CDEV

Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

Third Quarter Report

September 30, 2014

Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

Contents

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Statement of Management Responsibility by Senior Officials

Management is responsible for the preparation and fair presentation of these interim condensed consolidated quarterly financial statements in accordance with *IAS* 34, *Interim Financial Reporting* and for such internal controls as management determines are necessary to enable the preparation of interim condensed consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the interim condensed consolidated quarterly financial statements.

Based on our knowledge, these unaudited interim condensed consolidated quarterly financial statements present fairly, in all material respects, the financial position, the financial performance and cash flows of the Corporation, as at the date of and for the periods presented in the interim condensed consolidated quarterly financial statements.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on November 19, 2014.

Michael Carter
Executive Vice-President

Andrew G. Stafl, CPA, CA
Vice-President, Finance

Toronto, Ontario

November 19, 2014

Management Discussion and Analysis of Results – for the period ended September 30, 2014

The public communications of Canada Development Investment Corporation ("CDEV"), including this interim report, may include forward-looking statements that reflect management's 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.

This Management Discussion and Analysis of Results should be read in conjunction with CDEV's unaudited interim condensed consolidated financial statements for the period ended September 30, 2014 and CDEV's Annual Report for the year ended December 31, 2013.

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 in the best interests of Canada, operating in a commercial manner. During the fiscal quarter ended September 30, 2014 the operations and structure of CDEV were the same as those described in the 2013 Annual Report of CDEV, available on our website, www.cdev.gc.ca. CDEV's subsidiaries are: Canada Eldor Inc. ("CEI"), Canada Hibernia Holding Corporation ("CHHC"), and Canada GEN Investment Corporation ("GEN").

Corporate Performance

Our year-to-date performance as compared to our key objectives is as follows:

Key Objectives:

- To manage our investments in the Hibernia oilfield and General Motors ("GM") and continue to oversee the management of CEI's obligations.
- To continue to manage the portions of the Corporate Asset Management Review ("CAMR") programme assigned to us.
- To continue to manage the process for the potential sale of Ridley Terminals Inc. ("RTI"), another federal Crown corporation and the potential sale of portions of the Dominion Coal Blocks in British Columbia.
- To continue to manage other issues which may arise and to remain prepared to assume management and divestiture of any other interests of Canada assigned to us for divestiture, in a commercial manner.

Performance:

We and our subsidiaries continue to manage our investments and obligations as detailed below:

- CHHC recorded a year-to-date after-tax profit of $114 million and paid dividends to CDEV of $97 million in the first nine months of 2014.
- GEN received dividends from the GM preferred shares of $30 million year to date. GM announced a quarterly dividend of US $0.30 per common share during the first quarter of 2014. As such, GEN received year-to-date dividends of $109 million from the GM common shares.

- There was no significant change in the management of CEI's liabilities.
- CDEV paid total dividends to the Government of $230 million in the first nine months of 2014.
- We continue to manage the sale process of RTI as an agent of the Government. The project is in the initial advisory stage. We also continue to work on a sales advisory mandate to potentially sell portions of the Dominion Coal Blocks in British Columbia for the Government, acting as agent.
- We continued to manage CAMR projects. Activities included preparing statements of work, issuing requests for proposals, evaluating and engaging consultants, monitoring and reviewing their work.

Canada Hibernia Holding Corporation

CHHC's after-tax profit of $28 million in the third quarter of 2014 was lower than $46 million recorded in the same period of 2013 primarily as the result of lower net crude oil revenue, driven by lower sales volumes and crude oil prices, and higher depletion and depreciation expenses.

CHHC's sales volumes in the third quarter of 2014 declined 23% to 822,780 barrels from 1,067,720 barrels in the third quarter of 2013 due to lower field production. Gross Hibernia production averaged 114,400 barrels per day in the third quarter of 2014 compared to 143,800 barrels per day in the third quarter of 2013, due to the natural decline of the main field and production downtime. Year-to-date, CHHC sold 2,831,437 barrels which is 13% lower than 3,249,729 barrels in the comparative 2013 period also due to lower field production rates.

CHHC's oil prices are based on the price of Dated Brent crude. Average Dated Brent crude oil prices weakened in the third quarter of 2014, declining 8% to US$101.92 per barrel from US$110.29 per barrel in the third quarter of 2013. This price, when combined with a discounted Hibernia price differential to Dated Brent and the favorable effects of a weaker Canadian dollar resulted in a 7% decrease in CHHC's averaged realized oil price to $110.82 per barrel from $118.71 per barrel in the third quarter of 2013. In contrast the year-to-date averaged realized oil price was higher at $118.44 per barrel compared to $113.64 per barrel in the comparative 2013 period, due to higher oil prices realized earlier in 2014.

Depletion and depreciation expenses, which are based on production volumes, reserves and property and equipment costs, increased to $11 million from $9 million in the third quarter of 2013 due to a higher per barrel depletion rate and a drawdown of crude oil inventories, partially offset by lower production.

Activities at Hibernia in the third quarter of 2014 focused on the drilling of water injection wells in the Hibernia Southern Extension Unit ("HSE Unit"). Hibernia owners will continue to focus on the full development of the HSE Unit in the near term including the drilling of both water injection wells and producing oil wells. In the main field, planning for the development of the Ben Nevis Avalon reservoir continued in the third quarter and is ongoing, with project sanction expected in late 2014 or early 2015.

Canada Eldor Inc.

CEI continues to pay for costs relating to the decommissioning of former mine site properties and for retiree benefits of certain former employees. A plan is in place to undertake work that should allow for the eventual transfer of the mine site properties to the Institutional Control Program of the Province of Saskatchewan within ten years.

Canada GEN Investment Corporation

At quarter end, GEN held approximately $3.94 billion in GM common shares as well as $457 million in GM preferred shares. GEN will act to dispose of the GM holding in a manner aimed at achieving value over the long term and considering the Government's policy pronouncements. During the first nine months of 2014, GM common shares traded in a range of approximately US $32 to US $41 per share. GEN retains a financial advisor to provide advice to management regarding the investment.

See the table below for further comparative share value information.

Analysis of External Business Environment

The ongoing management of our holdings will depend on overall market and economic conditions as well as factors specific to the underlying company or investment. No material changes have been identified since December 2013 as described in the 2013 Annual Report.

Risks and Contingencies

No material changes in risks and contingencies have been identified since December 2013 as described in the 2013 Annual Report.

Financial Statements for the Period Ended September 30, 2014

The interim condensed consolidated financial statements for the period ended September 30, 2014 and comparable figures, have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*.

Consolidated net revenue for the three months ended September 30, 2014 was $103 million compared to revenue of $771 million in the same period of the prior year. The decrease is largely attributable to a gain on sale of $680 million on the GM common shares recorded in the third quarter of 2013. This is partly offset by higher dividend revenue in the third quarter of 2014 of $46 million compared to $9 million in 2013. In the third quarter of 2014, GEN received dividends on the GM common shares of $36 million whereas no dividends were received on the common shares in the comparative period. In addition, third quarter net crude oil sales decreased by 30% to $56 million from $81 million in the comparative period of 2013. The decline is due to a 23% reduction in the volume of oil sold combined with a 7% decrease in realized oil price.

Total expenses for the quarter, excluding the change in fair value of the GM preferred shares, were $19 million, compared to $27 million in the comparative period in 2013. The decline is mainly due to a foreign exchange gain of $1 million in the current year period compared to an $8 million loss in the 2013 quarter. The foreign exchange loss in the prior year was primarily related to the sale of GM common shares which was transacted in US dollars.

Depletion and depreciation expenses increased to $11 million from $9 million in the third quarter of 2013, primarily due to a higher depletion rate, partially offset by lower production.

Consolidated net revenue for the nine months ending September 30, 2014 was $356 million, a 62% decrease from revenue of $944 million in the prior year period. The decrease is mainly attributable to the gain on sale of $680 million recorded in the prior year period. This is offset by higher dividend revenue in 2014 of $139 million year to date compared to $28 million in 2013 as common share dividends were not received in the prior year. Year-to-date net crude oil sales were $215 million, an 8% decrease from $235 million in the prior year.

Year-to-date expenses, excluding the unrealized change in fair value of the GM preferred shares, were $65 million compared to $64 million in the prior year period. Year-to-date depletion and depreciation costs increased to $38 million from $30 million in the same period of 2013, due mainly to a higher depletion rate per barrel. This was partly offset by a lower year-to-date foreign exchange loss by $5 million compared to the prior year loss which is primarily related to the sale of the GM common shares.

In the first nine months of 2014, GEN experienced a $8 million increase in the fair value of the GM preferred shares held, comprised of an unrealized foreign exchange gain of $23 million, offset by a fair value loss of $15 million. The preferred shares were valued at US $25.30 per share at September 30, 2014 compared to US $26.20 at December 31, 2013. In the first nine months of 2013, GEN had a $20 million unrealized gain on the preferred shares, due to a fair value gain of $6 million and an unrealized foreign exchange gain of $14 million.

The market value of the GM common shares investment decreased to $3.94 billion at September 30, 2014 from $4.79 billion at December 31, 2013 as a result of a decrease in the market price of GM shares, adjusted for foreign exchange. The change in the value of the GM common share investment is reflected as a loss in other comprehensive income (OCI) of $846 million for the nine months ended September 30, 2014. During the comparable period in the prior year, OCI reflected an increase of $513 million in the value of the GM common share investment. For more details on OCI changes relating to the GM common shares please see the table below:

GM Common Shares value and 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-10	140,084,746	$33.94 (Adj)	0.9946	4,729		
2011						
31-Mar-11	140,084,746	$29.68(Adj)	0.9718	4,040	(688)	(688)
30-Jun-11	140,084,746	$30.37	0.9643	4,102	62	(626)
30-Sep-11	140,084,746	$20.20	1.0389	2,940	(1,163)	(1,789)
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
2014						
31-Mar-14	110,084,746	$34.42	1.1053	4,188	(597)	(597)
30-Jun-14	110,084,746	$36.29	1.0676	4,265	77	(520)
30-Sep-14	110,084,746	$31.93	1.1208	3,940	(325)	(846)

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 10/13 transferred to profit and loss

Accounts receivable as at September 30, 2014 decreased to $28 million compared to $58 million at December 31, 2013 due to a reduction in crude oil sales outstanding at the end of the period. Property and equipment of $145 million at September 30, 2014 increased as compared to December 31, 2013 by $20 million primarily due to capital expenditures and an increase in decommissioning costs less depletion and depreciation. Income taxes recoverable increased to $13 million at September 30, 2014 from $1 million at December 31, 2013 resulting from installment payments in excess of current and prior year taxes payable and income tax refunds.

Accounts payable of $32 million as at September 30, 2014 were $5 million higher than at December 31, 2013 mainly due to higher period-end payables for royalties and net profits interest. During the first nine months of 2014 the decommissioning obligation of CHHC increased by $17 million to $82 million primarily due to a revision in the discount rate used in its calculation. The discount rate used at quarter end was 2.67%, versus 3.24% used at December 31, 2013.

We paid dividends to the Government of $230 million during the first nine months of 2014. The dividends were paid from dividends received on the GM preferred and common shares held, and from CHHC earnings. Dividends paid in the comparative period in 2013 were $1,259 million including a $1,131 million dividend of the proceeds from the sale of GM common shares. No dividends were received on the GM common shares in the 2013 comparative period.

Interim Condensed Consolidated Financial Statements of

CANADA DEVELOPMENT INVESTMENT CORPORATION

Three and nine months ended September 30, 2014

(Unaudited)

CANADA DEVELOPMENT INVESTMENT CORPORATION

Interim Condensed Consolidated Statement of Financial Position
(Unaudited)
(Thousands of Canadian Dollars)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 139,072	$ 101,768
Accounts receivable	27,930	58,205
Income taxes recoverable	12,804	902
Inventory	1,007	3,017
Prepaid expenses	770	321
Cash on deposit in the Consolidated Revenue Fund	3,862	4,049
	185,445	168,262
Non-current assets:		
Cash on deposit in the Consolidated Revenue Fund	114,758	118,831
Cash and cash equivalents held in escrow	5,969	5,969
Property and equipment (note 5)	144,799	124,431
Investments (note 6)	4,396,618	5,234,310
Deferred tax asset	12,492	9,841
	4,674,636	5,493,382
	$ 4,860,081	$ 5,661,644
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 32,434	$ 27,195
Finance lease obligation	645	2,062
Current portion of defined benefit obligation	270	270
Current portion of provision for site restoration (note 7(b))	4,108	3,748
	37,457	33,275
Non-current liabilities:		
Provision for decommissioning obligation (note 7(a))	81,541	64,676
Provision for site restoration (note 7(b))	11,728	13,047
Defined benefit obligation	1,854	1,925
	95,123	79,648
Shareholder's equity:		
Share capital	1	1
Contributed surplus	2,757,143	2,757,143
Accumulated deficit	(284,413)	(308,885)
Accumulated other comprehensive income	2,254,770	3,100,462
	4,727,501	5,548,721
Contingencies (note 10)		
	$ 4,860,081	$ 5,661,644

The accompanying notes are an integral part of these interim condensed consolidated financial statements.
On behalf of the Board:

_______________ Director _______________ Director

CANADA DEVELOPMENT INVESTMENT CORPORATION

Interim Condensed Consolidated Statement of Comprehensive Income (Loss)
(Unaudited)
(Thousands of Canadian Dollars)

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Revenue:				
Gain on sale of Investments (note 6)	$ -	$ 679,601	$ -	$ 679,601
Net crude oil revenue (note 9(a))	56,408	80,963	215,430	234,954
Dividends (note 6)	46,189	9,343	138,685	27,792
Interest income	692	656	1,904	1,535
	103,289	770,563	356,019	943,882
Expenses:				
Depletion and depreciation (note 5)	11,029	9,414	37,833	30,189
Production and operating (note 9(b))	6,106	5,658	18,427	18,513
Change in fair value of investment in preferred shares (note 6)	(17,000)	(1,000)	(8,000)	(20,000)
Professional fees	1,752	3,436	4,769	6,351
Salaries and benefits	699	675	2,611	2,364
Other expenses	321	219	821	650
Foreign exchange loss (gain)	(993)	7,527	57	5,493
Defined benefit expense	20	19	60	58
	1,934	25,948	56,578	43,618
Finance costs:				
Unwind of discount on decommissioning obligations (note 7(a))	525	600	1,499	1,823
Unwind of discount on provision for site restoration (note 7(b))	67	59	200	178
Interest on finance lease obligation	7	21	32	71
	599	680	1,731	2,072
Profit before income taxes	100,756	743,935	297,710	898,192
Income taxes:				
Current	12,986	18,876	45,613	53,121
Deferred	(1,760)	(253)	(2,651)	(722)
	11,226	18,623	42,962	52,399
Profit	89,530	725,312	254,748	845,793
Other comprehensive income (loss):				
Items that may be reclassified subsequently to profit or loss:				
Realized gain on investment in common shares transferred to profit or loss	-	(679,601)	-	(679,601)
Change in fair value of investment in common shares	(325,417)	299,537	(845,692)	1,192,436
	(325,417)	(380,064)	(845,692)	512,835
Comprehensive income (loss)	$ (235,887)	$ 345,248	$(590,944)	$ 1,358,628

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

CANADA DEVELOPMENT INVESTMENT CORPORATION

Interim Condensed Consolidated Statement of Changes in Shareholder's Equity
(Unaudited)
(Thousands of Canadian Dollars)

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Share capital				
Balance, beginning and end of period	$ 1	$ 1	$ 1	$ 1
Contributed surplus				
Balance, beginning of period	2,757,143	3,216,294	2,757,143	3,216,294
Dividends paid	-	(459,151)	-	(459,151)
Balance, end of period	2,757,143	2,757,143	2,757,143	2,757,143
Accumulated deficit				
Balance, beginning of period	(286,096)	(328,303)	(308,885)	(370,768)
Profit	89,530	725,312	254,748	845,793
Dividends paid	(87,847)	(722,205)	(230,276)	(800,221)
Balance, end of period	(284,413)	(325,196)	(284,413)	(325,196)
Accumulated other comprehensive income				
Balance, beginning of period	2,580,187	2,765,552	3,100,462	1,872,653
Realized gain on investment in common shares transferred to profit or loss	-	(679,601)	-	(679,601)
Change in fair value of investment in common shares	(325,417)	299,537	(845,692)	1,192,436
Balance, end of period	2,254,770	2,385,488	2,254,770	2,385,488
Total shareholder's equity	$ 4,727,501	$ 4,817,436	$ 4,727,501	$ 4,817,436

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

CANADA DEVELOPMENT INVESTMENT CORPORATION

Interim Condensed Consolidated Statement of Cash Flows
(Unaudited)
(Thousands of Canadian Dollars)

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Cash provided by (used in):				
Operating activities:				
Profit	$ 89,530	$ 725,312	$ 254,748	$ 845,793
Adjustments for:				
Gain on sale of Investment	-	(679,601)	-	(679,601)
Depletion and depreciation	11,029	9,414	37,833	30,189
Income tax expense	11,226	18,623	42,962	52,399
Defined benefits paid less than (in excess of) expenses	13	(59)	(71)	(154)
Finance interest	7	21	32	71
Interest income from Consolidated Revenue Fund	(252)	(281)	(740)	(808)
Unwind of discount on decommissioning obligations	525	600	1,499	1,823
Net foreign exchange loss	41	4,450	74	4,637
Change in fair value of investment in preferred shares	(17,000)	(1,000)	(8,000)	(20,000)
Change in provision for site restoration	(90)	(153)	(959)	(636)
Decommissioning obligations settled	(300)	(10)	(622)	(1,169)
Income taxes paid	(17,459)	(23,847)	(57,514)	(55,700)
	77,270	53,469	269,242	176,844
Change in non-cash working capital (note 8)	52,171	46,108	36,335	9,948
	129,441	99,577	305,577	186,792
Financing activities:				
Dividends paid	(87,847)	(722,205)	(230,276)	(800,221)
Dividends paid from contributed surplus	-	(459,151)	-	(459,151)
Finance interest paid	(7)	(21)	(32)	(71)
Lease obligation payments	(516)	(477)	(1,491)	(1,410)
	(88,370)	(1,181,854)	(231,799)	(1,260,853)
Investing activities:				
Proceeds on sale of investment	-	1,134,244	-	1,134,244
Purchase of property and equipment	(12,932)	(9,720)	(40,785)	(23,037)
Withdrawal from Consolidated Revenue Fund	-	-	5,000	-
Change in non-cash working capital (note 8)	769	1,544	(689)	(1,775)
	(12,163)	1,126,068	(36,474)	1,109,432
Change in cash and cash equivalents	28,908	43,791	37,304	35,371
Cash and cash equivalents, beginning of period	110,164	88,905	101,768	97,325
Cash and cash equivalents, end of period	$ 139,072	$ 132,696	$ 139,072	$ 132,696
Represented by:				
Cash	$ 49,785	$ 29,770	$ 49,785	$ 29,770
Cash equivalents	89,287	102,926	89,287	102,926
	$ 139,072	$ 132,696	$ 139,072	$ 132,696
Supplementary disclosure of cash flow from operating activities:				
Amount of interest received during the period	$ 700	$ 709	$ 1,924	$ 1,578
Amount of dividends received during the period	$ 46,189	$ 9,343	$ 138,685	$ 27,792

The accompanying notes are an integral part of these interim condensed 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 ("Hibernia Project"). The Hibernia Project is an oil development and production project located offshore Newfoundland and Labrador. CHHC holds an 8.5% working interest in the original Hibernia Project area and an 8.5% equity interest in the Hibernia Management and Development Company Ltd. ("HMDC"). CHHC also holds an initial 5.08% working interest in the Hibernia Southern Extension Unit ("HSE Unit"), which is subject to change as a result of future redeterminations. CHHC's interests in the Hibernia Project have 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

1. Reporting entity (continued):

Labrador (the "Province"), and received regulatory approval from the Canada-Newfoundland and Labrador Offshore Petroleum Board ("C-NLOPB") for further development of the HSE Unit. 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 (a related party to CDEV and GEN) to GM.

2. Basis of preparation:

a) Statement of compliance:

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting***.** These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2013.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on November 19, 2014.

b) Basis of measurement:

The interim condensed 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

c) Functional and presentation currency:

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

d) Use of estimates and judgments:

The preparation of the Corporation's interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application

2. Basis of preparation (continued):

d) Use of estimates and judgments (continued):

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. Critical judgments and key sources of estimation uncertainty are disclosed in note 2(d) of the Corporation's annual consolidated financial statements for the year ended December 31, 2013.

3. Significant accounting policies:

These interim condensed consolidated financial statements have been prepared following the same accounting policies and methods of application as those presented in note 3 of the annual audited consolidated financial statements for the year ended December 31, 2013 except for those policies which have changed as a result of the adoption of new accounting standards and amendments effective January 1, 2014, as described below.

Changes in accounting policies:

The following accounting standards, amendments and interpretations, issued by the International Accounting Standards Board (IASB) or International Financial Reporting Interpretations Committee (IFRIC), are effective for the first time in the current financial year and have been adopted by the Corporation effective January 1, 2014. These pronouncements were adopted in accordance with the applicable transitional provisions and had no impact on the Corporation's interim condensed consolidated financial statements.

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

The amendments to IAS 32 clarify the meaning and the application of the IAS 32 criteria for offsetting financial assets and financial liabilities. The adoption of the amendments did not have any impact on the interim condensed consolidated financial statements because of the nature of the Corporation's operations and the types of financial assets and financial liabilities that it holds.

Amendments to IAS 36, *Impairment of Assets* (recoverable amount disclosures for non-financial assets)

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 adoption of the amendments did not have any impact on the interim condensed consolidated financial statements because the Corporation has not had any impairments relevant to this standard.

3. Significant accounting policies (continued):

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

Adopted retrospectively, IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain. 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. The adoption of the amendments did not have any impact on the interim condensed consolidated financial statements.

4. Recent accounting pronouncements issued but not yet effective:

The following standards and amendments issued by the IASB in the third quarter have been assessed as having a possible effect on the Corporation in the future. The Corporation is determining the impact, if any, of the standards and amendments on its consolidated financial statements:

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

In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted.

Amendments to IAS 27, *Separate Financial Statements:* Equity Method in Separate Financial Statements ("IAS 27")

In August 2014 the IASB issued amendments to IAS 27 to permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements. The amendments are applicable to annual periods beginning on or after January 1, 2016.

Amendments to IFRS 10 *Consolidated Financial Statements* ("IFRS 10") and IAS 28 *Investments in Associates and Joint Ventures (2011)* ("IAS 28"): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

In September 2014, IFRS 10 and IAS 28 were amended to clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture. The amendments are applicable on a prospective basis to a sale or contribution of assets occurring in annual periods beginning on or after January 1, 2016.

(All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

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

Annual Improvements to IFRS 2012-2014 Cycle

The IASB published Annual Improvements 2012-2014 Cycle in September 2014 as part of its annual improvements process. The amendments are generally intended to clarify requirements rather than result in substantive changes to current practice. The standards affected include IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7 *Financial Instruments: Disclosures*, IAS 19 *Employee Benefits, and* IAS 34, *Interim Financial Reporting*. The amendments will be effective for annual periods beginning on January 1, 2016, with earlier application permitted.

5. Property and equipment:

	Drilling costs	Crude oil tanker	Offshore production facilities	Total
Cost				
Balance at December 31, 2013	$ 72,991	$ 13,547	$ 188,261	$ 274,799
Additions for the period	32,378	-	8,407	40,785
Decommissioning adjustments	-	-	15,987	15,987
Balance at September 30, 2014	$ 105,369	$ 13,547	$ 212,655	$ 331,571
Accumulated depletion and depreciation				
Balance at December 31, 2013	$ 72,772	$ 11,040	$ 66,556	$ 150,368
Depletion and depreciation	23,069	2,070	11,265	36,404
Balance at September 30, 2014	$ 95,841	$ 13,110	$ 77,821	$ 186,772
Carrying amounts				
At December 31, 2013	$ 219	$ 2,507	$ 121,705	$ 124,431
At September 30, 2014	$ 9,528	$ 437	$ 134,834	$ 144,799

At September 30, 2014, costs subject to the calculations of depletion and depreciation excluded the cost of equipment and facilities currently under construction of $40,301 ($33,635 – December 31, 2013) and included future development costs of $762,614 ($804,900 - December 31, 2013). There were no indicators of impairment of property and equipment during the periods ended September 30, 2014 or December 31, 2013.

(All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

6. Investments:

		September 30, 2014		December 31, 2013
Financial assets at fair value through profit or loss:				
Preferred shares of GM 16,101,695 Series A Fixed Rate Cumulative Perpetual Preferred Stock Dividend rate 9.0% paid quarterly, liquidation preference value: US $25 per share	$	457,000	$	449,000
Available-for-sale assets:				
Common shares of GM 110,084,746 common shares		3,939,618		4,785,310
	$	4,396,618	$	5,234,310

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

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Change in fair value of assets at fair value through profit or loss:				
Preferred shares of GM				
Unrealized foreign exchange loss (gain)	$ (22,000)	$ 9,000	$ (23,000)	$ (14,000)
Unrealized fair value loss (gain)	5,000	(10,000)	15,000	(6,000)
	$ (17,000)	$ (1,000)	$ (8,000)	$ (20,000)
Net change in fair value of available-for-sale assets (in OCI):				
Common shares of GM				
Realized gain on sale of Investment	$ -	$ (679,601)	$ -	$ (679,601)
Unrealized fair value gain (loss)	(325,417)	299,537	(845,692)	1,192,436
	$ (325,417)	$ (380,064)	$ (845,692)	$ 512,835

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

(All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

6. Investments (continued):

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% (December 31, 2013 – 4.0%) 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 in the three and nine month periods ended September 30, 2014 has been recorded in profit as a change in fair value of investment in preferred shares of $17,000 gain (2013 – gain of $1,000) and $8,000 gain (2013 – gain of $20,000), respectively. There are no sales restrictions on the preferred shares. Preferred share dividends from GM are received quarterly in US dollars. In the three and nine month periods ended September 30, 2014, GEN received $10,009 (2013 - $9,343) and $29,846 (2013 - $27,792) in preferred share dividends, respectively.

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 September 30, 2014 and December 31, 2013 were measured at fair value with any changes recorded in other comprehensive income. The balance in accumulated other comprehensive income at September 30, 2014 and December 31, 2013 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. GM commenced paying a quarterly dividend on the GM common shares beginning in March 2014. In the three and nine month periods ended September 30, 2014, GEN received $36,180 (2013 - $nil) and $108,839 (2013 - $nil) in common share dividends, respectively.

7. Provisions:

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

	Decommissioning obligations	Site restoration
Balance at December 31, 2013	$ 64,676	$ 16,795
Additional provisions	450	-
Obligations settled	(622)	(1,159)
Change in discount rate	15,538	-
Unwind of discount	1,499	200
Balance at September 30, 2014	$ 81,541	$ 15,836
Current	-	4,108
Non-current	81,541	11,728
	$ 81,541	$ 15,836

(All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

7. Provisions (continued):

a) Provision for decommissioning obligations of CHHC:

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 at September 30, 2014 to be $235,676 (December 31, 2013 - $239,063). 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 September 30, 2014, a risk-free rate of 2.67% (December 31, 2013 – 3.24%) and an inflation rate of 2.0% (December 31, 2013 – 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. The estimates used to calculate the provision for site restoration are described in the consolidated financial statements for the year ended December 31, 2013. There were no significant changes to estimates used.

8. Supplemental cash flow disclosure:

Changes in non-cash working capital balances for the periods ended September 30 include the following:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Change in accounts receivable	$ 55,384	$ 49,657	$ 30,275	$ 35,009
Change in inventory	(260)	(781)	581	153
Change in prepaid expenses	454	468	(449)	(461)
Change in accounts payable and accrued liabilities	(2,638)	(1,692)	5,239	(26,528)
Change in non-cash working capital items	$ 52,940	$ 47,652	$ 35,646	$ 8,173
Relating to:				
Operating activities	$ 52,171	$ 46,108	$ 36,335	$ 9,948
Investing activities	769	1,544	(689)	(1,775)
	$ 52,940	$ 47,652	$ 35,646	$ 8,173

(All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

9. Net crude oil revenue and production and operating expenses:

a) Net crude oil revenue for the periods ended September 30 is as follows:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Gross crude oil revenue	$ 91,183	$ 126,753	$ 335,367	$ 369,289
Less: marketing fees	(72)	(89)	(273)	(260)
Less: royalties	(27,625)	(34,406)	(91,744)	(101,684)
Less: net profits interest	(7,078)	(11,295)	(27,920)	(32,391)
Net crude oil revenue	$ 56,408	$ 80,963	$ 215,430	$ 234,954

b) Production and operating expenses for the periods ended September 30 are as follows:

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Hibernia joint account production and operating expense	$ 5,133	$ 4,432	$ 14,676	$ 15,067
Crude oil tanker operating expense	1,731	1,631	5,812	5,755
Recoveries of crude oil tanker operating expense	(718)	(377)	(1,871)	(2,247)
Facility use fees net of incidental net profits interest	(40)	(28)	(190)	(62)
Total production and operating expense	$ 6,106	$ 5,658	$ 18,427	$ 18,513

10. 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 is 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 interim condensed consolidated 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.

(All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

10. Contingencies (continued):

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.

11. Risks to the Corporation:

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. The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Corporation's annual financial statements as at December 31, 2013. There have been no changes in the Corporation's financial risk management objectives, policies and processes for measuring and managing these risks since year end.

Fair value of financial instruments:

The following table summarizes information on the fair value measurement of the Corporation's financial assets as at September 30, 2014 and December 31, 2013 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)
September 30, 2014				
Cash on deposit in the CRF	$ 118,620	$ 118,620	$ -	$ -
Preferred shares of GM	457,000	-	457,000	-
Common shares of GM	3,939,618	3,939,618	-	-
Total	$ 4,515,238	$ 4,058,238	$ 457,000	$ -
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	$ -

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. There were no movements between levels in the fair value hierarchy during the period.

12. 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 three and nine months ended September 30, 2014 of $87,847 and $230,276, respectively (2013 - $1,181,356 and $1,259,372 respectively, of which $459,151 was paid from contributed surplus).