Accord Implementation Act, the Newfoundland Offshore Petroleum Drilling Regulations and the Newfoundland Offshore Area Petroleum Production and Conservation Regulations. The Operator's Operations Authorization has been extended to October 31, 2015, while the note will expire on April 30, 2016. There were no draws on the promissory note during 2013 or 2012. CHHC's share of this commitment is $5,950.

In addition, the owners are required to provide further proof of financial responsibility by depositing letters of credit or cash in the gross amount of $30,000 with the C-NLOPB (note 7). At December 31, 2013 and 2012, there have been no draws on the letters of credit.

16. Contingencies:

The Corporation or its subsidiaries, in the normal course of its operations, may become subject to a variety of legal and other claims against the Corporation. Where it is probable that a past event will require an outflow of resources to settle the obligation and a reliable estimate can be made, management accrues its best estimate of the costs to satisfy such claims.

CHHC is a party to an ongoing contractual dispute, the outcome of which subject to future dispute resolution proceedings. Based on information presently available and after consultation with external legal counsel, management believes that the probable resolution will be favorable to CHHC, and thus no amount has been recognized in the financial statements.

CEI is co-defendant with the Province of Ontario, the Attorney General of Canada, the Canadian Nuclear Safety Commission and BOC Canada Limited in a proposed class action lawsuit brought by certain residents of the municipality formerly known as Deloro in the County of Hastings, Ontario. The lawsuit is based on the alleged contamination of certain properties. CEI has filed a notice of intent to defend. While no liability is admitted, the financial impact on the Corporation, if defence against the action is unsuccessful, is currently not determinable.

17. Capital management:

The Corporation considers its capital structure as the aggregate of its shareholder's equity of $5,548,721 (2012 - $4,718,180, as revised), which is comprised of its share capital, contributed surplus, accumulated other comprehensive income and accumulated deficit. The Corporation and its subsidiaries' objectives when managing capital are to prudently manage its revenues, expenses, assets, liabilities and general dealings to ensure that it effectively achieves its objectives and purpose, while remaining a going concern.

CHHC monitors changes in economic conditions and the risk characteristics of the underlying petroleum industry so that it can continue to provide returns for shareholders and benefits for other stakeholders. CEI monitors its cash and cash equivalents position and its cash held in the CRF so that it can meet its liabilities. GEN relies on cash dividends received from the preferred shares it holds and on sales of common shares to fund operations. Due to the limited expenditures forecast at present for GEN, these funding sources are considered adequate to maintain operations.

The Corporation's share capital is not subject to any external restrictions. There were no changes to the Corporation's approach to capital management during the year.

Year ended December 31, 2013 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

18. Risks to the Corporation:

Overview:

The nature of CDEV's consolidated operations expose the Corporation to risks arising from its financial instruments that may have a material effect on cash flows, profit and comprehensive income. This note provides information about the Corporation's exposure to each of these risks as well as the Corporation's objectives, policies and processes for measuring and managing them.

a) Credit risk:

Credit risk is the risk of financial loss to the Corporation if counterparties do not fulfill their contractual obligations. The most significant exposure to this risk is relative to the sale and marketing of crude oil. CHHC has assessed the risk of non-collection of funds as low, as CHHC shares cargos with the marketer and generally contracts with large purchasers with established credit history. The marketer maintains credit surveillance over all pre-approved purchasers. Of the total amount of accounts receivable, 84% (2012 – 92%) relates to accounts receivable from the marketer, which has all been collected subsequent to year end.

Credit risk associated with the GM preferred shares is mitigated by the liquidation preference feature of US $25 per share in addition to a priority claim against GM for any unpaid dividends.

The carrying amount of the GM preferred shares, accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Corporation did not have an allowance for doubtful accounts as at December 31, 2013 and 2012 and did not provide for any doubtful accounts during 2013 or 2012. As at December 31 the following amounts were included in accounts receivable:

		2013		2012
Outstanding under 120 days	$	58,129	$	60,742
Outstanding greater than 120 days		76		1,341
Total accounts receivable	$	58,205	$	62,083

Cash and cash equivalents, as well as cash and cash equivalents held in escrow are held by major Canadian chartered banks. All cash equivalents are purchased from issuers with a credit rating of R1 High by Dominion Bond Rating Service.

b) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its work commitments and/or other financial obligations as they become due. The Corporation's approach to managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meets its liabilities when due. Trade payables are normally payable within 30 days of invoice.

The Corporation's liquidity is dependent upon its operating cash flows. Expected future cash flow from the working interest in the Hibernia Development Project currently exceeds estimated operating expenses and future capital expenditures. Considering these circumstances and the cash and cash equivalents balance at December 31, 2013 of $101,768 (2012 - $97,325), the Corporation's liquidity risk is assessed as insignificant. Some operating expenses and commitments of subsidiaries can be funded by capital contributions from the Corporation to maintain the liquidity of subsidiaries.

Year ended December 31, 2013 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

18. Risks to the Corporation (continued):

c) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, and includes foreign exchange, commodity price and interest rate risk.

The Corporation does not use derivative instruments, such as interest rate swaps or forward foreign currency contracts, or other tools and strategies to manage its market related risks.

(i) Foreign exchange risk:

The Corporation is exposed to foreign exchange risk on revenues, certain expenditures and financial instruments that are denominated in U.S. dollars.

Crude oil is priced in U.S. dollars and fluctuations in US/CAD exchange rates may have a significant impact on revenues. It is estimated that a 1% strengthening in the Canadian dollar relative to the U.S. dollar would result in a $2,169 decrease to the Corporation's profit for the year ended December 31, 2013 (2012 - $2,105), with all other variables held constant.

Since dividend income from the GM preferred shares is received in a foreign currency (U.S. dollars), the Corporation's cash flows are exposed to foreign exchange fluctuations. The Corporation is also exposed to foreign exchange rates upon any fair valuation of financial instruments with changes impacting profit or other comprehensive income as well as impacting dividend income converted into Canadian dollars. The Corporation did not have any foreign exchange rate contracts in place as at or during the year ended December 31, 2013 or 2012. A 1% change in the the Canadian dollar relative to the U.S. dollar with all other variables held constant would have an impact on profit of $4,562 (2012 - $4,562) and an impact on other components of equity of $44,992 (2012 - $40,372).

(ii) Commodity price risk:

CHHC's financial performance is closely linked to crude oil prices (including differentials). All of CHHC's oil production is sold at spot prices, exposing the Corporation to the risk of price movements and resulting fluctuations in revenues. CHHC did not have any commodity price contracts in place as at or during the year ended December 31, 2013 or 2012. It is estimated that a 10% decrease in realized oil price would result in a $21,691 decrease to CHHC's comprehensive income for the year ended December 31, 2013 (2012 - $21,047), with all other variables held constant.

(iii) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate fluctuations on its cash and cash equivalents which bear a fixed rate of interest. The risk is not considered significant as the Corporation's interest revenue is less than 1% of total revenue.

(iv) Other Price risk:

Other price risk is the risk that the fair value of certain financial instruments is subject to market price fluctuations.

Changes in market values will impact other comprehensive income and future profit and cash flows if the Corporation disposes of the GM common shares. Given that some of the Corporation's financial instruments are denominated in a foreign currency the adjustment due to foreign currency translation may also cause market price fluctuations. For any 10% change in the price of GM common shares, other comprehensive income would be impacted US $449,916 (2012 - US $403,724).

If a market commences for the preferred GM shares, the fair value of such assets will be directly exposed to other price risk and changes in market values will impact profit. For any 1% change in the discount rate used to value the GM preferred shares, profit would be impacted approximately US $4,400 (2012 – US $8,000).

18. Risks to the Corporation (continued):

d) Fair value of financial instruments:

The following table summarizes information on the fair value measurement of the Corporation's financial assets grouped by the fair value level:

		Total		Quoted prices in active markets (Level 1)		Significant other observable inputs (Level 2)		Significant unobservable inputs (Level 3)
December 31, 2013								
Cash on deposit in the CRF	$	122,880	$	122,880	$	-	$	-
Preferred shares of GM		449,000		-		449,000		-
Common shares of GM		4,785,310		4,785,310		-		-
Total	$	5,357,190	$	4,908,190	$	449,000	$	-
December 31, 2012								
Cash on deposit in the CRF	$	121,812	$	121,812	$	-	$	-
Preferred shares of GM		419,000		-		419,000		-
Common shares of GM		4,016,652		4,016,652		-		-
Total	$	4,557,464	$	4,138,464	$	419,000	$	-

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate fair value because of the short-term nature of these items.

19. Related party transactions:

The Corporation is related in terms of common ownership to all Canadian federal government departments, agencies and Crown corporations. The Corporation may enter into transactions with some of these entities in the normal course of business under its stated mandate.

CDEV paid dividends to the Government of Canada for the year ended December 31, 2013 in the amount of $1,303,698 (2012 - $145,860), of which $459,151 was paid from contributed surplus.

a) Key management personnel compensation:

Key management personnel are comprised of the directors and executive officers of CDEV and its subsidiaries. In addition to their salaries, the Corporation also provides non-cash benefits to executive officers.

There were no amounts paid to key management personnel relating to post-employment benefits, other long-term benefits, termination benefits or share-based payment.

		2013		2012
Key management personnel compensation comprised of:				
Salaries, other short-term benefits, director fees	$	2,675	$	2,440

Year ended December 31, 2013 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

19. Related party transactions (continued):

b) Other related party transactions affecting Profit:

		2013		2012
CRF Interest income	$	1,068	$	1,034

c) Items affecting Statement of Financial Position:

		2013		2012
Cash on deposit in CRF	$	122,880	$	121,812

20. Supplementary information:

The consolidated financial statements of the Corporation include 100% of the assets, liabilities, revenues and expenses of CHHC as follows:

		2013		2012
Statement of Financial Position:				Revised, (note 21)
Assets:				
Current	$	139,046	$	136,938
Non-current		236,795		269,128
		375,841		406,066
Liabilities:				
Current		28,786		59,792
Non-current		64,676		95,964
		93,462		155,756
Shareholder's Equity		282,379		250,310
	$	375,841	$	406,066
Statement of Comprehensive Income:				
Revenue:				
Net crude oil revenue	$	312,895	$	297,987
Other income		3,444		871
Expense:				
Total expenses		(73,024)		(58,915)
Income taxes		(69,246)		(67,264)
Comprehensive income	$	174,069	$	172,679
Statement of Cash Flows:				
Cash provided (used) by:				
Operating activities	$	189,793	$	177,416
Financing activities		(143,585)		(121,486)
Investing activities		(38,448)		(30,376)
Increase in cash and cash equivalents	$	7,760	$	25,554

Year ended December 31, 2013 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

21. Correction of a prior period misstatement:

The Corporation's subsidiary, CHHC determined that there was an adjustment required to the computation of royalty expense in its 2009 annual financial statements. As a result, the impact to the 2009 annual financial statements was a reduction to net oil revenue of $9,622, a reduction to income tax expense and an increase to income taxes recoverable of $3,088, a reduction to comprehensive income of $6,534, and an increase to accounts payable and accrued liabilities of $9,622. The correction of this misstatement has been applied retrospectively and the comparative 2012 financial information has been revised. The correction was not material to the January 1, 2012 consolidated statement of financial position, therefore no third statement of financial position is presented. The effect of the correction on the 2012 financial information is as follows:

		Amount Previously Reported		Adjustment		Revised amount
Accounts payable	$	49,185	$	9,622	$	58,807
Income taxes payable (recoverable)		1,142		(3,088)		(1,946)
Accumulated Deficit		(364,234)		(6,534)		(370,768)

22. Subsequent Event

On March 6, 2014 the Corporation declared a dividend of $96,695 payable to its shareholder, the Government of Canada.

Year ended December 31, 2013 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

Canada Development Investment Corporation
La Corporation de développement des investissements du Canada

Canada Development Investment Corporation

La Corporation de développement des investissements du Canada