CANADA DEVELOPMENT INVESTMENT CORPORATION

ANNUAL REPORT
2009

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" or the "Corporation") for the year ended December 31, 2009. 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 CDIC's Corporate Plan and several amendments thereto.

The Executive Vice-President manages CDIC under the supervision of the Board of Directors and they provide advice to you as required.

In 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 May 2009, pursuant to two Governor in Council directives, CDIC established two new subsidiaries Canada CH Investment Corporation and Canada GEN Investment Corporation to acquire the Government's interests in Chrysler Group LLC and General Motors Company.

In August 2009, CDIC was asked to participate in the Government's ongoing review of corporate asset holdings. An amendment to the 2009 Corporate Plan was approved for this purpose. CDIC has commenced work on this project.

In September 2009, CDIC received warrants to purchase shares of Air Canada from Export Development Corporation.

CDIC continues to manage its investment in Canada Hibernia Holding Corporation. In 2009, CHHC paid dividends of $92 million to CDIC and CDIC paid $89 million to the Government of Canada ("Government"). As at December 31, 2009, CHHC had repaid all appropriations totaling $410 million to the Government and has paid a total of $1.2 billion 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.

During 2009, CDIC did not borrow from the Government nor did it receive any appropriations.

In October 2009 three new directors joined the Board of CDIC. They are a welcome addition.

On behalf of the Board of Directors,

N. William C. Ross
Chairman
Canada Development Investment Corporation

March 11, 2010

DIRECTORS AND OFFICERS AS AT MARCH 11, 2010

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

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

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

Gordon W. King, MSc (2)
Director
Ottawa, Ontario

Mary Beth Montcalm, PhD
Director
Toronto, Ontario

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

Benita M. Warmbold, FCA (1) (2)
Senior Vice-President and Chief Operations Officer
Canada Pension Plan Investment Board
Toronto, 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 consolidated financial statements have been prepared by the Corporation in accordance with Canadian generally accepted accounting principles. The financial statements of the Corporation's four wholly- owned subsidiaries for which it has responsibility have been consolidated with those of the Corporation. When alternative accounting methods exist, the Corporation has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on best estimates and judgments. The Corporation has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with 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 its consideration and approval. The Audit Committee also meets with the Corporation's auditors to discuss auditing matters and financial reporting issues. Due to its size, and as permitted by Order in Council, 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 consolidated 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, 2009 and for the year then ended.

Michael Carter
Executive Vice-President
Canada Development Investment Corporation

March 11, 2010

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". Accordingly, the Corporation has readied itself for an expanded role in its area of expertise.

CDIC is managed by a part-time Executive Vice-President, a full-time assistant and additional contract staff 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. The Board conducts an annual retreat meeting aimed at reviewing the goals and purposes of the Corporation from a strategic point of view.

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, the corporate website, an annual meeting with stakeholders 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. The Audit Committee ensures the maintenance of proper controls and accounting procedures in the Corporation, reviews the financial statements and communicates directly with the Corporation's auditors. None of the directors are employees of CDIC or its subsidiaries. Attendance at directors meetings is outstanding and each director dedicates appropriate 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 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

The public communications of CDIC including this annual report, may include forward-looking statements that reflect management's expectations regarding CDIC's objectives, strategies, outlooks, plans, anticipations, estimates and intentions.

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

CDIC is a holding company that has four wholly-owned subsidiaries for which it is responsible – Canada Hibernia Holding Corporation (CHHC) which owns an 8.5% interest in the Hibernia oilfield, Canada Eldor Inc. (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, Canada GEN Investment Corporation and Canada CH Investment Corporation. The latter two were incorporated in 2009 and hold respectively, interests in General Motors and Chrysler.

Since its inception in 1982 CDIC has been effective in the management and divestiture of corporate interests of the Crown. The assets sold on behalf of the Crown by CDIC since inception include the following:

> Canadair Limited, The de Havilland Aircraft of Canada, Limited, Teleglobe Canada, Fishery Products International Limited, Canada Development Corporation, Nordion International Inc., Telesat Canada, and shares of Cameco Corporation received as a result of the sale of assets of Eldorado Nuclear Ltd.

Total proceeds to the Crown from these activities are approximately $2 billion. In addition CDIC has forwarded dividends from CHHC totaling $1.2 billion.

Results in 2009

CHHC derives its cash flow solely from Hibernia production operations and assets, which include Hibernia field production, its time charter tanker asset, and in future, some third party use of the Hibernia drilling and production facilities. Cash flow fluctuates depending on oil production volumes, crude oil prices, foreign exchange, operating costs, royalty costs, income taxes, capital expenditures and third party revenues. CHHC’s crude oil sales decreased from $428 million in 2008, to $202 million in 2009, and were short of their Corporate Plan of $359 million. The decrease from 2008 was due, in part, to a decrease in oil prices, having averaged CAD $73.86 in 2009, versus an average price of CAD $107.77 in 2008. The 2009 decrease was also in part due to a reduction in daily oil production from 138,600 barrels per day in 2008, to 125,700 barrels per day in 2009.

Near term oil production is expected to remain at levels of those produced in 2009. This is primarily due to production from a portion of the Hibernia South Extension which began at the end of 2009. After successful negotiations were concluded between the existing Hibernia owners and the Province of Newfoundland and Labrador in February, 2010, drilling and production planning will be initiated on the remaining, unitized portion of the Hibernia southern extension. While first production from this extension will not be forthcoming until 2013 – 2014, it is anticipated that daily production will increase and economic reserve life will be extended out into the year 2036. While the Province of Newfoundland and Labrador has signed all binding agreements, the federal government is continuing its due diligence, and has not yet approved the agreements. Regulatory approval will also be required by the Canada-Newfoundland and Labrador Offshore Petroleum Board.

The two automotive holding companies have no operations, however GM paid US$16.5 million in dividends on the preferred shares in 2009. The annualized dividend rate is US$38.2 million per year. The valuation of the holdings in the two auto companies is based upon an assessment of their fair value at the time of acquisition. As there was no market for the shares this involved estimations of future cash flows and is subject to a fairly high level of variability. The eventual amounts received on disposal may differ significantly

CDIC also received warrants to purchase shares in Air Canada during 2009. These will be sold if appropriate market conditions occur.

Dividends paid to the Government of Canada by CDIC decreased to more normal levels of $89 million in 2009 from the exceptionally high $288.2 million associated with the higher oil prices in 2008. In 2010 and future years, CHHC will receive a smaller proportion of the sale value of its oil as royalties have increased to 30% net from a previous 5% of gross and the project is subject to a 10% net profits interest payable to the Government of Canada.

CDIC has been nominated by the Government to participate in the “Corporate Asset Management Review” to assist with the assessment of options for the future of selected federal corporate assets. The first project commenced shortly after year end. Costs thereof will increase CDIC’s operating expenses in 2010.

Risks and contingencies

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 since then. The outcome of this dispute could result in a wide variety of financial results ranging from no further liability accruing to CEI or a significant liability much larger than the present provision. CEI did not adjust its provision of $11 million for its share of historic waste during 2009.

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.

CDIC’s investments through its subsidiaries in General Motors and Chrysler are subject to large fluctuations in value. Both companies emerged from bankruptcy in 2009 and their future worth depends upon a number of uncertainties.

As with any oil development Hibernia faces geological and production interruption risks. These particularly apply to the Hibernia South Extension Unit which has not yet been fully explored as to its reserves. While the operator of the project maintains the highest standards, ecological risks exist for which CHHC is only partially insured.

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, 2009 and the consolidated statements of income, 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, 2009 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 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*, any directives issued by the Governor in Council to the corporation, 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, 2010

KPMG LLP

Chartered Accountants,
Licensed Public Accountants

Ottawa, Canada
March 11, 2010

CANADA DEVELOPMENT INVESTMENT CORPORATION

Consolidated Balance Sheet

As at December 31
(Thousand of Dollars)

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	$ 105,416	$ 93,938
Accounts receivable	15,019	1,666
Income taxes recoverable	7,654	-
Inventory	6,941	6,909
Prepaid expenses	374	260
Cash on deposit in the Consolidated Revenue Fund (note 4)	7,284	7,426
	142,688	110,199
Non current assets:		
Cash on deposit in the Consolidated Revenue Fund (note 4)	130,752	130,063
Cash equivalents held in escrow (note 5)	2,550	2,550
Property and equipment (note 6)	122,705	190,595
Investments (note 7)	3,147,633	-
	3,403,640	323,208
	$ 3,546,328	$ 433,407
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 50,629	$ 8,139
Current portion of capital lease obligation (note 8)	989	1,026
Current portion of other obligations (note 10)	7,072	7,255
Income taxes payable	-	34,767
	58,690	51,187
Long term liabilities:		
Capital lease obligation (note 8)	6,967	9,220
Asset retirement obligations (note 9)	31,691	62,702
Other obligations (note 10)	17,733	17,015
Future income taxes (note 11)	5,786	17,451
	62,177	106,388
Shareholder's equity:		
Share capital:		
Authorized - unlimited number of common shares		
Issued and fully paid - 101 common shares	1	1
Contributed surplus (note 12)	3,912,184	743,184
Accumulated deficit	(486,724)	(467,353)
	3,425,461	275,832
Commitments and contingencies (note 15)		
Subsequent event (note 19)		
	$ 3,546,328	$ 433,407

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

On behalf of the Board:

_______________ Director   _______________ Director

CANADA DEVELOPMENT INVESTMENT CORPORATION

Consolidated Statement of Income, Comprehensive Income and Accumulated Deficit

Year ended December 31
(Thousands of Dollars)

		2009		2008
Revenue:				
Crude oil sales, net of royalties and net profits interest (note14)	$	201,600	$	428,108
Dividend on preferred shares (note 7)		16,538		-
Foreign exchange gain		2,433		7,210
Interest		620		5,566
Management fee		48		152
		221,239		441,036
Expenses:				
Depletion and depreciation		55,148		45,838
Operating		24,509		22,540
Change in fair value of held-for-trading assets (note 7)		21,367		-
Corporate and divestiture expense		6,039		3,791
Accretion of asset retirement obligations (note 9)		3,135		1,249
Other obligations		2,833		1,923
Interest on capital lease obligation		1,017		1,042
		114,048		76,383
Income before income taxes		107,191		364,653
Income taxes (note 11)				
Current		49,227		130,648
Future tax reduction		(11,665)		(7,447)
		37,562		123,201
Net income and comprehensive income		69,629		241,452
Accumulated deficit, beginning of year		(467,353)		(420,605)
Dividends		(89,000)		(288,200)
Accumulated deficit, end of year	$	(486,724)	$	(467,353)

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

CANADA DEVELOPMENT INVESTMENT CORPORATION

Consolidated Statement of Cash Flows

Year ended December 31
(Thousands of Dollars)

	2009	2008
Cash provided by (used in):		
Operating:		
Net income and comprehensive income for the year	$ 69,629	$ 241,452
Items not involving cash:		
Future income tax reduction	(11,665)	(7,447)
Depletion and depreciation	55,148	45,838
Accretion of asset retirement obligations	3,135	1,249
Unrealized foreign exchange loss (gain)	(1,331)	1,964
Unrealized net loss on investments (note 7)	21,367	-
Abandonment expenditures	(3,166)	(793)
	133,117	282,263
Change in non-cash working capital (note 13)	(15,068)	31,646
	118,049	313,909
Financing:		
Dividends paid	(89,000)	(288,200)
Lease obligation payments	(959)	(733)
	(89,959)	(288,933)
Investments:		
Property and equipment	(17,944)	(19,653)
Cash deposited in Consolidated Revenue Fund (note 4)	(547)	(14,830)
Change in non-cash working capital (note 13)	1,879	(2,136)
	(16,612)	(36,619)
Increase (decrease) in cash and cash equivalents	11,478	(11,643)
Cash and cash equivalents, beginning of year	93,938	105,581
Cash and cash equivalents, end of year	$ 105,416	$ 93,938
Represented by:		
Cash	$ 15,947	$ 1,616
Cash equivalents	89,469	92,322
	$ 105,416	$ 93,938

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

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 four wholly-owned subsidiaries; Canada Eldor Inc. (“CEI”) Canada Hibernia Holding Corporation (“CHHC”), Canada CH Investment Corporation (“CH”) and Canada GEN Investment Corporation (“GEN”).

CEI was incorporated under the provisions of the *Canada Business Corporations Act*. It is subject to the *Financial Administration Act*, is an agent of Her Majesty in Right of Canada and is not subject to the provisions of the *Income Tax Act.* During 1988, CEI sold substantially all of its assets and operations to Cameco Corporation ("Cameco”) in exchange for share capital of the purchaser and a promissory note. As a result of the sale of the Cameco shares and the assumption of certain of CEI’s remaining debt by the Government of Canada (“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 10.

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 consolidated in CHHC’s financial statements which are consolidated into CDIC’s financial statements.

During 2009, CDIC acquired two new subsidiaries, CH and GEN to acquire the Government of Canada’s interests in Chrysler Group LLC (“Chrysler”) and General Motors Company (“GM”) respectively.

1. The Corporation and its activities (cont.):

CH was incorporated under the provisions of the *Canada Business Corporations Act* on May 7, 2009. CH was acquired by the Corporation on May 29, 2009. CH is subject to the *Financial Administration Act* but is not subject to the *Income Tax Act.* CH owns 24,615 Class A units or approximately 2.5% of the total membership interest. The membership interest was received from Chrysler as a result of loans made through Export Development Canada's Canada Account ("EDC"), (a related party to CDIC and CH), to Chrysler. The loans were part of the bankruptcy restructuring of Chrysler LLC undertaken through the United States Bankruptcy Court of New York. Chrysler commenced operations as a new corporation on June 10, 2009. CH did not exchange any assets for the units.

GEN was incorporated under the provisions of the *Canada Business Corporations Act* on May 20, 2009. GEN was acquired by the Corporation on May 30, 2009. GEN is subject to the *Financial Administration Act* but is not subject to the *Income Tax Act.* GEN owns 58,368,644 or approximately 11.7% of the outstanding common shares in GM plus 16,101,695 Series A Fixed Rate Cumulative Perpetual Preferred Stock with a liquidation preference value of US$25/preferred share, representing approximately 4.5% of the outstanding preferred shares of GM. GEN received the shares in exchange for certain loans outstanding to various companies connected with GM's reorganization. GEN received these loans from EDC as part of the bankruptcy and subsequent Section 363 Sale, corporate reorganization and refinancing of GM undertaken through the United States Bankruptcy Court of New York. GM commenced operations as a new corporation on July 10, 2009.

These investments are discussed in note 7.

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 assets, liabilities, results of operations and cash flows of the Corporation and all of its subsidiaries after the elimination of intercompany transactions and balances. Subsidiaries are defined as corporations controlled by CDIC.

2. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

Although the Corporation owns the outstanding shares of PPP Canada Inc., it does not consolidate its operations because the Corporation does not have any strategic, operational or investment control of PPP Canada Inc. and it is not a beneficiary of PPP Canada's operations.

(b) 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 revenues, expenses and holding gains or losses to income or other comprehensive income during the reporting period. The fair value determination of financial instruments, financial derivatives and testing for impairment involves the use of estimates.

Some 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 10. The fair value estimates of the equity investments in both Chrysler and GM upon initial recognition were determined using accepted valuation methodologies which are based on a range of estimated values. Actual results or potential sales value of the assets could differ significantly from those estimates.

(c) 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 in the Hibernia Development Project 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.

2. Significant accounting policies (continued):

(d) Cash and cash equivalents:

Cash and cash equivalents include short-term investments which are considered to be highly liquid investments with original maturities of three months or less. Cash and cash equivalents on the balance sheet include cash and bankers' acceptances. Cash and cash equivalents are designated as held-for-trading and are recorded at fair value.

(e) 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) 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 7.5 years (2008 – 8.5 years).

(f) Property and equipment:

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.

2. Significant accounting policies (continued):

(g) Ceiling test:

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

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 center. 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 center 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 center. The cash flows are estimated using expected future product prices and costs.

(h) 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.

(i) 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, financial instruments held-for trading, 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 income.

(j) 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.

2. Significant accounting policies (continued):

(k) 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 income in the period. Actual costs incurred upon the settlement of the ARO will be charged against the ARO.

(l) 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.

(m) 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 and net profits interest.

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

2. Significant accounting policies (continued):

(n) Financial instruments:

Financial instruments are recognized at fair value upon initial recognition and are classified into one of 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 their classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value if a market exists 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 income. If a market does not exist, the available-for-sale assets are valued at cost and adjusted for impairment with impairment losses charged to earnings; held-to-maturity investments, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method.

The Corporation designated its cash and cash equivalents, and cash on deposit in the Consolidated Revenue Fund as held-for-trading. Accounts receivable are classified as loans and receivables. Cash equivalents held in escrow are classified as held-to-maturity. Accounts payable and accrued liabilities are classified as other financial liabilities.

The preferred shares in GM are classified as held-for-trading.

The warrants to purchase shares in Air Canada are classified as held-for-trading.

The common shares in GM and the membership interest in Chrysler are classified as available-for-sale and are carried at cost as these instruments do not have a quoted price in an active market. If a market commences for the financial instruments designated as available-for-sale, these will be valued at fair value with changes reflected in other comprehensive income.

3. Recent accounting pronouncements:

(a) Financial Instruments – Disclosures

The Canadian Institute of Chartered Accountants ("CICA") Handbook section 3862 requires a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices available in active markets for identical assets and liabilities. Fair value of assets and liabilities included in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly. Fair value of assets and liabilities included in Level 3 are based on inputs that are unobservable and significant to the overall fair value measurement. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The required disclosures are included in notes 7 and 17.

(b) International Financial Reporting Standards (IFRS):

In February 2008, the CICA Accounting Standards Board confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparative figures for 2010. As a government business enterprise, the Corporation is required to adopt IFRS effective January 1, 2011.

The changeover to IFRS represents a significant change in accounting standards and the transition from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Corporation's reported financial position and reported results of operations.

In response, the Corporation has completed a preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to the Corporation and is developing its IFRS changeover plan.

(All dollar amounts are stated in thousands)

3. Recent accounting pronouncements (continued):

(b) International Financial Reporting Standards (IFRS) (continued):

The Corporation will be performing an in-depth review of the significant areas of difference, identified during the preliminary assessment, in order to identify all specific Canadian GAAP and IFRS differences and select ongoing IFRS policies. Key areas identified are also being reviewed to determine any information technology issues, the impact on internal controls over financial reporting, and the impact on business activities.

The Corporation continues to monitor standard changes that may impact the disclosure or accounting treatments under IFRS.

4. Cash on deposit in the Consolidated Revenue Fund:

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

	2009	2008
CEI, beginning of year	$ 44,181	$ 43,500
Allocated interest	176	681
CEI, end of year	$ 44,357	$ 44,181
CHHC, beginning of year	$ 93,308	$ 78,478
Deposit	-	13,414
Allocated interest	371	1,416
CHHC, end of year	$ 93,679	$ 93,308
CRF, end of year	$ 138,036	$ 137,489
Represented by:		
Current portion	$ 7,284	$ 7,426
Long-term portion	130,752	130,063
	$ 138,036	$ 137,489

(All dollar amounts are stated in thousands)

4. Cash on deposit in the Consolidated Revenue Fund (continued):

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 are interest bearing at a rate of 90% of the three month treasury bill tender rate. The average interest rate was 0.40% during the year (2008 – 2.14%). Access to these funds is unrestricted for both deposit and withdrawal purposes.

5. Cash equivalents 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 (2008 - $2,550) to satisfy this requirement. The C-NLOPB has the right to make claims against the cash equivalents held in escrow under certain circumstances and CHHC retains any interest earned on the account. The current escrow agreement will expire on June 1, 2010.

6. Property and equipment:

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

			2009	2008
	Cost	Accumulated depletion and depreciation	Net book value	Net book value
Hibernia Development Project:				
Offshore production facility	$ 400,868	$ 291,714	$ 109,154	$ 162,089
Drilling costs	211,496	211,492	4	12,684
	612,364	503,206	109,158	174,773
Crude oil tanker (note 8)	39,534	25,987	13,547	15,822
Property and equipment	$ 651,898	$ 529,193	$ 122,705	$ 190,595

(All dollar amounts are stated in thousands)

6. Property and equipment (continued):

At December 31, 2009, the property and equipment balance has been reduced by investment tax credits in the amount of $58,013 (2008 - $57,871).

Unproved property costs of $60,849 (2008 - $48,330) have been excluded from the depletion calculation. Future development costs of $308,380 (2008 - $249,180) have been included in the depletion calculation.

The Corporation performed a ceiling test calculation at December 31, 2009 to assess the recoverable value of property and equipment, using estimated future prices as follows:

Year	Brent Crude $US/bbl
2010	$ 78.00
2011	83.00
2012	86.00
2013	88.00
2014	90.65
2015	92.47
2016	94.32
2017	96.20
2018	98.13
2019	100.09

After 2019, the price forecast escalates at 2% per year to the end of reserve life. A foreign exchange rate of $0.95 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 2009.

(All dollar amounts are stated in thousands)

7. Investments:

	2009	2008
Held-for-trading assets:		
Preferred shares in GM	$ 447,000	$ -
16,101,695 Series A Fixed Rate Cumulative Perpetual Preferred Stock		
Dividend rate 9.0% paid quarterly, liquidation preference value: US$25 per share		
(Initial fair value at date of acquisition: US $403,000 or $469,000)		
Common share warrants in Air Canada	633	-
Available-for-sale assets:		
Membership interest in Chrysler	20,000	-
24,615 Class A Units		
Common shares in GM	2,680,000	-
58,368,644 common shares		
	$ 3,147,633	$ -

	2009	2008
Change in fair value of held-for-trading assets:		
Preferred shares in GM		
Unrealized foreign exchange loss	$ (48,000)	$ -
Unrealized fair value gain	26,000	-
Common share warrants in Air Canada		
Unrealized fair value gain	633	-
	$ (21,367)	$ -

7. Investments (continued):

On June 10, 2009 CH received the membership interest in Chrysler as a result of loans made by EDC to Chrysler. The membership interest was recorded at the carrying amount reflected in the records of EDC, a related party, prior to the receipt of the membership interest by CH. The carrying amount of the membership interest received of $20,000 was determined to equal the fair value of the membership interest in Chrysler.

On July 10, 2009, GEN acquired the common and preferred shares in GM in exchange for settlement of certain loans outstanding from companies associated with GM. GEN was transferred these loans on July 10, 2009 from EDC, a related party, for $nil consideration which were accordingly recorded at their carrying amount reflected in the records of EDC prior to the transfer. The carrying amount of the loans at the time of transfer of $3,149,000 was determined to be equal to the fair value of the shares in GM received by GEN.

The fair value for these investments at the date of acquisition was determined using accepted industry valuation methods. These methods include considerations such as earnings multiples of comparable publicly-traded companies, cash flows in future periods discounted at interest rates reflecting risks in achieving the cash flows and potential minority interest discounts. The valuation of interests in GM and Chrysler use Level 3 inputs given that the primary sources of inputs, information and assumptions were not based on observable market data.

Given limited information available at the time of acquisition and the significant changes taking place in the North American and International automobile industries at the time, the fair value calculation of the interests is subject to measurement uncertainty due to certain assumptions made in the fair valuation of the interests.

As $nil consideration was given by CH for the membership interest in Chrysler, the corresponding amount of $20,000 carrying value has been recorded in contributed surplus.

As $nil consideration was given by GEN for the loans it was transferred from EDC, the carrying amount of the loans received of $3,149,000 has been recorded in contributed surplus.

The Corporation holds two tranches of warrants to purchase the Class A variable voting shares or Class B voting shares of Air Canada. The first tranche is to acquire 833,333 shares at a price of $1.51 per share exercisable until July 30, 2013. These warrants are free for trading. The second tranche is to acquire 833,333 shares at a price of $1.44 per share exercisable until October 19, 2013 and becomes free for trading on February 20, 2010.

7. Investments (continued):

The warrants were received from EDC in 2009 as a result of a financing undertaken by EDC to Air Canada. They were initially recorded at the agreed upon exchange amount of $nil. The warrants are valued at fair value at year end based upon an assessment of apparent interest in the warrants by market participants. Hence Level 3 inputs, as described in Note 3 (a), were used to estimate the fair value of the warrants. No liquid market exists for these financial instruments.

The Corporation has not determined any definitive course of action or timetable for any potential disposal of the Investments.

Held-for-trading financial assets:

Held-for-trading assets are accounted for at fair value as at the balance sheet date.

The GM preferred shares, which do not trade publicly, have been designated as held-for-trading. They cannot be classified as available-for–sale due to the inability to measure the embedded option by the issuer to redeem the shares after December 30, 2014. Since this option cannot be reasonably valued separately, the entire preferred share instrument is fair valued at the balance sheet date. Fair value has been determined based on the net present value of cash flows discounted at an interest rate of comparable preferred equity instruments and the particular attributes of the preferred share issue including the liquidation preference value of US$25/ preferred share. The fair valuation was based on a Level 2 hierarchy as described in note 3(a). The change in value has been recorded in earnings as an unrealized foreign exchange loss of $48,000 net of an increase in fair value of $26,000. There are no sales restrictions on the preferred shares. Preferred share dividends from GM are received quarterly in US dollars and the Corporation's policy is to exchange the US dollars into Canadian Dollars at the prevailing spot exchange rate. GEN received $16,538 in preferred share dividends for the period July 10 to December 31, 2009.

Available-for-sale financial assets:

Available-for-sale assets which do not have a quoted price in an active market are accounted for at cost. The membership interest in Chrysler and the common shares in GM are denominated in U.S. dollars and were converted to Canadian dollars at the Bank of Canada noon rate on the day of acquisition. When an active market for these interests arises, the fair values will be recorded at each balance sheet date with any change in value recorded in other comprehensive income.

(All dollar amounts are stated in thousands)

7. Investments (continued):

CH is party to a Members Agreement of Chrysler which permits it to sell the interests under certain conditions and be obligated to sell under other conditions. CH through its holding of its membership interest is not liable or obligated to fund losses incurred by the investee. Voting rights are delineated in agreements signed by all holders of membership interests.

GEN is party to a Stockholders Agreement of GM which permits it to sell the common shares under certain conditions and be obligated to sell under other conditions.

8. Capital 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 $5,099 in 2009 (2008 - $4,719). Payments commenced in 1997 for an initial term of ten years. The agreement provides for one five-year extension which was exercised in November 2007. In addition, there are 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.

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

2010	$	1,821
2011		1,821
2012		1,856
2013		2,001
2014		1,986
Thereafter		1,351
Minimum lease payments		10,836
Less: amount representing interest		(2,880)
Capital lease obligation	$	7,956

The total capital lease obligation is comprised of the following:		
Current portion		989
Non-current portion of capital lease obligation		6,967
Capital lease obligation	$	7,956

(All dollar amounts are stated in thousands)

9. 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 $124,232. Estimates of asset retirement obligation costs can change significantly based on such factors as operating experience and changes in legislation and regulations.

These obligations will be settled based on the useful lives of the underlying assets, which currently extend up to the year 2036. A credit adjusted risk free rate of 5.0% and an inflation rate of 1.46% were used to calculate the fair value of the asset retirement obligations.

Changes to asset retirement obligations as at December 31 were as follows:

	2009	2008
Asset retirement obligations, beginning of year	$ 62,702	$ 24,987
Accretion expense	3,135	1,249
(Decrease) increase due to changes in estimates	(30,980)	37,259
Abandonment obligations settled	(3,166)	(793)
Asset retirement obligations, end of year	$ 31,691	$ 62,702

(All dollar amounts are stated in thousands)

10. Other 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:

		2009		2008
Current portion:				
Site restoration	$	2,039	$	2,177
Historic waste		4,673		4,673
Retiree benefits		360		405
		7,072		7,255
Long term portion:				
Site restoration		9,491		8,777
Historic waste		6,337		6,337
Retiree benefits		1,905		1,901
		17,733		17,015
Total obligations related to sale of assets	$	24,805	$	24,270

(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, 2009 is $11,530 (2008 - $10,954).

(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.

10. Other 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 instalments. 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 costs. At December 31, 2009, 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, 2009.

(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 since 2005 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.

10. Other 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, 2009. 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 revision to the accrual can be reasonably determined. Accordingly the historic waste provision remains unchanged at December 31, 2009.

(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)

10. Other 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:

	2009	2008
Accrued benefit obligation:		
Balance, beginning of year	$ 2,694	$ 4,313
Benefits paid	(238)	(283)
Interest expense	183	219
Actuarial loss (gain)	307	(1,555)
Balance, end of year	$ 2,946	$ 2,694
Accrued benefit liability:		
Balance, beginning of year	$ 2,306	$ 2,233
Benefits paid	(238)	(283)
Interest expense	183	219
Amortization of net actuarial loss	14	137
Balance, end of year	$ 2,265	$ 2,306
Accrued benefit liability represented by:		
Current portion	$ 360	$ 405
Long-term portion	1,905	1,901
	$ 2,265	$ 2,306
Other information:		
Benefit plan deficit	$ (2,946)	$ (2,694)
Unamortized net actuarial loss	681	388
Accrued benefit liability	(2,265)	(2,306)

(All dollar amounts are stated in thousands)

10. Other 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:

	2009	2008
Discount rate	5.2%	7.1%
Rate of increase in medical benefits	9.0%	9.0%
Rate of increase in dental benefits	5.0%	5.0%

The assumed health care cost trend rate at December 31, 2009 and 2008 was 9.0% and this ultimate trend rate was reached in 2008.

Increasing or decreasing the assumed health care cost trend rates by one percentage point would have the following effect for 2009:

	Increase	Decrease
Accrued benefit obligation	$ 89	$ (88)
Total of service and interest cost	5	(5)

(All dollar amounts are stated in thousands)

11. Income taxes:

CDIC, CEI, CH and GEN are not subject to income tax. CHHC is subject to income tax. Dividends received by GEN are not subject to income tax within the U.S.

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.

(a) The provision for income taxes differs from the combined Federal and Provincial income tax rate of 32.33% (2008 – 33.04%) to income before income taxes. The difference relates to the following items:

	2009	2008
Computed expected tax provision	$ 38,225	$ 121,121
Add (deduct) the following:		
Revisions to prior year returns	(1,599)	1,443
Adjustments to reserves	1,257	(112)
Effect of changes in tax rates	(9)	680
Foreign exchange and other	(312)	69
Total income tax expense	$ 37,562	$ 123,201
Current income tax expense	$ 49,227	$ 130,648
Future income tax recovery	(11,665)	(7,447)
Total income tax expense	$ 37,562	$ 123,201

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

	2009	2008
Future income tax liabilities:		
Property and equipment	$ 12,961	$ 32,384
Inventory	1,460	1,634
Capital lease asset	1,584	1,617
Future income tax assets:		
Asset retirement obligations	(8,978)	(18,184)
Research and development obligation	(1,241)	-
Future income tax liability	$ 5,786	$ 17,451

(All dollar amounts are stated in thousands)

12. Contributed Surplus

As part of related party transactions with EDC, as described in note 7, the difference between the consideration paid by GEN and CH and the carrying value of financial assets received have been recorded in contributed surplus.

	2009	2008
Contributed surplus, opening balance	$ 743,184	$ 743,184
Investment in GM received from related party (note 7)	3,149,000	-
Investment in Chrysler received from related party (note 7)	20,000	-
Contributed surplus, closing balance	$ 3,912,184	$ 743,184

13. Supplemental cash flow disclosure:

Changes in non-cash working capital balances**:**

	2009	2008
Increase in accounts receivable	$ (13,353)	$ (542)
Increase in income taxes recoverable	(7,654)	-
Increase in inventory	(326)	(539)
(Increase) decrease in prepaid expenses	(114)	91
Increase (decrease) in accounts payable and accrued liabilities	42,490	(3,992)
(Decrease) increase in income taxes payable	(34,767)	34,647
(Decrease) increase in other obligations	535	(155)
Change in non-cash working capital items	$ (13,189)	$ 29,510
Relating to:		
Operating activities	$ (15,068)	$ 31,646
Investing activities	1,879	(2,136)
Change in non-cash working capital items	$ (13,189)	$ 29,510

During the year ended December 31, 2009 CHHC paid taxes of $91,506 (2008 - $96,230) and interest of $1,617 (2008 - $1,567) of which $1,017 (2008- $1,042) is related to capital lease obligations.

14. 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 transfer revenue (gross transfer revenue less eligible joint capital and operating costs) commencing at such time as cumulative gross transfer revenue exceeds 8.5% of the total investments in the Project (net royalty payout). 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.

The Corporation has determined that they have fully recovered all eligible costs from the sale of crude oil, and thus, have reached net royalty payout threshold. CHHC began paying royalties as per (b) above, effective June 2009.

During the year ended December 31, 2009, CHHC accrued royalties of $46,587 (2008 - $22,536).

In addition, CHHC is also party to the Net Profits Interest Agreement ("NPI"), which provides for a 10% NPI payment to the Government by all Hibernia owners, once certain criteria have been met. The NPI payment is based on each owner's cumulative sales revenue, less cumulative eligible capital, operating and transportation costs. The NPI obligation became effective in February 2009 and amounted to $17,958 during 2009.

15. Commitments and contingencies:

(a) CHHC has entered into a Reserved Capacity Services 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, which expires on December 31, 2010. Subsequent to year-end the agreement was extended to expire on December 31, 2020. CHHC's share of the annual obligations is subject to annual calculations and is approximately $767 annually.

(All dollar amounts are stated in thousands)

15. Commitments and contingencies (continued):

(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:

2010	$ 6,888
2011	6,742
2012	4,526
2013	1,247
2014	595
Thereafter	12
	$ 20,010

(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 C-NLOPB in the event of potential claims under certain sections of the *Canada Newfoundland Atlantic Accord Implementation Act*, the Newfoundland Offshore Petroleum Drilling Regulations and the Newfoundland Offshore Area Petroleum Production and Conservation Regulations. The note will expire on April 30, 2013. At December 31, 2009 there have been no draws on the promissory note. CHHC's share of this commitment is $5,950.

In addition, the owners are required to provide further proof of financial responsibility by depositing letters of credit or cash in the gross amount of $30,000 with the C-NLOPB (note 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. No accrual has been made on the balance sheet.

15. Commitments and contingencies (continued):

(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. No accrual has been made on the balance sheet.

16. Capital management:

The Corporation considers its capital structure as the aggregate of its equity, which is composed of its share capital, contributed surplus and accumulated deficit. The Corporation and its subsidiaries' objectives when managing capital are to prudently manage its revenues, expenses, assets, liabilities and general dealings to ensure that it effectively achieves its objectives and purpose, while remaining a going concern.

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 industry. CEI is constantly monitoring its cash position so that it can meet its liabilities. CH and GEN have been capitalized with contributed surplus as a result of receiving equity interests without making expenditures. CH relies on loans from its parent to fund operations. GEN relies on cash dividends received from the preferred shares its holds to fund operations. Due to the limited expenditures forecast at present for CH and GEN, these funding sources are considered adequate to maintain operations.

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

(All dollar amounts are stated in thousands)

17. Risks to the Corporation:

Overview:

The nature of CDIC's consolidated operations expose the Corporation to credit risk, liquidity risk and other price 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.

(a) Credit risk:

Credit risk is the risk of financial loss to the Corporation if counterparties do not fulfill their contractual obligations. The most significant exposure to this risk is relative to the sale and marketing of crude oil. During 2009 the majority of CHHC's oil production was sold through a new marketing arrangement. The Corporation has assessed the risk of non-collection of funds as low, as CHHC shares cargos with the marketer. Furthermore, the marketer maintains credit surveillance over all pre-approved buyers.

Cash and cash equivalents consist of cash bank balances and short-term deposits maturing within three months valued at cost plus accrued interest from 0.20% to 1.56% (2008 - 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, 2009 and 2008 and did not provide for any doubtful accounts nor was it required to write-off any receivables during 2009 or 2008. As at December 31, 2009 the following amounts were included in accounts receivable.

	2009	2008
Outstanding under 120 days	$ 14,912	$ 1,227
Outstanding greater than 120 days	107	439
Total accounts receivable	$ 15,019	$ 1,666

17. Risks to the Corporation (continued):

(b) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become 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 working interest in the Hibernia Development Project currently exceeds operating and future capital expenditures. Considering these circumstances and the cash balance at December 31, 2009 of $105,416 (2008 - $93,938), the Corporation's liquidity risk is assessed as insignificant. Some operating expenses and commitments of subsidiaries are funded by loans from the Corporation to maintain the liquidity of subsidiaries.

(c) Market risk:

Market risk is the risk that changes in foreign exchange rates, commodity prices and/or interest rates will affect the Corporation's cash flows, net income and/or 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. All of the Corporation's oil production is transacted in United States dollars and is converted to Canadian dollars at spot rates, exposing the Corporation to foreign exchange movements. A $0.01 change to the foreign exchange rate would have an impact on after tax net income from this source of approximately $1,117 for the year ended December 31, 2009 (2008 - $3,108).

Since dividend income is received in a foreign currency (U.S. dollars), the Corporation's cash flows are exposed to foreign exchange fluctuations. The Corporation is exposed to foreign exchange rates upon any fair valuation of financial instruments with changes impacting earnings or other comprehensive income as well as impacting dividend income converted into Canadian dollars. A $0.01 change in the CAD/USD exchange rate would have an impact on net income of $156.

17. Risks to the Corporation (continued):

(d) Market risk:

(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 $2,293 for the year ended December 31, 2009 (2008- $2,806).

(iii) Interest rate risk:

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

17. Risks to the Corporation (continued):

(d) Market risk (continued):

(iv) Other Price risk:

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

Changes in market values will impact other comprehensive income and future earnings and cash flows when the Corporation disposes of the share holdings. Given that some of the Corporation’s held-for-trading financial instruments are denominated in a foreign currency; the adjustment due to foreign currency translation may also cause market price fluctuations.

If a market commences for the preferred and common GM shares and the Chrysler membership interests, the fair value of such assets will be directly exposed to other price risk. Changes in market values of the common shares will impact accumulated comprehensive income and profit and loss in the case of preferred shares.

(e) Fair value of financial instruments:

Accounting standard guidance establishes a framework for measuring fair value and provides disclosure about fair value measurements. That framework provides a fair value hierarchy that gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

(All dollar amounts are stated in thousands)

17. Risks to the Corporation (continued):

(e) Fair value of financial instruments (continued):

The following table summarizes information on the fair value measurement of the Company's assets as of December 31, 2009 grouped by the categories described above:

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	$ 105,416	$ 105,416	$ -	$ -
Cash on deposit in the CRF	138,036	138,036	-	-
Investments	3,147,633	-	447,000	2,700,633 *
Total	$ 3,391,085	$ 243,452	$ 447,000	$ 2,700,633

* The fair values of the available-for-sale investments within Level 3 were determined as at the date of acquisition which is the historical cost. These assets are recorded at historical cost at December 31, 2009.

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

18. 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, 2009 in the amount of $89,000 (2008 - $288,200).

In 2009, the Corporation had three other significant related party transactions. As described in Note 7, CH received certain equity instruments as a result of transactions between EDC, which is a related party, and Chrysler. As well, GEN received certain equity instruments as a result of transactions between EDC, and GM. In addition, the Corporation received warrants for the purchase of 1,666,666 Class A or Class B shares in Air Canada as a result of a financing undertaken by EDC to Air Canada.

(All dollar amounts are stated in thousands)

19. Subsequent event:

In February 2010, CHHC and other participants in the Hibernia Development Project signed a formal agreement to develop the Hibernia South Extension with the Province of Newfoundland and Labrador. The extension will result in significant capital expenditures to develop the required facilities, add additional reserves, and extend production of the field beyond its original projected life. The agreement also retroactively amended the eligibility of deductible transportation costs for royalty purposes, the effect of which on royalties' expense has been reflected within the statement of operations and comprehensive income for the year ended December 31, 2009.

20. Supplementary information:

The consolidated financial statements of the Corporation include 100% of the assets, liabilities, revenues and expenses of CHHC as at December 31 as follows:

Balance Sheet:
(Thousands of Dollars)

	2009	2008
Assets:		
Current	$ 99,447	$ 80,926
Long-term	218,934	286,453
	318,381	367,379
Liabilities:		
Current	51,063	43,749
Long-term	44,444	89,373
	95,507	133,122
Shareholder's Equity	222,874	234,257
	$ 318,381	$ 367,379

Operations:

	2009	2008
Revenue:		
Net crude oil sales	$ 201,600	$ 428,108
Other income	2,756	11,280
Expense:		
Total expenses	(86,177)	(72,798)
Income tax	(37,562)	(123,201)
Net income after tax	$ 80,617	$ 243,389

Cash flows:

	2009	2008
Cash provided (used) by:		
Operating activities	$ 106,059	$ 316,824
Financing activities	(92,959)	(291,733)
Investing activities	(16,436)	(36,619)
Decrease in cash and cash equivalents	$ (3,336)	$ (11,258)