Q. Please file for the record the most recent annual reports for each Industrial Customer and/or its parent company.

A. Please see Attachment 1 to this response for the copy of Full Year and Fourth Quarter Report 2013 for Harvest Operations Corp., a parent company of North Atlantic Refining Limited ("NARL") and Attachment 2 for Teck Resources Limited ("Teck").

Corner Brook Pulp and Paper Limited ("CBPP") and its parent are privately held and the comparable information is not available.

Harvest
OPERATIONS CORP.

Full Year and Fourth Quarter Report 2013

For the full year and three month periods ended December 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited annual consolidated financial statements of Harvest Operations Corp. ("Harvest", "we", "us", "our" or the "Company") for the year ended December 31, 2013 together with the accompanying notes. The information and opinions concerning the future outlook are based on information available at March 6, 2014.

Effective January 1, 2013, Harvest adopted new and amended accounting standards, described in the "Critical Accounting Estimates" section of this MD&A and in note 4 of the audited annual consolidated financial statements for the year ended December 31, 2013. The retroactive application of these standards resulted in certain restatements in the 2012 comparative financial statements. The comparative financial information in this MD&A reflect such restated amounts and are consistent with the December 31, 2013 annual financial statements.

In this MD&A, all dollar amounts are expressed in Canadian dollars unless otherwise indicated. Tabular amounts are in millions of dollars, except where noted. All financial data has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board except where otherwise noted.

Natural gas volumes are converted to barrels of oil equivalent ("boe") using the ratio of six thousand cubic feet ("mcf") of natural gas to one barrel of oil ("bbl"). Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf to 1 bbl is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalent at the wellhead. In accordance with Canadian practice, petroleum and natural gas revenues are reported on a gross basis before deduction of Crown and other royalties.

Additional information concerning Harvest, including its audited annual consolidated financial statements and Annual Information Form ("AIF") can be found on SEDAR at www.sedar.com.

ADVISORY

This MD&A contains non-GAAP measures and forward-looking information about our current expectations, estimates and projections. Readers are cautioned that the MD&A should be read in conjunction with the "Non-GAAP Measures" and "Forward-Looking Information" sections at the end of this MD&A.

Harvest OPERATIONS CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL AND OPERATING HIGHLIGHTS

	Three Months Ended December 31		Year Ended December 31	
	2013	2012	**2013**	2012
UPSTREAM OPERATIONS				
Daily sales volumes (boe/d)	**49,154**	58,228	**52,473**	59,327
Average realized price				
Oil and NGLs ($/bbl)(2)	**70.68**	68.50	**75.49**	72.39
Gas ($/mcf)(2)	**3.86**	3.44	**3.46**	2.58
Operating netback prior to hedging ($/boe)(1)	**26.10**	30.61	**29.31**	28.46
Operating income (loss)	**2.3**	36.1	**(16.6)**	(12.7)
Cash contribution from operations(1)	**119.5**	160.4	**518.2**	581.9
Capital asset additions (excluding acquisitions)	**108.5**	88.2	**322.3**	447.5
Property and business acquisitions (dispositions), net	**(27.5)**	(80.8)	**(155.6)**	(84.3)
Net wells drilled	**22.2**	12.8	**84.1**	100.9
Net undeveloped land additions (acres)(3)	**18,595**	39,543	**50,651**	131,394
BLACKGOLD OIL SANDS				
Capital asset additions	**128.1**	44.4	**444.5**	164.1
Net wells drilled	–	4.0	–	30.0
DOWNSTREAM OPERATIONS				
Average daily throughput (bbl/d)	**92,339**	114,065	**98,081**	103,355
Average refining gross margin (US$/bbl)(1)	**2.50**	6.43	**1.07**	4.87
Operating loss	**(506.4)**	(566.0)	**(691.1)**	(680.2)
Cash deficiency from operations(1)	**(32.3)**	(3.0)	**(152.4)**	(41.7)
Capital asset additions	**18.1**	21.5	**53.2**	54.2
NET LOSS(4)	**(517.8)**	(536.7)	**(781.9)**	(721.0)

(1) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A.

(2) Excludes the effect of risk management contracts designated as hedges.

(3) Includes lands acquired in business combinations.

(4) Net loss includes the consolidated operating results of Harvest's operating segments.

REVIEW OF OVERALL PERFORMANCE

Harvest is an energy company with a petroleum and natural gas business focused on the exploration, development and production of assets in western Canada ("Upstream"), an oil sands project under construction and development in northern Alberta ("BlackGold"), and a refining and marketing business focused on the operation of a medium gravity sour crude oil hydrocracking refinery and a retail and wholesale petroleum marketing business both located in the Province of Newfoundland and Labrador ("Downstream"). Harvest is a wholly owned subsidiary of Korea National Oil Corporation ("KNOC"). Our earnings and cash flow from operating activities are largely determined by the realized prices for our crude oil and natural gas production as well as refined product crack spreads.

Upstream

- Sales volumes for the fourth quarter and year ended December 31, 2013 decreased by 9,074 boe/d and 6,854 boe/d, respectively, as compared to the same periods in 2012. The decreases were primarily due to natural declines, smaller 2012 and 2013 capital drilling programs and dispositions of certain non-core producing properties in the most recent five quarters.
- Operating netback prior to hedging for the fourth quarter of 2013 was $26.10/boe, a decrease of $4.51/boe from 2012 mainly due to higher operating expense and royalties per boe, partially offset by higher average realized prices. Operating netback prior to hedging for the year ended December 31, 2013 was $29.31/boe, an increase of $0.85/boe from 2012 mainly due to higher average realized prices, partially offset by higher operating expenses per boe.
- Cash contribution from Harvest's Upstream operations for the fourth quarter and year ended December 31, 2013, decreased $40.9 million and $63.7 million, respectively, mainly driven by lower sales volumes and changes in operating netback per boe.
- Operating income was $2.3 million (2012 - $36.1 million) for the fourth quarter of 2013, a decrease of $33.8 million mainly due to a $24.1 asset impairment and the decrease in cash contribution described above, partially offset by the reduction in DD&A expense. Operating loss was $16.6 million (2012 - $12.7 million) for the year ended December 31, 2013, an increase of $3.9 million mainly as a result of decreased cash contribution described above, partially offset by positive variances in non-cash items including DD&A expense and E&E expense.
- Capital asset additions of $108.5 million during the fourth quarter of 2013 mainly related to the drilling, completion and tie-in of wells. Twenty-eight gross wells (22.2 net) were rig-released during the fourth quarter. Capital asset additions of $322.3 million for the year ended December 31, 2013 mainly related to the drilling and tie-in of 96.0 gross (84.1 net) wells which were rig-released year to date.

BlackGold

- Capital asset additions were $128.1 million and $444.5 million for the three months and year ended December 31, 2013, respectively, and mainly related to the construction of the central processing facility ("CPF").
- As at December 31, 2013, Phase 1 of the project was approximately 92% complete. Phase 1 completion, commissioning of the CPF and first steam are expected in 2014.
- Phase 2 of the project received regulatory and environmental approval in 2013.

Downstream

- Throughput volume averaged 92,339 bbl/d (2012 – 114,065 bbl/d) and 98,081 bbl/d (2012 – 103,355 bbl/d) for the three months and year ended December 31, 2013, respectively. The decreased throughput in the current periods is due to a partial catalyst change-out in the fourth quarter and more operational outages experienced throughout 2013.
- Refining gross margin per bbl averaged US$2.50/bbl (2012 - US$6.43/bbl) and US$1.07/bbl (2012 - US$4.87/bbl) for the three months and year ended December 31, 2013, respectively. The decreases in gross margin were mainly due to lower product crack spreads and poorer yield mix.

- Cash deficiency from Harvest's Downstream operations was $32.3 million (2012 - $3.0 million) and $152.4 million (2012 - $41.7 million) for the fourth quarter and year ended December 31, 2013, respectively. The increases in Downstream's cash deficiency were mainly due to lower average refining gross margins per bbl as compared to the prior year periods.
- An impairment of PP&E of $458.9 million (2012 – $535.5 million) was recognized in the fourth quarter and year ended December 31, 2013.
- Operating loss totaled $506.4 million (2012 – $566.0 million) for the fourth quarter of 2013, a $59.6 million decrease from 2012 primarily due to the lower impairment of PP&E. Operating loss for the year ended December 31, 2013 was $691.1 million (2012 - $680.2 million) reflecting a lower gross margin, partially offset by a lower impairment of PP&E.

Corporate

- Net loss was $517.8 million and $781.9 million for fourth quarter and year ended December 31, 2013, respectively (2012 - $536.7 million and $721.0 million, respectively). Net loss increased for both periods due to the changes in the operating losses of the Upstream and Downstream segments described above, as well as the unrealized foreign exchange losses and lower income tax recovery during 2013.
- Harvest extended the credit facility maturity date by one year to April 30, 2017.
- Harvest early redeemed, at par, its 7.25% Debentures Due 2014 on April 2, 2013 and its 7.25% Debentures Due 2013 on April 15, 2013. The redemptions were funded using US$390 million of drawings on the US$400 million senior unsecured credit facility.
- On May 14, 2013, Harvest issued 2⅛% US$630 million senior unsecured notes due May 14, 2018, that are unconditionally and irrevocably guaranteed by KNOC. The proceeds were used to repay the senior unsecured credit facility and early redeem, at par, the 7.50% Debentures Due 2015.
- On October 18, 2013, the borrowing capacity of the credit facility was increased from $800.0 million to $1.0 billion.
- On December 30, 2013 Harvest entered into a five year $200 million subordinated loan agreement with KNOC and borrowed $80.0 million thereunder. On February 28, 2014, Harvest borrowed an additional $80.0 million under the subordinated loan agreement.

GUIDANCE UPDATE

The following discussion compares Harvest's actual results for the year 2013 to the guidance previously disclosed in the interim MD&A for the three and nine months ended September 30, 2013:

Upstream

- Annual production was expected to average 53,100 boe/d as compared to the actual production of 52,473 boe/d. The 627 boe/d production shortfall is mainly due to property dispositions and third-party facility constraints occurring in the fourth quarter of 2013.
- The forecasted capital expenditure for the fourth quarter of 2013 was $110 million and the actual amount was $108.5 million. The capital budget for the year 2013 was increased by $13 million on December 10, 2013 to $357 million, $322.3 million was utilized for various capital development projects, $19.5 million was spent on decommissioning and environmental remediation and the unspent remainder was intended for the winter drilling program which was delayed by regulatory approvals.

- Harvest expected to drill 97 gross wells in 2013 and the actual amount was 96 gross wells.
- Operating expense was targeted to be $17.50/boe for the year 2013. The actual expense was $18.05/boe, with the increase cost due to higher than expected well servicing, repairs and maintenance activities and processing and other fees.

BlackGold

- On December 10, 2013 the capital budget was increased to $353 million from $315 million for 2013. Cash additions on the project in 2013 was $353.2 million ($444.5 million recorded on the balance sheet, less non-cash additions of $71.5 million and capitalized interest of $19.8 million). Harvest's 2013 capital expenditures were greater than the initial forecast amount due to increased costs as a result of labor shortages, inclement weather and a revised completion schedule.

Downstream

- The 2013 capital budget was $55 million and the actual amount spent was $53.2 million.
- Throughput volume for the year 2013 was expected to average 95,000 bbl/d and the actual amount was 98,081 bbl/d. The additional 3,081 bbl/d experienced for the year is due to less refinery down-time than expected.
- Operating and purchased energy costs were expected to be below $7.00/bbl for the year 2013. Actual costs were $6.68/bbl.

UPSTREAM OPERATIONS

Summary of Financial and Operating Results

	Three Months Ended December 31		Year Ended December 31	
	2013	2012	**2013**	2012
FINANCIAL				
Petroleum and natural gas sales[1]	**260.7**	291.3	**1,101.7**	1,193.5
Royalties	**(37.5)**	(35.7)	**(153.9)**	(164.6)
Revenues	**223.2**	255.6	**947.8**	1,028.9
Expenses				
Operating	**82.3**	77.4	**345.6**	359.0
Transportation and marketing	**6.4**	5.9	**22.6**	22.2
Realized gains on risk management contracts[2]	**(0.6)**	(2.6)	**(4.9)**	(1.6)
Operating netback after hedging[3]	**135.1**	174.9	**584.5**	649.3
General and administrative	**16.5**	18.2	**68.1**	65.0
Depreciation, depletion and amortization	**113.4**	145.3	**530.0**	579.5
Exploration and evaluation	**0.7**	0.2	**12.3**	24.9
Impairment of property, plant and equipment	**24.1**	–	**24.1**	21.8
Unrealized losses on risk management contracts[4]	**1.6**	0.1	**0.5**	1.1
Gains on disposition of property, plant and equipment	**(23.5)**	(25.0)	**(33.9)**	(30.3)
Operating income (loss)	**2.3**	36.1	**(16.6)**	(12.7)
Capital asset additions (excluding acquisitions)	**108.5**	88.2	**322.3**	447.5
Property and business acquisitions (dispositions), net	**(27.5)**	(80.8)	**(155.6)**	(84.3)
Decommissioning and environmental remediation expenditures	**7.4**	4.3	**19.4**	20.2
OPERATING				
Light / medium oil (bbl/d)	**10,820**	13,817	**11,671**	13,889
Heavy oil (bbl/d)	**16,348**	18,402	**16,905**	19,506
Natural gas liquids (bbl/d)	**4,607**	6,084	**5,345**	5,535
Natural gas (mcf/d)	**104,269**	119,554	**111,313**	122,385
Total (boe/d)	**49,154**	58,228	**52,473**	59,327

(1) Includes the effective portion of Harvest's realized natural gas and crude oil hedges.
(2) Realized (gains) losses on risk management contracts include the settlement amounts for power, crude oil and foreign exchange derivative contracts, excluding the effective portion of realized (gains) losses from Harvest's designated accounting hedges. See "Risk Management, Financing and Other" section of this MD&A for details.
(3) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A.
(4) Unrealized (gains) losses on risk management contracts reflect the change in fair value of derivative contracts that are not designated as accounting hedges and the ineffective portion of changes in fair value of designated hedges. See "Risk Management, Financing and Other" section of this MD&A for details.

Commodity Price Environment

	Three Months Ended December 31			Year Ended December 31		
	2013	2012	Change	**2013**	2012	Change
West Texas Intermediate ("WTI") crude oil (US$/bbl)	**97.46**	88.18	11%	**97.97**	94.21	4%
West Texas Intermediate crude oil ($/bbl)	**102.30**	87.42	17%	**100.95**	94.12	7%
Edmonton light sweet crude oil ($/bbl)	**86.49**	83.98	3%	**93.04**	86.15	8%
Western Canadian Select ("WCS") crude oil ($/bbl)	**68.41**	69.43	(1%)	**74.97**	73.09	3%
AECO natural gas daily ($/mcf)	**3.53**	3.21	10%	**3.17**	2.39	33%
U.S. / Canadian dollar exchange rate	**0.953**	1.009	(6%)	**0.971**	1.001	(3%)
Differential Benchmarks						
WCS differential to WTI ($/bbl)	**33.89**	17.99	88%	**25.98**	21.03	24%
WCS differential as a % of WTI	**33.1%**	20.6%	61%	**25.7%**	22.3%	15%

The average WTI benchmark price for 2013 increased 11% from the fourth quarter of 2012 and increased 4% from the year ended December 31, 2012. The average Edmonton light sweet crude oil price ("Edmonton Light") increased 3% in the fourth quarter and 8% for the year ended December 31, 2013 mainly due to the increase in the WTI price, the change in the light sweet differential and the strengthening of the U.S. dollar against the Canadian dollar as compared to the prior year periods.

Heavy oil differentials fluctuate based on a combination of factors including the level of heavy oil production and inventories, pipeline and rail capacity to deliver heavy crude to U.S. markets and the seasonal demand for heavy oil. The WCS price changes for the fourth quarter and full year 2013 as compared to the prior year periods were mainly a result of the increase in the WTI price, the strengthening of the US dollar and the widening of the WCS differential to WTI.

Realized Commodity Prices

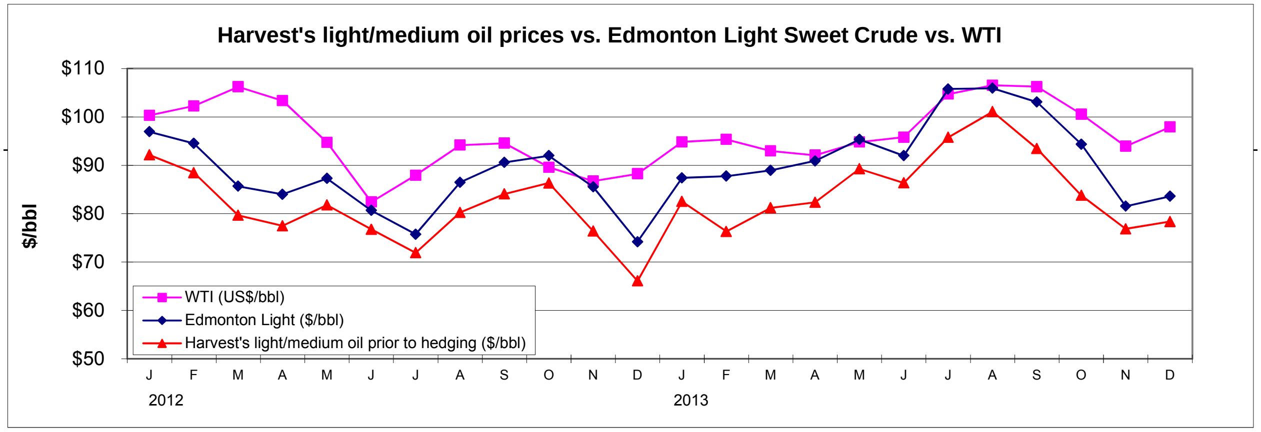
	Three Months Ended December 31			Year Ended December 31		
	2013	2012	Change	**2013**	2012	Change
Light to medium oil prior to hedging ($/bbl)	**79.67**	76.42	4%	**85.38**	80.17	6%
Heavy oil prior to hedging ($/bbl)	**68.03**	67.66	1%	**74.37**	71.35	4%
Natural gas liquids ($/bbl)	**58.97**	53.06	11%	**57.44**	56.54	2%
Natural gas prior to hedging ($/mcf)	**3.86**	3.44	12%	**3.46**	2.58	34%
Average realized price prior to hedging ($/boe)(1)	**54.01**	52.82	2%	**56.58**	53.60	6%
Light to medium oil after hedging ($/bbl)(2)	**79.67**	82.96	(4%)	**85.38**	86.00	(1%)
Heavy oil after hedging ($/bbl)(2)	**74.51**	67.66	10%	**73.84**	71.35	3%
Natural gas after hedging ($/mcf)(2)	**3.94**	3.44	15%	**3.63**	2.58	41%
Average realized price after hedging ($boe)(1) (2) (3)	**56.34**	54.38	4%	**56.78**	54.97	3%

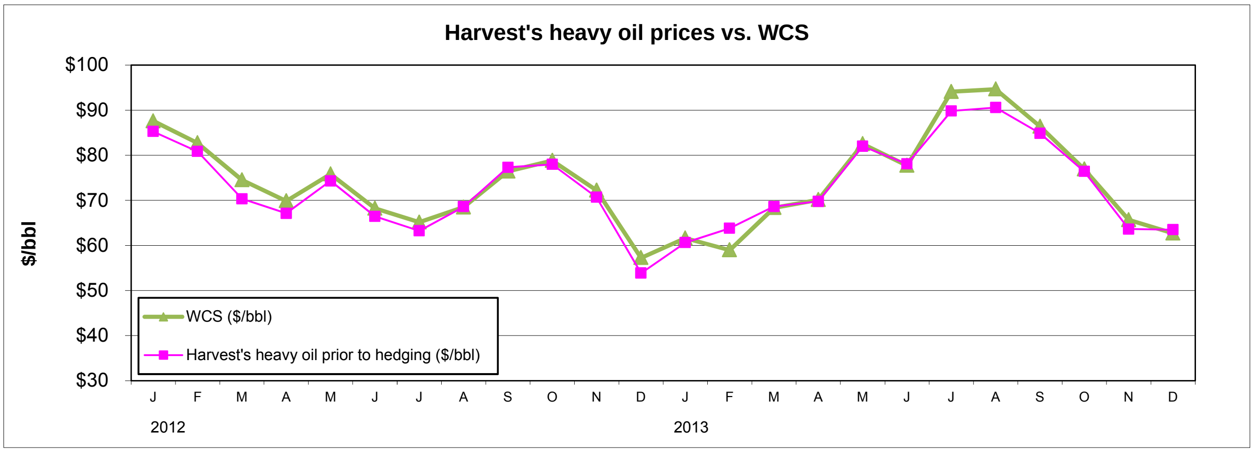
(1) Inclusive of sulphur revenue.
(2) Inclusive of the realized gains (losses) from contracts designated as hedges. Foreign exchange swaps and power contracts are excluded from the realized price.
(3) Natural gas liquids prices are not hedged but are included in the average realized price after hedging.

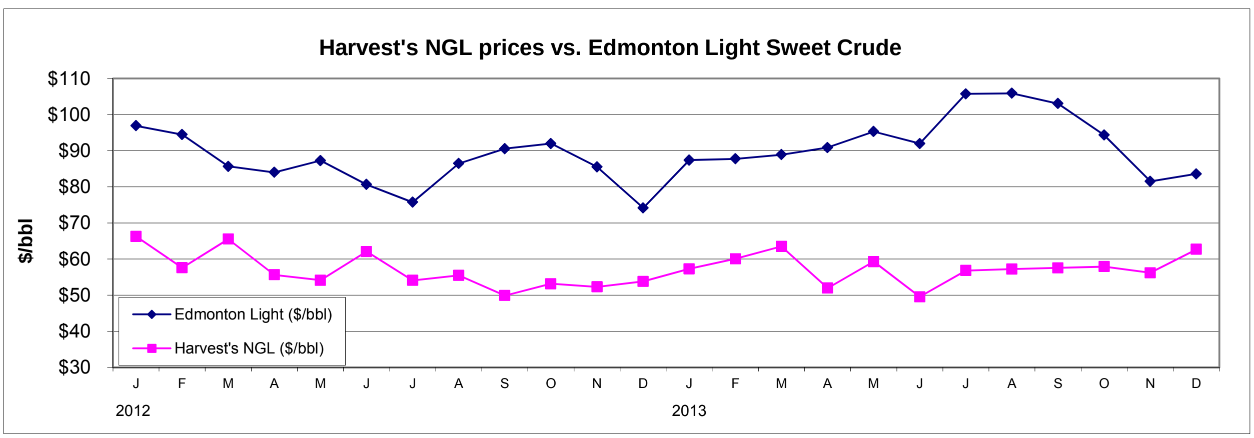
Harvest's realized prices prior to hedging for light to medium oil, heavy oil and natural gas generally trend with the Edmonton Light, WCS and AECO benchmark prices, respectively. For the three months and year ended December 31, 2013, the period-over-period variances and movements in these realized prices were consistent with the changes in the related benchmarks.

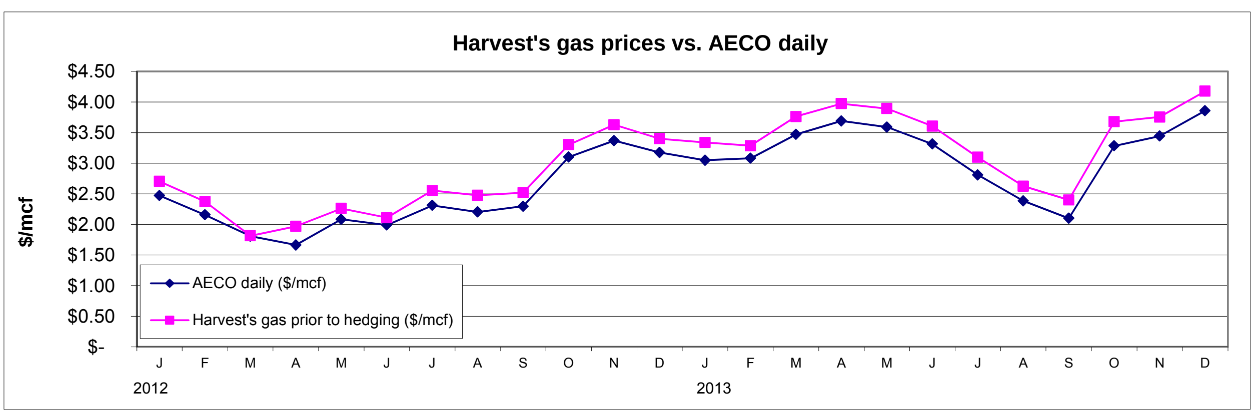
Natural gas liquids realized prices increased by 11% for the fourth quarter of 2013 and 2% for the full year 2013 as compared to the same periods in 2012. The increases mainly reflect the changes in condensate, pentane and propane commodity prices from 2012.

In order to mitigate the risk of fluctuating cash flows due to natural gas and crude oil price volatility, Harvest entered into AECO and WCS derivative contracts. Including the impact from the AECO hedges, Harvest's realized gas prices increased by $0.08/mcf (2012 – $nil) in the fourth quarter of 2013 and $0.17/mcf (2012 - $nil) for the full year 2013. Harvest's realized heavy oil prices increased by $6.48/bbl (2012 - $nil) in the fourth quarter of 2013 and decreased $0.53/bbl (2012 - $nil) for the full year 2013 as a result of the WCS hedges. There were no light to medium crude oil hedges during 2013, but in the prior year Harvest earned a $6.54/bbl and $5.83/bbl increase in realized light to medium oil price in the fourth quarter and full year 2012, respectively. Please see "Cash Flow Risk Management" section in this MD&A for further discussion with respect to the cash flow risk management program.


Harvest's light/medium oil prices vs. Edmonton Light Sweet Crude vs. WTI
$/bbl
$110
$100
$90
$80
$70
$60
$50
WTI (US$/bbl)
Edmonton Light ($/bbl)
Harvest's light/medium oil prior to hedging ($/bbl)
J F M A M J J A S O N D J F M A M J J A S O N D
2012
2013


Harvest's heavy oil prices vs. WCS
$/bbl
$100
$90
$80
$70
$60
$50
$40
$30
WCS ($/bbl)
Harvest's heavy oil prior to hedging ($/bbl)
J F M A M J J A S O N D J F M A M J J A S O N D
2012
2013

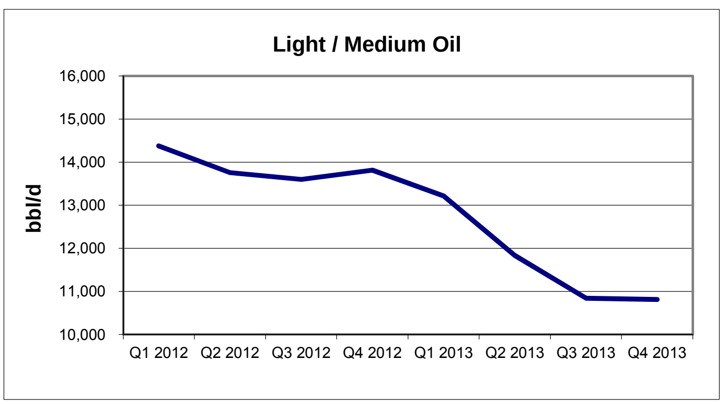

Harvest's NGL prices vs. Edmonton Light Sweet Crude
$/bbl
$110
$100
$90
$80
$70
$60
$50
$40
$30
Edmonton Light ($/bbl)
Harvest's NGL ($/bbl)
J F M A M J J A S O N D J F M A M J J A S O N D
2012
2013


Harvest's gas prices vs. AECO daily
$/mcf
$4.50
$4.00
$3.50
$3.00
$2.50
$2.00
$1.50
$1.00
$0.50
$-
AECO daily ($/mcf)
Harvest's gas prior to hedging ($/mcf)
J F M A M J J A S O N D J F M A M J J A S O N D
2012
2013

Sales Volumes

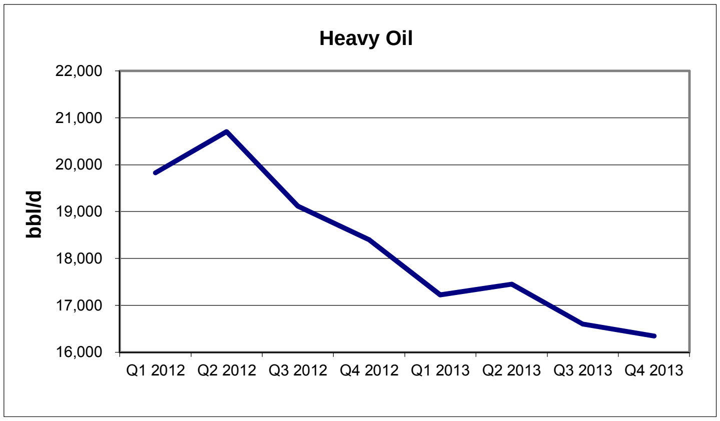
	Three Months Ended December 31				
	2013		2012		
	Volume	**Weighting**	Volume	Weighting	% Volume Change
Light to medium oil (bbl/d)	**10,820**	**22%**	13,817	24%	(22%)
Heavy oil (bbl/d)	**16,348**	**33%**	18,402	32%	(11%)
Natural gas liquids (bbl/d)	**4,607**	**9%**	6,084	10%	(24%)
Total liquids (bbl/d)	**31,775**	**64%**	38,303	66%	(17%)
Natural gas (mcf/d)	**104,269**	**36%**	119,554	34%	(13%)
Total oil equivalent (boe/d)	**49,154**	**100%**	58,228	100%	(16%)

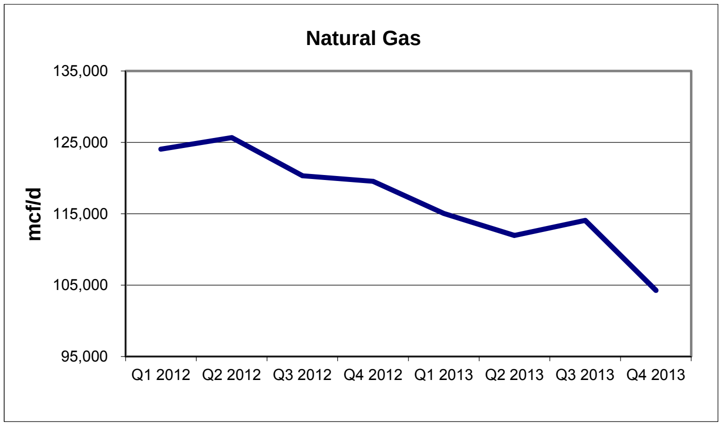
	Year Ended December 31				
	2013		2012		
	Volume	**Weighting**	Volume	Weighting	% Volume Change
Light to medium oil (bbl/d)	**11,671**	**22%**	13,889	23%	(16%)
Heavy oil (bbl/d)	**16,905**	**32%**	19,506	33%	(13%)
Natural gas liquids (bbl/d)	**5,345**	**10%**	5,535	9%	(3%)
Total liquids (bbl/d)	**33,921**	**64%**	38,930	65%	(13%)
Natural gas (mcf/d)	**111,313**	**36%**	122,385	35%	(9%)
Total oil equivalent (boe/d)	**52,473**	**100%**	59,327	100%	(12%)



Harvest's average daily sales of light/medium oil decreased 22% and 16% for the fourth quarter and full year 2013 as compared to 2012. The decreases were due to natural declines, a lower level of drilling activity in both 2012 and 2013 and the disposition of non-core properties.

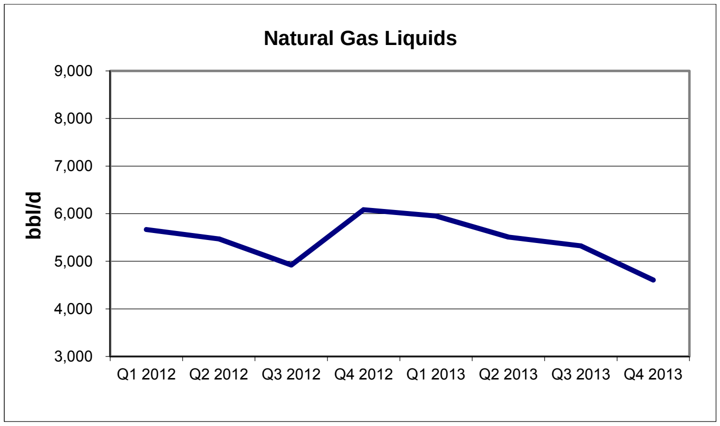
Heavy oil sales for the fourth quarter and full year 2013 decreased 11% and 13%, respectively, from the same periods in 2012 due to the same reasons as the light/medium oil, as well as an outage of a major oil battery in Alberta.





Natural gas sales during the fourth quarter and full year 2013 decreased 13% and 9%, respectively, from the same periods in 2012. The decreases were due to natural declines, property dispositions and facility turnarounds, partially offset by the results of development drilling in the liquids-rich Deep Basin area.

Natural gas liquids sales for the fourth quarter and full year 2013 decreased by 24% and 3%, respectively, from the same periods in 2012. The decreases were due to natural declines and third party facility constraints.



Revenues

	Three Months Ended December 31			Year Ended December 31		
	2013	2012	Change	**2013**	2012	Change
Light / medium oil sales after hedging [(1)]	**79.3**	105.5	(25%)	**363.7**	437.1	(17%)
Heavy oil sales after hedging [(1)]	**112.1**	114.6	(2%)	**455.6**	509.4	(11%)
Natural gas sales after hedging [(1)]	**37.8**	37.9	–	**147.6**	115.7	28%
Natural gas liquids sales	**25.0**	29.7	(16%)	**112.1**	114.5	(2%)
Other[(2)]	**6.5**	3.6	81%	**22.7**	16.8	35%
Petroleum and natural gas sales	**260.7**	291.3	(11%)	**1,101.7**	1,193.5	(8%)
Royalties	**(37.5)**	(35.7)	5%	**(153.9)**	(164.6)	(7%)
Revenues	**223.2**	255.6	(13%)	**947.8**	1,028.9	(8%)

(1) Inclusive of the effective portion of realized gains (losses) from natural gas and crude oil contracts designated as hedges.
(2) Inclusive of sulphur revenue and miscellaneous income.

Harvest's revenue is subject to changes in sales volumes, commodity prices, currency exchange rates and hedging activities. In the fourth quarter of 2013, total petroleum and natural gas sales decreased by 11%, mainly due to the 16% decrease in sales volumes partially offset by the 3% increase in realized prices after hedging activities. For the year ended December 31, 2013, total petroleum and natural gas sales decreased by 8%, mainly due to the 12% decrease in sales volumes partially offset by the 3% increase in realized prices after hedging activities.

Sulphur revenue represented $0.6 million (2012 - $5.0 million) of the total in other revenues for the fourth quarter of 2013 and $8.5 million (2012 - $16.9 million) for the full year 2013.

Royalties

Harvest pays Crown, freehold and overriding royalties to the owners of mineral rights from which production is generated. These royalties vary for each property and product and Crown royalties are based on various sliding scales dependent on incentives, production volumes and commodity prices.

For the fourth quarter of 2013, royalties as a percentage of gross revenue averaged 14.4% (2012 – 12.3%). The lower royalty rates in the fourth quarter of 2012 were mainly due to receiving more prior year credits. For the year ended December 31, 2013, royalties as a percentage of gross revenue averaged 14.0% (2012 – 13.8%).

Operating and Transportation Expenses

	Three Months Ended December 31				
	2013	**$/boe**	2012	$/boe	$/boe Change
Power and purchased energy	**18.6**	**4.11**	21.7	4.06	0.05
Well servicing	**11.0**	**2.44**	7.7	1.43	1.01
Repairs and maintenance	**12.6**	**2.78**	7.1	1.33	1.45
Lease rentals and property tax	**10.1**	**2.23**	11.0	2.05	0.18
Labor - internal	**7.0**	**1.54**	7.2	1.35	0.19
Labor - contract	**3.7**	**0.81**	4.6	0.85	(0.04)
Chemicals	**4.4**	**0.98**	4.1	0.76	0.22
Trucking	**3.0**	**0.66**	3.4	0.63	0.03
Processing and other fees	**11.2**	**2.48**	7.4	1.37	1.11
Other	**0.7**	**0.17**	3.2	0.62	(0.45)
Total operating expenses	**82.3**	**18.20**	77.4	14.45	3.75
Transportation and marketing	**6.4**	**1.42**	5.9	1.10	0.32

	Year Ended December 31				
	2013	**$/boe**	2012	$/boe	$/boe Change
Power and purchased energy	**89.1**	**4.65**	79.6	3.67	0.98
Well servicing	**49.9**	**2.60**	56.0	2.58	0.02
Repairs and maintenance	**51.6**	**2.70**	57.0	2.63	0.07
Lease rentals and property tax	**37.3**	**1.95**	38.3	1.76	0.19
Labor - internal	**31.8**	**1.66**	31.5	1.45	0.21
Labor - contract	**15.3**	**0.80**	19.3	0.89	(0.09)
Chemicals	**18.7**	**0.98**	18.0	0.83	0.15
Trucking	**13.9**	**0.72**	16.3	0.74	(0.02)
Processing and other fees	**36.8**	**1.92**	33.4	1.54	0.38
Other	**1.2**	**0.07**	9.6	0.45	(0.38)
Total operating expenses	**345.6**	**18.05**	359.0	16.54	1.51
Transportation and marketing	**22.6**	**1.18**	22.2	1.02	0.16

Operating expenses for the fourth quarter of 2013 increased by $4.9 million compared to the same period in 2012. The higher operating expenses were mainly attributable to the increase in well servicing, repairs and maintenance activities and processing and other fees, partially offset by the lower cost of Alberta power. Operating costs on a per barrel basis increased by 26% to $18.20/boe for the fourth quarter of 2013 due to lower sales volumes in addition to the aforementioned factors.

Operating expenses for the full year 2013 decreased by $13.4 million compared to the same period in 2012. The lower operating expenses for the full year 2013 were mainly attributable to the impact of asset dispositions and Harvest's implementation of a cost savings and efficiencies program, partially offset by the increase in the cost of Alberta power and higher processing and other fees. Operating costs on a per barrel basis increased by 9% to $18.05/boe for the full year 2013.

	Three Months Ended December 31			Year Ended December 31		
($/boe)	**2013**	2012	Change	**2013**	2012	Change
Power and purchased energy costs	**4.11**	4.06	0.05	**4.65**	3.67	0.98
Realized (gains) losses on electricity risk management contracts	**0.06**	–	0.06	**(0.16)**	–	(0.16)
Net power and purchased energy costs	**4.17**	4.06	0.11	**4.49**	3.67	0.82
Alberta Power Pool electricity price ($/MWh)	**48.39**	78.80	(30.41)	**79.95**	64.29	15.66

Power and purchased energy costs, comprised primarily of electric power costs, represented approximately 23% (2012 – 28%) of total operating expenses for the fourth quarter of 2013. The increase in power and purchased energy costs per boe in the fourth quarter of 2013 was mainly attributable to the fixed portion of power-related costs over lower sales volumes, partially offset by a lower average Alberta electricity price. The increase in power and purchased energy costs per boe for the year ended December 31, 2013 was mainly attributable to the fixed portion of power-related costs over lower sales volumes and a higher average Alberta electricity price. Harvest did not have any risk management contracts relating to electricity during 2012.

Transportation and marketing expenses relate primarily to delivery of natural gas to the Nova Gas Transmission Limited System and the cost of trucking crude oil to pipeline or rail receipt points. As a result, the total dollar amount of costs generally fluctuates in relation to sales volumes. In 2013, additional oil trucking costs were incurred in 2013 due to the outage of a major oil battery in Alberta and higher gas transportation costs were incurred in the Deep Basin area. As such, despite the lower volumes for the fourth quarter of 2013, transportation and marketing expenses increased by $0.5 million and for the full year 2013 increased $0.4 million as compared to the same periods in 2012.

Operating Netback[(2)]

	Three Months Ended December 31			Year Ended December 31		
($/boe)	**2013**	2012	$/boe Change	**2013**	2012	$/boe Change
Petroleum and natural gas sales prior to hedging[(1)]	**54.01**	52.82	1.19	**56.58**	53.60	2.98
Royalties	**(8.29)**	(6.66)	(1.63)	**(8.04)**	(7.58)	(0.46)
Operating expenses	**(18.20)**	(14.45)	(3.75)	**(18.05)**	(16.54)	(1.51)
Transportation and marketing	**(1.42)**	(1.10)	(0.32)	**(1.18)**	(1.02)	(0.16)
Operating netback prior to hedging[(2)]	**26.10**	30.61	(4.51)	**29.31**	28.46	0.85
Hedging gains (loss) [(3)]	**2.47**	1.87	0.60	**0.47**	1.38	(0.91)
Operating netback after hedging[(2)]	**28.57**	32.48	(3.91)	**29.78**	29.84	(0.06)

(1) Excludes miscellaneous income not related to oil and gas production
(2) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A.
(3) Hedging gains include the settlement amounts for natural gas, crude oil and power contracts.

General and Administrative ("G&A") Expenses

	Three Months Ended December 31		Year Ended December 31	
	2013	2012	**2013**	2012
G&A	**16.5**	18.2	**68.1**	65.0
G&A ($/boe)	**3.65**	3.40	**3.56**	2.99

For the fourth quarter of 2013, G&A expenses decreased $1.7 million from same period in the prior year. For the full year 2013, G&A expenses increased by $3.1 million compared to the same period in the prior year, mainly due to higher consulting fees. Harvest does not have a stock option program, however there is a long-term incentive program which is a cash settled plan that has been included in the G&A expense.

Depletion, Depreciation and Amortization ("DD&A") Expenses

	Three Months Ended December 31		Year Ended December 31	
	2013	2012	**2013**	2012
DD&A	**113.4**	145.3	**530.0**	579.5
DD&A ($/boe)	**25.08**	27.12	**27.67**	26.69

DD&A expenses for the fourth quarter and year ended December 31, 2013 decreased by $31.9 million and $49.5 million, respectively, as compared to the same periods in 2012. The decreases are mainly due to the change in Harvest's DD&A accounting estimate, as well as lower sales volumes. See the "Critical Accounting Estimates" section of this MD&A for a description of the change in estimate affecting the depletion calculation.

Impairment of Property, Plant and Equipment

For the fourth quarter and year ended December 31, 2013, Harvest recognized an impairment loss of $24.1 million (first quarter and year ended December 31, 2012 – $21.8 million) against PP&E relating to certain gas properties in the South Alberta gas CGU, which was triggered by reserves write-down as a result of lower forecast development activities, a decline in the long-term gas prices and reduced estimates of recoverable NGLs from the CGU. The recoverable amount was based on the assets' value-in-use ("VIU"), estimated using the net present value of proved plus probable reserves discounted at a pre-tax rate of 8% (2012 – 10%). Please refer to note 9 of the December 31, 2013 consolidated financial statements for further discussion

Property Dispositions

During the fourth quarter of 2013, Harvest sold certain non-core oil and gas assets with approximately 600 boe/d of production in Alberta, for cash proceeds of $53.4 million. The transactions resulted in a gain of $23.5 million, which is recognized in the consolidated statements of comprehensive loss.

During the year ended December 31, 2013, Harvest sold certain non-core oil and gas assets with approximately 2,500 boe/d of production, for cash proceeds of $173.9 million. The transactions resulted in a gain of $33.9 million, which is recognized in the consolidated statements of comprehensive loss.

Harvest continues with the process of marketing non-core properties for sale, to high-grade its asset portfolio and to monetize some of its assets. The impact to future production from the future dispositions is difficult to predict, given the occurrence and the timing of the transactions cannot be determined with a high level of certainty. The proceeds from any dispositions may be used to manage Harvest's liquidity and to fund future development of core assets.

Capital Asset Additions

	Three Months Ended December 31		Year Ended December 31	
	2013	2012	**2013**	2012
Drilling and completion	**62.1**	45.5	**180.9**	236.6
Well equipment, pipelines and facilities	**28.8**	32.9	**100.8**	159.1
Geological and geophysical	**5.9**	0.9	**14.4**	9.7
Land and undeveloped lease rentals	**3.5**	5.1	**6.6**	21.8
Corporate	**2.1**	0.2	**4.6**	1.5
Other	**6.1**	3.6	**15.0**	18.8
Total additions excluding acquisitions	**108.5**	88.2	**322.3**	447.5

Total capital additions were lower for year ended December 31, 2013 compared to 2012 due to a lower capital budget for the current year. Harvest's capital expenditures in the fourth quarter related to the remainder of the 2013 drilling program as well as the acceleration of the 2014 drilling program, including well completions, equipping and tie-ins.

The following table summarizes the wells drilled by Harvest and the related drilling and completion costs incurred in the period. A well is recorded in the table as having being drilled after it has been rig-released, however related drilling costs may be incurred in a period before a well has been spud (including survey, lease acquisition and construction costs) and related completion costs may be incurred in a period afterwards, depending on the timing of the completion work.

	Three Months Ended December 31, 2013			Year Ended December 31, 2013		
Area	**Gross**	**Net**	**Drilling and completion**	**Gross**	**Net**	**Drilling and completion**
Red Earth	6.0	5.7	$ 25.3	13.0	12.7	$ 47.5
Hay River	2.0	2.0	4.6	28.0	28.0	37.0
Deep Basin	1.0	0.4	10.8	5.0	3.0	34.0
Western Alberta	5.0	0.6	3.9	13.0	4.6	18.4
Heavy Oil	9.0	9.0	9.3	17.0	17.0	16.6
Suffield	–	–	1.0	6.0	6.0	10.2
SE Saskatchewan	4.0	4.0	4.5	8.0	8.0	8.8
Cecil	1.0	0.5	1.8	4.0	3.5	7.1
Other areas	–	–	0.9	2.0	1.3	1.3
Total	**28.0**	**22.2**	**$ 62.1**	**96.0**	**84.1**	**$ 180.9**

During 2013, Harvest continued to concentrate its drilling activities in its five core growth areas: Cecil, Deep Basin, Hay River, Red Earth and SE Saskatchewan; supplemented with drilling in the strategic revenue generating areas in Western Alberta and the Heavy Oil area. The primary areas of focus for Harvest's Upstream drilling program are as follows:

- Cecil – targeting existing and new oil pools in both the Cecil and Royce fields in the Peace River Arch;
- Deep Basin – participating or drilling deep, horizontal multi-stage fractured wells to develop the liquids-rich Falher and Montney liquids-rich gas formations;
- Hay River – pursuing heavy gravity oil in the Bluesky formation using multi-leg horizontal oil wells;
- Red Earth – activities are spread across the Loon Lake, Gift, Evi and Golden areas targeting light oil formations primarily in the Slave Point and also the Gilwood;
- SE Saskatchewan – horizontal light oil wells pursuing the Tilston and Souris Valley formations;
- Western Alberta – activities spread across several fields with recent efforts targeting mainly the Cardium, Glauconite, Ostracod, and Notikewin formations;
- Heavy Oil area – horizontal heavy oil wells in the Lloydminster region of Alberta into the, McLaren, Lloydminster, GP and Sparky formations.

Decommissioning Liabilities

Harvest's Upstream decommissioning liabilities at December 31, 2013 were $709.4 million (December 31, 2012 - $709.3 million) for future remediation, abandonment, and reclamation of Harvest's oil and gas properties. The total of the decommissioning liabilities are based on management's best estimate of costs to remediate, reclaim, and abandon wells and facilities. The costs will be incurred over the operating lives of the assets with the majority being at or after the end of reserve life. Please refer to the "Contractual Obligations and Commitments" section of this MD&A for the payments expected for each of the next five years and thereafter in respect of the decommissioning liabilities.

Goodwill

Goodwill is recorded when the purchase price of an acquired business exceeds the fair value of the net identifiable assets and liabilities of that acquired business. At December 31, 2013, Harvest had $379.8 million (December 31, 2012 - $391.8 million) of goodwill on the balance sheet related to the Upstream segment, a decrease of $12.0 million as a result of a disposition of certain oil and gas properties (see the "Property Dispositions" section above). The goodwill balance is assessed annually for impairment or more frequently if events or changes in circumstances occur that would reasonably be expected to reduce the fair value of the acquired business to a level below its carrying amount.

BLACKGOLD OIL SANDS

Capital Asset Additions

	Three Months Ended December 31		Year Ended December 31	
	2013	2012	**2013**	2012
Drilling and completion	**5.3**	5.5	**13.7**	56.6
Well equipment, pipelines and facilities	**111.4**	34.7	**404.0**	93.1
Geological and geophysical	**0.5**	0.1	**0.6**	1.1
Pre-operating costs	**0.6**	–	**0.6**	–
Other	**10.2**	4.1	**25.6**	13.3
Total BlackGold additions	**128.1**	44.4	**444.5**	164.1

During the fourth quarter of 2013, Harvest invested $112.2 million on the CPF. As at December 31, 2013, the overall oil sands project was approximately 92% complete.

Oil Sands Project Development

Harvest is developing its BlackGold oil sands CPF under the engineering, procurement and construction ("EPC") contract. Expected total costs under the EPC contract have been revised upwards to approximately $650 million from an earlier estimate of $590 million due to increased costs as a result of labor shortages, inclement weather and a revised completion schedule. Under the EPC contract, a maximum of approximately $101 million of the EPC costs will be paid in equal installments, without interest, over 10 years commencing on the completion of the EPC work in 2014. The liability is considered a financial liability and is initially recorded at fair value, which is estimated as the present value of all future cash payments discounted using the prevailing market rate of interest for similar instruments. As at December 31, 2013, Harvest recognized a liability of $76.2 million (December 31, 2012 - $4.7 million) using a discount rate of 4.5% (December 31, 2012 - 4.5%). Non-cash capital additions are recognized in well equipment, pipelines and facilities as the work is performed and the related deferred EPC liability is recognized. For the fourth quarter and year-ended December 31, 2013, $5.5 million and $71.5 million, respectively, of non-cash additions were recorded relating to the EPC contract (2012 – $1.3 million and $4.7 million, respectively).

Initial drilling of 30 steam assisted gravity drainage ("SAGD") wells (15 well pairs) was completed by the end of 2012. More SAGD wells will be drilled in the future to compensate for the natural decline in production of the initial well pairs and maintain the Phase 1 production capacity of 10,000 bbl/d. Detailed engineering of Phase 1 has been completed. Preliminary construction has been substantially completed, including the building of the CPF plant site, the placement of site equipment and pipe rack module installation. Piping and cabling of the CPF are now ongoing. Commissioning of the CPF and first steam is anticipated in the fourth quarter of 2014. Phase 2 of the project, which is targeted to increase production capacity to 30,000 bbl/d, received all required regulatory approvals in 2013.

As at December 31, 2013, Harvest has incurred costs of $551.7 million on the EPC contract. After the accounting impact of the deferred liability described above, Harvest has recorded $531.6 million of costs for the EPC contract and has recorded $730.9 million of costs on the entire project since acquiring the BlackGold assets in 2010.

The BlackGold project faces similar cost and schedule pressures as other oil sand projects, including shortage of skilled labor and rising costs. "See Operational and Other Business Risks."

Decommissioning Liabilities

Harvest's BlackGold decommissioning liabilities at December 31, 2013 were $34.3 million (December 31, 2012 - $19.8 million) relating to the future remediation, abandonment, and reclamation of the SAGD wells and CPF. Please see the "Contractual Obligations and Commitments" section of this MD&A for the payments expected for each of the next five years and thereafter in respect of the decommissioning liabilities.

DOWNSTREAM OPERATIONS

Summary of Financial and Operating Results

	Three Months Ended December 31		Year Ended December 31	
	2013	2012	**2013**	2012
FINANCIAL				
Refined products sales(1)	**1,084.2**	1,290.3	**4,416.9**	4,752.1
Purchased products for processing and resale(1)	**1,049.2**	1,211.1	**4,327.4**	4,520.3
Gross margin(2)	**35.0**	79.2	**89.5**	231.8
Operating expense(3)	**31.3**	32.0	**126.4**	121.9
Purchased energy expense	**30.7**	45.9	**106.7**	140.7
Marketing expense	**1.8**	1.3	**5.4**	4.4
General and administrative	**0.1**	0.1	**0.6**	0.6
Depreciation and amortization	**18.6**	30.4	**82.8**	108.9
Gain on dispositions of PP&E	**-**	-	**(0.2)**	-
Impairment of property, plant and equipment	**458.9**	535.5	**458.9**	535.5
Operating loss(2)	**(506.4)**	(566.0)	**(691.1)**	(680.2)
Capital expenditures	**18.1**	21.5	**53.2**	54.2
OPERATING				
Feedstock volume (bbl/d)(4)	**92,339**	114,065	**98,081**	103,355
Yield (% of throughput volume)(5)				
Gasoline and related products	**32%**	32%	**31%**	31%
Ultra low sulphur diesel and jet fuel	**37%**	40%	**37%**	40%
High sulphur fuel oil and other	**29%**	27%	**29%**	27%
Total	**98%**	99%	**97%**	98%
Average refining gross margin (US$/bbl)(6)	**2.50**	6.43	**1.07**	4.87

(1) Refined product sales and purchased products for processing and resale are net of intra-segment sales of $146.1 million and $555.4 million for the three and twelve months ended December 31, 2013 (2012 - $121.9 million and $569.6 million), reflecting the refined products produced by the refinery and sold by the marketing division.
(2) These are non-GAAP measures; please refer to "Non-GAAP Measures" in this MD&A.
(3) Operating expense for the three and twelve months ended December 31, 2012 have been increased by $0.3 million and $1.1 million, respectively, as a result of the retroactive application of accounting standard *IAS 19R Employee Benefits*. See "Changes in Accounting Policies and Estimates" for further discussion.
(4) Barrels per day are calculated using total barrels of crude oil feedstock and purchased vacuum gas oil.
(5) Based on production volumes after adjusting for changes in inventory held for resale.
(6) Average refining gross margin is calculated based on per barrel of feedstock throughput.

Refining Benchmark Prices

	Three Months Ended December 31			Year Ended December 31		
	2013	2012	Change	**2013**	2012	Change
WTI crude oil (US$/bbl)	**97.46**	88.18	11%	**97.97**	94.21	4%
Brent crude oil (US$/bbl)	**109.36**	109.98	(1%)	**108.75**	111.67	(3%)
Argus sour crude index ("ASCI") (US$/bbl)	**95.51**	103.58	(8%)	**102.02**	106.73	(4%)
Brent – WTI differential (US$/bbl)	**11.90**	21.80	(45%)	**10.78**	17.46	(38%)
Brent – ASCI differential (US$/bbl)	**13.85**	6.40	116%	**6.73**	4.94	36%
Refined product prices						
Platts RBOB (US$/bbl)	**112.11**	116.81	(4%)	**119.11**	124.01	(4%)
Platts Ultra Low Sulfur Diesel (US$/bbl)	**125.49**	131.55	(5%)	**125.76**	130.23	(3%)
Platts High Sulphur Fuel Oil (US$/bbl)	**91.45**	93.67	(2%)	**93.15**	99.64	(7%)
U.S. / Canadian dollar exchange rate	**0.953**	1.009	(6%)	**0.971**	1.001	(3%)

Summary of Gross Margins

	Three Months Ended December 31					
		2013			2012	
		Volumes (million bbls)	**(US$/bbl)**		Volumes (million bbls)	(US$/bbl)
Refinery						
Sales						
Gasoline products	**367.4**	**3.2**	**109.76**	435.8	3.9	113.33
Distillates	**444.0**	**3.4**	**125.15**	556.3	4.3	130.21
High sulphur fuel oil	**190.7**	**2.1**	**87.44**	234.3	2.6	90.45
Other(1)	**48.4**	**0.4**	**110.52**	31.5	0.3	112.92
Total sales	**1,050.5**	**9.1**	**110.43**	1,257.9	11.1	114.49
Feedstock (2)						
Crude oil	**911.1**	**8.1**	**106.57**	1,042.9	9.9	106.76
Vacuum Gas Oil ("VGO")	**38.5**	**0.4**	**105.20**	74.6	0.6	117.99
Total feedstock	**949.6**	**8.5**	**106.51**	1,117.5	10.5	107.45
Other(3)	**78.6**			73.6		
Total feedstock and other costs	**1,028.2**			1,191.1		
Refinery gross margin(4)	**22.3**		**2.50**	66.8		6.43
Marketing						
Sales	**179.8**			154.3		
Cost of products sold	**167.1**			141.9		
Marketing gross margin(4)	**12.7**			12.4		
Total gross margin(4)	**35.0**			79.2		

(1) Includes sales of vacuum gas oil and hydrocracker bottoms.
(2) Cost of feedstock includes all costs of transporting the crude oil to the refinery in Newfoundland.
(3) Includes inventory adjustments, additives and blendstocks and purchased product for resale.
(4) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A.

	Year Ended December 31					
	2013			2012		
		Volumes (million bbls)	**(US$/bbl)**		Volumes (million bbls)	(US$/bbl)
Refinery						
Sales						
Gasoline products	**1,446.0**	**12.3**	**113.83**	1,529.2	12.8	119.42
Distillates	**1,833.2**	**14.5**	**122.76**	2,083.7	16.1	129.24
High sulphur fuel oil	**759.3**	**8.3**	**89.28**	899.8	9.5	95.66
Other(1)	**249.4**	**2.2**	**109.39**	116.0	1.0	113.79
Total sales	**4,287.9**	**37.3**	**111.60**	4,628.7	39.4	117.62
Feedstock (2)						
Crude oil	**3,645.8**	**33.4**	**105.90**	3,858.3	35.5	108.79
Vacuum Gas Oil ("VGO")	**270.5**	**2.4**	**110.81**	274.3	2.3	117.93
Total feedstock	**3,916.3**	**35.8**	**106.22**	4,132.6	37.8	109.36
Other(3)	**332.1**			312.1		
Total feedstock and other costs	**4,248.4**			4,444.7		
Refinery gross margin(4)	**39.5**		**1.07**	184.0		4.87
Marketing						
Sales	**684.4**			693.0		
Cost of products sold	**634.4**			645.2		
Marketing gross margin(4)	**50.0**			47.8		
Total gross margin(4)	**89.5**			231.8		

(1) Includes sales of vacuum gas oil and hydrocracker bottoms.
(2) Cost of feedstock includes all costs of transporting the crude oil to the refinery in Newfoundland.
(3) Includes inventory adjustments, additives and blendstocks and purchased product for resale.
(4) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A.

Feedstock throughput averaged 92,339 bbl/d in the fourth quarter of 2013, 19% lower than the 114,065 bbl/d average feedstock in the fourth quarter of the prior year, mainly due to the planned two-week shutdown of the isomax unit to complete a partial change-out of the catalyst and the unplanned one-week shutdown of the crude unit in October to repair an exchanger leak. The average throughput rate for the year ended December 31, 2013 was 98,081 bbl/d, a 5% decrease from the 103,055 bbl/d in the prior year. The lower daily average throughput rate for 2013 is a consequence of the isomax and crude unit outages in October, the four-week sulphur recovery unit ("SRU") and hydrocracker unit outage in July to repair a leak on the SRU reactor, an unplanned two-week outage in February due to a power failure during a storm and reduced rates following this outage due to weak economic conditions in the second quarter.

In the prior year, the average daily feedstock rate was less than the nameplate capacity as a result of an unplanned three-week refinery wide outage due to a SRU operational issue as well as a two-week unplanned partial outage to repair an exchanger leak on the amine unit.
The table below provides a comparison between the product crack spreads realized by Downstream and the benchmark crack spread for the three months and year ended December 31, with both crack spreads referring to the price of Brent crude oil.

	Three Months Ended December 31					
	2013			2012		
	Refinery	**Benchmark(1)**	**Difference**	Refinery	Benchmark(1)	Difference
Gasoline products (US$/bbl)	**3.25**	**2.75 (2)**	**0.50**	5.88	6.83(2)	(0.95)
Distillates (US$/bbl)	**18.64**	**16.13 (2)**	**2.51**	22.76	21.57(2)	1.19
High Sulphur Fuel Oil (US$/bbl)	**(19.07)**	**(17.91)(3)**	**(1.16)**	(17.00)	(16.31)(3)	(0.69)

(1) Benchmark product crack is relative to Brent crude oil
(2) RBOB benchmark market price sourced from Platts.
(3) High Sulphur Fuel Oil benchmark market price sourced from Platts. Our high sulphur fuel oil normally contains higher sulphur content than the 3% content reflected in the benchmark price.

	Year Ended December 31					
	2013			2012		
	Refinery	**Benchmark(1)**	**Difference**	Refinery	Benchmark(1)	Difference
Gasoline products (US$/bbl)	**7.61**	**10.36 (2)**	**(2.75)**	10.06	12.34(2)	(2.28)
Distillates (US$/bbl)	**16.54**	**17.01 (2)**	**(0.47)**	19.88	18.56(2)	1.32
High Sulphur Fuel Oil (US$/bbl)	**(17.76)**	**(15.60)(3)**	**(2.16)**	(13.70)	(12.03)(3)	(1.67)

(1) Benchmark product crack is relative to Brent crude oil
(2) RBOB benchmark market price sourced from Platts.
(3) High Sulphur Fuel Oil benchmark market price sourced from Platts. Our high sulphur fuel oil normally contains higher sulphur content than the 3% content reflected in the benchmark price.

Downstream's product crack spreads are different from the above noted benchmarks due to several factors, including the timing of actual sales and feedstock purchases differing from the calendar month benchmarks, transportation costs, sour crude differentials, quality differentials and variability in the throughput volume over a given period of time. The refinery sales also include products for which market prices are not reflected in the benchmarks. An additional differing factor in 2013 is the cost of renewable identification numbers ("RINS") that are necessary to meet blending requirements for RBOB gasoline and ultra-low sulphur diesel ("ULSD") in the US market as mandated by the US government and which such costs have increased significantly over 2012. Although the average RINs cost decreased in the fourth quarter of 2013 to approximately US$1.20/bbl for RBOB gasoline and US$1.50/bbl for ULSD products, second and third quarter costs ranged between US$3.00/bbl and US$3.50/bbl for each product. The average RINs cost for the year ended December 31, 2013 was approximately US$2.50/bbl for RBOB gasoline and US$3.00/bbl for ULSD products compared to US$0.75/bbl and US$0.55/bbl, respectively, in the prior year. Downstream's crack spreads for gasoline products and distillates in the above tables include the actual cost of RINs whereas the benchmarks do not. For more detail on RINs, see "Operational and Other Business Risks".

Refinery sales decreased by $207.4 million in the fourth quarter of 2013 from $1,257.9 million in the fourth quarter of 2012 as a result of lower sales volumes mainly due to outages and lower product pricing, partially offset by the strengthening of the U.S. dollar. Sales for the year ended December 31, 2013 have also decreased by $340.8 million from $4,628.7 million in the prior year as a consequence of lower sales volume and lower realized product prices, partially offset by the strengthening of the U.S. dollar.

The refinery gross margin for the three months ended December 31, 2013 decreased 67% as compared to the same period in the prior year. The overall decrease can be attributed to lower realized product crack spreads as a result of current market conditions, lower sales volumes and lower distillates yield in the fourth quarter of 2013 as compared to 2012. Realized product crack spreads for all product groups were lower in the quarter as compared to 2012 as a result of lower market prices and the increased cost of RINs for gasoline and distillates.

The refinery gross margin for the year ended December 31, 2013 decreased 79% as compared to the same period in the prior year. The lower gross margin is a result of decreased product crack spreads combined with lower distillates yield. The lower production and sales in 2013 is mainly the result of the unplanned unit outages during the year. Realized product crack spreads for all product groups were lower for the year due to lower market prices and the increased cost of RINs.

Crude feedstock costs in the fourth quarter of 2013 included higher priced light sweet crudes than in the prior year, partially offset by a widened sour crude differential of US$4.77/bbl (the sour crude differential for the fourth quarter of 2012 was US$3.22/bbl).

Crude feedstock differential for the year ended December 31, 2013 was comparable to that of 2012. Realized sour crude differential of US$3.50/bbl for the year ended December 31, 2013 is US$0.56/bbl higher than the sour crude differential of US$2.94/bbl in the prior year. The widening differential has been offset by higher priced light sweet crudes which comprised 21% of the feedstock crude slate this year. The refinery did not process any sweet crude in 2012. The improved yields normally associated with processing light sweet crudes (higher yield of the high value light end products and a lower yield of the low value heavy products) have been offset by lower distillates yields arising from operational upsets and the reduced rates on the isomax unit for both the fourth quarter and year ended December 31, 2013.

The overall gross margin for the refinery is also impacted by the purchasing of blendstocks to meet summer gasoline specifications, additives to meet product specifications, the build of unfinished saleable products some of which are recorded at a value lower than cost, and inventory write-downs and reversals. These costs are included in "other costs" in the Summary of Gross Margin Table above. The increases of $5.0 million and $20.0 million for the three months and year ended December 31, 2013 respectively are mainly due to the sale and consumption of inventory partly offset by a decrease in purchases of product for local sales and blendstocks.

The gross margin from the marketing operations is comprised of the margin from both the retail and wholesale distribution of gasoline and home heating fuels as well as the revenues from marine services including tugboat revenues and reflects a moderate improvement for the three months and year ended December 31, 2013 as compared to the same periods in 2012.

During the three months and year ended December 31, 2013, the Canadian dollar weakened as compared to the US dollar. The weakening of the Canadian dollar in 2013 has had a positive impact to the contribution from the refinery operations relative to the prior year as substantially all of its gross margin, cost of purchased energy and marketing expense are denominated in U.S. dollars.

Operating Expenses

	Three Months Ended December 31					
	2013			2012		
	Refining	**Marketing**	**Total**	Refining	Marketing	Total
Operating cost	**26.0**	**5.3**	**31.3**	26.6	5.4	32.0
Purchased energy	**30.7**	**-**	**30.7**	45.9	-	45.9
	56.7	**5.3**	**62.0**	72.5	5.4	77.9
($/bbl of feedstock throughput)						
Operating cost	**3.06**	**-**	**-**	2.54	-	-
Purchased energy	**3.62**	**-**	**-**	4.37	-	-
	6.68	**-**	**-**	6.91	-	-

	Year Ended December 31					
	2013			2012		
	Refining	**Marketing**	**Total**	Refining	Marketing	Total
Operating cost	**104.8**	**21.6**	**126.4**	101.7	20.2	121.9
Purchased energy	**106.7**	**-**	**106.7**	140.7	-	140.7
	211.5	**21.6**	**233.1**	242.4	20.2	262.6
($/bbl of feedstock throughput)						
Operating cost	**2.92**	**-**	**-**	2.69	-	-
Purchased energy	**2.98**	**-**	**-**	3.72	-	-
	5.90	**-**	**-**	6.41	-	-

The refining operating cost per barrel of feedstock throughput increased by 20% in the fourth quarter of 2013 and 9% for the year ended as compared to the prior year mainly as a result of decreased throughput in 2013.

Purchased energy, consisting of LSFO and electricity, is required to provide heat and power to refinery operations. The purchased energy cost per barrel of feedstock throughput decreased by 17% and 20% respectively during the three months and year ended December 31, 2013 from the same periods of 2012 mainly due to a lower volume of purchased energy as a result of a higher consumption of produced fuel, combined with lower prices and lower throughput rates in 2013.

Capital Assets Additions

Capital asset additions for the three months and year ended December 31, 2013 totaled $18.1 million and $53.2 million respectively (2012 - $21.5 million and $54.2 million respectively), relating to various capital projects including the purchase of a compressor, partial change-out of the isomax catalyst, crude tank recertification and turnaround planning and preparation costs.

Depreciation and Amortization Expense

	Three Months Ended December 31		Year Ended December 31	
	2013	2012	**2013**	2012
Refining	**17.7**	29.5	**79.0**	105.3
Marketing	**0.9**	0.9	**3.8**	3.6
Total depreciation and amortization	**18.6**	30.4	**82.8**	108.9

Depreciation and amortization expense decreased $11.8 million and $26.3 million respectively for the three months and year ended December 31, 2013 as compared to 2012 because of the $535.5 million impairment of refinery property, plant and equipment which occurred in the fourth quarter of 2012. The process units are amortized over an average useful life of 20 to 35 years and turnaround costs are amortized to the next scheduled turnaround.

Decommissioning Liabilities

Harvest's Downstream decommissioning liabilities result from the ownership of the refinery and marketing assets. At December 31, 2013, Downstream's decommissioning liabilities were $16.7 million (December 31, 2012 – $16.2 million) relating to the reclamation and abandonment of these assets with an expected abandonment date of 2069. Please see "Contractual Obligations and Commitments" section of this MD&A for the payments expected for each of the next five years and thereafter in respect of the decommissioning liabilities.

Impairment of Property, Plant and Equipment

During the fourth quarter of 2013, Harvest recorded an impairment of $458.9 million (2012 – $535.5 million) on its refinery CGU relating to the PP&E to reflect the excess of the carrying value over the assessed recoverable amount. The recoverable amount was based on the CGU's VIU, estimated using the net present value of future cash flows and using a pre-tax discount rate of 16% (2012 – 16%). See note 9 of the December 31, 2013 consolidated financial statements for further discussion.

RISK MANAGEMENT, FINANCING AND OTHER

Cash Flow Risk Management

The Company at times enters into natural gas, crude oil, electricity and foreign exchange contracts to reduce the volatility of cash flows from some of its forecast sales and purchases, and when allowable, will designate these contracts as cash flow hedges. The following is a summary of Harvest's risk management contracts outstanding at December 31, 2013:

Contracts Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Fair Value
36,750 GJ/day	AECO swap	Jan – Dec 2014	$3.71/GJ	$ 0.2

Contracts Not Designated as Hedges

Contract Quantity	Type of Contract	Term	Contract Price	Fair Value
30 MWh	AESO power swap	Jan – Dec 2014	$55.29/MWh	$ (0.5)

The following is a summary of Harvest's realized and unrealized (gains) losses on risk management contracts:

	Three Months Ended December 31							
	2013					2012		
Realized (gains) losses recognized in:	**Power**	**Crude Oil**	**Currency**	**Natural Gas**	**Total**	Crude Oil	Currency	Total
Revenues	–	**(9.7)**	–	**(0.8)**	**(10.5)**	(8.3)	–	(8.3)
Risk management (gains) losses	**0.2**	**(0.9)**	**0.1**	–	**(0.6)**	(2.8)	0.2	(2.6)
Unrealized (gains) losses recognized in:								
OCI, before tax	–	**(5.8)**	–	**0.8**	**(5.0)**	(1.5)	–	(1.5)
Risk management (gains) losses	**0.8**	**0.8**	–	–	**1.6**	0.1	–	0.1

	Year Ended December 31							
	2013					2012		
Realized (gains) losses recognized in:	**Power**	**Crude Oil**	**Currency**	**Natural Gas**	**Total**	Crude Oil	Currency	Total
Revenues	–	**3.3**	–	**(7.2)**	**(3.9)**	(29.6)	–	(29.6)
Risk management (gains) losses	**(3.1)**	**(0.4)**	**(1.4)**	–	**(4.9)**	(2.1)	0.5	(1.6)
Unrealized (gains) losses recognized in:								
OCI, before tax	–	**3.3**	–	**(5.7)**	**(2.4)**	(12.2)	–	(12.2)
Risk management (gains) losses	**0.5**	–	–	–	**0.5**	1.1	–	1.1

Financing Costs

	Three Months Ended December 31		Year Ended December 31	
	2013	2012	**2013**	2012
Credit facility	**6.3**	4.8	**20.3**	17.2
Convertible debentures	–	10.8	**14.9**	47.7
6⅞% senior notes	**9.6**	9.0	**37.4**	36.2
2⅛% senior notes[(1)]	**4.8**	–	**11.7**	–
Related party loans	**2.1**	1.9	**8.1**	2.9
Amortization of deferred finance charges and other	**0.8**	0.2	**2.9**	(0.1)
Interest and other financing charges	**23.6**	26.7	**95.3**	103.9
Accretion of decommissioning and environmental remediation liabilities	**5.6**	5.2	**22.3**	20.7
Gain on redemption of convertible debentures	–	–	**(3.6)**	(0.1)
Less: capitalized interest	**(8.7)**	(3.3)	**(19.8)**	(13.5)
	20.5	28.6	**94.2**	111.0

(1) Includes guarantee fee to KNOC. See note 12 c) of the December 31, 2013 annual consolidated financial statements.

Finance costs on Harvest's credit facility increased by $1.5 million and $3.1 million for the fourth quarter and year ended December 31, 2013 mainly due to the higher average amount of loan principal outstanding during the periods as compared to the same periods in 2012. The effective interest rates for interest charges on the credit facility for the fourth quarter and year ended December 31, 2013 were 3.3% and 3.0%, respectively (2012 – 3.0% for both periods).

Interest expense on the convertible debentures for the fourth quarter and year ended December 31, 2013 decreased by $10.8 million and $32.8 million, respectively, as compared to the same periods in 2012. The decreases result from two series of convertible debentures being early redeemed in April and one series of convertible debentures being redeemed in June of 2013. A $3.6 million gain was recognized on the early redemptions of the convertible debentures in the second quarter of 2013.

In May 2013, Harvest issued US$630 million 2⅛% senior notes resulting in an interest expense and other financing costs of $4.8 million for the fourth quarter and $11.7 million for the year ended December 31, 2013.

Interest expense on the ANKOR related party loan was $2.1 million and $8.1 million for the fourth quarter and year ended December 31, 2013, respectively (2012 – $1.9 million and $2.9 million, respectively). The $8.1 million reflected a full year of interest expense. See the "Related Party Transactions" section of this MD&A for discussion of the related party loan.

During the fourth quarter and year ended December 31, 2013, interest expense of $8.7 million and $19.8 million, respectively, was capitalized to BlackGold (2012 - $3.3 million and $13.5 million to BlackGold and Downstream's debottlenecking project). The changes in capitalized interest for the current year were due to increased capital expenditures for the BlackGold project, partially offset by the lack of qualifying Downstream capital expenditures and a lower weighted average interest rate.

Currency Exchange

Currency exchange gains and losses are attributed to the changes in the value of the Canadian dollar relative to the U.S. dollar on the U.S. dollar denominated 6⅞% and 2⅛% senior notes, the ANKOR related party loan and on any U.S. dollar denominated monetary assets or liabilities. Upon the issuance of the US$630 million 2⅛% senior notes during the second quarter of 2013, Harvest has increased its sensitivity to fluctuations in the US/Canadian exchange rate. At December 31, 2013, the Canadian dollar had weakened compared to the US dollar as at September 30, 2013 resulting in an unrealized foreign exchange loss of $24.0 million (2012 - $3.8 million) for the fourth quarter of 2013. The Canadian dollar weakened at December 31, 2013 as compared to December 31, 2012 resulting in an unrealized foreign exchange loss of $40.8 million (2012 - $1.2 million gain) for the year ended December 31, 2013. Harvest recognized a realized foreign exchange loss of $1.2 million (2012 - $1.0 million gain) and a $3.4 million loss (2012 – $0.1 million gain) for the fourth quarter and year ended December 31, 2013, respectively, as a result of the settlement of U.S. dollar denominated transactions.

The cumulative translation adjustment recognized in other comprehensive income represents the translation of the Downstream operations' U.S. dollar functional currency financial statements to Canadian dollars. During the fourth quarter of 2013, Downstream operations incurred a net cumulative translation gain of $0.8 million (2012 – gain of $8.5 million) and for the year ended December 31, 2013 recognized a gain of $7.9 million (2012 – loss of $17.7 million) as a result of the changes in the Canadian dollar relative to the U.S. dollar at December 31, 2013 compared to both September 30, 2013 and December 31, 2012. As Downstream operations' functional currency is denominated in U.S. dollars, the strengthening (weakening) of the U.S. dollar would result in gains (losses) from decommissioning liabilities, pension obligations, accounts payable and other balances that are denominated in Canadian dollars, which partially offset the unrealized losses (gains) recognized on the senior notes, ANKOR loan and Upstream U.S. dollar denominated monetary items.

Deferred Income Taxes

For the three months and year ending December 31, 2013, Harvest recorded a deferred income tax recovery of $32.0 million (2012 –$24.7 million) and a recovery of $64.2 million (2012 – $81.6 million), respectively. Harvest's deferred income tax asset (liability) will fluctuate during each accounting period to reflect changes in the temporary differences between the book value and tax basis of assets as well as legislative tax rate changes. Currently, the principal sources of temporary differences relate to the Company's property, plant and equipment, decommissioning liabilities and the unclaimed tax pools.

Related Party Transactions

The following provides a summary of the related party transactions between Harvest and KNOC for the three months and year ended December 31, 2013:

Related Party Loans

- On December 30, 2013, Harvest entered into a five year subordinated loan agreement with KNOC to borrow up to $200 million at a fixed interest rate of 5.3% per annum. The full principal and accrued interest is payable on December 30, 2018. As of December 31, 2013, Harvest has drawn $80 million from the $200 million available under the loan agreement (December 31, 2012 - $nil). The loan

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amount was recorded at fair value on initial recognition by discounting the future cash payments at the prevailing market interest rate of 7% for loans with similar terms. The difference between the fair value and the loan amount of $4.3 million was recognized in contributed surplus. For the year ended December 31, 2013, interest expense of $nil was recorded (2012 - $nil). On February 28, 2014, Harvest borrowed an additional $80.0 million under the subordinated loan agreement.

- On August 16, 2012, Harvest entered into a subordinated loan agreement with ANKOR to borrow US$170 million at a fixed interest rate of 4.62% per annum. The principal balance outstanding and accrued interest is revalued using the exchange rate at the end of each reporting period. At December 31, 2013, Harvest's related party loan from ANKOR included $180.8 million (December 31, 2012 - $169.1 million) of principal and $3.0 million (December 31, 2012 - $3.0 million) of accrued interest. Interest expense was $8.1 million for the year ended December 31, 2013 (2012 - $3.0 million; 2011 - $nil).

Other Related Party Transactions

	Transactions				**Balance Outstanding**			
	Three Months Ended December 31		Year Ended December 31		Accounts Receivable as at December 31		Accounts Payable as at December 31	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Revenues								
KNOC(1)(2)	–	–	4.1	0.1	–	–	–	–
Other KNOC Subsidiaries(2)	0.2	0.3	0.8	0.8	–	0.1	–	–
Operating Expenses								
Other KNOC Subsidiaries(3)	0.2	0.1	0.5	0.4	–	–	–	0.3
G&A Expenses								
KNOC(4)	(1.2)	(4.1)	(3.5)	(5.6)	–	1.6	0.5	–
Finance Costs								
KNOC(5)	1.1	–	2.8	–	–	–	0.5	–

(1) Global Technology and Research Centre ("GTRC") is used as a training and research facility for KNOC. In 2013, the amount is related to a geological study performed by GTRC on behalf of KNOC.

(2) KNOC Trading Corporation ("KNOC Trading") is a wholly owned subsidiary of North Atlantic. KNOC Trading bills KNOC, Ankor E&P Holdings Corp. ("ANKOR") and Dana Petroleum plc ("Dana") for oil marketing services, such as the sale of products, performed on behalf of KNOC, ANKOR and Dana. Both ANKOR and Dana are wholly owned subsidiaries of KNOC.

(3) Billing from Ankor for office rent and salaries and benefits related to KNOC Trading.

(4) Reimbursement from KNOC for general and administrative expenses incurred by GTRC. Also included is Harvest's reimbursement to KNOC for secondee salaries paid by KNOC on behalf of Harvest.

(5) Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's 2⅛% senior notes and the senior unsecured credit facility. A guarantee fee of 52 basis points per annum is charged by KNOC.

- On February 28, 2014 KNOC purchased 100% of the shares of KNOC Trading Corporation for US$0.4 million.

The Company identifies its related party transactions by: making inquiries of management and the Board of Directors; reviewing KNOC's subsidiaries and associates; and performing a comprehensive search of transactions recorded in the accounting system. Material related party transactions require the Board of Directors' approval.

CAPITAL RESOURCES

The following table summarizes Harvest's capital structure and provides the key financial ratios defined in the credit facility agreement.

	December 31, 2013	December 31, 2012
Debts		
Credit facility(1)	**788.5**	494.2
6⅞% senior notes (US$500 million)(2)	**531.8**	497.5
2⅛% senior notes (US$630 million)(2)	**670.1**	–
Related party loans (US$170 million and CAD$80 million)(2)	**260.8**	169.1
Convertible debentures, at principal amount	–	627.2
	2,251.2	1,788.0
Shareholder's Equity		
386,078,649 common shares issued(3)	**1,939.2**	2,691.9
	4,190.4	4,479.9
Financial Ratios(4) (5)		
Senior debt to annualized EBITDA	**2.41**	1.10
Annualized EBITDA to annualized interest expense	**3.62**	n/a
Senior debt to total capitalization	**22%**	14%
Total debt to total capitalization	**54%**	41%

(1) The credit facility net of deferred financing costs is $785.2 million (2012 - $491.3 million).
(2) Face value converted at the period end exchange rate.
(3) As at March 6, 2014, the number of common shares issued is 386,078,649.
(4) Calculated based on Harvest's credit facility covenant requirements (see note 12 of the December 31, 2013 annual consolidated financial statements).
(5) The financial ratios and their components are non-GAAP measures; please refer to the "Non-GAAP Measures" section of this MD&A.

Effective April 1, 2013, the financial covenants for the credit facility agreement were amended to remove the total debt to annualized EBITDA ratio and to add an interest coverage ratio (annualized EBITDA to annualized interest expense). The interest coverage ratio cannot be less than 2.50:1.

LIQUIDITY

The Company's liquidity needs are met through the following sources: cash generated from operations, proceeds from asset dispositions, borrowings under the credit facility, related party loans, long-term debt issuances and capital injections by KNOC. Harvest's primary uses of funds are operating expenses, capital expenditures, and interest and principal repayments on debt instruments.

Cash flow from operating activities for the three and twelve months ended December 31, 2013 were $6.1 million and $200.6 million, respectively (2012 - $133.0million and $442.8 million, respectively).

Cash contribution from Harvest's Upstream operations was $119.5 million for the fourth quarter of 2013, a $40.9 million decrease from the same period in 2012 mainly due to lower sales volumes and operating netback per boe. For the year ended December 31, 2013, cash contribution from Upstream operations was

$518.2 million, a $63.7 million decrease from the same period in 2012 mainly driven by lower sales volumes, partially offset by higher operating netback per boe. Cash deficiency from Harvest's Downstream operations was $32.3 million (2012 - $3.0 million) and $152.4 million (2012 - $41.7 million) for the fourth quarter and twelve months ended December 31, 2013, respectively. The increases in Downstream's cash deficiency were mainly due to lower average refining gross margins per bbl and poorer yield mix, partially offset by decreases in throughput volumes as compared to the prior year periods. See the "Cash Contribution (Deficiency) from Operations" section of this MD&A for further detail.

Harvest's net borrowing from the credit facility was $124.8 million during the fourth quarter of 2013 (2012 - $80.2 million net repayment). For the twelve months ending December 31, 2013, Harvest had $293.8 million of net borrowings under the credit facility (2012 - $135.1 million).

Harvest funded $249.7 million and $758.1 million of capital expenditures for the three and twelve months ending December 31, 2013, respectively, (2012 – $152.7 million and $661.2 million respectively) with cash generated from operating activities, property dispositions and borrowings under the credit facility.

Harvest had a working capital deficiency of $75.4 million as at December 31, 2013, as compared to a $441.9 million deficiency at December 31, 2012. The change in the working capital position in 2013 was primarily related to the redemption of the 7.25% Debentures Due 2013 which had been classified as $331.8 million current liabilities as at December 31, 2012. Harvest's working capital is expected to fluctuate from time to time, and will be funded from cash flows from operations and borrowings from the credit facility, as required.

The following liquidity-related events occurred in 2013:

- Effective March 14, 2013, Harvest entered into a senior unsecured credit facility. Draws under the senior unsecured credit facility were made for an aggregate amount of US$390 million and were used to fund the early redemptions of Harvest's 7.25% Debentures Due 2014 on April 2, 2013 and its 7.25% Debentures Due 2013 on April 15, 2013. The facility was fully repaid and cancelled during the second quarter.
- Harvest extended the credit facility maturity date by one year to April 30, 2017.
- On May 14, 2013, Harvest issued US$630 million senior unsecured notes due May 14, 2018 for net proceeds of US$626.1 million. The notes bear a coupon rate of 2⅛%, with interest paid semi-annually on May 14 and November 14 of each year. The notes are unconditionally and irrevocably guaranteed by Harvest's parent company KNOC. Harvest used the proceeds from the senior unsecured notes towards the full repayment of the draws under the senior unsecured credit facility and on June 13, 2013 early redeemed, at par, the 7.50% Debentures Due 2015.
- On October 18, 2013, the borrowing capacity of the credit facility was increased from $800 million to $1.0 billion.
- On December 30, 2013 Harvest entered into a five year $200 million subordinated loan agreement with KNOC and borrowed $80 million thereunder. On February 28, 2014, Harvest borrowed an additional $80.0 million under the subordinated loan agreement. See "Related Party Transactions" for more detail.

- With the full redemption of its convertible debentures during 2013, issuance of the 2⅛% senior notes and both the extension and increased capacity of the credit facility, Harvest successfully improved its short-term liquidity and lowered future interest expenses.

Harvest ensures its liquidity through the management of its capital structure, seeking to balance the amount of debt and equity used to fund investment in each of our operating segments. Harvest evaluates its capital structure using the same financial covenant ratios as the ones externally imposed under the Company's credit facility (see note 12a of the December 31, 2013 annual consolidated financial statements). The Company continually monitors its credit facility covenants and actively takes steps, such as reducing borrowings, increasing capitalization, amending or renegotiating covenants as and when required, to ensure compliance. Harvest was in compliance with all debt covenants at December 31, 2013 and the prior period.

If Harvest had fully drawn down the $200 million available under the KNOC subordinated loan agreement and applied the proceeds against its borrowings under the credit facility, the "total debt to total capitalization" covenant ratio would have decreased to 51% as at December 31, 2013. Harvest had $211.5 million and 120.0 million of borrowing room under the credit facility and KNOC subordinated loan agreement, respectively as at December 31, 2013; Harvest expects to meet its future cash requirements and financial obligations with cash from operations and these undrawn borrowings.

Contractual Obligations and Commitments

Harvest has recurring and ongoing contractual obligations and estimated commitments entered into in the normal course of operations. As at the end of December 31, 2013, Harvest has the following significant contractual obligations and estimated commitments:

	Payments Due by Period				
	1 year	**2-3 years**	**4-5 years**	**After 5 years**	**Total**
Debt repayments(1)	12.3	–	2,243.3	–	2,255.6
Debt interest payments(1) (2)	76.8	153.3	121.6	–	351.7
Purchase commitments(3)	75.5	20.0	70.0	–	165.5
Operating leases	11.8	8.6	6.2	2.8	29.4
Firm processing commitments	9.0	32.2	27.0	97.7	165.9
Firm transportation agreements	9.6	38.8	49.9	92.2	190.5
Feedstock and other purchase commitments(4)	927.8	–	–	–	927.8
Employee benefits(5)	2.6	5.2	1.2	3.8	12.8
Decommissioning and environmental liabilities(6)	35.6	60.7	42.9	1,485.7	1,624.9
Total	1,161.0	318.8	2,562.1	1,682.2	5,724.1

(1) Assumes constant foreign exchange rate.
(2) Assumes interest rates as at December 31, 2013 will be applicable to future interest payments.
(3) Relates to drilling commitments, BlackGold oil sands project commitment and Downstream capital commitments.
(4) Includes commitments to purchase refinery crude stock and refined products for resale under the supply and offtake agreement with Macquarie Energy Canada Ltd. ("Macquarie"). The amount will be net settled against any product sales to Macquarie as per the master netting arrangement.
(5) Relates to the expected contributions to employee benefit plans and long-term incentive plan payments.
(6) Represents the undiscounted obligation by period.

Off Balance Sheet Arrangements

As at December 31, 2013, Harvest has no off balance sheet arrangements in place.

SUMMARY OF QUARTERLY RESULTS

The following table and discussion highlights the fourth quarter of 2013 results relative to the preceding 7 quarters:

	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
FINANCIAL								
Revenues	**1,307.3**	1,299.9	1,399.3	1,358.2	1,546.0	1,275.1	1,533.8	1,426.1
Net loss	**(517.8)**	(79.5)	(89.2)	(95.4)	(536.7)	(38.5)	(73.5)	(72.3)
Cash from operating activities	**6.1**	50.6	77.3	66.6	133.0	153.9	70.8	85.1
Total financial debt(1), non-current	**2,232.6**	1,989.0	1,920.6	1,511.2	1,450.0	1,519.4	1,770.7	1,652.4
Total assets	**5,289.9**	5,626.1	5,606.6	5,672.1	5,654.6	6,162.9	6,277.5	6,322.3
OPERATIONS								
Upstream								
Daily sales volumes (boe/d)	**49,154**	51,783	53,461	55,571	58,228	57,686	60,874	60,550
Realized price prior to hedges ($/boe)	**54.01**	60.62	58.22	53.43	52.82	51.86	51.42	58.07
Downstream								
Average daily throughput (bbl/d)	**92,339**	93,798	106,245	100,074	114,065	84,889	114,552	100,000
Average refining gross margin (loss) (US$/bbl)	**2.50**	(1.43)	0.74	2.51	6.43	6.03	2.71	4.58

(1) This is a non-GAAP measure; please refer to "Non-GAAP Measures" in this MD&A.

The quarterly revenues and cash from operating activities are mainly impacted by the Upstream sales volumes, realized prices and operating expenses and Downstream throughput volumes, cost of feedstock and refined product prices. Significant items that impacted Harvest's quarterly revenues include:

- Revenues were highest in the fourth and second quarters of 2012, as a result of the refinery operating at near capacity during those periods.
- The decline in Upstream's sales volumes since 2012 were mainly due to natural declines, asset dispositions and a reduced capital program since 2012.
- Downstream's average daily throughput was lower in the third quarter of 2012 as compared to the other reported quarters due to a two-week partial outage of some process units and a three-week unplanned shutdown of all process units while repairs were completed to the SRU. The average daily throughput was lower in the third quarter of 2013 due to repairs on the SRU reactor and lower in the fourth quarter of 2013 due to repairs and maintenance of the isomax and crude units.
- Downstream's refining gross margin/bbl was highest in the fourth quarter of 2012, reflecting the higher global refining crack spreads during these periods. However the weaker margins experienced in the following quarters reflect poorer yield and the decrease in the sour-crude differential from the

Brent benchmark price for crude oil. The refining gross margin was negatively impacted by increased RINs costs since the second quarter of 2013.

Net loss reflects both cash and non-cash items. Changes in non-cash items including deferred income tax, DD&A expense, accretion of decommissioning and environmental remediation liabilities, impairment of long-lived assets, unrealized foreign exchange gains and losses, and unrealized gains and losses on risk management contracts impact net loss from period to period. For these reasons, the net loss may not necessarily reflect the same trends as revenues or cash from operating activities, nor is it expected to. Net losses in the fourth quarters of 2013 and 2012 were mainly due to the $458.9 million and $535.5 million impairments, respectively, of Downstream PP&E. Total assets also decreased significantly in the fourth quarters of 2013 and 2012 as a result.

Cash from operating activities is lowest in the fourth quarter of 2013. This is mainly due to a $55 million change in non-cash working capital as compared to the third quarter of 2013, as Harvest significantly reduced its accounts payable balance.

The increase in long-term financial debt in the second quarter of 2013 was a result of the issuance of the US$630 million 2⅛% senior notes due 2018 which were used to early redeem Harvest's convertible debentures, a portion of which had been classified as short-term debt. The $243.6 million increase in long-term financial debt in fourth quarter of 2013 as compared to the third quarter of 2013 was mainly a result of $125 million of further draws on our credit facility, receiving $80 million under the KNOC subordinated loan agreement and the $44 million impact of the weakening Canadian dollar on our U.S. dollar denominated debt.

SELECTED ANNUAL INFORMATION

	Year Ended December 31		
	2013	2012	2011
FINANCIAL			
Revenues[1]	**5,364.7**	5,781.0	4,393.7
Cash from operating activities	**200.6**	442.8	560.5
Net loss	**(781.9)**	(721.0)	(105.4)
Total financial liabilities, non-current	**2,301.8**	1,454.7	1,593.3
Total assets	**5,289.9**	5,654.6	6,284.4

(1) Revenues are net of royalties and the effective portion of Harvest's realized crude oil hedges.

2014 OUTLOOK

The following guidance is provided as general information for stakeholders regarding management's expectations for 2014 for the Upstream, BlackGold and Downstream business segments. The guidance information provided is consistent with Harvest's most recent budget information. Readers are cautioned that the guidance information provided within this Outlook may not be appropriate for other purposes and the actual results may differ materially from those anticipated.

Harvest's capital expenditure budget for 2014 is $620 million, comprised of $350 million for Upstream oil & gas operations, $131 million the BlackGold oil sands project, and $139 million for the Downstream refining and marketing business.

Upstream

Production volume is targeted at approximately 48,800 boe/d reflecting natural declines and assets dispositions during 2013 and our 2014 operating costs are expected to average $17.80/boe.

Harvest has not budgeted for asset acquisitions or dispositions. The Company has identified non-core properties for disposition representing approximately 2,400 boe/d of production. Proceeds from dispositions would be used to manage Harvest's liquidity, fund development of core assets and for the acquisition of strategic assets.

BlackGold

Due to extreme winter conditions the project scaled back construction activities during the first quarter of 2014. Harvest anticipates resuming full construction activities in the second quarter of 2014 and has revised the project schedule accordingly.

Harvest anticipates construction completion of the 10,000 bbl/d Phase 1 CPF in the second half of 2014 with first steam expected in the fourth quarter of 2014.

Downstream

A turnaround is scheduled for the second half of 2014 and will utilize approximately 60% of the capital budget with the remainder allocated to sustaining and reliability improvement projects.

For the full year 2014, throughput is anticipated to average approximately 92,500 bbl/d, with operating costs and purchased energy costs aggregating to approximately $8.00/bbl.

Harvest continues to evaluate various business opportunities pertaining to the Downstream business including, but not limited to introduction of joint venture partners, disposition in whole or in part as well as multiple economic scenarios for future operations. An outcome or recommendation arising out of this review has not been determined to date.

CRITICAL ACCOUNTING ESTIMATES

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 period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below:

(a) Joint arrangements

Judgment is required to determine when Harvest has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. Harvest has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, such as approval of the capital expenditure program. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. Refer to note 4 of the December 31, 2013 consolidated financial statements for more details.

(b) Reserves

The provision for depletion and depreciation of Upstream assets is calculated on the unit-of-production method based on proved developed reserves. As well, reserve estimates impact net income through the application of impairment tests. Provision for Upstream and BlackGold's decommissioning liability may change as changes in reserve lives affect the timing of decommissioning activities. The recognition and carrying value of deferred income tax assets relating to Upstream and BlackGold may change as reserve estimates impact Harvest's estimates of the likely recoverability of such assets. Revisions or changes in the reserve estimates can have either a positive or a negative impact on net income and PP&E.

The process of estimating reserves is complex and requires significant judgments based on available geological, geophysical, engineering and economic data. In the process of estimating the recoverable oil and natural gas reserves and related future net cash flows, Harvest incorporates many factors and assumptions, such as:

- expected reservoir characteristics based on geological, geophysical and engineering assessments;
- future production rates based on historical performance and expected future operating and investment activities;
- future commodity prices and quality differentials;
- discount rates; and
- future development costs.

On an annual basis, the Company engages qualified, independent reserves evaluators to evaluate Harvest's reserves data.

(c) Impairment of long-lived assets

Long-lived assets (goodwill, PP&E and E&E assets) are aggregated into CGUs based on their ability to generate largely independent cash inflows and are used for impairment testing. The determination of the Company's CGUs is subject to significant judgment; product type, internal operational teams, geology and geography were key factors considered when grouping Harvest's oil and gas assets into the CGUs.

PP&E is tested for impairment when indications of impairment exist. PP&E impairment indicators include declines in commodity prices, production, reserves and operating results, cost overruns and construction delays. E&E impairment indicators include expiration of the right to explore and cessation of exploration in specific areas, lack of potential for commercial viability and technical feasibility and when E&E costs are not expected to be recovered from successful development of an area. The determination of whether such indicators exist requires significant judgment.

The recoverable amounts of CGUs and individual assets are determined based on the higher of VIU calculations and estimated FVLCS. To determine the recoverable amounts, Harvest uses reserve estimates for both the Upstream and BlackGold operating segments and expected future cash flows for the Downstream operations. The estimates of reserves, future commodity prices, refining margins, forecast refinery utilization and yields, discount rates, operating expenses and sustaining capital expenditures require significant judgments. FVLCS is determined using significant judgments, see notes 5(i) and 9 of the December 31, 2013 consolidated financial statements for further discussion.

(d) Provisions

In the determination of provisions, management is required to make a significant number of estimates and assumptions with respect to activities that will occur in the future including the ultimate amounts and timing of settlements, inflation factors, risk-free discount rates, emergence of new restoration techniques and expected changes in legal, regulatory, environmental and political environments. A change in any one of the assumptions could impact the estimated future obligation and in return, net income and in the case of decommissioning liabilities, PP&E.

(e) Employee benefits

Harvest's Downstream operations maintains a defined benefit pension plan and provides certain post-retirement health care benefits, which cover the majority of its Downstream employees and their surviving spouses. An independent actuary determines the costs of the Company's employee future benefit programs using certain management assumptions and estimates such as, the expected plan investment performance, salary escalation, retirement ages of employees, expected health care costs, employee turnover and discount rates. The obligation and expense recorded related to Harvest's employee future benefit plans could increase or decrease if there were to be a change in these estimates.

The Company also maintains a long-term incentive plan which is a performance-based program. As a result, the compensation costs accrued for the plan are subject to the estimation of what the ultimate payout will be and are subject to management's judgment as to whether or not the performance criteria will be met.

(f) Fair value of acquired assets and liabilities

Business acquisitions are accounted for using the acquisition method. Under this method, the consideration transferred is allocated to the assets acquired and the liabilities assumed based on the fair values at the time of the acquisition. In determining the fair value of the assets and liabilities, Harvest is often required to make assumptions and estimates, such as reserves, future commodity prices, fair value of undeveloped land, discount rates, decommissioning liabilities and possible outcome of any assumed contingencies. Changes in any of these assumptions would impact amounts assigned to assets and liabilities and goodwill in the consideration transferred allocation and as a result, future net income.

(g) Risk management contracts

Derivative risk management contracts are valued using valuation techniques with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity. Changes in any of these assumptions would impact fair value of the risk management contracts and as a result, future net income and other comprehensive income. For risk management contracts designated as hedges, changes in the above mentioned assumptions may impact hedge effectiveness assessment and Harvest's ability to continue applying hedge accounting.

(h) Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which Harvest and its subsidiaries operate are subject to change. The Company is also subject to income tax audits and reassessments which may change its provision for income taxes. Therefore, the determination of income taxes is by nature complex, and requires making certain estimates and assumptions.

Harvest recognizes the net deferred tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

(i) Fair value measurements

Significant judgment is required to determine what assumptions market participants would use to price an asset or a liability, such as forward prices, foreign exchange rates and discount rates. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. To determine "highest and best use" requires further judgment. Changes in estimates and assumptions about these inputs could affect the reported fair value. Refer to note 16 of the December 31, 2013 consolidated financial statements for further discussion.

(j) Contingencies

Contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

Change in accounting estimate

Up to September 30, 2013, Harvest calculated depletion expense using a unit-of-production method where all unamortized PP&E costs were depleted based on proved developed oil and gas reserves.

As at October 1, 2013, a change in estimate was prospectively applied to the depletion calculation whereby costs related to developed oil and gas properties continue to be depleted based on proved developed reserves. Depletion of costs related to undeveloped oil and gas properties will start once such properties are developed. The costs relating to undeveloped oil and gas assets are transferred to the depletable pool as the underlying reserves are developed through drilling activities. The method of depleting oil and gas assets using the unit-of-production method over proved developed reserves remains unchanged.

Harvest's reserves profile has been trending towards a greater weighting of undeveloped reserves as a proportion of total reserves which triggered management to review the historical capital expenditures, reserves profile, and expected production profile of the Company. This change in estimate was made after the review and management concluded that the new estimation method would provide better matching of PP&E costs against the economic benefits from the periodic consumption of developed and undeveloped oil and gas assets of the Company.

If the new estimation method had been applied for the full year 2013, then the annual depreciation and depletion expense would be $83.4 million lower than if the previous estimation method remained applicable for the full year. Harvest expects a similar magnitude of decrease to the depletion and depreciation expense for 2014. Harvest could not determine the effect of the change in estimate for future periods beyond 2014 as the information will not be meaningful since reserves estimates, production profile and capital expenditures for future periods are subject to high level of uncertainty.

Changes in accounting policies

Effective January 1, 2013, Harvest has adopted the following new IFRS standards and amendments:

- IAS 19, "Employee Benefits", changes the recognition and measurement of defined benefit pension expense and termination benefits and expands disclosure requirements for all employee benefit plans. The amendments to the standard include the requirement to recognize changes in the defined benefit obligation and in the fair value of the plan assets as they occur, thus eliminating the corridor approach that was previously permitted under the standard. All actuarial gains and losses must be recognized immediately through other comprehensive income and the net pension liability or asset must be recognized at the full amount of the plan deficit or surplus. An additional change to the standard is the elimination of the concept of expected return on plan assets that was previously recognized in net earnings and the introduction of the concept of net interest cost. The net interest cost is required to be recognized in net earnings and is calculated by applying the discount rate at the beginning of the reporting period to the net defined benefit liability or asset. As well under IAS 19R unvested past service costs are now recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized. Other amendments include new disclosures, such as quantitative sensitivity disclosures.

The transition to IAS 19R impacted Harvest's retained earnings and accumulated other comprehensive income as a result of the recognition of the net interest cost in profit or loss and the elimination of expected return on plan assets. The impacts as at December 31, 2012, January 1, 2012 and January 1, 2011, respectively, were an increase in the cumulative prior periods' pre-tax pension expense of $2.7 million, $1.6 million, and $0.7 million ($2.2 million, $1.3 million and $0.6 million after-tax, respectively) and a corresponding decrease in actuarial gains and losses recognized in accumulated other comprehensive income.

For the year ended December 31, 2012, operating expense increased by $1.1 million (2011 - increased by $0.9 million), as a result of increased pension expense and net actuarial losses on defined benefit plans recognized in other comprehensive income decreased by $1.1 million or $0.9 million after-tax (2011 - decreased by $0.9 million or $0.7 million after tax).

Harvest has also reviewed the classification of its accrual for the long term incentive program and reclassified the portion that will not be paid within the next 12 months to the line item "long-term liability and other" on the balance sheet. The balance of $3.0 million as at December 31, 2012 and $1.9 million as at January 1, 2012 were reclassified to long-term liabilities.

The rest of the amendments within IAS 19R did not have any financial impact to Harvest.

- IFRS 10, "Consolidated Financial Statements", replaces the consolidation requirements in SIC-12, "Consolidation - Special Purpose Entities" and a portion of IAS 27. IFRS 10 changes the definition of control under IFRS. The retrospective application of this standard does not have any impact on Harvest's financial statements.

- IFRS 11, "Joint Arrangements", focuses on the rights and obligations of the joint arrangement, rather than its legal form and requires joint arrangements to be classified either as joint operations or joint ventures. The retrospective application of this standard does not have any impact on Harvest's financial statements as substantially all assets are held in joint operations.

- IFRS 12, "Disclosure of Interest in Other Entities", is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structure entities and other off balance sheet interests. The retrospective application of this standard does not have any impact on Harvest's financial statements other than additional annual disclosures.

- IFRS 13, "Fair Value Measurement", provides a single source of guidance for fair value measurement and enhances disclosure requirements for information regarding fair value measurements. The adoption of this standard does not have any impact on Harvest's financial statements, other than increasing the level of disclosures provided in note 16 of the December 31, 2013 consolidated financial statements.

- The amendments to IFRS 7 "Financial Instruments: Disclosures" enhanced the disclosure requirements related to offsetting of financial assets and financial liabilities. The adoption of these amendments does not have any impact to Harvest's financial statements, other than increasing the level of annual disclosures provided in note 16 of the December 31, 2013 consolidated financial statements.

- In May 2013, the IASB released an amendment to IAS 36, "Impairment of Assets". This amendment requires an entity to disclose the recoverable amount of a cash generating unit for which the entity has recognized or reversed an impairment loss during the reporting period. If the recoverable amount was determined using fair value less costs of disposal, detailed disclosure of how it has been measured will be required. The amendment requires retrospective application and is effective for annual periods beginning on or after January 1, 2014. As allowed by the standard, Harvest early adopted the amendment in the current period. Refer to note 9 of the December 31, 2013 consolidated financial statements for the amended disclosure.

RECENT ACCOUNTING PRONOUNCEMENTS

On June 27, 2013, the IASB issued amendments to IAS 39 "Financial Instruments: Recognition and Measurement" regarding hedge accounting and novation of derivatives. The amendment provides a relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria. The amendments are effective for annual periods beginning on or after January 1, 2014. Harvest does not expect material impact to its consolidated financial statements from this amendment.

IFRS 9 "Financial Instruments" is a three-phase project intended to replace IAS 39 "Financial Instruments: Recognition and Measurement". In November 2009, the IASB issued the first phase of IFRS 9, which addresses classification and measurement of financial assets. In October 2010, IFRS 9 was updated to include guidance on financial liabilities and derecognition of financial instruments. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

In November 2013, IFRS 9 was amended to include guidance on hedge accounting and allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI. In addition, the previous mandatory effective date of January 1, 2015 was removed but the standard is still available for early adoption. As the standard is still under development by the IASB, the full impact of this standard on Harvest's consolidated financial statements will not be known until the project is complete. Harvest will continue to monitor the changes to this standard as they arise and will assess the impact accordingly.

In December 2011, the IASB issued amendments to IAS 32 "Financial Instruments: Presentation" to clarify the requirements for offsetting of financial assets and financial liabilities. The amendments to IAS 32 clarify that the right to offset must be available on the current date and cannot be contingent on a future event. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014, requiring retrospective application. Harvest does not expect material impact to its consolidated financial statements from this amendment.

OPERATIONAL AND OTHER BUSINESS RISKS

Harvest's Upstream, BlackGold and Downstream operations are conducted in the same business environment as most other operators in the respective businesses and the business risks are very similar. Harvest has a risk management committee that meets on a regular basis to assess and manage operational and business risks and has a corporate Environment, Health and Safety ("EH&S") policy. The following summarizes the significant risks:

Risks Associated with Commodity Prices

Upstream

- Prices received for petroleum and natural gas have fluctuated widely in recent years. Natural gas prices have experienced significant declines since 2010. Crude oil differentials continue to be volatile. Decreases in commodity prices could reduce Harvest's earnings and cash flow and have resulted in shut-in of certain natural gas properties. Low commodity prices and/or wide crude oil differentials may also result in asset impairment. Harvest manages commodity price risks by entering into various commodity price risk management contracts. Refer to the "Cash Flow Risk Management" section of this MD&A for further information.

Downstream

- The market prices for crude oil feedstock and refined products have fluctuated significantly, the direction of the fluctuations may not match and the relative magnitude may be different resulting in volatile refining margins.

Risks Associated with Operations

Upstream

- The markets for petroleum and natural gas produced in western Canada are dependent upon available capacity to refine crude oil and process natural gas as well as pipeline or other methods to transport the products to consumers.
- Exploration and development activities may not yield anticipated production, and the associated cost outlay may not be recovered.
- Pipeline capacity and natural gas liquids fractionation capacity in Alberta has not kept pace with the drilling of liquid rich gas properties in some areas of the province which may limit production periodically.
- The production of petroleum and natural gas may involve a significant use of electrical power and since deregulation of the electric system in Alberta, electrical power prices in Alberta have been volatile. Increases in power prices reduce our cash flow and earnings. From time to time, Harvest may enter into electricity price swaps to manage our exposure to power price volatility.

Downstream

- Fluctuations in global demand and supply for crude oil and refined products could impact the refinery margins.
- Crude oil feedstock is delivered to the refinery via waterborne vessels which could experience delays due to weather, accidents, government regulations or third party actions.
- Downstream's refinery is a single train, integrated, interdependent facility which could experience a major interruption caused by an accident or severe weather damage. These potential interruptions may reduce or eliminate our cash flow.
- The refinery utilizes a supply and offtake agreement ("SOA") to facilitate the supply of crude feedstock to the refinery and the offtake of refined products. This agreement has termination rights and replacement arrangements may not be as favorable and may result in an increase in costs.
- There are risks and uncertainties affecting construction or planned maintenance schedules and costs, including the availability of materials, equipment, qualified personnel, impacts of competing projects drawing on the same resources during the same time period; and the potential for disruptions to operations and construction projects. Accordingly, actual costs can be materially different from estimates and could have a material adverse effect on our costs, results of operations and cash flows. In addition, maintenance activities may not improve operational performance or the outputs of related facilities and construction projects may not deliver anticipated results.
- Collective agreements with the employees and the United Steel Workers of America may not prevent a strike or work stoppage and future agreements may result in an increase in operating costs.
- The market prices for Renewable Identification Numbers ("RINs") have increased significantly in 2013 in response to fears of a shortage of renewable fuels to meet future demand resulting in aggressive buying efforts by refiners. The Renewable Fuels Standard ("RFS") was established in the US Energy Policy Act of 2005 ("EPA") and significantly expanded in the Energy Independence and Security Act

of 2007 ("EISA"). The EISA set mandated levels for various types of renewable fuels that are to be blended with US gasoline and diesel fuel with such levels scheduled to increase progressively each year from 2008 until 2022. The compliance obligation rests with the producers and importers of the fuels.

In order to ensure compliance with mandated levels of blending, the EPA established a tracking system called RINs. RINs are a complex mechanism and are issued at the point of biofuels production or import. When biofuels change ownership, the RINs are also transferred to the refiners, importers, and blenders of the fuel. These RINs are submitted to regulators to confirm blending requirements have been met. The EPA is responsible for overseeing and enforcing blending mandates and developing regulations for RINs.

The uncertainty surrounding the availability of sufficient renewable fuels to meet the increasing mandated levels during future years will continue to play havoc on the cost of RINs as supply and demand will dictate the price at any given time. The market should respond to these increased costs by reflecting higher New York Harbour market selling prices for gasoline and diesel fuel, however, the increase in market prices may not necessarily correspond to the same level of increase in the cost of RINs. The market response may not always be immediate and will normally trail the change in RINs cost. The RINs increase volatility to Downstream's refining margins, which may negatively impact its operating results and cash flows.

Risks Associated with Reserve Estimates

- The reservoir and recovery information in reserve reports prepared by independent reserve evaluators are estimates and actual production and recovery rates may vary from the estimates and the variations may be significant.
- Prices paid for acquisitions are based in part on reserve report estimates and the assumptions made preparing the reserve reports are subject to change as well as geological and engineering uncertainty. The actual reserves acquired may be lower than expected, which could adversely impact our cash flow and earnings.

Risks Associated with the Oil Sands Project

- The BlackGold oil sands project is exposed to the risks associated with major construction projects. These risks include the possibility that the project will not be completed on budget, on time and/or will not achieve the design objectives. This would have a significant impact on the financial results of the project.
- When operational, the BlackGold oil sands project will be subject to similar operating risks described above in "Risks associated with operations – Upstream" such as: refinery and transportation constraints and the cost of Alberta Power.

Risks Associated with Environment, Health & Safety ("EH&S")

- The operations of petroleum and natural gas properties involves a number of operating and natural hazards which may result in health and safety incidents, environmental damage and other unexpected and/or dangerous conditions.
- Decommissioning liabilities are calculated using estimated costs and timelines based upon current operational plans, technology and reclamation practices, and environmental regulations. These

factors are subject to change and such changes may impact the actual timing and amount of Harvest's decommissioning costs.

- The operations of petroleum and natural gas properties as well as the refinery are subject to environmental regulation pursuant to local, provincial and federal legislation. Changes in these regulations could have a material adverse effect as regards to operating costs and capital costs. A breach of such legislation may result in the imposition of fines as well as higher operating standards that may increase costs.
- The production of aviation fuels in the Downstream operations subjects us to liability should contaminants in the fuel result in aircraft engines being damaged which could result in aircraft incidents.
- Downstream's refining operations, which include the transportation and storage of a significant amount of crude oil and refined products, are adjacent to environmentally sensitive coastal waters, and are subject to hazards such as fires, explosions, spills and mechanical failures, any of which may result in personal injury, damage to Downstream's property and/or the property of others along with significant other liabilities in connection with a discharge of materials. Harvest regularly performs stack sampling, soil, vegetation, and fresh and ocean water tests, and we have monitoring stations to record the air quality in three adjacent communities, as well as at the refinery perimeter.
- Harvest's corporate EH&S program has a number of specific policies and practices to minimize the risk of safety hazards and environmental incidents. It also includes an emergency response program should an incident occur. If areas of higher risk are identified, Harvest will undertake to analyze and recommend changes to reduce the risk including replacement of specific infrastructure. In addition, our business units conduct emergency response training on a regular basis in all of our operating fields to ensure a high level of response capability when placed in a challenging situation. Harvest also performs safety and environmental audits of our operating facilities. In addition to the above, Harvest maintains business interruption insurance, commercial general liability insurance as well as specific environmental liability insurance, in amounts consistent with industry standards.
- Harvest carries industry standard property and liability insurance on its Upstream and Downstream operations. Losses associated with potential incidents described above could exceed insurance coverage limits.

Risks Associated with Liquidity

- Absent capital reinvestment or acquisition, Harvest's reserves and production levels from petroleum and natural gas properties will decline over time as a result of natural declines. As a result, cash generated from operating these properties may decline.
- Fluctuations in interest rates and the U.S./Canada exchange rate on our current and/or future financing arrangements may result in significant increases in our borrowing costs.
- Harvest is required to comply with covenants under the credit facility and the senior notes. In the event that the Company does not comply with the covenants, its access to capital may be restricted or repayment may be required.
- Although the Company monitors the credit worthiness of third parties it contracts with through a formal risk management policy, there can be no assurance that the Company will not experience a loss for nonperformance by any counterparty with whom it has a commercial relationship. Such events may result in material adverse consequences on the business of the Company.

- Downstream operations are relying on the creditworthiness of Macquarie, the counter party to our SOA, for the purchase of feedstock and should their creditworthiness deteriorate, crude oil suppliers may restrict the sale of crude oil to Macquarie.
- Harvest's ability to make scheduled repayments or refinance its debt obligations will depend upon its financial and operating performance and continued support from KNOC, which in turn will partially depend upon prevailing industry and general economic conditions, KNOC's financial performance, and KNOC's support from the government of South Korea, which are beyond Harvest's control. There can be no assurance that our operating performance, cash flow and capital resources will be sufficient to service and/or repay the Company's debt in the future, in which case the Company may sell assets, enter into joint ventures with 3rd parties to support current and future capital projects, defer capital expenditures, and/or raise additional debt or equity from KNOC, to the extent available.

Harvest monitors its cash flow projections and covenants on a routine basis and will adjust its development plans accordingly in response to changes in commodity prices and cash flows.

General Business Risks

- The operation of petroleum and natural gas properties as well as the refinery requires physical access for people and equipment on a regular basis which could be affected by weather, accidents, government regulations or third party actions.
- Skilled labor is necessary to run operations (both those employed directly by Harvest and by our contractors) and there is a risk that we may have difficulty in sourcing skilled labor which could lead to increased operating and capital costs.
- The loss of a member of our senior management team and/or key technical operations employee could result in a disruption to either our Upstream or Downstream operations.
- Upstream's crude oil sales, a large portion of Harvest's long-term debt and refining margins are denominated in US dollars while the Company incurs operating and capital costs in Canadian dollars which results in a currency exchange exposure.
- The operations of Harvest, including the refinery, operate under permits issued by the federal and provincial governments and these permits must be renewed periodically. The federal and provincial governments may make operating requirements more stringent which may require additional spending.
- Income tax laws, other laws or government incentive programs relating to the oil and gas industry, may in the future be changed or interpreted in a manner that affects Harvest or its stakeholders.

CHANGES IN REGULATORY ENVIRONMENT

The oil and gas industry is subject to extensive regulations imposed by many levels of government in Canada. Harvest currently operates in Alberta, British Columbia, Saskatchewan, and Newfoundland, all of which have different legislations and royalty programs which may be amended from time to time. A change in the royalty programs or legislations may have adverse impacts on Harvest's future earnings and cash flows. The following summarizes some of the changes to Harvest's regulatory environment during 2013:

Alberta

The Alberta Government revamped its regulatory framework developing a single regulatory body, the Alberta Energy Regulator ("AER"). This body will encompass responsibilities that were previously divided between Alberta Environment ("AENV"), Alberta Sustainable Resources Development ("SRD") and the Energy Resources Conservation Board ("ERCB"). Final changes in the regulatory process will cause companies to apply for applications in one Department commonly referred to as the "Super Board" and is planned for June 1, 2014.

DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision of the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its disclosure controls and procedures as of December 31, 2013 as defined under the rules adopted by the Canadian securities regulatory authorities and the U.S. Securities and Exchange Commission. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2013, the disclosure controls and procedures were effective to ensure that information required to be disclosed by Harvest in reports that it files or submits to Canadian and U.S. securities authorities was recorded, processed, summarized and reported within the time period specified in Canadian and U.S. securities laws and was accumulated and communicated to management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") as defined under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings. The Company's DC&P are designed to provide reasonable assurance that (i) material information relating to the Company is made known to management by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. The Company's ICFR are designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with IFRS as issued by IASB. The Company's CEO and CFO have evaluated, or caused to be evaluated under their supervision, the design and operation of the Company's DC&P and ICFR as of December 31, 2013. The evaluation was based on the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013). Based on the evaluation, the CEO and CFO concluded that the Company's internal control over financial reporting was effective as of December 31, 2013.

There were no significant changes in internal controls over financial reporting for the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Because of its inherent limitations, disclosure controls and procedures and internal control over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, but not absolute, assurance that the objectives of the control systems are met.

ADDITIONAL GAAP MEASURE

Harvest uses "operating income (loss)", an additional GAAP measure that is not defined under IFRS hereinafter also referred to as "GAAP". The measure is commonly used for comparative purposes in the petroleum and natural gas and refining industries to reflect operating results before items not directly related to operations. Harvest uses this measure to assess and compare the performance of its operating segments.

NON-GAAP MEASURES

Throughout this MD&A, the Company has referred to certain measures of financial performance that are not specifically defined under GAAP such as "operating netbacks", "operating netback prior to/after hedging", "gross margin (loss)", "cash contribution (deficiency) from operations", "total debt", "total financial debt", "total capitalization", "Annualized EBITDA", "senior debt to Annualized EBITDA", "total debt to Annualized EBITDA", "senior debt to total capitalization", and "total debt to total capitalization".

"Operating netbacks" are reported on a per boe basis and used extensively in the Canadian energy sector for comparative purposes. "Operating netbacks" include revenues, operating expenses, transportation and marketing expenses, and realized gains or losses on risk management contracts. "Gross margin (loss)" is commonly used in the refining industry to reflect the net funds received from the sale of refined products after considering the cost to purchase the feedstock and is calculated by deducting purchased products for resale and processing from total revenue. "Cash contribution (deficiency) from operations" is calculated as operating income (loss) adjusted for non-cash items. The measure demonstrates the ability of the each segment of Harvest to generate the cash from operations necessary to repay debt, make capital investments, and fund the settlement of decommissioning and environmental remediation liabilities. "Total debt", "total financial debt", "total capitalization", and "Annualized EBITDA" are used to assist management in assessing liquidity and the Company's ability to meet financial obligations. "Senior debt to Annualized EBITDA", "total debt to Annualized EBITDA", "senior debt to total capitalization" and "total debt to total capitalization" are terms defined in Harvest's credit facility agreement for the purpose of calculation of financial covenants. The non-GAAP measures do not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures used by other issuers. The determination of the non-GAAP measures have been illustrated throughout this MD&A, with reconciliations to IFRS measures and/or account balances, except for Annualized EBITDA and cash contribution (deficiency) which are shown below.

Annualized EBITDA

The measure of Consolidated EBITDA (herein referred to as "Annualized EBITDA") used in Harvest's credit facility agreement is defined as earnings before finance costs, income tax expense or recovery, DD&A, exploration and evaluation costs, impairment of assets, unrealized gains or losses on risk management contracts, unrealized gains or losses on foreign exchange, gains or losses on disposition of assets and other non-cash items. The following is a reconciliation of Annualized EBITDA to the nearest GAAP measure net loss:

	December 31, 2013	December 31, 2012
Net loss	**(781.9)**	(721.0)
DD&A	**612.8**	688.4
Finance costs	**94.2**	111.0
Income tax recovery	**(64.2)**	(81.6)
EBITDA	**(139.1)**	(3.2)
Unrealized losses on risk management contracts	**0.5**	1.1
Unrealized (gains) losses on foreign exchange	**40.8**	(1.2)
Unsuccessful exploration and evaluation costs	**11.5**	22.0
Impairment of PP&E	**483.0**	557.3
Gains on disposition of PP&E	**(34.1)**	(30.3)
Other non-cash items	**(1.7)**	(5.6)
Adjustments on acquisitions and dispositions(1)	**(15.0)**	(13.4)
Less earnings from non-restricted subsidiaries(1)	**(0.4)**	(0.8)
Annualized EBITDA(1)	**345.5**	525.9

(1) Annualized EBITDA is on a consolidated basis for any period, the aggregate of the last four quarters of the earnings (calculated in accordance with GAAP) and accordingly is a twelve month rolling measure which, as well, is required to be adjusted to the net income impact from acquisitions or dispositions (with net proceeds over $20 million) as if the transaction had been effected at the beginning of the period and excludes earnings attributable to the BlackGold assets and non-restricted subsidiaries.

Cash Contribution (Deficiency) from Operations

Cash contribution (deficiency) from operations represents operating income (loss) adjusted for non-cash expense items within: general and administrative, exploration and evaluation, depletion, depreciation and amortization, gains on disposition of PP&E, risk management contracts gains or losses, impairment on PP&E, and the inclusion of cash interest, realized foreign exchange gains or losses and other cash items not included in operating income (loss). The measure demonstrates the ability of the Upstream and Downstream segments of Harvest to generate cash from their operations and is calculated before changes in non-cash working capital. There are no operating activities to report for the BlackGold segment as it is under development. The most directly comparable additional GAAP measure is operating income (loss). Operating income (loss) as presented in the notes to Harvest's consolidated financial statements is reconciled to cash contribution (deficiency) from operations below:

	Three Months Ended December 31					
	Upstream		Downstream		Total	
	2013	2012	**2013**	2012	**2013**	2012
Operating income (loss)	**2.3**	36.1	**(506.4)**	(566.0)	**(504.1)**	(529.9)
Adjustments:						
Operating	**0.3**	0.4	**(3.4)**	(2.9)	**(3.1)**	(2.5)
General and administrative	**0.6**	3.4	–	–	**0.6**	3.4
Exploration and evaluation	**0.7**	0.1	–	–	**0.7**	0.1
Depletion, depreciation and amortization	**113.4**	145.3	**18.6**	30.4	**132.0**	175.7
Gains on disposition of PP&E	**(23.5)**	(25.0)	–	–	**(23.5)**	(25.0)
Unrealized losses on risk management contracts	**1.6**	0.1	–	–	**1.6**	0.1
Impairment on PP&E	**24.1**	–	**458.9**	535.5	**483.0**	535.5
Cash contribution (deficiency) from operations	**119.5**	160.4	**(32.3)**	(3.0)	**87.2**	157.4
Inclusion of items not attributable to segments:						
Net cash interest paid					**11.7**	20.6
Realized foreign exchange losses (gains)					**1.1**	(1.0)
Consolidated cash contribution from operations					**74.4**	137.8

	Year Ended December 31					
	Upstream		Downstream		Total	
	2013	2012	**2013**	2012	**2013**	2012
Operating loss	**(16.6)**	(12.7)	**(691.1)**	(680.2)	**(707.7)**	(692.9)
Adjustments:						
Operating	**0.9**	1.6	**(2.8)**	(5.9)	**(1.9)**	(4.3)
General and administrative	**1.7**	(1.1)	**–**	–	**1.7**	(1.1)
Exploration and evaluation	**11.5**	22.0	**–**	–	**11.5**	22.0
Depletion, depreciation and amortization	**530.0**	579.5	**82.8**	108.9	**612.8**	688.4
Gains on disposition of PP&E	**(33.9)**	(30.3)	**(0.2)**	–	**(34.1)**	(30.3)
Unrealized losses on risk management contracts	**0.5**	1.1	**–**	–	**0.5**	1.1
Impairment on PP&E	**24.1**	21.8	**458.9**	535.5	**483.0**	557.3
Cash contribution (deficiency) from operations	**518.2**	581.9	**(152.4)**	(41.7)	**365.8**	540.2
Inclusion of items not attributable to segments:						
Net cash interest paid					**72.9**	87.9
Realized foreign exchange losses (gains)					**3.4**	(0.1)
Consolidated cash contribution from operations					**289.5**	452.4

FORWARD-LOOKING INFORMATION

This MD&A highlights significant business results and statistics from the consolidated financial statements for the three months and year ended December 31, 2013 and the accompanying notes thereto. In the interest of providing Harvest's lenders and potential lenders with information regarding Harvest, including the Company's assessment of future plans and operations, this MD&A contains forward-looking statements that involve risks and uncertainties.

Such risks and uncertainties include, but are not limited to: risks associated with conventional petroleum and natural gas operations; risks associated with refining and marketing operations; risks associated with the construction of the oil sands project; the volatility in commodity prices, interest rates and currency exchange rates; risks associated with realizing the value of acquisitions; general economic, market and business conditions; changes in environmental legislation and regulations; the availability of sufficient capital from internal and external sources; and, such other risks and uncertainties described from time to time in regulatory reports and filings made with securities regulators. The impact of any one risk, uncertainty or factor on a particular forward-looking statement is not determinable with certainty as these factors are interdependent, and management's future course of action would depend on the assessment of all information at that time. Please also refer to "Operational and Other Business Risks" in this MD&A and "Risk Factors" in the Annual Information Form for detailed discussion on these risks.

Forward-looking statements in this MD&A include, but are not limited to, the forward looking statements made in the "Outlook" section as well as statements made throughout with reference to the following items to future periods: production volumes, refinery throughput volumes, royalty rates, operating costs, commodity prices, general and administrative costs, price risk management activities, acquisitions and dispositions, capital spending and allocation of such to various projects, reserve estimates and ultimate recovery of reserves, potential timing and commerciality of Harvest's capital projects, the extent and success rate of Upstream and BlackGold drilling programs, the ability to achieve the maximum capacity from the BlackGold central processing facilities, refinery utilization and reliability rates, availability of the credit facility, access and ability to raise capital, ability to maintain debt covenants, debt levels, recovery of long-lived assets, the timing and amount of decommission and environmental related costs, income taxes, cash from operating activities, regulatory approval of development projects and regulatory changes. For this purpose, any statements that are contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements often contain terms such as "may", "will", "should", "anticipate", "expect", "target", "plan", "potential", "intend", and similar expressions.

All of the forward-looking statements in this MD&A are qualified by the assumptions that are stated or inherent in such forward-looking statements. Although Harvest believes that these assumptions are reasonable based on the information available to us on the date such assumptions were made, this list is not exhaustive of the factors that may affect any of the forward-looking statements and the reader should not place an undue reliance on these assumptions and such forward-looking statements. The key assumptions that have been made in connection with the forward-looking statements include the following: that the Company will conduct its operations and achieve results of operations as anticipated; that its development plans and sustaining maintenance programs will achieve the expected results; the general continuance of current or, where applicable, assumed industry conditions; the continuation of assumed tax, royalty and regulatory regimes; the accuracy of the estimates of the Company's reserve volumes; commodity price, operation level, and cost assumptions; the continued availability of adequate cash flow and debt and/or equity financing to fund the Company's capital and operating requirements as needed; and the extent of Harvest's liabilities. Harvest believes the material factors, expectations and assumptions reflected in the forward-looking statements are reasonable, but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

Although management believes that the forward-looking information is reasonable based on information available on the date such forward-looking statements were made, no assurances can be given as to future results, levels of activity and achievements. Therefore, readers are cautioned not to place undue reliance on forward-looking statements as the plans, intentions or expectations upon which the forward-looking information is based might not occur. Forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

ADDITIONAL INFORMATION

Further information about us can be accessed under our public filings found on SEDAR at www.sedar.com or at www.harvestenergy.ca. Information can also be found by contacting our Investor Relations department at (403) 265-1178 or at 1-866-666-1178.

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To the Shareholder and Directors of Harvest Operations Corporation

We have audited the accompanying consolidated financial statements of Harvest Operations Corporation, which comprise the consolidated statements of financial position as at December 31, 2013 and the consolidated statements of comprehensive loss, changes in shareholder's equity and cash flows for the year ended December 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, 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 in our audit is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Harvest Operations Corporation as at December 31, 2013 and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2013 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Comparative Information

Without modifying our opinion, we draw attention to Notes 2 and 3 to the consolidated financial statements which indicates that the comparative information presented as at and for the year ended December 31, 2012 and 2011, has been restated and that the comparative information presented as at January 1, 2012, has been derived from the consolidated financial statements as at and for the year ended December 31, 2011.

The consolidated financial statements of Harvest Operations Corp. as at and for the years ended December 31, 2012, and December 31, 2011, (from which the statement of financial position as January 1, 2012, has been derived), excluding the restatements described in Notes 2 and 3 to the consolidated financial statements, were audited by another auditor who expressed an unmodified opinion on those financial statements on February 28, 2013.

As part of our audit of the consolidated financial statements as at and for the year ended December 31, 2013, we audited the restatements described in Notes 2 and 3 to the consolidated financial statements that was applied to restate the comparative information presented as at and for the year ended December 31, 2012 and as at January 1, 2012, (derived from the consolidated financial statements as at and for the year ended December 31, 2011). In our opinion, the restatements are appropriate and have been properly applied.

We were not engaged to audit, review, or apply any procedures to the December 31, 2012, consolidated financial statements, the December 31, 2011, consolidated financial statements (not presented herein) or the January 1, 2012, consolidated statement of financial position, other than with respect to the restatements described in Notes 2 and 3 to the consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

KPMG LLP

Chartered Accountants

March 6, 2014
Calgary, Canada

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INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder of
Harvest Operations Corp.:

We have audited, before the effects of the retrospective adjustments (1) for the adoption of International Accounting Standard 19: Employee Benefits (Revised), and (2) for reclassifications to certain financial statement amounts discussed in Notes 3 and 2, respectively, to the consolidated financial statements, the accompanying consolidated financial statements of Harvest Operations Corp. which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statements of comprehensive loss, changes in shareholder's equity and cash flows for the years ended December 31, 2012 and 2011, 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 as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above, prior to the adjustments to record the impact of adopting the change in accounting policy for employee benefits and the reclassifications described in Notes 3 and 2, respectively, to the consolidated financial statements, present fairly, in all material respects, the financial position of Harvest Operations Corp. as at December 31, 2012 and its financial performance and its cash flows for the years ended December 31, 2012 and 2011 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We were not engaged to audit, review, or apply any procedures to the retrospective adjustments for the adoption of IAS 19 and for reclassifications to certain financial statement amounts, discussed in Notes 3 and 2, respectively, to the consolidated financial statements and, accordingly, we do not express an opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

Ernst & Young LLP

Calgary, Canada
February 28, 2013

Chartered Accountants

MANAGEMENT'S REPORT

In management's opinion, the accompanying consolidated financial statements of Harvest Operations Corp. (the "Company") have been prepared within reasonable limits of materiality and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Since a precise determination of many assets and liabilities is dependent on future events, the preparation of financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to March 6, 2014. Management is responsible for the consistency, therewith, of all other financial and operating data presented in Management's Discussion and Analysis for the year ended December 31, 2013.

To meet our responsibility for reliable and accurate financial statements, management has developed and maintains internal controls, which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization.

Under the supervision of our Chief Executive Officer and our Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. We have concluded that as of December 31, 2013, our internal controls over financial reporting were effective.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation.

The consolidated financial statements have been examined in 2013 by our auditors, KPMG LLP and in 2012 and 2011 by Ernst & Young LLP. Their responsibility is to express a professional opinion on the fair presentation of the consolidated financial statements prepared in accordance with IFRS as issued by the IASB. The Auditors' Report outlines the scope of their examination and sets forth their opinion on our consolidated financial statements.

The Board of Directors is responsible for approving the consolidated financial statements. The Board fulfills its responsibilities related to financial reporting mainly through the Audit Committee. The Audit Committee consists exclusively of independent directors, including at least one director with financial expertise. The Audit Committee meets regularly with management and the external auditors to discuss reporting and governance issues and ensures each party is discharging its responsibilities. The Audit Committee has reviewed these financial statements with management and the auditors and has recommended their approval to the Board of Directors. The Board of Directors has approved the consolidated financial statements of the Company.

(Signed)

Myunghuhn Yi
President and Chief Executive Officer

(Signed)

Chang-Koo Kang
Chief Financial Officer

Calgary, Alberta
March 6, 2014

Harvest OPERATIONS CORP.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As At *(millions of Canadian dollars)*	Notes	**December 31, 2013**	December 31, 2012 *(Restated)**	January 1, 2012 *(Restated)**
Assets				
Current assets				
Cash	16	**$ –**	$ 7.6	$ 6.6
Accounts receivable	16	**168.9**	175.6	212.3
Inventories	27	**51.6**	80.8	61.0
Prepaid expenses		**14.1**	20.2	18.5
Risk management contracts	16	**0.3**	1.8	20.2
Asset held for sale	8	–	16.9	–
		234.9	302.9	318.6
Non-current assets				
Long-term deposit		**5.0**	5.0	24.9
Investment tax credits and other	19	**0.6**	28.5	54.0
Deferred income tax asset	19	**148.8**	61.1	–
Exploration and evaluation assets	11	**59.4**	73.4	74.5
Property, plant and equipment	9	**4,461.4**	4,791.9	5,407.5
Goodwill	10	**379.8**	391.8	404.9
		5,055.0	5,351.7	5,965.8
Total assets		**$ 5,289.9**	$ 5,654.6	$ 6,284.4
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	16	**$ 258.3**	$ 373.0	$ 462.2
Current portion of long-term debt	12,16	**12.3**	331.8	107.1
Current portion of provisions	17	**39.1**	28.1	17.1
Risk management contracts	16	**0.6**	–	–
Liabilities associated with assets held for sale	8	–	11.9	–
		310.3	744.8	586.4
Non-current liabilities				
Long-term debt	12,16	**1,973.0**	1,277.9	1,486.2
Related party loans	16,28	**259.6**	172.1	–
Long-term liability	16,18	**69.5**	8.2	2.7
Non-current provisions	17	**731.5**	727.3	674.5
Post-employment benefit obligations	26	**6.8**	32.4	26.0
Deferred income tax liability	19	–	–	54.9
		3,040.4	2,217.9	2,244.3
Total liabilities		**$ 3,350.7**	$ 2,962.7	$ 2,830.7
Shareholder's equity				
Shareholder's capital	14	**3,860.8**	3,860.8	3,860.8
Contributed surplus	28	**4.3**	–	–
Deficit		**(1,893.2)**	(1,111.3)	(390.3)
Accumulated other comprehensive loss	25	**(32.7)**	(57.6)	(16.8)
Total shareholder's equity		**1,939.2**	2,691.9	3,453.7
Total liabilities and shareholder's equity		**$ 5,289.9**	$ 5,654.6	$ 6,284.4

*See Note 3
Commitments *[Note 29]*
The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board of Directors: (Signed) Randall Henderson, Director (Signed) Allan Buchignani, Director

Harvest OPERATIONS CORP.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the years ended December 31, *(millions of Canadian dollars)*	Notes	2013	2012 *(Restated)**	2011 *(Restated)**
Petroleum, natural gas, and refined products sales		**$ 5,518.6**	$ 5,945.6	$ 4,589.2
Royalties		**(153.9)**	(164.6)	(195.5)
Revenues	20	**5,364.7**	5,781.0	4,393.7
Expenses				
Purchased products for processing and resale	27	**4,327.4**	4,520.3	3,118.1
Operating	21	**578.7**	621.6	577.0
Transportation and marketing		**28.0**	26.6	35.9
General and administrative	21	**68.7**	65.6	62.6
Depletion, depreciation and amortization	9	**612.8**	688.4	626.7
Exploration and evaluation	11	**12.3**	24.9	18.3
Gains on disposition of property, plant and equipment	8,9	**(34.1)**	(30.3)	(7.9)
Finance costs	22	**94.2**	111.0	109.1
Risk management contracts gains	16	**(4.4)**	(0.5)	(6.7)
Foreign exchange (gains) losses	23	**44.2**	(1.3)	(4.0)
Impairment on property, plant and equipment	9	**483.0**	557.3	–
Loss before income tax		**(846.1)**	(802.6)	(135.4)
Income tax recovery	19	**(64.2)**	(81.6)	(30.0)
Net loss		**$ (781.9)**	$ (721.0)	$ (105.4)
Other comprehensive loss ("OCL")				
Items that may be reclassified to net income				
(Losses) gains on designated cash flow hedges, net of tax	16,25	**(1.1)**	(13.2)	19.4
Gains (losses) on foreign currency translation	25	**7.9**	(17.7)	21.5
Items that will not be reclassified to net income				
Actuarial gains (losses), net of tax	25,26	**18.1**	(9.9)	(4.2)
Comprehensive loss		**$ (757.0)**	$ (761.8)	$ (68.7)

*See Note 3

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

Harvest OPERATIONS CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

(millions of Canadian dollars)	Notes	Shareholder's Capital	Contributed Surplus	Deficit	Accumulated Other Comprehensive Loss	Total Shareholder's Equity
Balance at December 31, 2012 (*Restated)**		$ 3,860.8	$ –	$ (1,111.3)	$ (57.6)	$ 2,691.9
Losses on derivatives designated as cash flow hedges, net of tax	25	–	–	–	(1.1)	(1.1)
Gains on foreign currency translation	25	–	–	–	7.9	7.9
Actuarial gains, net of tax	25	–	–	–	18.1	18.1
Shareholder loan	28	–	4.3	–	–	4.3
Net loss		–	–	(781.9)	–	(781.9)
Balance at December 31, 2013		**$ 3,860.8**	**$ 4.3**	**$ (1,893.2)**	**$ (32.7)**	**$ 1,939.2**
Balance at December 31, 2011 (*Restated)**		$ 3,860.8	$ –	$ (390.3)	$ (16.8)	$ 3,453.7
Losses on derivatives designated as cash flow hedges, net of tax	25	–	–	–	(13.2)	(13.2)
Losses on foreign currency translation	25	–	–	–	(17.7)	(17.7)
Actuarial losses, net of tax	25	–	–	–	(9.9)	(9.9)
Net loss		–	–	(721.0)	–	(721.0)
Balance at December 31, 2012 (*Restated)**		$ 3,860.8	$ –	$ (1,111.3)	$ (57.6)	$ 2,691.9
Balance at January 1, 2011 (*Restated)**		$ 3,355.4	$ –	$ (284.9)	$ (53.5)	$ 3,107.0
Issued for cash	7	505.4	–			505.4
Gains on derivatives designated as cash flow hedges, net of tax	25	–	–	–	19.4	19.4
Gains on foreign currency translation	25	–	–	–	21.5	21.5
Actuarial losses, net of tax	25	–	–	–	(4.2)	(4.2)
Net loss		–	–	(105.4)	–	(105.4)
Balance at December 31, 2011 (*Restated)**		$ 3,860.8	$ –	$ (390.3)	$ (16.8)	$ 3,453.7

*See Note 3

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

Harvest OPERATIONS CORP.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of Canadian dollars)	Notes		2013		2012 (Restated)*		2011 (Restated)*
			Year Ended December 31				
Cash provided by (used in)							
Operating Activities							
Net loss		**$**	**(781.9)**	$	(721.0)	$	(105.4)
Items not requiring cash							
Depletion, depreciation and amortization			**612.8**		688.4		626.7
Accretion of decommissioning and environmental remediation liabilities	17,22		**22.3**		20.7		23.6
Unrealized (gains) losses on risk management contracts	16		**0.5**		1.1		(0.7)
Unrealized (gains) losses on foreign exchange	23		**40.8**		(1.2)		2.6
Unsuccessful exploration and evaluation costs	11		**11.5**		22.0		17.8
Impairment on property, plant and equipment	9		**483.0**		557.3		–
Gains on disposition of property, plant and equipment	9		**(34.1)**		(30.3)		(7.9)
Gains on redemption of convertible debentures	12,22		**(3.6)**		(0.1)		–
Deferred income tax recovery	19		**(64.2)**		(81.6)		(30.1)
Other non-cash items			**2.4**		(3.1)		4.9
Realized foreign exchange loss on senior unsecured credit facility	13		**1.3**		–		–
Settlement of decommissioning and environmental remediation liabilities	17		**(19.6)**		(20.4)		(22.1)
Change in non-cash working capital	24		**(70.6)**		11.0		51.1
		$	**200.6**	$	442.8	$	560.5
Financing Activities							
Issuance of common shares, net of issuance costs	7,14		–		–		505.4
Bank borrowing, net	12		**293.8**		135.1		343.3
Borrowings from related party loans	28		**80.0**		168.0		–
Borrowing on senior unsecured credit facility	13		**395.4**		–		–
Repayment of senior unsecured credit facility	13		**(396.7)**		–		–
Repayment of promissory note	12		**(11.9)**		–		–
Issuance of senior notes, net of issuance costs	12		**634.4**		–		–
Redemption of convertible debentures	12		**(627.2)**		(106.8)		–
Other cash items			**–**		(0.3)		–
		$	**367.8**	$	196.0	$	848.7
Investing Activities							
Additions to property, plant and equipment	9		**(741.4)**		(620.1)		(974.1)
Additions to exploration and evaluation assets	11		**(16.7)**		(41.1)		(50.9)
Business acquisitions	7		–		–		(509.8)
Property dispositions, net	8,9		**160.5**		87.2		4.5
Change in non-cash working capital	24		**21.6**		(63.8)		108.7
		$	**(576.0)**	$	(637.8)	$	(1,421.6)
Change in cash			**(7.6)**		1.0		(12.4)
Effect of exchange rate changes			–		–		0.1
Cash, beginning of period			**7.6**		6.6		18.9
Cash, end of period		**$**	–	$	7.6	$	6.6
Interest paid		**$**	**78.4**	$	83.9	$	75.9
Income taxes paid		**$**	–	$	–	$	0.1

*See Note 3

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2013, 2012 and 2011
(Tabular amounts in millions of Canadian dollars unless otherwise indicated)

1. Nature of Operations and Structure of the Company

Harvest Operations Corp. (“Harvest” or the “Company”) is an energy company in the business of the exploration, development, and production of crude oil, bitumen, natural gas and natural gas liquids in western Canada with a petroleum refining and marketing business located in the Province of Newfoundland and Labrador. Harvest has three reportable segments: Upstream, BlackGold oil sands (“BlackGold”) and Downstream. For further information regarding these reportable segments, see note 6.

Harvest is a wholly owned subsidiary of Korea National Oil Corporation (“KNOC”). The Company is incorporated and domiciled in Canada. Harvest’s principal place of business is located at 2100, 330 – 5th Avenue SW, Calgary, Alberta, Canada T2P 0L4.

2. Basis of Presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Comparative information in respect of the previous period is provided.

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

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the current year consolidated financial statements as follows:

- As at December 31, 2013, Harvest reclassified the property, plant and equipment balance to include other long-term assets. Comparative amounts in the statement of financial position were restated. As a result, $8.6 million was reclassified from “other long-term assets” to “property, plant and equipment” as at December 31, 2012 (January 1, 2012 - $7.1 million). The reclassifications had no impact to “total assets”.

- In addition, to conform to the 2013 presentation of the write-down of investment tax credits (“ITCs”) which has been included in income tax recovery, Harvest reclassified the write-down of the ITCs from the year ended December 31, 2012 of $27.7 million from “impairment on property, plant and equipment” to “income tax recovery”. The reclassification had no impact to “net loss”.

In addition, Harvest presents an additional statement of financial position at the beginning of the earliest period presented when there is a retroactive application of an accounting policy that has a material impact to the Company. Please also refer to note 3a for the effects of the application of IAS 19R on the comparative periods.

Basis of Measurement
The consolidated financial statements have been prepared on the historical cost basis except for held-for-trading financial assets and derivative financial instruments, which are measured at fair value.

Functional and Presentation Currency
In these consolidated financial statements, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars, which is the Company’s functional currency. All references to US$ are to United States dollars.

3. Changes in Accounting Policies and Estimates

(a) Change in accounting estimate
Up to September 30, 2013, Harvest calculated depletion expense using a unit-of-production method where all unamortized PP&E costs were depleted based on proved developed oil and gas reserves.

As at October 1, 2013, a change in estimate was prospectively applied to the depletion calculation whereby costs related to developed oil and gas properties continue to be depleted based on proved developed reserves. Depletion of costs related to undeveloped oil and gas properties will start once such properties are developed. The costs relating to undeveloped oil and gas assets are transferred to the depletable pool as the underlying reserves are developed through drilling activities. The method of depleting oil and gas assets using the unit-of-production method over proved developed reserves remains unchanged.

Harvest's reserves profile has been trending towards a greater weighting of undeveloped reserves as a proportion of total reserves which triggered management to review the historical capital expenditures, reserves profile, and expected production profile of the Company. This change in estimate was made after the review and management concluded that the new estimation method would provide better matching of PP&E costs against the economic benefits from the periodic consumption of developed and undeveloped oil and gas assets of the Company.

If the new estimation method had been applied for the full year 2013, then the annual depreciation and depletion expense would be $83.4 million lower than if the previous estimation method remained applicable for the full year. Harvest expects a similar magnitude of decrease to the depletion and depreciation expense for 2014. Harvest could not determine the effect of the change in estimate for future periods beyond 2014 as the information will not be meaningful since reserves estimates, production profile and capital expenditures for future periods are subject to high level of uncertainty.

(b) Changes in accounting policies

Effective January 1, 2013, Harvest has adopted the following new IFRS standards and amendments:

- IAS 19, "Employee Benefits", changes the recognition and measurement of defined benefit pension expense and termination benefits and expands disclosure requirements for all employee benefit plans. The amendments to the standard include the requirement to recognize changes in the defined benefit obligation and in the fair value of the plan assets as they occur, thus eliminating the corridor approach that was previously permitted under the standard. All actuarial gains and losses must be recognized immediately through other comprehensive income ("OCI") and the net pension liability or asset must be recognized at the full amount of the plan deficit or surplus. An additional change to the standard is the elimination of the concept of expected return on plan assets that was previously recognized in net earnings and the introduction of the concept of net interest cost. The net interest cost is required to be recognized in net earnings and is calculated by applying the discount rate at the beginning of the reporting period to the net defined benefit liability or asset. As well under IAS 19R unvested past service costs are now recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized. Other amendments include new disclosures, such as quantitative sensitivity disclosures.

  The transition to IAS 19R impacted Harvest's retained earnings and accumulated other comprehensive loss as a result of the recognition of the net interest cost in profit or loss and the elimination of expected return on plan assets. The impacts as at December 31, 2012, January 1, 2012 and January 1, 2011, were an increase in the cumulative prior periods' pre-tax pension expense of $2.7 million, $1.6 million, and $0.7 million, respectively ($2.2 million, $1.3 million and $0.6 million after-tax, respectively) and a corresponding decrease in actuarial gains and losses recognized in accumulated other comprehensive loss.

  For the year ended December 31, 2012, operating expense increased by $1.1 million (2011 – increased by $0.9 million), as a result of increased pension expense and net actuarial losses on defined benefit plans recognized in other comprehensive loss decreased by $1.1 million pre-tax or $0.9 million after-tax (2011 – decreased by $0.9 million pre-tax or $0.7 million after-tax).

  Harvest has also reviewed the classification of its accrual for the long term incentive program and reclassified the portion that will not be paid within the next 12 months to the line item "long-term liability" on the balance sheet. The balance of $3.0 million as at December 31, 2012 and $1.9 million as at January 1, 2012 were reclassified to long-term liabilities.

  The rest of the amendments within IAS 19R did not have any financial impact to Harvest.

- IFRS 10, "Consolidated Financial Statements", replaces the consolidation requirements in SIC-12, "Consolidation – Special Purpose Entities" and a portion of IAS 27. IFRS 10 changes the definition of control under IFRS. The retrospective application of this standard does not have any impact on Harvest's financial statements.

- IFRS 11, "Joint Arrangements", focuses on the rights and obligations of the joint arrangement, rather than its legal form and requires joint arrangements to be classified either as joint operations or joint ventures. The retrospective application of this standard does not have any impact on Harvest's financial statements as substantially all assets are held in joint operations.

- IFRS 12, "Disclosure of Interest in Other Entities", is a comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structure entities and other off balance sheet interests. The retrospective application of this standard does not have any impact on Harvest's financial statements other than additional annual disclosures.

- IFRS 13, "Fair Value Measurement", provides a single source of guidance for fair value measurement and enhances disclosure requirements for information regarding fair value measurements. The adoption of this standard does not have any impact on Harvest's financial statements, other than increasing the level of disclosures provided in note 16, Financial Instruments.

- The amendments to IFRS 7 "Financial Instruments: Disclosures" enhanced the disclosure requirements related to offsetting of financial assets and financial liabilities. The adoption of these amendments does not have any impact to Harvest's financial statements, other than increasing the level of annual disclosures provided in note 16, Financial Instruments.

- In May 2013, the IASB released an amendment to IAS 36, "Impairment of Assets". This amendment requires an entity to disclose the recoverable amount of a cash generating unit for which the entity has recognized or reversed an impairment loss during the reporting period. If the recoverable amount was determined using fair value less costs of disposal, detailed disclosure of how it has been measured will be required. The amendment requires retrospective application and is effective for annual periods beginning on or after January 1, 2014. As allowed by the standard, Harvest early adopted the amendment in the current period. Refer to note 9, Property, Plant and Equipment for the amended disclosure.

(c) Accounting pronouncements

- On June 27, 2013, the IASB issued amendments to IAS 39 "Financial Instruments: Recognition and Measurement" regarding hedge accounting and novation of derivatives. The amendment provides a relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria. The amendments are effective for annual periods beginning on or after January 1, 2014. Harvest does not expect material impact to its consolidated financial statements from this amendment.

- IFRS 9 "Financial Instruments" is a three-phase project intended to replace IAS 39 "Financial Instruments: Recognition and Measurement". In November 2009, the IASB issued the first phase of IFRS 9, which addresses classification and measurement of financial assets. In October 2010, IFRS 9 was updated to include guidance on financial liabilities and derecognition of financial instruments. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

  In November 2013, IFRS 9 was amended to include guidance on hedge accounting and allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI. In addition, the previous mandatory effective date of January 1, 2015 was removed but the standard is still available for early adoption. As the standard is still under development by the IASB, the full impact of this standard on Harvest's consolidated financial statements will not be known until the project is complete. Harvest will continue to monitor the changes to this standard as they arise and will assess the impact accordingly.

- In December 2011, the IASB issued amendments to IAS 32 "Financial Instruments: Presentation" to clarify the requirements for offsetting of financial assets and financial liabilities. The amendments to IAS 32 clarify that the right to offset must be available on the current date and cannot be contingent on a future event. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014, requiring retrospective application. Harvest does not expect material impact to its consolidated financial statements from this amendment.

4. Significant Accounting Policies

(a) *Consolidation*

These consolidated financial statements include the accounts of Harvest and its subsidiaries. All inter-entity transactions and balances have been eliminated upon consolidation. Subsidiaries are fully consolidated from the date of acquisition, being the date on which Harvest obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when Harvest is exposed, 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 investee. Specifically, Harvest controls its subsidiaries as the Company has all of the following via its 100% ownership:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

The financial statements of the subsidiaries are prepared for the same reporting period as Harvest, using consistent accounting policies. The consolidated financial statements of the Company include the following subsidiaries:

Subsidiary	Principal activities	Country of incorporation	% Equity interest
Harvest Breeze Trust No. 1	Oil exploration and production	Canada	100
Harvest Breeze Trust No. 2	Oil exploration and production	Canada	100
Breeze Resources Partnership	Oil exploration and production	Canada	100
Hay River Partnership	Oil exploration and production	Canada	100
North Atlantic Refining Limited	Petroleum refining and marketing	Canada	100

(b) *Interests in Joint Arrangements*

Harvest conducts substantially all of its Upstream petroleum and natural gas production activities through joint operations. Joint operation is a type of joint arrangement over which two or more parties have joint control and rights to the assets and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control. Harvest does not have any joint arrangements that are material to the Company, or that are structured using separate vehicles. In relation to its interests in joint operations, Harvest recognizes in the consolidated financial statements its share of assets, liabilities, revenues and expenses of the arrangements.

(c) *Revenue Recognition*

Revenues associated with the sale of crude oil, natural gas, natural gas liquids and refined products are recognized when title passes to customers and payment has either been received or collection is reasonably certain. Revenues for retail services are recorded when the services are provided. Revenues are measured at the fair value of the consideration received or receivable.

(d) *Inventories*

Inventories are carried at the lower of cost or net realizable value. The costs of petroleum product inventory are determined using the weighted average cost method in Downstream and the first in, first out method in Upstream. Inventory costs include all cost of production such as the cost of purchased crude oil and other feedstocks, other related operating costs and purchased products for resale. The valuation of inventory is reviewed at the end of each month. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. The reversal is limited to the amount of the original write-down. The costs of parts and supplies inventories are determined under the average cost method.

(e) Property, Plant, and Equipment ("PP&E") and Exploration and Evaluation ("E&E") Assets

(i) Upstream and BlackGold

Exploration and evaluation expenditures

Prior to acquiring the legal rights to explore an area, all costs are charged directly to the statement of comprehensive loss as E&E expense.

Once the legal rights to explore are acquired, all costs directly associated with the E&E are capitalized. E&E costs are those expenditures incurred for identifying, exploring and evaluating new pools including acquisition of land and mineral leases, geological and geophysical costs, decommissioning costs, E&E drilling, sampling, appraisals and directly attributable general and administrative costs. All such costs are subject to technical, commercial and management review to confirm the continued intent to develop. When this is no longer the case, the costs are charged to net income as E&E expense. When technical feasibility and commercial viability are established, the relevant expenditure is transferred to PP&E after impairment is assessed and any resulting impairment loss is recognized. If no potentially commercial petroleum is discovered from exploration drilling, the relating E&E assets are written off through the statement of comprehensive loss.

E&E assets are not amortized but are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to cash generating units ("CGUs"). The impairment of E&E assets, and any eventual reversal thereof, is recognized as E&E expense in the statement of comprehensive loss.

Development costs

The Upstream and BlackGold PP&E generally represent costs incurred in acquiring and developing proved and/or probable reserves, and bringing in or enhancing production from such reserves. Development costs include the initial purchase price and directly attributable costs relating to land and mineral leases, geological and seismic studies, property acquisitions, development drilling, construction of gathering systems and infrastructure facilities, decommissioning costs, transfers from E&E assets, and for qualifying assets, borrowing costs. These costs are accumulated on a field or an area basis (major components).

Major capital maintenance projects such as well work-overs, major overhauls and turnarounds are capitalized but general maintenance and repair costs are charged against income. Where a major part of an asset is replaced, it is capitalized within PP&E and the carrying amount of the replaced component is derecognized immediately. The capitalized major capital maintenance projects and replacement parts are amortized as separate components if their useful lives are different from the associated assets. The costs of the day-to-day servicing of PP&E are recognized in net income as incurred.

PP&E are stated at historical cost, less accumulated depreciation, depletion, amortization and impairment losses.

For exchanges that involve only unproven properties, the exchange is accounted for at cost. Exchanges of development and production assets are measured at fair value unless the exchange transaction lacks commercial substance or if neither the fair value of the assets given up nor the assets received can be reliably estimated. Any gains or losses on de-recognition of the asset given up is included in net income.

Depletion, Depreciation and Amortization

Costs incurred related to developed oil and gas properties are depleted using the unit-of-production basis over the proved developed reserves. Cost related to undeveloped oil and gas properties are not immediately included in the depletable pool of developed assets but are transferred to the depletable pool as the reserves are developed through drilling activities.

Certain major components within PP&E such as capitalized maintenance and replacement parts are amortized on a straight-line basis over their respective useful lives, which in general is around four years. Costs of major development projects under construction are excluded from the costs subject to depletion until they are available for use.

Corporate and administrative assets are depreciated on a straight-line basis over the individual assets' useful lives.

Harvest reviews its PP&E's residual values, useful lives and methods of depreciation at each reporting period and adjusted prospectively, if appropriate.

(ii) *Downstream*
PP&E related to the refining assets are recorded at cost. General maintenance and repair costs are expensed as incurred. Major replacements and capital maintenance projects such as turnaround costs are capitalized. Improvements that increase or prolong the service life or capacity of an asset are capitalized.

Depreciation
When significant parts of an item of PP&E have different useful lives, they are accounted for as separate items (major components). Depreciation of recorded cost less the residual value is provided on a straight-line basis over the estimated useful life of the major components as set out below.

Asset	Period
Refining and production plant:	
Processing equipment	5 – 35 years
Structures	15 – 20 years
Catalysts and turnarounds	2 – 8 years
Tugs	25 years
Buildings	10 – 20 years
Vehicles	2 – 7 years
Office and computer equipment	3 – 5 years

(iii) *Disposal of assets*
An item of PP&E and any significant part initially recognized is derecognized upon disposal or abandonment. Gains and losses on disposal are determined by comparing the proceeds from disposal with the carrying amount of the item of PP&E and are recognized in the period of disposal.

(iv) *Impairment of Property, Plant and Equipment and Exploration and Evaluation Assets*
Harvest assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, Harvest estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell ("FVLCS") and its value-in-use ("VIU"). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In such case, an impairment test is performed at the CGUs level. A CGU is a group of assets that Harvest aggregates based on their ability to generate largely independent cash flows.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. To determine VIU, the Company estimates the present value of the future net cash flows expected to derive from the continued use of the asset or CGU without consideration for potential enhancement or improvement of the underlying asset's performance. Discount rates that reflect the market assessments of the time value of money and the risks specific to the asset or CGU are used. In determining FVLCS, discounted cash flows and recent market transactions are taken into account, if available. These calculations are corroborated by valuation multiples or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the previously recognized impairment loss is reversed. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior periods. Such reversal is recognized in net income.

(f) ***Capitalized Interest***
Interest on major development projects is capitalized until the project is complete using the weighted-average interest rate on Harvest's general borrowings. In situations where Harvest borrows funds specifically to

acquire a qualifying asset or project, interests on these funds are also capitalized. Capitalized interest is limited to the actual interest incurred.

(g) Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition.

The assets or disposal groups classified as held for sale are measured at the lower of the carrying amount and FVLCS, with impairments recognized in the consolidated statement of comprehensive loss. Non-current assets held for sale are presented in current assets and liabilities within the consolidated statement of financial positions. Assets held for sale are not depreciated, depleted or amortized.

(h) Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition including any contingent consideration is measured as the aggregate of the consideration transferred at acquisition date fair value. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Any excess of the consideration transferred over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the consideration transferred below the fair value of the net assets acquired is recorded as a gain in net income. Associated transaction costs are expensed when incurred. Any contingent consideration to be transferred to the vendor is recognized at fair value at the acquisition date. Contingent consideration classified as a financial asset or liability is measured at fair value, with changes in fair value recorded in net income.

Those petroleum reserves and resources that are able to be reliably valued are recognized in the assessment of fair values on acquisition. The fair value of oil and natural gas interests is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on reserve estimates. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to groups of CGUs that are expected to benefit from the combination. Goodwill is carried at cost less impairment and is not amortized.

Goodwill is assessed for impairment annually at year-end or more frequently if events occur that could result in impairment. The recoverable amount is determined by calculating the recoverable amount of the group of CGUs that goodwill has been allocated to. The excess of the carrying value of goodwill over the recoverable amount is then recognized as impairment and charged to net income in the period in which it occurs. An impairment loss in respect of goodwill is not reversed.

Where goodwill forms part of a CGU and part of the operation in that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

(i) Provisions

(i) General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expenses relating to provisions are generally presented in the income statement net of any reimbursement except for decommissioning liabilities. If the effect of the time value of money is material, provisions are discounted using a current discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

(ii) Decommissioning Liabilities

Harvest recognizes the present value of any decommissioning liabilities as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and normal use of the assets. Harvest uses a risk-free rate to estimate the present value of the expenditure required to settle the present obligation at the reporting date. The associated decommissioning costs are capitalized as part of the carrying amount of the related asset and 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 finance costs whereas changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligation are charged against the decommissioning liabilities.

(iii) *Environmental Remediation Liabilities*

Environmental expenditures related to an existing condition caused by past operations are expensed. Environmental liabilities are recognized when a clean-up is probable and the associated costs can be reliably estimated. The amount recognized is the best estimate of the expenditure required. When the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure.

(iv) *Contingencies*

A contingency is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable.

(j) Income Taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in net income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax liabilities and assets are generally not recognized for temporary differences arising on:

- investments in subsidiaries and associates and interests in joint ventures;
- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction which 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, and Harvest intends to settle current tax liabilities and assets on a net basis.

Deferred tax assets are recognized for all deductible temporary difference the carry-forward of unused tax credits and any unused tax losses, 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, both recognized and unrecognized are reviewed at each reporting date and are adjusted to the extent that it is probable that the related tax benefit will be realized.

Harvest is entitled to certain investment tax credits on qualifying manufacturing capital expenditures relating to its Downstream operations. At each period end, Harvest reviews and if appropriate reduces the balance to the extent that it is no longer probable that the investment tax credit will be realized. Any reduction is recorded under “income tax expense (recovery)” in the statement of comprehensive loss.

(k) Post-Employment Benefits

Harvest’s Downstream operations maintains a defined benefit pension plan and a defined benefit health care plan, which cover the majority of its employees and their surviving spouses.

The cost of providing the defined pension benefits and other post-retirement benefits is actuarially determined by an independent financial security firm using the projected unit credit method reflecting management’s best estimates of discount rates, rate of compensation increase, retirement ages of employees, and expected health care costs. The benefit plan expenses include the current service costs and the net interest expense on the net obligation. Net interest expense is calculated by applying the discount rate to the net defined benefit asset or liability. Harvest recognizes its benefit plan expenses under operating expenses in the statement of comprehensive loss. Harvest does not have any past service costs arising from plan amendments, curtailment or restructuring.

Pension plan assets are measured at fair values with the difference between the fair value of the plan assets and the total employee benefit obligation recorded on the statement of financial position. Actuarial gains or losses are recognized in other comprehensive income immediately, which are not reclassified to net income in subsequent periods.

(l) Currency Translation

Foreign currency-denominated transactions are translated to the respective functional currencies of Harvest's entities at exchange rates at the date of the transactions. Non-monetary items measured at historical cost are not subsequently re-translated. Monetary assets and liabilities denominated in foreign currencies are converted into Harvest's functional currencies at the exchange rate at the reporting date. Conversion gains and losses on monetary items are included in net income in the period in which they arise.

Harvest's Downstream operations' functional currency is the U.S. dollar, while Harvest's presentation currency is the Canadian dollar. Therefore, the Downstream operations' assets and liabilities are translated at the period-end exchange rates, while revenues and expenses are translated using monthly average rates. Translation gains and losses relating to the foreign operations are included in accumulated other comprehensive income as a separate component of shareholder's equity.

(m) Financial Instruments

Harvest recognizes financial assets and financial liabilities, including derivatives, on the consolidated statements of financial position when the Company becomes a party to the contract. Financial liabilities are removed from the consolidated financial statements when the liability is extinguished either through settlement of or release from the obligation of the underlying liability. Financial assets are derecognized when (1) the rights to receive cash flows from the assets have expired or (2) the Company has transferred its rights to receive cash flows from the assets or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the assets, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset.

Harvest initially measures all financial instruments at fair value. Subsequent measurement of the financial instruments is based on their classification. Financial assets are classified into the following categories: held for trading, available for sale, held-to-maturity investments and loans and receivables. Financial liabilities are classified as held for trading or other financial liabilities. Harvest has not designated any financial asset or liability at fair value through profit or loss.

Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of commodity in accordance with the Company's expected purchase, sale or usage fall within the normal purchase or sale exemption and are accounted for as executor contracts.

Financial assets and financial liabilities classified as held for trading are measured at fair value with changes in those fair values recognized in net income. Financial assets classified as either held-to-maturity or loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair values with changes in those fair values recognized in other comprehensive income.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Transaction costs relating to financial instruments classified as held for trading are expensed in net income in the period that they are incurred. For transaction costs that are directly attributable to the acquisition or issuance of financial instruments not classified as held for trading, they are included in the costs of the financial instruments upon initial recognition.

Harvest assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired, as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. For loans and receivables, the carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of comprehensive loss.

(n) Hedges

Harvest uses derivative financial instruments such as foreign currency contracts and financial commodity contracts to hedge its foreign currency risks and commodity price risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are recorded in net income, except for the effective portion of cash flow hedges, which is recognized in other comprehensive income.

At the inception of a hedge relationship, Harvest formally designates and documents the hedge relationship to which the Company intends to apply hedge accounting. The designation document includes the risk management objective and strategy for undertaking the hedge, the identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the hedge effectiveness. Upon designation and at each reporting date, Harvest assesses hedge effectiveness by performing regression analysis to assess the relationship between the hedged item and hedging instrument. Only if such hedges are highly effective in achieving offsetting changes in fair value or cash flows will Harvest continue to apply hedge accounting.

The effective portion of the gain or loss on the hedging instrument is recognized directly in other comprehensive income, while any ineffective portion is recognized immediately in net income. Amounts recognized in other comprehensive income are transferred to the statement of comprehensive loss when the hedged transaction affects net income, such as when the hedged forecasted transaction occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognized in other comprehensive income is transferred to net income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gains or losses previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction affects net income.

(o) Leases

Leases or other arrangements that convey a right to use a specific asset are classified as either finance or operating leases. Finance leases transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item. Finance leases are capitalized at the commencement of the lease term at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Capitalized leased assets are amortized over the shorter of the estimated useful life of the assets and the lease term. Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

(p) Fair Value Measurement

Harvest measures derivatives at fair value at each balance sheet date and, for the purposes of impairment testing, uses FVLCS to determine the recoverable amount of some of its non-financial assets. Also, fair values of financial instruments measured at amortized cost are disclosed in note 16.

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 at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the following markets that are accessible by the Company:

- the principal market for the asset or liability, or
- in the absence of a principal market, the most advantageous market for the asset or liability

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Harvest uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy; described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, Harvest determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

5. 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 period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below:

(a) *Joint arrangements*

Judgment is required to determine when Harvest has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. Harvest has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, such as approval of the capital expenditure program. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. Refer to note 4 for more details.

(b) *Reserves*

The provision for depletion and depreciation of Upstream assets is calculated on the unit-of-production method based on proved developed reserves. As well, reserve estimates impact net income through the application of impairment tests. Provision for Upstream and BlackGold's decommissioning liability may change as changes in reserve lives affect the timing of decommissioning activities. The recognition and carrying value of deferred income tax assets relating to Upstream and BlackGold may change as reserve estimates impact Harvest's estimates of the likely recoverability of such assets. Revisions or changes in the reserve estimates can have either a positive or a negative impact on net income and PP&E.

The process of estimating reserves is complex and requires significant judgments based on available geological, geophysical, engineering and economic data. In the process of estimating the recoverable oil and natural gas reserves and related future net cash flows, Harvest incorporates many factors and assumptions, such as:

- expected reservoir characteristics based on geological, geophysical and engineering assessments;
- future production rates based on historical performance and expected future operating and investment activities;
- future commodity prices and quality differentials;
- discount rates; and

- future development costs.

On an annual basis, the Company engages qualified, independent reserves evaluators to evaluate Harvest's reserves data.

Significant judgment is required to determine the future economic benefits of the oil and gas assets and in turn, to derive the proper DD&A estimate. This includes the interpretation and application of reserves estimates, the selection of the reserves base for the unit of production calculation and the matching of capitalized costs with the benefit of production.

(c) Impairment of long-lived assets

Long-lived assets (goodwill, PP&E and E&E assets) are aggregated into CGUs based on their ability to generate largely independent cash inflows and are used for impairment testing. The determination of the Company's CGUs is subject to significant judgment; product type, internal operational teams, geology and geography were key factors considered when grouping Harvest's oil and gas assets into the CGUs.

PP&E is tested for impairment when indications of impairment exist. PP&E impairment indicators include declines in commodity prices, production, reserves and operating results, cost overruns and construction delays. E&E impairment indicators include expiration of the right to explore and cessation of exploration in specific areas, lack of potential for commercial viability and technical feasibility and when E&E costs are not expected to be recovered from successful development of an area. The determination of whether such indicators exist requires significant judgment.

The recoverable amounts of CGUs and individual assets are determined based on the higher of VIU calculations and estimated FVLCS. To determine the recoverable amounts, Harvest uses reserve estimates for both the Upstream and BlackGold operating segments and expected future cash flows for the Downstream operations. The estimates of reserves, future commodity prices, refining margins, forecast refinery utilization and yields, discount rates, operating expenses and sustaining capital expenditures require significant judgments. FVLCS is determined using significant judgments, see note 5(i) below for further discussion.

(d) *Provisions*

In the determination of provisions, management is required to make a significant number of estimates and assumptions with respect to activities that will occur in the future including the ultimate amounts and timing of settlements, inflation factors, risk-free discount rates, emergence of new restoration techniques and expected changes in legal, regulatory, environmental and political environments. A change in any one of the assumptions could impact the estimated future obligation and in return, net income and in the case of decommissioning liabilities, PP&E.

(e) *Employee benefits*

Harvest's Downstream operations maintains a defined benefit pension plan and provides certain post-retirement health care benefits, which cover the majority of its Downstream employees and their surviving spouses. An independent actuary determines the costs of the Company's employee future benefit programs using certain management assumptions and estimates such as, the expected plan investment performance, salary escalation, retirement ages of employees, expected health care costs, employee turnover and discount rates. The obligation and expense recorded related to Harvest's employee future benefit plans could increase or decrease if there were to be a change in these estimates.

The Company also maintains a long-term incentive plan which is a performance-based program. As a result, the compensation costs accrued for the plan are subject to the estimation of what the ultimate payout will be and are subject to management's judgment as to whether or not the performance criteria will be met.

(f) Fair value of acquired assets and liabilities

Business acquisitions are accounted for using the acquisition method. Under this method, the consideration transferred is allocated to the assets acquired and the liabilities assumed based on the fair values at the time of the acquisition. In determining the fair value of the assets and liabilities, Harvest is often required to make assumptions and estimates, such as reserves, future commodity prices, fair value of undeveloped land, discount rates, decommissioning liabilities and possible outcome of any assumed contingencies. Changes in any of these assumptions would impact amounts assigned to assets and liabilities and goodwill in the consideration transferred allocation and as a result, future net income.

(g) Risk management contracts

Derivative risk management contracts are valued using valuation techniques with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity. Changes in any of these assumptions would impact fair value of the risk management contracts and as a result, future net income and other comprehensive income. For risk management contracts designated as hedges, changes in the above mentioned assumptions may impact hedge effectiveness assessment and Harvest's ability to continue applying hedge accounting.

(h) Income taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which Harvest and its subsidiaries operate are subject to change. The Company is also subject to income tax audits and reassessments which may change its provision for income taxes. Therefore, the determination of income taxes is by nature complex, and requires making certain estimates and assumptions.

Harvest recognizes the net deferred tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

(i) Fair value measurements

Significant judgment is required to determine what assumptions market participants would use to price an asset or a liability, such as forward prices, foreign exchange rates and discount rates. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. To determine "highest and best use" requires further judgment. Changes in estimates and assumptions about these inputs could affect the reported fair value.

(j) Contingencies

Contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

6. Segment Information

Harvest's operating segments are determined based on the nature of the products and services. The following summary describes the operations in each of the segments:

- Upstream operations consist of exploration, development, production and subsequent sale of petroleum, natural gas and natural gas liquids in western Canada.
- The BlackGold Oil sands project is located near Conklin, Alberta. Phase 1 of the project that is designed to produce 10,000 barrels of bitumen per day is currently under construction and development. BlackGold will use steam assisted gravity drainage technology to recover bitumen.
- Downstream operations include the purchase and refining of crude oil at a medium gravity sour crude oil hydrocracking refinery, and the sale of the refined products to commercial, wholesale and retail customers. Downstream is located in the Province of Newfoundland and Labrador.

	Year Ended December 31[3]								
	Upstream[2]			Downstream[2]			Total		
	2013	2012	2011	**2013**	2012 *(Restated)**	2011 *(Restated)**	**2013**	2012 *(Restated)**	2011 *(Restated)**
Petroleum, natural gas and refined products sales[1]	**$1,101.7**	$1,193.5	$1,286.9	**$4,416.9**	$4,752.1	$3,302.3	**$5,518.6**	$5,945.6	$4,589.2
Royalties	**(153.9)**	(164.6)	(195.5)	–	–	–	**(153.9)**	(164.6)	(195.5)
Revenues	**$ 947.8**	$1,028.9	$1,091.4	**$4,416.9**	$4,752.1	$3,302.3	**$5,364.7**	$5,781.0	$4,393.7
Expenses									
Purchased products for resale and processing	–	–	–	**4,327.4**	4,520.3	3,118.1	**4,327.4**	4,520.3	3,118.1
Operating	**345.6**	359.0	350.4	**233.1**	262.6	226.6	**578.7**	621.6	577.0
Transportation and marketing	**22.6**	22.2	29.6	**5.4**	4.4	6.3	**28.0**	26.6	35.9
General and administrative	**68.1**	65.0	60.8	**0.6**	0.6	1.8	**68.7**	65.6	62.6
Depletion, depreciation and amortization	**530.0**	579.5	535.7	**82.8**	108.9	91.0	**612.8**	688.4	626.7
Exploration and evaluation	**12.3**	24.9	18.3	–	–	–	**12.3**	24.9	18.3
Gains on disposition of PP&E	**(33.9)**	(30.3)	(7.9)	**(0.2)**	–	–	**(34.1)**	(30.3)	(7.9)
Risk management contracts gains	**(4.4)**	(0.5)	(6.7)	–	–	–	**(4.4)**	(0.5)	(6.7)
Impairment on PP&E	**24.1**	21.8	–	**458.9**	535.5	–	**483.0**	557.3	–
Operating income (loss)	**$ (16.6)**	$ (12.7)	$ 111.2	**$ (691.1)**	$ (680.2)	$ (141.5)	**$ (707.7)**	$(692.9)	$ (30.3)
Finance costs							**94.2**	111.0	109.1
Foreign exchange gains (losses)							**44.2**	(1.3)	(4.0)
Loss before income tax							**$ (846.1)**	$(802.6)	$ (135.4)
Income tax recovery							**(64.2)**	(81.6)	(30.0)
Net loss							**$ (781.9)**	$(721.0)	$ (105.4)

*See Note 3.

(1) Of the total Downstream revenue, one customer represents sales of $3.7 billion for the year ended December 31, 2013 (2012- one customer with sales of $4.0 billion; 2011 – two customers with sales of $1.6 billion and $586 million). No other single customer within either segment represents greater than 10% of Harvest's total revenue.
(2) There is no intersegment activity.
(3) The BlackGold segment is under development, as such, there are no operating activities to report.

Harvest OPERATIONS CORP.

	Year Ended December 31, 2013			
Capital Additions	Upstream	BlackGold	Downstream	Total
Additions to PP&E	**$ 305.6**	**$ 444.5**	**$ 53.2**	**$ 803.3**
Additions to E&E	**16.7**	–	–	**16.7**
Property acquisitions (dispositions), net	**(155.6)**	**0.7**	**(0.2)**	**(155.1)**
Total expenditures	**$ 166.7**	**$ 445.2**	**$ 53.0**	**$ 664.9**

	Year Ended December 31, 2012			
Capital Additions	Upstream	BlackGold	Downstream	Total
Additions to PP&E	$ 406.4	$ 164.1	$ 54.2	$ 624.7
Additions to E&E	41.1	–	–	41.1
Property acquisitions (dispositions), net	(84.3)	–	–	(84.3)
Total expenditures	$ 363.2	$ 164.1	$ 54.2	$ 581.5

	Year Ended December 31, 2011			
Capital Additions	Upstream	BlackGold	Downstream	Total
Business acquisition	$ 548.3	$ –	$ –	$ 548.3
Additions to PP&E	588.7	101.2	284.2	974.1
Additions to E&E	50.9	–	–	50.9
Property acquisitions (dispositions), net	2.6	–	–	2.6
Total expenditures	$ 1,190.5	$ 101.2	$ 284.2	$ 1,575.9

	Total Assets	**PP&E**	**E&E**	**Goodwill**
December 31, 2013				
Upstream	**$ 3,794.0**	**$ 3,166.2**	**$ 59.4**	**$ 379.8**
BlackGold	**1,144.0**	**1,138.8**	–	–
Downstream	**351.9**	**156.4**	–	–
Total	**$ 5,289.9**	**$ 4,461.4**	**$ 59.4**	**$ 379.8**
December 31, 2012				
Upstream	$ 4,146.6	$ 3,507.6	$ 73.4	$ 391.8
BlackGold	684.9	679.8	–	–
Downstream	823.1	604.5	–	–
Total	$ 5,654.6	$ 4,791.9	$ 73.4	$ 391.8
January 1, 2012				
Upstream	$ 4,292.9	$ 3,687.7	$ 74.5	$ 404.9
BlackGold	583.4	497.3	–	–
Downstream	1,408.1	1,222.5	–	–
Total	$ 6,284.4	$ 5,407.5	$ 74.5	$ 404.9

7. Business Combination

On February 28, 2011, Harvest acquired certain petroleum and natural gas assets of Hunt Oil Company of Canada, Inc. and Hunt Oil Alberta, Inc. (collectively "Hunt") for total cash consideration of $511.0 million. KNOC provided $505.4 million of equity to fund the acquisition and acquisition costs were $1.3 million for the year ended December 31, 2011.

The acquisition was accounted for as a business combination. The fair values of identifiable assets and liabilities, including interim adjustments as at the date of acquisition were:

Property, plant and equipment	$	530.9
Evaluation and exploration assets		18.6
Decommissioning and environmental remediation liabilities		(38.0)
Other liabilities		(0.5)
Cash consideration	$	511.0

The final review of the fair value of the purchase price allocation was completed at December 31, 2011. These consolidated financial statements incorporate the results of operations of Hunt from February 28, 2011. For the year ended December 31, 2011, the Hunt assets contributed $133.0 million of revenue and $96.6 million to Harvest's earnings before depletion and income tax. If the acquisition had been completed on the first day of 2011, Harvest's revenues for the year ended December 31, 2011 would have been $14.6 million higher and the earnings before depletion and income tax would have been $7.4 million higher.

8. Assets Held For Sale

In February 2013, Harvest completed the sale of selected non-core oil and gas properties in Alberta and British Columbia that had been recorded in assets held for sale for proceeds of approximately $9.0 million. The sale of these assets resulted in a gain of $4.3 million in Harvest's Upstream segment, which is included in gains on disposition of property, plant and equipment in the statement of comprehensive loss for the year ended December 31, 2013.

Assets held for sale		
Exploration and evaluation	$	0.4
Property, plant and equipment, net		13.8
Goodwill		2.7
Assets held for sale December 31, 2012	$	16.9
Disposals		(16.9)
Assets held for sale December 31, 2013	**$**	**–**

Liabilities associated with assets held for sale		
Decommissioning liabilities December 31, 2012	$	11.9
Disposals		(11.9)
Liabilities associated with assets held for sale December 31, 2013	**$**	**–**

9. Property, Plant and Equipment ("PP&E")

	Upstream	BlackGold	Downstream	Total
Cost:				
As at January 1, 2012	$ 4,707.7	$ 497.3	$ 1,378.6	$ 6,583.6
Additions	406.4	164.1	54.2	624.7
Acquisitions	1.3	–	–	1.3
Change in decommissioning liabilities	82.7	18.4	1.2	102.3
Transfers from E&E	19.2	–	–	19.2
Exchange adjustment	–	–	(29.5)	(29.5)
Disposals	(108.8)	–	(11.5)	(120.3)
Investment tax credits	–	–	(2.7)	(2.7)
Transfers to assets held for sale	(23.0)	–	–	(23.0)
As at December 31, 2012	$ 5,085.5	$ 679.8	$ 1,390.3	$ 7,155.6
Additions	305.6	444.5	53.2	803.3
Acquisitions	16.3	0.7	–	17.0
Disposals	(177.9)	–	(4.9)	(182.8)
Change in decommissioning liabilities	31.5	13.8	–	45.3
Transfers from E&E	11.3	–	–	11.3
Exchange adjustment	–	–	99.4	99.4
As at December 31, 2013	**$ 5,272.3**	**$ 1,138.8**	**$ 1,538.0**	**$ 7,949.1**
Accumulated depletion, depreciation, amortization and impairment losses:				
As at January 1, 2012	$ 1,020.0	$ –	$ 156.1	$ 1,176.1
Depreciation, depletion and amortization	579.5	–	108.9	688.4
Disposals	(34.2)	–	(11.5)	(45.7)
Impairment	21.8	–	535.5	557.3
Exchange adjustment	–	–	(3.2)	(3.2)
Transfers to assets held for sale	(9.2)	–	–	(9.2)
As at December 31, 2012	$ 1,577.9	$ –	$ 785.8	$ 2,363.7
Depreciation, depletion and amortization	530.0	–	82.8	612.8
Disposals	(25.9)	–	(4.7)	(30.6)
Impairment	24.1	–	458.9	483.0
Exchange adjustment	–	–	58.8	58.8
As at December 31, 2013	**$ 2,106.1**	**$ –**	**$ 1,381.6**	**$ 3,487.7**
Net Book Value:				
As at December 31, 2013	**$ 3,166.2**	**$ 1,138.8**	**$ 156.4**	**$ 4,461.4**
As at December 31, 2012	$ 3,507.6	$ 679.8	$ 604.5	$ 4,791.9
As at January 1, 2012	$ 3,687.7	$ 497.3	$ 1,222.5	$ 5,407.5

General and administrative costs directly attributable to PP&E addition activities of $19.6 million have been capitalized during the year ended December 31, 2013 (2012 – $21.6 million; 2011 – $21.4 million). Borrowing costs relating to the development of BlackGold assets have been capitalized within PP&E during the year ended December 31, 2013 in the amount of $19.8 million (2012 – $10.8 million; 2011 – $4.5 million), at a weighted average interest rate of 4.8% (2012 – 5.7%; 2011 – 6.7%). No borrowing costs were capitalized for year ended December 31, 2013 for the Downstream debottlenecking project as this asset was written down during the fourth quarter of 2012 and no longer qualifies for capitalizing borrowing costs (2012 – $2.7 million at a weighted average interest rate of 5.7%; 2011 – $4.1 million at a weighted average interest rate of 6.7%). PP&E additions also

include non-cash additions relating to the BlackGold deferred payment of $71.5 million (December 31, 2012 – $4.7 million; January 1, 2012 – $nil) (see note 18).
At December 31, 2013, the following costs were excluded from the asset base subject to depreciation, depletion and amortization: BlackGold oil sands assets of $1.1 billion (December 31, 2012 – $679.8 million; January 1, 2012 – $497.3 million), Downstream assets under construction of $37.0 million (December 31, 2012 – $42.4 million; January 1, 2012 – $102.5 million); and Downstream major parts inventory of $8.3 million (December 31, 2012 – $7.4 million; January 1, 2012 – $7.5 million).

Downstream operations have experienced continuing losses due to lower than expected crack spreads and increased regulatory costs. During the second half of 2013, Harvest commenced a process to evaluate various business opportunities pertaining to the Downstream business, including but not limited to introduction of joint venture partners, disposition in whole or in part as well as multiple economic scenarios for future operations. As at December 31, 2013, no decision has been made out of this review, but during the review process, management gathered various external information that triggered an impairment assessment of the refinery. As a result, during the fourth quarter of 2013, Downstream recorded an impairment of $458.9 million (2012 – $535.5 million; 2011 – $nil) on its refinery CGU relating to the PP&E to reflect the excess of the carrying value over the assessed recoverable amount. The recoverable amount was based on the CGU's VIU, estimated using the net present value of future cash flows and using a pre-tax discount rate of 16% (2012 – 16%; 2011 – nil). Cash flows were projected using the estimated life of the facility which is 40 years. The recoverable amount as at December 31, 2013 for the refinery CGU was $132.7 million (2012 – $581.9 million). The VIU model did not include any expected cash flows from capital enhancement projects but does assumes a partial plant outage for major maintenance work every two years commencing in 2014 and a full plant outage every six years commencing 2016. The pre-tax discount rate of 16% incorporated the various risks inherent in the industry and in forecasting uncertainties. The following assumptions where used in the VIU model for determining gross margin per barrel:

Year	Crack spread per bbl throughput ($US/bbl)	Crude feedstock differential ($US/bbl)
2014	6.05	-3.74
2015	9.55	-6.54
2016	8.82	-7.23
2017	9.79	-8.11
2018	9.92	-8.74
Thereafter	+2%/year	+2%/year

An increase of 100 bps in the pre-tax discount rate would result in an additional impairment of $21.2 million, while a 5% decrease in gross margin per barrel would result in an additional impairment of $123.4 million.

During 2013, Harvest recognized an impairment loss of $24.1 million (2012 – $21.8 million; 2011 – $nil) against its Upstream PP&E relating to certain gas properties in the South Alberta gas CGU, which was triggered by reserves write-down as a result of lower forecast development activities, a decline in the long-term gas prices and reduced estimates of recoverable NGLs from the CGU. The recoverable amount was based on the assets' VIU, estimated using the net present value of proved plus probable reserves discounted at a pre-tax rate of 8% (2012 – 10%; 2011 – nil). Please refer to note 10 for the forecast prices used in the VIU model. The recoverable amount as at December 31, 2013 for the South Alberta gas CGU was $77.7 million (2012 – $155.1 million). A 200 bps increase in the discount rate would result in an additional impairment for the South Alberta gas CGU of approximately $4.2 million while a 10% decrease in the forward gas price estimate would result in an additional impairment of approximately $10.5 million.

During 2013, Harvest closed the disposition of certain non-core oil and gas assets in west central Saskatchewan and Alberta for total proceeds of approximately $173.9 million. Harvest recognized $33.9 million of gains on disposition during the year ended December 31, 2013 (2012 – $30.3 million; 2011 – $7.9 million) relating to the de-recognition of PP&E, E&E, goodwill and decommissioning liabilities.

10. Goodwill

As at January 1, 2012	$	404.9
Disposals		(10.4)
Transfers to assets held for sale		(2.7)
As at December 31, 2012	$	391.8
Disposals		(12.0)
As at December 31, 2013	**$**	**379.8**

Goodwill of $379.8 million (December 31, 2012 - $391.8 million; January 1, 2012 - $404.9 million) has been allocated to the Upstream operating segment. In assessing whether goodwill has been impaired, the carrying amount of the Upstream operating segment (including goodwill) is compared with the recoverable amount of the Upstream operating segment. The estimated recoverable amount was based on the Upstream operating segment's VIU, calculated using the estimated discounted future cash flows from the proved plus probable reserves evaluated by Harvest's independent reserves evaluator. The key assumptions required to estimate the recoverable amount are the oil and natural gas prices, and the discount rate. The forecast prices are consistent with what have been used by Harvest's independent reserve evaluator. The discount rate represents management's assessment of the weighted average cost of capital of listed entities that have similar assets based on external sources. A pre-tax discount rate of 10% and the following forward commodity price estimates were used in the goodwill impairment calculation at December 31, 2013:

Year	WTI Crude Oil ($US/bbl)	Edmonton Light Crude Oil ($Cdn/bbl)	AECO Gas ($Cdn/Mmbtu)	US$/Cdn$ Exchange Rate
2014	97.50	92.76	4.03	0.95
2015	97.50	97.37	4.26	0.95
2016	97.50	100.00	4.50	0.95
2017	97.50	100.00	4.74	0.95
2018	97.50	100.00	4.97	0.95
Thereafter(1)	+2%/year	+2%/year	+2%/year	0.95

(1) Represents the average escalation percentage in each year after 2018 to the end of reserve life.

Based on the calculation performed using the above assumptions, management did not identify impairment to the Upstream operating segment and the associated goodwill for the year ended December 31, 2013 (2012 and 2011 - $nil). A 200 bps increase in the discount rate would result in a goodwill impairment of approximately $51.9 million, while a 10% decrease in the forward oil price estimates would result in a goodwill impairment of approximately $266.5 million. A 10% decrease in the forward gas or NGL price estimates would not result in any goodwill impairment.

11. Exploration and Evaluation Assets ("E&E")

As at January 1, 2012	$	74.5
Additions		41.1
Dispositions		(0.6)
Unsuccessful exploration and evaluation costs		(22.0)
Transfer to property, plant and equipment		(19.2)
Transfer to assets held for sale		(0.4)
As at December 31, 2012	$	73.4
Additions		16.7
Dispositions		(7.9)
Unsuccessful exploration and evaluation costs		(11.5)
Transfer to property, plant and equipment		(11.3)

As at December 31, 2013	**$**	**59.4**

The Company determined certain E&E costs to be unsuccessful and not recoverable, which were expensed as follows, together with pre-licensing expenses.

	Year Ended December 31						
		2013		2012			2011
Pre-licensing costs	**$**	**0.8**	$	2.9	$	$	0.5
Unsuccessful E&E costs		**11.5**		22.0			17.8
E&E expense	**$**	**12.3**	$	24.9	$	$	18.3

12. Long-Term Debt

		December 31, 2013		December 31, 2012		January 1, 2012
Credit facility (note 12a)	**$**	**785.2**	$	491.3	$	355.6
6⅞% senior notes due 2017 (US$500 million) (note 12b)		**522.1**		486.4		495.7
2⅛% senior notes due 2018 (US$630 million) (note 12c)		**665.7**		–		–
6.40% debentures due 2012 (series D) (note 12d)		–		–		107.1
7.25% debentures due 2013 (series E) (note 12d)		–		331.8		333.3
7.25% debentures due 2014 (series F) (note 12d)		–		60.4		60.6
7.50% debentures due 2015 (series G) (note 12d)		–		239.8		241.0
Promissory note (note 12e)		**12.3**		–		–
Long-term debt outstanding		**1,985.3**		1,609.7		1,593.3
Less current portion		**(12.3)**		(331.8)		(107.1)
Long-term debt	**$**	**1,973.0**	$	1,277.9	$	1,486.2

a) Credit Facility

Effective April 1, 2013, Harvest extended the credit facility maturity date by one year to April 30, 2017. Borrowings under the facility are repayable in full at such date. In addition, the financial covenants for the credit facility agreement were amended to remove the total debt to annualized EBITDA ratio and to add an interest coverage ratio (annualized EBITDA to annualized interest expense). The interest coverage ratio cannot be less than 2.50:1. On October 18, 2013, the credit facility borrowing capacity was increased from $800 million to $1.0 billion. All other terms to the credit facility agreement remain unchanged.

Borrowings under the credit facility are available by way of bankers' acceptances, Canadian prime rate loans, LIBOR based loans, or U.S. base rate loans. At December 31, 2013, Harvest had $788.5 million drawn from the $1.0 billion available under the credit facility (December 31, 2012 - $494.2 million; January 1, 2012 - $358.9 million), of which US$40.0 million were LIBOR based loans (December 31, 2012 - US$90.0 million; January 1, 2012 - $nil). The carrying value of the credit facility includes $3.3 million of deferred financial charges at December 31, 2013 (December 31, 2012 - $2.9 million; January 1, 2012 - $3.3 million). For the year ended December 31, 2013, interest charges on the facility aggregated to $20.3 million (2012 - $17.2 million; 2011 - $5.7 million), reflecting an effective interest rate of 3.0% (2012 and 2011 – 3.0% for both periods).

The credit facility is secured by a first floating charge over all of the assets of Harvest and its restricted subsidiaries plus a first mortgage security interest on the Downstream operation's refinery assets. The most restrictive covenants of Harvest's credit facility include an aggregate limitation of $25 million on financial assistance and/or capital contributions to parties other than Harvest or its restricted subsidiaries, a limitation to carrying on business in countries that are not members of the Organization of Economic Co-operation and Development and a limitation on the payment of distributions to the shareholder in certain circumstances such as an event of default. The credit facility requires standby fees on undrawn amounts and interest on amounts borrowed at varying rates depending on Harvest's ratio of senior debt to its annualized EBITDA. Availability under this facility is subject to the following quarterly financial covenants as defined in the credit facility agreement:

	Covenant	**December 31, 2013**	December 31, 2012	January 1, 2012
Senior debt(1) to annualized EBITDA(2)	3.00 to 1.0 or less	**2.41**	1.10	0.73
Annualized EBITDA(2) to annualized interest expense(3)(4)	2.50 to 1.0 or higher	**3.62**	n/a	n/a
Senior debt(1) to total capitalization(5)	50% or less	**22%**	14%	10%
Total debt(6) to total capitalization(5)	55% or less	**54%**	41%	36%

(1) Senior debt consists of letters of credit of $13.3 million (December 31, 2012 – $8.2 million; January 1, 2012 - $8.7 million), credit facility of $785.2 million (December 31, 2012 - $491.3 million; January 1, 2012 - $355.6 million), guarantees of $32.8 million (December 31, 2012 - $76.6 million; January 1, 2012 - $92.1 million) and risk management contracts liabilities of $0.6 million (December 31, 2012 and January 1, 2012 - $nil) at December 31, 2013.

(2) The measure of Consolidated EBITDA (herein referred to as "annualized EBITDA") used in Harvest's credit facility agreement is defined as earnings before finance costs, income tax expense or recovery, DD&A, exploration and evaluation costs, impairment of assets, unrealized gains or losses on risk management contracts, unrealized gains or losses on foreign exchange, gains or losses on disposition of assets and other non-cash items during the last four quarters.

(3) The annualized EBITDA to annualized interest expense ratio was added effective April 1, 2013, under an amendment to the credit facility and the total debt to annualized EBITDA ratio was deleted pursuant to the amendment.

(4) Annualized interest expense is a reference to Consolidated Interest Expense as defined in Harvest's credit facility agreement and includes all interest expenses and finance charges incurred during the last four quarters.

(5) Total capitalization consists of total debt, related party loans and shareholder's equity less equity for BlackGold of $457.7 million at December 31, 2013 (December 31, 2012 - $458.6 million; January 1, 2012 - $459.9 million).

(6) Total debt consists of senior debt, convertible debentures and senior notes.

b) 6⅞% Senior Notes

On October 4, 2010, Harvest issued US$500 million of 6⅞% senior notes for net cash proceeds of US$484.6 million. The senior notes are unsecured with interest payable semi-annually on April 1 and October 1 and mature on October 1, 2017. The senior notes are unconditionally guaranteed by Harvest and all of its wholly-owned subsidiaries that guarantee the revolving credit facility and every future restricted subsidiary that guarantees certain debt. The notes are redeemable at a redemption price equal to 100% of the principal amount of the notes being redeemed plus a make-whole redemption premium, plus accrued and unpaid interest to the redemption date. Harvest may also redeem the notes at any time in the event that certain changes affecting Canadian withholding taxes occur.

There are covenants restricting, among other things, the sale of assets and the incurrence of additional indebtedness if such issuance would result in an interest coverage ratio, as defined, of less than 2.0 to 1. Notwithstanding the interest coverage ratio limitation, the incurrence of additional indebtedness may be permitted under certain incurrence tests. One provision allows Harvest's incurrence of indebtedness under the credit facility or other future bank debt in an aggregate principal amount not to exceed the greater of $1.0 billion and 15% of total assets. In addition, the covenants of the senior notes restrict the amount of dividends Harvest can pay to shareholders; no dividends have been paid during the year ended December 31, 2013.

c) 2⅛% Senior Notes

On May 14, 2013, Harvest issued US$630 million senior unsecured notes due May 14, 2018 with a coupon rate of 2⅛% for net proceeds of US$626.1 million. Interest on the 2⅛% senior notes is paid semi-annually on May 14 and November 14 of each year.

The senior notes are unconditionally and irrevocably guaranteed by Harvest's parent company KNOC. A guarantee fee of 0.52% per annum of the principal balance is payable to KNOC semi-annually on May 14 and November 14 of each year. Also see note 28 - Related Party Transactions.

d) Convertible Debentures

On April 2 and April 15, 2013, respectively, Harvest early redeemed the 7.25% Debentures Due 2013 and the 7.25% Debentures Due 2014. Both series of debentures were redeemed at par with the total redemption payment, including all accrued and unpaid interest up to the respective redemption dates being $1,002.9794 per $1,000 principal amount for the 7.25% Debentures Due 2013 and $1,006.5547 per $1,000 principal amount for the 7.25% Debentures Due 2014.

On June 13, 2013, Harvest early redeemed the 7.50% Debentures Due 2015 at par with the total redemption payment, including all accrued and unpaid interest up to the respective redemption dates being $1,002.6712 per $1,000 principal amount.

As a result of the early redemption of all three series of debentures in 2013, Harvest recognized a total gain on redemption of $3.6 million, which has been included in "finance costs" in the consolidated statements of comprehensive loss (see note 22).

On September 19, 2012, Harvest redeemed its 6.40% of convertible debentures at a redemption price of $1,024.90 per $1,000 principal amount for a total amount of $106.8 million. The redemption price was equal to the principal plus all accrued and unpaid interest thereon. Harvest recognized a nominal gain on the redemption in 2012, which has been included in "finance costs" in the consolidated statements of comprehensive income (see note 22).

e) Promissory Note

During the first quarter of 2013, Downstream entered in to an agreement with a third party to convert $24.2 million of a trade payable to a two-year promissory note. The promissory note bears interest of 3%. The principal and interest are to be repaid in 24 equal installments, which started in January 2013. For the year ended December 31, 2013, interest charges of $0.6 million (2012 and 2011 - $nil) relating to this promissory note were recorded. At December 31, 2013, the current portion of the promissory note is $12.3 million (December 31, 2012 and January 1, 2012 - $nil).

13. Senior Unsecured Credit Facility

On March 14, 2013, Harvest entered into a US$400 million senior unsecured credit facility. The facility was irrevocably and unconditionally guaranteed by KNOC and would, unless terminated earlier in accordance with its terms, terminate on October 2, 2013. Proceeds of borrowings under the senior unsecured credit facility were restricted and used to fund the early redemption of the 7.25% Debentures Due 2013 and the 7.25% Debentures Due 2014. Draws from the senior unsecured credit facility during the second quarter of 2013 were repaid with the proceeds from the issuance of the 2⅛% senior notes after which the senior unsecured credit facility was cancelled.

14. Shareholder's Capital

(a) Authorized

The authorized capital consists of an unlimited number of common shares with no par value and an unlimited number of preferred shares issuable in series.

(b) Number of Common Shares Issued

Outstanding at December 31, 2010	335,535,047
Issued to KNOC at $10.00 per share for Hunt acquisition	50,543,602
Outstanding at December 31, 2013 and 2012 and January 1, 2012	**386,078,649**

15. Capital Structure

Harvest considers its capital structure to be its long term debt, related party loans, and shareholder's equity.

	December 31, 2013	December 31, 2012	January 1, 2012
Credit facility[1]	**$ 788.5**	$ 494.2	$ 358.9
6⅞% senior notes (US$500 million)[1][2]	**531.8**	497.5	508.5
2⅛% senior notes (US$630 million)[1][2]	**670.1**	–	–
Related party loans (US$170 million and CAD$80 million)[2] (note 28)	**260.8**	169.1	–
Principal amount of convertible debentures[1]	**–**	627.2	734.0
	$ 2,251.2	1,788.0	1,601.4
Shareholder's equity	**1,939.2**	2,691.9	3,453.7
	$ 4,190.4	$ 4,479.9	$ 5,055.1

(1) Excludes capitalized financing fees
(2) Face value converted at the period end exchange rate

Harvest's primary objective in its management of capital resources is to have access to capital to fund its financial obligations as well as future operating and capital activities. Harvest monitors its capital structure and makes adjustments according to market conditions to remain flexible while meeting these objectives. Accordingly, Harvest may adjust its capital spending programs, issue equity, issue new debt or repay existing debt.

Harvest evaluates its capital structure using the same financial covenant ratios as the ones externally imposed under the Company's credit facility (see note 12a). The Company continually monitors its credit facility covenants and actively takes steps, such as reduce borrowings, increase capitalization, amending or renegotiating covenants as and when required, to ensure compliance. Harvest was in compliance with all debt covenants at December 31, 2013 and the prior period.

On December 30, 2013, Harvest signed a five year $200 million subordinated loan agreement with KNOC (see note 28) to increase flexibility in the Company's capital structure. Harvest intends to fund capital and operating requirements using proceeds drawn from this loan agreement. The Company borrowed $80 million under such loan agreement on December 30, 2013. Had Harvest fully drawn down the $200 million and applied the proceeds against its borrowings under the credit facility, the "total debt to total capitalization" covenant ratio would have been 51% as at December 31, 2013. Through active capital management, Harvest does not expect to breach this covenant.

16. Financial Instruments

a) Fair Values

Financial instruments of Harvest consist of cash, accounts receivable, accounts payable and accrued liabilities, borrowings under the credit facility, risk management contracts, promissory note, senior notes, related party loans and long term liability. Cash and risk management contracts are the only financial instruments that are measured at fair value on a recurring basis. Harvest classifies the fair value of these transactions according to the fair value hierarchy based on the amount of observable inputs used to value the instrument.

During the year ended December 31, 2013, there were no transfers among Levels 1, 2 and 3.

	December 31, 2013		Fair Value Measurements	
	Carrying Value	**Fair Value**	**Quoted prices in active markets (Level 1)**	**Significant other observable inputs (Level 2)**
Financial assets				
Loans and Receivables				
Accounts receivable (note 16b)	**$ 168.9**	**$ 168.9**	**$ –**	**$ 168.9**
Held for Trading				
Risk management contracts	**0.3**	**0.3**	–	**0.3**
Total Financial Assets	**$ 169.2**	**$ 169.2**	**$ –**	**$ 169.2**
Financial Liabilities				
Held for Trading				
Risk management contracts	**$ 0.6**	**$ 0.6**	**$ –**	**$ 0.6**
Measured at Amortized Cost				
Accounts payable and accrued liabilities (note 16b)	**258.3**	**258.3**	–	**258.3**
Credit facility	**785.2**	**788.5**	–	**788.5**
6⅞% senior notes	**522.1**	**577.7**	–	**577.7**
2⅛% senior notes	**665.7**	**653.2**	**653.2**	–
Promissory note	**12.3**	**12.3**	–	**12.3**
Related party loans	**259.6**	**242.1**	–	**242.1**
Long-term liability	**69.2**	**60.7**	–	**60.7**
Total Financial Liabilities	**$ 2,573.0**	**$ 2,593.4**	**$ 653.2**	**$ 1,940.2**

	December 31, 2012 *(Restated)**		Fair Value Measurements	
	Carrying Value	Fair Value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)
Financial assets				
Loans and Receivables				
Accounts receivable (note 16b)	$ 175.6	$ 175.6	$ –	$ 175.6
Held for Trading				
Cash	7.6	7.6	7.6	–
Risk management contracts	1.8	1.8	–	1.8
Total Financial Assets	$ 185.0	$ 185.0	$ 7.6	$ 177.4
Financial Liabilities				
Measured at Amortized Cost				
Accounts payable and accrued liabilities (note 16b)	373.0	373.0	–	373.0
Credit facility	491.3	494.2	–	494.2
6⅞% senior notes	486.4	555.3	–	555.3
Convertible debentures	632.0	644.0	644.0	–
Related party loan	172.1	172.1	–	172.1
Long-term liability	7.7	7.7	–	7.7
Total Financial Liabilities	$ 2,162.5	$ 2,246.3	$ 644.0	$ 1,602.3

*See Note 3

	January 1, 2012 (*Restated*)*		Fair Value Measurements	
	Carrying Value	Fair Value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)
Financial assets				
Loans and Receivables				
Accounts receivable (note 16b)	$ 212.3	$ 212.3	$ –	$ 212.3
Held for Trading				
Cash	6.6	6.6	6.6	–
Risk management contracts	20.2	20.2	–	20.2
Total Financial Assets	$ 239.1	$ 239.1	$ 6.6	$ 232.5
Financial Liabilities				
Measured at Amortized Cost				
Accounts payable and accrued liabilities (note 16b)	462.2	462.2	–	462.2
Credit facility	355.6	358.9	–	358.9
6⅞% senior notes	495.7	523.1	–	523.1
Convertible debentures	742.0	752.5	752.5	–
Total Financial Liabilities	$ 2,055.5	$ 2,096.7	$ 752.5	$ 1,344.2

*See Note 3

Non-derivative financial instruments
Due to the short term maturities of accounts receivable, accounts payable and accrued liabilities and promissory note, their carrying values approximate their fair values.

The credit facility bears floating market rate, thus, the fair value approximates the carrying value (excluding deferred financing charges). The carrying value of the credit facility includes $3.3 million of deferred financing charges at December 31, 2013 (December 31, 2012 – $2.9 million; January 1, 2012 – $3.3 million).

The fair value of the 2⅛% senior notes was based on the quoted market price of the notes on the Singapore Exchange as at December 31, 2013 (Level 1), which includes the benefit of the guarantee offered by KNOC. The fair value of the convertible debentures was based on the quoted market price on the Toronto Stock Exchange as at December 31, 2012 and January 1, 2012 (Level 1). The fair value of the 6⅞% senior notes was estimated based on the period end trading price of the notes on the secondary market (Level 2).

The fair values of the related party loans and long-term liability are estimated by discounting the future interest and principal payments using the current market interest rates of instruments with similar terms. At December 31, 2013, the rate used in determining the fair values of the related party loans and long-term liability was 7.0% (December 31, 2012 – 4.6% and 4.5%, respectively; January 1, 2012 - nil).

Derivative financial instruments
Harvest enters into risk management contracts with various counterparties, principally financial institutions with investment grade credit ratings. The fair values of the risk management contracts are determined based on the quoted forward prices of similar transactions observable in active markets as at December 31, 2013. The fair values of the risk management contracts are net of a credit valuation adjustment attributable to derivative counterparty default risk or the Company's own default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in the hedging relationship and other financial instruments recognized at fair value. Derivative financial instruments carried at fair value are as follows:

	December 31, 2013		December 31, 2012		January 1, 2012	
	Asset	Liability	Asset	Liability	Asset	Liability
Natural gas swap	**$ 0.2**	**$ –**	$ 1.8	$ –	$ –	$ –
Crude oil price swap	**–**	**–**	–	–	19.7	–
Power swap	**0.1**	**(0.6)**	–	–	0.5	–
	$ 0.3	**$ (0.6)**	$ 1.8	$ –	$ 20.2	$ –

b) Financial Assets and Financial Liabilities Subject to Offsetting

The following table presents the recognized financial instrument that are offset, or subject to enforceable master netting arrangements or other similar agreements but not offset, as at December 31, 2013 and 2012 and January 1, 2012, and shows in the "net" column what the net impact would be on Harvest's statement of financial position if all set-off rights was exercised.

	Notes	Gross assets (liabilities)	Amounts offset Gross assets (liabilities) offset	Net amount presented	Related financial instruments that are not offset	Net
December 31, 2013						
Financial assets						
Account receivable	(a)(b)	**$ 197.5**	**$ (189.7)**	**$ 7.8**	**$ –**	**$ 7.8**
Risk management contracts	(c)	**0.3**	**–**	**0.3**	**(0.1)**	**0.2**
		$ 197.8	**$ (189.7)**	**$ 8.1**	**$ (0.1)**	**$ 8.0**
Financial Liabilities						
Account payable and accrued liabilities	(a)(b)	**$ (189.7)**	**$ 189.7**	**$ –**	**$ –**	**$ –**
Risk management contracts	(c)	**(0.6)**	**–**	**(0.6)**	**0.1**	**(0.5)**
		$ (190.3)	**$ 189.7**	**$ (0.6)**	**$ 0.1**	**$ (0.5)**
December 31, 2012						
Financial assets						
Account receivable	(a)(b)	$ 237.2	$ (237.2)	$ –	$ –	$ –
Risk management contracts	(c)	1.8	–	1.8	–	1.8
		$ 239.0	$ (237.2)	$ 1.8	$ –	$ 1.8
Financial Liabilities						
Account payable and accrued liabilities	(a)(b)	$ (267.5)	$ 237.2	$ (30.3)	$ –	$ (30.3)
Risk management contracts	(c)	–	–	–	–	–
		$ (267.5)	$ 237.2	$ (30.3)	$ –	$ (30.3)
January 1, 2012						
Financial assets						
Account receivable	(a)(b)	$ 142.8	$ (142.8)	$ –	$ –	$ –
Risk management contracts	(c)	20.2	–	20.2	–	20.2
		$ 163.0	$ (142.8)	$ 20.2	$ –	$ 20.2
Financial Liabilities						
Account payable and accrued liabilities	(a)(b)	$ (185.9)	$ 142.8	$ (43.1)	$ –	$ (43.1)
Risk management contracts	(c)	–	–	–	–	–
		$ (185.9)	$ 142.8	$ (43.1)	$ –	$ (43.1)

(a) Standard terms of the supply and off take ("SOA") agreement include provision allowing settlement of payments in the normal course of business.

(b) Various master netting agreements with counterparties that allow net settlement of payments in the normal course of business.

(c) Harvest entered into derivative transactions under International Swaps and Derivatives Association ("ISDA") master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. When credit event such as default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable is settlement of all transactions. The ISDA agreements do not meet the criteria for offsetting in the statement of financial position as Harvest does not have currently enforceable right to offset recognized amounts because the rights to offset is enforceable only on the occurrence of future events such as a default on the bank loan or other credit events.

c) Risk Exposure

Harvest manages its exposures to financial risks in accordance with its risk management profile with the objective to support the Company's cash flow requirements and to deliver financial targets. Harvest is exposed to market risks resulting from fluctuations in commodity prices, currency exchange rates and interest rates in the normal course of operations. Harvest is also exposed, to a lesser extent, to credit risk on accounts receivable, counterparty risk from price risk management contracts and to liquidity risk relating to the Company's debt. Management monitors and measures these risks and report to the Board of Directors on a regular basis. Risk management targets, such as hedging ratio, hedge contracts, prices and duration of contracts are reviewed and approved by the Board at least annually.

(i) *Risk Management Contracts*

The Company at times enters into natural gas, crude oil, electricity and foreign exchange contracts to reduce the volatility of cash flows from some of its forecast sales and purchases, and when allowable, will designate these contracts as cash flow hedges. These derivative contracts are entered for periods consistent with the underlying hedged transactions. Under hedge accounting, the effective portion of the unrealized gains and losses is included in OCL. The effective portion of the realized gains and losses is removed from AOCL and included in petroleum, natural gas, and refined product sales (see note 16 and 20). The ineffective portion of the unrealized and realized gains and losses are recognized in the consolidated statement of comprehensive loss.

Risk management contracts (gains) losses recorded to income include the ineffective portion of the gains or losses on the derivative contracts designated as cash flow hedges, the gains or losses on the derivatives that were not designated as hedges and the gains or losses subsequent to the discontinuation of hedge accounting on the previously designated derivatives:

	Year Ended December 31								
	2013			2012			2011		
	Realized gains	**Unrealized losses**	**Total**	Realized (gains) losses	Unrealized losses	Total	Realized (gains) losses	Unrealized (gains) losses	Total
Power	**$ (3.1)**	**$ 0.5**	**$ (2.6)**	$ –	$ –	$ –	$ (7.7)	$ 1.0	$ (6.7)
Crude Oil	**(0.4)**	**–**	**(0.4)**	(2.1)	1.1	(1.0)	1.7	(1.7)	–
Currency	**(1.4)**	**–**	**(1.4)**	0.5	–	0.5	–	–	–
	$ (4.9)	**$ 0.5**	**$ (4.4)**	$ (1.6)	$ 1.1	$ (0.5)	(6.0)	(0.7)	$ (6.7)

The following is a summary of Harvest's risk management contracts outstanding at December 31, 2013:

Contracts Designated as Hedges

Contract Quantity	**Type of Contract**	**Term**	**Contract Price**	**Fair Value**
36,750 GJ/day	AECO swap	Jan – Dec 2014	$3.71/GJ	$ 0.2

Contracts Not Designated as Hedges

Contract Quantity	**Type of Contract**	**Term**	**Contract Price**	**Fair Value**
30 MWh	AESO power swap	Jan – Dec 2014	$55.29/MWh	$ (0.5)

(ii) Credit Risk

Upstream Accounts Receivable

Accounts receivable in Harvest's Upstream operations are due from crude oil and natural gas purchasers as well as joint venture partners in the petroleum and natural gas industry and are subject to normal industry credit risks. Concentration of credit risk is mitigated by having a broad customer base, which includes a significant number of companies engaged in joint operations with Harvest. Harvest periodically assesses the financial strength of its crude oil and natural gas purchasers and will adjust its marketing plan to mitigate credit risks. This assessment involves a review of external credit ratings of the counterparty; however, if external ratings are not available, Harvest performs an internal credit review based on the purchaser's past financial performance. Credit is allocated to a counterparty dependent on the external and internal credit rating, and if required parent guarantees, letter of credit or prepayments are requested. The credit risk associated with joint venture partners is mitigated by reviewing the credit history of partners and requiring some partners to provide cash prior to incurring significant capital costs on their behalf. Additionally, most agreements have a provision enabling Harvest to use the proceeds from the sale of production that would otherwise be taken in kind by the partner to offset amounts owing from the partner that is in default. Generally, the only instances of impairment are when a purchaser or partner is facing bankruptcy or extreme financial distress.

Risk Management Contract Counterparties
Harvest is exposed to credit risk from the counterparties to its risk management contracts. This risk is managed by diversifying Harvest's risk management portfolio among a number of counterparties limited to lenders in its syndicated credit facility; Harvest has no history of losses with these counterparties.

Downstream Accounts Receivable
The SOA exposes Harvest to the credit risk of Macquarie Energy Canada Ltd. ("Macquarie") as all feedstock purchases and the majority of product sales are made with Macquarie. This credit risk is mitigated by the amounts owing to Macquarie for feedstock purchases that are offset against amounts receivable from Macquarie for product sales with the balance being net settled. The SOA also requires both Harvest and Maquarie's parent, Macquarie Bank Ltd, to provide reciprocal guarantees of US$75 million to each other in order to mitigate the risk of either counterparty being unable to settle a net payable amount. At December 31, 2013, Harvest is in a net receivable position with Macquarie and the outstanding balance is included in the trade receivable table below.

Harvest's maximum exposure to credit risk relating to the above classes of financial assets at December 31, 2013 and 2012 and January 1, 2012 is the carrying value of accounts receivable. The tables below provide an analysis of Harvest's current and past due but not impaired receivables.

	December 31, 2013				
		Overdue AR			
	Current AR	**≤ 30 days**	**> 30 days, ≤ 60 days**	**> 60 days, ≤ 90 days**	**> 90 days**
Upstream accounts receivable[1]	$ 111.2	$ 1.1	$ 0.4	$ 0.1	$ 2.1
Downstream accounts receivable[1]	44.8	–	5.9	1.6	1.7
	$ 156.0	**$ 1.1**	**$ 6.3**	**$ 1.7**	**$ 3.8**[2]

(1) Net of payables subject to master netting arrangements or other similar agreements. See note 16(b).
(2) Net of $2.5 million of allowance for doubtful accounts.

	December 31, 2012				
		Overdue AR			
	Current AR	≤ 30 days	> 30 days, ≤ 60 days	> 60 days, ≤ 90 days	> 90 days
Upstream accounts receivable[1]	$ 114.9	$ 0.7	$ 0.4	$ 0.5	$ 5.5
Downstream accounts receivable[1]	44.2	–	7.0	1.5	0.9
	$ 159.1	$ 0.7	$ 7.4	$ 2.0	$ 6.4[2]

(1) Net of payables subject to master netting arrangements or other similar agreements. See note 16(b).
(2) Net of $4.0 million of allowance for doubtful accounts.

	January 1, 2012				
		Overdue AR			
	Current AR	≤ 30 days	> 30 days, ≤ 60 days	> 60 days, ≤ 90 days	> 90 days
Upstream accounts receivable[1]	$ 146.1	$ 1.3	$ 0.6	$ 1.2	$ 4.0
Downstream accounts receivable[1]	50.7	6.1	1.7	0.2	0.4
	$ 196.8	$ 7.4	$ 2.3	$ 1.4	$ 4.4[2]

(1) Net of payables subject to master netting arrangements or other similar agreements. See note 16(b).
(2) Net of $3.3 million of allowance for doubtful accounts.

(iii) Liquidity Risk

Harvest is exposed to liquidity risk due to the Company's accounts payables and accrued liabilities, risk management contracts liability, borrowings under its credit facility, senior notes, promissory note, related party loans and long long-term liability. This risk is mitigated by managing the maturity dates on the Company's obligations, utilizing the undrawn borrowing capacity in the credit facility and related party loan with KNOC, complying with covenants and managing the Company's cash flow by entering into price risk management contracts. Additionally, when Harvest enters into price risk management contracts it selects counterparties that are also lenders in its syndicated credit facility thereby using the security provided in the credit agreement and eliminating the requirement for margin calls and the pledging of collateral. Majority of the financial liabilities are an integral part of Harvest's capital structure which is monitored and managed as discussed in note 15.

In addition to the guarantee provided to Macquarie, at December 31, 2012, Harvest also provided guarantees of $2.0 million for Downstream product purchases (January 1, 2012 - $15.8 million). Harvest did not provide any guarantees for product purchases as at December 31, 2013.

The following tables provide an analysis of Harvest's financial liability maturities based on the remaining terms of its liabilities including the related interest charges as at December 31, 2013 and 2012, and January 1, 2012:

	December 31, 2013				
	≤1 year	**>1 year ≤3 years**	**>3 years ≤5 years**	**>5 years**	**Total**
Accounts payable and accrued liabilities[1]	$ 258.3	$ –	$ –	$ –	$ 258.3
Credit facility and interest	25.8	51.7	789.2	–	866.7
6⅞% senior notes and interest	36.5	73.1	568.4	–	678.0
2⅛% senior notes and interest	14.2	28.5	691.4	–	734.1
Promissory note and interest	12.5	–	–	–	12.5
Related party loans and interest	–	–	316.0	–	316.0
Long-term liability	–	21.8	19.3	48.2	89.3
Risk management contracts liability	0.6	–	–	–	0.6
	$ 347.9	**$ 175.1**	**$ 2,384.3**	**$ 48.2**	**$2,955.5**

[1] Net of receivables subject to master netting arrangements or other similar agreements. See note 16(b).

	December 31, 2012 *(Restated)**				
	≤1 year	**>1 year ≤3 years**	**>3 years ≤5 years**	**>5 years**	**Total**
Accounts payable and accrued liabilities[1]	$ 373.0	$ –	$ –	$ –	$ 373.0
Credit facility and interest	13.9	27.9	498.8	–	540.6
Convertible debentures and interest	370.6	322.5	–	–	693.1
6⅞% senior notes and interest	34.2	68.4	557.3	–	659.9
Related party loan and interest	–	–	206.4	–	206.4
Long-term liability	–	3.9	0.9	2.9	7.7
	$ 791.7	$ 422.7	$ 1,263.4	$ 2.9	$2,480.7

*See Note 3

[1] Net of receivables subject to master netting arrangements or other similar agreements. See note 16(b).

	January 1, 2012 (*Restated*)*				
	≤1 year	>1 year ≤3 years	>3 years ≤5 years	>5 years	Total
Accounts payable and accrued liabilities[(1)]	$ 462.2	$ –	$ –	$ –	$ 462.2
Credit facility and interest	5.6	11.3	360.7	–	377.6
Convertible debentures and interest	158.6	449.1	244.0	–	851.7
6⅞% senior notes and interest	35.0	69.9	69.9	534.7	709.5
	$ 661.4	$ 530.3	$674.6	$ 534.7	$2,401.0

*See Note 3
(1) Net of receivables subject to master arrangements or other similar agreements. See note 16(b).

(iv) Market Risks and Sensitivity Analysis

Interest rate risk
Harvest is exposed to interest rate risk on its bank borrowings as interest rates are determined in relation to floating market rates plus an incremental charge based on the Company's senior debt to annualized EBITDA. Harvest's 6⅞% and 2⅛% senior notes and related party loans have fixed interest rates and therefore do not have any additional interest rate risk. Harvest manages its interest rate risk by targeting appropriate levels of debt relative to its expected cash flow from operations.

If the interest rate applicable to Harvest's bank borrowings at December 31, 2013 increased or decreased by approximately 30 basis points with all other variables held constant, pre-tax income for the year would change by $2.3 million (2012 – $1.4 million; 2011 - $1.0 million) as a result of change in interest expense on variable rate borrowings under the credit facility.

Currency exchange rate risk
Harvest is exposed to the risk of changes in the U.S. dollar exchange rate on its U.S. dollar denominated revenues. In addition, Harvest's 6⅞% and 2⅛% senior notes, related party loan from ANKOR and LIBOR based loans are denominated in U.S. dollars, collectively US$1.3 billion (2012 - $760 million; 2011 - $500 million). Interest on such debt is also payable in U.S. dollars and accordingly, the future cash payments of the principal and interest obligations will be sensitive to fluctuations in the U.S. dollars relative to the Canadian dollars.

Harvest's Downstream operations operate with a U.S. dollar functional currency which gives rise to currency exchange rate risk on the Company's Canadian dollar denominated monetary assets and liabilities such as Canadian dollar bank accounts, accounts receivable and payable, and defined benefit obligations. Harvest manages these exchange rate risks by occasionally entering into fixed rate currency exchange contracts on future U.S. dollar payments and U.S. dollar sales receipts.

If the U.S. dollar strengthened or weakened by 10% relative to the Canadian dollar, the impact on pre-tax income and other comprehensive income due to the translation of financial instruments held at December 31 would be as follows:

	December 31, 2013		December 31, 2012		January 1, 2012	
	Increase (decrease) in pre-tax income	**Increase (decrease) in OCI before tax**	Increase (decrease) in pre-tax income	Increase (decrease) in OCI before tax	Increase (decrease) in pre-tax income	Increase (decrease) in OCI before tax
10% strengthening in U.S. dollar relative to Canadian dollar	$ (50.6)	$ (64.3)	$ (1.2)	$ (46.5)	$(19.9)	$ (34.8)
10% weakening in U.S. dollar relative to Canadian dollar	$ 50.6	$ 64.3	$ 1.2	$ 46.5	$ 19.9	$ 34.8

(1) The sensitivity to net income and other comprehensive income is done independently.

Commodity Price Risk

Harvest is exposed to natural gas and crude oil price movements as part of its normal business operations. The Company uses price risk management contracts to protect a portion of the Company's future cash flows and net income against unfavorable movements in commodity prices. These contracts are recorded on the consolidated statement of financial position at their fair value as of the reporting date. These fair values are generally determined as the difference between the stated fixed price of the contract and an expected future price of the commodity. Variances in expected future prices expose Harvest to commodity price risk as changes will result in a gain or loss that Harvest will realize on settlement of these contracts. This risk is mitigated by continuously monitoring the effectiveness of these contracts.

If the following changes in expected forward prices were applied to the fair value of risk management contracts in place at December 31, 2013 and 2012, and January 1, 2012, the pre-tax impact would be as follows:

	December 31, 2013			
		Increase (decrease) in pre-tax income		**Increase (decrease) in OCI before tax**
Forward price of natural gas – 10% increase	**$**	**–**	**$**	**(5.0)**
Forward price of natural gas – 10% decrease	**$**	**–**	**$**	**5.0**
Forward price of electricity – 10% increase	**$**	**1.4**	**$**	**–**
Forward price of electricity – 10% decrease	**$**	**(1.4)**	**$**	**–**

	December 31, 2012			
		Increase (decrease) in pre-tax income		Increase (decrease) in OCI before tax
Forward price of natural gas – 10% increase	$	–	$	(1.2)
Forward price of natural gas – 10% decrease	$	–	$	1.2

	January 1, 2012			
		Increase (decrease) in pre-tax income		Increase (decrease) in OCI before tax
Forward price of crude oil – 10% increase	$	(1.0)	$	(18.5)
Forward price of crude oil – 10% decrease	$	0.6	$	11.4

17. Provisions

	Upstream	BlackGold	Downstream	Total
Decommissioning liabilities at January 1, 2012	$ 664.4	$ 1.5	$ 14.6	$ 680.5
Liabilities incurred	9.9	15.8	–	25.7
Settled during the period	(18.4)	(0.2)	–	(18.6)
Revisions (change in estimated timing and costs)	72.8	2.6	1.2	76.6
Disposals	(27.4)	–	–	(27.4)
Accretion	19.9	0.1	0.4	20.4
Transfers to assets held for sale	(11.9)	–	–	(11.9)
Decommissioning liabilities at December 31, 2012	$ 709.3	$ 19.8	$ 16.2	$ 745.3
Environmental remediation at December 31, 2012	6.6	–	–	6.6
Other provisions at December 31, 2012	3.5	–	–	3.5
Less current portion	(28.1)	–	–	(28.1)
Non-current provisions at December 31, 2012	$ 691.3	$ 19.8	$ 16.2	$ 727.3
Decommissioning liabilities at December 31, 2012	$ 709.3	$ 19.8	$ 16.2	$ 745.3
Liabilities incurred	8.6	14.9	–	23.5
Settled during the period	(18.6)	(0.1)	–	(18.7)
Revisions (change in estimated timing and costs)	22.9	(1.1)	–	21.8
Disposals	(33.6)	–	–	(33.6)
Accretion	20.8	0.8	0.5	22.1
Decommissioning liabilities at December 31, 2013	$ 709.4	$ 34.3	$ 16.7	$ 760.4
Environmental remediation at December 31, 2013	6.7	–	–	6.7
Other provisions at December 31, 2013	3.5	–	–	3.5
Less current portion	(39.1)	–	–	(39.1)
Non-current provisions at December 31, 2013	**$ 680.5**	**$ 34.3**	**$ 16.7**	**$ 731.5**

Harvest estimates the total undiscounted amount of cash flows required to settle its decommissioning and environmental remediation liabilities to be approximately $1.6 billion at December 31, 2013 (December 31, 2012 - $1.8 billion; January 1, 2012 - $1.4 billion), which will be incurred between 2014 and 2074. A risk-free discount rate of 3.0% (December 31, 2012 and January 1, 2012 - 3.0%) and inflation rate of 1.7% (December 31, 2012 and January 1, 2012 - 1.7%) were used to calculate the fair value of the decommissioning and environmental remediation liabilities. The actual decommissioning and environmental remediation costs will ultimately depend upon future market prices for the necessary decommissioning and remediation work required, which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

Harvest's other provisions relates to legal claims against Harvest and their estimated settlement amounts. In addition to these claims, Harvest is defendant and plaintiff in a number of other legal actions that arise in the normal course of business and the company believes that any liabilities that might arise pertaining to such matters would not have a material effect on its consolidated financial statements.

18. Long-Term Liability

On May 30, 2012, Harvest amended certain aspects of its BlackGold oil sands project engineering, procurement and construction ("EPC") contract, including revising the compensation terms from a lump sum price to a cost reimbursable price and confirming greater Harvest control over project execution. Harvest and the EPC contractor also agreed to apply the cumulative progress payments made under the lump sum contract and the remaining deposit of $24.4 million as at May 30, 2012 towards costs incurred to that date.

Under the EPC contract, a maximum of approximately $101 million of the EPC costs will be paid in equal installments, without interest, over 10 years commencing on the completion of the EPC work in 2014. The liability is considered a financial liability and is initially recorded at fair value, which is estimated as the present value of all future cash payments discounted using the prevailing market rate of interest for similar instruments. As at December 31, 2013, Harvest recognized a total liability of $76.2 million (December 31, 2012 – $4.7 million; January 1, 2012 – $nil) using a discount rate of 4.5% (December 31, 2012 – 4.5%; January 1, 2012 – nil) of which $9.6 million (December 31, 2012 and January 1, 2012 – $nil) is payable within a year and has been included with accounts payable and accrued liabilities.

Also included in long-term liability is an accrual related to Harvest's long term incentive program of $2.6 million (December 31, 2012 – $3.0 million; January 1, 2012 – $1.9 million) as well as deferred credits of $0.3 million (December 31, 2012 – $0.5 million; January 1, 2012 – $0.8 million).

19. Income Taxes

	Year Ended December 31		
	2013	2012 *(Restated)**	2011 *(Restated)**
Current income tax expense	**$ –**	$ –	$ 0.1
Deferred income tax ("DIT") recovery	**(64.2)**	(81.6)	(30.1)
	$ (64.2)	$ (81.6)	$ (30.0)

*See Note 3.

The income tax recovery varies from the amount that would be computed by applying the relevant Canadian income tax rates to reported losses before taxes as follows:

	Year Ended December 31		
	2013	2012 *(Restated)**	2011 *(Restated)**
Loss before income tax	**$ (846.1)**	$ (802.6)	$ (135.4)
Combined Canadian federal and provincial statutory income tax rate	**27.69%**	27.65%	28.08%
Computed income tax recovery at statutory rates	**(234.3)**	(221.9)	(38.0)
Increased expense (recovery) resulting from the following:			
Difference between current and expected tax rates	**60.4**	56.3	13.9
Foreign exchange impact not recognized in income	**15.8**	(6.7)	7.8
Amended returns and pool balances	**(0.3)**	6.1	4.9
Reversal of previously recognized temporary differences	**75.0**	52.4	(12.7)
Non-deductible expenses (recoveries)	**(11.0)**	4.6	(3.5)
Other	**2.6**	(0.1)	(2.4)
Non-taxable portion of capital loss	**–**	–	–
	(91.8)	(109.3)	(30.0)
Income tax credit receivable written-off	**27.6**	27.7	–
Income tax recovery	**$ (64.2)**	$ (81.6)	$ (30.0)

*See Note 3.

The change in the applicable tax rate for the year ended December 31, 2013 from the previous year is due to an increase in the provincial component of the tax rate.

Movements in the DIT asset (liability) are as follows:

	PP&E	Decommissioning liabilities	Non-capital tax losses	Other	Total deferred asset (liability)
At January 1, 2012	$ (605.3)	$ 172.4	$ 375.0	$ 3.0	$ (54.9)
Recognized in profit or loss	282.3	19.2	(184.1)	(8.1)	109.3
Recognized in other comprehensive loss	–	–	–	6.7	6.7
At December 31, 2012	$ (323.0)	$ 191.6	$ 190.9	$ 1.6	$ 61.1
Recognized in profit or loss	28.4	0.8	57.3	5.3	91.8
Recognized in other comprehensive loss	–	–	–	(4.1)	(4.1)
At December 31, 2013	**$ (294.6)**	**$ 192.4**	**$ 248.2**	**$ 2.8**	**$ 148.8**

DIT assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses can be utilized. As at December 31, 2013, Harvest had approximately $1.5 billion (December 31, 2012 - $1.1 billion; January 1, 2012 - $1.6 billion) of carry-forward tax losses and approximately $3.5 billion (December 31, 2012 - $3.5 billion; January 1, 2012 - $2.8 billion) of tax pools that would be available to offset against future taxable profit. The carry-forward losses will expire between the years 2024 and 2033. Based on management's best estimate of the forecasted future taxable profit of the Company, management believes that there is not sufficient evidence to recognize $713.8 million (December 31, 2012 - $300.0 million; January 1, 2012 - $nil) of the carry-forward tax losses within its Downstream operations as it is not probable that sufficient future taxable profit will be available to utilize these losses. Consequently $142.7 million (December 31, 2012 - $60.0 million; January 1, 2012 - $nil) of DIT assets have not been recognized as at December 31, 2013 which related to carry-forward tax losses that will expire between the years 2026 and 2032.

As at December 31, 2013, Harvest had a contingent liability relating to an unsettled dispute with the Canada Revenue Agency. This contingent liability has not been provided for in the consolidated statement of financial position as the Company has assessed that it is possible but not probable that a payment will be necessary. The range of possible payment is estimated to be between $3.6 million to $7.1 million.

20. Revenues

	Year Ended December 31		
	2013	2012	2011
Petroleum and natural gas sales, net of royalties	**$ 943.9**	$ 999.3	$ 1,100.8
Refined products sales	**4,416.9**	4,752.1	3,302.3
Effective portion of realized crude oil hedges	**3.9**	29.6	(9.4)
	$ 5,364.7	$ 5,781.0	$ 4,393.7

21. Operating and General and Administrative ("G&A") Expenses

	Year Ended December 31								
	Upstream			Downstream			Total		
Operating expenses	**2013**	2012	2011	**2013**	2012	2011	**2013**	2012	2011
Power and purchased energy	**$89.1**	$ 79.6	$ 83.1	**$106.7**	$140.7	$117.3	**$195.8**	$220.3	$200.4
Well servicing	**49.9**	56.0	61.6	**–**	–	–	**49.9**	56.0	61.6
Repairs and maintenance	**51.7**	57.0	60.0	**23.6**	26.4	20.4	**75.3**	83.4	80.4
Lease rentals and property taxes	**37.3**	38.3	34.7	**–**	–	–	**37.3**	38.3	34.7
Salaries and benefits	**31.8**	31.5	28.1	**71.3**	67.6	59.8	**103.1**	99.1	87.9
Professional and consultation fees	**15.3**	19.3	19.4	**3.9**	5.7	4.5	**19.2**	25.0	23.9
Chemicals	**18.7**	18.0	15.4	**–**	–	–	**18.7**	18.0	15.4
Processing fees	**36.8**	33.4	22.6	**–**	–	–	**36.8**	33.4	22.6
Trucking	**13.9**	16.3	13.3	**–**	–	–	**13.9**	16.3	13.3
Other	**1.1**	9.6	12.2	**27.6**	22.2	24.6	**28.7**	31.8	36.8
	$345.6	$ 359.0	$ 350.4	**$233.1**	$262.6	$226.6	**$578.7**	$621.6	$577.0

	Year Ended December 31		
General and administrative expenses	**2013**	2012	2011
Salaries and benefits	**$ 60.2**	$ 64.8	$ 59.5
Professional and consultation fees	**13.9**	10.8	7.9
Other	**15.0**	13.3	18.6
G&A capitalized and recovery	**(20.4)**	(23.3)	(23.4)
	$ 68.7	$ 65.6	$ 62.6

22. Finance Costs

	Year Ended December 31		
	2013	2012	2011
Interest and other finance charges	**$ 95.3**	$ 103.9	$ 94.1
Accretion of decommissioning and environmental remediation liabilities	**22.3**	20.7	23.6
Gain on redemption of convertible debentures	**(3.6)**	(0.1)	–
Less: capitalized interest	**(19.8)**	(13.5)	(8.6)
	$ 94.2	$ 111.0	$ 109.1

23. Foreign Exchange

	Year Ended December 31		
	2013	2012	2011
Realized losses (gains) on foreign exchange	**$ 3.4**	$ (0.1)	$ (6.6)
Unrealized losses (gains) on foreign exchange	**40.8**	(1.2)	2.6
	$ 44.2	$ (1.3)	$ (4.0)

24. Supplemental Cash Flow Information

	Year Ended December 31		
	2013	2012 *(Restated)**	2011 *(Restated)**
Source (use) of cash:			
Accounts receivable	**$ 6.7**	$ 36.7	$ 1.7
Prepaid expenses and long-term deposit	**6.1**	18.2	42.2
Inventories	**29.2**	(19.8)	14.5
Accounts payable and accrued liabilities	**(114.7)**	(89.2)	103.3
Net changes in non-cash working capital	**(72.7)**	(54.1)	161.7
Changes relating to operating activities	**(70.6)**	11.0	51.1
Changes relating to investing activities	**21.6**	(63.8)	108.7
Promissory note (note 12e)	**(24.2)**	–	–
Add: Non-cash changes	**0.5**	(1.3)	1.9
	$ (72.7)	$ (54.1)	$ 161.7

*See Note 3.

25. Accumulated Other Comprehensive Loss ("AOCL")

	Foreign Currency Translation Adjustment	Designated Cash Flow Hedges, Net of Tax	Actuarial Loss, Net of Tax	Total
Balance at December 31, 2010 *(Restated)**	$ (45.9)	$ (5.0)	$ (2.6)	$ (53.5)
Reclassification to net income of losses on cash flow hedges	–	7.1	–	7.1
Gains on derivatives designated as cash flow hedges, net of tax	–	12.3	–	12.3
Actuarial loss, net of tax	–	–	(4.2)	(4.2)
Losses on foreign currency translation	21.5	–	–	21.5
Balance at December 31, 2011 *(Restated)**	$ (24.4)	$ 14.4	$ (6.8)	$ (16.8)
Reclassification to net income of gains on cash flow hedges	–	(22.4)	–	(22.4)
Gains on derivatives designated as cash flow hedges, net of tax	–	9.2	–	9.2
Actuarial loss, net of tax	–	–	(9.9)	(9.9)
Losses on foreign currency translation	(17.7)	–	–	(17.7)
Balance at December 31, 2012 *(Restated)**	$ (42.1)	$ 1.2	$ (16.7)	$ (57.6)
Reclassification to net income of gains on cash flow hedges	–	(2.8)	–	(2.8)
Gains on derivatives designated cash flow hedges, net of tax	–	1.7	–	1.7
Actuarial gain, net of tax	–	–	18.1	18.1
Gains on foreign currency translation	7.9	–	–	7.9
Balance at December 31, 2013	**$ (34.2)**	**$ 0.1**	**$ 1.4**	**$ (32.7)**

*See Note 3.

The following table summarizes the impacts of the cash flow hedges on the OCL:

	Year Ended December 31					
	After - tax			Pre - tax		
	2013	2012	2011	**2013**	2012	2011
(Gains) losses reclassified from OCL to revenues	**$ (2.8)**	$ (22.4)	$ 7.1	**$ (3.9)**	$ (29.6)	$ 9.4
Gains recognized in OCL	**$ 1.7**	$ 9.2	$ 12.3	**$ 2.4**	$ 12.2	$ 16.5
Total	**$ (1.1)**	$ (13.2)	$ 19.4	**$ (1.5)**	$ (17.4)	$ 25.9

The Company expects the $0.1 million after-tax accumulated gain ($0.1 million pre-tax) reported in AOCL related to the natural gas cash flow hedges to be released to net income within the next twelve months.

26. Post-Employment Benefits

The defined pension benefit plan is a final salary plan which provides benefits to members in the form of a guaranteed level of pension payable for life or single life guaranteed ten years. The level of benefits provided is calculated as 2% of average eligible earnings, based on maximum annual eligible earnings of $86,111, in the best five years of the last ten years of participation in the plan. All benefit payments are from trustee-administered funds. Plan assets held in trust are governed by provincial regulations. Responsibility for governance of the plan rests with the Downstream pension committee who has also appointed experienced, independent professional experts such as investment managers, actuaries, custodians and trustees to assist with the management of the plans. The defined benefit health care plan is unfunded and Downstream meets the benefit payment obligation as it falls due.

Funding of the defined benefit pension plans complies with Canadian federal and provincial regulations, and requires contributions to the plans to be made based on independent actuarial valuation. These funding requirements are based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions used to determine the net benefit asset or obligation that is recorded on the statement of financial position.

The measurement of the accrued benefit obligation and annual expense for the defined benefit plans requires actuarial calculations and the following key assumptions.

	December 31, 2013		December 31, 2012		January 1, 2012	
	Pension Plans	**Other Benefit Plans**	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Discount rate	**4.8%**	**4.8%**	4.0%	4.0%	5.0%	5.0%
Expected long-term rate of return on plan assets – bonds/fixed income securities	**5.0%**	**–**	5.0%	–	5.0%	–
Expected long-term rate of return on plan assets – equity securities	**8.0%**	**–**	8.0%	–	8.0%	–
Rate of compensation increase	**3.5%**	**–**	3.5%	–	3.5%	–
Employee contribution of pensionable income	**6.0%**	**–**	6.0%	–	6.0%	–
Annual rate of increase in covered health care benefits	**–**	**8.0%**	–	8.0%	–	8.0%

The discount rates are determined with reference to market yields on high quality corporate bonds with similar duration to the benefit obligations at the end of the reporting period.

The expected long-term rate of return is based on the portfolio as a whole and not necessarily on the sum of the returns on individual asset categories and is calculated using the projected rates of return of the plan investment portfolio, including the expected forecast for inflation, risk premiums for each class of asset, and current and future financial market conditions.

The sensitivity of the defined benefit obligation to changes in assumptions is concentrated to the discount rate. Other changes in assumptions have minimal impact on the obligation as a result of salary and benefit restrictions under both the pension plans and other benefit plans. The effect of an increase/decrease of one percentage point in the discount rate will decrease/increase the benefit obligation for our pension plans by $13.5 million and will decrease/increase the benefit obligation for our other benefit plan by $1.1 million. The effect of a increase/decrease of one percentage point in the discount rate will decrease/increase net service cost of our pension plans by $1.1 million and decrease/increase the service cost of our other benefit plan by $0.1 million. The sensitivity of the discount rate assumes that all other assumptions remain constant.

Although, the sensitivity analysis noted above is based on changing one assumption while holding all other assumptions constant, this is unlikely to occur in reality since changes to some assumptions may be correlated. When calculating the sensitivity of the discount rate and the impact on the benefit obligation, the same method has been applied as for calculating the net benefit asset and net benefit obligation recognized in the statement of financial position.

The assets of the defined benefit plan are invested and maintain the following asset mix:

	Percentage of Plan Assets		
Asset Category	**December 31, 2013**	**December 31, 2012**	**January 1, 2012**
Equity securities			
- Consumer markets and healthcare	**19%**	19%	23%
- Energy and industrial	**19%**	18%	18%
- Financial Institutions	**17%**	17%	11%
- Information technology	**9%**	9%	9%
- Other	**6%**	6%	8%
Bonds/fixed income securities			
- Government and corporate bonds	**22%**	23%	19%
- Short-term investments	**6%**	8%	11%
- Other	**2%**	–	1%

The primary investment strategy is the security and long-term stability of plan assets, combined with moderate growth that corresponds to the participants' anticipated retirement dates. The investment policy is reviewed from time to time to ensure consistency with the plan objectives. The Company in conjunction with the plan asset investment managers manages the inherent risks of various asset classes by investing in a diversified portfolio. The plan assets are primarily invested in domestic and foreign equity funds and in domestic bonds. The target asset allocation for equity securities is approximately 70% (and within a range of 50% to 90%) and the target asset allocation for debt securities is approximately 30% (and within a range of 10% to 50%). From time to time, the actual asset allocations for equity securities and debt securities may vary slightly from the target allocation, while staying within the target range, as a result of market conditions, however, management reviews the investments on a regular basis to ensure they continue to meet the plans' investment strategy.

All of the plan assets have quoted prices in active markets. There are no shares of Harvest Operations Corp. included in the plan asset mix.

	December 31, 2013		December 31, 2012		January 1, 2012	
	Pension Plans	**Other Benefit Plans**	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Employee benefit obligation, beginning of year	**$ (90.6)**	**$ (9.3)**	$ (70.8)	$ (8.2)	$ (63.8)	$ (7.9)
Current service costs	**(4.1)**	**(0.2)**	(2.6)	(0.3)	(2.5)	(0.3)
Interest	**(3.8)**	**(0.4)**	(3.7)	(0.4)	(3.5)	(0.4)
Contributions by plan participants	**(1.8)**	**(0.2)**	(1.8)	(0.2)	(1.6)	(0.2)
Actuarial gains/(losses) arising from financial assumptions	**10.4**	**1.1**	(14.4)	(0.7)	(1.5)	0.1
Benefits paid	**4.8**	**0.5**	2.7	0.5	2.1	0.5
Employee benefit obligation, end of year	**$ (85.1)**	**$ (8.5)**	$ (90.6)	$ (9.3)	$ (70.8)	$ (8.2)
Fair value of plan assets, beginning of year	**$ 67.5**	**$ –**	$ 53.0	$ –	$ 51.3	$ –
Expected return on plan assets	**2.8**	**–**	2.8	–	2.7	–
Employer contributions	**8.3**	**0.3**	9.8	0.3	3.3	0.3
Employee contributions	**1.8**	**0.2**	1.8	0.2	1.6	0.2
Actuarial gains/(losses) arising from financial assumptions	**11.2**	**–**	2.8	–	(3.8)	–
Benefits paid	**(4.8)**	**(0.5)**	(2.7)	(0.5)	(2.1)	(0.5)
Fair value of plan assets, end of year	**86.8**	**–**	67.5	–	53.0	–
Net asset (obligation) and carrying amount	**$ 1.7**	**$ (8.5)**	$ (23.1)	$ (9.3)	$ (17.8)	$ (8.2)

The table below shows the summary of the defined benefit net asset and obligation:

	December 31, 2013	December 31, 2012	January 1, 2012
Pension plans	**$ 1.7**	$ (23.1)	$ (17.8)
Other benefit plans	**(8.5)**	(9.3)	(8.2)
Net obligation	**$ (6.8)**	$ (32.4)	$ (26.0)

In accordance with the terms and conditions of the defined benefit plans, and in accordance with federal and provincial statutory requirements of the plans, the present value of refunds or reductions in future contributions is not lower than the balance of the total fair value of plan assets less the total present value of obligations and, as such, no decrease in the defined benefit asset was necessary at December 31, 2013.

The actual return on plan assets for the year ended December 31, 2013 was $13.9 million (2012 – a return of $5.6 million; 2011 – a loss of $1.1 million).

Total cash payments for employee future benefits, consisting of cash contributed by Downstream to the pension and other benefit plans were $8.6 million for the year ended December 31, 2013 (2012 – $10.1 million; 2011 - $3.6 million). Expected contributions to the pension and other benefit plans for 2014 are $4.3 million.

Actuarial valuations are completed annually for the defined benefit plans and post-retirement benefit plan.

The table below shows the components of the net benefit plan expense:

	Year Ended December 31					
	2013		2012		2011	
	Pension Plans	**Other Benefit Plans**	Pension Plans	Other Benefit Plans	Pension Plans	Other Benefit Plans
Current service cost	**$ 4.1**	**$ 0.2**	$ 2.6	$ 0.3	$ 2.5	$ 0.3
Net interest expense	**1.0**	**0.4**	0.9	0.4	0.8	0.4
Net benefit plan expense	**$ 5.1**	**$ 0.6**	$ 3.5	$ 0.7	$ 3.3	$ 0.7

For the year ended December 31, 2013 the net benefit plan expense of $5.7 million (2012 – $4.2 million; 2011 – $4.0 million) has been included in operating expenses in the statement of comprehensive loss and actuarial gains of $18.1 million, after tax expense of $4.6 million (2012 – actuarial losses of $9.9 million, after tax recovery of $2.4 million; 2011 – actuarial losses of $4.2 million, after tax recovery of $1.0 million) have been included in other comprehensive loss. The cumulative amount of actuarial gains included in accumulated other comprehensive loss as at December 31, 2013 was $1.4 million, after tax expense of $0.4 million (2012 – cumulative actuarial losses of $16.7 million, after tax recovery of $4.2 million).

The weighted average duration of the defined benefit pension plan and other benefit plan is 14.3 years and 12.2 years respectively.

Downstream is exposed to a number of risks through the defined benefit plans, the most significant of which are detailed below:

(i) *Investment risk*
The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; a plan deficit will result if the plan assets underperform this yield. The plan asset mix is weighted towards equities which are expected to outperform corporate bonds in the long-term while contributing volatility and risk in the short-term.

Due to the long-term nature of the plan liabilities, maintaining a higher proportion of equity investments is an appropriate element of the long-term strategy of the defined benefit plans and as managed by the pension committee.

(ii) *Interest risk*
A decrease in corporate bond yields will increase plan liabilities although this will be partially offset by an increase in the return on the plan's debt investments.

(iii) Longevity risk
The present value of the defined benefit plan obligation is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's obligation.

In the case of funded plans, Downstream's pension committee ensures that the investment positions are managed so that long-term investments are in line with the obligations under the benefit plans. The objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due. The pension committee monitors the plan asset performance and ensures that investments are well diversified such that the failure of any single investment would not have a material impact on the overall level of assets.

Required payments under the defined benefit plans for the next five years are disclosed in note 29 "Commitments" and include special payments for solvency and funding deficiencies.

27. Inventories

	December 31, 2013	December 31, 2012	January 1, 2012
Petroleum products			
Upstream – pipeline fill	**$ 3.0**	$ 0.9	$ 1.4
Downstream	**43.8**	75.5	56.3
Total petroleum product inventory	**46.8**	76.4	57.7
Parts and supplies	**4.8**	4.4	3.3
	$ 51.6	$ 80.8	$ 61.0

For the year ended December 31, 2013, Downstream recognized inventory impairments of $6.6 million (2012 - $14.8 million; 2011 - $9.7 million). Downstream inventory impairment reversals during 2013 was $3.9 million (2012 - $8.4 million; 2011 - $7.2 million) due to improvement in market prices. Such write-down and recovery amounts are included as costs in “purchased products for processing and resale” in the consolidated statements of comprehensive loss. The amount of petroleum products inventory recognized as an expense during year is included in “purchased products for processing and resale expense” in the consolidated statements of comprehensive loss.

28. Related Party Transactions

a) *Related party loans*

On December 30, 2013, Harvest entered into a subordinated loan agreement with KNOC to borrow up to $200 million at a fixed interest rate of 5.3% per annum. The full principal and accrued interest is payable on December 30, 2018. As of December 31, 2013, Harvest has drawn $80 million from the $200 million available under the loan agreement (December 31, 2012 and January 1, 2012 - $nil). The loan amount was recorded at fair value on initial recognition by discounting the future cash payments at the prevailing market interest rate of 7% for loans with similar terms. The difference between the fair value and the loan amount of $4.3 million was recognized in contributed surplus. For the year ended December 31, 2013, interest expense of $nil was recorded (2012 and 2011 - $nil). On February 28, 2014, Harvest borrowed an additional $80.0 million under the KNOC subordinated loan agreement.

On August 16, 2012, Harvest entered into a subordinated loan agreement with ANKOR to borrow US$170 million at a fixed interest rate of 4.62% per annum. The principal balance and accrued interest is payable on October 2, 2017. At December 31, 2013, Harvest’s related party loan from ANKOR included $180.8 million (December 31, 2012 - $169.1 million; January 1, 2012 - $nil) of principal and $3.0 million (December 31, 2012 - $3.0 million; January 1, 2012 - $nil) of accrued interest. Interest expense was $8.1 million for the year ended December 31, 2013 (2012 - $3.0 million; 2011 - $nil).

The related party loans are unsecured and the loan agreements contain no restrictive covenants. For purposes of Harvest’s credit facility covenant requirements, the related party loans are excluded from the ‘total debt’ amount but included in the ‘total capitalization’ amount.

b) Directors and Key Management Personnel Remuneration

Key management personnel include the Company’s officers, other members of the executive management team and directors. The amounts disclosed in the table below are the amounts recognized as an expense during the reporting period related to key management personnel.

	Year Ended December 31		
	2013	2012	2011
Short-term employee benefits	**$ 5.1**	$ 5.3	$ 4.6
Other long-term benefits	**0.7**	0.4	1.0
Other	**–**	0.5	–
	$ 5.8	$ 6.2	$ 5.6

c) *Other Related Party Transactions*

	Transactions						Balance Outstanding							
	Year Ended December 31						Accounts Receivable As At December 31				Accounts Payable As At December 31			
		2013		2012		2011		**2013**		2012		**2013**		2012
Revenues														
KNOC[(1)(2)]	**$**	**4.1**	$	0.1	$	–	**$**	**–**	$	–	**$**	**–**	$	–
Other KNOC subsidiaries[(2)]		**0.8**		0.8		–		**–**		0.1		**–**		–
Operating Expenses														
Other KNOC subsidiaries[(3)]	**$**	**0.5**	$	0.4	$	–	**$**	**–**	$	–	**$**	**–**	$	0.3
G&A Expenses														
KNOC[(4)]	**$**	**(3.5)**	$	(5.6)	$	(1.0)	**$**	**–**	$	1.6	**$**	**0.5**	$	–
Finance costs														
KNOC[(5)]	**$**	**2.8**	$	–	$	–	**$**	**–**	$	–	**$**	**0.5**	$	–

(1) Global Technology and Research Centre ("GTRC") is used as a training and research facility for KNOC. In 2013, the amount is related to a geological study performed by GTRC on behalf of KNOC.
(2) KNOC Trading Corporation ("KNOC Trading") is a wholly owned subsidiary of North Atlantic. KNOC Trading bills KNOC, Ankor E&P Holdings Corp. ("ANKOR") and Dana Petroleum plc ("Dana") for oil marketing services, such as the sale of products, performed on behalf of KNOC, ANKOR and Dana. Both ANKOR and Dana are wholly owned subsidiaries of KNOC.
(3) Billing from Ankor for office rent and salaries and benefits related to KNOC Trading.
(4) Reimbursement from KNOC for general and administrative expenses incurred by GTRC. Also included is Harvest's reimbursement to KNOC for secondee salaries paid by KNOC on behalf of Harvest.
(5) Charges from KNOC for the irrevocable and unconditional guarantee they provided on Harvest's 2⅞% senior notes and the senior unsecured credit facility. A guarantee fee of 52 basis points per annum is charged by KNOC.

On February 28, 2014 KNOC purchased 100% of the shares of KNOC Trading Corporation for US$0.4 million.

29. Commitments

The following is a summary of Harvest's contractual obligations and estimated commitments as at December 31, 2013:

	Payments Due by Period				
	1 year	**2-3 years**	**4-5 years**	**After 5 years**	**Total**
Debt repayments[(1)]	$ 12.3	$ –	$ 2,243.3	$ –	$ 2,255.6
Debt interest payments[(1) (2)]	76.8	153.3	121.6	–	351.7
Purchase commitments[(3)]	75.5	20.0	70.0	–	165.5
Operating leases	11.8	8.6	6.2	2.8	29.4
Firm processing commitments	9.0	32.2	27.0	97.7	165.9
Firm transportation agreements	9.6	38.8	49.9	92.2	190.5
Feedstock and other purchase commitments[(4)]	927.8	–	–	–	927.8
Employee benefits[(5)]	2.6	5.2	1.2	3.8	12.8
Decommissioning and environmental liabilities[(6)]	35.6	60.7	42.9	1,485.7	1,624.9
Total	$ 1,161.0	$ 318.8	$ 2,562.1	$ 1,682.2	$ 5,724.1

(1) Assumes constant foreign exchange rate.
(2) Assumes interest rates as at December 31, 2013 will be applicable to future interest payments.
(3) Relates to drilling commitments, BlackGold oil sands project commitment and Downstream capital commitments.
(4) Includes commitments to purchase refinery crude stock and refined products for resale under the SOA with Macquarie. The amount will be net settled against any product sales to Macquarie.
(5) Relates to the expected contributions to employee benefit plans and long-term incentive plan payments.
(6) Represents the undiscounted obligation by period.

30. Supplemental Guarantor Condensed Financial Information

Harvest Breeze Trust No. 1, Harvest Breeze Trust No. 2, Breeze Resources Partnership, Hay River Partnership, 1496965 Alberta Ltd. and North Atlantic Refining Limited (collectively "guarantor subsidiaries") fully and unconditionally guarantees the 6⅞% senior notes issued by Harvest Operations Corporation ("HOC"). Each of the guarantor subsidiaries is 100% owned by HOC. The full and unconditional guarantees may be automatically released under the following customary circumstances:

- the subsidiary is sold to a non-affiliate and ceases to be a restricted subsidiary;
- the subsidiary is designated as an “unrestricted” subsidiary for covenant purposes;
- the subsidiary’s guarantee of the indebtedness (such as indebtedness under the credit facility agreement) which resulted in the creation of the notes guarantee is terminated or (other than by payment) released; or
- upon legal defeasance or covenant defeasance or satisfaction and discharge of the indenture.

The following financial information for HOC, the guarantor subsidiaries and all other subsidiaries on a condensed consolidating basis is intended to provide investors with meaningful and comparable financial information about HOC and its subsidiaries and is provided pursuant to Rule 3-10 of Regulation S-X in lieu of the separate financial statements of each guarantor subsidiary. Investments include the investments in subsidiaries recorded under the equity method for the purposes of the condensed consolidating financial information. Equity income of subsidiaries is the group's share of profit related to such investments. The eliminations and reclassifications column includes the necessary amounts to eliminate the intercompany balances and transactions between subsidiaries. HOC's cost basis has not been pushed down to the subsidiaries as push-down accounting is not permitted in the separate financial statements of the subsidiaries.

CONDENSED STATEMENT OF FINANCIAL POSITION
As at December 31, 2013

	Issuer HOC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated Totals
Assets					
Current assets					
Cash and cash equivalents	$ –	$ –	$ –	$ –	$ –
Accounts receivable	95.2	71.6	2.1	–	168.9
Inventories	3.0	47.0	1.6	–	51.6
Prepaid expenses	12.8	1.3	–	–	14.1
Risk management contracts	0.3	–	–	–	0.3
Due from affiliates	1,016.1	83.0	0.3	(1,099.4)	–
	$ 1,127.4	$ 202.9	$ 4.0	$ (1,099.4)	$ 234.9
Non-current assets					
Long-term deposit	$ 5.0	$ –	$ –	$ –	$ 5.0
Investment tax credits and other	–	0.6	–	–	0.6
Deferred income tax asset	88.9	59.7	0.2	–	148.8
Exploration & evaluation assets	52.0	7.4	–	–	59.4
Property, plant and equipment	3,715.5	744.4	1.5	–	4,461.4
Investment in subsidiaries	(316.4)	(2.8)	–	319.2	–
Goodwill	379.8	–	–	–	379.8
Total assets	$ 5,052.2	$ 1,012.2	$ 5.7	$ (780.2)	$ 5,289.9
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	$ 202.3	$ 52.1	$ 3.9	$ –	$ 258.3
Current portion of long-term debt	–	12.3	–	–	12.3
Current portion of long-term provisions	39.1	–	–	–	39.1
Risk management contracts	0.6	–	–	–	0.6
Due to affiliates	75.7	1,014.5	9.2	(1,099.4)	–
	$ 317.7	$ 1,078.9	$ 13.1	$ (1,099.4)	$ 310.3
Non-current liabilities					
Long-term debt	1,965.2	9.9	(2.1)	–	1,973.0
Related party loan	259.6	–	–	–	259.6
Long-term liability	69.5	–	–	–	69.5
Long-term provisions	501.0	230.5	–	–	731.5
Post-employment benefit obligations	–	6.8	–	–	6.8
Intercompany loan	–	1,189.8	0.8	(1,190.6)	–
Total liabilities	$ 3,113.0	$ 2,515.9	$ 11.8	$ (2,290.0)	$ 3,350.7
Shareholder's equity	1,939.2	(1,503.7)	(6.1)	1,509.8	1,939.2
Total liabilities and shareholder's equity	$ 5,052.2	$ 1,012.2	$ 5.7	$ (780.2)	$ 5,289.9

Harvest OPERATIONS CORP.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the year ended December 31, 2013

	Issuer HOC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated Totals
Petroleum, natural gas, and refined product sales	$ 852.3	$ 4,630.0	$ 101.9	$ (65.6)	$ 5,518.6
Royalty expense	(112.9)	(41.0)	–	–	(153.9)
Earnings from equity accounted subsidiaries	(611.6)	(2.8)	–	614.4	–
Revenues	127.8	4,586.2	101.9	548.8	5,364.7
Expenses					
Purchased products for processing and resale	–	4,297.0	93.3	(62.9)	4,327.4
Operating	279.9	291.0	10.5	(2.7)	578.7
Transportation and marketing	22.5	5.5	–	–	28.0
General and administrative	54.7	14.0	–	–	68.7
Depletion, depreciation and amortization	425.3	187.5	–	–	612.8
Exploration and evaluation	11.0	1.3	–	–	12.3
Gain on disposition of property, plant & equipment	(34.0)	(0.1)	–	–	(34.1)
Finance costs	87.3	6.9	–	–	94.2
Risk management contracts gains	(4.4)	–	–	–	(4.4)
Foreign exchange (gains) losses	78.7	(34.5)	–	–	44.2
Impairment on property, plant and equipment	13.6	469.4	–	–	483.0
Loss before income tax	(806.8)	(651.8)	(1.9)	614.4	(846.1)
Income tax recovery	(24.8)	(39.4)	–	–	(64.2)
Net loss	$ (782.0)	$ (612.4)	$ (1.9)	$ 614.4	$ (781.9)
Other comprehensive income (loss)					
Losses on designated cash flow hedges, net of tax	(1.1)	–	–	–	(1.1)
Gains on foreign currency translation	–	7.9	–	–	7.9
Actuarial gains, net of tax	–	18.1	–	–	18.1
Share of equity accounted subsidiaries other comprehensive income, net of tax	26.0	–	–	(26.0)	–
Comprehensive loss	$ (757.1)	$ (586.4)	$ (1.9)	$ 588.4	$ (757.0)

CONDENSED STATEMENT OF CASH FLOWS
For the year ended December 31, 2013

	Issuer HOC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated Totals
Cash provided by (used in) operating activities	$ (1.1)	$ 204.0	$ (2.3)	$ –	$ 200.6
Cash provided by (used in) financing activities	371.9	(103.3)	(2.1)	101.3	367.8
Cash used in investing activities	(371.5)	(103.2)	–	(101.3)	(576.0)
Change in cash and cash equivalents	(0.7)	(2.5)	(4.4)	–	(7.6)
Effect of exchange rate changes on cash	–	–	–	–	–
Cash and cash equivalents, beginning of year	0.7	2.5	4.4	–	7.6
Cash and cash equivalents, end of year	$ –	$ –	$ –	$ –	$ –

CONDENSED STATEMENT OF FINANCIAL POSITION
As at December 31, 2012
(*Restated)**

	Issuer HOC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated Totals
Assets					
Current assets					
Cash and cash equivalents	$ 0.7	$ 2.5	$ 4.4	$ –	$ 7.6
Accounts receivable	102.4	69.2	4.0	–	175.6
Inventories	0.9	78.4	1.5	–	80.8
Prepaid expenses	13.5	6.7	–	–	20.2
Risk management contracts	1.8	–	–	–	1.8
Assets held for sale	16.9	–	–	–	16.9
Due from affiliates	748.5	66.0	0.4	(814.9)	–
	$ 884.7	$ 222.8	$ 10.3	$ (814.9)	$ 302.9
Non-current assets					
Long-term deposit	$ 5.0	$ –	$ –	$ –	$ 5.0
Investment tax credits and other	–	28.5	–	–	28.5
Deferred income tax asset	63.6	(2.8)	0.3		61.1
Exploration & evaluation assets	67.3	6.1	–	–	73.4
Property, plant and equipment	3,538.7	1,251.6	1.6	–	4,791.9
Investment in subsidiaries	370.4	–	–	(370.4)	–
Goodwill	391.8	–	–	–	391.8
Total assets	$ 5,321.5	$ 1,506.2	$ 12.2	$ (1,185.3)	$ 5,654.6
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	$ 225.5	$ 141.4	$ 6.1	$ –	$ 373.0
Current portion of long-term debt	331.8	–	–	–	331.8
Current portion of long-term provisions	28.1	–	–	–	28.1
Liabilities associated with assets held for sale	11.9	–	–	–	11.9
Due to affiliates	58.3	747.2	9.4	(814.9)	–
	$ 655.6	$ 888.6	$ 15.5	$ (814.9)	$ 744.8
Non-current liabilities					
Long-term debt	1,277.9	–	–	–	1,277.9
Related party loan	172.1	–	–	–	172.1
Long-term liability	8.2	–	–	–	8.2
Long-term provisions	515.8	211.5	–	–	727.3
Post-employment benefit obligations	–	32.4	–	–	32.4
Intercompany loan	–	1,189.8	0.8	(1,190.6)	–
Total liabilities	$ 2,629.6	$ 2,322.3	$ 16.3	$ (2,005.5)	$ 2,962.7
Shareholder's equity	2,691.9	(816.1)	(4.1)	820.2	2,691.9
Total liabilities and shareholder's equity	$ 5,321.5	$ 1,506.2	$ 12.2	$ (1,185.3)	$ 5,654.6

*See Note 3

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the year ended December 31, 2012
(*Restated)**

	Issuer HOC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated Totals
Petroleum, natural gas, and refined product sales	$ 902.2	$ 5,011.9	$ 92.2	$ (60.7)	$ 5,945.6
Royalty expense	(114.7)	(49.9)	–	–	(164.6)
Earnings from equity accounted subsidiaries	(557.9)	(0.1)	–	558.0	–
Revenues	229.6	4,961.9	92.2	497.3	5,781.0
Expenses					
Purchased products for processing and resale	–	4,494.4	85.1	(59.2)	4,520.3
Operating	288.6	328.5	6.0	(1.5)	621.6
Transportation and marketing	21.8	4.8	–	–	26.6
General and administrative	50.1	15.5	–	–	65.6
Depletion, depreciation and amortization	462.1	226.3	–	–	688.4
Exploration and evaluation	24.7	0.2	–	–	24.9
Gain on disposition of property, plant & equipment	(6.8)	(23.5)	–	–	(30.3)
Finance costs	107.2	3.8	–	–	111.0
Risk management contracts gains	(0.5)	–	–	–	(0.5)
Foreign exchange (gains) losses	(10.7)	9.4	–	–	(1.3)
Impairment on property, plant and equipment	11.3	546.0	–	–	557.3
Income (loss) before income tax	(718.2)	(643.5)	1.1	558.0	(802.6)
Income tax expense (recovery)	2.9	(85.0)	0.5	–	(81.6)
Net income (loss)	$ (721.1)	$ (558.5)	$ 0.6	$ 558.0	$ (721.0)
Other comprehensive income (loss)					
Losses on designated cash flow hedges, net of tax	(13.2)	–	–	–	(13.2)
Losses on foreign currency translation	–	(17.7)	–	–	(17.7)
Actuarial loss, net of tax	–	(9.9)	–	–	(9.9)
Share of equity accounted subsidiaries other comprehensive loss, net of tax	(27.6)	–	–	27.6	–
Comprehensive income (loss)	$ (761.9)	$ (586.1)	$ 0.6	$ 585.6	$ (761.8)

*See Note 3

CONDENSED STATEMENT OF CASH FLOWS
For the year ended December 31, 2012

	Issuer HOC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated Totals
Cash provided by operating activities	$ 122.8	$ 318.7	$ 1.3	$ –	$ 442.8
Cash provided by (used in) financing activities	196.0	(171.5)	–	171.5	196.0
Cash used in investing activities	(318.6)	(147.7)	–	(171.5)	(637.8)
Change in cash and cash equivalents	0.2	(0.5)	1.3	–	1.0
Effect of exchange rate changes on cash	–	–	–	–	–
Cash and cash equivalents, beginning of year	0.5	3.0	3.1	–	6.6
Cash and cash equivalents, end of year	$ 0.7	$ 2.5	$ 4.4	$ –	$ 7.6

Harvest OPERATIONS CORP.

CONDENSED STATEMENT OF FINANCIAL POSITION
As at December 31, 2011
(*Restated)***

	Issuer HOC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated Totals
Assets					
Current assets					
Cash and cash equivalents	$ 0.5	$ 3.0	$ 3.1	$ –	$ 6.6
Accounts receivable	121.3	89.8	1.2	–	212.3
Inventories	1.4	58.6	1.0	–	61.0
Prepaid expenses	11.8	6.7	–	–	18.5
Risk management contracts	20.2	–	–	–	20.2
Due from affiliates	517.1	44.8	0.2	(562.1)	–
	$ 672.3	$ 202.9	$ 5.5	$ (562.1)	$ 318.6
Non-current assets					
Long-term deposit	$ 24.9	$ –	$ –	$ –	$ 24.9
Investment tax credits and other	–	54.0	–	–	54.0
Exploration & evaluation assets	69.6	4.9	–	–	74.5
Property, plant and equipment	3,468.0	1,938.1	1.4	–	5,407.5
Investment in subsidiaries	1,127.4	0.1	–	(1,127.5)	–
Goodwill	404.9	–	–	–	404.9
Total assets	$ 5,767.1	$ 2,200.0	$ 6.9	$ (1,689.6)	$ 6,284.4
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	$ 259.0	$ 200.9	$ 2.3	$ –	$ 462.2
Current portion of long-term debt	107.1	–	–	–	107.1
Current portion of long-term provisions	17.1	–	–	–	17.1
Due to affiliates	39.3	513.3	9.5	(562.1)	–
	$ 422.5	$ 714.2	$ 11.8	$ (562.1)	$ 586.4
Non-current liabilities					
Long-term debt	1,486.2	–	–	–	1,486.2
Long-term liability	2.7	–	–	–	2.7
Long-term provisions	464.1	210.4	–	–	674.5
Post-employment benefit obligations	–	26.0	–	–	26.0
Deferred income tax liability	(62.2)	118.0	(0.9)	–	54.9
Intercompany loan	–	1,189.8	–	(1,189.8)	–
Total liabilities	$ 2,313.3	$ 2,258.4	$ 10.9	$ (1,751.9)	$ 2,830.7
Shareholder's equity	3,453.8	(58.4)	(4.0)	62.3	3,453.7
Total liabilities and shareholder's equity	$ 5,767.1	$ 2,200.0	$ 6.9	$ (1,689.6)	$ 6,284.4

*See Note 3

Harvest OPERATIONS CORP.

CONDENSED STATEMENTS OF COMPREHENSIVE LOSS
For the year ended December 31, 2011
(*Restated)**

	Issuer HOC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated Totals
Petroleum, natural gas, and refined product sales	$ 985.9	$ 3,579.5	$ 70.7	$ (46.9)	$ 4,589.2
Royalty expense	(146.3)	(49.2)	–	–	(195.5)
Earnings from equity accounted subsidiaries	(56.3)	(0.2)	–	56.5	–
Revenues	783.3	3,530.1	70.7	9.6	4,393.7
Expenses					
Purchased products for processing and resale	–	3,098.5	65.4	(45.8)	3,118.1
Operating	280.7	291.0	6.4	(1.1)	577.0
Transportation and marketing	22.2	13.7	–	–	35.9
General and administrative	48.2	14.4	–	–	62.6
Depletion, depreciation and amortization	423.9	202.8	–	–	626.7
Exploration and evaluation	16.0	2.3	–	–	18.3
Gain on disposition of property, plant & equipment	(7.9)	–	–	–	(7.9)
Finance costs	102.5	6.6	–	–	109.1
Risk management contracts gains	(6.7)	–	–	–	(6.7)
Foreign exchange (gains) losses	11.7	(15.8)	0.1	–	(4.0)
Loss before income tax	(107.3)	(83.4)	(1.2)	56.5	(135.4)
Income tax recovery	(1.8)	(27.6)	(0.6)	–	(30.0)
Net loss	$ (105.5)	$ (55.8)	$ (0.6)	$ 56.5	$ (105.4)
Other comprehensive income (loss)					
Gains on designated cash flow hedges, net of tax	19.4	–	–	–	19.4
Gains on foreign currency translation	–	21.5	–	–	21.5
Actuarial loss, net of tax	–	(4.2)	–	–	(4.2)
Share of equity accounted subsidiaries other comprehensive income loss, net of tax	17.3	–	–	(17.3)	–
Comprehensive loss	$ (68.8)	$ (38.5)	$ (0.6)	$ 39.2	$ (68.7)

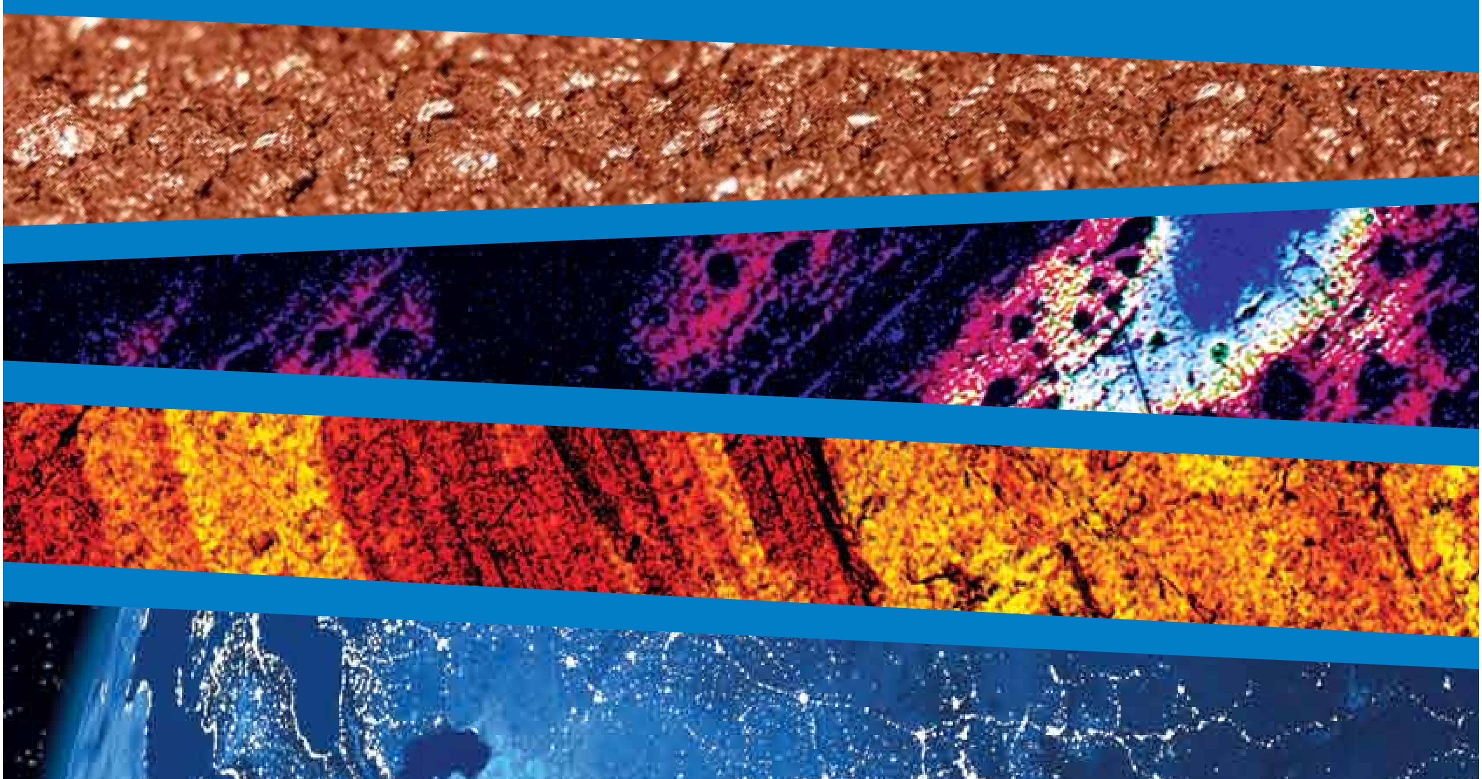
*See Note 3

CONDENSED STATEMENT OF CASH FLOWS
For the year ended December 31, 2011

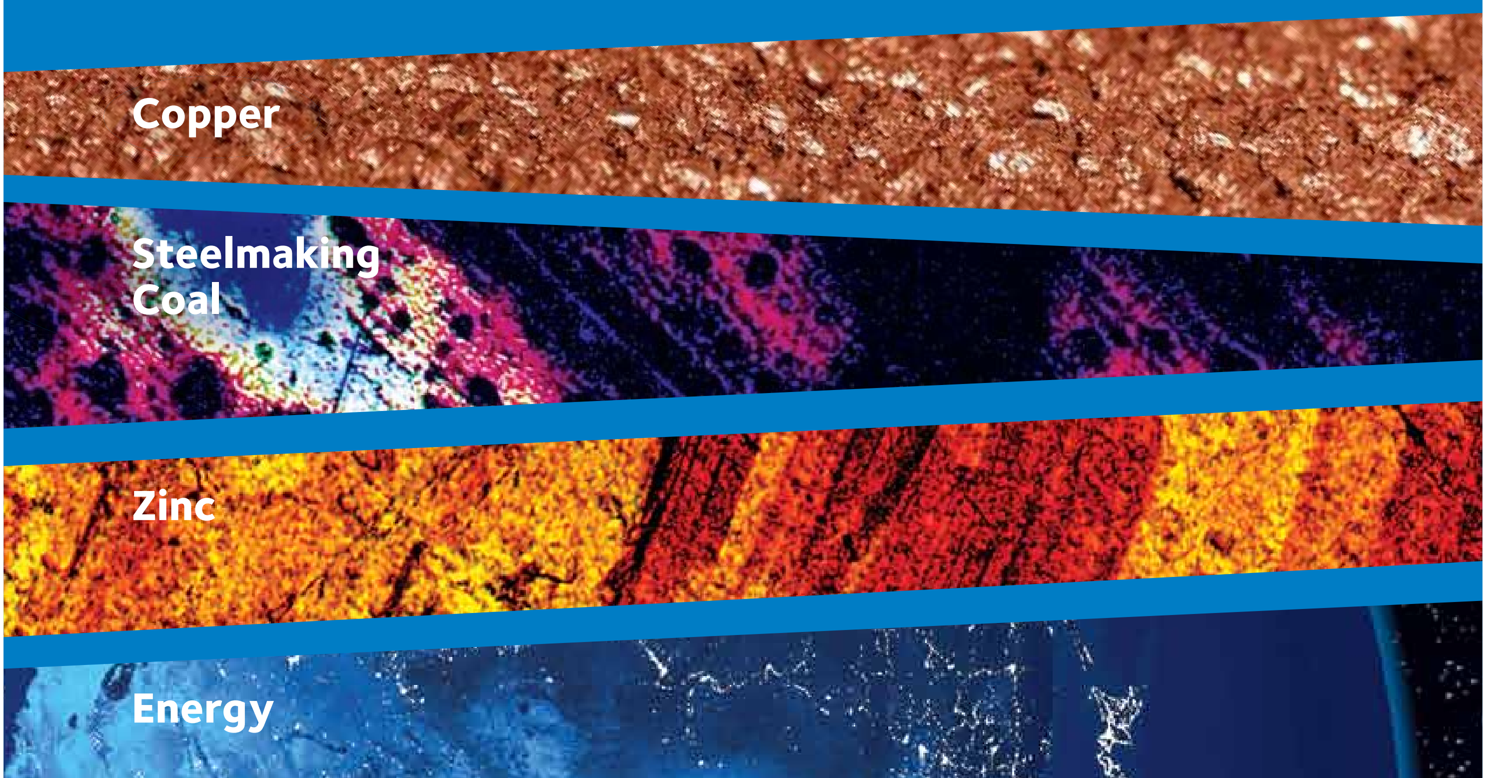
	Issuer HOC	Guarantor Subsidiaries	Non Guarantor Subsidiaries	Eliminations	Consolidated Totals
Cash provided by (used in) operating activities	$ 62.1	$ 498.7	$ (0.3)	$ –	$ 560.5
Cash provided by (used in) financing activities	848.7	(157.1)	–	157.1	848.7
Cash used in investing activities	(922.8)	(341.7)	–	(157.1)	(1,421.6)
Change in cash and cash equivalents	(12.0)	(0.1)	(0.3)	–	(12.4)
Effect of exchange rate changes on cash	–	0.1	–	–	0.1
Cash and cash equivalents, beginning of year	12.5	3.0	3.4	–	18.9
Cash and cash equivalents, end of year	$ 0.5	$ 3.0	$ 3.1	$ –	$ 6.6

Resourceful

Teck 2013 Annual Report



Teck


Copper
Steelmaking Coal
Zinc
Energy

On the Cover

The images on the cover of our annual report each provide a unique perspective on our four major business units: Copper, Steelmaking Coal, Zinc and Energy.

The copper image is a close-up photograph of a copper plate produced at our CESL facility. The steelmaking coal and zinc sulphide are photomicrographs taken by Teck employee Greg Davison, Senior Process Mineralogist at Applied Research and Technology in Trail, using polished thin sections from our Greenhills and Red Dog operations, magnified 50 times.

The final image is a view of the world at night, representing how people and communities are connected by the shared need for energy.

Contents

Our Business

Teck is a diversified resource company committed to responsible mining and mineral development with business units focused on copper, steelmaking coal, zinc and energy. Headquartered in Vancouver, British Columbia, Canada, we own or have an interest in 13 mines in Canada, the United States, Chile and Peru, as well as one large metallurgical complex and a wind power facility in Canada. We have expertise across a wide range of activities related to exploration, development, mining and minerals processing including smelting and refining, safety, environmental protection, materials stewardship, recycling and research.

Our corporate strategy is focused on building a broadly diversified resource company, growing our production at existing operations and developing new projects in stable jurisdictions. The pursuit of sustainability guides our approach to business, and we recognize that our success depends on our ability to establish safe workplaces for our people and collaborative relationships with communities.

Mineral reserve and resource estimates for our properties are disclosed in our most recent Annual Information Form, which is available on our website at www.teck.com, or on the Canadian Securities Administrators website at www.sedar.com (SEDAR) and on the EDGAR section of the United States Securities and Exchange Commission (SEC) website at www.sec.gov.

Forward-Looking Statements
This annual report contains forward-looking statements. Please refer to the "Caution on Forward-Looking Information" on page 79.

All dollar amounts expressed throughout this report are in Canadian dollars unless otherwise noted.

2013 Highlights

Safety

- Achieved our safest year ever and our third record-setting year in a row for safety.
- Attained a 5.6% lower reportable injury frequency than 2012, and reduced our lost-time injury frequency by 26%.

Financial

- Revenues of $9.4 billion and gross profit before depreciation of $3.7 billion.
- Cash flow from operations of $2.9 billion.
- Profit attributable to shareholders of $961 million. Adjusted profit of $1.0 billion, or $1.74 per share.
- Cash balance of $2.8 billion at end of 2013.
- Declared dividends at an annualized rate of $0.90 per share.

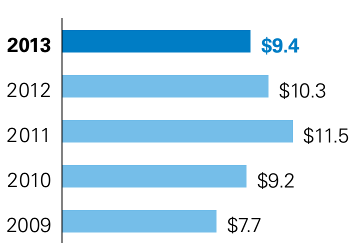
Operating and Development

- Achieved record annual coal sales of 26.9 million tonnes as a result of increased global steel production.
- Attained new quarterly record production for copper at 105,000 tonnes in the fourth quarter.
- Achieved record throughput at Antamina, Carmen de Andacollo, Greenhills and Red Dog.
- Received the British Columbia Environmental Assessment Certificate for our Line Creek Phase 2 project, which will maintain production and extend the mine life by 19 years.
- Identified over $380 million of annual, ongoing potential cost savings at our existing operations through our cost reduction program, of which $360 million have been implemented.
- Announced planned construction of the Fort Hills oil sands project with partners Suncor Energy Inc. and Total E&P Canada Ltd.

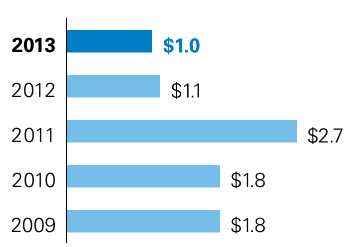
Sustainability

- Named to the Dow Jones Sustainability World Index (DJSI) for the fourth consecutive year. Our DJSI score placed our sustainability performance in the top 10% of the world's 2,500 largest public companies.
- Ranked as one of the Global 100 Most Sustainable Corporations by media and investment research company Corporate Knights in January 2014, the second consecutive year we have been included on the list.

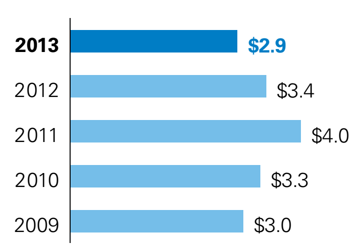
Revenue ($ in billions)



Profit Attributable to Shareholders ($ in billions)



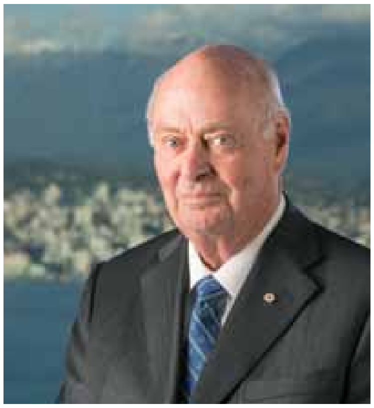
Cash Flow from Operations ($ in billions)



Note: Amounts prepared in accordance with IFRS except for 2009, which were prepared using Canadian GAAP.


Anchorage
Calgary
Vancouver
Richmond
Spokane
Toronto
Wicklow
Guadalajara
Lima
Santiago
Teck Customers
Corporate Head Office
Corporate Offices
Operations & Projects:
Copper
1 Highland Valley Copper
2 Duck Pond
3 Antamina
4 Quebrada Blanca
5 Carmen de Andacollo
6 Relincho
7 Galore Creek
8 Mesaba
Steelmaking Coal
1 Cardinal River
2 Coal Sites in B.C.
· Fording River
· Greenhills
· Line Creek
· Elkview
· Coal Mountain
3 Quintette
Zinc
1 Red Dog
2 Trail Operations
3 Pend Oreille
Energy
1 Frontier
2 Fort Hills
3 Wintering Hills

Operations in four countries,
focused on copper, steelmaking coal,
zinc and energy



Letter from the Chairman

Norman B. Keevil
Chairman of the Board

To the Shareholders

We live in interesting times, in the words of the perhaps apocryphal Chinese proverb. The future is, as always, not entirely clear. Change appears to be in the air.

We all need to make decisions in the face of uncertainty, although in investment decisions we may have different time horizons that influence our choices. The short-term investor is interested in what may occur in the next quarter or two. Those of us charged with building and operating great mining companies have to take a much longer view, given that the real value of M&A or new mine development decisions will be measured by future results over much longer periods. The 'long-term institutional investor' may fall somewhere in-between.

While our time horizons may differ, each of us is faced with some of the same near-term questions.

Is the 'super cycle' over? Was it in fact a typical cycle, soon to be reversed, or a sea change as globalization created new opportunities for billions of aspiring people in 'emerging countries'? Does the recent pullback in natural resources markets represent the latest 'new norm' or is it just a temporary blip in a long-term growth trend? If the latter, how should we in the industry position ourselves for it?

We cannot speak for the wide variety of investors at large, but we can speak from our own experience as a mining company that has been successful, reasonably consistently, for many years.

We have built shareholder value through a number of periods of substantial change over four decades: the inflation of the Nixon-Carter-Trudeau era; the ensuing 'new era of resource scarcity' promulgated by The Club of Rome; the Great Recession that followed it, caused by high interest rates, which successfully licked the inflation binge; then the difficult years that became known as '20 years of declining commodity prices in real terms'; the wave the industry surfed in the 2000s as the 'Chinese miracle' became increasingly evident; and then the ensuing 'Global Financial Crisis' from which we are now emerging.

In each of these new eras, the future was never obvious, and the right decisions never particularly easy. Some mining companies prospered in spite of this. Some failed, and others simply depleted away. We are happy to be able to say that ours was one of those that prospered, although in the process none of us in the industry was impervious to cyclical ups and downs.

Teck's record of creating shareholder value over that period, with double-digit compounded annual returns, including reinvested dividends, was equal to the best in the world for significant, established mining companies. How that was done could be interesting to some, and I may even try to write a book about it sometime.

However, as Wolfgang Münchau said recently: "History is the study of events that do not repeat themselves".

Times change. It may well be more difficult now. It does take longer to permit a new mine. NGOs and other stakeholders are more active. Investors are more demanding of immediate results. "The good old days are no longer." Maybe we can't grow value to the same extent?

Then again, maybe we can.

There are a few facts we can state with some confidence. One is that there actually are 2.5 billion people in China and India, many still having aspirations for a better life. There are more in other emerging countries. Barring widespread terrible governance or some other such calamity, this suggests that demand for the products they need and that the resources industry can provide will continue to grow at a reasonable pace, notwithstanding periodic ups and downs.

Another, as we have noted before, is the innate ability of entrepreneurs in any sector to create oversupply. The natural response to increased demand and stronger prices is to do just that, often to excess. As we saw during the '20 years of declining commodity prices', even small surpluses can depress prices for a prolonged period. The questions, as always, are to what extent, for which commodities, and for how long?

A third is that the world's mining industry is more consolidated than ever before, and this arguably could lead to more rational decisions on supply. Certainly, in the past year, the most common words one hears in the industry are those of restraint in capital spending on new projects. Whether that restraint will withstand the pressures of a gradually improving world economy is unclear.

These are some of the things your Board and management have considered in our strategic planning, and it may be of interest to summarize very briefly some conclusions from our annual session in 2013.

We remain cognizant of these statements from Argenti Strategic Planning, a consultancy:

"For most companies there should be little difficulty agreeing that their governing corporate objective should be to generate a return on shareholders' capital", realizing at the same time that "an organization is constrained in the manner it discharges the obligations imposed upon it by society. It should also be constrained by its own sense of responsibility towards those likely to be affected by its activities".

With the past not a perfect guide and the future always uncertain, what should be our strategic objective and how can we measure it?

First, we are committed to managing for the long-term growth and health of the company, while being conscious of the shorter-term metrics upon which some investors and analysts rely.

Given the usual uncertainties about which of the universe of possible 'new eras' the next 10 years will bring, we declined to set any hard and fast quantitative targets for where we want Teck to be in 2023. Rather, the challenge is for us at that future time to be able to look back and realize that we had once again been the best amongst the continuing world mining companies in building shareholder value over the period.

If it occurs by 2023 that times had been good for the industry at large, that best will be a high return on investment again, perhaps even higher than earlier; if times were not so good, it will be a lower number. A rising tide lifts all ships, and vice versa, but not all to the same extent. We can only work within the confines of the external climate that evolves, but we can aim to be the best in the industry at doing that.

Our tactics will naturally depend upon what the real world presents from time to time, but the broad plan is to accomplish this by continuing to build upon, expand and upgrade a base of high-quality, long-life mining assets, being responsive to the right opportunities in a diversity of commodities in which we have capabilities. It is to do this while at all times maintaining the financial strength to be able to weather downturns, as well as respond to opportunity.

It is a simple strategic objective and plan, and one to which others might easily aspire. Success will lie in its implementation and in how our entire management team responds to it. There will be only one or two winners, and our challenge is to be one of them. I believe we can.

On behalf of the Board,

Norman B. Keevil
Chairman
Vancouver, B.C., Canada
February 26, 2014

Letter from the CEO

Donald R. Lindsay
President and Chief Executive Officer

To the Shareholders

In 2013, against a backdrop of challenging market conditions and massive write-downs across the mining industry, Teck remained strong, resilient and true to our character, resourceful. In the context of a struggling industry, we achieved record sales for steelmaking coal, exceeded copper production targets, and realized significant cost savings across our operations, all while maintaining our solid financial position.

As we enter 2014, there are reasons for cautious optimism that the global economy is in recovery — the worst of the eurozone crisis seems behind us, several key sectors of the United States economy are strengthening, and the new leadership in China remains firmly committed to GDP growth. More importantly, we know the fundamentals that drive long-term demand for our products — increasing global urbanization and a growing middle class — remain unchanged. Collectively, these indicators give us reason to anticipate sustained future demand for our major products.

Last year was special for Teck as we marked our 100th anniversary. Over a century, Teck has grown from a single operation to become Canada's largest diversified resource company and an industry leader in sustainable mining, with operations and activities around the world. Now, more than ever, we remain keenly focused on our strategy, building long-life assets in stable jurisdictions.

I am pleased to report that we achieved a new record in safety performance in 2013, making this our third consecutive record-setting year for safety performance. Total reportable injury frequency and lost-time injury frequency were at the lowest level ever. While these results are certainly encouraging, we know there is more work to be done to achieve our vision of everyone going home safe and healthy every day.

We implemented successful cost reduction programs at each of our sites, while at the same time meeting or exceeding production guidance for each of our major products. We achieved our second-highest copper production ever and set a new record for sales of steelmaking coal. To date, as a result of our cost reduction program, we have implemented annual savings of $360 million, in addition to $150 million in one-time cost savings and deferrals. This program lowered our unit operating costs across our business units in 2013.

In 2013, Teck and our partners, Suncor and Total, announced that we will proceed with construction of the Fort Hills oil sands project. With an expected life in excess of 50 years, Fort Hills is a natural fit with both our core skills of truck and shovel mining and our business strategy of developing long-life assets in stable jurisdictions. Fort Hills and our other earlier stage projects being progressed by our Energy business unit will create value and significant cash flow, and will further diversify our portfolio for decades to come.

While production and sales were strong, much of 2013 saw prices continuing to decline for our major products, which affected our profit. Gross profit, before depreciation and amortization, was $3.7 billion in 2013 compared with $4.5 billion in 2012. The 19% decrease compared to 2012 was primarily due to lower commodity prices, particularly for steelmaking coal and copper, partly offset by our record coal sales volumes and our cost reduction program. Annual revenues in 2013 were $9.4 billion, down 9% from the previous year's revenues of $10.3 billion.

Despite difficult market conditions, Teck's balance sheet remains strong, with cash on hand of $2.8 billion and only US$388 million of debt due in the next three years.

We recognize that mining equities, including Teck, have had a difficult year and that there is usually a clear correlation between commodity prices and mining company share prices. We can't control commodity prices, but we can act on our commitment to providing value to our shareholders. In addition to investing for future growth, in 2013 we declared annual dividends of $0.90 per share, returning $521 million to shareholders. We also bought back $176 million of Class B shares during the year.

We recognize that our business success depends on our ability to build positive, constructive relationships with communities in the areas in which we operate and to demonstrate our commitment to protecting the environment.

In 2013, we continued to work toward achieving the short- and long-term goals in our Sustainability Strategy. Our progress towards these goals — which are focused on community, energy, water, biodiversity, materials stewardship and our people — is an important way we drive and measure improvement against our most material sustainability challenges and opportunities.

We were the only mining company and one of just 13 Canadian companies to be named to the Global 100 Most Sustainable Corporations List in January 2014. We were also pleased to be named to the Dow Jones Sustainability World Index for the fourth consecutive year in 2013.

Our focus in 2014 will continue to be on meeting our production and cost management goals, while at the same time advancing the development projects and permitting that are critical to our long-term success.

For 2014, we have established aggressive production and cost targets for each of our operations and we will continue our Operating Excellence program to sustain the $360 million in cost savings we implemented in 2013. We will advance key permitting initiatives, including extensions of our existing steelmaking coal operations, and will continue to take a measured, responsible approach to advancing our development projects, including Quintette and Quebrada Blanca Phase 2.

We will ensure Teck remains well positioned to identify and, if appropriate, act on external growth opportunities in commodities that would enhance or complement our current portfolio. We will maintain a strong balance sheet and access to a wide range of potential sources of capital.

This year will also highlight our continued focus on sustainability and our work towards achieving our 2015 sustainability goals. We know that achieving these objectives will require a skilled, healthy workforce and strong leadership. That is why we will continue to focus on strengthening our culture of safety, enhancing employee health and wellness, supporting leadership development, and developing a people strategy that efficiently and effectively engages employees in our business priorities.

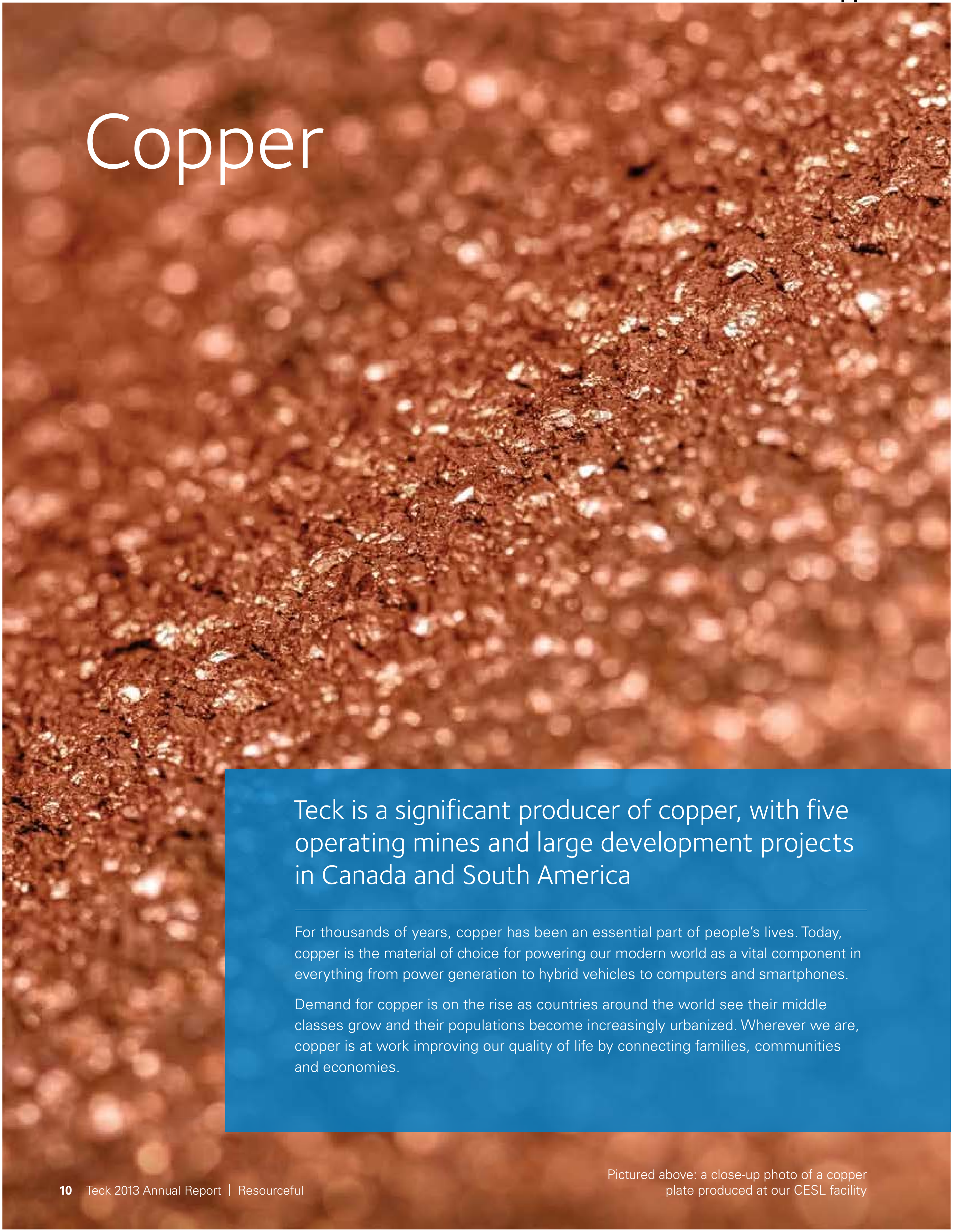
For over 100 years, Teck has been defined by people who seized opportunities, who innovated, and who made the pursuit of excellence a part of everything they do. That tradition continues today and I want to thank all of our employees for their hard work in 2013.

I would also like to recognize several of our senior leaders who have retired: Ron Vance, Senior Vice President, Corporate Development; Roger Higgins, Senior Vice President, Copper; Michael Allan, Vice President, Engineering; and Bill Fleming, Vice President, Engineering, Coal Projects and Business Improvement.

We have also welcomed new members to the senior management team: Dale Andres was promoted to Senior Vice President, Copper; Andrew Golding joined as Senior Vice President, Corporate Development; Bob Kelly was promoted to Vice President, Health and Safety; and Mark Edwards was promoted to Vice President, Community and Government Relations. In addition, Ian Kilgour was appointed to the new role of Executive Vice President and Chief Operating Officer.

As we head into 2014, the commitment of our employees to operating in an efficient and sustainable manner will continue to put Teck in a strong position to grow our business, deliver value and provide the materials essential to our modern society.

Donald R. Lindsay
President and Chief Executive Officer
Vancouver, B.C., Canada
February 26, 2014



Copper

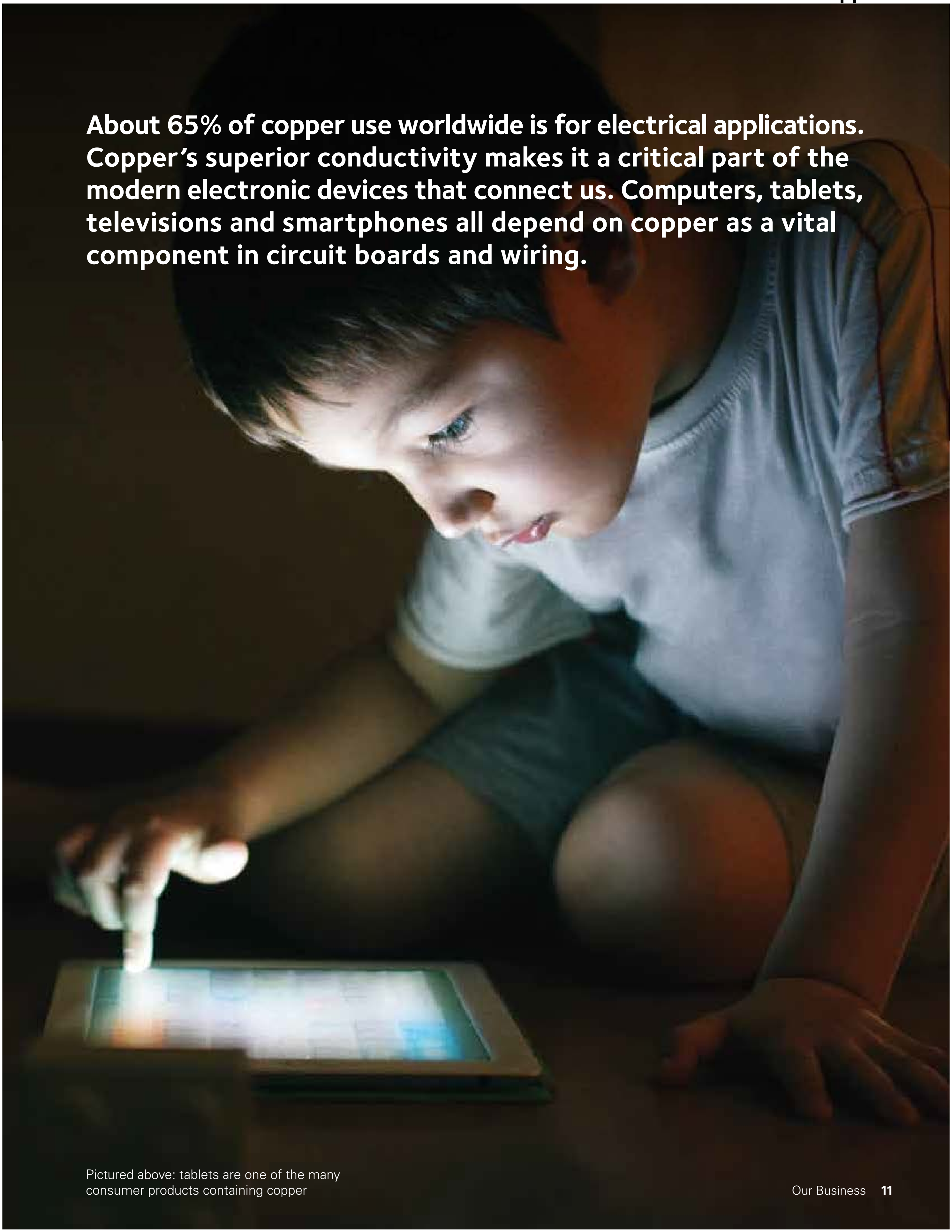
Teck is a significant producer of copper, with five operating mines and large development projects in Canada and South America

For thousands of years, copper has been an essential part of people's lives. Today, copper is the material of choice for powering our modern world as a vital component in everything from power generation to hybrid vehicles to computers and smartphones.

Demand for copper is on the rise as countries around the world see their middle classes grow and their populations become increasingly urbanized. Wherever we are, copper is at work improving our quality of life by connecting families, communities and economies.

Pictured above: a close-up photo of a copper plate produced at our CESL facility

About 65% of copper use worldwide is for electrical applications. Copper's superior conductivity makes it a critical part of the modern electronic devices that connect us. Computers, tablets, televisions and smartphones all depend on copper as a vital component in circuit boards and wiring.



Pictured above: tablets are one of the many consumer products containing copper

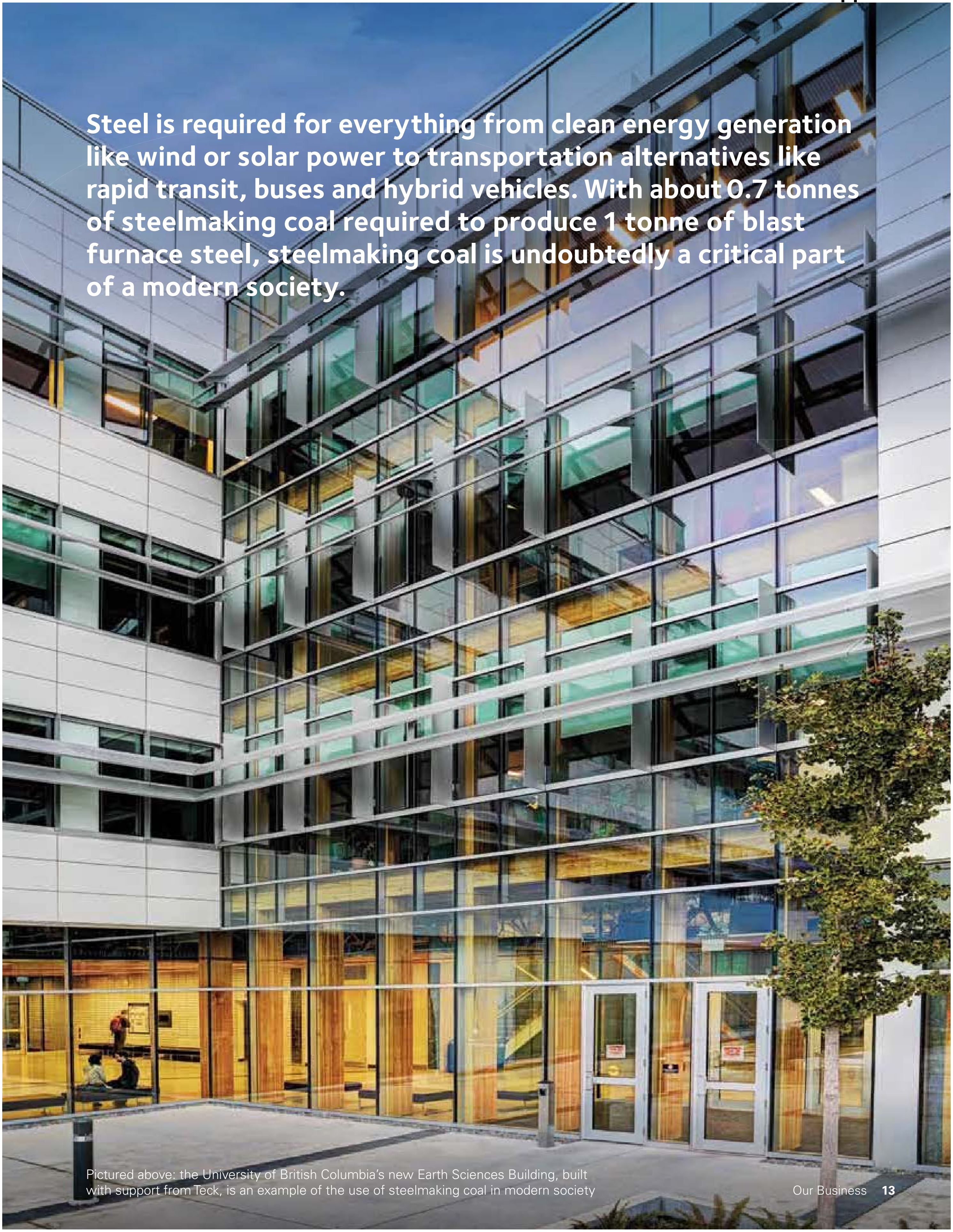
Steelmaking Coal

As a major global producer of seaborne steelmaking coal with six operations in Western Canada, Teck is well positioned to help meet growing global demand

We are North America's largest producer of steelmaking coal — an essential ingredient in the production of the steel needed to build critical infrastructure such as transit, schools and hospitals, as well as the products that make our quality of life possible.

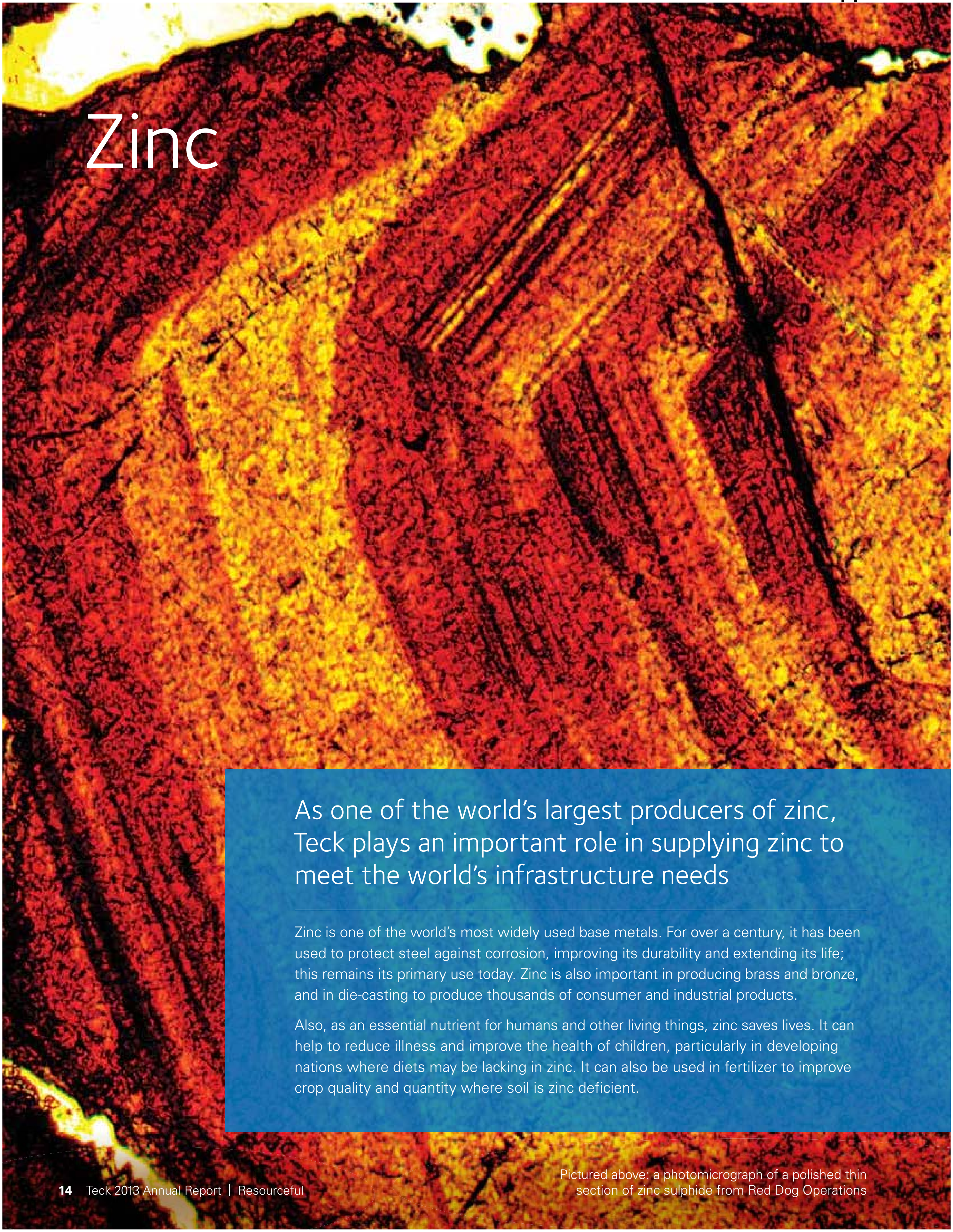
The United Nations forecasts that urban populations will grow by about two billion people over the next 30 years — especially in countries in the Asia-Pacific region. This wave of urbanization will require significant amounts of steel-intensive infrastructure, which is expected to create a sustained, long-term growth in the demand for steel and the steelmaking coal necessary to produce it.

Pictured above: a photomicrograph of a polished thin section of steelmaking coal from Greenhills Operations



Steel is required for everything from clean energy generation like wind or solar power to transportation alternatives like rapid transit, buses and hybrid vehicles. With about 0.7 tonnes of steelmaking coal required to produce 1 tonne of blast furnace steel, steelmaking coal is undoubtedly a critical part of a modern society.

Pictured above: the University of British Columbia's new Earth Sciences Building, built with support from Teck, is an example of the use of steelmaking coal in modern society



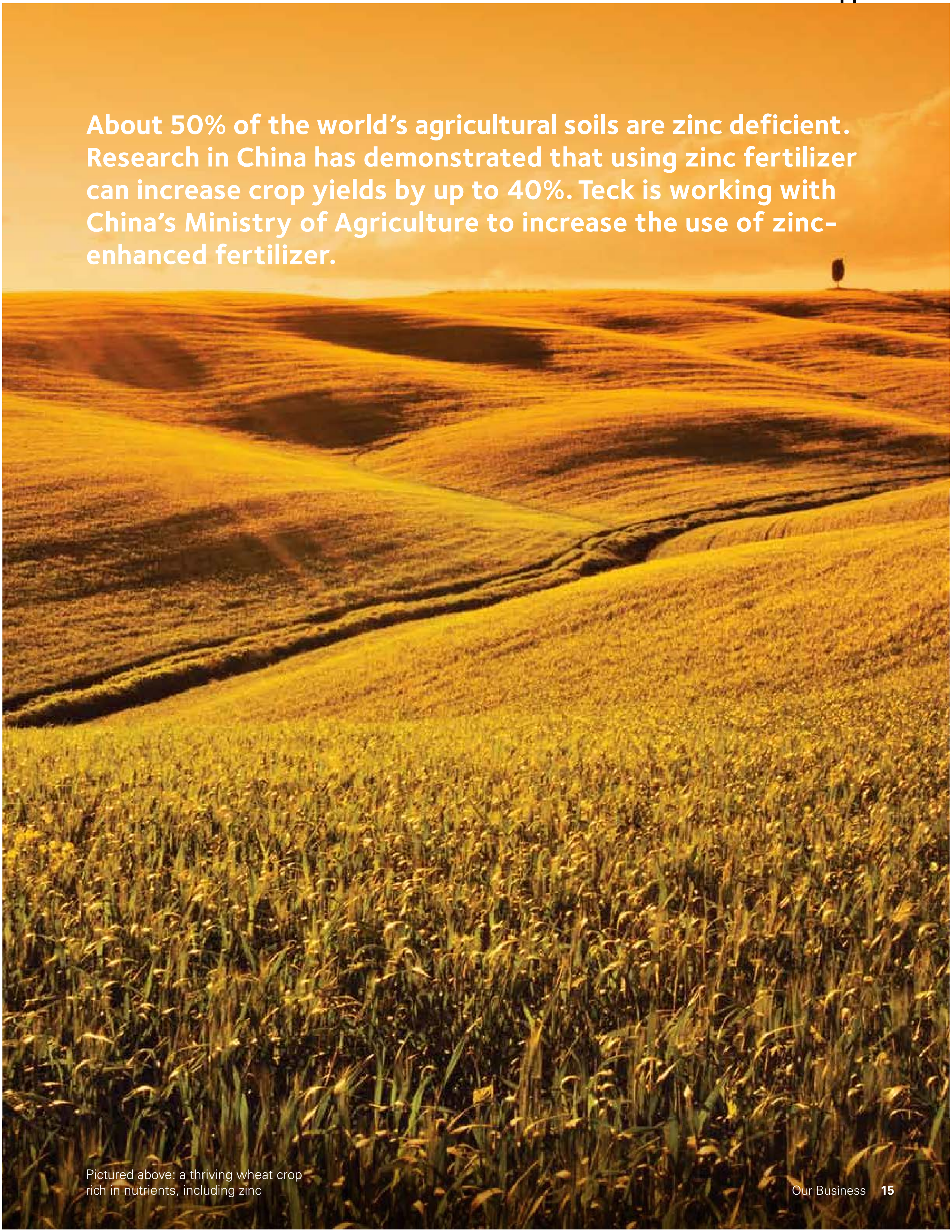
Zinc

As one of the world's largest producers of zinc, Teck plays an important role in supplying zinc to meet the world's infrastructure needs

Zinc is one of the world's most widely used base metals. For over a century, it has been used to protect steel against corrosion, improving its durability and extending its life; this remains its primary use today. Zinc is also important in producing brass and bronze, and in die-casting to produce thousands of consumer and industrial products.

Also, as an essential nutrient for humans and other living things, zinc saves lives. It can help to reduce illness and improve the health of children, particularly in developing nations where diets may be lacking in zinc. It can also be used in fertilizer to improve crop quality and quantity where soil is zinc deficient.

Pictured above: a photomicrograph of a polished thin section of zinc sulphide from Red Dog Operations



About 50% of the world's agricultural soils are zinc deficient. Research in China has demonstrated that using zinc fertilizer can increase crop yields by up to 40%. Teck is working with China's Ministry of Agriculture to increase the use of zinc-enhanced fertilizer.

Pictured above: a thriving wheat crop rich in nutrients, including zinc

Energy

Energy is essential to our lives as a source of light and heat, to power our technology and to fuel our transportation

As populations around the globe — particularly in developing nations — grow and become increasingly urbanized, the demand for energy is increasing. The International Energy Agency predicts that world energy consumption will grow by one-third by 2035. Meeting this growing demand will require a continued focus on developing new and sustainable sources of energy.

Teck is building a new energy business unit by advancing our oil sands projects in the Athabasca region of northeastern Alberta, and we are looking for opportunities to develop renewable electricity, such as our partnership in the Wintering Hills Wind Power Facility in Alberta.

Pictured above: a satellite image showing people connected by their use of energy

Teck is a founding member of Canada's Oil Sands Innovation Alliance (COSIA), which is sharing research among companies to improve environmental performance in the oil sands. To date, COSIA member companies have shared 560 distinct technologies and innovations that cost over $900 million to develop.

Pictured above: two employees discuss the Fort Hills oil sands project

Safety

We are focused on safety

2013 was our safest year ever and our third record-setting year in a row for safety. Total reportable injury frequency was 5.6% lower than in 2012, while lost-time injury frequency was reduced by 26%. At the same time, we know we must remain focused on continuing to build a culture of safety across Teck.

Safety is a core value at Teck. It is our first consideration for every job we do, and takes precedence over everything else. We believe it is possible to work without serious injuries and we have a vision of ensuring that everyone goes home safe and healthy every day. By learning from our experience, continually improving our systems and technology, and empowering each and every employee to be a truly courageous safety leader, we believe that this vision can be achieved.

Pictured above: Presley Hlushak, Electrolytic and Melting Plant Technologist, walks home after work with his two daughters, Jaden and Kyla, near our Trail Operations

A Safety Milestone

Thanks to the hard work of employees and contractors across our sites, we achieved a new safety milestone in 2013 with our lowest total reportable injury frequency and the lowest lost-time injury frequency on record. This was our third year in a row of achieving record safety performance, which is a testament to each and every employee's focus on safety — both for themselves and their colleagues.

While this progress represents an important achievement, it is also a reminder that we must not lose focus on reaching our vision of everyone going home safe and healthy every day. We cannot become complacent in our attitude towards safety, in our safety practices, or in our responsibility for our own safety and the safety of those around us.

Courageous Safety Leadership

First launched in 2009, Courageous Safety Leadership (CSL) is a values-based approach to safety. The goal of CSL is to empower every employee to be a safety leader and to take a central role in building a culture of safety throughout the company. To ensure that our focus on safety remains strong, in 2013 we rolled out the next phase of our CSL philosophy, called CSL Next Steps, at all of our sites.

In 2013, we also maintained our focus on identifying and learning from potentially serious incidents, referred to as High Potential Incidents (HPIs). We implemented a standardized approach to investigating the root causes behind HPIs at every site. We also began development of standardized safety requirements for activities identified as high risk such as working at heights, around energy, or on mobile equipment. This builds on our introduction of new requirements for blasting and confined space work in 2012.

Many of the tasks that our employees undertake in their daily work require a high degree of physical and mental focus. To further enhance safety, in 2014 we will develop new Fit for Work principles to help reduce exposure to the risk associated with factors such as fatigue, distraction or other causes.

Ultimately, we believe it is possible to work without serious injuries. By developing a culture of safety and by providing employees with the right tools, systems and support, we know we can realize our vision of everyone going home safe and healthy every day.

We are looking out for each other's safety

Our Courageous Safety Leadership (CSL) philosophy is a values-based approach that challenges existing beliefs and attitudes about safety, and encourages every employee to look out not just for their own safety, but for the safety of those around them. It is central to our strategy of building a true culture of safety across our company and helping us achieve our goal of everyone going home safe and healthy every day.

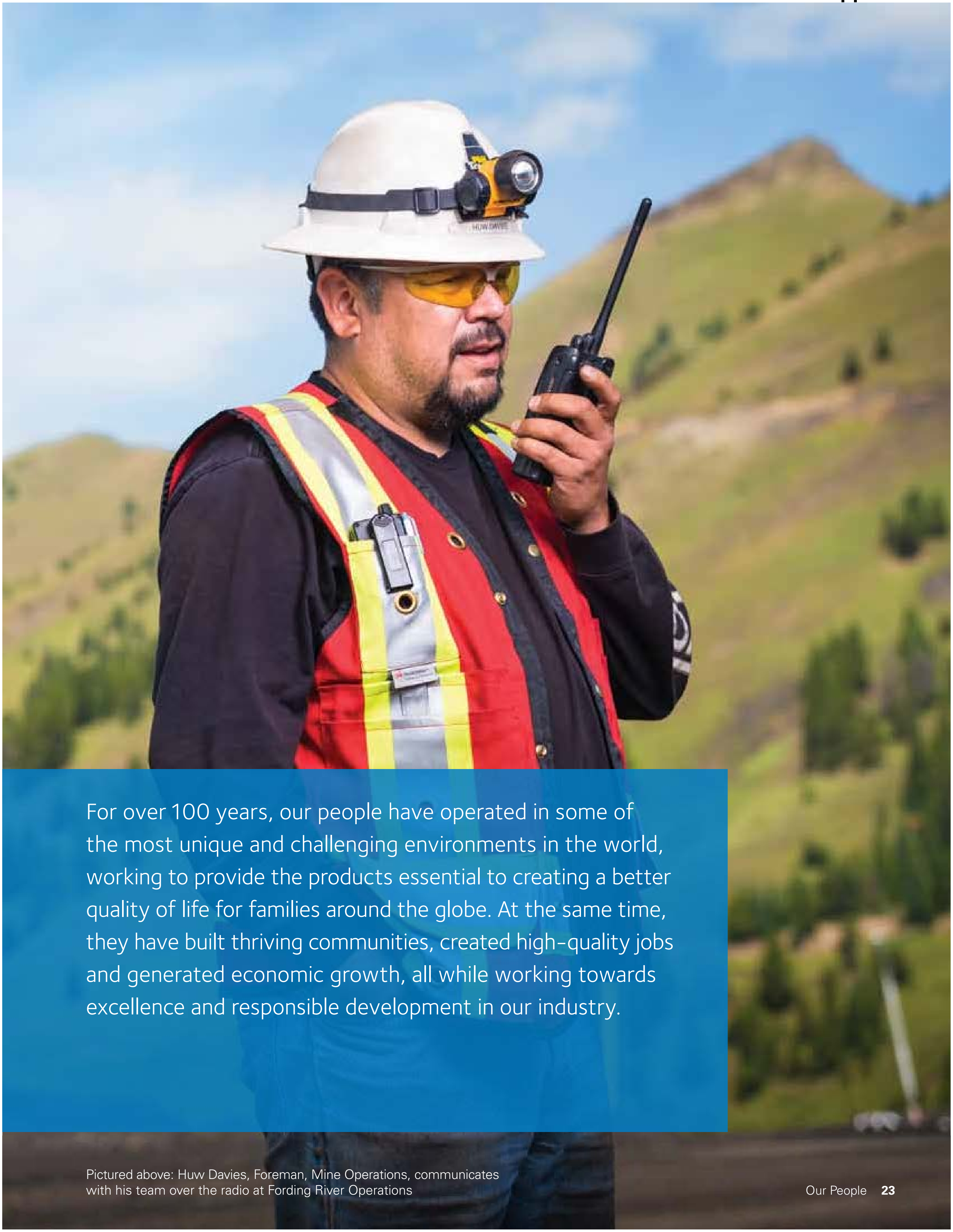
Pictured above: Marisol Muñoz and Jessica Maureira, Plant Operator Trainees at Quebrada Blanca Operations

Our People

We are building our team for the future

We have nearly 11,000 employees,[1] carrying out an enormous variety of roles and responsibilities at the operations that we own and manage. They are haul truck drivers, engineers, biologists, electricians, mechanics, geologists, accountants and more. We believe that our employees are among the best in the business and the foundation of our success. That is why we are focused on excellence in employee recruitment, training and development.

(1) Figure excludes employees at operations where we hold an interest, but do not have direct management responsibility.



For over 100 years, our people have operated in some of the most unique and challenging environments in the world, working to provide the products essential to creating a better quality of life for families around the globe. At the same time, they have built thriving communities, created high-quality jobs and generated economic growth, all while working towards excellence and responsible development in our industry.

Pictured above: Huw Davies, Foreman, Mine Operations, communicates with his team over the radio at Fording River Operations

Attracting and Retaining the Best

Demographic pressures on the workforce are being felt across the mining industry and other sectors. At the same time, competition for skilled people is strong across our industry. Those factors make attraction, engagement and development of our workforce a priority for Teck.

We attract new employees through a wide range of recruitment programs, backed up by competitive compensation, benefits and excellent opportunities for career advancement. We are also looking to increase our recruitment of under-represented demographics in the workforce, such as women. For example, since August 2010, we have nearly doubled the number of female engineers and more than doubled the number of women in leadership positions at our sites.

We also recognize the importance of retaining our experienced workers. Those skilled people are essential to our operations and to ensuring that important knowledge is transferred to the next generation of Teck employees. Programs like our Excellence Awards, which encourage peers to recognize and honour each other's achievements, along with scholarships for children of employees, and our service recognition program, are all helping to make sure our people know that their contributions are valued.

We have also recently implemented a comprehensive succession management process, which ensures that successors are identified for all leadership and critical positions, and that development plans are created and reviewed by senior management.

Developing for the Future

We work with our employees to ensure they are continually developing the skills and building the experience necessary to excel at work and advance in their careers with Teck. We also partner with institutions on apprenticeship programs to allow employees to gain trades experience and achieve their certification through working with Teck.

We actively identify our future leaders and work with them to develop their talent and reach their full potential. Our Emerging Leaders, Leading for the Future and Leading for Excellence training programs are designed to assist our employees in accelerating their development and ability as leaders within Teck.

Supporting Our People

Teck cares about the well-being of our employees, their families and the communities they live in. In 2013, we developed a global health and wellness strategy to increase awareness about health and wellness initiatives available across Teck and to help strengthen the physical, mental, financial and social health of our people.

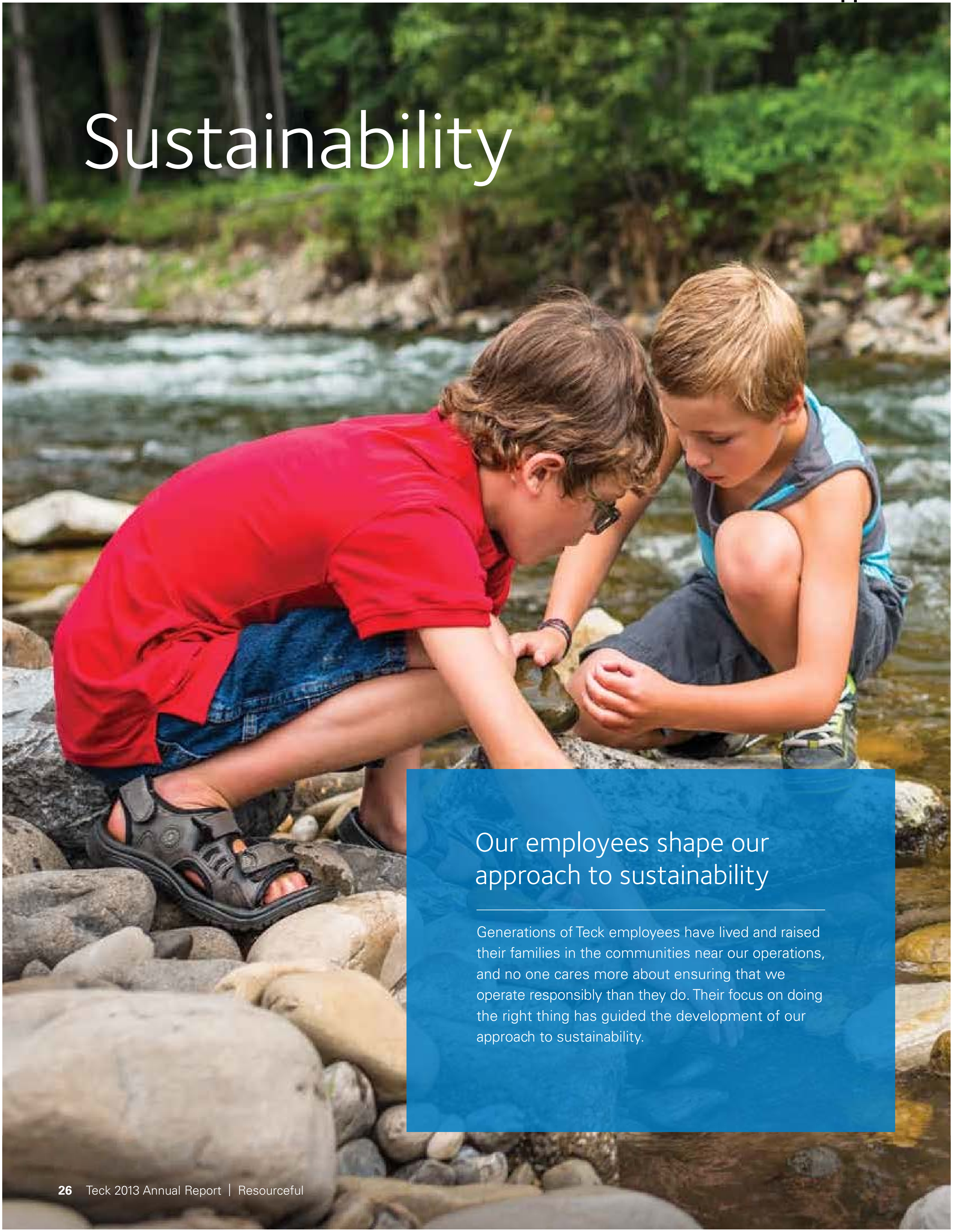
Initiatives launched as part of this strategy in 2013 included Health Screening Clinics at six sites, in which a third of all site employees participated. In 2014, we will launch a new health and wellness employee services website that brings together all of the resources available to support employees and will continue to build on these services to support the continued well-being of our employees and their families.

Many Teck employees are active in giving back to their communities and we have launched a new employee giving program to support them. Through the Team Teck program, employees who donate to local charitable organizations can have their donations bolstered by an additional contribution from Teck.

We value our people

The nearly 11,000 people working at operations around the world are the foundation of our success. We are committed to providing the right tools, programs and opportunities to help them reach their full potential and achieve their career goals in a challenging and engaging work environment.

Pictured above: Machinist and Job Planner Stephen Coffin provides instruction to Apprentice Machinist Stephen Mailey



Sustainability

Our employees shape our approach to sustainability

Generations of Teck employees have lived and raised their families in the communities near our operations, and no one cares more about ensuring that we operate responsibly than they do. Their focus on doing the right thing has guided the development of our approach to sustainability.

With over 100 years of experience in responsibly developing mineral resources, working with communities and meeting environmental challenges, we have a long tradition of sustainability at Teck. From our earliest days, our people have pioneered innovative ways to reduce the impacts of mining and improve performance — many of these have become the industry standard. That tradition continues today as we innovate and form partnerships with the goal of solving challenges and improving our performance.

Pictured above: friends Lane Ogden and Kalan Therrien play by a shallow creek bed in the Elk Valley, B.C.

A Tradition of Sustainability

As far back as 1917, we were breaking new ground in sustainable mining through the development of differential froth flotation, a method of mineral processing still widely used today that dramatically improves the efficiency of mineral recovery.

In 1979, we installed groundbreaking water treatment technology still used to treat mine-affected water around the world. In 1982, our agreement with NANA Regional Corporation, Inc. (NANA), a Regional Alaska Native corporation owned by the Iñupiat people of Northwest Alaska, led to the creation of the Red Dog mine and set a new standard for cooperation between a mining company and Indigenous Peoples. And over 25 years ago, Trail Operations implemented Canada's first provincial lead acid battery recycling program.

Over that same period, our land reclamation practices at our mines have received recognition from industry and governments as we have transformed former mining areas into landscapes that support thriving wildlife populations.

Today, we uphold that record of achievement by investing in leading-edge research, implementing environmental innovations, and building partnerships that are the foundation for our work in sustainability.

A Vision for the Future

In 2011, we formalized our approach to responsible resource development with the launch of our Sustainability Strategy, which set out a vision and goals that stretch out to 2030 for our six major areas of focus: Community, Our People, Water, Biodiversity, Energy, and Materials Stewardship.

In 2013, we advanced towards achieving both our short- and long-term goals in each of these focus areas. We track and report on our progress through our annual sustainability report. That work continues in 2014 as we progress towards meeting our 2015 short-term goals.

We were also recognized for our work in sustainability in 2013 through a number of awards and rankings. We were named to the Dow Jones Sustainability World Index for the fourth year in a row, placing our sustainability performance in the top 10% of the world's 2,500 largest public companies. We were also named for the second year in a row to the Global 100 Most Sustainable Corporations List. A number of our sites and projects were also recognized, including our Elkview Operations, which was only the third site in history to receive the Mining Association of Canada's Towards Sustainable Mining Leadership Award. Our work to reclaim the site of the former Pinchi Lake mine received the 2012 British Columbia Jake McDonald Mine Reclamation Award from the British Columbia (B.C.) government.

While these achievements indicate we are on the right track, we know there is more work to be done.

We are supporting alternative energy education

Teck's Quebrada Blanca Operations has partnered with the Ministerial Secretariats of Education and Energy of the Tarapacá Region of Chile to develop an educational program on renewable energy for local public schools. Through the program, students acquire practical knowledge about solar power.

Pictured above: Camila Juantok Varela, physics teacher, instructs student Emir Sasmaya Castillo at Liceo de Pica school in Chile


Teck

We are engaging with communities in the areas where we operate

Our goal is to collaborate with communities through ongoing dialogue and cooperation. For example, in British Columbia's Elk Valley near our steelmaking coal operations, we have invited representatives to join a community advisory group to share information and provide us with their feedback.

Pictured above: Sharon Strom, Coordinator, Sustainability, with members from Teck's Communities of Interest Steering Committee in Sparwood, B.C.

Community

Building and maintaining strong community relationships is essential, which is why our work with communities is the foundation of our sustainability strategy. That work is focused around our vision of ensuring that the communities in the areas where we operate consider themselves better off as a result of their interactions with us.

We work closely with communities from the earliest stages of exploration through to operation, reclamation and closure. Through our community investment program, we aim to contribute 1% of our annual pre-tax earnings on a five-year rolling average basis. Our investments support education, health, environment and community development priorities, which are identified in partnership with local communities.

For example, in the community of Andacollo, near our Carmen de Andacollo copper operations in Chile, we have partnered with the municipality and local organizations on a unique initiative to provide solar ovens throughout the community. These ovens take advantage of the abundant sunshine to cook meals, while saving residents up to 60% on the use of scarce natural gas or firewood supplies.

At the other end of the globe, we have partnered with the NANA Development Corporation to support a learn-to-ski program in the communities in Northwest Alaska near our Red Dog Operations. This program is promoting active, healthy living while giving an estimated 1,500 youth their first opportunity to try cross-country skiing. This investment builds on other youth programs supported by Teck in partnership with NANA and local communities, such as the John Baker Youth Leaders Program at regional schools.

In 2013, we invested over $21 million in community organizations near our operations, nationally and globally.

Biodiversity

Mining is a temporary land use, which is why we work to minimize our disturbance footprint and impact on wildlife and landscapes through all phases of the mining life cycle, and fully reclaim areas after mining has concluded.

However, our goal for biodiversity is to go even further than just reclamation. We have an ambitious vision to create a net positive impact on biodiversity in the areas where we operate, through a combination of enhanced reclamation practices and other unique initiatives in support of regional biodiversity.

One example of how we are creating a net positive impact on biodiversity is our 2013 purchase of 7,150 hectares of private land in the East Kootenay region of B.C., near our five steelmaking coal operations. We invested $19 million to acquire this land for the purpose of conserving it for future generations. The land includes important habitat for numerous species, including grizzly bear, wolverine, badger, elk, lynx, mountain goat, bighorn sheep, westslope cutthroat trout, and bull trout. The area also holds significant cultural value for the Ktunaxa First Nation.

Other initiatives we are pursuing in support of biodiversity include partnering with organizations to support recovery of the Upper Columbia white sturgeon, working with the Vancouver Aquarium to restore populations of the endangered northern leopard frog in B.C. and working with governments to increase bighorn sheep populations in various parts of North America, including Nebraska, Nevada, Oregon, Idaho, South Dakota, Utah and Alberta. Looking ahead, we will continue to identify new opportunities to enhance our work in conservation and continue to develop partnerships that complement our reclamation and mitigation efforts to achieve our ultimate goal of increasing biodiversity in the areas where we operate.

We are supporting youth in the Arctic

Teck has partnered with the NANA Development Corporation and other organizations in support of NANANordic, a program that is giving approximately 1,500 youth in Northwest Alaska the opportunity to learn cross-country skiing with the help of expert coaches and volunteers.

Pictured above: Frankie Pillifant, Geologist at Red Dog Operations, coaches Eva Johnson as part of the NANANordic ski program sponsored by Teck

We are investing in water management

We are building on our long history of innovation in water management by investing in water research related to our steelmaking coal operations. This work is being conducted in cooperation with universities and technical companies. Our program is focused on developing new solutions to water quality challenges, including better mine designs, enhanced reclamation and new water treatment technologies.

Pictured above: Victoria Gehue, Environmental Officer, takes water samples at Fording River Operations

Water

Water is an essential resource for people, communities and the environment, and it is also an important component in the mining process. Collectively, these factors make water the most significant sustainability issue we face. That is why Teck is committed to responsibly balancing the social, economic, recreational and cultural benefits of water resources, and to ensuring that water quality and access is maintained in the areas where we operate.

We are currently working to address water quality issues near our steelmaking coal operations in the Elk Valley of B.C. The process of mining steelmaking coal generates large quantities of waste rock that contain small quantities of naturally occurring substances such as selenium, an element that is essential for human and animal health in small amounts. However, in high enough quantities, these substances can potentially affect aquatic health.

We are working collaboratively with communities, First Nations, governments in the United States and Canada, and other stakeholders to create an Elk Valley Water Quality Plan that will maintain the health of the watershed and ensure continued sustainable mining in the region. While we are working to develop the plan, we are implementing solutions, including the construction of our first full-scale water treatment facility in the Elk Valley, to remove selenium. This treatment facility is expected to begin operation in mid-2014.

Energy

Energy is essential for almost every aspect of our society. That holds true for our operations as well, which use energy in a variety of forms — diesel to fuel haul trucks, natural gas to power dryers, and electricity for a multitude of industrial processes. That reliance on energy is why we have made it our goal to improve energy efficiency and to support the increased use of non-carbon-emitting energy sources in order to make a positive contribution to society's efficient use of energy.

In 2013, we continued to introduce new initiatives at our operations to conserve energy and reduce greenhouse gas emissions. This has included installing variable-speed drive technology on fan motors, more efficient fan designs, using more energy-efficient lighting, and other steps. Collectively, these projects have reduced annual electricity consumption at our B.C. operations by 60 gigawatt hours (GWh) – enough power for 5,400 homes.

To reduce emissions and improve fuel efficiency, we also introduced vehicle anti-idling policies at our B.C. and Alberta mining operations, and installed lightweight truck boxes on haul trucks. Our anti-idling initiative is saving almost 5 million litres of diesel annually, as well as reducing emissions at our sites by the equivalent of an estimated 13,000 tonnes of carbon dioxide per year. The installation of lightweight truck boxes has resulted in diesel efficiency improvements equivalent to 1.2 million litres per year.

In 2014 we will continue to implement new steps to further improve efficient use of energy and reduce emissions across our operations and in our plans for new projects.

We are investing in renewable energy

Our first investment in wind power — the Wintering Hills Wind Power Facility near Drumheller, Alberta, in which we have a 30% interest — generated 85 GWh of power in 2013. That's enough clean energy to power 7,500 homes.

Pictured above: Janais Turuk, Manager, Community Relations, Energy, at the Wintering Hills Wind Power Facility

Materials Stewardship

The materials we produce are an essential part of everyday life for people living in every part of the world. As more and more people strive to improve their quality of life, and as new supplies of metals, minerals and energy become more challenging to develop, getting the most out of those products becomes more critical.

Materials stewardship is about managing the impacts and benefits of materials across their life cycles, from production through to recycling, reuse and end of life. Our goal for materials stewardship is to deliver products and services that provide maximum value to society while minimizing impacts on people and the environment.

Our work to extract the maximum value from our products can include finding new and innovative uses. One example of this is our work to promote the use of zinc for health. Nearly one-third of the world's population does not get enough zinc through their diet, and almost half a million children are at risk of dying due to zinc deficiency. We've established partnerships with organizations such as UNICEF to support programs that deliver life-saving zinc in the most at-risk nations. By mid-2014, an estimated 75 million people will have benefited from Teck's Zinc & Health program. We've also partnered with the government of China to expand the use of zinc in fertilizer to improve crop yields in areas where soils are zinc deficient. These programs demonstrate our focus on how materials stewardship is helping to optimize our products to benefit the world.

Pictured above: John May, Silver Refinery Furnace Operator at Trail Operations, stamps silver bars

Management's Discussion and Analysis

Management's Discussion and Analysis

Our business is exploring for, acquiring, developing and producing natural resources. We are organized into business units focused on copper, steelmaking coal, zinc and energy. These are supported by our corporate business unit, which manages our corporate growth initiatives and provides administrative, technical, financial and other functions.

Through our interests in mining and processing operations in Canada, the United States (U.S.), Chile and Peru, we are the world's second-largest exporter of seaborne high-quality steelmaking coal, an important producer of copper and one of the world's largest zinc producers. We also produce lead, molybdenum, silver, and various specialty and other metals, chemicals and fertilizers. In addition, we own a 20% interest in the Fort Hills oil sands project, and interests in other significant assets in the Athabasca region of Alberta. We also actively explore for copper, zinc and gold.

This Management's Discussion and Analysis of our results of operations is prepared as at February 26, 2014 and should be read in conjunction with our audited consolidated financial statements as at and for the year ended December 31, 2013. Unless the context otherwise dictates, a reference to Teck, Teck Resources, the Company, us, we, or our refers to Teck Resources Limited and its subsidiaries including Teck Metals Ltd. and Teck Coal Partnership. All dollar amounts are in Canadian dollars, unless otherwise stated, and are based on our consolidated financial statements that are prepared in accordance with International Financial Reporting Standards (IFRS). In addition, we use certain non-GAAP financial measures, which are identified throughout the Management's Discussion and Analysis in this report. See "Use of Non-GAAP Financial Measures" on page 76 for an explanation of these financial measures and reconciliation to the most directly comparable financial measure under IFRS. Certain comparative amounts have been reclassified to conform to the presentation adopted for 2013.

This Management's Discussion and Analysis contains certain forward-looking information and forward-looking statements. You should review the cautionary statement on forward-looking information under the heading "Caution on Forward-Looking Information" on page 79, which forms part of this Management's Discussion and Analysis.

Additional information about us, including our most recent Annual Information Form, is available on the Canadian Securities Administrators website at www.sedar.com (SEDAR) and on the EDGAR section of the United States Securities and Exchange Commission (SEC) website at www.sec.gov.

Business Unit Results

The table below shows our share of production of our major commodities for the last five years and estimated production for 2014.

Five-Year Production Record and Our Expected Share of Production in 2014

	Units (000's)	2009	2010	2011	2012	**2013**	2014[2] estimate
Principal Products							
Copper[1]							
Contained in concentrate	tonnes	203	216	251	307	**304**	278
Cathode	tonnes	105	97	70	66	**60**	52
		308	313	321	373	**364**	330
Steelmaking coal	tonnes	18,930	23,109	22,785	24,652	**25,622**	26,500
Zinc							
Contained in concentrate	tonnes	711	645	646	598	**623**	570
Refined	tonnes	240	278	291	284	**290**	285
Other Products							
Lead							
Contained in concentrate	tonnes	132	110	84	95	**97**	97
Refined	tonnes	73	72	86	88	**86**	85
Molybdenum contained in concentrate	pounds	7,798	8,557	10,983	12,692	**8,322**	6,000

Notes:
(1) We include 100% of the production and sales from our Highland Valley Copper, Quebrada Blanca and Carmen de Andacollo mines in our production and sales volumes, even though we own 97.5%, 76.5% and 90%, respectively, of these operations, because we fully consolidate their results in our financial statements. We include 22.5% of production and sales from Antamina, representing our proportionate equity interest in Antamina.
(2) Production estimate for 2014 represents the mid-range of our production guidance.

Average commodity prices and exchange rates for the past three years, which are key drivers of our profit, are summarized in the following table.

	US$					CAD$				
	2013	% chg	2012	% chg	2011	**2013**	% chg	2012	% chg	2011
Copper (LME cash – $/pound)	**3.32**	-8%	3.61	-10%	4.00	**3.42**	-5%	3.61	-9%	3.96
Coal (realized – $/tonne)	**149**	-23%	193	-25%	257	**153**	-21%	194	-24%	254
Zinc (LME cash – $/pound)	**0.87**	-1%	0.88	-11%	0.99	**0.90**	+2%	0.88	-10%	0.98
Silver (LME PM fix – $/ounce)	**24**	-23%	31	-11%	35	**25**	-20%	31	-11%	35
Molybdenum (Platts[1] – $/pound)	**10**	-23%	13	-13%	15	**10**	-23%	13	-13%	15
Lead (LME cash – $/pound)	**0.97**	+3%	0.94	-14%	1.09	**1.00**	+6%	0.94	-13%	1.08
Exchange rate (Bank of Canada)										
US$1 = CAD$	**1.03**	+3%	1.00	+1%	0.99					
CAD$1 = US$	**0.97**	-3%	1.00	-1%	1.01					

Note:
(1) Published major supplier selling price in Platts *Metals Week*.

Our revenue and gross profit before depreciation and amortization by business unit are summarized in the following table.

	Revenues			Gross Profit Before Depreciation and Amortization[1]		
($ in millions)	**2013**	2012	2011	**2013**	2012	2011[2]
Copper	**$ 2,853**	$ 3,142	$ 3,108	**$ 1,391**	$ 1,601	$ 1,674
Coal	**4,113**	4,647	5,641	**1,729**	2,405	3,306
Zinc	**2,410**	2,550	2,765	**534**	497	808
Energy	**6**	4	–	**5**	4	–
Total	**$ 9,382**	$ 10,343	$ 11,514	**$ 3,659**	$ 4,507	$ 5,788

Notes:
(1) Gross profit before depreciation and amortization is a non-GAAP financial measure. See "Use of Non-GAAP Financial Measures" section for further information.
(2) 2011 results have not been restated for the new and amended accounting pronouncements. Please refer to Note 29 to our consolidated financial statements for the year ended December 31, 2013 for more details.

Copper

In 2013, we produced 364,300 tonnes of copper from Highland Valley Copper in British Columbia (B.C.), our 22.5% interest in Antamina in Peru, Quebrada Blanca and Carmen de Andacollo in Chile, and Duck Pond in Newfoundland. Copper production was above our 2013 guidance, with record production in the fourth quarter. We achieved a key milestone in 2013, with substantial mechanical completion of the mill optimization project at Highland Valley Copper. The completion of the optimization project is already providing benefits with higher mill throughput rates. Improved metal recoveries are expected once final commissioning and ramp-up activities are completed during the first half of 2014. After transitioning to open pit mining at our Duck Pond Operations in 2013, we have confirmed that closure will occur in early 2015 as the main orebody is depleted.

In 2014, we estimate copper production will be in the range of 320,000 to 340,000 tonnes, with similar production rates expected over the next few years. Production is expected to be lower than 2013, due mainly to lower production from Antamina as the mine enters a period of significantly lower grades consistent with the mine plan. Antamina is expected to gradually increase production after 2014 as grades improve, which, together with higher production from Highland Valley Copper, is expected to offset declines from the closure of Duck Pond and lower grades at Quebrada Blanca and Carmen de Andacollo.

In 2013, our copper operations accounted for 30% of our revenue and 38% of our gross profit before depreciation and amortization.

	Revenues			Gross Profit Before Depreciation and Amortization		
($ in millions)	**2013**	2012	2011	**2013**	2012	2011[1]
Highland Valley Copper	**$ 882**	$ 1,012	$ 997	**$ 408**	$ 530	$ 486
Antamina	**822**	897	799	**596**	682	588
Quebrada Blanca	**422**	499	562	**121**	115	255
Carmen de Andacollo	**606**	597	608	**244**	227	288
Duck Pond	**113**	130	142	**19**	42	57
Other	**8**	7	–	**3**	5	–
Total	**$ 2,853**	$ 3,142	$ 3,108	**$ 1,391**	$ 1,601	$ 1,674

Note:
(1) 2011 results have not been restated for the new and amended accounting pronouncements. Please refer to Note 29 to our consolidated financial statements for the year ended December 31, 2013 for more details.

	Production			Sales		
(000's tonnes)	**2013**	2012	2011	**2013**	2012	2011
Highland Valley Copper	**113**	116	97	**112**	117	104
Antamina	**100**	101	75	**98**	101	76
Quebrada Blanca	**56**	62	64	**55**	62	64
Carmen de Andacollo	**81**	80	72	**83**	77	69
Duck Pond	**14**	14	13	**14**	15	13
Total	**364**	373	321	**362**	372	326

Operations

Highland Valley Copper

We have a 97.5% interest in Highland Valley Copper, located in south-central B.C. Gross profit before depreciation and amortization was $408 million in 2013, compared to $530 million in 2012 and $486 million in 2011. Gross profit decreased in 2013 primarily due to lower copper and molybdenum prices and reduced sales volumes of both copper and molybdenum. Highland Valley Copper's 2013 copper production was 113,200 tonnes of copper in concentrate, slightly lower than last year, primarily due to lower mill throughput as a result of shutdowns associated with the mill optimization project. Molybdenum production was 39% lower than 2012 levels at 6.1 million pounds, due to lower ore grades and recoveries.

Ore is currently mined from the Valley, Lornex and Highmont pits. The Valley pit is the main source of feed to the mill for the next few years while we continue the pre-stripping program to extend the Lornex pit, which will be an important feed source for the remainder of the current mine life. In 2013, work continued on defining resources in the Bethlehem area, which was previously mined in the 1960s and 1970s. The Bethlehem deposits have the potential to further extend the mine life and supplement feed to the mill within the next few years. Additional drilling and engineering studies are planned in 2014.

The mill optimization project includes the construction of new flotation and pebble-crushing capacity adjacent to the existing circuits, which is designed to increase plant availability and increase copper recovery by 2%, molybdenum recovery by 3% and annual mill throughput by 10% over the remaining life of the mine. The new pebble crushing facility and grinding line upgrades were commissioned in the third quarter and are operating as designed. The flotation plant started commissioning activities in early 2014.

As a result of completion of the mill optimization project, Highland Valley Copper is expected to produce between 100,000 and 150,000 tonnes of copper per year, depending on ore grades and hardness, for an average of 125,000 tonnes per year, until 2027, the current expected mine life.

Highland Valley Copper's production in 2014 is expected to be in the range of 110,000 to 120,000 tonnes of copper. Molybdenum production in 2014 is expected to be in the range of five to six million pounds contained in concentrate.

Antamina

We have a 22.5% share interest in Antamina, a copper-zinc mine in Peru. The other shareholders are BHP Billiton plc (33.75%), Glencore Xstrata plc (33.75%) and Mitsubishi Corporation (10%). In 2013, our share of gross profit before depreciation and amortization was $596 million, compared with $682 million in 2012 and $588 million in 2011. The decline in gross profit in 2013 was primarily due to lower copper prices and reduced molybdenum revenues.

Copper production in 2013 was 443,000 tonnes, similar to 2012, after achieving record production for the second half of the year. This was primarily due to record milling throughput rates, which are expected to continue in 2014. Zinc production increased by 19% to 260,400 tonnes in 2013, primarily due to higher grades. Molybdenum production totalled 10.0 million pounds, which was 17% lower than in 2012, due to lower grades.

Although mill throughput rates are expected to continue to increase as a result of optimization initiatives, production in 2014 is expected to be significantly lower than 2013 as a result of feeding lower grade ore, both from active mine phases and from stockpiles, consistent with the mine plan. Antamina is a skarn deposit and grades can vary significantly, depending on which area of the open pit is being mined. A gradual return to higher production is expected after 2014 as grades improve.

Our 22.5% share of Antamina's 2014 production is expected to be in the range of 75,000 to 80,000 tonnes of copper, 40,000 to 45,000 tonnes of zinc and approximately 1 million pounds of molybdenum in concentrate.

Quebrada Blanca

Quebrada Blanca is located in northern Chile, 240 kilometres southeast of the city of Iquique. We own a 76.5% share interest of Quebrada Blanca; the other shareholders are Inversiones Mineras S.A. (13.5%) and Empresa Nacional de Minería (ENAMI) (10%). The operation mines ore from an open pit and leaches the ore to produce copper cathodes via a conventional solvent extraction and electrowinning (SX-EW) process. Gross profit before depreciation and amortization was $121 million in 2013, compared with $115 million in 2012 and $255 million in 2011. Despite lower copper prices and declining production, Quebrada Blanca's gross profit remained similar to 2012, as the mine achieved significant operating cost reductions in 2013.

In 2013, Quebrada Blanca produced 56,200 tonnes of copper cathode, compared to 62,400 tonnes in 2012. Despite ongoing challenges associated with aging plant equipment and lower ore grades, the restructuring plan put in place for 2013 was successful in substantially lowering operating costs, which decreased by US$90 million in 2013 compared with 2012. A continued focus on cost reduction and further improvements to the processing facilities and water management infrastructure are planned for 2014.

Production of approximately 45,000 to 50,000 tonnes of copper cathode is expected in 2014, as grades are forecasted to continue to decline as the supergene deposit is gradually depleted.

Work progressed on updating the permits for the existing facilities for the supergene operation, with an anticipated mine life that has some cathode production extending into 2020. We expect to submit the Social and Environmental Impact Assessment (SEIA) for the supergene facilities to the regulatory authorities in the second quarter of 2014.

The SEIA for Quebrada Blanca Phase 2 was submitted to Chilean authorities in 2012. We subsequently voluntarily withdrew the SEIA. The resubmission of the SEIA will depend to some extent on the progress of updating permits for the existing facilities. Our current expectation is that the Phase 2 SEIA will not be resubmitted before the end of 2014.

Detailed design work on the Quebrada Blanca Phase 2 project continued in 2013, although at a slower pace as a result of the permitting issues. The level of future engineering activities and associated costs are under review, with a further slowdown in activities anticipated in 2014. Certain commitments have been made by Quebrada Blanca in connection with the development of Quebrada Blanca Phase 2, including with respect to certain long-lead equipment and power purchase contracts. Quebrada Blanca is evaluating ways to manage its exposure in connection with these commitments in light of the permitting delays discussed above.

Carmen de Andacollo

We have a 90% share interest in the Carmen de Andacollo mine in Chile, which is located 350 kilometres north of Santiago. The remaining 10% is owned by ENAMI. Gross profit before depreciation and amortization was $244 million in 2013, compared with $227 million in 2012, and $288 million in 2011. Gross profit was higher in 2013, due to higher copper sales and lower operating costs, partially offset by lower copper prices.

Carmen de Andacollo produced 76,800 tonnes of copper contained in concentrate in 2013, similar to 2012. Copper cathode production was 4,400 tonnes in 2013, compared with 4,000 tonnes in 2012. Gold production was 68,000 ounces compared with 57,600 ounces in 2012, with 75% of the gold produced for the account of Royal Gold Inc. pursuant to an agreement made in 2010.

Consistent with the mine plan, copper grades are expected to continue to decline in 2014 and in future years. Carmen de Andacollo's production in 2014 is expected to be in the range of 65,000 to 75,000 tonnes of copper in concentrate and approximately 5,000 tonnes of copper cathode. Cathode production is currently planned until mid-2015, but further extensions could be possible, depending on economics and ore sources available.

Duck Pond

We own 100% of the Duck Pond underground copper-zinc mine located in central Newfoundland. Duck Pond's gross profit before depreciation and amortization was $19 million in 2013, compared to $42 million in 2012 and $57 million in 2011. Gross profit declined in 2013, primarily due to lower copper prices.

Copper production in 2013 was 14,000 tonnes, similar to 2012. Zinc production was 12,700 tonnes compared with 19,500 tonnes of zinc production in 2012 as a result of significantly lower zinc grades.

Mining of the Boundary open pit began in 2013 and provides a supplemental feed source as underground reserves are depleted. An extension to the existing deposit at depth had been under review, but analysis of exploration results has shown that this deposit is not a viable option to extend the mine's life. The current deposits being mined are expected to be exhausted in the first half of 2015, after which time the mine will be permanently closed. Closure and reclamation costs, which have been provided for, are estimated to be $10 million.

Duck Pond's production in 2014 is expected to be approximately 14,000 to 16,000 tonnes of copper and approximately 15,000 tonnes of zinc.

Relincho

A feasibility study was completed in the fourth quarter of 2013 on our 100% owned Relincho project and concludes that developing a 173,000 tonnes-per-day concentrator and associated facilities would cost approximately US$4.5 billion (in August 2013 dollars, not including working capital or interest during construction) with an estimated mine life of 21 years, based on mineral reserves.

The total mineral reserve and mineral resource estimates for the project, as at December 31, 2013, are set out in the tables below. Mineral resources are reported separately from and do not include that portion of mineral resources that are classified as mineral reserves.

Mineral Reserves

	Tonnes (000's)	%Copper	%Molybdenum
Proven	435,300	0.38	0.016
Probable	803,800	0.37	0.018
Total	1,239,100	0.37	0.017

Mineral Resources

	Tonnes (000's)	%Copper	%Molybdenum
Measured	79,900	0.27	0.009
Indicated	317,100	0.34	0.012
Inferred	610,800	0.38	0.013

Reserves have been reported within designed life of mine pits created during the feasibility study assuming prices of US$2.80 per pound for copper and US$13.70 per pound for molybdenum with a mining cost of US$0.95 per tonne of material moved, a processing cost of US$9.13 per tonne milled, and with assumed metallurgical recoveries of 88.8% for copper and 47.2% for molybdenum.

Estimated key project operating parameters are summarized in the following table.

	Years 2–6[1]	Life of Mine
Strip ratio (tonnes waste/tonnes ore)	1.28:1	1.28:1
Tonnes milled (nominal tonnes per day)	173,000	173,000
Copper grade (%Cu)	0.41%	0.37%
Molybdenum grade (%Mo)	0.018%	0.017%
Contained copper production (tonnes per annum)	228,000	207,000
Contained molybdenum production (tonnes per annum)	5,300	5,100
C1 cash costs (US$)[2]	1.53	1.72

Notes:
(1) First five years at full production rate.
(2) C1 cash costs are presented after byproduct credit assuming US$10.00 per pound of molybdenum.

Estimates of mineral reserves and resources have been prepared under the general supervision of Rodrigo Marinho, P.Geo., who is an employee of Teck and a qualified person for the purposes of National Instrument 43-101.

Given current economic conditions, no significant activities are planned for Relincho in 2014. We will work on optimization studies that will focus on capital and operating cost reductions and explore other ways to enhance the value of the project.

Other Copper Projects

In 2013, a work program, including approximately 12,000 metres of infill and geotechnical drilling, was completed at the 50% owned Galore Creek project, located in northwest B.C. A small technical work program is planned for 2014 to incorporate the results of recent drilling activity and engineering studies, with no significant field activity planned.

In July 2013, Teck entered into a joint venture agreement to hold a 75% interest in the Schaft Creek project, a copper-gold exploration property situated in northwest B.C., approximately 26 kilometres northeast of the Galore Creek property. A small exploration and geotechnical drill program was completed in the third quarter of 2013. Some engineering studies will continue, but no drilling activities are currently planned for 2014.

Work on various engineering studies continued in 2013 at the 100% owned Mesaba copper-nickel project in northern Minnesota. While there are no drilling activities planned for 2014, engineering study work will continue to further our understanding of this longer term opportunity.

In 2013, our CESL hydrometallurgical bench and pilot plant facility, located in Richmond, B.C., focused on evaluating proprietary technology applications. A pilot was conducted on Carmen de Andacollo copper-gold concentrates that recovered commercially competitive quantities of copper and gold, and generated preliminary cost information to inform next-stage engineering studies. An additional pilot was completed on copper-nickel-PGM concentrates from the same district as our Mesaba project that demonstrated high recovery of platinum group and precious metals to a saleable concentrate. In 2014, CESL will continue commercialization efforts on our proprietary technologies as well as executing technology pilot campaigns in support of Teck's core businesses.

Markets

Copper prices on the London Metal Exchange (LME) averaged US$3.32 per pound in 2013, down US$0.29 per pound from the 2012 average.

Demand for copper metal grew by 5.6% in 2013 to reach an estimated 20.7 million tonnes globally. Growth outside of China improved in several regions in 2013, with improved growth in North America more than offsetting continued weakness in Europe. Growth in real demand in China is estimated at approximately 12%.

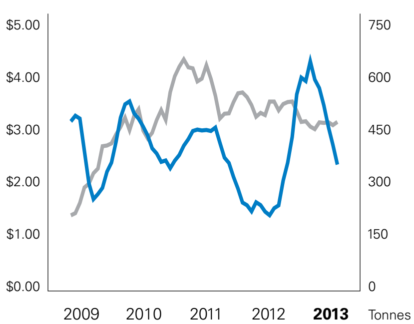
In 2013, global copper mine production increased 5.5% to just under 17.7 million tonnes, which was well below most estimates of mine production growth for the year. Copper scrap availability remained tight for most of 2013, with Chinese imports down 10% over the previous year. We expect that scrap will again play an important part of the supply picture in 2014, as demand for scrap will again likely outstrip total scrap availability.

Copper stocks in the LME, Shanghai and COMEX warehouses decreased 13.8% or 81,500 tonnes during the year. At year-end, total reported global stocks, which include producer, consumer, merchant and terminal stocks, stood at an estimated 25 days of global consumption versus the 25-year average of 28 days of global consumption.

Production disruptions continued to affect the market in 2013, with estimates of close to 1.2 million tonnes of planned production lost during the year. Based on a history of mine production shortfalls, combined with the difficulties in bringing new mine production to market on time, we continue to expect unplanned mine production disruptions to increase through 2014.

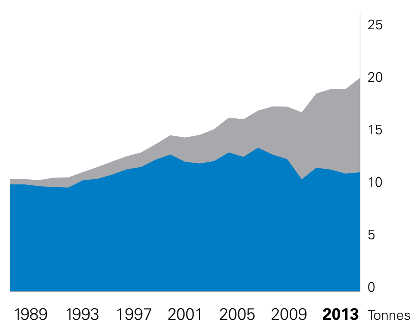
With global copper metal demand projected by Wood Mackenzie, a commodity research consultancy, to increase by 5.1% in 2014, projected supply is expected to exceed demand slightly, moving the refined market into a small surplus. If mine production continues to disappoint in 2014 from current projections, the refined market could again slip into deficit in 2014.

Copper Price and LME Inventory
Source: LME



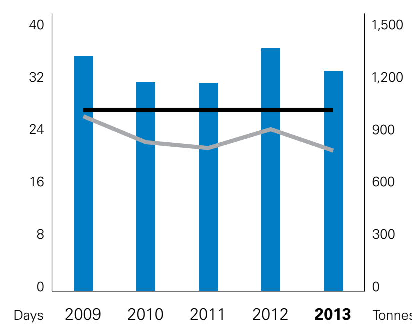
■ LME inventory (tonnes in thousands)
■ Copper price (US$ per pound)

Global Demand for Copper
Source: Wood Mackenzie



■ Rest of the world (tonnes in millions)
■ China (tonnes in millions)

Global Copper Inventories
Source: ICSG, LME, COMEX, SHFE



■ Inventories (tonnes in thousands)
■ Days of global consumption
■ 25-year average days inventory

Coal

In 2013, our coal operations sold a record 26.9 million tonnes of steelmaking coal, 1.9 million tonnes above the previous high in 2004 when we had an effective 43.4% interest in the Elk Valley Coal Partnership. We produced 25.6 million tonnes of steelmaking coal in 2013, the majority of which was shipped to the Asia-Pacific region, with lesser amounts going primarily to Europe and the Americas. Our proven and probable reserves of more than 1 billion tonnes of coal position us to continue to meet global demand for many years. In addition, our measured and indicated resources now total over 3.6 billion tonnes and our inferred resources are over 2 billion tonnes of raw coal.

Our current production capacity is approximately 28 million tonnes. However, to align production rates with anticipated demand and to effectively manage inventories, we plan to produce 26 to 27 million tonnes of coal in 2014.

With the potential restart of our Quintette project, we could reach an annualized production capacity of approximately 31 million tonnes of coal per year, subject to permitting and customer demand, which will dictate our decision on the timing of the Quintette restart. Our actual production will be matched to the demand from our customers.

In 2013, our coal business unit accounted for 44% of revenue and 47% of gross profit before depreciation and amortization.

($ in millions)	**2013**	2012	2011(1)
Revenues	**$ 4,113**	$ 4,647	$ 5,641
Gross profit before depreciation and amortization	**$ 1,729**	$ 2,405	$ 3,306
Production (000's tonnes)	**25,622**	24,652	22,785
Sales (000's tonnes)	**26,911**	23,989	22,207

Note:
(1) 2011 results have not been restated for the new and amended accounting pronouncements. Please refer to Note 29 to our consolidated financial statements for the year ended December 31, 2013 for more details.

Operations

Gross profit before depreciation and amortization declined in 2013, primarily due to significantly lower coal prices, partially offset by significantly higher sales volumes and lower operating costs resulting from our successful cost reduction program. The average realized selling price in 2013 decreased to US$149 per tonne, compared with US$193 per tonne in 2012 and US$257 per tonne in 2011.

Coal sales volumes of 26.9 million tonnes increased 12%, or 2.9 million tonnes, from 2012 and were 1.9 million tonnes higher than the previous record in 2004.

Our 2013 production of 25.6 million tonnes increased from 2012 and was at the high end of our 2013 guidance, which had been revised upwards mid-year. This was due largely to strong demand from contract customers, sales to new customers, good spot sales and consistently strong performance of our logistics chain, including the expanded vessel loading capacity at Neptune Bulk Terminals.

The cost of product sold in 2013, before transportation and depreciation charges, was $51 per tonne compared with $57 per tonne in 2012. The cost improvement is primarily due to productivity improvements in the areas of mining, maintenance and processing, in conjunction with further reductions in the consumption of key inputs, including repair parts, and minimizing the use of maintenance contractors and contract miners. These initiatives continue to expand as part of a coordinated cost reduction initiative across the company, which focuses on productivity improvement in mining, maintenance and processing operations, as well as the reduction of input consumption and overhead costs that can be maintained on an ongoing basis. In addition, we also had a number of one-time cost savings and deferrals that are not expected to occur on a regular basis.

Despite these cost reduction efforts, future costs per tonne could begin to increase over time from inflationary pressures on pricing for our key inputs, if we experience more difficult mining conditions, from changes in the Canadian dollar exchange rate and completion of any operating projects deferred from 2013. We expect our 2014 annual cost of product sold to be in the range of $55 to $60 per tonne based on our current production plans, reflecting longer haul distances and higher fuel prices.

In the third quarter of 2013 we received the necessary regulatory approvals for our Line Creek Phase 2 project, which represents the next phase of mining for our Line Creek Operations. The Line Creek Phase 2 project is expected to extend the life of the mine by approximately 19 years.

Capital spending in 2013 included $255 million for sustaining capital, $74 million for major enhancements to increase productive capacity and approximately $145 million for the Quintette project.

Elk Valley Water Management

In the course of mining we generate large quantities of rock that contains naturally occurring substances such as selenium. Water from both precipitation and runoff flows through rock piles and carries these substances into the local watershed. If present in high enough concentrations, those substances have the potential to adversely affect aquatic health. Although studies that we have commissioned have found no population-level effects on fish within the Elk Valley watershed to date, our research indicates that without additional measures, concentrations will increase over time to levels that may have ecological effects.

In February 2013, Teck submitted a draft valley-wide Selenium Management Action Plan to the B.C. provincial government, which proposed draft selenium concentration targets for the Elk Valley watershed and a water management strategy, including water diversion and treatment facilities in order to achieve those targets. While the provincial government did not adopt this plan, it led to an Area Based Management Plan Order in April 2013, which provided further clarity around the Province's requirements for a water quality plan and a regulatory framework in which water quality can be managed on a regional basis.

The Order calls for Teck to develop an Elk Valley Water Quality Plan (Plan) to address the effects of selenium as well as other substances released by mining activities throughout the watershed, assess the associated economic and social costs and benefits of treatment, and establish the concentration targets and time frames required to stabilize and reduce levels of these substances over the short, medium and longterm. The Plan will be informed by scientific advice received from a Technical Advisory Committee chaired by the B.C. Ministry of Environment, and including representatives from Teck, the U.S. Environmental Protection Agency, the State of Montana, the Ktunaxa First Nation, other provincial and federal agencies, and an independent scientist. The Plan is now being developed and is expected to be complete and submitted to the B.C. Ministry of Environment in the third quarter of 2014.

While the previous draft valley-wide Selenium Management Action Plan contemplated total capital spending over the next five years of up to $600 million on the installation of water diversion and treatment facilities, the estimated capital and operating costs of implementing the Elk Valley Water Quality Plan are not yet known. The final costs will depend on the water quality targets established in the Plan, as well as the technologies applied to manage selenium and other substances. The initial cost estimate in the previous valley-wide Selenium Management Action Plan assumed the application of biological treatment technology, which is currently being installed in the water treatment plant under construction at our Line Creek operation. This facility is progressing satisfactorily towards expected commissioning in the second quarter of 2014. We are actively investigating alternative technologies with the potential to reduce treatment costs while ensuring water quality objectives are met.

Our work on the Plan is expected to result in revised cost estimates in the third quarter of 2014. We expect that, in order to maintain water quality, water treatment will need to continue for an indefinite period after mining operations end. Our ongoing work could reveal technical issues or advances associated with potential treatment technologies, which could substantially increase or decrease both capital and operating costs associated with water quality management. Delays in obtaining approval of the Plan could result in consequential delays in permitting new mining areas, which would limit our ability to maintain or increase coal production in accordance with our long-term plans. If this were to occur, the potential shortfall in future production could be material.

Quintette Project

We received a *Mines Act* Permit Amendment for our Quintette project in northeast B.C. in June 2013. The feasibility study contemplates an average clean coal production rate of 3.5 million tonnes per year over the estimated 12-year life of Quintette. After reviewing market conditions in the second quarter of 2013, we delayed the final decision to place Quintette into production. We are continuing to proceed with detailed engineering work so that we will be in a position to proceed with the reopening if market conditions are favourable. Production could commence within 14 months of a construction decision.

Rail

Rail transportation from our five mines in southeast B.C. for seaborne export is provided under a 10-year agreement with Canadian Pacific Rail (CP Rail) that commenced in April 2011. This agreement provides us with access to increased rail capacity to support our ongoing coal expansion and includes a commitment by CP Rail to invest capital to increase its capacity to transport coal. CP Rail's investment in its network resulted in added capacity throughout 2013, with siding and loadout extensions carried out. As a result, all of our westbound trains are now running at 152 cars in length, compared with an average of 126 cars prior to the investment, allowing more coal to be transported with fewer trains. The eastbound agreement with CP Rail covering shipments to our North American customers expired at the end of 2013. Discussions for contract extension are underway.

Port

A number of key initiatives have been undertaken to ensure that we have access to terminal loading capacity in excess of our planned shipments. Neptune Bulk Terminals, in which we have a 46% ownership interest, expanded its annual coal throughput capacity from 9 million tonnes to 12.5 million tonnes in the summer of 2013 with the addition of a new stacker reclaimer. The feasibility study for the next expansion phase, to increase capacity from 12.5 million tonnes to 18.5 million tonnes, was completed in the fourth quarter of 2012 and detailed engineering is being carried out in parallel with permitting.

In addition, Westshore Terminals (Westshore) completed the planned expansion of their capacity to 33 million tonnes per year. Our contract with Westshore provides us with 19 million tonnes of annual capacity from April 2014 through to March 2021.

Sales

A major focus of our coal marketing strategy has been to maintain and enhance relationships with our traditional customers while establishing new customers in markets where long-term growth in steel production and demand for seaborne steelmaking coal will support our expansion efforts over the long term. We are continuing to build our existing customer base and to establish important new customer relationships in China, India and other market areas to assist in achieving our growth objectives. In 2013, we exceeded previously established record sales into both China and India. In 2014, we are expecting China to continue to be our largest market; however, the ratio of Chinese sales to total sales will likely decline due to expected increases in sales to other market areas.

Markets

Sufficient supply of high-quality seaborne steelmaking coal and a large drop in pricing levels characterized 2013. Contributing factors leading to increased availability in steelmaking coal included mine expansions in Australia, the U.S. and Canada, production ramp-up in China and new supply areas, combined with recovery from severe weather disruptions and labour-related production shortfalls in Australia. Despite economic uncertainty across most market areas, steel production improved modestly in 2013, with China being the driving force behind the growth. Better availability of coal and increased utilization of lower grade coal by steelmakers to control costs in an environment of low steel prices caused the benchmark price for our highest quality products to decrease from US$165 per tonne earlier in the year to US$143 per tonne for the first quarter of 2014.

Spot price assessments declined in mid-2013 to levels not seen since the global financial crisis in 2009. Earlier in the year, a number of steelmakers moved to price a portion of their coal purchases on a spot basis to capitalize on the downward market trend. The lower pricing environment beginning in mid-2012 forced production cuts by a number of suppliers, with total reduction estimates ranging up to 40 million tonnes.

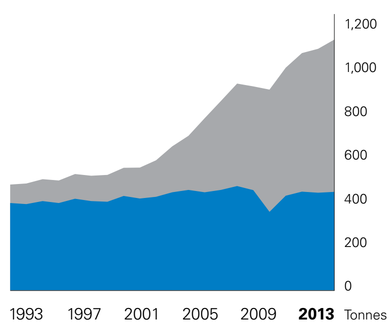
Coal prices continue to be weak. Expectations are that steel production will continue to increase in 2014 in a range similar to 2013, as a number of key market areas are showing signs of improving demand. More curtailment on the coal supply side would be required to bring the market into a healthier balance.

The graphs below show key metrics affecting steelmaking coal sales: spot price assessments and quarterly benchmark pricing, hot metal production (each tonne of hot metal, or pig iron, produced requires approximately 650–700 kilograms of steelmaking coal), and China's steelmaking coal imports by source.

Daily Metallurgical Coal Assessments
Source: Argus

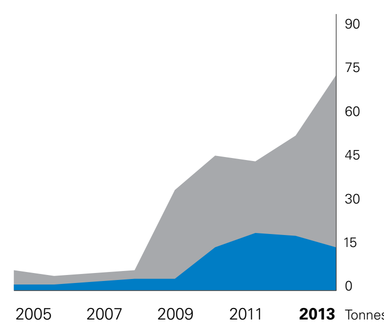
- Spot price assessments (US$ per tonne FOB Australia)
- Quarterly benchmark (US$ per tonne FOB Australia)

Hot Metal (Pig Iron) Production
Source: World Steel Association



- Rest of the world (tonnes in millions)
- China (tonnes in millions)

China Coking Coal Imports
Source: GTIS



- Mongolia (tonnes in millions)
- Seaborne (tonnes in millions)

Zinc

We are one of the world's largest producers of zinc, primarily from our Red Dog mine in Alaska and Antamina mine in northern Peru. Our metallurgical complex in Trail, B.C. is also one of the world's largest integrated zinc and lead smelting and refining operations. In total, we produced 623,000 tonnes of zinc in concentrate while our Trail Operations produced 290,100 tonnes of refined zinc in 2013. In 2014, we estimate production of zinc in concentrate to be in the range of 555,000 to 585,000 tonnes and production of refined zinc to be in the range of 280,000 to 290,000 tonnes.

As an integrated metal producer, we also provide recycling solutions for metal-bearing scrap and residue. In 2013, we recycled 43,400 tonnes of material at our Trail Operations.

In 2013, our zinc business unit accounted for 26% of revenue and 15% of gross profit before depreciation and amortization.

	Revenues			Gross Profit Before Depreciation and Amortization		
($ in millions)	**2013**	2012	2011	**2013**	2012	2011[1]
Red Dog	**$ 874**	$ 892	$ 1,008	**$ 418**	$ 440	$ 547
Trail	**1,751**	1,865	1,989	**112**	59	256
Other	**13**	7	18	**4**	(2)	2
Inter-segment sales	**(228)**	(214)	(250)	**–**	–	3
Total	**$ 2,410**	$ 2,550	$ 2,765	**$ 534**	$ 497	$ 808

	Production			Sales		
(000's tonnes)	**2013**	2012	2011	**2013**	2012	2011
Refined zinc						
Trail	**290**	284	291	**294**	287	289
Contained in concentrate						
Red Dog	**551**	529	572	**504**	510	556
Other business units	**72**	69	74	**74**	68	75
Total	**623**	598	646	**578**	578	631

Note:
(1) 2011 results have not been restated for the new and amended accounting pronouncements. Please refer to Note 29 to our consolidated financial statements for the year ended December 31, 2013 for more details.

Operations

Red Dog

Red Dog, located in northwest Alaska, is one of the world's largest zinc mines. Red Dog's gross profit before depreciation and amortization in 2013 was $418 million, compared with $440 million in 2012 and $547 million in 2011. The lower 2013 gross profit was mainly due to lower byproduct revenue from silver.

In 2013, zinc production at Red Dog was 551,300 tonnes compared to 529,100 tonnes in 2012. Annual mill throughput was a record high at 3.85 million tonnes in 2013 and, combined with improved recoveries, resulted in the higher zinc production. Lead production in 2013 was 96,700 tonnes compared to 95,400 in 2012, due to higher recoveries from treating less weathered ore, which was only partially offset by lower grades in the mill feed.

Red Dog's location exposes the operation to severe weather and winter ice conditions, which can significantly affect production, sales volumes and operating costs. In addition, the mine's bulk supply deliveries and all concentrate shipments occur during a short ocean shipping season that normally runs from early July to late October. This short shipping season means that Red Dog's sales volumes are usually higher in the last six months of the year, resulting in significant variability in its quarterly profit, depending on metal prices.

In accordance with the operating agreement governing the Red Dog mine between Teck and NANA Regional Corporation, Inc. (NANA), the royalty we pay NANA increased in the fourth quarter of 2012 to 30% of net proceeds of production from the previous 25%. This royalty increases by 5% every fifth year to a maximum of 50%. The NANA royalty charge in 2013 was US$120 million, compared with US$137 million in 2012. NANA has advised us that it ultimately shares approximately 64% of the royalty, net of allowable costs, with other Regional Alaska Native corporations pursuant to section 7(i) of the *Alaska Native Claims Settlement Act.*

We expect 2014 production to be approximately 500,000 to 525,000 tonnes of zinc in concentrate and approximately 95,000 to 100,000 tonnes of lead in concentrate.

Trail Operations

Our Trail Operations in B.C. is one of the world's largest fully integrated zinc and lead smelting and refining complexes. It also produces a variety of precious and specialty metals, chemicals and fertilizer products. Trail Operations has a two-thirds interest in the Waneta hydroelectric dam as well as ownership of the related transmission system. The Waneta Dam provides low-cost, clean, renewable power to the metallurgical operations.

Trail Operations contributed $112 million to gross profits before depreciation and amortization in 2013, compared with $118 million, before a one-time $59 million labour settlement charge, in 2012 and $256 million in 2011.

Refined zinc production totalled 290,100 tonnes in 2013, compared with 284,200 tonnes the previous year, as a result of improved operating efficiencies and improved throughput.

Refined lead production of 86,400 tonnes was similar to the 87,900 tonnes produced in 2012.

Silver production of 22.8 million ounces was near 2012 record levels, despite being affected by lower levels of silver in feed and reduced lead furnace availability due to a series of mechanical incidents in the last two months of the year that reduced online time.

Our recycling process treated 43,400 tonnes of material during the year, and we plan to treat about 39,900 tonnes in 2014. We continue to focus on treating lead acid batteries and cathode ray tube glass while expanding our processing of zinc alkaline batteries and fluorescent light bulbs as part of our efforts in recycling post-consumer waste.

Construction continued on the new acid plant, which will replace two existing plants and is expected to deliver enhanced operating reliability and flexibility as well as improved environmental performance. The new plant is expected to go into service in the second quarter of 2014.

In 2014, we expect to produce in the range of 280,000 to 290,000 tonnes of refined zinc, 82,000 to 87,000 tonnes of refined lead and 22 to 25 million ounces of silver.

Other Zinc Operations

Our Pend Oreille mine, located in Washington State, has been on care and maintenance since February 2009. A core group of employees is working to keep the site ready in the event of a future restart. All regulatory and environmental requirements are being met.

Markets

Zinc prices on the LME averaged US$0.87 per pound for the year, down US$0.01 per pound from the 2012 average.

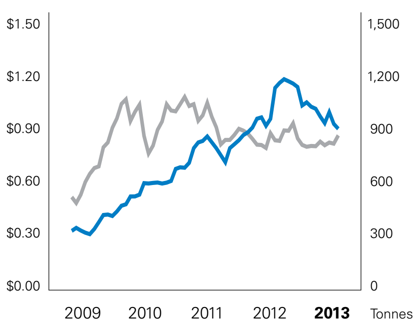
In 2013, global zinc metal consumption was 13.3 million tonnes, 4% over 2012 levels. Metal premiums increased in North America, Asia and Europe as a result of good demand growth and constrained access to metal stocks. LME stocks fell by 287,275 tonnes, 24% below 2012 levels, to 933,475 tonnes. We estimate that total reported global stocks, which include producer, consumer, merchant and terminal stocks, fell by approximately 350,000 tonnes in 2013 and at year-end were 1.6 million tonnes. That represented an estimated 45 days of global consumption compared to the 25-year average of an estimated 40 days.

In 2013, global mine production grew by 2% to 13.1 million tonnes of contained zinc, while global refined production rose by 4% to 13.1 million tonnes. The global concentrate market recorded a modest surplus in 2013, representing less than 2% of global mine production.

In 2013, closures of large long-life mines started in Canada with the Brunswick and Perseverance mines closing. This will continue with the expected closure of the Century mine in Australia in 2015. Over the next few years, global mine production is expected to peak. This will put a cap on refined production while demand is expected to continue to grow, leading to a tightening global zinc market.

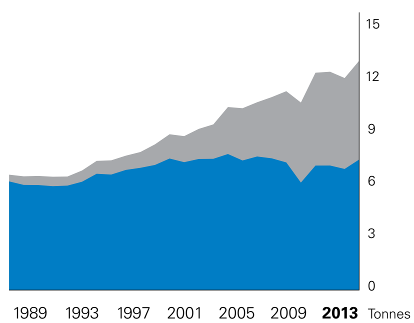
In 2014, we believe that the global zinc concentrate market will record a smaller surplus, representing less than 1% of global mine production. We expect that global refined production will grow at a similar rate as refined demand, leading to a balanced global zinc metal market.

Zinc Price and LME Inventory
Source: LME



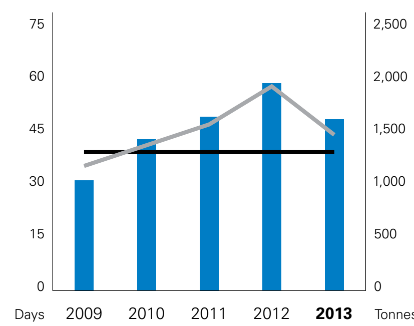
- LME inventory (tonnes in thousands)
- Zinc price (US$ per pound)

Global Demand for Zinc
Source: Wood Mackenzie



- Rest of the world (tonnes in millions)
- China (tonnes in millions)

Global Zinc Inventories
Source: ILZSG, LME, SHFE



- Inventories (tonnes in thousands)
- Days of global consumption
- 25-year average days inventory

Energy

Located in the Athabasca oil sands region of northeastern Alberta, our energy assets include a 20% interest in the Fort Hills oil sands project, a 100% interest in the Frontier oil sands project and a 50% interest in various other oil sands leases in the exploration phase, including the Lease 421 Area. Our proven and probable reserves totalled 608 million barrels and our contingent bitumen resources totalled 3.1 billion barrels at the end of 2013. These valuable long-term assets are located in a politically stable jurisdiction and are expected to be mined using conventional technologies that build on our core skills in large-scale truck and shovel operations.

We recognize that there are concerns over the potential environmental effects of developing oil sands projects. We are researching methods to improve extraction and processing to enhance the sustainability of our projects. We are proud to be one of the founding members of Canada's Oil Sands Innovation Alliance (COSIA) and are encouraged by the progress of the industry towards improving environmental performance, reducing water consumption, improving tailings management, and increasing land reclamation and revegetation.

We have a 30% interest in the Wintering Hills Wind Power Facility and continue to examine opportunities to enhance our renewable energy portfolio.

The disclosure that follows includes references to reserves and contingent bitumen resource estimates. Further information on these estimates, the related risks and uncertainties, and contingencies that prevent the classification of resources as reserves is set out in our most recent Annual Information Form, which is available on our website at www.teck.com, or on the Canadian Securities Administrators website at www.sedar.com (SEDAR) and under cover of Form 40-F on the EDGAR section of the Securities Exchange Commission (SEC) website at www.sec.gov. There is no certainty that it will be commercially viable to produce any portion of the contingent resources.

Fort Hills Oil Sands Project

The Fort Hills oil sands project is located approximately 90 kilometres north of Fort McMurray in northern Alberta. We hold a 20% interest in the Fort Hills Energy Limited Partnership (Fort Hills Partnership), which owns the Fort Hills oil sands project, with 39.2% held by Total E&P Canada Ltd. (Total) and the remaining 40.8% held by Suncor Energy Inc. (Suncor). An affiliate of Suncor is the operator of the project.

In the fourth quarter of 2013, we along with our partners Suncor and Total announced that we are proceeding with the construction of the Fort Hills oil sands project. Based on Suncor's project cost estimates, our portion of the fully escalated capital investment in Fort Hills from the date of project sanction is estimated at approximately $2.94 billion over four years (2014–2017), including remaining earn-in commitments of $240 million. The gross overall project costs for all partners since the project restart in 2011 are estimated by Suncor at a capital intensity of approximately $84,000 per daily flowing barrel of bitumen, which is within the range of similar recent oil sands projects.

At December 31, 2013, our 20% share of the proven and probable reserves at Fort Hills is 608 million barrels and our best estimate of our share of the incremental contingent bitumen resource is 26 million barrels.

The project is scheduled to produce first oil as early as the fourth quarter of 2017 and is expected to achieve 90% of its planned production capacity of 180,000 barrels per day (bpd) of bitumen within 12 months. Our share of production is expected to be 36,000 bpd (13 million barrels per year) of bitumen. Construction is on budget and progressing substantially in accordance with the project schedule.

Frontier Project

We hold a 100% interest in the Frontier project, which is located about 10 kilometres northwest of the Fort Hills oil sands project in northern Alberta. In November 2011, the Frontier project application was submitted to regulators. We have subsequently responded to two rounds of supplemental information requests and review of the application continues. The cumulative federal review period is estimated to be approximately two years, making 2015 the earliest an approval decision and receipt of required permits is expected.

In 2013, we did fieldwork to acquire additional geotechnical information to support the regulatory application and future engineering design efforts.

In the second quarter of 2013, we announced the exchange of certain oil sands leases relating to the Frontier project with Shell Canada Energy (Shell). The asset exchange significantly reduces the lease boundary interfaces between the Frontier project and Shell's Pierre River Mine project, and is anticipated to benefit the economic recovery of oil sands for the parties' respective projects. The leases we acquired in the exchange generally lie east of the Frontier project area and form a continuous series of leases with the Frontier leases.

In connection with the asset exchange, Teck and Shell have entered into a projects agreement with respect to future activities on the Frontier and Pierre River Mine projects. Under the projects agreement, among other matters, Teck and Shell will work to minimize certain impacts of their respective projects on the other's project and on the environment, while maximizing the economic recovery of oil sands along common boundaries and improving the efficiency of both projects.

As of December 31, 2013, our best estimate of contingent bitumen resources for the Frontier project is approximately 3.05 billion barrels. The project has been designed for a total nominal production of approximately 277,000 bpd of bitumen.

Lease 421 Area

We hold a 50% interest in the Lease 421 Area, which is located east of the Fort Hills project in northern Alberta. Imperial Oil and ExxonMobil jointly own the remaining 50%. To date, a total of 89 core holes have been completed in the Lease 421 Area, including 30 core holes previously completed on Lease 899.

Wintering Hills Wind Power Facility

Wintering Hills is a wind power facility located near Drumheller, Alberta. We hold a 30% interest in Wintering Hills with Suncor, the project operator, holding the remaining 70%. In 2013, our share of power generation from Wintering Hills was 85 GWh, enough power to provide 55,000 tonnes of CO_2-equivalent credits. Our share of expected power generation in 2014 is 85 GWh, which is dependent on weather conditions.

Exploration

Throughout 2013, exploration efforts were carried out around the world by our nine regional offices. Expenditures of $86 million in 2013 were focused on copper, zinc and gold opportunities.

Exploration plays three critical roles at Teck: discovery of new orebodies through early stage exploration and acquisition; pursuit, evaluation and acquisition of development opportunities; and delivery of geoscience solutions and services to create value at our existing mines.

Our copper exploration is focused on porphyry copper deposits and, during 2013, we drilled several porphyry copper projects in Canada, Chile and Peru. Significant exploration work was focused in and around our existing operations and advanced projects in 2013. At our Highland Valley Copper Operations in Canada we completed 69.5 kilometres of drilling primarily focused on copper mineralization adjacent to the historical Bethlehem pits. In 2014, we plan to drill copper projects in Canada, Chile and Peru, and continue to explore around our existing operations. In addition to our 100% owned projects, we entered into option agreements on several drill stage projects in 2013 and we plan to test a number of these systems in 2014.

Zinc exploration remains focused on four areas: the Red Dog mine district in Alaska, central B.C., northeastern Australia, and Ireland. In Alaska, Australia and Canada, the target type is a large, high-grade, sediment-hosted deposit similar to major world-class deposits such as Red Dog in Alaska and Century or McArthur River in Australia. In 2013, we completed four holes at the Teena prospect on the Reward project in Australia, a joint venture with Rox Resources Limited. Drilling intersected 15- to 20-metre thicknesses of zinc and lead sulphide mineralization, grading 10% to 13% zinc plus lead over a strike length of 1 kilometre. Teck is earning up to 70% in the project. We also continued to drill on the Noatak project near our existing Red Dog mine, where we have been testing high-quality targets with promising results. Exploration programs will continue in these regions in 2014.

In addition to exploring for copper and zinc, we are exploring for, and looking to partner in, new gold opportunities. Our plan is to explore, find and advance gold resources through targeted exploration activity in select jurisdictions. Once an opportunity has been recognized, the strategy is to optimize that opportunity or asset through further definition drilling and engineering studies, then capture value through periodic divestitures. Our current exploration efforts and drill testing for gold are primarily focused in Turkey, Canada, Chile, Peru and Colombia. In 2013, we had more encouraging results from TV Tower in Turkey, which is a joint venture with Pilot Gold Inc., and have had success in drilling new gold systems in South America.

Financial Overview

Financial Summary

($ in millions, except per share data)	2013	2012	2011[2]
Revenues and profit			
Revenues	**$ 9,382**	$ 10,343	$ 11,514
Gross profit before depreciation and amortization[1]	**$ 3,659**	$ 4,507	$ 5,788
EBITDA[1]	**$ 3,153**	$ 3,295	$ 5,459
Profit attributable to shareholders	**$ 961**	$ 1,068	$ 2,668
Cash flow			
Cash flow from operations	**$ 2,878**	$ 3,418	$ 3,957
Capital expenditures	**$ 1,858**	$ 1,700	$ 1,236
Capitalized production stripping costs[2]	**$ 744**	$ 732	$ –
Investments	**$ 325**	$ 758	$ 463
Balance sheet			
Cash balances	**$ 2,772**	$ 3,267	$ 4,405
Total assets	**$ 36,183**	$ 35,055	$ 34,213
Debt, including current portion	**$ 7,723**	$ 7,195	$ 7,035
Per share amounts			
Profit attributable to shareholders			
Basic	**$ 1.66**	$ 1.82	$ 4.52
Diluted	**$ 1.66**	$ 1.82	$ 4.50
Dividends declared per share	**$ 0.90**	$ 0.85	$ 0.70

Notes:
(1) Gross profit before depreciation and amortization and EBITDA are non-GAAP financial measures. See “Use of Non-GAAP Financial Measures” section for further information.
(2) 2011 results have not been restated for the new and amended accounting pronouncements. Please refer to Note 29 to our consolidated financial statements for the year ended December 31, 2013 for more details.

Our revenue and profit depend on prices for the commodities we produce, sell and use in our production processes. Commodity prices are determined by the supply of and demand for those commodities, which are influenced by global economic conditions. We normally sell the products that we produce at prevailing market prices or, in the case of steelmaking coal, at negotiated prices on term contracts or on a spot basis. Prices for these products, particularly for exchange-traded commodities, can fluctuate significantly and that volatility can have a material effect on our financial results.

We record our financial results using the Canadian dollar and, accordingly, our operating results and cash flows are affected by changes in the Canadian dollar exchange rate relative to the currencies of other countries where we operate and relative to the United States (U.S.) dollar. Exchange rate movements can have a significant effect on our results, as a significant portion of our operating costs are incurred in Canadian and other currencies, and most of our revenues and debt are denominated in U.S. dollars.

Profit attributable to shareholders for 2013 was $961 million, or $1.66 per share. This compares with $1.1 billion or $1.82 per share in 2012, which included $784 million of after-tax debt refinancing charges, and $2.7 billion, or $4.52 per share in 2011.

Our profit over the past three years has included items that we segregate for presentation to investors so that the ongoing profit of the company may be more clearly understood. These are described below and summarized in the table that follows.

There were no significant unusual items in 2013.

In 2012, our profit included $784 million of after-tax refinancing charges related to debt refinancing transactions completed during the year, $70 million of collective agreement charges, $39 million of gains on asset sales and $98 million of gains on various derivatives.

Our profit in 2011 included $146 million of after-tax gains on the sale of various assets that were undertaken as part of our debt reduction plan and $128 million of gains on various derivatives.

The table below shows the effect of these items on our profit.

	2013	2012	2011[(1)]
Profit attributable to shareholders	**$ 961**	$ 1,068	$ 2,668
Add (deduct) the after-tax effect of:			
Asset sales and provisions	**(9)**	(39)	(146)
Foreign exchange (gains) losses	**11**	20	(4)
Derivative gains	**–**	(98)	(128)
Financing items	**–**	784	–
Collective agreement charges	**–**	70	55
Asset impairments and other	**31**	–	23
Tax items	**10**	(29)	–
Adjusted profit[(2)]	**$ 1,004**	$ 1,776	$ 2,468
Adjusted earnings per share[(2)]	**$ 1.74**	$ 3.03	$ 4.18

Notes:
(1) 2011 results have not been restated for the new and amended accounting pronouncements. Please refer to Note 29 to our consolidated financial statements for the year ended December 31, 2013 for more details.
(2) Adjusted profit and adjusted earnings per share are non-GAAP financial measures. See "Use of Non-GAAP Financial Measures" section for further information.

Cash flow from operations in 2013 was $2.9 billion, compared with $3.4 billion in 2012 and $4.0 billion in 2011. The changes in cash flow from operations are due mainly to the volatility in commodity prices.

At December 31, 2013, our cash balance was $2.8 billion. Total debt was $7.7 billion and our net debt to net debt-plus-equity ratio was 21% compared with 18% at December 31, 2012 and 13% at the end of 2011.

Gross Profit

Our gross profit is made up of our revenues less the operating, depreciation and amortization expenses at our producing operations. Income and expenses from our business activities that do not produce commodities for sale are included in our other operating income and expenses or in our non-operating income and expenses.

Our principal commodities are copper, steelmaking coal and zinc, which accounted for 27%, 44% and 12% of revenues respectively in 2013. Silver and lead are significant byproducts of our zinc operations, accounting for 8% and 4% each, respectively, of our 2013 revenues. We also produce a number of other byproducts including molybdenum, various specialty metals, and chemicals and fertilizers, which in total accounted for 5% of our revenue in 2013.

Our revenues are affected by sales volumes, which are determined by our production levels and by demand for the commodities we produce, commodity prices and currency exchange rates.

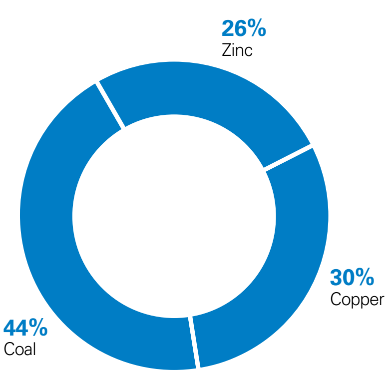
Our revenues were $9.4 billion in 2013 compared with $10.3 billion in 2012 and the record $11.5 billion in 2011. The reduction in 2013 revenues was due mainly to lower commodity prices, partially offset by increased sales volumes of steelmaking coal and a stronger U.S. dollar. The reduction in 2012 over 2011 was due mainly to a 25% reduction in the average realized coal price, lower metal prices and lower zinc sales volumes. The reduction was partially offset by higher sales volumes of copper and coal, which increased by 13% and 8%, respectively, compared with 2011.

Our cost of sales includes all of the expenses required to produce our products, such as labour, energy, operating supplies, concentrates purchased for our Trail Operations' refining and smelting operation, royalties, and marketing and distribution costs required to sell and transport our products to various delivery points. Our cost of sales also includes depreciation and amortization expense. Due to the geographic locations of many of our operations, we are highly dependent on third parties for the provision of rail, port and other distribution services. In certain circumstances, we negotiate prices for the provision of these services where we may not have viable alternatives to using specific providers, or may not have access to regulated rate-setting mechanisms. Contractual disputes, demurrage charges, rail and port capacity issues, availability of vessels and railcars, weather problems and other factors can have a material effect on our ability to transport materials from our suppliers and to our customers in accordance with schedules and contractual commitments.

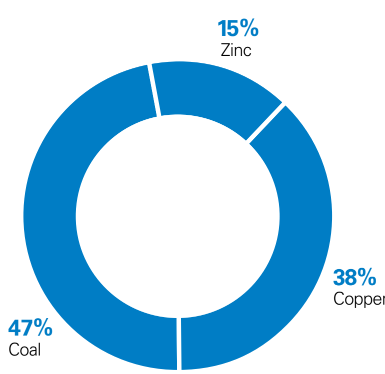
The magnitude of our costs is dictated mainly by our production volumes, by the costs for labour, operating supplies and concentrate purchases, and by strip ratios, haul distances, ore grades, distribution costs, commodity prices, foreign exchange rates and costs related to non-routine maintenance projects. Production volumes mainly affect our variable operating and our distribution costs. In addition, production may also affect our sales volumes and, when combined with commodity prices, it affects profitability and, ultimately, our royalty expenses.

In the second half of 2012 we implemented a cost reduction program at all of our sites that to date has identified approximately $380 million of potential ongoing annual operating cost savings across the company, of which $360 million has been implemented. An additional $150 million of one-time cost savings and deferrals has also been identified and implemented. This cost reduction program has contributed to the lower operating costs incurred in 2013.

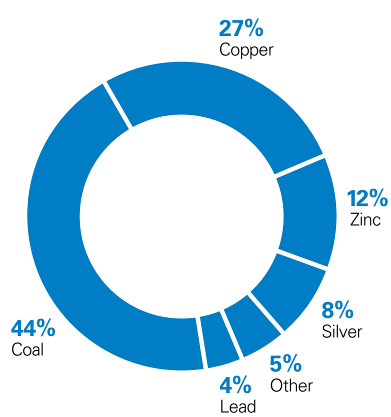
2013 Revenue by Business Unit



2013 Gross Profit by Business Unit
(Before depreciation and amortization)



2013 Revenue by Commodity



Our cost of sales was $6.9 billion in 2013 compared with $6.8 billion in 2012 and $6.6 billion in 2011. Cost of sales increased in 2013 from 2012, primarily due to substantially higher coal sales volumes and higher depreciation and amortization expense. Coal sales volumes increased by 2.9 million tonnes in 2013, which accounted for $275 million of the increase. Depreciation and amortization expense was $250 million higher than in 2012 as a result of increasing amortization of capitalized production stripping costs and partly due to the effect of the higher coal sales volumes. These items were partially offset by the efforts of our cost reduction program and a $90 million reduction in operating costs at Quebrada Blanca Operations, as a result of the restructuring plan we put in place in 2013. In addition, there was no labour agreement settlement charge in 2013, compared with $103 million incurred in 2012.

Comparing 2012 with 2011, the higher costs were due primarily to higher production levels in our copper and coal business units, which increased 16% and 8%, respectively. In addition, cost of sales for 2011 have not been restated for the new accounting rules related to production stripping costs and post-employment benefits (please refer to Note 29 to our consolidated financial statements for the year ended December 31, 2013 for more details). Higher transportation unit costs in our coal business unit accounted for approximately $110 million of the increase in cost of sales in 2012. This was due to higher ocean freight, port and rail costs as well as to a higher proportion of coal being sold inclusive of freight charges. Although we achieved lower unit costs at most of our copper operations, unit costs increased significantly at our Quebrada Blanca Operations and accounted for approximately $100 million of the increase in cost of sales in 2012. This was due to significant increases for labour costs, reflecting new terms of the collective agreement ratified early in 2012, and higher contractor and consumable costs. We also incurred one-time labour settlement costs at various operations totalling $103 million in 2012 compared with $84 million in 2011.

Other Expenses

($ in millions)	**2013**	2012	2011[1]
General and administration	**$ 129**	$ 137	$ 125
Exploration	**86**	102	105
Research and development	**18**	19	17
Other operating expense (income)	**216**	24	174
Finance income	**(13)**	(33)	(113)
Finance expense	**339**	510	595
Non-operating expense (income)	**6**	848	(197)
Share of losses of associates	**2**	10	5
	$ 783	$ 1,617	$ 711

Note:
(1) 2011 results have not been restated for the new and amended accounting pronouncements. Please refer to Note 29 to our consolidated financial statements for the year ended December 31, 2013 for more details.

We must continually replace our reserves as they are depleted in order to maintain production levels over the long term. We try to do this through our exploration and development programs and through acquisition of interests in new properties or in companies that own such properties. Exploration for minerals and oil is highly speculative and the projects involve many risks. The vast majority of exploration projects are unsuccessful and there are no assurances that current or future exploration programs will find deposits that are ultimately brought into production.

Our research and development expenditures are primarily focused on advancing our proprietary CESL hydrometallurgical technology, the development of internal and external growth opportunities, and the development and implementation of process and environmental technology improvements at operations.

Other operating income and expenses include items we consider to be related to the operation of our business, such as final pricing adjustments (which are further described in the next paragraph), share-based compensation, gains or losses on commodity derivatives, gains or losses on the sale of operating or exploration assets, and provisions for various costs at our closed properties. Significant items in 2013 include $62 million of negative pricing adjustments,

$33 million on asset write-downs, $27 million on environmental costs and a $22 million expense for share-based compensation. Significant items in 2012 included $24 million from gains on the sale of assets, $45 million of positive pricing adjustments and a $34 million expense for share-based compensation. 2011 included $130 million of gains on the sale of assets, $210 million of negative pricing adjustments, and a $21 million expense recovery for share-based compensation resulting from the decline in our share price.

Sales of metals in concentrate or copper cathodes are recognized in revenue on a provisional pricing basis when the rights, obligations, risks and benefits of ownership pass to the customer, which usually occurs upon shipment. However, final pricing is typically not determined until a subsequent date, often in the following quarter. Revenue in a quarter is based on prices at the date of sale. These pricing adjustments result in gains in a rising price environment and losses in a declining price environment and are recorded as other operating income or expense. The extent of the pricing adjustments also takes into account the actual price participation terms as provided in certain concentrate sales agreements. It should be noted that these effects arise on the sale of concentrates, as well as on the purchase of concentrates at our Trail Operations.

The table below outlines our outstanding receivable positions, which were provisionally valued at December 31, 2013 and 2012, respectively.

	Outstanding at December 31, 2013		**Outstanding at December 31, 2012**	
(pounds in millions)	Pounds	US$/lb	Pounds	US$/lb
Copper	135	3.35	179	3.59
Zinc	109	0.94	143	0.93

Our finance expense includes interest expense on our debt, financing fees and amortization, and the interest components of our pension obligations and our decommissioning and restoration provisions, less any interest that we capitalize against the cost of our development projects. The reduction in our finance expense relates primarily to lower average interest rates as a result of several debt refinancing activities that were completed in 2012. In addition, net interest expense was reduced by $91 million in 2013 compared with 2012 as more interest was capitalized to our various development projects.

Non-operating income (expense) includes items that arise from financial and other matters and includes such items as foreign exchange, debt refinancing, realized gains or losses on marketable securities, and gains and losses on the revaluation of the call options on certain of our high-yield notes that were refinanced in 2012. In 2013, other non-operating income included $42 million of gains on the sale of various investments, $32 million of provisions taken against various marketable securities and $12 million of foreign exchange losses. In 2012, other non-operating income consisted primarily of $965 million of charges related to debt refinancing activities described in more detail below under the caption "Financing Activities", $119 million of gains on the revaluation of the call options on our high-yield notes prior to their settlement and $29 million of gains on the sale of various investments. 2011 included $146 million of gains on the revaluation of the call options on our high-yield notes and $44 million of gains on the sale of various investments.

Until October 29, 2013, we accounted for our investment in the Fort Hills Energy Limited Partnership using the equity method. As a result of changes made to the agreements governing the project at the time of project sanction, we are now accounting for our investment in Fort Hills by recording our share of the assets, liabilities, revenues, expenses and cash flows. The majority of the activities on this project to date relate to capital expenditures, rather than expenditures that affect profit.

Income and resource taxes were $633 million, or 39% of pre-tax profit. This is higher than the Canadian statutory income tax rate of 25% due mainly to the effect of resource taxes and higher taxes in foreign jurisdictions, including withholding taxes. During 2013, the Canada Revenue Agency issued a proposed adjustment to our 2006 taxable income that would deny a deduction of $346 million claimed in relation to a premium paid on the redemption of our

Cominco exchangeable debentures. The proposed adjustment would reduce the loss carry forward pools available to us to reduce taxes payable in the future rather than have an immediate cash effect. In light of the uncertainty raised by the proposed adjustment and as the original amount was credited directly to equity, we recognized a provision of $124 million that has also been charged directly to equity.

At December 31, 2013, we had approximately $6.3 billion of various unused tax pools that shield us from cash income taxes, but not resource taxes, in Canada. We remain subject to cash taxes in foreign jurisdictions.

Subsequent to year-end, the Canada Revenue Agency proposed that most of the gains realized in 2008 on the sale of our 19.95% interest in Fording Canadian Coal Trust at the time of our acquisition of the Trust's assets should be taxed as income rather than capital gains. Although management remains confident that the gains were capital gains, the Canada Revenue Agency may nonetheless raise assessments on this basis. There can be no assurance that such assessments would not be upheld in whole or in part, in which case up to approximately $900 million of additional income for tax purposes would reduce our existing tax pools, resulting in an additional deferred tax liability of $235 million. In addition, cash interest of up to approximately $50 million could be due.

Profit attributable to non-controlling interests relates to the ownership interests in our Highland Valley Copper, Quebrada Blanca, Carmen de Andacollo and Elkview mines that are held by third parties.

Financial Position and Liquidity

Our financial position and liquidity remains strong. Our outstanding debt was $7.7 billion at December 31, 2013 compared with $7.2 billion at the end of 2012 and $7.0 billion at the end of 2011. As substantially all of our debt is denominated in U.S. dollars, the increase is due primarily to the strengthening of the U.S. dollar that occurred in 2013.

Our debt positions and credit ratios are summarized in the following table.

	December 31, 2013	December 31, 2012	December 31, 2011
Fixed-rate term notes	**$ 7,124**	$ 7,119	$ 6,698
Other	**137**	113	219
Total debt (US$ in millions)	**7,261**	7,232	6,917
Canadian $ equivalent at year-end exchange rate	**7,723**	7,195	7,035
Less cash balances	**(2,772)**	(3,267)	(4,405)
Net debt	**$ 4,951**	$ 3,928	$ 2,630
Debt to debt-plus-equity	**29%**	29%	28%
Net debt to net debt-plus-equity	**21%**	18%	13%
Average interest rate at year-end	**4.8%**	4.8%	6.9%

The cost of funds under our credit facilities depends in part on our credit ratings. Moody's currently rates us at Baa2 with a stable outlook, Standard & Poor's rates us at BBB with a stable outlook, Dominion Bond Rating Service rates us as BBB with a stable trend and Fitch Ratings rates us as BBB with a stable outlook. The costs under our credit facilities would change if certain of our credit ratings were to change.

Our primary sources of liquidity and capital resources are our cash and temporary investments, cash flow provided from operations, and funds available under our committed and uncommitted bank credit facilities, of which US$2 billion is currently available.

Operating Cash Flow

Cash flow from operations was $2.9 billion in 2013 compared with $3.4 billion in 2012 and $4.0 billion in 2011. The decreases in 2013 and 2012 compared to 2011 were due mainly to lower gross profits at our operations from falling commodity prices.

Investing Activities

Capital expenditures were $1.9 billion in 2013 and included $685 million on sustaining capital, $554 million on major enhancement projects and $619 million on new mine development. In addition, $744 million was spent on production stripping activities.

The largest components of sustaining capital expenditures were $255 million at our coal operations, primarily related to equipment replacement and the water quality plan to reduce selenium levels in mine discharge water; $123 million at Trail Operations, which included $79 million on construction of a new acid plant that is replacing an aging facility; $77 million at Highland Valley Copper; $59 million for our share of spending at Antamina and $54 million at Quebrada Blanca.

Major enhancement expenditures included $396 million for the mill optimization project at Highland Valley Copper and $74 million at Teck Coal to increase productive capacity to 28 million tonnes.

New mine development included $246 million for Quebrada Blanca's Phase 2 hypogene project, $65 million for Relincho, $145 million for the potential restart of the Quintette project, $60 million for our share of spending on the Fort Hills project, and $64 million on the Frontier oil sands project.

Investments in 2013 included $244 million for our share of the Fort Hills project until October 29, 2013. Beginning October 30, 2013, we began accounting for our investment in Fort Hills as a joint operation, resulting in our share of the project costs being included as part of our capital expenditures. Investments in 2012 were $432 million for the acquisition of SilverBirch Energy Corporation, which gave us full ownership of the Frontier oil sands project, including the Equinox property, $197 million for interests in a number of publicly traded companies and $122 million for our share of the costs of our equity accounted investment in Fort Hills. Investments in 2011 totalled $463 million, of which $300 million was for publicly traded companies and $54 million was for our share of the Fort Hills costs.

Cash proceeds from the sale of assets and investments were $502 million in 2013, $51 million in 2012 and $289 million in 2011. In 2012, we sold various small non-core mining properties. 2011 included $128 million for the sale of our Carrapateena project in Australia, and $161 million from other assets and investments in publicly traded companies.

Financing Activities

We had no significant financings in 2013, but we did increase the amount of our U.S. dollar revolving line of credit to US$2 billion, all of which was undrawn at the end of the year.

In 2012, we issued US$2.75 billion of long-term notes and used the proceeds to redeem the remaining outstanding balance of the various high-yield notes issued in 2009 and repay the US$200 million notes due in September 2012. Significant financing activities during 2011 included US$2 billion of notes issued in July for net proceeds of $1.9 billion.

Class B subordinate voting shares repurchased for cancellation pursuant to normal course issuer bids included 6.1 million shares at a cost of $176 million in 2013, 3.9 million shares for $129 million in 2012 and 4.8 million shares for $171 million in 2011.

At December 31, 2013 the weighted average maturity of our consolidated indebtedness is approximately 15 years and the weighted average coupon rate is approximately 4.8%.

Quarterly Earnings and Cash Flow

($ in millions except per share data)	**2013**				2012			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenues	**$ 2,376**	**$ 2,524**	**$ 2,152**	**$ 2,330**	$ 2,730	$ 2,505	$ 2,561	$ 2,547
Gross profit	**546**	**597**	**582**	**701**	825	827	880	992
EBITDA	**766**	**815**	**670**	**902**	653	861	933	848
Profit attributable to shareholders	**232**	**267**	**143**	**319**	200	256	354	258
Earnings per share	**$ 0.40**	**$ 0.46**	**$ 0.25**	**$ 0.55**	$ 0.34	$ 0.44	$ 0.60	$ 0.44
Cash flow from operations	**$ 769**	**$ 656**	**$ 690**	**$ 763**	$ 911	$ 729	$ 965	$ 813

Revenues from operations were $2.4 billion in the fourth quarter compared with $2.7 billion a year ago. Revenues from our copper business unit decreased by $133 million from a year ago as a result of softer copper prices, reduced byproduct revenues and lower sales volumes due to timing of shipments. Coal revenues decreased by $47 million compared with the fourth quarter of 2012, primarily due to weaker coal prices. Revenues from our zinc business unit decreased by $175 million compared with a year ago. The decrease was primarily due to substantially lower silver revenues from Trail Operations and a 22% decrease in Red Dog's zinc sales volumes. The effect of the stronger U.S. dollar in the fourth quarter compared with a year ago partly offset the declines in commodity prices.

Gross profit before depreciation and amortization from our copper business unit in the fourth quarter decreased by $79 million compared with a year ago. The decrease was primarily a result of lower realized copper prices, reduced byproduct revenues and a 7% decrease in sales volumes due to the timing of shipments, which were behind production. These items were partly offset by lower operating costs, particularly at our Quebrada Blanca and Carmen de Andacollo operations. Copper production in the fourth quarter was 105,000 tonnes, which was a new quarterly production record, compared with 103,000 tonnes a year ago and an increase of 15% from the third quarter of 2013. The higher production is a result of record mine and mill throughput at Antamina and from improved production from Quebrada Blanca.

In our coal unit, gross profit before depreciation and amortization in the fourth quarter declined by $83 million compared with last year due primarily to lower realized coal prices and increased unit operating costs. Production in the fourth quarter was 6.7 million tonnes, or 5% higher than in the same period in 2012. Sales volumes of 6.5 million tonnes in the fourth quarter reflect continued demand for our products from customers in all market areas and were slightly ahead of levels a year ago. For the year, sales volumes of 26.9 million tonnes represent a record for the coal operations, 2.9 million tonnes above 2012 and 1.9 million tonnes above the previous high in 2004 when we had an effective 43.4% interest in the Elk Valley Coal Partnership. Coal prices were 11% lower than a year ago and averaged US$142 per tonne in the fourth quarter. The lower coal price was partially offset by the effect of the stronger U.S. dollar. The cost of product sold in the fourth quarter, before transportation and depreciation charges, was $6 per tonne higher than the same period a year ago due to higher fuel costs, contracted labour rate increases and the completion of deferred maintenance activities. Operating costs also included a $3 per tonne charge related to the write-down of thermal coal inventories, which form a small portion of our production. Depreciation and amortization, before the inventory write-downs noted above, rose by $7 per tonne as a result of increasing amortization for capitalized stripping costs and new capital equipment investments made during the year, which are now being depreciated.

Gross profit before depreciation and amortization from our zinc business unit decreased by $56 million to $138 million in the fourth quarter compared with a year ago as a result of substantially lower sales volumes from Red Dog due to the timing of shipments. In 2012, poor weather in the third quarter caused delays to shipments originally scheduled for the third quarter, which were then deferred to the fourth quarter. Trail Operations' refined zinc production increased 3% from a year ago due to better roaster throughput and improved operating efficiencies. Refined lead and silver production was lower in the fourth quarter compared with a year ago, as throughput from the lead furnace was affected by a series of production interruptions. Zinc and lead production from Red Dog in the fourth quarter was similar to a year ago.

Profit attributable to shareholders was $232 million, or $0.40 per share, in the fourth quarter compared with $200 million, or $0.34 per share, in the same period last year. Profit last year was affected by a $259 million after-tax charge related to the refinancing of our remaining high-yield notes. Cash flow from operations was $769 million in the fourth quarter, compared with $911 million a year ago, with the reduction due mainly to the lower gross profits driven by the effect of lower prices for our products.

Outlook

We continue to experience volatile markets for our products, and prices for some of our products have declined significantly. Commodity markets have historically been volatile, prices can change rapidly and customers can alter shipment plans. This can have a substantial effect on our business. Demand for our products, particularly coal, remains strong. However, new sources of supply have put downward pressure on coal prices. While we believe that the longer term fundamentals for steelmaking coal, copper and zinc are favourable, the recent weakness in some of these markets may well persist for some time. We are also significantly affected by foreign exchange rates. The Canadian dollar has fallen significantly against the U.S. dollar to date in 2014 and this has had a positive effect on the profitability of our Canadian operations. It will, to a lesser extent, put upward pressure on a portion of our operating costs and capital spending.

We have committed to spending an estimated $2.94 billion over the next four years on the development of the Fort Hills oil sands project, which will consume a significant portion of our cash resources. In the meantime, the Company's financial position is strong. We are taking further steps to manage our capital spending profile and we continuously monitor all aspects of our cost reduction program, our capital spending and key markets as conditions evolve, in order to be in a position to take whatever actions may be appropriate.

Commodity Prices and 2014 Production

Commodity prices are a key driver of our profit. On the supply side, the depleting nature of ore reserves, difficulties in finding new orebodies, the permitting processes, the availability of skilled resources to develop projects, as well as infrastructure constraints, political risk and significant cost inflation may continue to have a moderating effect on the growth in future production for the industry as a whole. We are starting to see improvements in global economic conditions and believe that, over the longer term, the industrialization of emerging market economies will continue to be a major positive factor in the future demand for commodities. Therefore, we believe that the long-term price environment for the products that we produce and sell remains favourable.

Based on our expected 2014 mid-range production estimates and a Canadian/U.S. dollar exchange rate of $1.10, the sensitivity of our annual profit attributable to shareholders to the indicated changes in commodity prices, before pricing adjustments and the U.S. dollar exchange rate, is as follows:

	2014 Mid-Range Production Estimates	Change	Effect of Change On Profit	Effect on EBITDA
Coal (000's tonnes)	26,500	US$1/tonne	$ 19 million	$ 29 million
Copper (tonnes)	330,000	US$0.01/lb	$ 5 million	$ 7 million
Zinc (tonnes)	855,000	US$0.01/lb	$ 7 million	$ 10 million
US$ exchange		CAD$0.01	$ 40 million	$ 62 million

Notes:
(1) The effect on our profit attributable to shareholders of commodity price and exchange rate movements will vary from quarter to quarter depending on sales volumes.
(2) Zinc includes 285,000 tonnes of refined zinc and 570,000 tonnes of zinc contained in concentrates.
(3) All production estimates are subject to change based on market and operating conditions.

Foreign exchange translation gains and losses on our U.S. dollar denominated debt arising from exchange rate fluctuations are not expected to have a significant effect on our 2014 profit, as our U.S. dollar debt is expected to be designated as a hedge against our investments in U.S. dollar denominated foreign operations.

Copper and zinc prices, to date in 2014, are trading similar to 2013 average prices. Coal prices continue to be weak. The fluctuations in the Canadian/U.S. dollar exchange rate can have a significant effect on our profit and financial position. The Canadian dollar, to date in 2014, has averaged approximately $1.10 against the U.S. dollar compared with $1.03 on average for 2013.

Our copper production for 2014 is expected to be in the range of 320,000 to 340,000 tonnes compared with 364,300 tonnes produced in 2013. The lower expected production is a result of lower production from Quebrada Blanca, with less dump leach production, and from Antamina as the mine enters a period of significantly lower grades consistent with the mine plan. Antamina is expected to gradually increase production after 2014 as grades improve, which, together with higher production from Highland Valley Copper, is expected to offset declines from the closure of Duck Pond and lower grades at Quebrada Blanca and Carmen de Andacollo. We expect our copper cash unit costs in 2014, before and after byproduct credits, to be in the range of US$2.00 to US$2.20 per pound and US$1.70 and US$1.90 per pound, respectively.

Our coal production in 2014 is expected to be in the range of 26 to 27 million tonnes. Our actual production will depend primarily on customer demand for deliveries of steelmaking coal. Depending on market conditions and the sales outlook, we may adjust our production plans. We have the flexibility to devote additional resources to pre-stripping in these circumstances. Our current production capacity is approximately 28 million tonnes, but our actual production will ultimately depend on the demand from our customers. Our plan for 2014 includes a significant increase in the average waste haul distance for our coal operation, which will have a significant effect on unit costs, and this trend will continue in 2015.

Our zinc in concentrate production in 2014 is expected to be in the range of 555,000 to 585,000 tonnes compared with 623,000 tonnes in 2013, as Red Dog's production is expected to decrease by approximately 25,000 tonnes, and our share of Antamina is expected to decline by 15,000 tonnes. Refined zinc production from our Trail metallurgical complex in 2014 is expected to be in the range of 280,000 to 290,000 tonnes compared with 290,000 tonnes in 2013.

Capital Expenditures

Our forecast of approved capital expenditures, including $700 million of capitalized production stripping costs, for 2014 is expected to be approximately $2.6 billion and is summarized in the following table:

($ in millions)	Sustaining	Major Enhancement	New Mine Development	Capitalized Stripping	Total
Copper	$ 235	$ 100	$ 120	$ 255	$ 710
Coal	215	70	25	415	725
Zinc	150	–	15	30	195
Energy	–	–	955	–	955
Corporate	20	–	–	–	20
	$ 620	$ 170	$ 1,115	$ 700	$ 2,605

These amounts do not include expenditures on new mine development projects that have not received Board approval and that would be incurred, should those projects proceed.

Major enhancement projects in 2014 include: $70 million for the completion of Highland Valley Copper's mill optimization project and $70 million at our coal operations. New mine development in 2014 includes $100 million for Quebrada Blanca Phase 2, $25 million for Quintette, $850 million for Fort Hills and $105 million for our Frontier oil sands project.

The amount and timing of actual capital expenditures is also dependent upon being able to secure permits, equipment, supplies, materials and labour on a timely basis and at expected costs to enable the projects to be completed as currently anticipated. We may change capital spending plans for the balance of this year and next, depending on commodity markets, our financial position, results of feasibility studies and other factors.

Foreign Exchange and Debt Revaluation

The sales of our products are denominated in U.S. dollars, while a significant portion of our expenses are incurred in local currencies, particularly the Canadian dollar. Foreign exchange fluctuations can have a significant effect on our operating margins, unless such fluctuations are offset by related changes to commodity prices.

Our U.S. dollar denominated debt is subject to revaluation based on changes in the Canadian/U.S. dollar exchange rate. As at December 31, 2013, all of our U.S. dollar denominated debt is designated as a hedge against our U.S. dollar denominated foreign operations. As a result, any foreign exchange gains or losses arising on our designated U.S. dollar debt are recorded in other comprehensive income.

Other Information

British Columbia Carbon Tax

The Province of British Columbia (B.C.) introduced a carbon tax on virtually all fossil fuels in 2008. The tax is imposed on various fossil fuels used in B.C. and, on July 1, 2012, the final increase planned by government saw the tax rate reach \$30 per tonne of CO_2-emission equivalent. For 2013, our seven B.C.-based operations paid \$47 million in provincial carbon tax, primarily from our use of coal, diesel fuel and natural gas.

Financial Instruments and Derivatives

We hold a number of financial instruments and derivatives, which are recorded on our balance sheet at fair value with gains and losses in each period included in other comprehensive income and profit for the period as appropriate. The most significant of these instruments are marketable securities, foreign exchange forward sales contracts, metal-related forward contracts, and settlements receivable and payable. Some of our gains and losses on metal-related financial instruments are affected by smelter price participation and are taken into account in determining royalties and other expenses. All are subject to varying rates of taxation depending on their nature and jurisdiction.

Critical Accounting Estimates and Judgments

In preparing consolidated financial statements, management makes estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Based on historical experience and other factors, including expectations of future events, management makes judgments that are believed to be reasonable under the circumstances. Actual results could differ from our estimates. Critical accounting estimates are those that could affect the consolidated financial statements materially and involve a significant level of judgment by management. These estimates impact all of our reportable segments. Management's critical accounting estimates apply to the assessment of the impairment of assets, including goodwill, joint arrangements, the estimated recoverable reserves and resources, and the valuation of other assets and liabilities such as decommissioning and restoration provisions and accounting for income taxes.

Impairment Testing

Impairment testing is based on discounted cash flow models prepared by internal experts with assistance from third-party advisors when required. Significant assumptions used include commodity prices, mineral reserves and resources, operating costs, capital expenditures, discount rates, foreign exchange rates and inflation rates. The assumptions used are based on management's best estimates of what an independent market participant would consider appropriate and are reviewed by senior management. Significant judgment is applied and changes in these assumptions may alter the results of impairment testing, the amount of the impairment charges recorded in the statement of income and the resulting carrying values of assets.

We allocate goodwill arising from business combinations to the cash-generating unit or group of cash-generating units acquired that is expected to receive the benefits from the business combination. When performing annual goodwill impairment tests, we are required to determine the recoverable amount of each cash-generating unit or group of cash-generating units to which goodwill has been allocated. The recoverable amount of each cash-generating unit or group of cash-generating units is determined as the higher of its fair value less costs of disposal and its value in use.

We have performed our annual goodwill impairment testing and did not identify any impairment losses. The recoverable amounts for our goodwill impairment testing were determined based on a fair value less costs of disposal basis. The fair value less costs of disposal was calculated using a discounted cash flow methodology taking account of assumptions that would be made by market participants. Significant changes to long-term commodity prices and discount rates would be required before an impairment would be indicated for our coal operations or Quebrada Blanca. However, the results of our annual goodwill impairment test and an updated analysis as at December 31, 2013 resulted in the recoverable amount of Carmen de Andacollo exceeding its carrying value by approximately $100 million. The recoverable amount is most sensitive to the long-term commodity price and discount rate assumptions. The recoverable amount is based on a long-term copper price of US$3.50 per pound and a nominal post-tax discount rate of 8.5%. A 3% decrease in the long-term price assumption would result in the recoverable amount equalling the carrying value. An increase of 65 basis points in the nominal post-tax discount rate would also result in the recoverable amount equalling the carrying value.

Joint Arrangements

We are a party to a number of arrangements in which we do not have control. Judgment is required in determining whether joint control over these arrangements exists and if so, which parties have joint control and whether each arrangement is a joint venture or joint operation. In assessing whether we have joint control, we analyze the activities of each arrangement and determine which activities most significantly affect the returns of the arrangement. These activities are determined to be the relevant activities of the arrangement. If unanimous consent is required over the decisions about the relevant activities, the parties whose consent is required would have joint control over the arrangement. The judgments around which activities are considered the relevant activities of the arrangement are subject to analysis by each of the parties to the arrangement and may be interpreted differently. When performing this assessment, we consider decisions about activities such as managing the asset during its life, acquisition, expansion and dispositions of assets, financing, operating and capital decisions. We may also consider activities including the approval of budgets, appointment of key management personnel, representation on the Board of Directors, and other items.

If we conclude that we have joint control over the arrangement, an assessment of whether the arrangement is a joint venture or joint operation is required. This assessment is based on whether we have rights to the assets, and obligations for the liabilities, relating to the arrangement or whether we have rights to the net assets of the arrangement. In making this determination, we review the legal form of the arrangement, the terms of the contractual arrangement, and other facts and circumstances. In a situation where the legal form and the terms of the contractual arrangement do not give us rights to the assets and obligations for the liabilities, an assessment of other facts and circumstances is required, including whether the activities of the arrangement are primarily designed for the provision of output to the parties and whether the parties are substantially the only source of cash flows contributing to the arrangement. In such circumstances we may conclude that the application of other facts and circumstances to conclude that a joint arrangement is a joint operation is appropriate. This conclusion requires judgment and is specific to each arrangement. We have applied the use of other facts and circumstances to conclude that Antamina and Fort Hills are joint operations for the purposes of our consolidated financial statements. The other facts and circumstances considered for both of these arrangements are the provisions for output to the parties of the joint arrangements. For both Antamina and Fort Hills, we will take our share of the output from the assets directly over the life of the arrangement. We have concluded that this, combined with other factors, gives us direct rights to the assets and obligations for the liabilities of these arrangements, proportionate to our ownership interests.

Estimated Recoverable Reserves and Resources

Mineral reserve and resource estimates are based on various assumptions relating to operating matters. These include production costs, mining and processing recoveries, cut-off values or grades, and assumptions relating to long-term commodity prices. In some cases, mineral reserve and resource estimates are further affected by exchange rates, inflation rates and capital cost assumptions. Cost estimates are based on feasibility study estimates or operating history. Estimates are prepared by appropriately qualified persons, but will be affected by forecasted commodity prices, inflation rates, exchange rates, capital and production costs and recoveries, amongst other factors.

Estimated recoverable reserves and resources are used to determine the depreciation of property, plant and equipment at operating mine sites, in accounting for deferred stripping costs, in performing impairment testing and for forecasting the timing of the payment of decommissioning and restoration costs. Therefore, changes in the assumptions used could change the carrying value of assets, depreciation and impairment charges recorded in the income statement, and the carrying value of the decommissioning and restoration provision.

Decommissioning and Restoration Provisions

The decommissioning and restoration provisions (DRP) are based on future cost estimates using information available at the balance sheet date. These estimates are based on engineering studies of the work that is required by environmental laws or public statements by management that result in an obligation.

The DRP is adjusted at each reporting period for changes to factors such as the expected amount of cash flows required to discharge the liability, the timing of such cash flows, and the discount rate. The DRP requires other significant estimates and assumptions such as requirements of the relevant legal and regulatory framework, and the timing, extent and costs of required decommissioning and restoration activities. To the extent the actual costs differ from these estimates, adjustments will be recorded and the income statement may be affected.

Current and Deferred Income Taxes

The determination of our tax expense for the year and its deferred tax liabilities and assets involves significant management estimate and judgment involving a number of assumptions. In determining these amounts, management interprets tax legislation in a variety of jurisdictions and makes estimates of the expected timing of the reversal of deferred tax assets and liabilities. Deferred tax liabilities arising from temporary differences on investments in subsidiaries and joint ventures are recognized unless the reversal of the temporary differences is not expected to occur in the foreseeable future and can be controlled. Management also makes estimates of future taxable profits, which affects the extent to which potential future tax benefits may be used. Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future production and sales volumes, commodity prices, reserves, operating costs, decommissioning and restoration costs, capital expenditures, dividends and other capital management transactions. We are subject to assessments by various taxation authorities who may interpret tax legislation differently. These differences may affect the final amount or timing of the payment of taxes. We provide for these differences, where known, based on management's best estimate of the probable outcome of these matters.

Adoption of New Accounting Standards and Accounting Developments

Effective January 1, 2013, we have adopted several new and amended IFRS pronouncements and have applied them to our results in accordance with the transitional provisions outlined in the respective standards. The new pronouncements are described below and can be categorized as those that result in changes to our results, those that affect our financial statement presentation or disclosures, and those that affect accounting policies, but had no effect on our results as they were consistent with our existing policies. More detail on these changes and any effects on our results and financial statement disclosures are provided in Note 29 to our audited consolidated financial statements for the year ended December 31, 2013.

Pronouncements Affecting Our Financial Results

The adoption of the following new and amended IFRS pronouncements has resulted in adjustments to how we determine our current and previously reported figures, as described below.

Production Stripping Costs

IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine (IFRIC 20) provides guidance on how to account for overburden waste stripping costs in the production phase of a surface mine. Stripping activities that improve access to ore are considered to be an addition or enhancement of an existing asset and accordingly, these costs should be capitalized.

The adoption of IFRIC 20 resulted in an increase in the capitalization of stripping activity assets on our consolidated balance sheet and an increase in our profit and earnings per share, as costs that would have been expensed under our previous accounting policy are now being capitalized and amortized on a units-of-production basis in subsequent periods. Inventories were adjusted to capitalize production stripping costs and the depreciation of stripping activity assets is included in the cost of inventories.

The adoption of IFRIC 20 has significantly increased our capitalization of production stripping costs compared to our previous accounting policy. During 2013, we capitalized $801 million of stripping activity assets, which included $57 million of depreciation charges, primarily at our coal operations, and recorded depreciation expense on stripping activity assets of $313 million. We have described the effect of IFRIC 20 on our profit and business unit results throughout this Management's Discussion and Analysis.

This new pronouncement has no effect on our cash balance, our total cash flow (other than the presentation in our cash flow statement) or how we operate our mines.

Post-Employment Benefits

IAS 19, Employee Benefits (IAS 19), has amendments related to defined benefit pension plans that eliminate the option to defer certain actuarial gains and losses on the balance sheet. The amendments also require any remeasurement gains or losses, including actuarial gains and losses, to be recognized immediately and presented in other comprehensive income, eliminating the option to recognize and present these amounts through the income statement. The amendments to IAS 19 also require one discount rate be applied to the net defined benefit asset or liability for the purposes of determining the interest element of the defined benefit cost and require the recognition of unvested past service cost awards into profit immediately. There is also a requirement to change the presentation of finance income and finance expense to present both as a net finance expense (income) amount in the consolidated financial statements. Additional disclosures are required to present more information about the characteristics, amounts recognized and risks related to defined benefit plans.

The adoption of the amendments to IAS 19 did not have a significant effect on our results for the year ended December 31, 2013 and the amended disclosure requirements for IAS 19 are incorporated in our audited consolidated financial statements as at December 31, 2013.

Pronouncements Affecting Our Financial Statement Presentation or Disclosures

The adoption of the following new and amended IFRS pronouncements has resulted in enhanced financial statement disclosures in our interim or annual consolidated financial statements or a change in financial statement presentation. These pronouncements did not affect our financial results and the additional disclosures required by the new pronouncements have been included in our annual consolidated financial statements for the year ended December 31, 2013.

Disclosures of Interests in Other Entities

IFRS 12, Disclosures of Interests in Other Entities (IFRS 12) outlines the disclosure requirements for interests in subsidiaries and other entities to enable users to evaluate the risks associated with interests in other entities and the effects of those interests on an entity's financial position, financial performance and cash flows. The adoption of IFRS 12 did not significantly affect our disclosures for the year ended December 31, 2013. We have included a non-controlling interests' financial statement note (Note 22) in our audited consolidated financial statements as at December 31, 2013 to comply with the requirements of IFRS 12.

Fair Value Measurement

IFRS 13, Fair Value Measurement (IFRS 13) defines fair value, sets out a single IFRS framework for measuring fair value and outlines disclosure requirements for fair value measurements.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement, so assumptions that market participants would use should be applied in measuring fair value.

The disclosure requirements of IFRS 13 include disclosures about fair values of financial assets and liabilities measured on a recurring basis and non-financial assets and liabilities measured on a non-recurring basis. It also requires disclosures about assumptions used in calculating fair value less cost of disposal for our annual goodwill impairment test.

Other Comprehensive Income

The amendments to IAS 1, Presentation of Financial Statements (IAS 1) require companies preparing financial statements under IFRS to group items within other comprehensive income based on whether or not the item may be subsequently reclassified to profit or loss.

We have amended our consolidated statement of comprehensive income for all periods presented in our audited consolidated financial statements as at December 31, 2013 to reflect the presentation changes required under the amended IAS 1. Since these changes are reclassifications within our statement of comprehensive income, there is no net impact on our comprehensive income.

Other Pronouncements

The adoption of the following new IFRS pronouncements did not affect our financial results or disclosures, as no changes were required to our existing accounting treatment. These pronouncements did not have an effect on our consolidated financial statements for the current period or prior periods.

Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements (IFRS 10) establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This IFRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in an entity's financial statements.

Joint Arrangements

If an arrangement results in joint control, IFRS 11, Joint Arrangements (IFRS 11) classifies joint arrangements as either joint operations or joint ventures, depending on the rights and obligations of the parties involved. We also adopted IAS 28(R), Investments in Associates and Joint Ventures (IAS 28), which included amendments to address the accounting for joint ventures.

We completed an analysis of all of our joint arrangements to determine the appropriate accounting treatment under IFRS 11 and to assess whether there would be any changes required from our previous accounting policy of proportionate consolidation for our jointly controlled entities. Based on our analysis, we have concluded that all of our joint arrangements are joint operations under IFRS 11 and, accordingly, we have recorded the assets, liabilities, revenues and expenses in relation to our interest in each joint operation. The adoption of IFRS 11 did not have an effect on our consolidated financial statements for the current period or prior periods presented for comparative purposes.

The change in accounting treatment of our interest in Fort Hills from an investment in an associate to a joint operation during the year ended December 31, 2013 was due to changes made to the Limited Partnership Agreement, the Unanimous Shareholder Agreement and the Fort Hills Oil Sands Project Operating Services contract on October 30, 2013, and not the adoption of IFRS 11 on January 1, 2013.

Accounting Developments

New IFRS pronouncements that have been issued but are not yet effective are listed below. We plan to apply the new standard or interpretation in the annual period for which it is first required.

Financial Instruments

IFRS 9, Financial Instruments (IFRS 9), addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and amended in October 2010. It replaces the parts of IAS 39, Financial Instruments: Recognition and Measurement (IAS 39) that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

In November 2013, the International Accounting Standards Board (IASB) issued the hedge accounting section of IFRS 9, as well as two amendments to the previously issued IFRS 9. The new hedge accounting model will align hedge accounting with risk management activities undertaken by an entity. Components of both financial and non-financial items will now be eligible for hedge accounting as long as the risk component can be identified and measured. The new hedge accounting model includes eligibility criteria that must be met but these criteria are based on an economic assessment of the strength of the hedging relationship, which can be determined using internal risk management data. New disclosure requirements relating to hedge accounting will be required and are meant to simplify existing disclosures. The IASB currently has a separate project on macro hedging activities and until that project is completed, entities are permitted to continue to apply IAS 39 for all of their hedge accounting.

In November 2013, the IASB amended IFRS 9 to remove the mandatory effective date of January 1, 2015 due to continued work being performed on other phases of the IFRS 9 project relating to impairment. The IASB will be announcing a mandatory effective date for IFRS 9 in the future when IFRS 9 is closer to completion. Entities are still permitted to early adopt all or part of IFRS 9.

We are currently assessing the effect of this standard and related amendments on our consolidated financial statements.

Levies

In May 2013, the IASB issued IFRIC 21, Levies (IFRIC 21), which provides guidance on the accounting for a liability to pay a levy, if that liability is within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. Levies are imposed by governments in accordance with legislation and do not include income taxes, which are accounted for under IAS 12, Income Taxes or fines or other penalties imposed for breaches of legislation. The interpretation was issued to address diversity in practice around when the liability to pay a levy is recognized.

IFRIC 21 defines an obligating event as the activity that triggers the payment of the levy, as identified by the legislation. A liability to pay a levy is recognized at the date of the obligating event, which may be at a point in time or over a period of time. The fact that an entity is economically compelled to continue to operate in the future, or prepares its financial statements on a going concern basis, does not create an obligation to pay a levy that will arise in a future period as a result of continuing to operate.

IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is required to be applied retrospectively. We are currently assessing the effect of this standard on our consolidated financial statements.

Other Information

Control Activities

For all changes to policies and procedures that have been identified relating to the above items, the effectiveness of internal controls over financial reporting and disclosure controls and procedures has been assessed and any changes have been implemented. We have identified and implemented accounting process changes relating to the above new policies and these changes were not significant. We applied our existing control framework to the implementation of the new standards. All accounting policy changes and financial effects are subject to review by senior management and the Audit Committee of the Board of Directors.

Business Activities, Key Performance Measures and Information Systems

We do not expect the preceding changes to significantly affect our financial covenants or key ratios. The implementation of the above IFRS pronouncements is not expected to significantly impact our information systems.

Outstanding Share Data

As at February 26, 2014, there were 566,908,607 Class B subordinate voting shares and 9,353,470 Class A common shares outstanding. In addition, there were 11,147,606 employee stock options outstanding, with exercise prices ranging between $4.15 and $58.80 per share. More information on these instruments and the terms of their conversion are set out in the equity note to our 2013 consolidated financial statements.

Contractual and Other Obligations

($ in millions)	Less than 1 Year	1–3 Years	4–5 Years	More than 5 Years	Total
Principal and interest payments on debt	$ 369	$ 1,060	$ 1,826	$ 10,980	**$ 14,235**
Operating leases	50	43	28	12	**133**
Capital leases	59	12	5	32	**108**
Road and port lease at Red Dog [1]	19	38	38	238	**333**
Minimum purchase obligations[2]					
Concentrate, equipment and supply purchases	967	232	1	–	**1,200**
Shipping and distribution	42	50	46	49	**187**
Pension funding[3]	64	–	–	–	**64**
Other non-pension post-retirement benefits[4]	15	33	37	322	**407**
Decommissioning and restoration provision[5]	62	122	85	820	**1,089**
Other long-term liabilities[6]	17	22	15	24	**78**
Contributions to the Fort Hills oil sands project[7]	721	–	–	–	**721**
	$ 2,385	$ 1,612	$ 2,081	$ 12,477	$ 18,555

Notes:

(1) We lease road and port facilities from the Alaska Industrial Development and Export Authority through which we ship metal concentrates produced at the Red Dog mine. Minimum lease payments are US$18 million per annum and are subject to deferral and abatement for *force majeure* events.

(2) The majority of our minimum purchase obligations are subject to continuing operations and *force majeure* provisions.

(3) As at December 31, 2013, the company had a net pension asset of $39 million based on actuarial estimates prepared on a going concern basis. The amount of minimum funding for 2014 in respect of defined benefit pension plans is $64 million. The timing and amount of additional funding after 2014 is dependent upon future returns on plan assets, discount rates and other actuarial assumptions.

(4) We had a discounted, actuarially determined liability of $407 million in respect of other non-pension post-retirement benefits as at December 31, 2013. Amounts shown are estimated expenditures in the indicated years.

(5) We accrue environmental and reclamation obligations over the life of our mining operations and amounts shown are estimated expenditures in the indicated years at fair value, assuming credit-adjusted risk-free discount rates between 6.00% and 7.13% and an inflation factor of 2.00%.

(6) Other long-term liabilities include amounts for post-closure, environmental costs and other items.

(7) In November 2005, we acquired a 15% interest in the Fort Hills Energy Limited Partnership, which is developing the Fort Hills oil sands project in Alberta, Canada. In September 2007, we acquired an additional 5% interest, bringing our total interest to 20%. To earn our additional 5% interest, we are required to contribute 27.5% of $5 billion of project expenditures after project spending reaches $2.5 billion. We are presently funding at this level. Thereafter, we are responsible for our 20% share of development costs.

Disclosure Controls and Internal Control Over Financial Reporting

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted by us under U.S. and Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified in those rules and include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted by us under U.S. and Canadian securities legislation is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to permit timely decisions regarding required disclosure. Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in the rules of the U.S. Securities and Exchange Commission and the Canadian Securities Administrators, as at December 31, 2013. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as at December 31, 2013.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Management has used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) 1992 framework to evaluate the effectiveness of our internal control over financial reporting. Based on this assessment, management has concluded that as at December 31, 2013, our internal control over financial reporting was effective.

The effectiveness of our internal controls over financial reporting has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, who have expressed their opinion in their report included with our annual consolidated financial statements.

Use of Non-GAAP Financial Measures

Our financial results are prepared in accordance with International Financial Reporting Standards (IFRS). This document refers to gross profit before depreciation and amortization, EBITDA, adjusted profit, adjusted earnings per share, net debt, debt to debt-plus-equity ratio, and the net debt to net debt-plus-equity ratio, which are not measures recognized under IFRS in Canada and do not have a standardized meaning prescribed by IFRS or Generally Accepted Accounting Principles (GAAP) in the U.S.

Gross profit before depreciation and amortization is gross profit with depreciation and amortization added back. EBITDA is profit attributable to shareholders before net finance expense, income and resource taxes, and depreciation and amortization. For adjusted profit, we adjust profit attributable to shareholders as reported to remove the effect of certain types of transactions that in our judgment are not indicative of our normal operating activities or do not necessarily occur on a regular basis. Adjusted earnings per share is calculated by dividing the adjusted profit amount by our reported weighted average shares outstanding. We believe that disclosing these measures assists readers in understanding the cash-generating potential of our business in order to provide liquidity to fund working capital needs, service outstanding debt, fund future capital expenditures and investment opportunities, and pay dividends.

Net debt is total debt less cash and cash equivalents. The debt to debt-plus-equity ratio takes total debt as reported and divides that by the sum of total debt plus total equity. The net debt to net debt-plus-equity ratio takes net debt and divides that by the sum of net debt plus total equity. These measures are disclosed as we believe they provide readers with information that allows them to assess our potential financing needs and capacity and the ability to meet our short- and long-term financial obligations.

The measures described above do not have standardized meanings under IFRS, may differ from those used by different issuers, and may not be comparable to such measures as reported by others. These measures have been derived from our financial statements and applied on a consistent basis as appropriate. We disclose these measures because we believe they assist readers in understanding the results of our operations and financial position and are meant to provide further information about our financial results to investors. These measures should not be considered in isolation or used in substitute for other measures of performance prepared in accordance with IFRS.

Reconciliation of Gross Profit Before Depreciation and Amortization

($ in millions)	**2013**	2012	2011
Gross profit	**$ 2,426**	$ 3,524	$ 4,877
Depreciation and amortization	**1,233**	983	911
Gross profit before depreciation and amortization	**$ 3,659**	$ 4,507	$ 5,788
Reported as:			
Copper			
Highland Valley Copper	**$ 408**	$ 530	$ 486
Antamina	**596**	682	588
Quebrada Blanca	**121**	115	255
Carmen de Andacollo	**244**	227	288
Duck Pond	**19**	42	57
Other	**3**	5	–
Coal	**1,729**	2,405	3,306
Zinc			
Red Dog	**418**	440	547
Trail	**112**	59	256
Other	**4**	(2)	2
Inter-segment sales	**–**	–	3
Energy	**5**	4	–
Gross profit before depreciation and amortization	**$ 3,659**	$ 4,507	$ 5,788

Reconciliation of Profit Attributable to Shareholders to EBITDA

($ in millions)	**2013**	2012	2011
Profit attributable to shareholders	**$ 961**	$ 1,068	$ 2,668
Finance expense net of finance income	**326**	477	482
Provision for income and resource taxes	**633**	767	1,398
Depreciation and amortization	**1,233**	983	911
EBITDA	**$ 3,153**	$ 3,295	$ 5,459

Quarterly Reconciliation

($ in millions)	2013				2012			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Profit attributable to shareholders	**$ 232**	**$ 267**	**$ 143**	**$ 319**	$ 200	$ 256	$ 354	$ 258
Finance expense net of finance income	**71**	**82**	**86**	**87**	83	124	127	143
Provision for income and resource taxes	**134**	**144**	**152**	**203**	101	232	195	239
Depreciation and amortization	**329**	**322**	**289**	**293**	269	249	257	208
EBITDA	**$ 766**	**$ 815**	**$ 670**	**$ 902**	$ 653	$ 861	$ 933	$ 848

Caution on Forward-Looking Information

This document contains certain forward-looking information and forward-looking statements as defined in applicable securities laws. All statements other than statements of historical fact are forward-looking statements. These forward-looking statements, principally under the heading "Outlook", but also elsewhere in this document, include estimates, forecasts and statements as to management's expectations with respect to, among other things, mine life, anticipated production at our business units and individual operations, costs at our business units and individual operations, our expectation that we will meet our production guidance, sales volume and selling prices for our products (including settlement of coal contracts with customers), plans and expectations for our development projects, including resulting increases in forecast operating costs and costs of product sold, expected production, expected progress, costs and outcomes of our various projects and investments, including, but not limited to, those described in the discussions of our operations, the sensitivity of our profit to changes in commodity prices and exchange rates, the effect of potential production disruptions, the effect of currency exchange rates, our expectations for the general market for our commodities, future trends for the company, results of our mill optimization program at Highland Valley Copper, timing of the closing of our Duck Pond mine, projected increase in Antamina production post-2014, the economic and production estimates for our Relincho project, our ability to continue our cost reduction initiative and the results of the initiative, timing of the re-filing of the SEIA for the Quebrada Blanca Phase 2 project, our estimates of the effect of measures to manage selenium discharges and costs related thereto, the anticipated production levels from the Quintette project, the mine life, capital costs and timing of first oil from the Fort Hills project, timing expectations regarding the Frontier review and permitting process, anticipated capital expenditures and demand and market outlook for commodities. These forward-looking statements involve numerous assumptions, risks and uncertainties and actual results may vary materially.

These statements are based on a number of assumptions, including, but not limited to, assumptions regarding general business and economic conditions, the supply and demand for, deliveries of, and the level and volatility of prices of zinc, copper and coal and other primary metals and minerals as well as oil, and related products, the timing of the receipt of regulatory and governmental approvals for our development projects and other operations, our costs of production and production and productivity levels, as well as those of our competitors, power prices, continuing availability of water and power resources for our operations, market competition, the accuracy of our reserve estimates (including with respect to size, grade and recoverability) and the geological, operational and price assumptions on which these are based, conditions in financial markets, the future financial performance of the company, our ability to attract and retain skilled staff, our ability to procure equipment and operating supplies, positive results from the studies on our expansion projects, our coal and other product inventories, our ability to secure adequate transportation for our products, our ability to obtain permits for our operations and expansions, and our ongoing relations with our employees and business partners and joint venturers. Statements concerning timing of the re-filing of our SEIA for the Quebrada Blanca Phase 2 project are based on assumptions regarding the permitting process of our existing project. Our selenium management plans are based on the assumptions, and subject to the factors, described under "Elk Valley Water Management". The foregoing list of assumptions is not exhaustive. Events or circumstances could cause actual results to vary materially.

Factors that may cause actual results to vary materially include, but are not limited to, changes in commodity and power prices, changes in market demand for our products, changes in interest and currency exchange rates, acts of foreign governments and the outcome of legal proceedings, inaccurate geological and metallurgical assumptions (including with respect to the size, grade and recoverability of mineral reserves and resources), unanticipated operational difficulties (including failure of plant, equipment or processes to operate in accordance with specifications or expectations, cost escalation, unavailability of materials and equipment, government action or delays in the receipt of government approvals, changes in tax or royalty rates, industrial disturbances or other job action, adverse weather conditions and unanticipated events related to health, safety and environmental matters), union labour disputes, political risk, social unrest, failure of customers or counterparties to perform their contractual obligations, changes in our credit ratings, unanticipated increases in costs to construct our development projects, difficulty in obtaining permits, inability to address concerns regarding permits or environmental impact assessments, and changes or further deterioration in general economic conditions. Our Fort Hills project is not controlled by us and construction and production schedules may be adjusted by our partner.

Statements concerning future production costs or volumes, and the sensitivity of the company's profit to changes in commodity prices and exchange rates, are based on numerous assumptions of management regarding operating matters and on assumptions that demand for products develops as anticipated, that customers and other counterparties perform their contractual obligations, that operating and capital plans will not be disrupted by issues such as mechanical failure, unavailability of parts and supplies, labour disturbances, interruption in transportation or utilities, and adverse weather conditions, and that there are no material unanticipated variations in the cost of energy or supplies.

We assume no obligation to update forward-looking statements except as required under securities laws. Further information concerning risks and uncertainties associated with these forward-looking statements and our business can be found in our Annual Information Form for the year ended December 31, 2013, filed on SEDAR and on EDGAR under cover of Form 40-F.

Consolidated Financial Statements

For the Years Ended December 31, 2013 and 2012

Management's Responsibility for Financial Reporting

Management is responsible for the integrity and fair presentation of the financial information contained in this annual report. Where appropriate, the financial information, including financial statements, reflects amounts based on the best estimates and judgments of management. The financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Financial information presented elsewhere in the annual report is consistent with that disclosed in the financial statements.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. The system of controls is also supported by a professional staff of internal auditors who conduct periodic audits of many aspects of our operations and report their findings to management and the Audit Committee.

Management has a process in place to evaluate internal control over financial reporting based on the criteria established in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework.

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee, which is composed entirely of independent directors. The Audit Committee meets periodically with management, our internal auditors and independent auditors to review the scope and results of the annual audit, and to review the financial statements and related financial reporting and internal control matters before the financial statements are approved by the Board of Directors and submitted to the shareholders.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, appointed by the shareholders, have audited our financial statements in accordance with Canadian generally accepted auditing standards and have expressed their opinion in the auditor's report.

Donald R. Lindsay
President and Chief Executive Officer

Ronald A. Millos
Senior Vice President, Finance and Chief Financial Officer

February 26, 2014

Independent Auditor's Report

To the Shareholders of Teck Resources Limited

We have completed integrated audits of Teck Resources Limited's (the "Company") December 31, 2013 and 2012 consolidated financial statements and its internal control over financial reporting as at December 31, 2013. Our opinions, based on our audits are presented below.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Teck Resources Limited, which comprise the consolidated balance sheets as at December 31, 2013 and 2012 and January 1, 2012 and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the years ended December 31, 2013 and 2012, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards also require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Teck Resources Limited as at December 31, 2013 and 2012 and January 1, 2012 and its financial performance and its cash flows for the years ended December 31, 2013 and 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

As discussed in note 30 to the consolidated financial statements, the Company has changed its method of accounting for production waste stripping costs at its open pit mine operations for the years ended December 31, 2013 and 2012 due to the adoption of IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine. Our opinion is not modified with respect to this matter.

Report on Internal Control over Financial Reporting

We have also audited Teck Resources Limited's internal control over financial reporting as at December 31, 2013, based on criteria established in Internal Control — Integrated Framework (1992), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for Internal Control over Financial Reporting

Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Management's Report on Internal Control Over Financial Reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on the Company's internal control over financial reporting.

Definition of Internal Control over Financial Reporting

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

Inherent Limitations

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

Opinion

In our opinion, Teck Resources Limited maintained, in all material respects, effective internal control over financial reporting as at December 31, 2013, based on criteria established in Internal Control — Integrated Framework (1992) issued by COSO.

PricewaterhouseCoopers LLP

Chartered Accountants
February 26, 2014
Vancouver, British Columbia

Consolidated Statements of Income Years ended December 31

(CAD$ in millions, except for share data)	2013	2012 (Restated)
Revenues	**$ 9,382**	$ 10,343
Cost of sales	**(6,956)**	(6,819)
Gross profit	**2,426**	3,524
Other operating expenses		
General and administration	**(129)**	(137)
Exploration	**(86)**	(102)
Research and development	**(18)**	(19)
Other operating income (expense) (Note 6)	**(216)**	(24)
Profit from operations	**1,977**	3,242
Finance income (Note 7)	**13**	33
Finance expense (Note 7)	**(339)**	(510)
Non-operating income (expense) (Note 8)	**(6)**	(848)
Share of losses of associates (Note 12)	**(2)**	(10)
Profit before tax	**1,643**	1,907
Provision for income and resource taxes (Note 17)	**(633)**	(767)
Profit for the year	**$ 1,010**	$ 1,140
Profit attributable to:		
Shareholders of the company	**$ 961**	$ 1,068
Non-controlling interests	**49**	72
Profit for the year	**$ 1,010**	$ 1,140
Earnings per share (Note 20(g))		
Basic	**$ 1.66**	$ 1.82
Diluted	**$ 1.66**	$ 1.82
Weighted average shares outstanding (millions)	**578.3**	585.5
Shares outstanding at end of year (millions)	**576.3**	582.3

The accompanying notes are an integral part of these financial statements. The 2012 amounts have been restated for the adoption of new and amended accounting pronouncements (Note 29).

Consolidated Statements of Comprehensive Income Years ended December 31

(CAD$ in millions)	2013	2012 (Restated)
Profit for the year	**$ 1,010**	$ 1,140
Other comprehensive income (loss) in the year		
Items that may be reclassified to profit		
Currency translation differences (net of taxes of $64 and $(21))	**142**	(49)
Change in fair value of available-for-sale financial instruments (net of taxes of $nil and $2)	**5**	(3)
Cash flow hedges (net of taxes of $1 and $nil)	**(2)**	(1)
	145	(53)
Items that will not be reclassified to profit		
Remeasurements of retirement benefit plans (net of taxes of $(110) and $22)	**221**	(48)
Total other comprehensive income (loss) for the year	**366**	(101)
Total comprehensive income for the year	**$ 1,376**	$ 1,039
Total other comprehensive income (loss) attributable to:		
Shareholders of the company	**$ 360**	$ (99)
Non-controlling interests	**6**	(2)
	$ 366	$ (101)
Total comprehensive income attributable to:		
Shareholders of the company	**$ 1,321**	$ 969
Non-controlling interests	**55**	70
	$ 1,376	$ 1,039

The accompanying notes are an integral part of these financial statements. The 2012 amounts have been restated for the adoption of new and amended accounting pronouncements (Note 29).

Consolidated Statements of Cash Flows Years ended December 31

(CAD$ in millions)	2013	2012 (Restated)
Operating activities		
Profit for the year	**$ 1,010**	$ 1,140
Adjustments:		
Depreciation and amortization	**1,233**	983
Provision for deferred income and resource taxes	**106**	250
Share of losses of associates	**2**	10
Gain on sale of investments and assets	**(43)**	(53)
Unrealized gains on derivatives	**–**	(114)
Foreign exchange losses	**12**	24
Loss on debt repurchase	**–**	965
Finance expense	**339**	510
Other	**(16)**	(30)
	2,643	3,685
Net change in non-cash working capital items	**235**	(267)
	2,878	3,418
Investing activities		
Purchase of property, plant and equipment	**(1,858)**	(1,700)
Capitalized production stripping costs	**(744)**	(732)
Expenditures on financial investments and other assets	**(325)**	(326)
Acquisition of SilverBirch Energy Corporation	**–**	(432)
Proceeds from the sale of investments and other assets	**502**	51
	(2,425)	(3,139)
Financing activities		
Issuance of debt	**–**	2,767
Repayment of debt	**(39)**	(3,027)
Debt interest paid	**(355)**	(428)
Issuance of Class B subordinate voting shares	**1**	2
Purchase and cancellation of Class B subordinate voting shares	**(176)**	(129)
Dividends paid	**(521)**	(469)
Distributions to non-controlling interests	**(38)**	(50)
	(1,128)	(1,334)
Effect of exchange rate changes on cash and cash equivalents	**180**	(83)
Decrease in cash and cash equivalents	**(495)**	(1,138)
Cash and cash equivalents at beginning of year	**3,267**	4,405
Cash and cash equivalents at end of year	**$ 2,772**	$ 3,267

Supplemental information (Note 9)

The accompanying notes are an integral part of these financial statements. The 2012 amounts have been restated for the adoption of new and amended accounting pronouncements (Note 29).

Consolidated Balance Sheets

(CAD$ in millions)	December 31, 2013	December 31, 2012 (Restated)	January 1, 2012 (Restated)
Assets			
Current assets			
Cash and cash equivalents (Note 9)	**$ 2,772**	$ 3,267	$ 4,405
Current income and resource taxes receivable	**71**	141	101
Trade accounts receivable	**1,232**	1,285	1,242
Inventories (Note 10)	**1,695**	1,783	1,641
	5,770	6,476	7,389
Financial and other assets (Note 11)	**746**	973	1,138
Investments in associates (Note 12)	**24**	828	715
Property, plant and equipment (Note 13)	**27,811**	24,937	23,144
Deferred income and resource tax assets (Note 17)	**164**	204	180
Goodwill (Note 14)	**1,668**	1,637	1,647
	$ 36,183	$ 35,055	$ 34,213
Liabilities and Equity			
Current liabilities			
Trade accounts payable and other liabilities (Note 15)	**$ 1,784**	$ 1,468	$ 1,435
Dividends payable	**259**	262	235
Current income and resource taxes payable	**61**	55	93
Debt (Note 16)	**59**	35	359
	2,163	1,820	2,122
Debt (Note 16)	**7,664**	7,160	6,676
Deferred income and resource tax liabilities (Note 17)	**5,908**	5,581	5,339
Retirement benefit liabilities (Note 18)	**479**	760	696
Other liabilities and provisions (Note 19)	**1,158**	1,470	1,495
	17,372	16,791	16,328
Equity			
Attributable to shareholders of the company	**18,597**	18,075	17,713
Attributable to non-controlling interests	**214**	189	172
	18,811	18,264	17,885
	$ 36,183	$ 35,055	$ 34,213

Contingencies (Note 22)
Commitments (Note 23)

Approved on behalf of the Board of Directors

Hugh J. Bolton, FCA
Chairman of the Audit Committee

Janice G. Rennie, FCA
Director

The accompanying notes are an integral part of these financial statements. The 2012 amounts have been restated for the adoption of new and amended accounting pronouncements (Note 29).

Consolidated Statements of Changes in Equity Years ended December 31

(CAD$ in millions)	2013	2012 (Restated)
Class A common shares (Note 20)	**$ 7**	$ 7
Class B subordinate voting shares (Note 20)		
Beginning of year	**6,699**	6,743
Share repurchases	**(73)**	(46)
Issued on exercise of options	**1**	2
Provision for tax benefit (Note 20(h))	**(124)**	–
End of year	**6,503**	6,699
Retained earnings		
Beginning of year	**11,291**	10,850
Profit for the period attributable to shareholders of the company	**961**	1,068
Dividends declared	**(518)**	(496)
Share repurchases	**(102)**	(83)
Remeasurements of retirement benefit plans	**221**	(48)
End of year	**11,853**	11,291
Contributed surplus		
Beginning of year	**113**	97
Share option compensation expense (Note 20(c))	**18**	16
Transfer to Class B subordinate voting shares on exercise of options	**(1)**	–
End of year	**130**	113
Accumulated other comprehensive income (loss) attributable to shareholders of the company (Note 20(f))		
Beginning of year	**(35)**	16
Other comprehensive income (loss)	**360**	(99)
Less remeasurements of retirement benefit plans recorded in retained earnings	**(221)**	48
End of year	**104**	(35)
Non-controlling interests (Note 21)		
Beginning of year	**189**	172
Profit for the year attributable to non-controlling interests	**49**	72
Other comprehensive income (loss)	**6**	(2)
Other	**8**	(3)
Dividends or distributions	**(38)**	(50)
End of year	**214**	189
Total equity	**$ 18,811**	$ 18,264

The accompanying notes are an integral part of these financial statements. The 2012 amounts have been restated for the adoption of new and amended accounting pronouncements (Note 29).

Notes to Consolidated Financial Statements Years ended December 31, 2013 and 2012

1. Nature of Operations

Teck Resources Limited and its subsidiaries ("Teck," "we," "us," or "our") are engaged in mining and related activities including exploration, development, processing, smelting, refining and reclamation. Our major products are steelmaking coal, copper, zinc and lead. We also produce precious metals, molybdenum, electrical power, fertilizers and other metals. Metal products are sold as refined metals or concentrates. We also own an interest in a wind power facility and in certain oil sands leases and have a partnership interest in an oil sands development project now under construction.

Teck is a Canadian corporation and our registered office is at 550 Burrard Street, Vancouver, British Columbia, Canada, V6C 0B3.

2. Basis of Preparation

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

We adopted new and amended IFRS pronouncements which became effective January 1, 2013. Note 29 discloses the effects of the adoption of new and amended IFRS pronouncements for all periods presented, including the nature and effects of significant changes in accounting policies. These financial statements were prepared by management and were approved by the Board of Directors on February 26, 2014.

3. Summary of Significant Accounting Policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Basis of Presentation

Our consolidated financial statements include the accounts of Teck Resources Limited and all of its subsidiaries. Our significant operating subsidiaries include Teck Metals Ltd. ("TML"), Teck American Inc. ("TAI"), Teck Alaska Inc. ("TAK"), Teck Highland Valley Copper Partnership ("Highland Valley Copper"), Teck Coal Partnership ("Teck Coal"), Compañia Minera Teck Quebrada Blanca S.A. ("Quebrada Blanca") and Compañia Minera Teck Carmen de Andacollo ("Carmen de Andacollo").

All subsidiaries are entities that we control, either directly or indirectly. Control is defined as the exposure, or rights, to variable returns from involvement with an investee and the ability to affect those returns through power over the investee. Power over an investee exists when we have existing rights that give us the ability to direct the activities that significantly affect the investee's returns. This control is generally evidenced through owning more than 50% of the voting rights or currently exercisable potential voting rights of a company's share capital. All of our intra-group balances and transactions, including unrealized profits and losses arising from intra-group transactions, have been eliminated in full. For subsidiaries that we control, but do not own 100% of, the net assets and net profit attributable to outside shareholders are presented as amounts attributable to non-controlling interests in the consolidated balance sheet and consolidated statements of income and comprehensive income.

Certain of our business activities are conducted through joint operations including Compañia Minera Antamina ("Antamina," 22.5% share), Galore Creek Partnership ("Galore Creek," 50% share), Fort Hills Energy Limited Partnership ("Fort Hills," 20% share), Waneta Dam (66.7% share) and Wintering Hills Wind Power Facility (30% share). Our interests in these joint operations are accounted for by recording our share of the respective assets, liabilities, revenues, expenses and cash flows.

All dollar amounts are presented in Canadian dollars unless otherwise specified.

3. Summary of Significant Accounting Policies (continued)

Interests in Joint Arrangements

A joint arrangement can take the form of a joint venture or joint operation. All joint arrangements involve a contractual arrangement that establishes joint control, which exists only when decisions about the activities that significantly affect the returns of the investee require unanimous consent of the parties sharing control. A joint operation is a joint arrangement in which we have rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement in which we have rights to only the net assets of the arrangement.

Joint ventures are accounted for in accordance with the policy "Investments in Associates and Joint Ventures." Joint operations are accounted for by recognizing our share of the assets, liabilities, revenues, expenses and cash flows of the joint operation in our consolidated financial statements.

Investments in Associates and Joint Ventures

Investments over which we exercise significant influence and which we do not control or jointly control are associates. Investments in associates are accounted for using the equity method, except when classified as held for sale. Investments in joint ventures as determined in accordance with the policy "Interests in Joint Arrangements" are also accounted for using the equity method.

The equity method involves recording the initial investment at cost and subsequently adjusting the carrying value of the investment for our proportionate share of the profit or loss, other comprehensive income or loss and any other changes in the associate's or joint venture's net assets such as dividends.

Our proportionate share of the associate's or joint venture's profit or loss and other comprehensive income or loss is based on its most recent financial statements. Adjustments are made to align any inconsistencies between our accounting policies and our associate's or joint venture's policies before applying the equity method. Adjustments are also made to account for depreciable assets based on their fair values at the acquisition date and for any impairment losses recognized by the associate or joint venture.

If our share of the associate's or joint venture's losses equals or exceeds our investment in the associate or joint venture, recognition of further losses is discontinued. After our interest is reduced to zero, additional losses will be provided for and a liability recognized only to the extent that we have incurred legal or constructive obligations to provide additional funding or make payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, we resume recognizing our share of those profits only after our share of the profits equals the share of losses not recognized.

At each balance sheet date, we consider whether there is objective evidence of impairment in associates and joint ventures. If there is such evidence, we determine if there is a need to record an impairment in relation to the associate or joint venture.

Foreign Currency Translation

The functional currency for each of our subsidiaries and for joint operations, joint ventures and associates is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are translated to the functional currency of the entity at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the period end date exchange rates.

The functional currency of Teck Resources Limited, the parent entity, is the Canadian dollar, which is also the presentation currency of our consolidated financial statements.

Foreign operations are translated from their functional currencies into Canadian dollars on consolidation. Items in the statement of income are translated using weighted average exchange rates that reasonably approximate the exchange rate at the transaction date. Items in the balance sheet are translated at the closing spot exchange rate. Exchange differences on the translation of the net assets of entities with functional currencies other than the Canadian dollar, and any offsetting exchange differences on net debt used to hedge those assets, are recognized in a separate component of equity through other comprehensive income.

Exchange differences that arise relating to long term intra-group balances that form part of the net investment in a foreign operation are also recognized in this separate component of equity through other comprehensive income.

On disposition or partial disposition of a foreign operation, the cumulative amount of related exchange differences recorded in a separate component of equity is recognized in the statement of income.

Revenue Recognition

Sales of product, including by-product, are recognized in revenue when the risks and rewards of ownership pass to the customer and the price can be measured reliably. Royalties related to production are recorded in cost of sales.

Steelmaking coal is sold under spot, quarterly or annual contracts and revenue is recognized based on the terms of the contract.

The majority of our cathode and metal concentrates are sold under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. For these sales, the price is determined on a provisional basis at the date of sale and revenues are recorded at that time based on current market prices. Adjustments are made to the sale price in subsequent periods based on movements in quoted market prices up to the date of final pricing. As a result, the value of our cathode and concentrate sales receivables changes as the underlying commodity market prices vary and this adjustment mechanism has the characteristics of a derivative. Accordingly, the fair value of the embedded derivative is adjusted each reporting period by reference to forward market prices and the changes in fair value are recorded as an adjustment to other operating income (expense).

3. Summary of Significant Accounting Policies (continued)

Financial Instruments

We recognize financial assets and liabilities on the balance sheet when we become a party to the contractual provisions of the instrument.

Cash and cash equivalents

Cash and cash equivalents include cash on account, demand deposits and money market investments with maturities from the date of acquisition of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant changes in value. Cash is designated as loans and receivables. Cash equivalents are classified as available-for-sale.

Trade receivables and payables

Trade receivables and payables are non-interest bearing and are recognized at face amount, except when fair value is materially different, and are subsequently measured at amortized cost. Where necessary, trade receivables are net of allowances for uncollectable amounts. We may enter into transactions to sell trade receivables to third parties. If the risks and rewards of ownership of the receivables are transferred to the purchaser, we account for the transaction as a sale and derecognize the trade receivables. If the risks and rewards of ownership of the receivables are neither transferred nor retained, we account for the transaction as a sale and derecognize the trade receivables if we have not retained control over the receivables.

Investments in marketable securities

Investments in marketable securities are designated as available-for-sale and recorded at fair value. Fair values are determined by reference to quoted market prices at the balance sheet date. Unrealized gains and losses on available-for-sale investments are recognized in other comprehensive income until investments are disposed of or when there is objective evidence of an impairment in value. Investment transactions are recognized on the trade date with transaction costs included in the underlying balance.

At each balance sheet date, we assess for any objective evidence of an impairment in value of our investments and record such impairments in profit for the period. If an impairment of an investment in a marketable equity security has been recorded in profit, it cannot be reversed in future periods.

Debt

Debt is initially recorded at total proceeds received less direct issuance costs. Debt is subsequently measured at amortized cost, calculated using the effective interest rate method.

Derivative instruments

Derivative instruments, including embedded derivatives, are recorded at fair value through profit or loss and, accordingly, are recorded on the balance sheet at fair value. Unrealized gains and losses on derivatives held for trading are recorded as part of other operating income (expense) or non-operating income (expense) in profit depending on the nature of the derivative. Fair values for derivative instruments are determined using valuation techniques, with assumptions based on market conditions existing at the balance sheet date or settlement date of the derivative. Derivatives embedded in non-derivative contracts are recognized separately unless they are closely related to the host contract.

Hedging

Certain derivative investments may qualify for hedge accounting. For fair value hedges, any gains or losses on both the hedged item and the hedging instrument are recognized in profit.

For cash flow hedges, any unrealized gains and losses on the hedging instrument relating to the effective portion of the hedge are initially recorded in other comprehensive income. Gains and losses are recognized in profit upon settlement of the hedging instrument, when the hedged item ceases to exist, or when the hedge is determined to be ineffective.

For hedges of net investments in foreign operations, any foreign exchange gains or losses on the hedging instrument relating to the effective portion of the hedge are initially recorded in other comprehensive income. Gains and losses are recognized in profit on the ineffective portion of the hedge, or when there is a disposal of a foreign operation being hedged.

Inventories

Finished products, work in-process and raw materials inventories are valued at the lower of weighted average cost and net realizable value. Raw materials include concentrates for use at smelting and refining operations. Work in-process inventory includes inventory in the milling, smelting or refining process and stockpiled ore at mining operations.

For work in-process and finished product inventories, cost includes all direct costs incurred in production, including direct labour and materials, freight, depreciation and amortization and directly attributable overhead costs. Production stripping costs that are not capitalized are included in the cost of inventories as incurred. Depreciation and amortization of capitalized production stripping costs are included in the cost of inventory.

When inventories have been written down to net realizable value, we make a new assessment of net realizable value in each subsequent period. If the circumstances that caused the write-down no longer exist, the remaining amount of the write-down is reversed.

We use both joint-product and by-product costing for work in-process and finished product inventories. Joint costing is applied to primary products at the Red Dog, Antamina, Duck Pond and Trail Operations, where the profitability of the operations is dependent upon the production of a number of primary products. Joint costing allocates total production costs based on the relative values of the products. Where by-product costing is used, by-products are allocated only the incremental costs of processes that are specific to the production of that product.

Supplies inventory is valued at the lower of weighted average cost and net realizable value. Cost includes acquisition, freight and other directly attributable costs.

3. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Land, buildings, plant and equipment

Land is recorded at cost and buildings, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Cost includes the purchase price and the directly attributable costs to bring the assets to the location and condition necessary for them to be capable of operating in the manner intended by management.

Depreciation of mobile equipment, buildings used for production, and plant and processing equipment at our mining operations is calculated on a units-of-production basis. Depreciation of buildings not used for production, and plant and equipment at our smelting operations is calculated on a straight-line basis over the assets' estimated useful lives. Where components of an asset have different useful lives, depreciation is calculated on each component separately. Depreciation commences when an asset is available for use. Estimates of remaining useful lives and residual values are reviewed annually. Changes in estimates are accounted for prospectively.

The expected useful lives are as follows:

- Buildings and equipment (not used in production) 3–40 years
- Plant and equipment (smelting operations) 4–30 years

Mineral properties and mine development costs

The cost of acquiring and developing mineral properties or property rights, including pre-production waste rock stripping costs related to mine development and costs incurred during production to increase future output are capitalized.

Waste rock stripping costs incurred in the production phase of a surface mine are capitalized as capitalized production stripping costs within property, plant and equipment when it is probable that the stripping activity will improve access to the ore body; the component of the ore body to which access has been improved can be identified; and the costs relating to the stripping activity can be measured reliably. When the actual waste to ore stripping ratio in a period is greater than the expected life-of-component waste to ore stripping ratio for a component, the excess is capitalized as capitalized production stripping costs.

Once available for use, mineral properties and mine development costs are depreciated on a units-of-production basis over the proven and probable reserves to which they relate. Capitalized waste rock stripping costs incurred during the production phase of a mine are depreciated on a units-of-production basis over the proven and probable reserves of the respective component of the mine to which they relate.

Underground mine development costs are depreciated using the block depreciation method where development costs associated with each distinct section of the mine are depreciated over the reserves to which they relate.

Exploration and evaluation costs

Property acquisition costs are capitalized. Other exploration and evaluation costs are capitalized if they relate to specific properties for which resources, as defined under National Instrument 43-101, exist or are near a specific property with a defined resource and it is expected that the expenditure can be recovered by future exploitation or sale. All other costs are charged to profit in the year in which they are incurred. Capitalized exploration and evaluation costs are considered to be tangible assets. These assets are not depreciated as they are not currently available for use. When proven and probable reserves are determined and development is approved, capitalized exploration and evaluation costs are reclassified to mineral properties and leases within property, plant and equipment.

Development costs of oil sands properties

The costs of acquiring, exploring, evaluating and developing oil sands properties are capitalized when it is expected that these costs will be recovered through future exploitation or sale of the property. Capitalized development costs of oil sands properties are considered to be tangible assets. These assets are not depreciated as they are not currently available for use. When proven and probable reserves are determined and development is approved, capitalized development costs for oil sands properties are reclassified to mineral properties and leases within property, plant and equipment.

Construction in progress

Assets in the course of construction are capitalized as construction in progress. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment, and depreciation commences when the asset is available for its intended use.

Impairment of non-current assets

The carrying amounts of assets included in property, plant and equipment are reviewed for impairment whenever facts and circumstances suggest that the carrying amounts may not be recoverable. If there are indicators of impairment, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. Where the asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash generating unit to which the asset belongs is determined. The recoverable amount of an asset or cash generating unit is determined as the higher of its fair value less costs of disposal and its value in use. An impairment loss exists if the asset's or cash generating unit's carrying amount exceeds the recoverable amount, and is recorded as an expense immediately.

Value in use is determined as the present value of the future cash flows expected to be derived from continuing use of an asset or cash generating unit in its present form. These 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 or cash generating unit for which estimates of future cash flows have not been adjusted. Fair value is the price that would be received from selling an asset in an orderly transaction between market participants at the measurement date. Costs of disposal are incremental costs directly attributable to the disposal of an asset. For mining assets, when a binding sale agreement is not readily available, fair value less costs of disposal is estimated using a discounted cash flow approach. Estimated future cash flows are calculated using estimated future prices, mineral reserves and resources, operating and capital costs. All inputs used are those that an independent market participant would consider appropriate.

Indicators of impairment and impairment of exploration and evaluation assets or oil sands development costs are assessed on a project-by-project basis or as part of the existing operation to which they relate.

Tangible assets that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed, the carrying amount of the asset is increased to its recoverable amount, but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized into profit immediately.

Repairs and maintenance

Repairs and maintenance costs, including shutdown maintenance costs, are charged to expense as incurred, except when these repairs significantly extend the life of an asset or result in an operating improvement. In these instances, the portion of these repairs relating to the betterment is capitalized as part of plant and equipment.

3. Summary of Significant Accounting Policies (continued)

Borrowing costs

We capitalize borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use. We begin capitalizing borrowing costs when there are general or specific borrowings, expenditures are incurred, and activities are undertaken to prepare the asset for its intended use. The amount of borrowing costs capitalized cannot exceed the actual amount of borrowing costs incurred during the period. All other borrowing costs are expensed as incurred.

We discontinue the capitalization of borrowing costs when substantially all of the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Capitalized borrowing costs are amortized over the useful life of the related asset.

Leased assets

Leased assets in which we receive substantially all of the risks and rewards of ownership of the asset are capitalized as finance leases at the lower of the fair value of the asset or the estimated present value of the minimum lease payments. The corresponding lease obligation is recorded within debt on the balance sheet.

Assets under operating leases are not capitalized, and rental payments are expensed based on the terms of the lease.

Goodwill

We allocate goodwill arising from business combinations to each cash-generating unit or group of cash-generating units that are expected to receive the benefits from the business combination. Irrespective of any indication of impairment, the carrying amount of the cash-generating unit or group of cash-generating units to which goodwill has been allocated is tested annually for impairment and when there is an indication that the goodwill may be impaired in accordance with our "Impairment of non-current assets" policy. Any impairment is recognized as an expense immediately. Any impairment of goodwill is not subsequently reversed.

Current and Deferred Taxes

Taxes, comprising both income taxes and resource taxes, are accounted for as income taxes and are recognized in the statement of income, except where they relate to items recognized in other comprehensive income or directly in equity, in which case the related taxes are recognized in other comprehensive income or equity.

Current taxes receivable or payable are based on estimated taxable income for the current year at the statutory tax rates enacted or substantively enacted less amounts paid or received on account.

Deferred tax assets and liabilities are recognized based on the difference between the tax and accounting values of assets and liabilities and are calculated using enacted or substantively enacted tax rates for the periods in which the differences are expected to reverse. The effect of tax rate changes is recognized in the period of substantive enactment.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits of the relevant entity or group of entities in a particular jurisdiction will be available against which the assets can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates. However, we do not recognize such deferred tax liabilities where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or an asset or liability in a transaction (other than in a business combination) that affects neither accounting profit nor taxable profit.

We are subject to assessments by various taxation authorities, which may interpret tax legislation differently than we do. The final amount of taxes to be paid depends on a number of factors, including the outcomes of audits, appeals or negotiated settlements. We account for such differences based on our best estimate of the probable outcome of these matters.

Employee Benefits

Defined benefit pension plans

Defined benefit pension plan obligations are based on actuarial determinations. The projected unit credit method is used to determine the defined benefit obligations, the related current service costs and, where applicable, the past service costs. Actuarial assumptions used in the determination of defined benefit pension plan assets and liabilities are based upon our best estimates, including discount rates, salary escalation, expected health care costs and retirement dates of employees.

Past service costs are recognized as an expense when incurred. Therefore, immediately following the introduction of changes to a defined benefit plan, vested and unvested past service costs are expensed.

Actuarial gains and losses can arise from differences between expected and actual outcomes or changes in actuarial assumptions. Actuarial gains and losses, changes in the effect of asset ceiling rules and return on plan assets are collectively referred to as remeasurements of retirement benefit plans and are recognized immediately through other comprehensive income and directly into retained earnings. Measurement of our net defined benefit asset is limited to the lower of the surplus in the defined benefit plan and asset ceiling. The asset ceiling is the funded status of the plan on an accounting basis, less the present value of the expected economic benefit available to us in the form of refunds from the plan or reductions in future contributions to the plan. We only have asset ceilings in our registered pension plans.

We apply one discount rate to the net defined benefit asset or liability for the purposes of determining the interest component of the defined benefit cost. This interest component is recorded as part of finance expense. Depending on their function, current service costs and past service costs are included in either operating expenses or general and administration expenses.

Defined contribution pension plans

The cost of providing benefits through defined contribution plans is charged to profit as the obligation to contribute is incurred.

Non-pension post-retirement plans

We provide health care benefits for certain employees when they retire. Non-pension post-retirement plan obligations are based on actuarial determinations. The cost of these benefits is expensed over the period in which the employees render services. These non-pension post-retirement benefits are funded by us as they become due.

3. Summary of Significant Accounting Policies (continued)

Share-Based Payments

The fair value method of accounting is used for share-based payment transactions. Under this method, the cost of share options and other equity-settled share-based payment arrangements is recorded based on the estimated fair value at the grant date, including an estimate of the forfeiture rate, and charged to profit over the vesting period. For employees eligible for normal retirement prior to vesting, the expense is charged to profit over the period from the grant date to the date they are eligible for retirement.

Share-based payment expense relating to cash-settled awards, including deferred and restricted share units, is accrued over the vesting period of the units based on the quoted market value of Class B subordinate voting shares. As these awards will be settled in cash, the expense and liability are adjusted each reporting period for changes in the underlying share price.

Provisions

Decommissioning and restoration provisions

Future obligations to retire an asset and to restore a site, including dismantling, remediation and ongoing treatment and monitoring of the site related to normal operations are initially recognized and recorded as a provision based on estimated future cash flows discounted at a credit-adjusted risk-free rate. This decommissioning and restoration provision is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the discount rate.

The provisions are also accreted to full value over time through periodic charges to profit. This unwinding of the discount is charged to finance expense in the statement of income.

The amount of the decommissioning and restoration provision initially recognized is capitalized as part of the related asset's carrying value. The method of depreciation follows that of the underlying asset. For a closed site or where the asset which generated a decommissioning and restoration provision no longer exists, there is no longer any future benefit related to the costs and, as such, the amounts are expensed. For operating sites, a revision in estimates or a new disturbance will result in an adjustment to the provision with an offsetting adjustment to the capitalized retirement cost.

Environmental disturbance restoration provisions

During the operating life of an asset, events such as infractions of environmental laws or regulations may occur. These events are not related to the normal operation of the asset. The costs associated with these provisions are accrued and charged to profit in the period in which the event giving rise to the liability occurs. Any subsequent adjustments to these provisions due to changes in estimates are also charged to profit in the period of adjustment.

Other provisions

Provisions are recognized when a present legal or constructive obligation exists, as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation. Where the effect is material, the provision is discounted using an appropriate credit-adjusted risk-free rate.

Share Repurchases

Where we repurchase any of our equity share capital, the excess of the consideration paid over book value is deducted from contributed surplus and retained earnings on a pro-rata basis.

Research and Development

Research costs are expensed as incurred. Development costs are only deferred when the product or process is clearly defined, the technical feasibility has been established, the future market for the product or process is clearly defined and we are committed to, and have the resources to, complete the project.

Earnings per Share

Earnings per share is calculated based on the weighted average number of shares outstanding during the year. For diluted earnings per share, dilution is calculated based upon the net number of common shares issued should "in-the-money" options and warrants be exercised and the proceeds used to repurchase common shares at the average market price in the year. Dilution from convertible securities is calculated based on the number of shares to be issued after taking into account the reduction of the related after-tax interest expense.

New IFRS Pronouncements

New IFRS pronouncements that have been issued but are not yet effective are listed below. We plan to apply the new standard or interpretation in the annual period for which it is first required.

Financial instruments

IFRS 9, Financial Instruments ("IFRS 9"), addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and amended in October 2010. It replaces the parts of IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

In November 2013, the IASB issued the hedge accounting section of IFRS 9, as well as two amendments to the previously issued IFRS 9. The new hedge accounting model will align hedge accounting with risk management activities undertaken by an entity. Components of both financial and non-financial items will now be eligible for hedge accounting as long as the risk component can be identified and measured. The new hedge accounting model includes eligibility criteria that must be met but these criteria are based on an economic assessment of the strength of the hedging relationship, which can be determined using internal risk management data. New disclosure requirements relating to hedge accounting will be required and are meant to simplify existing disclosures. The IASB currently has a separate project on macro hedging activities and until that project is completed, entities are permitted to continue to apply IAS 39 for all of their hedge accounting.

In November 2013, the IASB amended IFRS 9 to remove the mandatory effective date of January 1, 2015 due to continued work being performed on other phases of the IFRS 9 project relating to impairment. The IASB will be announcing a mandatory effective date for IFRS 9 in the future when it is closer to completion. Entities are still permitted to early adopt all or part of IFRS 9.

We are currently assessing the effect of this standard and related amendments on our financial statements.

3. Summary of Significant Accounting Policies (continued)

Levies

In May 2013, the IASB issued IFRIC 21, Levies ("IFRIC 21"), which provides guidance on the accounting for a liability to pay a levy, if that liability is within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. Levies are imposed by governments in accordance with legislation and do not include income taxes, which are accounted for under IAS 12, Income Taxes or fines or other penalties imposed for breaches of legislation. The interpretation was issued to address diversity in practice around when the liability to pay a levy is recognized.

IFRIC 21 defines an obligating event as the activity that triggers the payment of the levy, as identified by legislation. A liability to pay a levy is recognized at the date of the obligating event, which may be at a point in time or over a period of time. The fact that an entity is economically compelled to continue to operate in the future, or prepares its financial statements on a going concern basis, does not create an obligation to pay a levy that will arise in a future period as a result of continuing to operate.

IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and is required to be applied retrospectively. We are currently assessing the effect of this standard on our financial statements.

4. Critical Accounting Estimates and Judgments

In preparing these consolidated financial statements, we make estimates and judgments that affect the amounts recorded. Actual results could differ from our estimates. Our estimates and judgments are based on historical experience and other factors we consider to be reasonable, including expectations of future events. The estimates and judgments that could result in a material effect in the next financial year on the carrying amounts of assets and liabilities are outlined below.

Impairment Testing

Impairment testing is based on discounted cash flow models prepared by internal experts with assistance from third-party advisors when required. Note 14 outlines the significant inputs used when performing goodwill and other asset impairment testing. The inputs used are based on management's best estimates of what an independent market participant would consider appropriate and are reviewed by senior management. Changes in these inputs may alter the results of impairment testing, the amount of the impairment charges recorded in the statement of income and the resulting carrying values of assets.

Joint Arrangements

We are a party to a number of arrangements in which we do not have control. Judgment is required in determining whether joint control over these arrangements exists and if so, which parties have joint control and whether each arrangement is a joint venture or joint operation. In assessing whether we have joint control, we analyze the activities of each arrangement and determine which activities most significantly affect the returns of the arrangement. These activities are determined to be the relevant activities of the arrangement. If unanimous consent is required over the decisions about the relevant activities, the parties whose consent is required would have joint control over the arrangement. The judgments around which activities are considered the relevant activities of the arrangement are subject to analysis by each of the parties to the arrangement and may be interpreted differently. When performing this assessment, we consider decisions about activities such as managing the asset during its life, acquisition, expansion and dispositions of assets, financing, operating and capital decisions. We may also consider activities including the approval of budgets, appointment of key management personnel, representation on the board of directors and other items.

If we conclude that we have joint control over the arrangement, an assessment of whether the arrangement is a joint venture or joint operation is required. This assessment is based on whether we have rights to the assets, and obligations for the liabilities, relating to the arrangement or whether we have rights to the net assets of the arrangement. In making this determination, we review the legal form of the arrangement, the terms of the contractual arrangement, and other facts and circumstances. In a situation where the legal form and the terms of the contractual arrangement do not give us rights to the assets and obligations for the liabilities, an assessment of other facts and circumstances is required, including whether the activities of the arrangement are primarily designed for the provision of output to the parties and whether the parties are substantially the only source of cash flows contributing to the arrangement. In such circumstances we may consider the application of other facts and circumstances to conclude that a joint arrangement is a joint operation is appropriate. This conclusion requires judgment and is specific to each arrangement. We have applied the use of other facts and circumstances to conclude that Antamina and Fort Hills are joint operations for the purposes of our consolidated financial statements. The other facts and circumstances considered for both of these arrangements are the provisions for output to the parties of the joint arrangements. For both Antamina and Fort Hills, we will take our share of the output from the assets directly over the life of the arrangement. We have concluded that this, combined with other factors, gives us direct rights to the assets and obligations for the liabilities of these arrangements, proportionate to our ownership interests.

Estimated Recoverable Reserves and Resources

Mineral reserve and resource estimates are based on various assumptions relating to operating matters. These include production costs, mining and processing recoveries, cut-off grades, long term commodity prices and, in some cases, exchange rates, inflation rates and capital costs. Cost estimates are based on feasibility study estimates or operating history. Estimates are prepared by appropriately qualified persons, but will be affected by forecasted commodity prices, inflation rates, exchange rates, capital and production costs and recoveries amongst other factors. Estimated recoverable reserves and resources are used to determine the depreciation of property, plant and equipment at operating mine sites, in accounting for deferred stripping costs, in performing impairment testing and in forecasting the timing of the payment of decommissioning and restoration costs. Therefore, changes in the assumptions used could affect the carrying value of assets, depreciation and impairment charges recorded in the income statement and the carrying value of the decommissioning and restoration provision.

Decommissioning and Restoration Provisions

The decommissioning and restoration provision is based on future cost estimates using information available at the balance sheet date. The decommissioning and restoration provision is adjusted at each reporting period for changes to factors such as the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the discount rate. The decommissioning and restoration provision requires other significant estimates and assumptions including the requirements of the relevant legal and regulatory framework and the timing, extent and costs of required decommissioning and restoration activities. To the extent the actual costs differ from these estimates, adjustments will be recorded and the income statement may be affected.

4. Critical Accounting Estimates and Judgments (continued)

Current and Deferred Taxes

We calculate current and deferred tax provisions for each of the jurisdictions in which we operate. Actual amounts of income tax expense are not final until tax returns are filed and accepted by the relevant authorities. This occurs subsequent to the issuance of financial statements. Therefore, profit in subsequent periods will be affected by the amount that estimates differ from the final tax return.

Judgment is required in assessing whether deferred tax assets and certain deferred tax liabilities are recognized on the balance sheet. We also evaluate the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income. Deferred tax liabilities arising from temporary differences on investments in subsidiaries and joint ventures are recognized unless the reversal of the temporary differences is not expected to occur in the foreseeable future and can be controlled. Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future production and sales volumes, commodity prices, reserves, operating costs, decommissioning and restoration costs, capital expenditures, dividends and other capital management transactions. Judgment is also required about the application of income tax legislation. These estimates and judgments are subject to risk and uncertainty and could result in an adjustment to the deferred tax provision and a corresponding credit or charge to profit.

5. Expenses by Nature

(CAD$ in millions)	2013	2012
Wages and salaries	$ 903	$ 823
Wage-related costs	279	288
Bonus payments	78	98
Post-employment benefits	85	128
Transportation	1,350	1,214
Depreciation and amortization	1,233	983
Raw material purchases	890	1,083
Fuel and energy	757	772
Maintenance and repair supplies	649	671
Contractors and consultants	584	643
Operating supplies	498	495
Overhead costs	239	372
Royalties	162	161
Other operating costs	99	110
	7,806	7,841
Less:		
Production stripping and other capitalized costs	(750)	(741)
Change in inventory	133	(23)
Total cost of sales, general and administration, exploration and research and development expenses	$ 7,189	$ 7,077

6. Other Operating Income (Expense)

(CAD$ in millions)		2013		2012
Pricing adjustments (Note 25(b))	$	**(62)**	$	45
Share-based compensation		**(22)**		(34)
Environmental costs		**(27)**		(10)
Social responsibility and donations		**(30)**		(5)
Gain (loss) on operating assets		**(33)**		24
Care and maintenance		**(10)**		(12)
Commodity derivatives (Note 25(b))		**2**		–
Provision for closed properties		**1**		(1)
Other		**(35)**		(31)
	$	**(216)**	$	(24)

7. Finance Income and Finance Expense

(CAD$ in millions)		2013		2012
Finance income				
Investment income	$	**13**	$	33
Total finance income	$	**13**	$	33
Finance expense				
Debt interest	$	**358**	$	427
Financing fees and discount amortization		**6**		13
Net interest expense on retirement benefit plans		**29**		34
Decommissioning and restoration provision accretion		**69**		67
Other		**11**		12
		473		553
Less capitalized interest		**(134)**		(43)
Total finance expense	$	**339**	$	510

Notes to Consolidated Financial Statements Years ended December 31, 2013 and 2012

8. Non-Operating Income (Expense)

(CAD$ in millions)	2013	2012
Gain on sale of investments	**$ 42**	$ 29
Provision for marketable securities	**(32)**	(7)
Foreign exchange losses	**(12)**	(24)
Other derivative gains (losses) (Note 25(b))	**(2)**	119
Debt repurchase and financing costs (Note 16(a))	**–**	(965)
Other	**(2)**	–
	$ (6)	$ (848)

9. Supplemental Information

(CAD$ in millions)	December 31, 2013	December 31, 2012	January 1, 2012
Cash and cash equivalents			
Cash	**$ 174**	$ 144	$ 1,057
Money market investments with maturities from the date of acquisition of three months or less	**2,598**	3,123	3,348
	$ 2,772	$ 3,267	$ 4,405

(CAD$ in millions)	2013	2012
Net change in non-cash working capital items and other		
Trade accounts receivable, taxes receivable and other	**$ 199**	$ (119)
Inventories	**93**	(99)
Trade accounts payable, taxes payable and accrued liabilities	**(57)**	(49)
	$ 235	$ (267)
Income and resource taxes paid	**$ 425**	$ 578
Non-cash financing and investing transactions		
Shares received from dispositions	**$ –**	$ 4

10. Inventories

(CAD$ in millions)	December 31, 2013	December 31, 2012	January 1, 2012
Raw materials	**$ 295**	$ 239	$ 190
Supplies	**598**	521	455
Work in-process	**415**	494	475
Finished products	**444**	585	572
	1,752	1,839	1,692
Less long term portion (Note 11)	**(57)**	(56)	(51)
	$ 1,695	$ 1,783	$ 1,641

Cost of sales of $7.0 billion (2012 – $6.8 billion) include $6.7 billion (2012 – $6.6 billion) of inventories recognized as an expense during the period.

Total inventories held at net realizable value amounted to $64 million at December 31, 2013 (December 31, 2012 – $88 million and January 1, 2012 – $237 million).

Long term inventories consist of ore stockpiles and other in-process materials that are not planned to be processed within one year.

11. Financial and Other Assets

(CAD$ in millions)	December 31, 2013	December 31, 2012	January 1, 2012
Long term receivables and deposits	**$ 204**	$ 188	$ 193
Investments carried at fair value:			
Available-for-sale marketable equity securities	**260**	668	511
Held for trading warrants	**–**	3	–
Derivative assets (Note 25(b))	**–**	–	314
Pension assets (Note 18(a))	**111**	5	6
Long term inventories (Note 10)	**57**	56	51
Intangibles	**85**	37	42
Other	**29**	16	21
	$ 746	$ 973	$ 1,138

12. Investments in Associates

(CAD$ in millions)	Fort Hills (a)	Other	Total
At January 1, 2012	$ 703	$ 12	$ 715
Contributions	122	1	123
Share of losses	(6)	(4)	(10)
At December 31, 2012	$ 819	$ 9	$ 828
Contributions	244	17	261
Share of losses	–	(2)	(2)
Change in accounting method (a)	(1,063)	–	(1,063)
At December 31, 2013	$ –	$ 24	$ 24

a) Fort Hills Energy Limited Partnership

In November 2005, we acquired a 15% interest in Fort Hills, which is developing the Fort Hills oil sands project in Alberta, Canada. As consideration for our initial 15% interest, we contributed 34% of the first $2.5 billion of project expenditures. In September 2007, we acquired an additional 5% interest, bringing our interest to 20%. In consideration for our additional 5% interest, we are required to contribute 27.5% of project expenditures after project spending reaches $2.5 billion and before project spending reaches $7.5 billion. Thereafter, we are responsible for funding our 20% share of development costs. In the event that the project is abandoned, all limited partners are required to make additional contributions such that the aggregate contributions of all partners equal $7.5 billion and any unexpended amount will be distributed to the partners according to their partnership interests. Project spending totalled $4.4 billion as of December 31, 2013, of which our share was $1.4 billion.

On October 30, 2013, the partners in Fort Hills announced that construction would be proceeding for the project. At that date certain amendments were made to the Limited Partnership Agreement, Unanimous Shareholder Agreement and the Fort Hills Oil Sands Project Operating Services Contract. The changes to these agreements required a reassessment of the accounting for our investment in Fort Hills. As a result of the changes made to the agreements for this arrangement, we have concluded that we now have rights to the assets and obligations for the liabilities of Fort Hills. Accordingly, from October 30, 2013 forward, we have accounted for our interest in Fort Hills as a joint operation and recorded our share of the assets, liabilities, revenues, expenses and cash flows of the operation. Prior to the amendment of the project agreements on October 30, 2013, we accounted for our investment in Fort Hills as an associate using the equity method.

Our share of Fort Hills' losses were $nil to October 30, 2013 and $6 million in 2012. Fort Hills did not have revenue in 2013 or 2012.

13. Property, Plant and Equipment

(CAD$ in millions)	Exploration and Evaluation	Mineral Properties and Leases	Land, Buildings, Plant and Equipment	Capitalized Production Stripping Costs	Construction In-Progress	Total
At January 1, 2012						
Cost	$ 1,329	$ 19,261	$ 8,931	$ 493	$ 142	$ 30,156
Accumulated depreciation	–	(2,447)	(4,418)	(147)	–	(7,012)
Net book value	**$ 1,329**	**$ 16,814**	**$ 4,513**	**$ 346**	**$ 142**	**$ 23,144**
Year ended December 31, 2012						
Opening net book value	$ 1,329	$ 16,814	$ 4,513	$ 346	$ 142	$ 23,144
Additions	774	50	773	786	672	3,055
Disposals	(10)	(2)	(4)	–	–	(16)
Depreciation	–	(473)	(436)	(194)	–	(1,103)
Transfers	(228)	–	107	–	121	–
Decommissioning and restoration provision change in estimate	–	(73)	9	–	–	(64)
Capitalized borrowing costs	–	20	–	–	23	43
Other	(2)	(2)	(2)	–	–	(6)
Exchange differences	(10)	(67)	(38)	(1)	–	(116)
Closing net book value	**$ 1,853**	**$ 16,267**	**$ 4,922**	**$ 937**	**$ 958**	**$ 24,937**
At December 31, 2012						
Cost	$ 1,853	$ 19,170	$ 9,690	$ 1,280	$ 958	$ 32,951
Accumulated depreciation	–	(2,903)	(4,768)	(343)	–	(8,014)
Net book value	**$ 1,853**	**$ 16,267**	**$ 4,922**	**$ 937**	**$ 958**	**$ 24,937**

13. Property, Plant and Equipment (continued)

(CAD$ in millions)	Exploration and Evaluation	Mineral Properties and Leases	Land, Buildings, Plant and Equipment	Capitalized Production Stripping Costs	Construction In-Progress	Total
Year ended December 31, 2013						
Opening net book value	$ 1,853	$ 16,267	$ 4,922	$ 937	$ 958	$ 24,937
Additions	161	123	627	801	1,207	2,919
Fort Hills change in accounting method (Note 12(a))	–	850	19	–	197	1,066
Disposals	–	–	(4)	–	–	(4)
Depreciation	–	(497)	(457)	(313)	–	(1,267)
Transfers	–	–	–	–	–	–
Decommissioning and restoration provision change in estimate	–	(337)	(24)	–	–	(361)
Capitalized borrowing costs	–	63	–	–	71	134
Other	11	(12)	(10)	–	–	(11)
Exchange differences	41	206	126	15	10	398
Closing net book value	**$ 2,066**	**$ 16,663**	**$ 5,199**	**$ 1,440**	**$ 2,443**	**$ 27,811**
At December 31, 2013						
Cost	$ 2,066	$ 20,090	$ 10,394	$ 2,102	$ 2,443	$ 37,095
Accumulated depreciation	–	(3,427)	(5,195)	(662)	–	(9,284)
Net book value	**$ 2,066**	**$ 16,663**	**$ 5,199**	**$ 1,440**	**$ 2,443**	**$ 27,811**

The carrying value of property, plant and equipment held under finance lease at December 31, 2013 is $186 million (December 31, 2012 – $150 million, January 1, 2012 – $117 million). Ownership of leased assets remains with the lessor.

Borrowing costs are capitalized at a rate based on our cost of borrowing or at the rate on the project-specific debt, as applicable. These projects are shown as part of mineral properties and leases, land, buildings, plant and equipment, or construction in-progress. Our weighted average borrowing rate used for capitalization of borrowing costs in 2013 was 4.9% (2012 – 5.30%).

Significant exploration and evaluation projects include Relincho, Galore Creek and oil sands properties.

14. Goodwill

(CAD$ in millions)	Coal Operations	Quebrada Blanca	Carmen de Andacollo	Total
January 1, 2012	$ 1,203	$ 312	$ 132	$ 1,647
Foreign exchange translation	–	(7)	(3)	(10)
December 31, 2012	$ 1,203	$ 305	$ 129	$ 1,637
Foreign exchange translation	–	22	9	31
December 31, 2013	**$ 1,203**	**$ 327**	**$ 138**	**$ 1,668**

The allocation of goodwill to cash generating units or groups of cash generating units reflects how goodwill is monitored for internal management purposes.

We have performed our annual goodwill impairment testing and did not identify any impairment losses. The recoverable amounts for our goodwill impairment testing were determined based on a fair value less costs of disposal basis. The fair value less costs of disposal was calculated using a discounted cash flow methodology taking account of assumptions that would be made by market participants.

Cash flow projections are based on life of mine plans and exploration potential. For our coal operations, the cash flows cover periods from 23 to 30 years, after which a terminal value is determined. For Quebrada Blanca and Carmen de Andacollo cash flows include periods in excess of 47 years.

Given the nature of expected future cash flows, the expected future cash flows used to determine the recoverable amount could change materially over time as they are significantly affected by the key assumptions described below.

The key inputs used to determine fair value less costs of disposal are as follows:

Commodity Prices

Commodity price assumptions are based on internal forecasts, which are based on a number of factors, including forward curves in the near term, and are benchmarked with external sources of information, including information published by our peers, to ensure they are within the range of values used by market participants.

Reserves and Resources

Future mineral production is included in projected cash flows based on mineral reserve and resource estimates and exploration and evaluation work, undertaken by appropriately qualified persons. These estimates are based upon commodity price assumptions at or below the commodity prices noted in the sensitivity analysis below.

Operating Costs and Capital Expenditures

Operating costs and capital expenditures are based on life of mine plans and internal management forecasts. Cost estimates incorporate management experience and expertise, current operating costs, the nature and location of each operation and the risks associated with each operation. Future capital expenditures are based on management's best estimate of expected future capital requirements, which are generally for the extraction and processing of existing reserves and resources. All committed and anticipated capital expenditures based on future cost estimates have been included in the projected cash flows. Operating cost and capital expenditure assumptions are continuously subject to on-going optimization and review by management and may be improved upon.

14. Goodwill (continued)

Discount Rates

Discount rates used are based on the weighted average cost of capital for a mining industry peer group and are calculated with reference to current market information. Adjustments to the rate are made for any risks that are not reflected in the underlying cash flows. A 5.5% real, 8% nominal, post-tax discount rate was used to discount cash flow projections for our coal operations and a 6.1% real, 8.5% nominal, post-tax discount rate was used to discount cash flow projections for Quebrada Blanca and Carmen de Andacollo.

Foreign Exchange Rates

Foreign exchange rates are benchmarked with external sources of information based on a range used by market participants.

Inflation Rates

Inflation rates are based on average historical inflation rates for the location of each operation and long term government bond yields. Inflation rates are benchmarked with external sources of information and are within a range used by market participants.

Sensitivity Analysis

The results of our annual goodwill impairment test and an updated analysis as at December 31, 2013 resulted in the recoverable amount of Carmen de Andacollo exceeding its carrying value by approximately $100 million. The recoverable amount is most sensitive to the long term commodity price and discount rate assumptions. The recoverable amount is based on a long term copper price of US$3.50 per pound and a nominal post-tax discount rate of 8.5%. A 3% decrease in the long term price assumption would result in the recoverable amount equalling the carrying value. An increase of 65 basis points in the nominal post-tax discount rate would also result in the recoverable amount equalling the carrying value.

The recoverable amounts for our coal operations and Quebrada Blanca significantly exceeded the carrying amounts at the date of our annual impairment test and as at December 31, 2013.

15. Trade Accounts Payable and Other Liabilities

(CAD$ in millions)	**December 31, 2013**	December 31, 2012	January 1, 2012
Trade accounts payable and accruals	**$ 890**	$ 792	$ 787
Capital project accruals	**366**	174	104
Payroll-related liabilities	**178**	160	153
Accrued interest	**144**	134	132
Commercial and government royalties	**113**	141	113
Current portion of provisions (Note 19(a))	**76**	45	59
Current derivative liabilities (Note 19)	**3**	4	4
Other	**14**	18	83
	$ 1,784	$ 1,468	$ 1,435

16. Debt

(CAD$ in millions)	December 31, 2013		December 31, 2012		January 1, 2012	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
7.0% notes due September 2012 (US$200 million) (a)	**$ –**	**$ –**	$ –	$ –	$ 203	$ 211
9.75% notes due May 2014 (US$530 million) (a)	**–**	**–**	–	–	514	635
5.375% notes due October 2015 (US$300 million)	**318**	**342**	297	330	304	336
10.25% notes due May 2016 (US$659 million) (a)	**–**	**–**	–	–	629	780
3.15% notes due January 2017 (US$300 million)	**318**	**330**	297	313	303	316
3.85% notes due August 2017 (US$300 million)	**315**	**338**	294	322	300	326
2.5% notes due February 2018 (US$500 million) (a)	**528**	**537**	493	510	–	–
3.0% notes due March 2019 (US$500 million) (a)	**527**	**530**	493	515	–	–
10.75% notes due May 2019 (US$1,043 million) (a)	**–**	**–**	–	–	991	1,304
4.5% notes due January 2021 (US$500 million)	**528**	**538**	493	545	504	539
4.75% notes due January 2022 (US$700 million)	**739**	**753**	691	774	706	765
3.75% notes due February 2023 (US$750 million) (a)	**787**	**745**	735	770	–	–
6.125% notes due October 2035 (US$700 million)	**729**	**731**	681	786	696	797
6.0% notes due August 2040 (US$650 million)	**688**	**668**	644	747	658	742
6.25% notes due July 2041 (US$1,000 million)	**1,051**	**1,078**	983	1,182	1,005	1,166
5.2% notes due March 2042 (US$500 million) (a)	**524**	**473**	490	517	–	–
5.4% notes due February 2043 (US$500 million) (a)	**526**	**494**	492	535	–	–
Antamina senior revolving credit facility due April 2015 (b)	**24**	**24**	22	22	117	117
Other	**121**	**121**	90	90	105	105
	7,723	**7,702**	7,195	7,958	7,035	8,139
Less current portion of long term debt	**(59)**	**(59)**	(35)	(35)	(359)	(367)
	$ 7,664	**$ 7,643**	$ 7,160	$ 7,923	$ 6,676	$ 7,772

16. Debt (continued)

The fair values of debt are determined using market values, if available, and cash flows based on our cost of borrowing where market values are not available. The latter would be considered Level 2 fair value measurements with significant other observable inputs on the fair value hierarchy (Note 26).

All obligations under our notes are directly guaranteed by TML except for the 5.375% and 6.125% notes which are supported by an arrangement similar in effect to a guarantee pursuant to which the trustee under these notes will, in the event of a default under the governing indenture, have the right to make a demand against TML in an amount equal to the amount due under the notes.

a) Notes Issued and Retired in 2012

In February 2012, we issued US$500 million of senior unsecured notes due March 2019 and US$500 million of senior unsecured notes due March 2042. The 2019 notes bear interest at 3.00% per annum and were issued at 99.705% of face value. The 2042 notes bear interest at 5.20% per annum and were issued at 99.533% of face value.

In August 2012, we issued US$500 million of senior unsecured notes due February 2018, US$750 million of senior unsecured notes due February 2023 and US$500 million of senior unsecured notes due February 2043. The 2018 notes bear interest at 2.50% per annum and were issued at 99.690% of face value. The 2023 notes bear interest at 3.75% per annum and were issued at 99.188% of face value. The 2043 notes bear interest at 5.40% per annum and were issued at 99.808% of face value.

Net proceeds from these issues were US$2.7 billion after underwriting discounts and issue costs. The majority of the net proceeds, in addition to cash on hand, was used to redeem US$530 million of the 95% notes due 2014, US$659.5 million of the 10.25% notes due 2016, US$1.04 billion of the 10.75% notes due 2019 and to settle the 7.00% notes that matured in September 2012. The total payment, including the premium for the repurchase, was US$2.85 billion. We recorded an accounting charge of $965 million in 2012 in connection with the redemptions.

b) Antamina Facility

The Antamina revolving credit facility is our proportionate share of Antamina's revolving term bank facility with full repayment due at maturity in 2015 and is the obligation of Antamina. The facility, which is denominated in U.S. dollars, is non-recourse to us and the other Antamina project sponsors; advances may be prepaid and re-borrowed during its term. The outstanding amount under the facility bears interest at LIBOR plus a margin.

c) Optional Redemptions

All of our outstanding notes are callable at any time by repaying the greater of the principal amount plus accrued interest and the present value of the principal and interest amounts discounted at a comparable treasury yield plus a stipulated spread. The 2023, 2042 and 2043 notes issued in 2012 are callable at 100% at any time on or after November 1, 2022, September 1, 2041 and August 1, 2042 respectively. The 2022 and 2041 notes issued in 2011 are callable at 100% at any time on or after October 15, 2021 and January 15, 2041 respectively. The 2021 notes are callable at 100% on or after October 15, 2020 and the 2040 notes are callable at 100% on or after February 15, 2040.

d) Revolving Facilities

At December 31, 2013, we had an undrawn US$2.0 billion committed revolving credit facility that is available until 2018. Any amounts drawn under the revolving credit facility can be repaid at any time, are due in full at maturity and are guaranteed by TML. Any outstanding amounts under the facility bear interest at LIBOR plus an applicable margin based on our credit ratings. The facility requires that our reported total debt to total capitalization ratio not exceed 0.5 to 1. As at December 31, 2013, we were in compliance with all debt covenants and default provisions.

We also had a $150 million uncommitted demand revolving credit facility at December 31, 2013. Net of $56 million of letters of credit issued, the unused portion of this credit facility is $94 million, which is available in the form of cash borrowings or letters of credit. In addition, we have issued stand-alone letters of credit for $860 million at December 31, 2013, for environmental and other financial security requirements.

At December 31, 2013 we had pledged $113 million (2012 – $nil) as collateral for letters of credit. The cash held as collateral is available for our use upon five business days' notice to the letter of credit issuer.

e) Scheduled Principal Payments

At December 31, 2013 the scheduled principal payments during the next five years and thereafter are as follows:

($ in millions)	US$	CAD$
2014	$ 55	$ 59
2015	329	350
2016	4	5
2017	603	641
2018	502	534
Thereafter	5,843	6,214
Total	$ 7,336	$ 7,803

17. Income and Resource Taxes

a) Provision for Income and Resource Taxes

(CAD$ in millions)	2013	2012
Current		
Current taxes on profits for the year	**$ 507**	$ 524
Adjustments for current tax of prior periods	**20**	(7)
Total current tax	**$ 527**	$ 517
Deferred		
Origination and reversal of temporary differences	**$ 79**	$ 293
Adjustments to deferred tax of prior periods	**(54)**	(52)
Tax losses not recognized (recognition of previously unrecognized losses)	**6**	6
Effect of newly enacted change in tax rates	**75**	3
Total deferred tax	**$ 106**	$ 250
	$ 633	$ 767

17. Income and Resource Taxes (continued)

b) Reconciliation of income and resource taxes calculated at the statutory rates to the actual tax provision is as follows:

(CAD$ in millions)	2013	2012
Tax expense at the Canadian statutory income tax rate of 25.95% (2012 – 25.15%)	**$ 426**	$ 480
Tax effect of:		
Resource taxes, net of resource and depletion allowances	**90**	212
Non-temporary differences including one-half of capital gains and losses	**1**	47
Tax losses not recognized (recognition of previously unrecognized losses)	**6**	6
Effect of newly enacted change in tax rates	**75**	3
Withholding taxes	**(2)**	28
Difference in tax rates in foreign jurisdictions	**51**	59
Tax settlements	**(18)**	(22)
Revisions to prior year estimates	**(16)**	(37)
Other	**20**	(9)
	$ 633	$ 767

The Canadian statutory tax rate increased to 25.95% due to legislative changes.

c) The analysis of deferred tax assets and deferred tax liabilities is as follows:

(CAD$ in millions)	December 31, 2013	December 31, 2012	January 1, 2012
Deferred tax assets			
Expected to be reversed after more than a year	**$ 152**	$ 99	$ 316
Expected to be reversed within a year	**12**	105	(136)
	$ 164	$ 204	$ 180
Deferred tax liabilities			
Expected to be reversed after more than a year	**$ 5,676**	$ 5,599	$ 5,111
Expected to be reversed within a year	**232**	(18)	228
	$ 5,908	$ 5,581	$ 5,339
Net deferred tax liabilities	**$ 5,744**	$ 5,377	$ 5,159

d) The amount of deferred tax expense charged (credited) to the income statement is as follows:

(CAD$ in millions)	2013	2012
Net operating loss carryforwards	**$ (209)**	$ 119
Capital allowances in excess of depreciation	**784**	438
Decommissioning and restoration provisions	**(41)**	(62)
Amounts relating to phase out of partnership deferrals	**(86)**	(236)
Unrealized foreign exchange losses	**(65)**	(42)
Investments in associates	**(122)**	(36)
Withholding taxes	**(75)**	54
Other temporary differences	**(80)**	15
	$ 106	$ 250

e) Temporary differences giving rise to deferred income and resource tax assets and liabilities are as follows:

(CAD$ in millions)	December 31, 2013	December 31, 2012	January 1, 2012
Net operating loss carryforwards	**$ 621**	$ 569	$ 577
Property, plant and equipment	**(466)**	(137)	(19)
Decommissioning and restoration provisions	**60**	29	35
Amounts relating to phase out of partnership deferrals	**(165)**	(215)	(278)
Unrealized foreign exchange	**42**	(23)	(65)
Investments in associates	**–**	(122)	(158)
Other temporary differences	**72**	103	88
Deferred income and resource tax assets	**$ 164**	$ 204	$ 180
Net operating loss carryforwards	**$ (538)**	$ (505)	$ (615)
Property, plant and equipment	**6,556**	6,076	5,751
Decommissioning and restoration provisions	**(266)**	(256)	(188)
Amounts relating to phase out of partnership deferrals	**219**	255	428
Withholding taxes	**58**	133	79
Other temporary differences	**(121)**	(122)	(116)
Deferred income and resource tax liabilities	**$ 5,908**	$ 5,581	$ 5,339

f) The gross movement on the net deferred income tax account is as follows:

(CAD$ in millions)	2013	2012
As at January 1	**$ 5,377**	$ 5,159
Income statement change	**106**	250
Amounts recognized in equity (Note 20(h))	**124**	–
Tax charge relating to components of other comprehensive income	**33**	–
Foreign exchange and other differences	**104**	(32)
As at December 31	**$ 5,744**	$ 5,377

17. Income and Resource Taxes (continued)

g) Deferred Tax Liabilities Not Recognized

Deferred tax liabilities of $430 million (2012 – $370 million) have not been recognized on the unremitted earnings of controlled subsidiaries as the timing of remittance for these earnings is in our control and it is probable that these earnings will not be repatriated for the foreseeable future.

h) Loss Carryforwards and Canadian Development Expenses

At December 31, 2013, we had $4.43 billion of Canadian federal net operating loss carryforwards (2012 – $4.26 billion). These loss carryforwards expire at various dates between 2014 and 2033. We also had $1.88 billion of cumulative Canadian development expenses at December 31, 2013 (2012 – $2.56 billion), which are deductible for income tax purposes on a declining balance basis at a maximum rate of 30% per year. The deferred tax benefits of these pools have been recognized.

i) Deferred Tax Assets Not Recognized

We have not recognized $232 million (2012 – $226 million) of deferred tax assets in jurisdictions and entities that do not have established sources of taxable income.

j) Sale of Fording Canadian Coal Trust Units

Subsequent to year end, the Canada Revenue Agency proposed that most of the gains realized in 2008 on the sale of our 19.95% interest in Fording Canadian Coal Trust at the time of our acquisition of the Trust's assets should be taxed as income rather than capital gains. Although management remains confident that the gains were capital gains, the Canada Revenue Agency may nonetheless raise assessments on this basis. There can be no assurance that such assessments would not be upheld in whole or in part, in which case up to approximately $900 million of additional income for tax purposes would reduce our existing tax pools resulting in an additional deferred tax liability of $235 million. In addition, cash interest of up to approximately $50 million could be due.

18. Retirement Benefit Plans

We have defined contribution pension plans for certain groups of employees. Our share of contributions to these plans is expensed in the year it is earned by the employee.

We have multiple defined benefit pension plans registered in various jurisdictions that provide benefits based principally on employees' years of service. These plans are only available to certain qualifying employees. The plans are "flat-benefit" or "final-pay" plans and may provide for inflationary increases in accordance with certain plan provisions. All of our registered defined benefit pension plans are governed and administered in accordance with applicable pension legislation in either Canada or the United States. Actuarial valuations are performed at least every three years to determine minimum annual contribution requirements as prescribed by applicable legislation. For the majority of our plans, current service costs are funded based on a percentage of pensionable earnings or as a flat dollar amount per active member depending on the provisions of the pension plans. For these plans, deficits that are determined on an actuarial basis are funded over a period not to exceed five years. All of our defined benefit pension plans were actuarially valued within the past three years. While the majority of benefit payments are made from held-in-trust funds, there are also several unfunded plans where benefit payment obligations are met as they fall due.

We also have several post-retirement benefit plans which provide post-retirement medical, dental and life insurance benefits to certain qualifying employees and surviving spouses. These plans are unfunded and we meet benefit obligations as they come due.

a) Actuarial Valuation of Plans

(CAD$ in millions)	2013		2012	
	Defined Benefit Pension Plans	**Non-Pension Post-Retirement Benefit Plans**	**Defined Benefit Pension Plans**	**Non-Pension Post-Retirement Benefit Plans**
Defined benefit obligation				
Balance at beginning of year	**$ 1,984**	**$ 500**	$ 1,821	$ 412
Current service cost	**47**	**12**	41	10
Benefits paid	**(103)**	**(10)**	(108)	(11)
Interest expense	**77**	**19**	81	19
Obligation experience adjustments	**23**	**(54)**	4	5
Past service costs arising from plan improvements	**–**	**–**	36	27
Effect from change in financial assumptions	**(189)**	**(62)**	125	31
Effect from change in demographic assumptions	**5**	**2**	(14)	7
Foreign currency exchange rate changes	**7**	**–**	(2)	–
Balance at end of year	**1,851**	**407**	1,984	500
Fair value of plan assets				
Fair value at beginning of year	**1,729**	**–**	1,543	–
Interest income	**67**	**–**	66	–
Return on plan assets, excluding amounts included in interest income	**156**	**–**	87	–
Benefits paid	**(103)**	**–**	(108)	(11)
Contributions by the employer	**134**	**–**	142	11
Foreign currency exchange rate changes	**8**	**–**	(1)	–
Fair value at end of year	**1,991**	**–**	1,729	–
Funding surplus (deficit)	**140**	**(407)**	(255)	(500)
Effect of the asset ceiling				
Balance at beginning of year	**–**	**–**	–	–
Change in asset ceiling	**101**	**–**	–	–
Balance at end of year	**101**	**–**	–	–
Net accrued retirement benefit asset (liability)	**39**	**(407)**	(255)	(500)
Represented by:				
Pension assets (Note 11)	**111**	**–**	5	–
Accrued retirement benefit liability	**(72)**	**(407)**	(260)	(500)
Net accrued retirement benefit asset (liability)	**$ 39**	**$ (407)**	$ (255)	$ (500)

18. Retirement Benefit Plans (continued)

A number of the plans have a surplus totaling $101 million at December 31, 2013, which is not recognized on the basis that future economic benefits are not available to us in the form of a reduction in future contributions or a cash refund.

We expect to contribute $64 million to our defined benefit pension plans in 2014 based on minimum funding requirements. The weighted average duration of the defined benefit obligation is 14 years.

Defined contribution expense for 2013 was $34 million (2012 – $33 million).

b) Significant Assumptions

The discount rate used to determine the defined benefit obligations and the net interest cost was determined by reference to the market yields on high-quality debt instruments at the measurement date with durations similar to the duration of the expected cash flows of the plans.

Weighted average assumptions used to calculate the defined benefit obligation at the end of each year are as follows:

	2013		**2012**	
	Defined Benefit Pension Plans	**Non-Pension Post-Retirement Benefit Plans**	**Defined Benefit Pension Plans**	**Non-Pension Post-Retirement Benefit Plans**
Discount rate	**4.65%**	**4.77%**	3.90%	3.90%
Rate of increase in future compensation	**3.25%**	**3.25%**	3.25%	3.25%
Initial medical trend rate	**–**	**7.00%**	–	7.50%
Ultimate medical trend rate	**–**	**5.00%**	–	5.00%
Years to reach ultimate medical trend rate	**–**	**5**	–	6

c) Sensitivity of the defined benefit obligation to changes in the weighted average assumptions:

	Effect on Defined Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
Discount rate	**1.0%**	Decrease by 12%	Increase by 14%
Rate of increase in future compensation	**1.0%**	Increase by 1%	Decrease by 1%
Medical cost claim trend rate	**1.0%**	Increase by 2%	Decrease by 2%

The above sensitivity analyses are based on a change in each actuarial assumption while holding all other assumptions constant. The sensitivity analyses on our defined benefit obligation are calculated using the same methods as that used for calculating the defined benefit obligation recognized on our balance sheet.

d) Mortality Assumptions

Assumptions regarding future mortality are set based on management's best estimate in accordance with published mortality tables and expected experience. These assumptions translate into the following average life expectancies for an employee retiring at age 65:

	Male	Female
Retiring at December 31, 2013	84.8 years	87.1 years
Retiring at December 31, 2033	86.3 years	87.9 years

e) Significant Risks

The defined benefit pension plans and post-retirement benefit plans expose us to a number of risks, the most significant of which include asset volatility risk, changes in bond yields and life expectancy.

Asset Volatility Risk

The discount rate used to determine the defined benefit obligations is based on AA-rated corporate bond yields. If our plan assets underperform this yield, the deficit will increase. Our strategic asset allocation includes a significant proportion of equities that increases volatility in the value of our assets, particularly in the short term. We expect equities to outperform corporate bonds in the long term.

Changes in Bond Yields

A decrease in bond yields increases plan liabilities, which is partially offset by an increase in the value of the plans' bond holdings.

Life Expectancy

The majority of the plans' obligations are to provide benefits for the life of the member. Increases in life expectancy will result in an increase in the plans' liabilities.

f) Investment of Plan Assets

The assets of our defined benefit pension plans are managed by external asset managers under the oversight of the Teck Resources Limited Executive Pension Committee.

Our pension plan investment strategies support the objectives of each defined benefit plan and are related to each plan's demographics and timing of expected benefit payments to plan members. The objective for the plan asset portfolios is to achieve annualized portfolio returns over rolling four-year periods in excess of the annualized percentage change in the Consumer Price Index plus a certain premium.

Strategic asset allocation policies have been developed for each defined benefit plan to achieve this objective. The policies also reflect an asset/liability matching framework that seeks to reduce the effect of interest rate changes on each plan's funded status by matching the duration of the bond investments with the duration of the pension liabilities. We do not use derivatives to manage interest risk. Asset allocation is monitored at least quarterly and rebalanced if the allocation to any asset class exceeds its allowable allocation range. Portfolio and investment manager performance is monitored quarterly and the investment guidelines for each plan are reviewed at least annually.

Notes to Consolidated Financial Statements Years ended December 31, 2013 and 2012

18. Retirement Benefit Plans (continued)

The defined benefit pension plan assets at December 31, 2013 and 2012 are as follows:

(CAD$ in millions)	2013			2012		
	Quoted	**Unquoted**	**Total %**	**Quoted**	**Unquoted**	**Total %**
Equity securities	**1,017**	**–**	**51%**	864	–	50%
Debt securities	**703**	**–**	**35%**	596	–	35%
Real estate and other	**91**	**180**	**14%**	98	171	15%

19. Other Liabilities and Provisions

(CAD$ in millions)	**December 31, 2013**	**December 31, 2012**	**January 1, 2012**
Provisions (a)	**$ 1,079**	$ 1,399	$ 1,430
Derivative liabilities (net of current portion of $3 million, December 31, 2012 – $4 million and January 1, 2012 – $4 million)	**5**	7	3
Other	**74**	64	62
	$ 1,158	$ 1,470	$ 1,495

a) Provisions

The following table summarizes the movements in provisions for the year ended December 31, 2013:

(CAD$ in millions)	**Decommissioning and Restoration Provisions**	**Other**	**Total**
At January 1, 2013	$ 1,389	$ 55	$ 1,444
Settled during the year	(24)	(11)	(35)
Change in discount rate	(341)	(2)	(343)
Change in amount and timing of cash flows	(24)	21	(3)
Unwinding of discount	69	–	69
Change in accounting method for Fort Hills (Note 12)	3	–	3
Exchange differences	17	3	20
At December 31, 2013	1,089	66	1,155
Less current provisions	(62)	(14)	(76)
Non-current provisions	**$ 1,027**	**$ 52**	**$ 1,079**

Decommissioning and Restoration Provisions

The decommissioning and restoration provision represents the present value of estimated costs for required future decommissioning and other site restoration activities. The majority of the decommissioning and site restoration expenditures occur at the end of the life of the related operation. Remaining lives of mines and infrastructure range from three years to over 100 years. Therefore, it is anticipated that these costs will be incurred over a period in excess of 100 years. In 2013, the decommissioning and restoration provision was calculated using nominal discount rates between 6.00% and 7.125%. We also used an inflation rate of 2.00% in our cash flow estimates. The decommissioning and restoration provision includes $117 million (December 31, 2012 – $111 million and January 1, 2012 – $126 million) in respect of closed operations.

20. Equity

a) Authorized Share Capital

Our authorized share capital consists of an unlimited number of Class A common shares without par value, an unlimited number of Class B subordinate voting shares ("Class B shares") without par value and an unlimited number of preferred shares without par value issuable in series.

Class A common shares carry the right to 100 votes per share. Class B shares carry the right to one vote per share. Each Class A common share is convertible, at the option of the holder, into one Class B share. In all other respects, the Class A common shares and Class B shares rank equally.

The attributes of the Class B shares contain so-called "coattail provisions," which generally provide that, in the event that an offer (an "Exclusionary Offer") to purchase Class A common shares, which is required to be made to all or substantially all holders thereof, is not made concurrently with an offer to purchase Class B shares on identical terms, then each Class B share will be convertible into one Class A common share.

The Class B shares will not be convertible in the event that an Exclusionary Offer is not accepted by holders of a majority of the Class A common shares (excluding those shares held by the person making the Exclusionary Offer). If an offer to purchase Class A common shares does not, under applicable securities legislation or the requirements of any stock exchange having jurisdiction, constitute a "takeover bid," or is otherwise exempt from any requirement that such offer be made to all or substantively all holders of Class A common shares, the coattail provisions will not apply.

b) Class A Common Shares and Class B Subordinate Voting Shares Issued and Outstanding

Shares (in 000's)	Class A Common Shares	Class B Subordinate Voting Shares
At December 31, 2011	9,353	577,204
Options exercised (c)	–	188
Acquired and cancelled pursuant to normal course issuer bids (e)	–	(4,479)
At December 31, 2012	9,353	572,913
Options exercised (c)	–	225
Acquired and cancelled pursuant to normal course issuer bids (e)	–	(6,233)
At December 31, 2013	9,353	566,905

20. Equity (continued)

c) Share Options

Under our current share option plan, 10 million Class B shares have been set aside for the grant of share options to full-time employees, of which 5.8 million remain available for grant. The exercise price for each option is the closing price for our Class B shares on the last trading day before the date of grant. Our share options are settled through the issuance of Class B shares.

During the year ended December 31, 2013, we granted 2,170,862 Class B share options at market prices to employees. These share options have a weighted average exercise price of $33.02, vest in equal amounts over three years and have a term of 10 years.

The weighted average fair value of Class B share options granted in the year was estimated at $9.77 per option (2012 – $12.15) at the grant date based on the Black-Scholes option-pricing model using the following assumptions:

	2013	2012
Weighted average exercise price	**$ 33.02**	$ 39.24
Dividend yield	**2.43%**	2.04%
Risk-free interest rate	**1.44%**	1.38%
Expected option life	**4.2 years**	4.2 years
Expected volatility	**43%**	43%
Forfeiture rate	**2.89%**	2.50%

The expected volatility is based on a statistical analysis of daily share prices over the expected option life.

Outstanding share options are as follows:

	2013		2012	
	Shares (in 000's)	Weighted Average Exercise Price	Shares (in 000's)	Weighted Average Exercise Price
Outstanding at beginning of year	**6,853**	**$ 32.65**	5,768	$ 30.51
Granted	**2,171**	**33.02**	1,525	39.24
Exercised	**(225)**	**4.15**	(188)	8.27
Forfeited	**(240)**	**39.26**	(172)	43.23
Expired	**(241)**	**37.11**	(80)	39.21
Outstanding at end of year	**8,318**	**$ 33.19**	6,853	$ 32.65
Vested and exercisable at end of year	**5,102**	**$ 30.87**	4,471	$ 27.00

The average share price during the year was $28.02 (2012 – $33.74), with the highest share price at $37.85 (2012 – $43.40) and the lowest share price at $21.18 (2012 – $26.48).

Information relating to share options outstanding at December 31, 2013 is as follows:

Outstanding Share Options (in 000's)	Exercise Price Range	Weighted Average Remaining Life of Outstanding Options (months)
1,269	\$ 4.15 – \$ 12.35	62
100	\$ 12.36 – \$ 33.19	110
3,232	\$ 33.20 – \$ 35.53	74
2,916	\$ 35.54 – \$ 49.17	75
801	\$ 49.18 – \$ 58.80	86
8,318	\$ 4.15 – \$ 58.80	74

Total share option compensation expense recognized for the year was \$18 million (2012 – \$16 million).

d) Deferred Share Units and Restricted Share Units

Under our Deferred Share Unit ("DSU") or Restricted Share Unit ("RSU") plan, directors and employees may receive either DSUs or RSUs, each of which entitle the holder to a cash payment equal to the market value of one Class B share at the time they are redeemed. Deferred and restricted share units issued vest immediately for directors and vest in three years for employees. On retirement the units are pro-rated to reflect the period of vesting completed. Units vest on a pro-rata basis should employees be terminated without cause and are forfeited if employees resign or are terminated with cause.

DSUs may only be redeemed within 12 months from the date a holder ceases to be an employee or director, while RSUs must vest no later than three years measured from the date of the grant.

Additional units are issued to holders of DSUs and RSUs to reflect dividends paid on Class B subordinate voting shares and other adjustments to Class B shares.

Total DSU and RSU activity is as follows:

	2013		2012	
	DSUs and RSUs (in 000's)	Weighted Average Grant Date Fair Value	DSUs and RSUs (in 000's)	Weighted Average Grant Date Fair Value
Total units at beginning of year	**2,112**	**\$ 33.35**	1,957	\$ 30.72
Granted	**780**	**32.61**	683	39.03
Forfeited	**(91)**	**39.46**	(73)	43.62
Redeemed	**(362)**	**53.38**	(518)	29.33
Dividends and other adjustments	**94**	**32.02**	63	32.24
Total units at end of year	**2,533**	**\$ 29.99**	2,112	\$ 33.35

In 2013, we recognized compensation costs of \$4 million for our DSUs and RSUs (2012 – \$18 million). The total liability for vested DSUs and RSUs as at December 31, 2013 was \$50 million (December 31, 2012 – \$55 million and January 1, 2012 – \$56 million). The fair value of the DSUs and RSUs is based on the December 31, 2013 closing price of our Class B shares.

At December 31, 2013, 1,415,621 DSUs (2012 – 1,293,778) and 1,117,841 RSUs (2012 – 818,314) were outstanding.

Notes to Consolidated Financial Statements Years ended December 31, 2013 and 2012

20. Equity (continued)

e) Normal Course Issuer Bid

On occasion, we purchase and cancel Class B subordinate voting shares pursuant to normal course issuer bids that allow us to purchase up to a specified maximum number of shares over a one-year period.

Our current normal course issuer bid, which commenced on June 28, 2013, allows us to purchase up to 20 million Class B subordinate voting shares until June 27, 2014 or an earlier date if we complete such purchases. No shares have been repurchased pursuant to our current issuer bid.

f) Accumulated Other Comprehensive Income (Losses)

(CAD$ in millions)		**2013**		**2012**
Accumulated other comprehensive income (loss) — beginning of year	**$**	**(39)**	$	14
Currency translation differences:				
Unrealized gains (losses) on translation of foreign subsidiaries		**573**		(195)
Foreign exchange differences on debt designated as a hedge of our investment in foreign subsidiaries (net of taxes of $64 and $(21))		**(431)**		146
		142		(49)
Available-for-sale financial assets:				
Unrealized gains (losses) (net of taxes of $(2) and $(1))	**11**		20	
Gains reclassified to profit (net of taxes of $2 and $3)		**(6)**		(23)
		5		(3)
Derivatives designated as cash flow hedges:				
Unrealized gains (losses) (net of taxes of $5 and $(2))		**(13)**		8
Losses (gains) reclassified to profit on realization (net of taxes of $(4) and $2)		**11**		(9)
		(2)		(1)
Remeasurements of retirement benefit plans (net of taxes of $(110) and $22)		**221**		(48)
Total other comprehensive income (loss)		**366**		(101)
Less remeasurements of retirement benefit plans recorded in retained earnings		**(221)**		48
Accumulated other comprehensive income (loss) — end of year	**$**	**106**	$	(39)

The components of accumulated other comprehensive income (loss) are as follows:

(CAD$ in millions)		2013		2012
Currency translation differences	**$**	**103**	$	(39)
Unrealized gains on available-for-sale financial assets (net of taxes of $nil and $nil)		**5**		–
Unrealized losses on cash flow hedges (net of taxes of $1 and $nil)		**(2)**		–
Accumulated other comprehensive income (loss)	**$**	**106**	$	(39)
Accumulated other comprehensive income (loss) attributed to:				
Shareholders of the company	**$**	**104**	$	(35)
Non-controlling interests		**2**		(4)
	$	**106**	$	(39)

g) Earnings Per Share

The following table reconciles our basic and diluted earnings per share:

(CAD$ in millions, except per share data)		2013		2012
Net basic and diluted profit attributable to shareholders of the company	**$**	**961**	$	1,068
Weighted average shares outstanding (000's)		**578,299**		585,522
Dilutive effect of share options		**1,166**		1,379
Weighted average diluted shares outstanding		**579,465**		586,901
Basic earnings per share	**$**	**1.66**	$	1.82
Diluted earnings per share	**$**	**1.66**	$	1.82

At December 31, 2013, there were 6,949,016 (2012 – 5,013,079) potentially dilutive shares that have not been included in the diluted earnings per share calculation for the periods presented because their effect is anti-dilutive.

20. Equity (continued)

h) Provision for Tax Benefit

In 2013, the Canada Revenue Agency issued a proposed adjustment to our 2006 taxable income that would deny a deduction of $346 million claimed in relation to a premium paid on the redemption of our Cominco exchangeable debentures. The proposed adjustment would reduce the loss carryforward pools available to us to reduce taxes payable in the future rather than have an immediate cash effect. In light of the uncertainty raised by the proposed adjustment and as the original amount was credited directly to equity, we recognized a provision at December 31, 2013 of $124 million which has also been charged directly to equity.

i) Dividends

We declared dividends of $0.45 per share in the second and fourth quarters of 2013 and $0.40 and $0.45 per share in the second and fourth quarters of 2012, respectively. Dividends of $0.45 per share with a record date of December 16, 2013 were paid in January 2014.

21. Non-Controlling Interests

Set out below is information about our subsidiaries with non-controlling interests and the non-controlling interest balances included in equity for all comparative periods presented:

(CAD$ in millions)	Principal Place of Business	Percentage of Ownership Interest and Voting Rights Held by Non-Controlling Interest	December 31, 2013	December 31, 2012	January 1, 2012
Highland Valley Copper	British Columbia, Canada	2.5%	**$ 33**	$ 32	$ 25
Carmen de Andacollo	Region IV, Chile	10%	**53**	50	49
Quebrada Blanca	Region I, Chile	23.5%	**88**	70	74
Elkview Mine Limited Partnership	British Columbia, Canada	5%	**40**	37	24
			$ 214	$ 189	$ 172

22. Contingencies

We consider provisions for all our outstanding and pending legal claims to be adequate. The final outcome with respect to actions outstanding or pending as at December 31, 2013, or with respect to future claims, cannot be predicted with certainty. Significant contingencies not disclosed elsewhere in the notes to our financial statements are as follows:

Upper Columbia River Basin

TAI continues studies under the 2006 settlement agreement with the U.S. Environmental Protection Agency ("EPA") to conduct a remedial investigation on the Upper Columbia River in Washington State.

The Lake Roosevelt litigation involving TML in the Federal District Court for the Eastern District of Washington continues. In September 2012, TML entered into an agreement with the plaintiffs, agreeing that certain facts were established for purposes of the litigation. The agreement stipulates that some portion of the slag discharged from our Trail Operations into the Columbia River between 1896 and 1995, and some portion of the effluent discharged from Trail Operations, have been transported to and are present in the Upper Columbia River in the United States, and that some hazardous substances from the slag and effluent have been released into the environment within the United States. In December 2012, the court found in favour of the plaintiffs in phase one of the case, issuing a declaratory judgment that TML is liable under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") for response costs, the amount of which will be determined in a subsequent phase of the case.

In October 2013, the Confederated Tribes of the Colville Reservation filed an omnibus motion with the District Court seeking an order stating that they are permitted to seek recovery from TML for environmental response costs, and, in a subsequent proceeding, natural resource damages and assessment costs, arising from the alleged deposition of hazardous substances in the United States from aerial emissions from TML's Trail Operations. Prior allegations by the Tribes related solely to solid and liquid materials discharged to the Columbia River. The motion does not state the amount of response costs allegedly attributable to aerial emissions, nor did it attempt to define the extent of natural resource damages, if any, attributable to past smelter operations. In December 2013, the District Court ruled in favour of the plaintiffs.

A hearing with respect to liability in connection with air emissions and past response costs is now expected to take place in December 2015 and a subsequent hearing, with respect to claims for natural resource damages and assessment costs, is expected to follow, assuming the remedial investigation and feasibility study being undertaken by TAI are completed, which is now expected to occur in 2017.

There is no assurance that we will ultimately be successful in our defence of the litigation or that we or our affiliates will not be faced with further liability in relation to this matter. Until the studies contemplated by the EPA settlement agreement and additional damage assessments are completed, it is not possible to estimate the extent and cost, if any, of remediation or restoration that may be required or to assess our potential liability for damages. The studies may conclude, on the basis of risk, cost, technical feasibility or other grounds, that no remediation should be undertaken. If remediation is required and damage to resources found, the cost of remediation may be material.

23. Commitments

a) Capital Commitments

As at December 31, 2013, we had contracted for $1.2 billion of capital expenditures that have not yet been incurred for the purchase of property, plant and equipment. This amount includes $721 million for our share of Fort Hills capital commitments.

b) Operating Lease Commitments

We lease office premises, mobile equipment and railcars under operating leases. The lease terms are between one year and 10 years.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

(CAD$ in millions)	2013	2012
Less than one year	**$ 50**	$ 55
1 to 5 years	**71**	74
Thereafter	**12**	19
	$ 133	$ 148

Lease rentals amounting to $10 million (2012 – $9 million) for office premises, $37 million (2012 – $26 million) for mobile equipment and $8 million (2012 – $8 million) for railcars are included in the statement of income.

c) Red Dog Commitments

In accordance with the operating agreement governing the Red Dog mine, TAK pays a royalty to NANA Regional Corporation Inc. ("NANA") on the net proceeds of production. A 25% royalty became payable in the third quarter of 2007 after we had recovered cumulative advance royalties previously paid to NANA. The net proceeds of production royalty rate will increase by 5% every fifth year to a maximum of 50%. The increase to 30% of net proceeds of production occurred in 2012. An expense of US$120 million was recorded in 2013 (2012 – US$137 million) in respect of this royalty.

TAK leases road and port facilities from the Alaska Industrial Development and Export Authority through which it ships all concentrates produced at the Red Dog operation. The lease requires TAK to pay a minimum annual user fee of US$18 million for the next 27 years.

d) Antamina Royalty

Our interest in the Antamina mine is subject to a net profits royalty equivalent to 7.4% of our share of the mine's free cash flow. An expense of $19 million was recorded in 2013 (2012 – $7 million) in respect of this royalty.

e) Purchase Commitments

We have a number of forward purchase commitments for the purchase of concentrates, for shipping and distribution of products and for other process inputs, which are incurred in the normal course of business. In 2012 and 2013, we entered into arrangements for the purchase of power in future periods for the expansion of our Quebrada Blanca Operations. The majority of these contracts are subject to *force majeure* provisions.

f) Sale of Interest in Gold Reserves and Resources

In 2010, Carmen de Andacollo sold an interest in the gold reserves and resources of the Carmen de Andacollo Operation to Royal Gold. Under the agreement, Royal Gold is entitled to 75% of the payable gold produced until total cumulative production reaches 910,000 ounces of gold, and 50% thereafter.

24. Segmented Information

Based on the primary products we produce and our development projects, we have five reportable segments — copper, coal, zinc, energy and corporate — which is the way we report information to our Chief Executive Officer. The corporate segment includes all of our initiatives in other commodities, our corporate growth activities and groups that provide administrative, technical, financial and other support to all of our business units. Other operating expenses include general and administration costs, exploration, research and development, and other operating income (expense). Sales between segments are carried out at arm's-length prices.

(CAD$ in millions)	December 31, 2013					
	Copper	**Coal**	**Zinc**	**Energy**	**Corporate**	**Total**
Segment revenues	**$ 2,853**	**$ 4,113**	**$ 2,638**	**$ 6**	**$ –**	**$ 9,610**
Less: Inter-segment revenues	**–**	**–**	**(228)**	**–**	**–**	**(228)**
Revenues	**2,853**	**4,113**	**2,410**	**6**	**–**	**9,382**
Gross profit	**988**	**1,007**	**429**	**2**	**–**	**2,426**
Other operating income (expenses)	**(151)**	**(32)**	**(35)**	**(7)**	**(224)**	**(449)**
Profit from operations	**837**	**975**	**394**	**(5)**	**(224)**	**1,977**
Net finance expense	**(22)**	**(48)**	**(35)**	**–**	**(221)**	**(326)**
Non-operating income (expenses)	**–**	**–**	**–**	**(2)**	**(4)**	**(6)**
Share of losses of associates	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Profit before tax	**815**	**927**	**359**	**(7)**	**(451)**	**1,643**
Capital expenditures	**1,266**	**946**	**234**	**125**	**31**	**2,602**
Goodwill	**465**	**1,203**	**–**	**–**	**–**	**1,668**
Total assets	**$ 9,464**	**$ 17,581**	**$ 3,636**	**$ 2,518**	**$ 2,984**	**$ 36,183**

Notes to Consolidated Financial Statements Years ended December 31, 2013 and 2012

24. Segmented Information (continued)

(CAD$ in millions)	December 31, 2012					
	Copper	Coal	Zinc	Energy	Corporate	Total
Segment revenues	$ 3,142	$ 4,647	$ 2,764	$ 4	$ –	$ 10,557
Less: Inter-segment revenues	–	–	(214)	–	–	(214)
Revenues	3,142	4,647	2,550	4	–	10,343
Gross profit	1,240	1,892	391	1	–	3,524
Other operating income (expenses)	(39)	(2)	(14)	–	(227)	(282)
Profit from operations	1,201	1,890	377	1	(227)	3,242
Net finance expense	(14)	(32)	(23)	–	(408)	(477)
Non-operating income (expenses)	–	–	–	–	(848)	(848)
Share of losses of associates	–	–	–	(6)	(4)	(10)
Profit before tax	1,187	1,858	354	(5)	(1,487)	1,907
Capital expenditures	990	1,096	255	61	30	2,432
Goodwill	434	1,203	–	–	–	1,637
Total assets	$ 8,163	$ 17,692	$ 4,656	$ 1,828	$ 2,716	$ 35,055

(CAD$ in millions)	January 1, 2012					
	Copper	Coal	Zinc	Energy	Corporate	Total
Goodwill	$ 444	$ 1,203	$ –	$ –	$ –	$ 1,647
Total assets	$ 7,564	$ 17,186	$ 4,939	$ 1,152	$ 3,372	$ 34,213

The geographical distribution of our non-current assets is as follows:

(CAD$ in millions)	December 31, 2013	December 31, 2012	January 1, 2012
Canada	**$ 22,260**	$ 21,057	$ 19,464
Chile	**5,421**	4,766	4,565
United States	**861**	831	880
Other	**961**	748	597
	$ 29,503	$ 27,402	$ 25,506

Non-current assets attributed to geographical locations exclude deferred tax assets and financial and other assets.

Revenues are attributed to regions based on the location of the customer and are as follows:

(CAD$ in millions)	2013	2012
Asia		
China	**$ 2,458**	$ 2,615
Japan	**1,461**	1,762
South Korea	**938**	909
Other	**778**	719
Americas		
United States	**1,225**	1,159
Canada	**665**	890
Latin America	**289**	428
Europe		
Germany	**624**	463
Finland	**215**	260
Other	**729**	1,138
	$ 9,382	$ 10,343

25. Accounting for Financial Instruments

a) Financial Risk Management

Our activities expose us to a variety of financial risks, which include liquidity risk, foreign exchange risk, interest rate risk, commodity price risk, credit risk and other risks associated with capital markets. From time to time, we may use foreign exchange, commodity price and interest rate contracts to manage exposure to fluctuations in these variables. We do not have a practice of trading derivatives. Our use of derivatives is based on established practices and parameters to mitigate risk and is subject to the oversight of our Hedging Committee and our Board of Directors.

Liquidity Risk

Liquidity risk arises from our general and capital financing needs. We have planning, budgeting and forecasting processes to help determine our funding requirements to meet various contractual and other obligations. Note 16 details our available credit facilities as at December 31, 2013.

Contractual undiscounted cash flow requirements for financial liabilities as at December 31, 2013 are as follows:

(CAD$ in millions)	Less Than 1 Year	2–3 Years	4–5 Years	More Than 5 Years	Total
Trade accounts payable, accrued liabilities and dividends payable	$ 2,043	$ –	$ –	$ –	**$ 2,043**
Debt (Note 16(e))	59	355	1,175	6,214	**7,803**
Estimated interest payments on debt	$ 369	$ 717	$ 656	$ 4,798	**$ 6,540**

Foreign Exchange Risk

We operate on an international basis and therefore, foreign exchange risk exposures arise from transactions denominated in a foreign currency. Our foreign exchange risk arises primarily with respect to the U.S. dollar and to a lesser extent, the Chilean peso. Our cash flows from Canadian and Chilean operations are exposed to foreign exchange risk as commodity sales are denominated in U.S. dollars and the majority of operating expenses are denominated in local currencies.

We hedge a portion of our U.S. dollar denominated future cash flows on a quarterly basis with U.S. dollar forward sales contracts. We have elected not to actively manage other foreign exchange exposures at this time.

We also have various investments in U.S. dollar foreign operations, whose net assets are exposed to foreign currency translation risk. This currency exposure is managed in part through our U.S. dollar denominated debt as a hedge against net investments in foreign operations. As at December 31, 2013, $7.2 billion of U.S. dollar debt was designated in this manner.

U.S. dollar financial instruments subject to foreign exchange risk are as follows:

(US$ in millions)		2013		2012
Cash and cash equivalents	**$**	**476**	$	17
Accounts receivable and other assets		**506**		585
Accounts payable		**(359)**		(305)
U.S. dollar forward sales contracts not designated as hedging instruments		**(235)**		(257)
U.S. dollar forward sales contracts designated as cash flow hedges		**(245)**		(295)
Long term debt		**(7,200)**		(7,200)
Net investment in foreign operations		**7,716**		8,959
Net U.S. dollar assets exposed	**$**	**659**	$	1,504

As at December 31, 2013, with other variables unchanged, a $0.10 strengthening (weakening) of the Canadian dollar against the U.S. dollar would have a $39 million (2012 – $71 million) decrease (increase) on profit before tax resulting from our financial instruments. There would also be a $25 million (2012 – $30 million) increase (decrease) in other comprehensive income from our U.S. dollar forward sales contracts designated as cash flow hedges and a $52 million (2012 – $176 million) decrease (increase) in other comprehensive income from the translation of our foreign operations.

Interest Rate Risk

Our interest rate risk mainly arises from our cash and cash equivalents. Our interest rate management policy is generally to borrow at fixed rates. However, floating rate funding may be used to fund short term operating cash flow requirements or, in conjunction with fixed to floating interest rate swaps, be used to offset interest rate risk from our cash. The fair value of fixed-rate debt fluctuates with changes in market interest rates, but the cash flows, denominated in U.S. dollars, do not.

Cash and cash equivalents have short terms to maturity and receive interest based on market interest rates.

As at December 31, 2013, with other variables unchanged, a 1% change in the LIBOR rate would have a minimal effect (2012 – minimal) on profit. There would be no effect on other comprehensive income.

25. Accounting for Financial Instruments (continued)

Commodity Price Risk

We are subject to price risk from fluctuations in market prices of the commodities that we produce. From time to time, we may use commodity price contracts to manage our exposure to fluctuations in commodity prices. At the balance sheet date, we had copper, zinc and lead forward contracts outstanding as described in Note 25(b) below.

Our commodity price risk associated with financial instruments primarily relates to changes in fair value caused by final pricing adjustments to receivables and payables and forward contracts for copper, zinc and lead.

The following represents the effect on pre-tax profit attributable to shareholders from a 10% increase to commodity prices, based on outstanding receivables and payables subject to pricing adjustments at December 31, 2013. There is no effect on other comprehensive income.

	Price on December 31,		Increase in Profit Attributable to Shareholders	
(CAD$ in millions, except for US$/lb data)	**2013**	2012	**2013**	2012
Copper	**US$3.35/lb**	US$3.59/lb	**$ 29**	$ 39
Zinc	**US$0.94/lb**	US$0.93/lb	**–**	1
Lead	**US$1.01/lb**	US$1.06/lb	**$ 1**	$ 2

Credit Risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. Our primary counterparties related to our cash, money market investments and derivative contracts carry investment grade ratings as assessed by external rating agencies. There is ongoing review to evaluate the creditworthiness of these counterparties. We manage credit risk for trade and other receivables through established credit monitoring activities. The only significant concentration of credit risk with any single counterparty or group of counterparties relates to our investments in U.S. Government securities. Our maximum exposure to credit risk at the reporting date is the carrying value of our cash and cash equivalents, receivables and derivative assets. While we are exposed to credit losses due to the non-performance of our counterparties, we do not consider this to be a material risk.

b) Derivative Financial Instruments and Hedges

Sale and Purchase Contracts

Sales and purchases of metals in concentrates and cathodes are recognized on a provisional pricing basis when title transfers and the rights and obligations of ownership pass to the customer, which usually occurs on shipment. However, the final pricing for the product sold and purchased is not determined at that time as it is contractually linked to market prices at a subsequent date. These arrangements have the characteristics of a derivative instrument as the value of our receivables and payables will vary as prices for the underlying commodities vary in the metal markets. These pricing adjustments result in gains (losses from purchases) in a rising price environment and losses (gains for purchases) in a declining price environment and are recorded as other operating income (expense). The profit effect of gains and losses on these contracts is mitigated by smelter price participation, royalty interests, taxes and non-controlling interests. It should be noted that while these effects arise on the sale of concentrates, we also purchase concentrates at our Trail Operation where the opposite effects occur.

The table below outlines our outstanding receivable and payable positions, which were provisionally valued at December 31, 2013 and at December 31, 2012, respectively.

	Outstanding at December 31, 2013			Outstanding at December 31, 2012		
(Pounds in millions)	Pounds		US$/lb	Pounds		US$/lb
Receivable positions						
Copper	**135**	**$**	**3.35**	179	$	3.59
Zinc	**109**		**0.94**	143		0.93
Lead	**41**		**1.01**	64		1.06
Payable positions						
Zinc payable	**85**		**0.94**	92		0.93
Lead payable	**22**	**$**	**1.01**	20	$	1.06

At December 31, 2013, total outstanding settlements receivable were $695 million and total outstanding settlements payable were $42 million, which are included in trade accounts receivable and trade accounts payable, respectively, on the consolidated balance sheet.

Economic Hedge Contracts

We enter into commodity forward sales and purchase contracts to mitigate the risk of price changes for a portion of our concentrate purchases and refined metal sales. These contracts effectively lock in prices for a portion of our smelter sales. We do not apply hedge accounting to these commodity forward sales contracts.

Certain customers purchase concentrate and refined metal products at fixed forward prices from our operations. Forward purchase commitments for these metal products are matched to specific fixed price sales commitments to customers.

The fair value of our fixed commodity forward sale and purchase contracts is calculated using a discounted cash flow method based on forward metal prices. A summary of our free-standing derivative contracts and related fair values as at December 31, 2013 is as follows:

	Quantity	Average Price	Fair Value Asset (Liability) (CAD$ in millions)	
Derivatives not designated as hedging instruments				
Forward sales contracts				
Zinc	4.4 million lbs	US$0.90/lb	$	(0.1)
Lead	5.0 million lbs	US$0.98/lb		(0.2)
Copper	6.2 million lbs	US$3.21/lb		(0.9)
U.S. dollar	US$235 million	CAD$/US$1.06		(0.6)
Forward purchase contracts				
Lead	20.3 million lbs	US$0.96/lb		0.9
			$	(0.9)
Derivatives designated as cash flow hedges				
U.S. dollar forward sales contracts	US$245 million	CAD$/US$1.06	$	(2.4)

All free-standing derivative contracts mature in 2014.

25. Accounting for Financial Instruments (continued)

Derivatives not designated as hedging instruments are recorded in trade accounts receivable in the amount of $1 million and trade accounts payable and accrued liabilities in the amount of $2 million on the consolidated balance sheet.

In addition to the above, one of our road and port contracts contains a contingent zinc escalation payment that is considered to be an embedded derivative. The fair value of this embedded derivative was $6 million at December 31, 2013 (2012 – $7 million), and is included in other liabilities and provisions on the consolidated balance sheet.

Prepayment Rights on Notes Due 2016 and 2019

Our 2016 and 2019 notes (Note 16(a)) included prepayment rights that were considered to be embedded derivatives. These notes were redeemed and, therefore, the embedded derivatives were extinguished in 2012.

Derivatives Not Designated as Hedging Instruments

(CAD$ in millions)	2013					
	Zinc Forward Sales and Purchases	Copper Forward Sales	U.S. Dollar Forward Sales	Settlements Receivable and Payable	Other	Total
Amount of gain (loss) recognized in other operating income (expense)	$ 3	$ (1)	$ –	$ (62)	$ –	$ (60)
Amount of gain recognized in non-operating income	$ –	$ –	$ (6)	$ –	$ (2)	$ (8)

(CAD$ in millions)	2012						
	Zinc Forward Sales and Purchases	Copper Forward Sales	U.S. Dollar Forward Sales	Debt Repayment Rights	Settlements Receivable and Payable	Other	Total
Amount of gain (loss) recognized in other operating income (expense)	$ (2)	$ 8	$ –	$ –	$ 45	$ (6)	$ 45
Amount of gain recognized in non-operating income	$ –	$ –	$ 4	$ 116	$ –	$ 3	$ 123

Gains and losses on U.S. dollar forward sales are included in foreign exchange gains (losses) in non-operating income (expense) (Note 8).

Hedges

Cash flow hedges

At December 31, 2013, U.S. dollar forward sales contracts with a notional amount of US$245 million remained outstanding. The contracts matured in early 2014. These contracts have been designated as cash flow hedges of a portion of our future cash flows from anticipated U.S. dollar coal sales. We have determined that they are highly effective hedges from inception to December 31, 2013.

Unrealized gains and losses on our U.S. dollar forward sales contracts designated as cash flow hedges are recorded in other comprehensive income. Realized gains and losses on these settled contracts are recorded in revenue.

The following table provides information regarding the effect of U.S. dollar forward sales contracts that are derivative instruments designated as cash flow hedges on our consolidated statements of income and comprehensive income in 2013 and 2012:

(CAD$ in millions)	2013	2012
Gains (losses) recognized in other comprehensive income (effective portion)	**$ (18)**	$ 8
Gains (losses) reclassified from accumulated other comprehensive income into income (effective portion)	**(15)**	9
Location of gains (losses) reclassified from accumulated other comprehensive income into income	**Revenue**	Revenue

Net investment hedge

Our hedges of net investments in foreign operations were effective, and no ineffectiveness was recognized in profit for the period.

26. Fair Value Measurements

Certain of our financial assets and liabilities are measured at fair value on a recurring basis and classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Certain non-financial assets and liabilities may also be measured at fair value on a non-recurring basis. There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority. The levels and the valuation techniques used to value our financial assets and liabilities are described below:

Level 1 — Quoted Prices in Active Markets for Identical Assets

Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Marketable equity securities are valued using quoted market prices in active markets. Accordingly, these items are included in Level 1 of the fair value hierarchy.

26. Fair Value Measurements (continued)

Level 2 — Significant Other Observable Inputs

Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Derivative instruments are included in Level 2 of the fair value hierarchy as they are valued using pricing models or discounted cash flow models. These models require a variety of inputs, including, but not limited to, contractual terms, market prices, forward price curves, yield curves, and credit spreads. These inputs are obtained from or corroborated with the market where possible. Also included in Level 2 are settlements receivable and settlements payable from provisional pricing on concentrate sales and purchases because they are valued using quoted market prices for forward curves for copper, zinc and lead.

Level 3 — Significant Unobservable Inputs

Unobservable (supported by little or no market activity) prices.

We include investments in certain debt securities in Level 3 of the fair value hierarchy because they trade infrequently and have little price transparency. We review the fair value of these instruments periodically and estimate an impairment charge based on management's best estimates, which are unobservable inputs.

The fair values of our financial assets and liabilities measured at fair value on a recurring basis at December 31, 2013 and 2012 are summarized in the following table:

(CAD$ in millions)	2013				2012			
	Level 1	Level 2	Level 3	**Total**	Level 1	Level 2	Level 3	Total
Financial assets								
Marketable equity securities	$ 260	$ –	$ –	**$ 260**	$ 671	$ –	$ –	$ 671
Debt securities	–	–	16	**16**	–	–	16	16
Settlements receivable	–	695	–	**695**	–	705	–	705
Derivative instruments	–	1	–	**1**	–	3	–	3
	$ 260	$ 696	$ 16	**$ 972**	$ 671	$ 708	$ 16	$ 1,395
Financial liabilities								
Derivative instruments	$ –	$ 10	$ –	**$ 10**	$ –	$ 11	$ –	$ 11
Settlements payable	–	42	–	**42**	–	68	–	68
	$ –	$ 52	$ –	**$ 52**	$ –	$ 79	$ –	$ 79

For our non-financial assets and liabilities measured at fair value on a non-recurring basis, no fair value measurements were made during the years ended December 31, 2013 or 2012.

27. Capital Risk Management

The capital we manage is the total of equity and debt on our balance sheet. Our capital management objectives are to maintain access to the capital we require to operate and grow our business, while minimizing the cost of such capital. Our debt is rated investment grade by independent rating agencies that assess, among other things, our ability to meet our interest and principal obligations and our financial policies. These policies include a target debt to debt-plus-equity ratio of approximately 30% and a target ratio of debt to EBITDA of approximately 2.5. These ratios are expected to vary from their target levels from time to time, reflecting commodity price cycles and corporate activity, including the development of major projects. We also maintain a revolving credit facility that is committed from highly rated banks to ensure liquidity.

As at December 31, 2013, our debt to debt-plus-equity ratio was 29% (2012 – 29%) and our debt to EBITDA ratio was 2.5 (2012 – 2.6). We manage the risk of not meeting our financial targets through the issuance and repayment of debt and issuance of equity capital as well as through the ongoing management of operations, investments and capital expenditures.

28. Key Management Compensation

The compensation for key management, which includes our directors and senior vice presidents, in respect of employee services is as follows:

(CAD$ in millions)		2013		2012
Salaries, director fees and other short term benefits	**$**	**16**	$	16
Post-employment benefits		**1**		3
Share-based compensation		**11**		12
	$	**28**	$	31

29. Adoption of New and Amended IFRS Pronouncements

We have adopted the new and amended IFRS pronouncements listed below as at January 1, 2013, in accordance with the transitional provisions outlined in the respective standards.

a) Pronouncements Affecting Our Financial Results

The adoption of the following new and amended IFRS pronouncements has resulted in adjustments to previously reported figures as outlined below.

i) Post-employment benefits

We adopted the amended version of IAS 19, Employee Benefits ("IAS 19") on January 1, 2013 with retrospective application. IAS 19 does not require an entity to present comparative sensitivity information for the disclosure requirements in the year of adoption.

For defined benefit plans, the amendments to IAS 19 eliminate the option to defer actuarial gains and losses on the balance sheet through the "corridor method." The amendments to IAS 19 to eliminate the corridor method and the requirement to recognize remeasurement gains or losses in other comprehensive income did not have an effect on our consolidated financial statements as we had not adopted this policy under the previous IAS 19. The amendments also require any remeasurement gains or losses, including actuarial gains and losses, to be recognized immediately

29. Adoption of New and Amended IFRS Pronouncements (continued)

and presented in other comprehensive income, eliminating the option to recognize and present these amounts through the income statement. The amendments to IAS 19 require one discount rate be applied to the net defined benefit asset or liability for the purposes of determining the interest element of the defined benefit cost and require the recognition of unvested past service cost awards in profit immediately. There is also a requirement to change the presentation of finance income and finance expense to present both as a net finance expense (income) amount in the consolidated financial statements. Additional disclosures are required to present more information about the characteristics, amounts recognized and risks related to defined benefit plans.

We have analyzed the amendments to IAS 19 and calculated the effect of these amendments on our comparative consolidated financial statements for 2012. On the date of our earliest period presented, January 1, 2012, we expensed unamortized past service costs through equity. For the comparative periods presented, we reversed the amortization of past service costs and applied one discount rate to the net defined benefit asset or liability to determine the interest element of the defined benefit cost. The tables in Note 29(d) below outline the adjustments to our consolidated financial statements for all comparative periods presented. We continue to immediately recognize in retained earnings all defined benefit adjustments recognized in other comprehensive income. The amended disclosure requirements for IAS 19 are incorporated into our annual consolidated financial statements as at December 31, 2013 (Note 18).

The adoption of the amendments to IAS 19 did not have a significant effect on our annual consolidated financial statements for the year ended December 31, 2013.

ii) Production stripping costs

We adopted IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine (“IFRIC 20”) and have applied the requirements to production stripping costs incurred on or after January 1, 2012, in accordance with the transitional provisions of IFRIC 20. We have also analyzed predecessor stripping assets recorded as of January 1, 2012, the date of our earliest period presented, in accordance with the transitional provisions of IFRIC 20.

The interpretation provides guidance on how to account for overburden waste stripping costs in the production phase of a surface mine. Stripping activity related to inventory produced is accounted for in accordance with IAS 2, Inventories. Stripping activity that improves access to ore is accounted for as an addition to or enhancement of an existing asset.

Based on our analysis, we have identified components of our ore bodies to be phases, pits or sub-pits depending on the ore body being analyzed. These components align with how we view each mine and plan our mining activities. Previously, we capitalized waste rock stripping costs related to major expansions only. Under IFRIC 20, we capitalize waste rock stripping costs when the following three criteria are met:

- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

Waste rock stripping costs capitalized under IFRIC 20 are classified as capitalized production stripping costs within property, plant and equipment, which is consistent with the classification of the asset these costs relate to.

These assets are amortized on a units-of-production basis over the remaining proven and probable reserves of the respective components.

The adoption of IFRIC 20 resulted in an increase in the capitalization of waste rock stripping costs on our consolidated balance sheet and an increase in our profit and earnings per share. These items were partially offset by the amortization of stripping activity assets on a units-of-production basis in the respective periods. Inventories were adjusted to capitalize production stripping costs. The depreciation of stripping activity assets is included in the cost of inventories. The tables in Note 29(d) below outline the adjustments to our financial statements for all comparative periods presented.

The adoption of IFRIC 20 has significantly increased our capitalization of production stripping costs as compared to our previous accounting policy. During the year ended December 31, 2013, we capitalized $801 million of stripping activity assets, primarily at our coal operations. We recorded depreciation expense on stripping activity assets of $313 million during the year ended December 31, 2013.

b) Pronouncements Affecting Our Financial Statement Presentation or Disclosures

The adoption of the following new and amended IFRS pronouncements has resulted in enhanced financial statement disclosures in our consolidated financial statements or a change in financial statement presentation. These pronouncements did not affect our financial results.

i) Disclosures of interest in other entities

We adopted IFRS 12, Disclosures of Interests in Other Entities ("IFRS 12") on January 1, 2013. IFRS 12 outlines the disclosure requirements for interests in subsidiaries and other entities to enable users to evaluate the risks associated with interests in other entities and the effects of those interests on an entity's financial position, financial performance and cash flows. The adoption of IFRS 12 did not significantly affect our disclosures for the year ended December 31, 2013. We have included a non-controlling interests' financial statement note (Note 21) to comply with the requirements of IFRS 12.

ii) Fair value measurement

We adopted IFRS 13, Fair Value Measurement ("IFRS 13") with prospective application from January 1, 2013. IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and outlines disclosure requirements for fair value measurements.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement, so assumptions that market participants would use should be applied in measuring fair value.

The required IFRS 13 disclosures are included in Note 14 and Note 26.

iii) Other comprehensive income

We adopted the amendments to IAS 1, Presentation of Financial Statements ("IAS 1") on January 1, 2013, with retrospective application. The amendments to IAS 1 require companies preparing financial statements under IFRS to group items within other comprehensive income that may be reclassified to profit or loss and those that will not be reclassified.

29. Adoption of New and Amended IFRS Pronouncements (continued)

We have amended our annual consolidated statement of comprehensive income for all periods presented to reflect the presentation changes required under the amended IAS 1. Since these changes are reclassifications within our statement of comprehensive income, there is no net effect on our comprehensive income.

c) Pronouncements Affecting Accounting Policies Only

The adoption of the following new IFRS pronouncements did not affect our financial results or disclosures as our analysis determined that no changes were required to our existing accounting treatment.

i) Consolidated financial statements

We adopted IFRS 10, Consolidated Financial Statements ("IFRS 10") on January 1, 2013 with retrospective application. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This IFRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in an entity's financial statements. IFRS 10 sets out three elements of control: power over the investee; exposure, or rights, to variable returns from involvement with the investee; and the ability to use power over the investee to affect the amount of the investors' return; and the requirements on how to apply the control principle. IFRS 10 supersedes IAS 27, Consolidated and Separate Financial Statements and SIC 12, Consolidation – Special Purpose Entities.

Based on our analysis, IFRS 10 did not have an effect on our annual consolidated financial statements as the adoption did not result in a change in the consolidation status of any of our subsidiaries or investees.

ii) Joint arrangements

We adopted IFRS 11, Joint Arrangements ("IFRS 11") on January 1, 2013, with retrospective application from the date of our earliest period presented of January 1, 2012. If an arrangement results in joint control, IFRS 11 classifies joint arrangements as either joint operations or joint ventures, depending on the rights and obligations of the parties involved. We also adopted IAS 28(R), Investments in Associates and Joint Ventures ("IAS 28") which included amendments to address the accounting for joint ventures.

A joint operation is an arrangement where the jointly controlling parties have rights to the assets and obligations in respect of the liabilities of the arrangement. An entity accounts for a joint operation by recognizing its portion of the assets, liabilities, revenues and expenses. A joint venture is an arrangement where the jointly controlling parties only have rights to the net assets of the arrangement. A joint venture is accounted for using the equity method.

We completed an analysis of all of our joint arrangements to determine the appropriate accounting treatment under IFRS 11 and to assess whether there would be any changes required from our previous accounting policy of proportionate consolidation for our jointly controlled entities. Based on our analysis, we have concluded that all of our joint arrangements are joint operations under IFRS 11 and, accordingly, we have recorded the assets, liabilities, revenues and expenses in relation to our interest in each joint operation. The adoption of IFRS 11 did not have an effect on our annual consolidated financial statements for the year ended December 31, 2013 or prior periods presented.

The change in accounting treatment of our interest in Fort Hills from an investment in an associate to a joint operation during the year ended December 31, 2013 was due to changes made to the Limited Partnership Agreement, Unanimous Shareholder Agreement and the Fort Hills Oil Sands Project Operating Services Contract on October 30, 2013 and not the adoption of IFRS 11 on January 1, 2013 (Note 12(a)).

d) Adjustments to Consolidated Financial Statements

i) Adjustments to condensed consolidated balance sheets

(CAD$ in millions)	December 31, 2012	January 1, 2012
Equity before accounting changes	$ 17,977	$ 17,893
Adjustments to:		
Inventories (a)(ii)	(97)	–
Property, plant and equipment (a)(ii)	560	(6)
Deferred income and resource tax assets	(25)	–
Deferred income and resource tax liabilities	(134)	3
Retirement benefit obligations (a)(i)	(17)	(5)
Equity after accounting changes	$ 18,264	$ 17,885
Equity after accounting changes attributable to:		
Shareholders of the company	$ 18,075	$ 17,713
Non-controlling interests	$ 189	$ 172

ii) Adjustments to condensed consolidated statement of income

(CAD$ in millions)	Year ended December 31, 2012
Profit before accounting changes	$ 870
Adjustments to:	
Cost of sales	458
General and administration expense	(1)
Finance expense, net	(35)
Provision for income and resource taxes	(152)
Profit after accounting changes	$ 1,140
Profit after accounting changes attributable to:	
Shareholders of the company	$ 1,068
Non-controlling interests	72
	$ 1,140
Earnings per share after accounting changes	
Basic	$ 1.82
Diluted	$ 1.82

The adjustments to profit relating to the new and amended IFRS pronouncements in Note 29(a)(i) and (ii) increased basic earnings per share by $0.43 and diluted earnings per share by $0.44 for the year ended December 31, 2012.

29. Adoption of New and Amended IFRS Pronouncements (continued)

iii) Adjustments to condensed consolidated statement of comprehensive income

(CAD$ in millions)	Year ended December 31, 2012
Comprehensive income before accounting changes	$ 744
Adjustments to:	
Profit	270
Other comprehensive income:	
Remeasurements of retirement benefit plans	36
Income and resource taxes on remeasurements of retirement benefit plans	(11)
Comprehensive income after accounting changes	$ 1,039
Comprehensive income after accounting changes attributable to:	
Shareholders of the company	$ 969
Non-controlling interests	70
	$ 1,039

30. Supplemental Guarantor Condensed Consolidating Financial Information

Teck Metals Ltd. ("Teck Metals"), a wholly owned subsidiary of Teck Resources Limited ("Teck," or "our"), provides a full and unconditional guarantee or the equivalent in respect of substantially all of our outstanding indebtedness for borrowed money.

The following tables set forth condensed consolidating financial information for Teck Metals as at December 31, 2013, December 31, 2012 and January 1, 2012. The information is presented with separate columns for: (i) Teck; (ii) Teck Metals; (iii) our other subsidiaries on a combined basis; (iv) consolidating adjustments; and (v) the total consolidated amounts. The investments in subsidiaries held by Teck, Teck Metals and other non-guarantor subsidiaries have been accounted for using the equity method of accounting. Compañia Minera Antamina ("Antamina") and Fort Hills Energy Limited Partnership are not considered subsidiaries and, as such, our share of their results and balances are included in consolidation adjustments in the following tables.

As at December 31, 2013

As Reported in IFRS (CAD$ in millions)	Teck	Teck Metals	Non-Guarantor Subsidiaries	Consolidating Adjustments	**Consolidated Totals**
Condensed Consolidating Balance Sheet Information					
Cash and cash equivalents	$ 153	$ 328	$ 2,229	$ 62	**$ 2,772**
Current income and resource taxes receivable	8	18	44	1	**71**
Trade accounts and intra-group receivables	3,718	143	12,212	(14,841)	**1,232**
Inventories	20	441	1,181	53	**1,695**
	3,899	930	15,666	(14,725)	**5,770**
Financial and other assets	1,306	1,080	1,138	(2,778)	**746**
Investments in associates	31,590	24,792	882	(57,240)	**24**
Property, plant and equipment	267	1,131	23,782	2,631	**27,811**
Deferred income and resource tax assets	–	–	10	154	**164**
Goodwill	–	–	1,668	–	**1,668**
	$ 37,062	$ 27,933	$ 43,146	$ (71,958)	**$ 36,183**
Trade accounts and intra-group payables and other liabilities	$ 7,987	$ 4,843	$ 3,815	$ (14,861)	**$ 1,784**
Dividends payable	259	–	–	–	**259**
Current income and resource taxes payable	–	1	41	19	**61**
Debt	–	–	12	47	**59**
	8,246	4,844	3,868	(14,795)	**2,163**
Debt	8,702	906	867	(2,811)	**7,664**
Deferred income and resource tax liabilities	1,450	2,285	1,852	321	**5,908**
Retirement benefit liabilities	32	213	234	–	**479**
Other liabilities and provisions	35	170	916	37	**1,158**
	18,465	8,418	7,737	(17,248)	**17,372**
Equity					
Attributable to shareholders of the company	18,597	19,515	35,195	(54,710)	**18,597**
Attributable to non-controlling interests	–	–	214	–	**214**
	18,597	19,515	35,409	(54,710)	**18,811**
	$ 37,062	$ 27,933	$ 43,146	$ (71,958)	**$ 36,183**

Notes to Consolidated Financial Statements Years ended December 31, 2013 and 2012

30. Supplemental Guarantor Condensed Consolidating Financial Information (continued)

Year Ended December 31, 2013

As Reported in IFRS (CAD$ in millions)	Teck	Teck Metals	Non-Guarantor Subsidiaries	Consolidating Adjustments	**Consolidated Totals**
Condensed Consolidating Statement of Income Information					
Revenues	$ 119	$ 1,760	$ 6,909	$ 594	**$ 9,382**
Cost of sales	(131)	(1,695)	(5,084)	(46)	**(6,956)**
Gross profit	(12)	65	1,825	548	**2,426**
Other operating expenses					
General and administration	(101)	(5)	(29)	6	**(129)**
Exploration	(20)	–	(65)	(1)	**(86)**
Research and development	(2)	(16)	–	–	**(18)**
Other operating income (expense)	(77)	(1)	(98)	(40)	**(216)**
Profit (loss) from operations	(212)	43	1,633	513	**1,977**
Finance income	132	70	18	(207)	**13**
Finance expense	(440)	(151)	(85)	337	**(339)**
Non-operating income (expense)	(511)	(48)	(117)	670	**(6)**
Share of profit (losses) of associates	1,993	1,055	339	(3,389)	**(2)**
Profit before tax	962	969	1,788	(2,076)	**1,643**
Provision for income and resource taxes	(1)	(229)	(121)	(282)	**(633)**
Profit for the year	$ 961	$ 740	$ 1,667	$ (2,358)	**$ 1,010**
Profit attributable to:					
Shareholders of the company	$ 961	$ 740	$ 1,618	$ (2,358)	**$ 961**
Non-controlling interests	–	–	49	–	**49**
Profit for the year	$ 961	$ 740	$ 1,667	$ (2,358)	**$ 1,010**

Year Ended December 31, 2013

As Reported in IFRS (CAD$ in millions)	Teck	Teck Metals	Non-Guarantor Subsidiaries	Consolidating Adjustments	**Consolidated Totals**
Condensed Consolidating Statement of Cash Flows Information					
Operating activities	$ 1,051	$ 751	$ 3,955	$ (2,879)	**$ 2,878**
Investing activities					
Purchase of property, plant and equipment	(54)	(138)	(1,521)	(145)	**(1,858)**
Capitalized production stripping costs	–	–	(677)	(67)	**(744)**
Expenditures on financial investments and other assets	(280)	–	(25)	(20)	**(325)**
Proceeds from the sale of investments and other assets	497	–	5	–	**502**
	163	(138)	(2,218)	(232)	**(2,425)**
Financing activities					
Issuance of debt	–	–	–	–	**–**
Repayment of debt	–	–	(24)	(15)	**(39)**
Debt interest paid	(355)	–	(3)	3	**(355)**
Issuance of Class B subordinate voting shares	1	–	–	–	**1**
Purchase and cancellation of Class B subordinate voting shares	(176)	–	–	–	**(176)**
Dividends paid	(521)	–	–	–	**(521)**
Distributions to non-controlling interests	–	–	(38)	–	**(38)**
Interdivision distributions	–	(307)	(2,805)	3,112	**–**
	(1,051)	(307)	(2,870)	3,100	**(1,128)**
Effect of exchange rate changes on cash and cash equivalents	8	15	153	4	**180**
Increase (decrease) in cash and cash equivalents	171	321	(980)	(7)	**(495)**
Cash and cash equivalents at beginning of year	(18)	7	3,209	69	**3,267**
Cash and cash equivalents at end of year	$ 153	$ 328	$ 2,229	$ 62	**$ 2,772**

30. Supplemental Guarantor Condensed Consolidating Financial Information (continued)

As at December 31, 2012 (Restated)

As Reported in IFRS (CAD$ in millions)	Teck	Teck Metals	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Totals
Condensed Consolidating Balance Sheet Information					
Cash and cash equivalents	$ (18)	$ 7	$ 3,209	$ 69	$ 3,267
Current income and resource taxes receivable	30	21	90	–	141
Trade accounts and intra-group receivables	5,798	142	12,092	(16,747)	1,285
Inventories	19	450	1,275	39	1,783
	5,829	620	16,666	(16,639)	6,476
Financial and other assets	1,671	966	443	(2,107)	973
Investments in associates	28,230	24,930	740	(53,072)	828
Property, plant and equipment	226	1,069	22,592	1,050	24,937
Deferred income and resource tax assets	–	–	26	178	204
Goodwill	–	–	1,637	–	1,637
	$ 35,956	$ 27,585	$ 42,104	$ (70,590)	$ 35,055
Trade accounts and intra-group payables and other liabilities	$ 8,098	$ 7,061	$ 3,037	$ (16,728)	$ 1,468
Dividends payable	262	–	–	–	262
Current income and resource taxes payable	–	1	33	21	55
Debt	–	–	22	13	35
	8,360	7,062	3,092	(16,694)	1,820
Debt	8,134	837	347	(2,158)	7,160
Deferred income and resource tax liabilities	1,315	2,018	1,973	275	5,581
Retirement benefit liabilities	37	324	399	–	760
Other liabilities and provisions	35	204	1,203	28	1,470
	17,881	10,445	7,014	(18,549)	16,791
Equity					
Attributable to shareholders of the company	18,075	17,140	34,901	(52,041)	18,075
Attributable to non-controlling interests	–	–	189	–	189
	18,075	17,140	35,090	(52,041)	18,264
	$ 35,956	$ 27,585	$ 42,104	$ (70,590)	$ 35,055

Year Ended December 31, 2012 (Restated)

As Reported in IFRS (CAD$ in millions)	Teck	Teck Metals	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Totals
Condensed Consolidating Statement of Income Information					
Revenues	$ 134	$ 1,872	$ 7,655	$ 682	$ 10,343
Cost of sales	(118)	(1,861)	(4,804)	(36)	(6,819)
Gross profit	16	11	2,851	646	3,524
Other operating expenses					
General and administration	(105)	(8)	(26)	2	(137)
Exploration	(20)	–	(83)	1	(102)
Research and development	(7)	(12)	–	–	(19)
Other operating income (expense)	(12)	(7)	5	(10)	(24)
Profit (loss) from operations	(128)	(16)	2,747	639	3,242
Finance income	173	79	45	(264)	33
Finance expense	(534)	(183)	(104)	311	(510)
Non-operating income (expense)	(681)	3	11	(181)	(848)
Share of profit (losses) of associates	2,202	1,273	398	(3,883)	(10)
Profit before tax	1,032	1,156	3,097	(3,378)	1,907
Provision for income and resource taxes	36	(253)	(330)	(220)	(767)
Profit for the year	$ 1,068	$ 903	$ 2,767	$ (3,598)	$ 1,140
Profit attributable to:					
Shareholders of the company	$ 1,068	$ 903	$ 2,695	$ (3,598)	$ 1,068
Non-controlling interests	–	–	72	–	72
Profit for the year	$ 1,068	$ 903	$ 2,767	$ (3,598)	$ 1,140

Notes to Consolidated Financial Statements Years ended December 31, 2013 and 2012

30. Supplemental Guarantor Condensed Consolidating Financial Information (continued)

Year Ended December 31, 2012 (Restated)

As Reported in IFRS (CAD$ in millions)	Teck	Teck Metals	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Totals
Condensed Consolidating Statement of Cash Flows Information					
Operating activities	$ 1,857	$ 280	$ 3,318	$ (2,037)	$ 3,418
Investing activities					
Purchase of property, plant and equipment	(85)	(164)	(1,296)	(155)	(1,700)
Capitalized production stripping costs	–	–	(671)	(61)	(732)
Expenditures on financial investments and other assets	(300)	–	(26)	–	(326)
Acquisition of SilverBirch Energy Corporation	(432)	–	–	–	(432)
Proceeds from the sale of investments and other assets	33	10	8	–	51
	(784)	(154)	(1,985)	(216)	(3,139)
Financing activities					
Issuance of debt	2,700	–	67	–	2,767
Repayment of debt	(2,822)	–	(113)	(92)	(3,027)
Debt interest paid	(423)	–	(3)	(2)	(428)
Issuance of Class B subordinate voting shares	2	–	–	–	2
Purchase and cancellation of Class B subordinate voting shares	(129)	–	–	–	(129)
Dividends paid	(469)	–	–	–	(469)
Distributions to non-controlling interests	–	–	(50)	–	(50)
Interdivision distributions	–	(1,105)	(1,238)	2,343	–
	(1,141)	(1,105)	(1,337)	2,249	(1,334)
Effect of exchange rate changes on cash and cash equivalents	(3)	(16)	(62)	(2)	(83)
Increase (decrease) in cash and cash equivalents	(71)	(995)	(66)	(6)	(1,138)
Cash and cash equivalents at beginning of year	53	1,002	3,275	75	4,405
Cash and cash equivalents at end of year	$ (18)	$ 7	$ 3,209	$ 69	$ 3,267

As At January 1, 2012 (Restated)

As Reported in IFRS (CAD$ in millions)	Teck	Teck Metals	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated Totals
Condensed Consolidating Balance Sheet Information					
Cash and cash equivalents	$ 53	$ 1,002	$ 3,275	$ 75	$ 4,405
Current income and resource taxes receivable	7	12	82	–	101
Trade accounts and intra-group receivables	6,743	144	10,106	(15,751)	1,242
Inventories	21	406	1,162	52	1,641
	6,824	1,564	14,625	(15,624)	7,389
Financial and other assets	2,124	1,200	1,717	(3,903)	1,138
Investments in associates	27,134	23,906	459	(50,784)	715
Property, plant and equipment	558	940	20,761	885	23,144
Deferred income and resource tax assets	–	–	31	149	180
Goodwill	–	–	1,647	–	1,647
	$ 36,640	$ 27,610	$ 39,240	$ (69,277)	$ 34,213
Trade accounts and intra-group payables and other liabilities	$ 9,185	$ 6,193	$ 2,145	$ (16,088)	$ 1,435
Dividends payable	235	–	–	–	235
Current income and resource taxes payable	–	–	59	34	93
Debt	203	–	40	116	359
	9,623	6,193	2,244	(15,938)	2,122
Debt	7,887	1,802	216	(3,229)	6,676
Deferred income and resource tax liabilities	1,349	1,788	2,137	65	5,339
Retirement benefit liabilities	36	285	375	–	696
Other liabilities and provisions	32	209	1,210	44	1,495
	18,927	10,277	6,182	(19,058)	16,328
Equity					
Attributable to shareholders of the company	17,713	17,333	32,886	(50,219)	17,713
Attributable to non-controlling interests	–	–	172	–	172
	17,713	17,333	33,058	(50,219)	17,885
	$ 36,640	$ 27,610	$ 39,240	$ (69,277)	$ 34,213

Board of Directors

Norman B. Keevil
Chairman of the Board
Director since: 1963 [1]

Warren S. R. Seyffert Q.C.
Deputy Chairman and Lead Director
Director since: 1989 [1] [2] [3] [5] [6]

Donald R. Lindsay
President and Chief Executive Officer
Director since: 2005 [1]

Mayank M. Ashar
Director since: 2007 [3] [5] [6] [7]

Jalynn H. Bennett
Director since: 2005 [2] [3] [4] [5]

Hugh J. Bolton
Director since: 2001 [2] [5]

Felix P. Chee
Director since: 2010 [2] [4]

Jack L. Cockwell
Director since: 2009 [1] [7]

Edward C. Dowling
Director since: 2012 [3] [6] [7]

Norman B. Keevil III
Director since: 1997 [4] [6] [7]

Takeshi Kubota
Director since: 2012 [6] [7]

Takashi Kuriyama
Director since: 2006 [6] [7]

Janice G. Rennie
Director since: 2007 [2] [3] [4]

Chris M. T. Thompson
Director since: 2003 [1] [3] [5] [7]

Notes:

(1) Member of the Executive Committee
(2) Member of the Audit Committee
(3) Member of the Compensation Committee
(4) Member of the Pension Committee
(5) Member of the Corporate Governance and Nominating Committee
(6) Member of the Safety and Sustainability Committee
(7) Member of the Reserves Committee

More information on our directors and officers can be found in our most recent Annual Information Form, or Management Proxy Circular, which are available on our website at www.teck.com, or on the Canadian Securities Administrators website at www.sedar.com (SEDAR) and on the EDGAR section of the United States Securities and Exchange Commission (SEC) website at www.sec.gov.

Officers

Norman B. Keevil
Chairman of the Board

Warren S. R. Seyffert Q.C.
Deputy Chairman and
Lead Director

Donald R. Lindsay
President and Chief Executive
Officer

Ian C. Kilgour
Executive Vice President and
Chief Operating Officer

Dale E. Andres
Senior Vice President, Copper

Andrew J. Golding
Senior Vice President,
Corporate Development

Douglas H. Horswill
Senior Vice President

Ronald A. Millos
Senior Vice President, Finance
and Chief Financial Officer

Raymond A. Reipas
Senior Vice President, Energy

Peter C. Rozee
Senior Vice President,
Commercial and Legal Affairs

Robert G. Scott
Senior Vice President, Zinc

Marcia M. Smith
Senior Vice President,
Sustainability and External Affairs

Ronald J. Vance (1)
Senior Vice President

Timothy C. Watson
Senior Vice President,
Project Development

David R. Baril
Vice President, Copper,
Chile Operations

Anne J. Chalmers
Vice President, Risk and Security

Alex N. Christopher
Vice President, Exploration

Michael P. Davies
Vice President, Environment

Karen L. Dunfee
Corporate Secretary

Mark Edwards
Vice President, Community
and Government Relations

William A. Fleming (1)
Vice President, Engineering,
Projects and Business Improvement

Réal Foley
Vice President, Coal Marketing

John F. Gingell
Vice President and Corporate
Controller

M. Colin Joudrie
Vice President,
Business Development

Robert J. Kelly
Vice President, Health and Safety

Ralph J. Lutes
Vice President, Asia and Chief
Representative, China

Douglas J. Powrie
Vice President, Tax

Robin B. Sheremeta
Vice President, Operations, Coal

Keith G. Stein
Vice President, Projects

Andrew A. Stonkus
Vice President, Base Metals
Marketing

Gregory A. Waller
Vice President, Investor Relations
and Strategic Analysis

David Welbourne
Vice President, Audit and
Operational Review

Scott R. Wilson
Vice President and Treasurer

Dean C. Winsor
Vice President, Human Resources

Anthony A. Zoobkoff
Senior Counsel and Assistant
Secretary

Note:

(1) Messrs. Vance and Fleming are retiring on February 28, 2014.

Officers listed as at February 26, 2014. More information on our directors and officers can be found in our most recent Annual Information Form or in our Management Proxy Circular, which are available on our website at www.teck.com, or on the Canadian Securities Administrators website at www.sedar.com (SEDAR) and on the EDGAR section of the United States Securities and Exchange Commission (SEC) website at www.sec.gov.

Teck's Board of Directors

(left to right, front row) Takeshi Kubota, Janice Rennie, Donald Lindsay, Norman Keevil, Warren Seyffert, Jalynn Bennett, Takashi Kuriyama (left to right, back row) Hugh Bolton, Edward Dowling, Norman Keevil III, Mayank Ashar, Chris Thompson, Jack Cockwell. Not shown: Felix Chee

Corporate Information

2013 Share Prices and Trading Volume

Class B subordinate voting shares–TSX–CAD$/share

	High	Low	Close	Volume
Q1	$ 37.85	$ 28.45	$ 28.60	121,735,768
Q2	$ 29.51	$ 21.22	$ 22.47	156,131,269
Q3	$ 29.51	$ 21.18	$ 27.68	130,249,769
Q4	$ 30.54	$ 24.41	$ 27.65	120,000,583
				528,117,389

Class B subordinate voting shares–NYSE–US$/share

	High	Low	Close	Volume
Q1	$ 38.36	$ 27.69	$ 28.16	120,666,284
Q2	$ 29.24	$ 20.27	$ 21.37	207,875,784
Q3	$ 28.80	$ 20.07	$ 26.84	149,688,993
Q4	$ 29.29	$ 22.99	$ 26.01	125,380,369
				603,611,430

Class A common shares–TSX–CAD$/share

	High	Low	Close	Volume
Q1	$ 39.00	$ 29.88	$ 30.44	109,038
Q2	$ 31.06	$ 23.35	$ 24.16	144,103
Q3	$ 31.14	$ 23.20	$ 29.28	143,331
Q4	$ 32.03	$ 25.94	$ 29.19	130,417
				526,889

Stock Exchanges

Our Class A common and Class B subordinate voting shares are listed on the Toronto Stock Exchange under the symbols TCK.A and TCK.B, respectively.

Our Class B subordinate voting shares are listed on the New York Stock Exchange under the symbol TCK.

Dividends declared on Class A and B shares

Amount per share	Payment Date
$0.45	July 2, 2013
$0.45	January 2, 2014

These dividends are eligible for both the federal and provincial enhanced dividend tax credits.

Shares Outstanding at December 31, 2013

Class A common shares	9,353,470
Class B subordinate voting shares	566,904,857

Shareholder Relations

Karen L. Dunfee, Corporate Secretary

Annual Meeting

Our annual meeting of shareholders will be held at 11:00 a.m. on Wednesday, April 23, 2014, in the Waterfront Ballroom, Fairmont Waterfront Hotel, 900 Canada Place Way, Vancouver, British Columbia.

Transfer Agents

Inquiries regarding change of address, stock transfer, registered shareholdings, dividends or lost certificates should be directed to our Registrar and Transfer Agent:

CST Trust Company
1600 – 1066 West Hastings Street
Vancouver, British Columbia
V6E 3X1

CST Trust Company provides an Answerline Service for the convenience of shareholders:

Toll-free in Canada and the U.S.
1.800.387.0825
Outside Canada and the U.S.
1.416.682.3860
Email: inquiries@canstockta.com

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, New York
11219
1.800.937.5449 or 718.921.8124

Email: info@amstock.com
Website: www.amstock.com
TTY: 866.703.9077 or 718.921.8386

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants
Suite 700
250 Howe Street
Vancouver, British Columbia
V6C 3S7

Annual Information Form

We prepare an Annual Information Form (AIF) that is filed with the securities commissions or similar bodies in all the provinces of Canada. Copies of our AIF and annual and quarterly reports are available on request or on our website at www.teck.com, on the Canadian Securities Administrators website at www.sedar.com (SEDAR) and on the EDGAR section of the United States Securities and Exchange Commission (SEC) website at www.sec.gov.

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Setting Possibilities in Motion

Environmental Benefits Statement

By using paper made with10% and 100% post-consumer recycled content, the following resources have been saved.

trees	water	energy	solid waste	greenhouse gases
180	318,470	81	255	7,028
fully grown	litres	million BTU	kilograms	kilograms

Environmental impact estimates were made using the Environmental Paper Network Calculator. For more information visit http://calculator.environmentalpaper.org

FSC® is not responsible for any calculations on saving resources by choosing this paper

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