CANADA DEVELOPMENT INVESTMENT CORPORATION

ANNUAL REPORT
2007

CDIC

Contents

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REPORT TO THE MINISTER

The Honourable James M. Flaherty
Minister of Finance

Dear Minister Flaherty:

I am pleased to report on the results of operations for Canada Development Investment Corporation (CDIC) for the year ended December 31, 2007. As part of CDIC's formal planning process, annual performance objectives are developed by entity, managed and monitored throughout the year. These were fully outlined in our Corporate Plan.

The financial statements of CDIC's two wholly owned subsidiaries as at December 31, 2007, Canada Hibernia Holding Corporation (CHHC) and Canada Eldor Inc. (CEI), have been consolidated with those of CDIC.

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

Accordingly with this revised mandate CDIC will focus on longer term goals for its present subsidiaries, whilst readying itself for an expanded role in its area of expertise, should government so determine.

CDIC's main focus during 2007 was continuing to manage its investment in CHHC, our one remaining active investment. In 2007 CHHC paid dividends of $151 million to CDIC and CDIC paid an equivalent amount to the Government of Canada ("Government"). As at December 31, 2007, CHHC had repaid all appropriations totaling $410 million to the Government and has paid a total of $829 million in dividends to CDIC, which CDIC in turn has paid to the Government in dividends.

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

In early 2008, pursuant to an Order in Council, CDIC incorporated a new subsidiary, PPP Canada Inc., to facilitate the development of the P3 Office and the Government's involvement in public private partnerships. CDIC will provide oversight and initial financing for this company as approved in our Corporate Plan for 2008. We understand that PPP Canada Inc. is expected to become a Parent Crown Corporation later in 2008. At that time it will cease to be a CDIC responsibility.

REPORT TO THE MINISTER

Assets sold to date on behalf of the Government by CDIC since 1985 have realized proceeds of approximately $2.0 billion. During 2007, 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, 2008

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, 2008

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

Ted Howell, CA, MBA
Chief Operating Officer
East Coast Catering Limited
St. John's, Newfoundland

Gordon W. King (1)
Director
Ottawa, Ontario

N. William Ross, LL.M (2)
Chairman Emeritus and Partner
WeirFoulds LLP
Toronto, Ontario

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

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

Officers

Michael Carter
Executive Vice-President

Patrice S. Walch-Watson
Corporate Secretary

Committees of the Board

(1) Audit Committee
(2) 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. 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.

As Executive Vice-President of CDIC, I have reviewed its financial statements and based upon my knowledge, having exercised due diligence, they fairly present in all material respects the financial condition, results of operations and cash flows as at December 31, 2007 and for the year then ended.

Michael Carter
Executive Vice-President
Canada Development Investment Corporation

March 4, 2008

CORPORATE GOVERNANCE PRACTICES

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

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

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

Effective communication with the Crown and the public is conducted through the Corporate Plan, 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 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. None of the directors are employees of CDIC or its subsidiaries. Attendance at directors meetings is outstanding and each director dedicates significant time outside of board meetings to the management of the Corporation.

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

MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS

CDIC is a holding company that had two subsidiaries in 2007, CHHC which owns an 8.5% interest in the Hibernia oilfield and CEI which has no operations, but has responsibility for servicing liabilities, chiefly arising from an agreement of purchase and sale with Cameco entered into in 1988.

CHHC's crude oil sales declined from $348 million in 2006 to $304 million in 2007, and were in alignment with their Corporate Plan. Lower sales revenue was the result of a decline in average daily production. The production decline was partially offset by an increase in prices, having averaged CAD $75.34/bbl in 2007, versus an average price of CAD $72.94 in 2006.

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 Offshore Petroleum 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 $151 million from $174 million.

CEI's costs for site restoration related to its obligations under the agreement of purchase and sale between Cameco and CEI increased 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. Present estimates as to the likely future cost approximate $11 million.

During the year CEI informed Cameco that it did not agree with Cameco's interpretation of the definition of "Joint Wastes" 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 Wastes submitted by Cameco for 2005 and 2006.

Subsequent to year end, Cameco informed CEI that it was 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.

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

CANADA DEVELOPMENT INVESTMENT CORPORATION

Consolidated Balance Sheet

December 31, 2007 (In thousands)

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	$ 105,581	$ 85,828
Receivables	1,723	1,443
Inventory	1,417	2,847
Prepaid expenses	351	361
Cash on deposit in the Consolidated Revenue Fund (note 4)	7,679	7,987
	116,751	98,466
Cash on deposit in the Consolidated Revenue Fund (note 4)	114,299	113,991
Cash held in escrow (note 5)	2,550	2,550
Property and equipment (note 6)	208,032	216,910
	$ 441,632	$ 431,917
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 12,048	$ 10,838
Current portion of capital lease obligation (note 8)	759	3,354
Current portion of other obligations (note 7)	7,570	7,663
Income taxes payable (note 11)	120	2,423
	20,497	24,278
Long term liabilities:		
Capital lease obligation (note 8)	8,256	10,387
Asset retirement obligations (note 9)	91,892	81,571
Other obligations (note 7)	16,856	15,579
Future income taxes (note 11)	12,165	17,900
	129,169	125,437
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	(451,219)	(460,983)
	291,966	282,202
Commitments and contingencies (notes 7 and 12)		
	$ 441,632	$ 431,917

The accompanying notes are an integral part of these consolidated financial statements. Disclosure of segmented information is presented in note 15.

On behalf of the Board:

_________________________ Director

B. Darrenbold _________________________ Director

CANADA DEVELOPMENT INVESTMENT CORPORATION

Consolidated Statement of Income, Comprehensive Income and Accumulated Deficit

Year ended December 31, 2007
(In thousands)

	2007	2006
Revenue:		
Crude oil sales, net of royalties (note 10)	$ 303,849	$ 348,453
Interest	5,070	3,120
	308,919	351,573
Operating expenses:		
Depletion and depreciation	36,854	40,657
Operating	18,915	15,119
Accretion of asset retirement obligations (note 9)	4,633	3,924
Corporate and divestiture expense	2,463	2,658
Interest on capital lease obligation	1,242	1,687
Foreign exchange gain	(620)	(1,546)
	63,487	62,499
Other expenses:		
Obligations related to the sale of assets to Cameco (note 7)	2,491	4,863
Net income before income and other taxes	242,941	284,211
Income and other taxes (note 11)	82,177	102,700
Net income and comprehensive income	160,764	181,511
Accumulated deficit, beginning of year	(460,983)	(468,494)
Dividends paid	(151,000)	(174,000)
Accumulated deficit, end of year	$ (451,219)	$ (460,983)

The accompanying notes are an integral part of these consolidated financial statements. Disclosure of segmented information is presented in note 15.

CANADA DEVELOPMENT INVESTMENT CORPORATION

Consolidated Statement of Cash Flows

Year ended December 31, 2007
(In thousands)

	2007	2006
Cash provided by (used in):		
Operations:		
Net income	$ 160,764	$ 181,511
Items not involving cash:		
Future income tax reduction	(5,735)	(5,800)
Depletion and depreciation	36,854	40,657
Accretion of asset retirement obligations	4,633	3,924
Abandonment expenditures	(11)	(299)
Unrealized foreign exchange gain	(1,952)	(257)
Funds from operations	194,553	219,736
Change in non-cash working capital (note 13)	2,396	(35,239)
	196,949	184,497
Financing:		
Dividends paid	(151,000)	(174,000)
Lease obligation payments	(2,774)	(2,922)
	(153,774)	(176,922)
Investments:		
Property and equipment	(22,277)	(21,441)
Cash received from CRF	-	9,762
Change in non-cash working capital (note 13)	(1,145)	(1,752)
	(23,422)	(13,431)
Increase (decrease) in cash and cash equivalents	19,753	(5,856)
Cash and cash equivalents, beginning of year	85,828	91,684
Cash and cash equivalents, end of year	$ 105,581	$ 85,828

The accompanying notes are an integral part of these consolidated financial statements. Disclosure of segmented information is presented in note 15.

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.* Until November 2007 its mandate was to wind down its operations by divesting of its remaining assets in an orderly fashion and to ready the Corporation for eventual wind up. 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 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 note 7.

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, and funding 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.

(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 CHHC'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 on the balance sheet include cash, guaranteed income certificates, bankers acceptances and asset backed commercial paper. Cash and cash equivalents are designated as held-for-trading and are recorded at fair value.

2. Significant accounting policies (continued):

(d) Retiree benefits:

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

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

(2) 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 (2006 – 12 years).

(e) 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 assessed to be not 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.

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2. Significant accounting policies (continued):

(f) 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.

(g) 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 date and non-monetary items are translated at historical rates of exchange in effect when the assets were acquired, or obligations incurred. Foreign exchange gains or losses are included in income.

(h) Inventory:

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

(i) 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.

(j) 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.

2. Significant accounting policies (continued):

(k) 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.

(l) Use of estimates:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. The most significant estimates relate to geological uncertainties and projections of the date and cost of abandonment usual in the oil production business, and to uncertainties related to Canada Eldor Inc.'s future costs of fulfilling its obligations under the agreement of purchase and sale as disclosed in note 7. Actual results could differ significantly from those estimates.

(m) Financial instruments:

The Corporation designated its cash and cash equivalents, cash held in escrow and cash on deposit in the Consolidated Revenue Fund, as held-for-trading, which is measured at fair value. Receivables are classified as loans and receivables, which are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.

Accounts payable and accrued liabilities are classified as other financial liabilities, which are initially measured at fair value and subsequently valued at measured amortized cost, using the effective interest rate method. For the Corporation, the measured amount of receivables and accounts payable generally correspond to the cost.

At January 1, 2007 and throughout the year, the Corporation did not have any derivative instruments or available for sale financial instruments, and as such, has not recorded any amounts in other comprehensive income.

(n) Fair values:

Financial instruments of CDIC, CEI and CHHC comprise cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. At December 31, 2007 and 2006, the fair values of the monetary assets and liabilities approximated their carrying values due to their short-term nature.

3. Adoption of new accounting standards and future accounting standards

a) New accounting standards

Effective January 1, 2007, the Corporation adopted the new standards for Financial Instruments in accordance with various sections of the CICA Handbook including Section 3855 *"Financial Instruments – Recognition and Measurement"* Section 1530 *"Comprehensive Income"* and Section 3251 *"Equity"*. The primary requirements of these new standards require the classification of financial assets into either held-for-trading, held-to-maturity, loans and receivables, or available-for-sale financial assets and classification of financial liabilities as either held-for-trading or other liabilities. The new standards require that financial assets and liabilities be measured in accordance with their respective basis of classification. In addition, derivatives embedded in financial instruments or other contracts may be required to be accounted for separately under the new standards.

The concept of comprehensive income was added to the Corporation's financial statements. There is no difference between the Corporation's comprehensive income and net earnings (loss) for the year ended December 31, 2007. Accumulated other comprehensive income forms part of shareholder's equity.

Effective January 1, 2007, the Corporation adopted the revised CICA Handbook Section 1506 *"Accounting Changes"* relating to changes in accounting policies, changes in accounting estimates and errors. Adoption of these recommendations had no effect on the consolidated financial statements for the year ended December 31, 2007, except for the disclosure of accounting changes that have been issued by the CICA but have not yet been adopted by the Corporation because they are not effective until a future date (refer to Future accounting standards below).

b) Future accounting standards

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535 "Capital Disclosures"; Handbook Section 3862 *"Financial Instruments – Disclosures"*; Handbook Section 3863 *"Financial Instruments – Presentation".* These standards are effective for interim and annual financial statements for the Corporation's reporting period beginning on January 1, 2008. Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new Handbook Sections 3862 and 3863 replace Handbook Section 3861 *"Financial Instruments - Disclosure and Presentation",* revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

3. Adoption of new accounting standards and future accounting standards (continued):

b) Future accounting standards (continued)

In March 2007, the CICA approved Handbook Section 3031 *"Inventories"* which replaces the existing Handbook Section 3030 "Inventories". This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, with earlier application encouraged. The standard provides more guidance on the measurement and disclosure requirements for inventories.

The Corporation is currently assessing the impact of these new accounting standards on its financial statements.

4. Cash on deposit in the Consolidated Revenue Fund:

CEI has $43,500 (2006 - $43,500) on deposit in a non-interest bearing special purpose account in the Consolidated Revenue Fund ("CRF") of the Government of Canada consisting of $7,679 (2006 - $7,987) in current assets and $35,821 (2006 - $35,513) in long term assets. 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. During 2007, CHHC deposited $nil (2006 - $3,738) and thereby maintained cash in the non-interest bearing fund at $78,478 (2006 – $78,478). CHHC has reduced certain of its third party insurance coverage as a result of the risk fund.

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 (CNLOPB) requires evidence of financial responsibility. CHHC maintains an escrow account in the amount of $2,550 (2006 - $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.

(All dollar amounts are stated in thousands)

6. Property and equipment:

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

			2007	2006
	Cost	Accumulated depreciation and depletion	Net book value	Net book value
Hibernia Development Project:				
Offshore production facility	$ 442,777	$ 273,593	$ 169,184	$ 182,665
Drilling costs	178,066	157,044	21,022	14,628
	620,843	430,637	190,206	197,293
Crude oil tanker (note 8)	39,534	21,708	17,826	19,617
	$ 660,377	$ 452,345	$ 208,032	$ 216,910

At December 31, 2007, the property and equipment balance is reduced by investment tax credits in the amount of $57,632 (2006 - $57,239).

Unproved property costs of $67,978 have been excluded from the depletion calculation. Future development costs of $274,650 (2006 - $172,400) have been included in the depletion calculation.

CHHC performed a ceiling test calculation at December 31, 2007 to assess the recoverable value of property and equipment, using estimated future prices as follows:

Year	Brent Crude $US/bbl
2008	$90.50
2009	86.50
2010	82.50
2011	80.50
2012	80.50
2013	80.50
2014	80.50
2015	80.50

After 2016, the price forecast escalates at 2% per year to the end of reserve life.

CHHC did not incur any impairment to its oil and gas assets as a result of the ceiling test calculation for 2007.

(All dollar amounts are stated in thousands)

7. 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:

	2007	2006
Current portion:		
Site restoration	$ 2,414	$ 2,523
Historic waste	4,673	4,220
Retiree benefits	483	920
	7,570	7,663
Long term portion:		
Site restoration	8,769	7,709
Historic waste	6,337	6,290
Retiree benefits	1,750	1,580
	16,856	15,579
Total obligations related to sale of assets	$ 24,426	$ 23,242

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, 2007 is $11,183 (2006 - $10,232).

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.

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

b) Historic Waste (continued):

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

In March 2004, an agreement of Purchase and Sale was signed by the Government, Cameco and CEI, which allows the Government to acquire the Port Granby and Welcome waste sites. On exercise of that option, the agreement stipulates that Cameco would make payments to CEI for the remaining portion of its joint cost obligation in five equal annual installments. When the Government assumes ownership of the waste sites, the costs of decommissioning and clean up of these sites would be borne by the Government and CEI would no longer have any obligation for those historic wastes. At December 31, 2007 the Government of Canada has not exercised its option.

(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 annually 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, and CEI accrued their share based on the agreed upon sharing formula and this estimate. CEI’s accrual for the estimated joint costs for above ground waste on this basis, including its ultimate disposal, as at December 31, 2007 was $11,010 (2006 - $10,510).

In 2007, CEI informed Cameco that it disagreed with Cameco’s interpretation of joint wastes in the 1988 Agreement. CEI has declined to pay invoices for 2005 and 2006 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.

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

b) Historic Waste (continued):

(ii) Waste at the Port Granby and Welcome waste sites

The Government of Canada will assume all waste related liabilities with respect to these properties upon transfer of ownership. 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, 2007.

(iii) 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, 2007. The impact, if any, of Vision 2010 on costs associated with above ground waste described in note 7 b) (i) is not determinable.

(All dollar amounts are stated in thousands)

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

(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, 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:

	2007	2006
Accrued benefit obligation:		
Balance, beginning of year	$ 4,897	$ 4,713
Benefits paid	(646)	(20)
Interest expense	220	222
Actuarial (gain)/loss	(158)	(18)
Balance, end of year	4,313	4,897
Accrued benefit liability:		
Balance, beginning of year	2,500	2,121
Benefits paid	(646)	(20)
Interest expense	220	222
Amortization of net actuarial loss	159	177
Balance, end of year	2,233	2,500
Accrued benefit liability represented by:		
Current portion	483	920
Long-term portion	1,750	1,580
	2,233	2,500
Other information:		
Benefit plan (deficit)	(4,313)	(4,897)
Unamortized net actuarial loss	2,080	2,397
Accrued benefit (liability)	(2,233)	(2,500)

(All dollar amounts are stated in thousands)

7. 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:

	2007	2006
Discount rate	5.25%	4.8%
Rate of increase in medical benefits	10.0%	11.0%
Rate of increase in dental benefits	5.0%	5.0%

Assumed health care cost trend rates at December 31:

	2007	2006
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 2007:

	Increase	Decrease
Accrued benefit obligation	$ 356	$ (315)
Total of service and interest cost	18	(16)

8. 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 $6,568 in 2007 (2006 - $6,859). Payments commenced in 1997 for an initial term of ten years. The agreement provides for one five-year and five two-year optional extensions not to exceed a total lease term of twenty-five years. The time charter has been treated as a capital lease for accounting purposes. Accordingly, CHHC's 25.373% interest in the tanker has been capitalized assuming the extensions are exercised and is presented on the balance sheet under property and equipment.

(All dollar amounts are stated in thousands)

8. Lease obligation - Crude oil tanker (continued):

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

2008	$	1,722
2009		1,790
2010		1,790
2011		1,790
2012		1,812
Thereafter		4,402
Minimum lease payments		13,306
Less amount representing interest		(4,291)
		9,015
Less: current portion		(759)
	$	8,256

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 $346,025 (2006 - $276,228).

These obligations will be settled based on the useful lives of the underlying assets, which currently extend up to the year 2030. A credit adjusted risk free rate of 5.7% and an inflation rate of 2.1% were used to calculate the fair value of the asset retirement obligations.

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

		2007		2006
Asset retirement obligations, beginning of year	$	81,571	$	78,478
Accretion		4,633		3,924
Effect of change in inflation rate		5,699		(532)
Abandonment obligations incurred		(11)		(299)
Asset retirement obligations, end of year	$	91,892	$	81,571

10. 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;

(b) 30% payable on net sales revenue commencing at such time as cumulative net sales revenue exceeds 8.5% of the total investment 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, 2007, CHHC paid royalties of $15,576 (2006 - $17,902).

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.

11. 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.

(All dollar amounts are stated in thousands)

11. Income taxes (continued):

(a) The provision for income taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rate of 36% (2006 - 38%) to income before income taxes. The difference relates to the following items:

	2007	2006
Computed expected tax provision	$ 88,299	$ 109,944
Add (deduct) the following:		
Resource allowance on Canadian production income	-	(11,197)
Royalties, lease rentals and mineral taxes	-	2,381
Adjustments to reserves	(3,861)	1,542
Effect of changes in tax rates	(1,565)	(17)
Tax on unrealized exchanges gain	(703)	-
Other	7	47
	$ 82,177	$ 102,700

Current	$ 87,912	$ 108,500
Future reduction	(5,735)	(5,800)
	$ 82,177	$ 102,700

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

	2007	2006
Future income tax liabilities:		
Property and equipment	$ 36,259	$ 42,879
Capital lease	2,555	1,939
Future income tax assets:		
Abandonment retirement obligations	(26,649)	(26,918)
Future income taxes	$ 12,165	$ 17,900

(All dollar amounts are stated in thousands)

12. Commitments and contingencies:

(a) 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 $755 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:

2008	$	4,802
2009		4,360
2010		4,221
2011		4,405
2012		1,652
	$	19,440

(c) HMDC has provided a $70,000 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 26, 2009. CHHC's share of this commitment is $5,950

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

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

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

(All dollar amounts are stated in thousands)

12. 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.

13. Supplemental cash flow disclosure:

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

	2007	2006
Accounts receivable	$ (280)	$ 6,994
Inventory	1,430	(2,389)
Prepaid expenses	10	6
Accounts payable and accrued liabilities	1,210	(8,526)
Taxes payable	(2,303)	(35,888)
Retiree benefit obligation	(267)	379
Site restoration obligation	951	2,269
Historic waste obligation	500	164
	$ 1,251	$ (36,991)
Relating to:		
Operations	$ 2,396	$ (35,239)
Investments	(1,145)	(1,752)
Change in non-cash working capital	$ 1,251	$ (36,991)

During the year ended December 31, 2007 the CHHC paid taxes of $90,333 (2006 - $144,093) and interest of $1,296 (2006 - $1,744) of which $1,242 is related to capital lease obligation.

14. Comparative figures:

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

15. Segmented information:

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

(All dollar amounts are stated in thousands)

15. Segmented information (continued):

Balance Sheet

	CDIC	CEI	CHHC	Intercompany eliminations	CDIC Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 9,261	$ 12,185	$ 84,135	$ -	$ 105,581
Receivables	252	243	1,383	(155)	1,723
Inventory	-	-	1,417	-	1,417
Prepaid expenses	2	-	349	-	351
Cash on deposit in CRF	-	7,679	-	-	7,679
	9,515	20,107	87,284	(155)	116,751
Cash on deposit in CRF	-	35,821	78,478	-	114,299
Investment in subsidiaries	282,647	-	-	(282,647)	-
Cash held in escrow	-	-	2,550	-	2,550
Property and equipment	-	-	208,032	-	208,032
	$ 292,162	$ 55,928	$ 376,344	$ (282,802)	$ 441,632
Liabilities and Shareholder's Equity					
Current liabilities:					
Accounts payable and accrued liabilities	$ 196	$ 109	$ 11,763	$ (20)	$ 12,048
Current portion of site restoration obligation	-	2,414	,	-	2,414
Current portion of historic waste obligation	-	4,673	-	-	4,673
Current portion of retiree benefit obligation	-	483	-		483
Current lease obligation	-	-	759	-	759
Taxes payable			120	-	120
Due to Shareholder			135	(135)	-
	196	7,679	12,777	(155)	20,497
Long-term liabilities					
Site restoration obligation	-	8,769	-	-	8,769
Historic waste obligation	-	6,337	-	-	6,337
Retiree benefit obligation	-	1,750	-	-	1,750
Long term lease obligation	-	-	8,256	-	8,256
Future income taxes	-	-	12,165	-	12,165
Asset retirement obligation	-	-	91,892	-	91,892
	-	16,856	112,313	–	129,169
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)	(451,219)	(868,487)	251,254	617,233	(451,219)
	291,966	31,393	251,254	(282,647)	291,966
	$ 292,162	$ 55,928	$ 376,344	$ (282,802)	$ 441,632

(All dollar amounts are stated in thousands)

15. Segmented information (continued):

Statement of Income

	CDIC	CEI	CHHC	Intercompany Eliminations	CDIC Consolidated
Revenue:					
Investment in CHHC	$ 163,098	$ -	$ -	$ (163,098)	$ -
Investment in CEI	(2,181)	-	-	2,181	-
Crude oil sales, net of royalties	-	-	303,849	-	303,849
Interest income	462	592	4,016	-	5,070
Management fees	100	-	-	(100)	-
	161,479	592	307,865	(161,017)	308,919
Operating expenses:					
Depletion and depreciation	–	–	36,854	–	36,854
Operating expense			18,915	–	18,915
Accretion of asset retirement obligation	-	-	4,633	– -	4,633
Corporate and divestiture expense	715	282	1,566	(100)	2,463
Interest on capital lease	–	–	1,242	–	1,242
Foreign exchange loss (gain)	–	–	(620)	–	(620)
	715	282	62,590	(100)	63,487
Other expenses:					
Site restoration costs	–	1,612	–	–	1,612
Historic waste costs	–	500	–	–	500
Retiree benefit costs	–	379	–	–	379
	–	2,491	–	–	2,491
Income (loss) before income and other taxes	160,764	(2,181)	245,275	(160,917)	242,941
Income taxes	–	–	82,177	–	82,177
Net income (loss) for the year	160,764	(2,181)	163,098	(160,917)	160,764
Retained earnings (accumulated deficit), beginning of year	(460,983)	(866,306)	239,156	627,150	(460,983)
Dividends paid	(151,000)	–	(151,000)	151,000	(151,000)
Retained earnings (accumulated deficit), end of year	$ (451,219)	$ (868,487)	$ 251,254	$ 617,233	$ (451,219)