CANADA DEVELOPMENT INVESTMENT CORPORATION

Including

Canada Hibernia Holding Corporation

ANNUAL REPORT
2006

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, 2006. 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, Canada Hibernia Holding Corporation (CHHC) and Canada Eldor Inc. (CEI), have been consolidated with those of CDIC. CHHC's audited financial statements are included separately in this report for information purposes.

The Board of Directors and Executive Vice-President manage CDIC and provide advice to the Minister as required. The Board of Directors maintains a state of readiness with respect to the divestiture of CDIC's remaining assets and continues the orderly wind down of its remaining obligations.

CDIC's main focus during 2006 was continuing to manage its investment in CHHC, our one remaining active investment. CDIC has retained financial advisors to assist in the eventual sale of this investment. In 2006 CHHC paid dividends of $174 million to CDIC and CDIC paid an equivalent amount to the Government of Canada ("Government"). As at December 31, 2006, CHHC had repaid its appropriations of $410M to the Government and has paid a total of $678M in dividends to CDIC, which CDIC in turn paid to the Government in dividends. CHHC currently has $78.48M on deposit for it in the Consolidated Revenue Fund.

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. CEI currently has 43.5M on deposit for it in the Consolidated Revenue Fund.

Assets sold to date on behalf of the Government by CDIC since 1985 have realized proceeds of approximately $2.0 billion. During 2006, CDIC did not borrow from the Government nor did it receive any appropriations.

On behalf of the Board of Directors,

Donald McQ. Shaver, O.C., D. Sc.
Chairman
Canada Development Investment Corporation

March 5, 2007

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 5, 2007

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

Board of Directors

Donald McQ. Shaver, O.C., D.Sc.
Chairman
Canada Development Investment Corporation
Chairman
The Shaver Group
Cambridge, Ontario

Member since: 1983
Chairman since: 1995
Current term expires December 4, 2007

Gordon W. King (1) (2)
Director
Ottawa, Ontario

Member since: 1995
Current term expires October 20, 2007

N. William Ross, LL.M (1) (3)
Chairman Emeritus and Partner
WeirFoulds LLP
Toronto, Ontario

Member since: 1993
Current term expires October 20, 2007

William R. Teschke (1) (2) (3)
Executive
Vancouver, British Columbia

Past member 1983-1995
Member since: 1997
Current term expires October 20, 2007

Benita M. Warmbold, CA (1) (2) (3)
Managing Director
Northwater Capital Management Inc.
Toronto, Ontario

Former Executive Vice-President of Corporation
Member since: 1997
Current term expires October 20, 2007

Officers

Michael Carter
Executive Vice-Resident

Patrice S. Walch-Watson
Corporate Secretary

Committees of the Board

(1) Audit Committee
(2) Administrative Liaison Committee
(3) Nominating 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. The audited financial statements of CHHC are included separately in this report for information purposes. 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.

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.

Michael Carter
Executive Vice-President
Canada Development Investment Corporation

March 5, 2007

CORPORATE GOVERNANCE PRACTICES

The Board of Directors of CDIC is focused on winding down the Corporation in an effective and efficient manner. CDIC's mandate is to act in a commercial manner managing the remaining affairs of the Corporation.

CDIC's 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, 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 initiates Board appointments and renewals as required. The Board established a Nominating Committee in 2004 to assist 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. In 2005 CDIC's five directors were each re-appointed by the Governor in Council for an additional two-year term. 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. CDIC welcomed the Treasury Board's guidance in this area contained in its 2005 report entitled "Review of the Governance Framework for Canada's Crown Corporations - Meeting the Expectations of Canadians". CDIC has assessed the Report and its impact on the Corporation. CDIC was already in compliance with a number of the measures recommended by Treasury Board at the time the Report was issued, particularly those relating to audit committees and separation of management and boards, and has taken steps to comply with other measures that are in its control. In other cases, CDIC awaits guidance or action from the government. CDIC will continue to closely monitor the government's evolving guidance in governance matters and public sector best practices and implement changes in its governance practices as required.

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS

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

CHHC's crude oil sales declined from $405 million in 2005 to $348 million in 2006, and were in alignment with their Corporate Plan. Lower sales revenue was the result of a decline in average daily production and also the timing of crude oil cargo shipments, as CHHC recognizes revenue at the time of transfer of ownership. At year end, CHHC had 844,483 barrels of crude oil, valued at $2.8 million, aboard a Tanker, which was not sold until January, 2007. The production declines and unsold inventory were partially offset by increase in prices, having averaged CAD $72.42/bbl in 2006, versus an average price of CAD $64.63 in 2005.

The outlook is for a continuing decline in production and sales from the Hibernia field, though it should continue in production for several decades. Exploitation of an extension of the original field to the south has been held up due to the Newfoundland Government exercising its veto over the plan approved by the Canada Newfoundland and Labrador Oil Production Board. Resolution of this problem will reduce the rate of decline, but will not bring production back to its peak level.

As a result of the decline in CHHC's sales, dividends paid to the Government of Canada declined to $174 million from $231million and projection for 2007 is $143M.

CEI's costs for site restoration and historic waste related to its obligations under the agreement of purchase and sale between Cameco and CEI increased from $2.2 million to $4.4 million due primarily to estimates of a longer and more expensive process of decommissioning of the Beaverlodge mine site than was previously forecast. This reflects increasingly stringent environmental policies being imposed by the Canadian Nuclear Safety Commission. During the year CEI initiated an external audit of charges by Cameco for joint historic waste costs. CEI also participated actively in defense of a lawsuit by Rio Algom Limited, which alleges loss of profits to Rio of $75 million based on contracts entered into in the 1950s and 1960s.

KPMG LLP
Chartered Accountants

AUDITORS' REPORT

To the Minister of Finance

We have audited the consolidated balance sheet of Canada Development Investment Corporation as at December 31, 2006 and the consolidated statements of 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, 2006 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* and the articles and the by-laws of the Corporation and its wholly-owned subsidiaries.

Richard Flageole, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
March 5, 2007

KPMG LLP

Chartered Accountants

Ottawa, Canada
March 5, 2007

CANADA DEVELOPMENT INVESTMENT CORPORATION

Consolidated Balance Sheet

December 31, 2006, with comparative figures for 2005 (In thousands)

		2006		2005
Assets				
Current assets:				
Cash and cash equivalents	$	85,828	$	91,684
Receivables		1,443		8,437
Inventory		2,847		458
Prepaid expenses		361		367
Cash on deposit in the Consolidated Revenue Fund (note 3)		7,987		13,500
		98,466		114,446
Cash on deposit in the Consolidated Revenue Fund (note 3)		113,991		118,240
Cash held in escrow (note 4)		2,550		2,550
Property and equipment (note 5)		216,910		236,658
	$	431,917	$	471,894
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	10,838	$	19,364
Current portion of site restoration obligation (note 6)		2,523		1,463
Current portion of historic waste obligation (note 7)		4,220		4,044
Current portion of retiree benefit obligations (note 8)		920		570
Current lease obligation (note 9)		3,354		2,997
Taxes payable (note 12)		2,423		38,311
		24,278		66,749
Long term liabilities:				
Site restoration obligation (note 6)		7,709		6,500
Historic waste obligation (note 7)		6,290		6,302
Retiree benefit obligations (note 8)		1,580		1,551
Long-term lease obligation (note 9)		10,387		13,923
Asset retirement obligation (note 10)		81,571		78,478
Future income taxes (note 12)		17,900		23,700
		125,437		130,454
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		(460,983)		(468,494)
		282,202		274,691
Commitments and contingencies (note 6, 7 and 13)				
	$	431,917	$	471,894

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 Income and Accumulated Deficit

Year ended December 31, 2006, with comparative figures for 2005
(In thousands)

	2006	2005
Revenue:		
Crude oil sales, net of royalties	$ 348,453	$ 404,864
Interest income	3,120	1,683
	351,573	406,547
Operating expenses:		
Depletion and depreciation	40,657	50,791
Operating expense	15,119	14,729
Accretion of asset retirement obligation (note 10)	3,924	3,737
Corporate and divestiture expense	2,658	2,540
Interest on capital lease	1,687	2,130
Foreign exchange loss (gain)	(1,546)	44
	62,499	73,971
Other expenses:		
Site restoration costs (note 6)	3,000	1,053
Historic waste costs (note 7)	1,465	1,163
Retiree benefit costs (note 8)	398	364
	4,863	2,580
Net income before income and other taxes	284,211	329,996
Income and other taxes (note 12)	102,700	111,416
Net income for the year	181,511	218,580
Accumulated deficit, beginning of year	(468,494)	(456,074)
Dividends paid	(174,000)	(231,000)
Accumulated deficit, end of year	$ (460,983)	$ (468,494)

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, 2006, with comparative figures for 2005
(In thousands)

	2006	2005
Cash provided by (used in):		
Operations:		
Net income for the year	$ 181,511	$ 218,580
Items not involving cash:		
Future income tax reduction	(5,800)	(4,600)
Depletion and depreciation	40,657	50,791
Accretion of asset retirement obligations	3,924	3,737
Abandonment expenditures	(299)	–
Unrealized foreign exchange	(257)	(557)
Funds from operations	219,736	267,951
Change in non-cash working capital (note 14)	(35,239)	20,825
	184,497	288,776
Financing:		
Dividends paid	(174,000)	(231,000)
Lease obligation payments	(2,922)	(2,783)
	(176,922)	(233,783)
Investments:		
Property and equipment (note 5)	(21,441)	(22,207)
Cash received from (paid into) CRF	9,762	(12,740)
Change in non-cash working capital (note 14)	(1,752)	4,665
	(13,431)	(30,282)
Increase (decrease) in cash and cash equivalents	(5,856)	24,711
Cash and cash equivalents, beginning of year	91,684	66,973
Cash and cash equivalents, end of year	$ 85,828	$ 91,684

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.* Its mandate is to wind down its operations by divesting of its remaining assets in an orderly fashion and to ready the Corporation for eventual wind up.

The Corporation has two wholly-owned subsidiaries: Canada Eldor Inc ("CEI") and Canada Hibernia Holding Corporation ("CHHC").

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 notes 6, 7, and 8.

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, management, funding and ultimately assisting the Corporation in the disposal of its 8.5% equity interest in the Hibernia Development Project, a joint venture. The interest in this joint venture has been proportionately consolidated in CHHC's financial statements which are consolidated in 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.

2. Significant accounting policies (continued):

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

Development costs charged to the Joint Account 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 the Company's development activities are conducted jointly with the other owners.

(c) 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 are recorded at cost plus accrued interest which approximates market value.

(d) Divestiture costs:

Divestiture costs are expensed when incurred and are included in corporate and divestiture expense.

(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 12 years (2005 - 9 years). Benefit cost is included in corporate expenses.

2. Significant accounting policies (continued):

(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 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.

(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:

Transactions denominated in foreign currencies are translated at the rates in effect at the time of transactions. Monetary items denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet dates 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.

2. Significant accounting policies (continued):

(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 cost.

(j) Asset retirement obligations:

CHHC recognizes the fair value of an Asset Retirement Obligation ("ARO") 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 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.

(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 current tax rates.

(l) Revenue recognition:

Revenue associated with the sale of petroleum and natural gas production 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. Actual results could differ significantly from those estimates.

(All dollar amounts are stated in thousands)

3. Cash on deposit in the Consolidated Revenue Fund:

CEI has $43,500 (2005 - $57,000) on deposit in a non-interest bearing special purpose account in the Consolidated Revenue Fund (“CRF”) of the Government consisting of $7,987 (2005 - $13,500) in current assets and $35,513 (2005 - $43,500) in long-term assets. The long-term portion of the CRF has been allocated by CEI to provide for long-term liabilities related to the site restoration and the historic waste obligations and other potential future liabilities.

CHHC has deposited cash in the CRF to provide for future abandonment of the Hibernia Facility and to provide for security against future risks. During 2006, CHHC deposited $3,738 (2005 - $14,740) thereby increasing the cash in the non-interest bearing fund to $78,478 (2005 - $74,740). CHHC has reduced certain of its third party insurance coverage as a result of the risk fund.

4. 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 (CNLOPB) requires evidence of financial responsibility. CHHC maintains an escrow account in the amount of $2,550 (2005 - $2,550) to satisfy this requirement. The CNLOPB has the right to make claims against the cash in escrow under certain circumstances and CHHC retains any interest earned on the account.

5. Property and equipment:

Property and equipment are recorded at cost less accumulated depletion and depreciation. All property and equipment relates to CHHC.

			2006	2005
	Cost	Accumulated depreciation and depletion	Net book value	Net book value
Hibernia Development Project:				
Offshore production facility	$ 436,137	$ 253,472	$ 182,665	$ 204,465
Drilling costs	156,730	142,102	14,628	10,452
	592,867	395,574	197,293	214,917
Crude oil tanker (note 9)	39,534	19,917	19,617	21,741
	$ 632,401	$ 415,491	$ 216,910	$ 236,658

(All dollar amounts are stated in thousands)

5. Property and equipment (continued):

At December 31, 2006, the property and equipment balance is reduced by investment tax credits in the amount of $57,239 (2005 - $57,001).

Unproved property costs of $71,069 have been excluded from the depletion calculation. Future development costs of $172,400 have been included in the depletion calculation.

CHHC performed a ceiling test calculation at December 31, 2006 to assess the recoverable value of property and equipment, using an estimated future price of:

Year	Brent Crude $US/bbl
2007	$ 60.50
2008	58.50
2009	56.50
2010	55.50
2011	55.50
2012	56.00
2013	57.00
2014	58.25

After 2014, the price forecast escalates at 2% per year to the end of reserve life.

6. Site restoration obligation:

Under the terms of the purchase and sale agreement in 1988 between CEI and Cameco, CEI is responsible for all costs related to the decommissioning of a former mine site. Cameco is responsible for the monitoring and management of this site. CEI accrues for these costs based on estimates provided by Cameco. The current estimate for costs and the amount accrued as at December 31, 2006 is $10,232 (2005 - $7,963).

7. Historic waste obligation:

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.

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 two waste management 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 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 from Cameco. On exercise of that option, the agreement stipulates that Cameco would make payments to CEI for the remaining portion of their 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 costs.

CEI would have an ongoing obligation relating to the miscellaneous above ground wastes and the decommissioning of the two refineries to the extent the waste was historic waste. Cameco provides estimates to CEI for joint above ground waste costs and CEI accrues based on this estimate, although the actual liability may differ substantially when it becomes actual. CEI's accrual for the estimated joint costs for above ground waste as at December 31, 2006 is $10,510 (2005 - $10,346).

(All dollar amounts are stated in thousands)

8. Retiree benefit obligations:

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, 2005. The next actuarial valuation will be on or before September 30, 2008. These benefits include life insurance and medical and dental benefits. Information about CEI's post retirement benefit plan is as follows:

	2006	2005
Accrued benefit obligation:		
Balance, beginning of year	$ 4,713	$ 4,121
Benefits paid	(20)	(571)
Interest expense	222	211
Actuarial loss	(18)	952
Balance, end of year	4,897	4,713
Accrued benefit liability:		
Balance, beginning of year	2,121	2,328
Benefits paid	(20)	(571)
Interest expense	222	211
Amortization of net actuarial loss	177	153
Balance, end of year	2,500	2,121
Accrued benefit liability represented by:		
Current portion	920	570
Long-term portion	1,580	1,551
	2,500	2,121
Other information:		
Benefit plan (deficit)	(4,897)	(4,713)
Unamortized net actuarial loss	2,397	2,592
Accrued benefit (liability)	(2,500)	(2,121)

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:

	2006	2005
Discount rate	4.8%	4.7%
Rate of increase in medical benefits	11.0%	11.0%
Rate of increase in dental benefits	5.0%	5.0%

(All dollar amounts are stated in thousands)

8. Retiree benefit obligations (continued):

Assumed health care cost trend rates at December 31:

	2006	2005
Initial health care trend rate	11.0%	11.0%
Trend rate declines to	6.0%	6.0%
Year the rate reaches the rate it is assumed to remain at	2011	2011

Increasing or decreasing the assumed health care cost trend rates by one percentage point would have the following effect for 2006:

2006	Increase	Decrease
Accrued benefit obligation	$ 378	$ (333)
Total of service and interest cost	17	(15)

9. 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 $6,859 in 2006 (2005 - $6,900). 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. 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:

2007	$ 4,736
2008	2,068
2009	2,063
2010	2,063
2011	2,063
Thereafter	6,981
Minimum lease payments	19,974
Less amount representing interest	(6,233)
	13,741
Less current portion	(3,354)
	$ 10,387

(All dollar amounts are stated in thousands)

10. Asset retirement obligations:

CHHC's asset retirement obligations are based on CHHC's net ownership 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 $276,228 (2005 - $370,261).

These obligations will be settled based on the useful lives of the underlying assets, which currently extended up to the year 2030. A credit adjusted risk free rate of 5% and an inflation rate of 1% was used to calculate the fair value of the asset retirement obligations.

Changes to asset retirement obligations were as follows:

	2006	2005
Asset retirement obligations, beginning of year	$ 78,478	$ 74,741
Accretion	3,924	3,737
Changes in estimates	(532)	–
Abandonment obligations incurred	(299)	–
Asset retirement obligations, end of year	$ 81,571	$ 78,478

11. Royalty:

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

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

(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, 2006 the Company paid royalties of $17,902 (2005 - $20,582).

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 net sales revenue, less cumulative eligible capital, operating and transportation costs. It has been determined that the NPI payments will commence in 2009. No NPI payments have been paid to date.

(All dollar amounts are stated in thousands)

12. 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 tax pools 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 amount obtained by applying the combined Federal and Provincial income tax rate of 38% (2005 - 40%) to income before income taxes. The difference relates to the following items:

	2006	2005
Computed expected tax provision	$ 109,944	$ 133,361
Add (deduct) the following:		
Resource allowance on Canadian production income	(11,197)	(25,248)
Royalties, lease rentals and mineral taxes	2,381	5,351
Other	1,572	(2,048)
	$ 102,700	$ 111,416
Current	$ 108,500	$ 116,016
Future reduction	(5,800)	(4,600)
	$ 102,700	$ 111,416

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

	2006	2005
Future income tax liabilities:		
Property and equipment	$ 42,861	$ 50,160
Capital lease	1,939	1,736
Other	18	56
Future income tax assets:		
Abandonment retirement obligations	(26,918)	(28,252)
Future income taxes	$ 17,900	$ 23,700

(All dollar amounts are stated in thousands)

13. Commitments and contingencies:

(a) 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.

(b) CHHC has entered into an agreement with Newfoundland Transhipment Limited whereby CHHC acquired the right to the use of the Transhipment Terminal for crude oil storage and transhipment. 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 $720 annually.

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

2007	$	4,829
2008		1,716
2009		1,514
2010		1,437
2011		1,356

(d) HMDC has provided a $70 million non-negotiable demand promissory note 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 29, 2007. 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 million with the CNLOPB (note 4).

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

(All dollar amounts are stated in thousands)

14. Supplemental cash flow disclosure:

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

	2006	2005
Accounts receivable	$ 6,994	$ (3,212)
Inventory	(2,389)	2,824
Prepaid expenses	6	(285)
Accounts payable and accrued liabilities	(8,526)	10,802
Taxes payable	(35,888)	14,645
Retiree benefit obligations	379	(207)
Site restoration obligation	2,269	(241)
Historic waste obligation	164	1,164
	$ (36,991)	$ 25,490
Relating to:		
Operations	$ (35,239)	$ 20,825
Investments	(1,752)	4,665
Change in non-cash working capital	$ (36,991)	$ 25,490

During the year ended December 31, 2006 the CHHC paid taxes of $144,093 (2005 - $100,465) and interest of $1,744 (2005 - $2,130) of which $1,687 is related to capital lease obligations.

15. Fair values:

Financial instruments of CDIC, CEI and CHHC comprise cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and the capital lease obligation. At December 31, 2006 and 2005, the fair values of the monetary assets and liabilities approximated their carrying values due to their short-term nature.

16. Comparative figures:

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

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.

CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Consolidated Financial Statements, page 14

Year ended December 31, 2006
(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	$ 9,364	$ 13,428	$ 63,006	$ 30	$ 85,828
Receivables	205	211	1,182	(155)	1,443
Inventory	–	–	2,847	–	2,847
Prepaid expenses	3	–	358	–	361
Cash on deposit in CRF	–	7,987	–	–	7,987
	9,572	21,626	67,393	(125)	98,466
Cash on deposit in CRF	–	35,513	78,478	–	113,991
Investment in subsidiaries	272,730	–	–	(272,730)	–
Cash held in escrow	–	–	2,550	–	2,550
Property and equipment	–	–	216,910	–	216,910
	$ 282,302	$ 57,139	$ 365,331	$ (272,855)	$ 431,917
Liabilities and Shareholder's Equity					
Current liabilities:					
Accounts payable and accrued liabilities	$ 100	$ 323	$ 10,415	$ –	$ 10,838
Current portion of site restoration obligation	–	2,523	–	–	2,523
Current portion of historic waste obligation	–	4,220	–	–	4,220
Current portion of retiree benefit obligations	–	920	–	–	920
Current lease obligation	–	–	3,354	–	3,354
Taxes payable	–	–	2,423	–	2,423
Due to Shareholder	–	–	125	(125)	–
	100	7,986	16,317	(125)	24,278
Long-term liabilities					
Site restoration obligation	–	7,709	–	–	7,709
Historic waste obligation	–	6,290	–	–	6,290
Retiree benefit obligations	–	1,580	–	–	1,580
Long term lease obligation	–	–	10,387	–	10,387
Future income taxes	–	–	17,900	–	17,900
Asset retirement obligation	–	–	81,571	–	81,571
	–	15,579	109,858	–	125,437
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)	(460,983)	(866,306)	239,156	627,150	(460,983)
	282,202	33,574	239,156	(272,730)	282,202
	$ 282,302	$ 57,139	$ 365,331	$ (272,855)	$ 431,917

(All dollar amounts are stated in thousands)

17. Segmented information (continued):

Statement of Income

	CDIC	CEI	CHHC	Intercompany Eliminations	CDIC Consolidated
Revenue:					
Investment in CHHC	$ 186,827	$ –	$ –	$ (186,827)	$ –
Investment in CEI	(5,055)	–	–	5,055	–
Crude oil sales, net of royalties	–	–	348,453	–	348,453
Interest income	399	266	2,455	–	3,120
Management fees	100	–	–	(100)	–
	182,271	266	350,908	(181,872)	351,573
Operating expenses:					
Depletion and depreciation	–	–	40,657	–	40,657
Operating expense			15,119	–	15,119
Accretion of asset retirement obligation	–	–	3,924	–	3,924
Corporate and divestiture expense	760	458	1,540	(100)	2,658
Interest on capital lease	–	–	1,687	–	1,687
Foreign exchange loss (gain)	–	–	(1,546)	–	(1,546)
	760	458	61,381	(100)	62,499
Other expenses:					
Site restoration costs	–	3,000	–	–	3,000
Historic waste costs	–	1,465	–	–	1,465
Retiree benefit costs	–	398	–	–	398
	–	4,863	–	–	4,863
Income (loss) before income and other taxes	181,511	(5,055)	289,527	(181,772)	284,211
Income taxes	–	–	102,700	–	102,700
Net income for the year	181,511	(5,055)	186,827	(181,772)	181,511
Retained earnings (accumulated deficit), beginning of year	(468,494)	(861,251)	226,329	634,922	(468,494)
Dividends paid	(174,000)	–	(174,000)	174,000	(174,000)
Retained earnings (accumulated deficit), end of year	$ (460,983)	$ (866,306)	$ 239,156	$ 627,150	$ (460,983)

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AUDITORS' REPORT

To the Shareholder of
Canada Hibernia Holding Corporation

We have audited the balance sheet of Canada Hibernia Holding Corporation as at December 31, 2006 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company'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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and the results of its operations and its cash flows for the years 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 Company that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Business Corporation Act and the articles and by-laws of the Company.

KPMG LLP

Chartered Accountants

Calgary, Canada
March 5, 2007

CANADA HIBERNIA HOLDING CORPORATION

Balance Sheet

December 31, 2006, with comparative figures for 2005
(Thousands of Dollars)

	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	$ 63,006	$ 79,923
Accounts receivable	1,182	8,340
Inventory (note 2(g))	2,847	458
Prepaid expenses	358	367
	67,393	89,088
Property and equipment (note 3)	216,910	236,658
Cash held in escrow (note 5)	2,550	2,550
Cash held for future abandonment and risk fund (note 6)	78,478	74,740
	$ 365,331	$ 403,036
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 10,415	$ 19,173
Income taxes payable	2,423	38,311
Current lease obligation (note 7)	3,354	2,997
Due to shareholder	125	125
	16,317	60,606
Capital lease obligation (note 7)	10,387	13,923
Future income taxes (note 9)	17,900	23,700
Asset retirement obligations (note 4)	81,571	78,478
	126,175	176,707
Shareholder's equity:		
Capital stock:		
Authorized unlimited number of common shares		
Issued and fully paid - 1 common share	–	–
Retained earnings	239,156	226,329
	239,156	226,329
Commitment and contingencies (notes 8 and 10)		
	$ 365,331	$ 403,036

See accompanying notes to financial statements.

On behalf of the Board:

________________ Director ________________ Director

CANADA HIBERNIA HOLDING CORPORATION

Statement of Operations and Retained Earnings

Year ended December 31, 2006, with comparative figures for 2005
(Thousands of Dollars)

	2006	2005
Revenue:		
Crude oil sales, net of royalties	$ 348,453	$ 404,864
Interest	2,455	1,359
	350,908	406,223
Expenses:		
Depletion and depreciation	40,657	50,791
Operating	15,119	14,729
Interest on capital lease obligation	1,687	2,130
Administrative	1,540	1,388
Accretion of asset retirement obligations (note 4)	3,924	3,737
Foreign exchange (gains) losses	(1,546)	44
	61,381	72,819
Income before income and other taxes	289,527	333,404
Income and other taxes (note 9)	102,700	111,416
Net income for the year	186,827	221,988
Retained earnings, beginning of year	226,329	235,341
Dividends	(174,000)	(231,000)
Retained earnings, end of year	$ 239,156	$ 226,329

See accompanying notes to financial statements.

CANADA HIBERNIA HOLDING CORPORATION

Statement of Cash Flows

Year ended December 31, 2006, with comparative figures for 2005
(Thousands of Dollars)

	2006	2005
Cash provided by (used in):		
Operations:		
Net income for the year	$ 186,827	$ 221,988
Items not involving cash		
Future income taxes (reduction)	(5,800)	(4,600)
Depletion and depreciation	40,657	50,791
Accretion of asset retirement obligations	3,924	3,737
Unrealized foreign exchange	(257)	(557)
Abandonment expenditures	(299)	–
Funds from operations	225,052	271,359
Change in non-cash working capital (note 11)	(38,116)	20,174
	186,936	291,533
Financing:		
Dividends	(174,000)	(231,000)
Lease obligation payments	(2,922)	(2,783)
	(176,922)	(233,783)
Investment:		
Property and equipment	(21,441)	(22,207)
Cash held for future abandonment and risk fund (note 6)	(3,738)	(14,740)
Change in non-cash working capital (note 11)	(1,752)	4,665
	(26,931)	(32,282)
Increase (decrease) in cash and cash equivalents	(16,917)	25,468
Cash and cash equivalents, beginning of year	79,923	54,455
Cash and cash equivalents, end of year	$ 63,006	$ 79,923

See accompanying notes to financial statements.

1. Canada Hibernia Holding Corporation:

Canada Hibernia Holding Corporation (the "Company” or “CHHC") was incorporated under the provisions of the Canada Business Corporation Act on December 4, 1992. The Company was acquired by Canada Development Investment Corporation ("CDIC") in March 1993. Prior to March 1993 the Company was inactive. The Company is subject to the Financial Administration Act.

On March 19, 1993, the Company acquired for no cost an 8.5% working interest in the Hibernia Development Project and an 8.5% equity interest in the Hibernia Management and Development Company Ltd. ("HMDC"). CHHC's sole purpose is the holding, management, funding and ultimately assisting in the disposal of the 8.5% equity interest in the Hibernia Development Project. Pursuant to a Memorandum of Understanding ("MOU") dated June 8, 1993 between the Government of Canada ("Government"), CDIC and CHHC the Government appropriated the funds necessary for CHHC to honour its obligations to fund the project costs of the Hibernia Development Project. Production from Hibernia commenced in late 1997 and during 1998 CHHC achieved sufficient cash flow to fund its operations and fulfill its continuing obligations without further government appropriations. All government appropriations have been repaid.

HMDC acts as agent for the participants in the Hibernia Development Project. All project expenditures, other than those costs relating to the transportation of oil from the project, royalties, and insurance are charged to the Joint Account which is owned by the participants in proportion to their working interest. The Joint Account is funded directly by the participants.

2. Significant accounting polices:

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

Development costs charged to the Joint Account 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 the Company's development activities are conducted jointly with the other owners.

2. Significant accounting polices (continued):

(b) 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.

(c) Depletion and depreciation:

Costs are transferred to the depreciable pool as proved reserves are established and are depleted on a unit-of-production basis using proved reserves. The Company excludes a portion of incurred costs 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.

(d) Asset retirement obligations:

The Company recognizes the fair value of an Asset Retirement Obligation ("ARO") 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 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.

2. Significant accounting polices (continued):

(e) Foreign currency translation:

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

(f) Cash and cash equivalents:

The Company's investments are considered to be cash equivalents and are recorded at cost, plus accrued interest which approximates market value.

(g) Inventory:

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 cost. At December 31, 2006 the Company had $288 (2005 – $458) in drill pipe inventory and $2,559 (2005 – $nil) in crude oil inventory.

(h) 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 current tax rates.

(i) Revenue recognition:

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

(j) 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. Actual results could differ from those estimates.

(All dollar amounts are stated in thousands)

2. Significant accounting polices (continued):

(k) Comparative figures:

Certain comparative figures have been restated to conform to the current year's financial statement presentation.

(l) Interest in joint ventures:

Substantially all of the Company's oil and gas exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

3. Property and equipment:

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

			2006	2005
	Cost	Accumulated depreciation and depletion	Net book value	Net book value
Hibernia Development Project:				
Offshore production facility	$ 436,137	$ 253,472	$ 182,665	$ 204,465
Drilling costs	156,730	142,102	14,628	10,452
	592,867	395,574	197,293	214,917
Crude oil tanker (note 7)	39,534	19,917	19,617	21,741
	$ 632,401	$ 415,491	$ 216,910	$ 236,658

At December 31, 2006, the property and equipment balance has been reduced by investment tax credits in the amount of $57,239 (2005 - $57,001).

Unproved property costs of $71,069 have been excluded from the depletion calculation. Future development costs of $172,400 have been included in the depletion calculation.

(All dollar amounts are stated in thousands)

3. Property and equipment (continued):

The Company performed a ceiling test calculation at December 31, 2006 to assess the recoverable value of property and equipment, using estimated future prices as follows:

Year	Brent Crude $US/bbl
2007	$ 60.50
2008	58.50
2009	56.50
2010	55.50
2011	55.50
2012	56.00
2013	57.00
2014	58.25

After 2014, the price forecast escalates at 2% per year to the end of reserve life.

4. Asset retirement obligations:

The Company's asset retirement obligations are based on the Company'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. The Company estimates the total future undiscounted liability to be $276,228.

These obligations will be settled based on the useful lives of the underlying assets, which currently extends up to the year 2030. A credit adjusted risk free rate of 5% and an inflation rate of 1% was used to calculate the fair value of the asset retirement obligations.

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

	2006	2005
Asset retirement obligations, beginning of year	$ 78,478	$ 74,741
Accretion	3,924	3,737
Changes in estimates	(532)	–
Abandonment obligations settled	(299)	–
Asset retirement obligations, end of year	$ 81,571	$ 78,478

(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. The Company maintains an escrow account in the amount of $2,550 (2005 - $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. Cash held for future abandonment and risk fund:

The Company has deposited cash in the Consolidated Revenue Fund of the Federal Government to provide for future abandonment of the Hibernia Facility and to provide for security against future risks. During 2006, the Company deposited $3,738 (2005 - $14,740) thereby increasing the cash in the non-interest bearing fund to $78,478 (2005 - $74,740). The Company has reduced certain of its third party insurance coverage as a result of the risk fund.

7. Lease obligation - crude oil tanker:

The Company, 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. The Company's share of annual fixed obligations for both capital and operating elements was approximately $6,859 for 2006 (2005 - $6,900). 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. 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:

2007	$ 4,736
2008	2,068
2009	2,063
2010	2,063
2011	2,063
Thereafter	6,981
Minimum lease payments	19,974
Less amount representing interest	(6,233)
	13,741
Less current portion	(3,354)
	$ 10,387

8. Royalty:

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

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

(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, 2006 the Company paid royalties of $17,902 (2005 - $20,582).

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 net sales revenue, less cumulative eligible capital, operating and transportation costs. It has been determined that the NPI payments will commence in 2009. No NPI payments have been paid to date.

(All dollar amounts are stated in thousands)

9. Income taxes:

The Company 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 tax 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 amount obtained by applying the combined Federal and Provincial income tax rate of 38% (2005 - 40%) to income before income taxes. The difference relates to the following items:

	2006	2005
Computed expected tax provision	$ 109,944	$ 133,361
Add (deduct) the following:		
Resource allowance on Canadian production income	(11,197)	(25,248)
Royalties, lease rentals and mineral taxes	2,381	5,351
Other	1,572	(2,048)
	$ 102,700	$ 111,416
Current	$ 108,500	$ 116,016
Future (reduction)	(5,800)	(4,600)
	$ 102,700	$ 111,416

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

	2006	2005
Future income tax liabilities:		
Property and equipment	$ 42,861	$ 50,160
Capital lease	1,939	1,736
Other	18	56
Future income tax assets:		
Asset retirement obligations	(26,918)	(28,252)
Future income taxes	$ 17,900	$ 23,700

(All dollar amounts are stated in thousands)

10. Commitment and contingencies:

(a) The Company has entered into an agreement with Newfoundland Transshipment Limited whereby the Company acquired the right to the use of the Transshipment Terminal for crude oil storage and transshipment. The Company is committed to pay a portion of the cost of operation of the terminal over a ten-year period. The Company's share of the annual obligations is subject to annual calculations and is approximately $720 annually.

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

2007	$	4,829
2008		1,716
2009		1,514
2010		1,437
2011		1,356

(c) HMDC has provided a $70 million non-negotiable demand promissory note as part of the Operator's requirement to provide proof of financial responsibility to the *Canada Newfoundland Labrador Offshore Petroleum Board (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 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 million with the C-NLOPB (note 5).

(All dollar amounts are stated in thousands)

11. Supplemental cash flow disclosure:

Changes in non-cash working capital balances:

	2006	2005
Accounts receivable	$ 7,158	$ (3,137)
Inventory	(2,389)	2,824
Prepaid expenses	9	(285)
Accounts payable and accrued liabilities	(8,758)	10,785
Taxes payable	(35,888)	14,645
Due to shareholder	–	7
Change in non-cash working capital	$ (39,868)	$ 24,839
Relating to:		
Operations	$ (38,116)	$ 20,174
Investments	(1,752)	4,665
Change in non-cash working capital	$ (39,868)	$ 24,839

During the year ended December 31, 2006 the Company paid taxes of $144,093 (2005 - $100,465) and interest of $1,744 (2005 - $2,130), of which $1,687 (2005 - $2,130) is related to capital lease obligations.

12. Fair values:

The Company's financial instruments comprise cash and cash equivalents, accounts receivable, inventory, prepaids, accounts payable and accrued liabilities and amounts payable to the shareholder. At December 31, 2006 and 2005, the fair values of the monetary assets and liabilities approximated their carrying values due to their short-term nature.