CANADA DEVELOPMENT INVESTMENT CORPORATION

ANNUAL REPORT
2008

CDIC

Contents

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REPORT TO THE MINISTER

The Honourable James M. Flaherty
Minister of Finance

Dear Minister Flaherty:

I am pleased to report on the results of operations for Canada Development Investment Corporation (CDIC) for the year ended December 31, 2008. As part of CDIC's formal planning process, annual performance objectives are developed by entity, managed and monitored throughout the year. These were fully outlined in our Corporate Plan.

The financial statements of CDIC's two wholly owned subsidiaries as at December 31, 2008, Canada Hibernia Holding Corporation (CHHC) and Canada Eldor Inc. (CEI), have been consolidated with those of CDIC.

The Executive Vice-President manages CDIC under the supervision of the Board of Directors and they provide advice to you as required. In November 2007, you informed CDIC that "going forward, the operations of the CDIC should reflect a future focussed on the ongoing management of its current holdings in a commercial manner, providing assistance to the government in new directions suited to CDIC's capabilities, while maintaining the capacity to divest CDIC's existing holdings, and any other government interests assigned to it for divestiture, upon the direction of the Minister of Finance". In the prior eleven years the Corporation had operated under a direction to "wind down its operations by divesting of its remaining assets in an orderly fashion and to ready the corporation for eventual wind-up".

Accordingly with this revised mandate CDIC now focuses on longer term goals for its present subsidiaries, and has readied itself for an expanded role in its area of expertise, should the Minister of Finance so determine.

CDIC continues to manage its investment in CHHC, our one remaining active investment. In 2008 CHHC paid dividends of $291 million to CDIC and CDIC paid $288.2 million to the Government of Canada ("Government"). As at December 31, 2008, CHHC had repaid all appropriations totaling $410 million to the Government and has paid a total of $1.120 billion in dividends to CDIC, which CDIC in turn has paid $1.117 billion to the Government in dividends.

CDIC is responsible for the administration of outstanding issues pursuant to prior divestitures. These issues relate primarily to CEI and include certain waste contingencies and outstanding litigation.

REPORT TO THE MINISTER

In early 2008, pursuant to an Order in Council, CDIC incorporated a new subsidiary, PPP Canada Inc. (P3C), to facilitate the development of the P3C Office and the Government's involvement in public private partnerships. CDIC provided oversight and initial financing for this company as approved in its Corporate Plan for 2008. PPP Canada Inc. was deemed to be a Parent Crown Corporation in May 2008 at which time it ceased to be a CDIC responsibility and accordingly is not consolidated in the attached financial statements. However, CDIC continues to hold the share of PPP Canada Inc. and has continued to provide management services to PPP Canada Inc., including assisting in the preparation of a corporate plan for the company, pending appointment of a permanent Board of Directors and a President.

Assets sold to date on behalf of the Government by CDIC since 1985 have realized proceeds of approximately $2.0 billion. During 2008, CDIC did not borrow from the Government nor did it receive any appropriations.

Dr. Donald Shaver retired as Chairman of CDIC during the year having served on the Board for twenty five years and provided valuable service to the Corporation over that period.

William Teschke also resigned as a Director due to ill health after many years of service. I am sad to report that he passed away recently. He will be missed by us all.

On behalf of the Board of Directors,

N. William C. Ross
Chairman
Canada Development Investment Corporation

March 11, 2009

REPORT ON DIVESTITURES

CDIC has been effective in the divestiture of corporate interests of the Crown. The following chart profiles the assets sold on behalf of the Crown by CDIC since inception.

Company	Year	Proceeds ($ millions)
Canadair Limited	1986	$140
The de Havilland Aircraft of Canada, Limited	1986	90
Teleglobe Canada	1987	505
Fishery Products International Limited	1987	104
Canada Development Corporation	1986/87	361
Nordion International Inc.	1991	165
Varity Corporation	1987/91	9
Telesat Canada	1992	155
Cameco Corporation	1992/93/94/95	320
Co-enerco Resources Ltd.	1993	74
Ginn Publishing Canada Inc.	1994	10
Varity Corporation	1996	31
Theratronics International Limited	1998	15
		$ 1,979

DIRECTORS AND OFFICERS AS AT MARCH 11, 2009

Minister Responsible for CDIC
The Honourable James M. Flaherty
Minister of Finance

Board of Directors

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

Benita M. Warmbold, CA (1) (2) (3)
Senior Vice-President and Chief Operations Officer
Canada Pension Plan Investment Board
Toronto, Ontario

Ted Howell, CA, MBA (1) (3)
Chief Operating Officer
East Coast Catering Limited
St. John's, Newfoundland and Labrador

Gordon W. King (1)
Director
Ottawa, Ontario

Officers

Michael Carter
Executive Vice-President

Patrice S. Walch-Watson
Corporate Secretary

Committees of the Board

(1) Audit Committee
(2) Nominating Committee
(3) Compensation Committee

THE CORPORATION'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Canada Development Investment Corporation (CDIC) are the responsibility of the Corporation and have been approved by the Board of Directors.

The financial statements have been prepared by the Corporation in accordance with Canadian generally accepted accounting principles. The financial statements of the Corporation's two wholly-owned subsidiaries, Canada Hibernia Holding Corporation (CHHC) and Canada Eldor Inc. (CEI), have been consolidated with those of the Corporation. When alternative accounting methods exist, the Corporation has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on best estimates and judgments. The Corporation has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with that in the financial statements.

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

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

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

As Executive Vice-President of CDIC, I have reviewed its financial statements and based upon my knowledge, having exercised due diligence, they fairly present in all material respects the financial condition, results of operations and cash flows as at December 31, 2008 and for the year then ended.

Michael Carter
Executive Vice-President
Canada Development Investment Corporation

March 11, 2009

CORPORATE GOVERNANCE PRACTICES

In November 2007, the Minister informed CDIC that "going forward, the operations of the CDIC should reflect a future focussed on the ongoing management of its current holdings in a commercial manner, providing assistance to the government in new directions suited to CDIC's capabilities, while maintaining the capacity to divest CDIC's existing holdings, and any other government interests assigned to it for divestiture, upon the direction of the Minister of Finance". In the prior eleven years the Corporation had operated under a direction to wind down its operations by divesting of its remaining assets in an orderly fashion and to ready the corporation for eventual wind-up. Accordingly, the Corporation has readied itself for an expanded role in its area of expertise, should the Minister of Finance so determine.

CDIC is managed by two part time staff, an Executive Vice-President and an assistant who work closely with consultants, legal counsel and the Board and management of its subsidiaries to ensure the effective functioning of the corporation.

The Board reviews and approves the Corporate Plan of the Corporation and monitors its implementation over the planning period – evaluating the strategic direction in light of changing business environment. Risks are identified and managed throughout the process.

Effective communication with the Crown and the public is conducted through the Corporate Plan and Corporate Plan Summary, as approved by the Board, the Annual Report and meetings as required with the Minister and officials of Government of Canada.

The Chairman of the Board and the Nominating Committee assess the effectiveness of the Board and the Chairman suggests and reviews potential Board appointments and renewals as required. The Nominating Committee assists in determining the composition and structure of the Board and recommending to the Governor in Council candidates for Board membership and for the position of Chair. The Compensation Committee reviews compensation of senior staff of CDIC and its subsidiaries. None of the directors are employees of CDIC or its subsidiaries. Attendance at directors meetings is outstanding and each director dedicates significant time outside of board meetings to the management of the Corporation.

Corporate governance is dealt with by the entire Board. The Board continues to review CDIC's governance practices in the spirit of continuous improvement and to address new requirements and practices. CDIC will continue to closely monitor the government's evolving guidance in governance matters and public sector best practices and will be proactive in this regard and implement changes in its governance practices as appropriate.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS

CDIC is a holding company that had two subsidiaries in 2008, CHHC which owns an 8.5% interest in the Hibernia oilfield and CEI which has no operations, but has responsibility for servicing liabilities, chiefly arising from an agreement of purchase and sale with Cameco Inc. entered into in 1988.

CHHC's crude oil sales increased from $304 million in 2007 to $428 million in 2008, and exceeded their Corporate Plan. This was due primarily to an increase in prices, having averaged CAD $107.77 in 2008, versus an average price of CAD $75.34/bbl in 2007. Average daily production was 138,600 barrels per day in 2008 compared to 134,800 in 2007.

The near-term production outlook is for an increase as early as late 2009 compared to 2007 / 2008 levels if the field extension (Hibernia Southern Extension) is approved this year. The higher production levels will be maintained for several years before beginning a long-term decline in production. The production life will last for another 3 decades or more. Development of this extension is currently being discussed with the approving authorities. Agreements will be required with the Province of Newfoundland & Labrador and with the federal government. Regulatory approval will be required by the Canada-Newfoundland and Labrador Offshore Petroleum Board.

Dividends paid to the Government of Canada increased to $288.2 million in 2008 from $151 million in 2007.

CEI's costs for site restoration related to its obligations under the agreement of purchase and sale between Cameco and CEI have decreased from $11.1 million to $10.7 million which results from approximately $2 million paid to Cameco for costs incurred offset by an increase of $1.6 million in Cameco's estimate to complete the decommissioning of the Beaverlodge mine site. This increase in anticipated decommissioning costs reflects increasingly stringent environmental policies being imposed by the Canadian Nuclear Safety Commission.

In 2007, CEI informed Cameco that it did not agree with Cameco's interpretation of the definition of "Joint Waste" for which CEI is partly liable under the agreement of purchase and sale. No resolution of the issue was reached during the year, and CEI has withheld payment on invoices for Joint Waste submitted by Cameco for 2005, 2006 and 2007. In 2008, CEI has not adjusted its provision of $11 million for its share of joint waste.

Cameco has informed CEI that it is holding CEI partly liable for costs related to a leakage in the UF6 plant at Port Hope that resulted in the plant being shut down and remedial action being taken. CEI has not received sufficient information to assess its position.

The amount of CEI's liability for Joint Waste is not determinable at this time.

During 2008, CDIC received $152,000 in management fees from PPP Canada Inc. for providing management services to that company.

Auditor General of Canada
Vérificatrice générale du Canada

KPMG

AUDITORS' REPORT

To the Minister of Finance

We have audited the consolidated balance sheet of Canada Development Investment Corporation as at December 31, 2008 and the consolidated statements of operations, comprehensive income and accumulated deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied, after giving retrospective effect to the change in the method of accounting for inventories as explained in note 3 to the consolidated financial statements, on a basis consistent with that of the preceding year.

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

Sylvain Ricard

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

Ottawa, Canada
March 11, 2009

KPMG LLP

Chartered Accountants,
Licensed Public Accountants

Ottawa, Canada
March 11, 2009

CANADA DEVELOPMENT INVESTMENT CORPORATION

Consolidated Balance Sheet

December 31, 2008,
(Thousand of Dollars)

	2008	2007
		(restated, note 3)
Assets		
Current assets:		
Cash and cash equivalents	$ 93,938	$ 105,581
Accounts receivable	1,666	1,723
Inventory (note 3(a))	6,909	5,008
Prepaid expenses	260	351
Cash on deposit in the Consolidated Revenue Fund (note 4)	7,426	7,679
	110,199	120,342
Cash on deposit in the Consolidated Revenue Fund (note 4)	130,063	114,299
Cash held in escrow (note 5)	2,550	2,550
Property and equipment (note 6)	190,595	180,883
	$ 433,407	$ 418,074
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 8,139	$ 12,048
Current portion of capital lease obligation (note 7)	1,026	759
Current portion of other obligations (note 9)	7,255	7,570
Income taxes payable (note 10)	34,767	120
	51,187	20,497
Long term liabilities:		
Capital lease obligation (note 7)	9,220	8,256
Asset retirement obligations (note 8)	62,702	24,987
Other obligations (note 9)	17,015	16,856
Future income taxes (note 10)	17,451	24,898
	106,388	74,997
Shareholder's equity:		
Share capital:		
Authorized - unlimited number of common shares		
Issued and fully paid - 101 common shares	1	1
Contributed surplus	743,184	743,184
Accumulated deficit	(467,353)	(420,605)
	275,832	322,580
Commitments and contingencies (note 12)		
	$ 433,407	$ 418,074

The accompanying notes are an integral part of these consolidated financial statements. Disclosure of segmented information is presented in note 17.

On behalf of the Board:

_______________________ Director   _______________________ Director

CANADA DEVELOPMENT INVESTMENT CORPORATION

Consolidated Statement of Operations, Comprehensive Income and Accumulated Deficit

Year ended December 31, 2008, (Thousands of Dollars)

		2008		2007
				(restated, note 3)
Revenue:				
Crude oil sales, net of royalties	$	428,108	$	303,849
Interest		5,566		5,070
Management fee		152		–
		433,826		308,919
Expenses:				
Depletion and depreciation		45,838		34,951
Operating		22,540		18,915
Accretion of asset retirement obligations (note 3(a) and 8)		1,249		927
Corporate and divestiture expense		3,791		2,463
Interest on capital lease obligation		1,042		1,242
Foreign exchange gain		(7,210)		(620)
Other obligations		1,923		2,491
		69,173		60,369
Earnings before income taxes		364,653		248,550
Income taxes (note 10):				
Current		130,648		87,912
Future tax reduction		(7,447)		(5,456)
		123,201		82,456
Net earnings and comprehensive income		241,452		166,094
Accumulated deficit, beginning of year as previously reported		(420,605)		(460,983)
Restated adjustments (note 3(a))		–		25,284
Accumulated deficit, beginning of year as restated		(420,605)		(435,699)
Dividends		(288,200)		(151,000)
Accumulated deficit, end of year	$	(467,353)	$	(420,605)

The accompanying notes are an integral part of these consolidated financial statements. Disclosure of segmented information is presented in note 17.

CANADA DEVELOPMENT INVESTMENT CORPORATION

Consolidated Statement of Cash Flows

Year ended December 31, 2008,
(Thousands of Dollars)

	2008	2007
		(restated, note 3)
Cash provided by (used in):		
Operating:		
Net earnings and comprehensive income	$ 241,452	$ 166,094
Items not involving cash:		
Future income tax reduction	(7,447)	(5,456)
Depletion and depreciation	45,838	34,951
Accretion of asset retirement obligations	1,249	927
Abandonment expenditures	(793)	(11)
Unrealized foreign exchange loss (gain)	1,964	(1,952)
	282,263	194,553
Change in non-cash working capital (note 13)	31,646	2,396
	313,909	196,949
Financing:		
Dividends paid	(288,200)	(151,000)
Lease obligation payments	(733)	(2,774)
	(288,933)	(153,774)
Investments:		
Property and equipment	(19,653)	(22,277)
Cash deposited in Consolidated Revenue Fund (note 4)	(14,830)	–
Change in non-cash working capital (note 13)	(2,136)	(1,145)
	(36,619)	(23,422)
Increase (decrease) in cash and cash equivalents	(11,643)	19,753
Cash and cash equivalents, beginning of year	105,581	85,828
Cash and cash equivalents, end of year	$ 93,938	$ 105,581
Represented by:		
Cash	$ 1,616	$ 1,532
Cash equivalents	92,322	104,049
	$ 93,938	$ 105,581

The accompanying notes are an integral part of these consolidated financial statements. Disclosure of segmented information is presented in note 17.

1. The Corporation and its activities:

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

The Corporation consolidates two wholly-owned subsidiaries; Canada Eldor Inc (“CEI”) and Canada Hibernia Holding Corporation (“CHHC”). During 2008, CDIC incorporated a new subsidiary, PPP Canada Inc. On May 8, 2008, this corporation was proclaimed a deemed parent Crown Corporation. As CDIC does not control PPP Canada Inc., it has not been consolidated.

CEI was incorporated under the provisions of the *Canada Business Corporations Act*. It is subject to the *Financial Administration Act*, is an agent of Her Majesty in Right of Canada and is not subject to the provisions of the *Income Tax Act.*

During 1988, CEI sold substantially all of its assets and operations to Cameco Corporation ("Cameco”). As a result of the sale of the Cameco shares and the assumption of certain of CEI’s remaining debt by the Government in 1995, CEI is left with the net cash proceeds from the final sale of Cameco shares as its only significant asset. CEI’s remaining obligations include historic waste, site restoration and retiree benefits. These obligations are discussed in note 9.

CHHC was incorporated under the provisions of the *Canada Business Corporations Act* on December 4, 1992. CHHC was acquired by CDIC in March 1993. CHHC is subject to the *Financial Administration Act* and the *Income Tax Act.*

CHHC's sole purpose is the holding and management of its 8.5% equity interest in the Hibernia Development Project. CHHC’s interest in the Hibernia Development Project has been proportionately accounted for in CHHC’s financial statements which are consolidated into CDIC’s financial statements.

2. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries: CHHC and CEI. As CDIC does not control PPP Canada Inc., it has not been consolidated.

(b) Investment in the Hibernia Development Project and Hibernia Management and Development Company Ltd.:

Development costs incurred subsequent to the date of acquisition of the working interest have been capitalized. Development costs include costs of engineering, construction and installation of production facilities comprised of a gravity based structure and topsides facilities (offshore production facility) and subsequent drilling and completion costs. General and administrative costs incurred prior to the project reaching commercial production have also been capitalized. All of CHHC's development activities are conducted jointly with the other owners.

(c) Cash and cash equivalents:

Cash and cash equivalents are comprised of cash and all investments that are highly liquid in nature and have a maturity of three months or less.

(d) Retiree benefits:

CEI has a post retirement benefit plan and is obligated to fund certain post retirement benefits related to employees who retired prior to October 1988. These benefits include life insurance and health and dental benefits. The following policies have been adopted:

(1) The cost of the retiree future benefits earned by retirees is determined as the actuarial present value of all future projected benefits based on an assumed benefit cost factor. The benefits are projected each year by an inflation rate factor, and benefits are assumed to be paid every year after retirement as long as the member or dependent lives. The valuation is based upon a market-related discount rate and other actuarial assumptions, which represent management's best estimates. The benefit obligations are not pre-funded.

2. Significant accounting policies (continued):

(d) Retiree benefits (continued):

(2) Actuarial gains (losses) on the accrued benefit obligation arise from differences between the actual and expected experience and from changes in the actuarial assumptions used to determine the accrued benefit obligation. The excess of the actuarial gain (loss) over 10% of the benefits obligation is amortized over the average remaining life expectancy of the former employees. The average remaining life expectancy of the former employees is 8.5 years (2007 – 12 years).

(e) Petroleum properties:

The Corporation follows the full cost method of accounting for its petroleum properties. All costs directly related to the exploration for and development of petroleum reserves, whether producing or non-producing, are capitalized into a single Canadian cost center. Such costs include property acquisition, geological and geophysical expenditures, drilling costs of both producing and non-producing wells, production equipment, asset retirement costs and overhead charges directly related to these activities. Proceeds of disposals are normally deducted from the full cost pool without recognition of a gain or loss, unless a change of 20% or more in the depletion and depreciation rate occurs.

(f) Ceiling test:

Oil and gas assets are evaluated in each reporting period to determine that the carrying amount in a cost centre is recoverable and does not exceed the fair value of the properties in the cost centre.

The carrying amounts are assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves, the lower of cost and market value of unproved properties and the cost of major development projects exceeds the carrying amount of the cost centre. When the carrying amount is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves, the lower of cost and market of unproved properties and the cost of major development projects of the cost centre. The cash flows are estimated using expected future product prices and costs.

2. Significant accounting policies (continued):

(g) Depletion and depreciation of oil and gas assets:

Costs are transferred to the depreciable pool as proved reserves are established and are depleted on a unit-of-production basis using proved reserves. A portion of incurred costs is excluded based on a comparison of existing proved reserves to total proved and probable reserves expected to be established upon the completion of the Project. The crude oil tanker is depreciated on a unit-of-production basis using volumes transported over the estimated life of the Hibernia field.

(h) Foreign currency translation:

Revenue and expense transactions denominated in foreign currencies are translated at the rates in effect at the time of transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired, or obligations incurred. Foreign exchange gains or losses are included in earnings.

(i) Inventory:

The inventory of crude oil is valued at the lower of cost to produce, on a first-in, first-out basis, or net realizable value. Drill pipe inventory is valued at lower of cost and net realizable value.

(j) Asset retirement obligations:

The fair value of an Asset Retirement Obligation ("ARO") is recognized in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value of the estimated ARO is recorded as a liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on the unit-of-production method based on proved reserves. The liability amount is increased each reporting period due to the passage of time and increased/decreased due to revisions to either timing or the amount of the original estimate of undiscounted cash flows and the amount of accretion is expensed to earnings in the period. Actual costs incurred upon the settlement of the ARO will be charged against the ARO.

2. Significant accounting policies (continued):

(k) Income taxes:

Income taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using currently enacted or substantively enacted tax rates anticipated to apply in the period that the temporary differences are expected to reverse.

(l) Revenue recognition:

Revenue associated with the sale of petroleum and natural gas production owned by CHHC is recognized when ownership title passes from CHHC to its customers and delivery has taken place. Revenue is presented net of royalties.

(m) Use of estimates:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. The most significant estimates relate to geological uncertainties and projections of the date and cost of abandonment usual in the oil production business, and to uncertainties related to Canada Eldor Inc.'s future costs of fulfilling its obligations under the agreement of purchase and sale as disclosed in note 9. Actual results could differ significantly from those estimates.

(n) Financial instruments:

The standard on Financial Instruments prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet, requiring all financial instruments, including derivatives to be recognized at fair value upon initial recognition. Financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Subsequent measurement and accounting changes in fair value will depend on initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired, at which time the amounts would be recorded in net earnings.

2. Significant accounting policies (continued):

(n) Financial instruments (continued):

The Corporation designated its cash and cash equivalents, and cash on deposit in the Consolidated Revenue Fund, as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are initially measured at fair value and subsequently measured at amortized cost. Cash held in escrow is classified as held-to-maturity, which is measured at amortized cost.

Accounts payable and accrued liabilities are classified as other financial liabilities, which are initially measured at fair value and subsequently measured at amortized cost.

All derivative instruments, including embedded derivatives, are recorded on the balance sheet and in the statement of operations at fair value. All changes in their fair value are recorded in earnings. The Corporation did not have any derivative instruments during the year.

At January 1, 2008 and throughout the year, the Corporation did not have any available for sale financial instruments and as such, has not recorded any amounts in other comprehensive income.

3. Accounting changes:

(a) Restatement of prior periods:

(i) Inventories:

The Corporation adopted the new accounting standards for Inventories. This change was effective January 1, 2008 and was applied retrospectively, with restatement of prior periods. This standard provides additional guidance in determining the cost of inventory, and resulted in the Corporation including an allocation of certain costs to its inventory. The impact on the 2007 financial statements is noted in the table below.

(All dollar amounts are stated in thousands)

3. Accounting changes (continued):

(a) Restatement of prior periods (continued):

(ii) Asset retirement obligations:

The Corporation determined that it had incorrectly calculated its asset retirement obligations since the standard for Asset Retirement Obligations first came into effect in 2004. As a result the financial statements of 2007 have been restated to correct this calculation. The impact was as follows:

	As reported	New inventory policy restatement	ARO restatement	Restated
Balance Sheet:				
Inventory	$ 1,417	$ 3,591	$ –	$ 5,008
Property and equipment	208,032	(3,591)	(23,558)	180,883
Asset retirement obligation	91,892		(66,905)	24,987
Future income taxes	12,165		12,733	24,898
Retained earnings (Accumulated deficit)	(460,983)		25,284	(435,709)
Income Statement:				
Depletion and depreciation	36,854		(1,903)	34,951
Accretion of asset retirement obligations	4,633		(3,706)	927
Future tax reduction	5,735		(279)	5,456

(b) Recent accounting pronouncements:

(i) Change in accounting policies:

Inventories:

Effective January 1, 2008 the Corporation adopted Section 3031, *Inventories* which resulted in an increase to inventory of $4,953 (2007 - $3,591). See note 2(i) for disclosure regarding the Corporation's inventory policies.

3. Accounting changes (continued):

(b) Recent accounting pronouncements (continued):

(ii) New accounting standards:

Financial instruments – Disclosures and presentation:

On January 1, 2008, the Corporation adopted Section 3862, *Financial Instruments - Disclosures* and Section 3863, *Financial Instruments - Presentation*. These disclosure and presentation standards require entities to provide information that enable users to evaluate: 1) the significance of financial instruments for the entity's financial position and performance; 2) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date; and 3) how the entity manages its risks. These disclosures are provided in note 15.

Capital Disclosures:

Effective January 1, 2008, the Corporation adopted Section 1535, *Capital Disclosures* which requires companies to disclose their objectives, policies and processes for managing capital. See note 14 for disclosure regarding the Corporation's capital structure.

(iii) Future accounting polices:

International Financial Reporting Standards (IFRS):

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as currently used by the Corporation, being converged with International Financial Reporting Standards (IFRS) over a transitional period, with a changeover date for the fiscal year beginning on January 1, 2011. The Corporation will be required to have comparative figures for 2010 and an opening balance sheet at the beginning of 2010 to comply with IFRS standards.

The Corporation has not completed development of its IFRS changeover plan, however, when finalized, it will include project structure and governance, resourcing and training, an analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS, as well as potential IFRS 1 exemptions. The Corporation anticipates completing its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting and business activities during 2009.

(All dollar amounts are stated in thousands)

4. Cash on deposit in the Consolidated Revenue Fund:

The Corporation has deposited cash in the Consolidated Revenue Fund (CRF) of the Federal Government established under Section 129 (1) of the *Financial Administration Act.* Cash on deposit in the CRF as at December 31 is as follows:

	2008	2007
CEI, beginning of year	$ 43,500	$ 43,500
Allocated interest	681	–
CEI, end of year	$ 44,181	$ 43,500
CHHC, beginning of year	$ 78,478	$ 78,478
Deposit	13,414	–
Allocated interest	1,416	–
CHHC, end of year	$ 93,308	$ 78,478
CRF, end of year	$ 137,489	$ 121,978
Represented by:		
Current portion	$ 7,426	$ 7,679
Long-term portion	130,063	114,299
	$ 137,489	$ 121,978

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

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

Funds held in these accounts became interest bearing, effective April, 2008, at a rate of 90% of the three month treasury bill tender rate. The average interest rate was 2.14% during the year. Access to these funds is unrestricted for both deposit and withdrawal purposes.

(All dollar amounts are stated in thousands)

5. Cash held in escrow:

In the granting of drilling and other work authorizations associated with Hibernia development and production, the Canada Newfoundland Labrador Offshore Petroleum Board (C-NLOPB) requires evidence of financial responsibility. CHHC maintains an escrow account in the amount of $2,550 (2007 - $2,550) to satisfy this requirement. The C-NLOPB has the right to make claims against the cash in escrow under certain circumstances and CHHC retains any interest earned on the account.

6. Property and equipment:

Property and equipment is recorded at cost less accumulated depletion and depreciation.

			2008	2007 (restated, note 3)
	Cost	Accumulated depletion and depreciation	Net book value	Net book value
Hibernia Development Project:				
Offshore production facility	$ 428,639	$ 266,550	$ 162,089	$ 142,035
Drilling costs	196,761	184,077	12,684	21,022
	625,400	450,627	174,773	163,057
Crude oil tanker (note 7)	39,534	23,712	15,822	17,826
Property and equipment	$ 664,934	$ 474,339	$ 190,595	$ 180,883

At December 31, 2008, the property and equipment balance has been reduced by investment tax credits in the amount of $57,871 (2007 - $57,632).

Unproved property costs of $48,330 (2007 - $67,978) have been excluded from the depletion calculation. Future development costs of $249,180 (2007 - $274,650) have been included in the depletion calculation.

(All dollar amounts are stated in thousands)

6. Property and equipment (continued):

The Corporation performed a ceiling test calculation at December 31, 2008 to assess the recoverable value of property and equipment, using estimated future prices as follows:

Year	Brent Crude $US/bbl
2009	$ 56.00
2010	66.50
2011	72.50
2012	83.50
2013	90.51
2014	92.35
2015	94.23
2016	96.14
2017	98.09
2018	100.09

After 2018, the price forecast escalates at 2% per year to the end of reserve life. A foreign exchange rate of $0.83 was used to convert from United States to Canadian dollars.

The Corporation did not incur any impairment to its financial statements as a result of the ceiling test calculation for 2008.

7. Lease obligation - crude oil tanker:

CHHC, together with two of the other participants, has contracted for the time charter and operations of a tanker for the transportation of oil from the Hibernia project. CHHC's share of annual fixed obligations was approximately $4,719 in 2008 (2007 - $6,568). Payments commenced in 1997 for an initial term of ten years. The agreement provides for one five-year and five two-year optional extensions not to exceed a total lease term of twenty-five years. The time charter has been treated as a capital lease for accounting purposes. Accordingly, CHHC's 25.373% interest in the tanker has been capitalized assuming the extensions are exercised and is presented on the balance sheet under property and equipment.

(All dollar amounts are stated in thousands)

7. Lease obligation - crude oil tanker (continued):

The long-term lease obligation represents the present value of the tanker time charter capital payments discounted at 11.1% over 17 years as follows:

2009	$ 2,110
2010	2,110
2011	2,110
2012	2,151
2013	2,319
Thereafter	3,877
Minimum lease payments	14,677
Less amount representing interest	(4,431)
	10,246
Less current portion	(1,026)
Capital lease obligation	$ 9,220

8. Asset retirement obligations:

CHHC's asset retirement obligations are based on CHHC's net ownership interest in wells and facilities and management's estimate of costs to abandon and reclaim those wells and facilities as well as an estimate of the future timing of the costs incurred. CHHC estimates the total future undiscounted liability to be $192,590, which is a significant increase over 2007 due to a new study commissioned in 2008.

These obligations will be settled based on the useful lives of the underlying assets, which currently extend up to the year 2030. A credit adjusted risk free rate of 5.0% and an inflation rate of 2.5% were used to calculate the fair value of the asset retirement obligations. Changes to asset retirement obligations as at December 31 were as follows:

	2008	2007 (restated, note 3)
Asset retirement obligations, beginning of year	$ 24,987	$ 18,541
Accretion	1,249	927
Changes in estimates	37,259	5,529
Abandonment obligations settled	(793)	(10)
Asset retirement obligations, end of year	$ 62,702	$ 24,987

(All dollar amounts are stated in thousands)

9. Obligations relating to the sale of assets by CEI:

Under the terms of the purchase and sale agreement in 1988 between CEI and Cameco, CEI is responsible for obligations relating to the sale of assets to Cameco. Obligations include site restoration, historic waste and retiree benefits as follows:

	2008	2007
Current portion:		
Site restoration	$ 2,177	$ 2,414
Historic waste	4,673	4,673
Retiree benefits	405	483
	7,255	7,570
Long term portion:		
Site restoration	8,777	8,769
Historic waste	6,337	6,337
Retiree benefits	1,901	1,750
	17,015	16,856
Total obligations related to sale of assets	$ 24,270	$ 24,426

(a) Site restoration:

All costs relate to the decommissioning of a former mine site. Cameco is responsible for the monitoring and management of this site. CEI accrues for these costs based on estimates provided by Cameco. The current estimate for costs and the amount accrued as at December 31, 2008 is $10,954 (2007 - $11,183).

(b) Historic waste:

Under the terms of the purchase and sale agreement in 1988 between CEI and Cameco, CEI and Cameco agreed on a formula for sharing any future joint costs, excluding normal operating costs, related to certain specified existing wastes accumulated by CEI to October 5, 1988, the date of sale of CEI's operations and assets to Cameco. Cameco assumed liability for the first $2,000 of joint costs related to the historic waste. The next $98,000 in joint costs is being shared 23/98ths by Cameco, 75/98ths by CEI. CEI assumed liability for joint costs in excess of $100,000. If CEI is unable to meet these obligations, the Government will assume responsibility for the liability, as agreed to in the 1988 purchase and sale agreement.

9. Obligations relating to the sale of assets by CEI (continued):

(b) Historic waste (continued):

The Government is pursuing opportunities for the long-term management of the low-level radioactive waste. The majority of the joint costs under the indemnity provisions of the agreement relate to existing waste material located in Port Granby and Welcome waste sites, which are closed and have not accepted further wastes since October 5, 1988. The ultimate magnitude of the joint costs is largely dependent on the outcome of the Government's determination and agreement with the affected local communities of where and what type of facility will be constructed to dispose of the waste, results of detailed environmental assessments, remediation standards that will be set by the Canadian Nuclear Safety Commission (CNSC) and the technologies that may be available to meet these standards at the time they are determined.

In March 2004, an agreement of Purchase and Sale was signed by the Government, Cameco and CEI, which allows the Government to acquire the Port Granby and Welcome waste sites. On exercise of that option, the agreement stipulates that Cameco would make payments to CEI for the remaining portion of its joint cost obligation in five equal annual installments. When the Government assumes ownership of the waste sites, the costs of decommissioning and clean up of these sites would be borne by the Government and CEI would no longer have any obligation for those historic waste costs. At December 31, 2008, the Government of Canada has not exercised its option.

CEI and Cameco are obligated for these costs until such time when ownership does transfer to the Government of Canada. The costs associated with clean up of below ground waste are not reasonably determinable at December 31, 2008.

(i) Above ground waste:

CEI has an ongoing obligation relating to the miscellaneous above ground wastes stored on site at the Port Hope location in two specific storage locations. Cameco provides CEI with estimates for joint costs expected to be incurred to store historic waste existing at the time of the 1988 Agreement of Purchase and Sale. CEI accrues their share based on the agreed upon sharing formula and this estimate.

In 2007, CEI informed Cameco that it disagreed with Cameco’s interpretation of joint wastes in the 1988 Agreement. CEI has declined to pay invoices for 2005, 2006 and 2007 billed by Cameco for actual costs incurred and does not intend to pay any future amounts billed until there is a resolution to the interpretation of the definition of existing wastes deemed to be joint costs. The resolution of this matter may ultimately affect the amount that CEI is responsible to share with respect to above ground waste.

9. Obligations relating to the sale of assets by CEI (continued):

(b) Historic waste (continued):

(ii) Decommissioning:
In September 2007, an amended proposal submitted by Cameco was approved by the CNSC estimating Cameco’s cost at $96,000 for decommissioning portions of the Port Hope refinery and the above ground waste storage locations by 2010 (“Vision 2010”). Cameco has not formally communicated to CEI its potential share of the costs associated with decommissioning. Furthermore, the amount of CEI’s share will not be determinable until the interpretation of joint costs under the 1988 Agreement of Purchase and Sale is resolved. Consequently, no amount has been accrued in the Corporation’s financial statements as at December 31, 2008. The impact, if any, of Vision 2010 on costs associated with above ground waste is not determinable.

Cameco has informed CEI that it may hold CEI liable for all or a portion of costs related to soil contamination and water contamination deriving from the UF6 plant in Port Hope. Cameco has indicated that remediation costs to date are approximately $10,000 and expects ongoing costs for groundwater treatment of $1,000-$2,000 per year. The impact, if any, of UF6 plant costs is not determinable.

CEI had accrued $11,010 at December 31, 2007 for joint costs based on estimates provided by Cameco. Due to the uncertainties outlined above, no meaningful amount can be calculated for an accrual at December 31, 2008. Accordingly the historic waste provision has remained unchanged at December 31, 2008.

(c) Retiree benefits:

CEI is obligated to fund certain post retirement benefits related to employees who retired prior to October 1988 pursuant to the terms of the purchase and sale agreement in 1988 between CEI and Cameco. CEI measures its accrued benefit obligations as at December 31 of each year. The most recent actuarial valuation of the post retirement benefit plan was September 30, 2008. The next valuation will be on or before September 30, 2011.

(All dollar amounts are stated in thousands)

9. Obligations relating to the sale of assets by CEI (continued):

(c) Retiree benefits (continued):

These benefits include life insurance and medical and dental benefits. Information about CEI's post retirement benefit plan is as follows:

	2008	2007
Accrued benefit obligation:		
Balance, beginning of year	$ 4,313	$ 4,897
Benefits paid	(283)	(646)
Interest expense	219	220
Actuarial gain	(1,555)	(158)
Balance, end of year	$ 2,694	$ 4,313
Accrued benefit liability:		
Balance, beginning of year	$ 2,233	$ 2,500
Benefits paid	(283)	(646)
Interest expense	219	220
Amortization of net actuarial loss	137	159
Balance, end of year	$ 2,306	$ 2,233
Accrued benefit liability represented by:		
Current portion	$ 405	$ 483
Long-term portion	1,901	1,750
	$ 2,306	$ 2,233
Other information:		
Benefit plan (deficit)	$ (2,694)	$ (4,313)
Unamortized net actuarial loss	388	2,080
Accrued benefit (liability)	(2,306)	(2,233)

(All dollar amounts are stated in thousands)

9. Obligations relating to the sale of assets by CEI (continued):

(c) Retiree benefits (continued):

This benefit plan is not pre-funded resulting in a plan deficit equal to the accrued benefit obligation. The significant actuarial assumptions adopted in measuring CEI's accrued benefit obligation are:

	2008	2007
Discount rate	7.10%	5.25%
Rate of increase in medical benefits	9.0%	11.0%
Rate of increase in dental benefits	5.0%	5.0%

Assumed health care cost trend rates at December 31:

	2008	2007
Initial health care trend rate	9.0%	11.0%
Trend rate declines to	9.0%	6.0%
Year the rate reaches the rate it is assumed to remain at	2008	2011

Increasing or decreasing the assumed health care cost trend rates by one percentage point would have the following effect for 2008:

	Increase	Decrease
Accrued benefit obligation	$ 71	$ (72)
Total of service and interest cost	19	(17)

10. Income taxes:

CDIC and CEI are not subject to income tax.

CHHC has available resource-related deductions which may be carried forward and used in the prescribed manner to reduce taxable income in future years. The excess of CHHC's net book value of its assets above its income resource related deductions has been recorded as a future income tax liability at the expected future income tax rate.

(All dollar amounts are stated in thousands)

10. Income taxes (continued):

(a) The provision for income taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rate of 33.04% (2007 - 36%) to earnings before income taxes. The difference relates to the following items:

	2008	2007 (restated, note 3)
Computed expected tax provision	$ 121,121	$ 90,318
Add (deduct) the following:		
Revisions to prior year returns	1,443	–
Adjustments to reserves	(112)	(3,861)
Effect of changes in tax rates	680	(3,140)
Other	69	(861)
Income taxes	$ 123,201	$ 82,456
Current	$ 130,648	$ 87,912
Future reduction	(7,447)	(5,456)
Income taxes	$ 123,201	$ 82,456

(b) The components of the net future income tax liability at December 31 are as follows:

	2008	2007 (restated, note 3)
Future income tax liabilities:		
Property and equipment	$ 32,384	$ 28,386
Inventory	1,634	1,203
Capital lease	1,617	2,555
Future income tax assets:		
Asset retirement obligations	(18,184)	(7,246)
Future income taxes	$ 17,451	$ 24,898

(All dollar amounts are stated in thousands)

11. Royalties:

The Hibernia Royalty Agreement provides for royalties to be paid by owners, to the province of Newfoundland and Labrador as follows:

(a) 5% payable on gross sales less transportation costs (gross transfer revenue);

(b) 30% payable on net sales revenue commencing at such time as cumulative net sales revenue exceeds 8.5% of the total investments in the Project. Total investment (which includes gross royalties paid in (a)) includes a 1% allowance for capital expenditures and a 10% allowance for operating costs, and a 15% return allowance, on the total investment, compounded annually.

During the year ended December 31, 2008, CHHC paid royalties of $22,536 (2007 - $15,576).

In addition, CHHC is also party to the Net Profits Interest Agreement (NPI), which provides for a 10% NPI payment to the Government of Canada by all Hibernia owners, once certain criteria have been determined. The NPI payment is based on each owner's cumulative sales revenue, less cumulative eligible capital, operating and transportation costs. NPI payments will commence in 2009. No NPI payments have been paid to date.

12. Commitments and contingencies:

(a) CHHC has entered into an agreement with Newfoundland Transshipment Limited whereby CHHC acquired the right to the use of the transshipment terminal for crude oil storage and transshipment. CHHC is committed to pay a portion of the cost of operation of the terminal over a ten-year period. CHHC's share of the annual obligations is subject to annual calculations and is approximately $890 annually.

(b) CHHC's share of the operators' annual contract commitments, lease obligations for office, equipment and warehouse land and building together with CHHC's office lease obligation for the next six years are approximately as follows:

2009	$ 7,723
2010	6,986
2011	6,864
2012	4,477
2013	1,131
Thereafter	464
	$ 27,645

12. Commitments and contingencies (continued):

(c) A $70,000 non-negotiable demand promissory note has been provided as part of the Operator's requirement to provide proof of financial responsibility to the CNLOPB in the event of potential claims under certain sections of the *Canada-Newfoundland Atlantic Accord Implementation Act*, the Newfoundland Offshore Petroleum Drilling Regulations and the Newfoundland Offshore Area Petroleum Production and Conservation Regulations. The note will expire on April 26, 2009. CHHC's share of this commitment is $5,950

In addition, the owners are required to provide further proof of financial responsibility by depositing letters of credit or cash in the gross amount of $30,000 with the CNLOPB (note 5).

Neither the $70,000 promissory note nor the $30,000 letters of credit or cash have ever been drawn upon.

(d) CEI and the Government of Canada have been sued by Rio Algom Ltd. (“Rio”) for $75,000 relating to alleged expenses incurred by Rio pursuant to contracts entered into for the delivery of Uranium ores in the 1950s and 1960s. The Government and CEI are defending the suit. The outcome and impact, if any, of this lawsuit to CEI is currently not determinable.

(e) CEI is co-defendant with the Province of Ontario, the Attorney General of Canada, the Canadian Nuclear Safety Commission and BOC Canada Limited in a proposed class action lawsuit brought by certain residents of the municipality formerly known as Delorno in the County of Hastings, Ontario. The lawsuit is based on the alleged contamination of certain properties. CEI has filed a notice of intent to defend. The outcome and impact, if any, of this lawsuit to CEI is currently not determinable.

(All dollar amounts are stated in thousands)

13. Supplemental cash flow disclosure:

Changes in non-cash working capital balances:

	2008	2007 (restated, note 3)
Accounts receivable	$ (542)	$ (247)
Inventory	(539)	1,430
Prepaid expenses	91	10
Accounts payable and accrued liabilities	(3,992)	1,178
Income taxes payable	34,647	(2,303)
Retiree benefit obligation	74	(268)
Site restoration obligation	(229)	951
Historic waste obligation	–	500
	$ 29,510	$ 1,251
Relating to:		
Operations	$ 31,646	$ 2,396
Investments	(2,136)	(1,145)
Change in non-cash working capital	$ 29,510	$ 1,251

During the year ended December 31, 2008 CHHC paid taxes of $96,230 (2007 - $90,333) and interest of $1,567 (2007 - $1,296) of which $1,042 (2007- $1,242) is related to capital lease obligation.

14. Capital management:

The Corporation considers its capital structure to include shareholder's equity, working capital and capital leases. The Corporation and its subsidiaries' objectives when managing capital are to safeguard the entity's ability to continue as a going concern. In the case of CHHC, so that it can continue to provide returns for shareholders and benefits for other stakeholders, CHHC is continually monitoring changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas industry. CEI is constantly monitoring its cash position so that it can meet its liabilities.

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

(All dollar amounts are stated in thousands)

15. Financial instruments:

(a) Overview:

The nature of the CDIC's consolidated operations expose the Corporation to credit risk, liquidity risk and market risk, and changes in commodity prices and interest rates may have a material effect on cash flows, net income and comprehensive income.

This note provides information about the Corporation's exposure to each of the above risks as well as the Corporation's objectives, policies and processes for measuring and managing these risks.

(b) Credit risk:

Credit risk is the risk of financial loss to the Corporation if counterparties do not fulfill their contractual obligations. The most significant exposure to this risk is relative to the sale of oil production; all of the CHHC's production is sold to one Marketer. The Corporation has assessed the risk of non-collection from the Marketer as minimal due to the fact that the Marketer issues an irrevocable line of credit for each transaction.

Cash and cash equivalents consist of cash bank balances and short-term deposits maturing within three months valued at cost plus accrued interest from 1.55% to 5.23%. The carrying amounts approximate fair value due to their short term to maturity.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Corporation did not have an allowance for doubtful accounts as at December 31, 2008 and 2007 and did not provide for any doubtful accounts nor was it required to write-off any receivables during 2008. As at December 31, 2008 the following amounts were included in accounts receivable.

	2008	2007
Under 120 days	$ 1,227	$ 967
Greater than 120 days	439	756
Total accounts receivable.	$ 1,666	$ 1,723

15. Financial instruments (continued):

(c) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meets its work commitments and other financial obligations as they are due. CDIC's approach to managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meets its liabilities when due.

The Corporation's liquidity is dependent upon its operating cash flows. Expected future cash flow from the property currently exceeds operating and future capital expenditures. Considering these circumstances and the cash balance at December 31, 2008 of $93,938, the Corporation's liquidity risk is assessed as insignificant.

Taxes payable are not considered a financial instrument and the liability recorded on the balance sheet at December 31, 2008 is an estimate.

(d) Market risk:

Market risk is the risk that changes in foreign exchange rates, commodity prices and interest rates will affect the Corporation's cash flows, net income and comprehensive income.

(i) Foreign exchange risk:

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The underlying market prices in Canada for oil are impacted by changes in the exchange rate between the Canadian and United States dollar. The Corporation does not have any contracts in place to manage foreign exchange risk. If the foreign exchange rate increased or decreased by one cent during the year ended December 31, 2008, after tax net earnings would have changed by $3,108.

(ii) Commodity price risk:

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices, affecting results of operations and cash generated from operating activities. Such prices may also affect the value of exploration and development properties and level of spending for future activities. Prices received by CHHC for its production are largely beyond CHHC's control as petroleum prices are impacted by world economic events that dictate the levels of supply and demand. All of CHHC's oil production is sold at spot rates exposing CHHC to the risk of price movements. A one dollar change to the price per barrel of oil would have an impact to after tax earnings of approximately $2,806 for the year ended December 31, 2008.

15. Financial instruments (continued):

(d) Market risk (continued):

(iii) Interest rate risk:

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

The Corporation did not have any interest rate swaps, derivative financial instruments or financial contracts in place as at or during the year ended December 31, 2008.

(e) Fair value of financial instruments:

The Corporation's financial instruments as at December 31, 2008 included cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying amounts due to their short terms to maturity.

There was no impairment of the Corporation's financial instruments for the period ended December 31, 2008.

16. Related party transactions:

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under its stated mandate. These transactions are measured at the exchange amount, which is the actual amount agreed to by the related parties. CDIC paid dividends to the Government of Canada for the year ended, December 31, 2008 in the amount of $288,200 (2007 - $151,000). Other transactions are not of significance and do not have a material effect on these financial statements.

17. Segmented information:

The Corporation has chosen to disclose segmented information for each of its subsidiaries described in note 1, due to the fundamental differences in the nature of their operations. The accounting policies of the segments are the same as those described in note 2.

(All dollar amounts are stated in thousands)

17. Segmented information (continued):

Balance Sheet

	CDIC	CEI	CHHC	Intercompany eliminations	CDIC Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 11,309	$ 10,022	$ 72,607	$ –	$ 93,938
Accounts receivable	363	336	1,158	(191)	1,666
Inventory	–	–	6,909	–	6,909
Prepaid expenses	8	–	252	–	260
Cash on deposit in CRF	–	7,426	–	–	7,426
	11,680	17,784	80,926	(191)	110,199
Cash on deposit in CRF	–	36,755	93,308	–	130,063
Investment in subsidiaries	264,355	–	–	(264,355)	–
Cash held in escrow	–	–	2,550	–	2,550
Property and equipment	–	–	190,595	–	190,595
	$ 276,035	$ 54,539	$ 367,379	$ (264,546)	$ 433,407
Liabilities and Shareholder's Equity					
Current liabilities:					
Accounts payable and accrued liabilities	$ 203	$ 171	$ 7,776	$ (11)	$ 8,139
Current portion of other obligations	–	7,255	–	–	7,255
Current lease obligation	–	–	1,026	–	1,026
Income taxes payable	–	–	34,767	–	34,767
Due to shareholder	–	–	180	(180)	–
	203	7,426	43,749	(191)	51,187
Long-term liabilities					
Other obligations	–	17,015	–	–	17,015
Long term lease obligation	–	–	9,220	–	9,220
Future income taxes	–	–	17,451	–	17,451
Asset retirement obligation	–	–	62,702	–	62,702
	–	17,015	89,373	–	106,388
Shareholder's equity					
Share capital	1	296,586	–	(296,586)	1
Contributed surplus	743,184	603,294	–	(603,294)	743,184
Retained earnings (accumulated deficit)	(467,353)	(869,782)	234,257	635,525	(467,353)
	275,832	30,098	234,257	(264,355)	275,832
	$ 276,035	$ 54,539	$ 367,379	$ (264,546)	$ 433,407

(All dollar amounts are stated in thousands)

17. Segmented information (continued):

Statement of Earnings

	CDIC	CEI	CHHC	Intercompany eliminations	CDIC Consolidated
Revenue:					
Investment in CHHC	$ 243,389	$ –	$ –	$ (243,389)	$ –
Investment in CEI	(1,295)	–	–	1,295	–
Crude oil sales, net of royalties	–	–	428,108	–	428,108
Interest	422	1,074	4,070	–	5,566
Management fees	252	–	–	(100)	152
	242,768	1,074	432,178	(242,194)	433,826
Expenses:					
Depletion and depreciation	–	–	45,838	–	45,838
Operating	–	–	22,540	–	22,540
Accretion of asset retirement obligation	–	–	1,249	–	1,249
Corporate and divestiture expense	1,316	446	2,129	(100)	3,791
Interest on capital lease obligation	–	–	1,042	–	1,042
Foreign exchange gain	–	–	(7,210)	–	(7,210)
Other obligations	–	1,923	–	–	1,923
	1,316	2,369	65,588	(100)	69,173
Net earnings (loss) before income taxes	241,452	(1,295)	366,590	(242,094)	364,653
Income taxes	–	–	123,201	–	123,201
Net earnings (loss) and comprehensive income	241,452	(1,295)	243,389	(242,094)	241,452
Retained earnings (accumulated deficit), beginning of year	(420,605)	(868,487)	281,868	586,619	(420,605)
Dividends	(288,200)	–	(291,000)	291,000	(288,200)
Retained earnings (accumulated deficit), end of year	$ (467,353)	$ (869,782)	$ 234,257	$ 635,525	$ (467,353)