CDIC

CANADA DEVELOPMENT INVESTMENT CORPORATION

Annual Report 2011

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, 2011.

During 2011 CDIC disposed of its holding in Chrysler LLC to Fiat for proceeds of US$140 million.

Canada GEN Investment Corporation, CDIC's wholly owned subsidiary retains an approximate 9% holding in GM common shares and also holds dividend paying GM preferred shares.

CDIC continued to undertake work under the Government's ongoing review of corporate asset holdings.

Canada Hibernia Holding Corporation (CHHC) had a successful year. CHHC sold 4.7 million barrels of crude oil during the year, very similar to 2010, when 4.8 million barrels were sold. There was however a 36% increase over the 2010 average crude oil price. The average price in 2011 was approximately C$110 per barrel. CHHC paid $153 million in provincial royalties, $46 million in net profits interest, $83 million in provincial and federal income taxes, as well as $217 million in dividends to CDIC.

In 2011 CDIC paid $413 million in dividends. These were sourced from CHHC profits, dividends from GM and the proceeds of sale of the Chrysler interests.

Canada Eldor Inc. (CEI), which is responsible for administration of outstanding issues pursuant to prior divestitures, reached conditional agreement in principle with Cameco over a dispute as to liability for waste in the Port Hope area. On completion, CEI will pay Cameco $13.95 million and be exempt from future responsibility to Cameco for radioactive waste in the Port Hope area.

During 2011 CDIC did not borrow from the Government nor did it receive any appropriations.

On behalf of the Board of Directors,

N. William C. Ross
Chairman
Canada Development Investment Corporation

March 9, 2012

Directors and Officers as at March 9, 2012

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

Board of Directors

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

John James Hillyard, MBA (2) (3)
Director
St. John's, Newfoundland and Labrador

Ted Howell, CA, MBA (1) (3)
Chief Financial Officer
Bluedrop Performance Learning Inc.
St. John's, Newfoundland and Labrador

Mary Beth Montcalm, PhD (2)
Director
Toronto, Ontario

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

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

Officers

Michael Carter
Executive Vice-President

Andrew Stafl
Vice-President, Finance

Zoltan Ambrus
Vice-President

Patrice S. Walch-Watson
Corporate Secretary

Committees of the Board

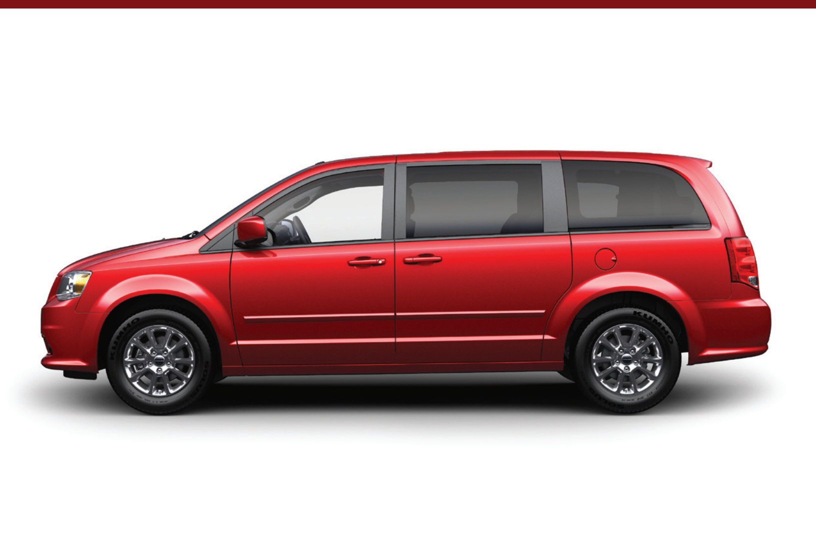
(1) Audit Committee
(2) Nominating and Governance Committee
(3) Compensation Committee

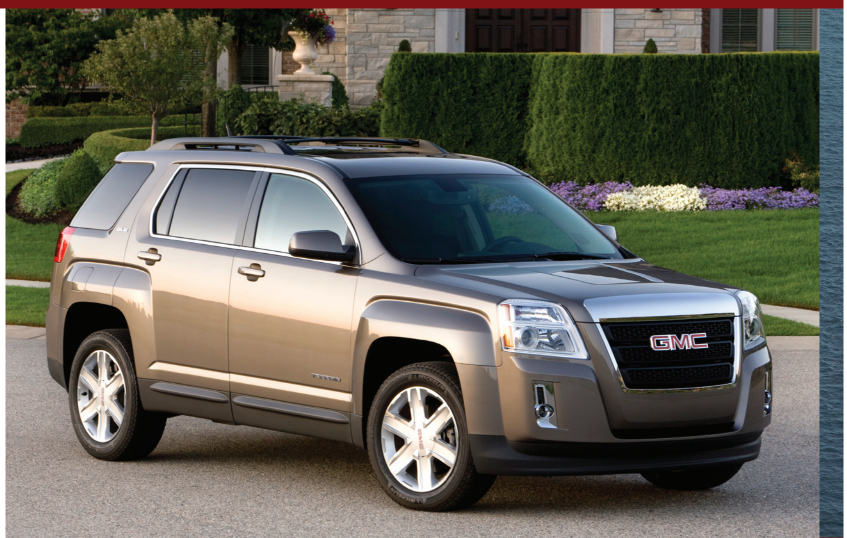
CDIC 2011 Overview

Canada Development Investment Corporation paid over $400 million in dividends to Government.

We sold our interests in Chrysler to Fiat for US$140 million.

We negotiated a conditional agreement between Canada Eldor Inc. and Cameco to settle claims related to historic radioactive waste.





Canada Hibernia Holding Corporation increased net revenue 30% to $323 million as a result of stronger oil prices.

Corporate Governance Practices

CDIC reports to Parliament through the Minister of Finance. From 1995 to November 2007, CDIC had operated under a direction to wind down its operations by divesting itself of its remaining assets in an orderly fashion. In November 2007, the Minister informed CDIC that “going forward, the operations of the CDIC should reflect a future focused on the ongoing management of its current holdings in a commercial manner, providing assistance to the government in new directions suited to CDIC’s capabilities, while maintaining the capacity to divest CDIC’s existing holdings, and any other government interests assigned to it for divestiture, upon the direction of the Minister of Finance”. Accordingly, the Corporation has readied itself for an expanded role in its area of expertise.

CDIC’s Board of Directors supervises and oversees the conduct of the business and affairs of CDIC. The Board currently consists of the Chairman and five other directors. The members of the Board bring significant public and private experience, skills and expertise to their roles. The Chairman of the Board assesses the effectiveness of the Board and its committees with input from all of the directors. All members of the Board are independent of CDIC management.

Attendance at directors’ meetings is outstanding and each director dedicates appropriate time outside of board meetings to the governance of the Corporation. In 2011, there were 14 board meetings and 21 committee meetings. Each subsidiary has a separate and active board of directors that meets regularly.

The Board annually reviews and approves the Corporate Plan of the Corporation and monitors its implementation over the planning period, evaluating the strategic direction in light of changing business environment. Risks are identified and managed throughout the process. The Board conducts an annual retreat meeting where they consider, among other things, the goals and purposes of the Corporation from a strategic point of view.

To assist it in carrying out its stewardship of CDIC, the Board has established three committees, being the Nominating and Governance Committee, the Compensation Committee and the Audit Committee. The Nominating and Governance Committee deals with matters related to corporate governance. It continues to review CDIC’s governance practices in the spirit of continuous improvement and to address new requirements. In addition, this Committee assists in determining the composition and structure of the Board and recommending to the Governor in Council candidates for Board membership and for the position of Chair. The Compensation Committee reviews compensation of the employees of CDIC and its subsidiaries. The Audit Committee monitors the integrity of the Corporation’s consolidated financial statements and the maintenance of proper controls and accounting procedures of the Corporation and communicates directly with the Corporation’s auditors.

The Board has an effective working relationship with CDIC’s management. The allocation of responsibilities between the Board and management is reviewed on a regular basis. A Board of Directors’ charter has been adopted which denotes roles and responsibilities, primarily in terms of Board stewardship.

Effective communication with the Crown and the public is conducted through the Corporate Plan and Corporate Plan Summary, as approved by the Board, the Annual Report, the corporate website, and an annual meeting with stakeholders. As well, meetings are held as required with the Minister and officials of the Government of Canada.

Compensation paid to directors is set by Order in Council. The Board members receive an annual retainer for their services, plus a fixed per diem for travel time, attending meetings and other responsibilities as needed and are reimbursed for reasonable expenses incurred. CDIC will continue to 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

The public communications of Canada Development Investment Corporation (CDIC), including this annual report, may include forward-looking statements that reflect our expectations regarding CDIC's objectives, strategies, outlooks, plans, anticipations, estimates and intentions.

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

Corporate Overview

CDIC, a federal crown corporation, was incorporated in 1982 to provide a commercial vehicle for Government equity investment and to manage commercial holdings of the Government. CDIC's primary objective is to carry out its activities in the best interests of Canada, operating in a commercial manner. In addition to certain activities of its own, we have three wholly-owned subsidiaries for which we are responsible: Canada Hibernia Holding Corporation (CHHC), Canada Eldor Inc. (CEI), and Canada GEN Investment Corporation (GEN). CHHC owns and manages an 8.5% working interest in the existing Hibernia offshore oil development project ("Hibernia"). CEI has no operations, but has responsibility for servicing liabilities, chiefly arising from an agreement of purchase and sale with Cameco Inc. entered into in 1988. GEN was incorporated in 2009 and holds interests in General Motors Company (GM). In 2010, our subsidiary sold 20% of its holdings of General Motors common stock in an initial public offering (IPO) for proceeds of over $1 billion. We sold our interests in Chrysler held in Canada CH Investment Corporation, a subsidiary of ours, for US$140 million in 2011.

Since CDIC's inception in 1982, we have been effective in the management and divestiture of corporate interests of the Crown. The assets sold on behalf of the Crown by CDIC through 2011 include Canadair Limited, de Havilland Aircraft of Canada Limited, Teleglobe Canada, Fishery Products International Limited, Canada Development Corporation, Nordion International Inc., Telesat Canada, shares of Cameco Corporation, common shares of General Motors, and interests in Chrysler. Proceeds to the Crown from these divestment activities totaled approximately $3.3 billion through 2011. In addition, CHHC has paid a total of $1.55 billion in cumulative dividends.

In 2009, the Minister of Finance requested that CDIC participate in the Government's on-going review of corporate asset holdings, referred to herein as the Asset Review. In this role, we retain advisors to provide financial, legal or technical analysis of those corporate holdings of Canada as requested by the Minister. We monitor the advisors and review their reports prior to their being submitted to Canada.

We have a management team based in Toronto headed by the Executive Vice-President, whose role is to work closely with external consultants, contractor specialists and the Board to ensure the effective functioning of CDIC and its subsidiaries. CHHC has a separate management team based in Calgary that is experienced in the oil industry. This team, headed by its President and CEO, provides expertise in technical, marketing, transportation and financial areas of operation.

Corporate Performance as Compared to Plan

Our performance in 2011 as compared to our key objectives, outlined in its 2011-2015 Corporate Plan is as follows:

Key Objectives:

- To manage our investments in the Hibernia oilfield, General Motors and Chrysler and continue to oversee the management of CEI's obligations.
- To continue to manage the portions of the asset review programme assigned to us.
- To continue to manage other issues which may arise, and to remain prepared to assume management and divestiture of any other interests of Canada assigned to us for divestiture, in a commercial manner.

Management Discussion and Analysis of Results (continued):

Performance:

- CHHC recorded an after tax profit of $193 million and paid dividends to CDIC of $217 million during the year.
- We received dividends from GM preferred shares of $36 million.
- We sold our interests in Chrysler Group LLC to Fiat for proceeds of US$140 million which were paid by dividend to the Government.
- We paid total dividends to the Government of $413 million.
- CEI negotiated a conditional agreement with Cameco Corporation regarding a dispute over the liability of costs relating to the cleanup of historic waste in the Port Hope area. The agreement settles a long-term disagreement of the costs to be borne by CEI.
- We continued to manage asset review projects in 2011. Activities included preparing statements of work, issuing requests for proposals, evaluating and engaging consultants, monitoring and reviewing their work.

Canada Hibernia Holding Corporation

Hibernia oil production in 2011 exceeded the prior year's output, with good results obtained from well workovers and advanced technology applications of good production practices. 2011 production averaged 154,400 barrels of oil per day (BOPD) compared to the budget of 150,000 BOPD. Additionally, production volumes were consistent with that of 2010 (154,300 BOPD), in spite of adverse weather conditions in the first quarter. During 2011, two wells were drilled into the new HSE Unit, and results were favorable. 2011 net oil revenue, after deducting marketing fees, royalties and net profits interest, was $323 million, which was mainly attributable to a 36% surge in average crude oil prices. Average crude oil prices during 2011 were C$110 per barrel, compared to C$81 during the prior year. The major initiative for the Hibernia Owners in 2011 was the continuing effort to pursue development of the Hibernia Southern Extension (HSE) Unit. In February 2011, a milestone event occurred in the development of the HSE Unit with the signing of remaining documents by the Government of Canada (Canada), the Government of Newfoundland and Labrador (the Province) and the Hibernia Owners. Project sanction by the Unit Owners followed.

Drilling expenditures were ongoing at Hibernia. In addition, HSE Unit funding (CHHC's initial HSE Unit working interest is 5.08482% which will be re-determined according to the adjustment process in the Unit Agreement) of major capital spending items was approved, significant contracts were awarded and the first two HSE Unit oil wells were drilled in 2011. These wells were successfully drilled earlier than originally planned in order to gain technical, reservoir and well productivity data for project planning purposes. The first Unit production occurred in June 2011. Hibernia Owners will continue to focus on the successful achievement of HSE Unit development in addition to optimizing recovery and production from the existing Hibernia field. It is anticipated that the future drilling of additional producer-injector well pairs in the HSE Unit will add considerable incremental production. The HSE Unit development plan involves drilling water injection wells. This process will utilize a floating drilling rig, pipeline tie-in of these wells back to the Hibernia platform and drilling oil producing wells from the platform. Further, a major investment in construction of a new offshore loading system at the Hibernia platform was completed in 2011. Construction of the new gas lift system to improve well productivity is continuing with completion scheduled for 2012.

Canada Eldor Incorporated

CEI continued to monitor and share the costs of disposing of accumulated wastes with Cameco Corporation. In December 2011 an agreement in principle was negotiated whereby CEI will pay Cameco $13.95 million to settle a claim for historic waste treatment and disposal of radioactive waste relating to a purchase and sale agreement from 1988. The agreement is conditional on Natural Resources Canada assuming ownership of a nuclear waste site at Port Granby, Ontario which is expected to be fulfilled. The previous liability disclosed by CEI was $11 million. CEI continues to pay for site restoration costs relating to a mine and for retiree benefits of certain former employees.

Canada CH Investment Corporation

CH managed the equity interests in Chrysler until these were sold to Fiat for US$140 million on July 21, 2011.

Canada GEN Investment Corporation

GEN continues to hold approximately 9% of the common shares of General Motors (GM) as well as $426 million in GM preferred shares. These will be sold in a commercial manner when market conditions are appropriate. During 2011, GM common shares traded in a range of approximately US$19 to US$38 per share. The price obtained for our initial sale during the IPO in 2010 was US$33 per share.

Analysis of External Business Environment

The ongoing management of our holdings will be dependent on market and economic conditions specific to the underlying company or investment.

CHHC derives its cash flow exclusively from oil production from the Hibernia project assets and operations, which include Hibernia field production facilities and its time charter crude oil tanker asset. Cash flow fundamentally fluctuates depending on oil production volumes, crude oil prices, foreign exchange, royalty and net profits interest burden, operating costs, income tax burden, and capital expenditure levels.

CEI will be affected by ongoing changes in the regulatory requirements enacted in particular by the Canadian Nuclear Safety Commission (“CNSC”) and the Government of Saskatchewan.

Any future realization of cash proceeds for the GM investments will depend upon both the capabilities of the new management of GM and the health of the automotive markets in which it competes. GM operates in an environment that is dependent on consumer spending. The challenging economic environment in 2011, which saw both the United States and the European Union struggle to recover from a severe recession, negatively impacted the price of GM’s common shares significantly. The S&P 500 index was flat overall from December 2010 (1,258) to December 2011 (1,263) but fluctuated between a low close of approximately 1,099 to a high close of 1,356, an overall range of 23%.

Risks and Contingencies

As with any oil development, CHHC’s interest in Hibernia faces geological and production interruption risks. These particularly apply to the HSE Unit and its reserves, which have not yet been fully explored. The operator of the project maintains high standards. CHHC maintains suitable insurance coverage that it regards as economically sound.

CEI is subject to considerable liabilities due to its undertakings to Cameco as part of a 1988 Purchase and Sale agreement. The conditional settlement agreement with Cameco will remove an exposure to a significant unknown liability.

The investment in GM common shares is subject to significant fluctuations in value due to stock market price risk and to risks of the automobile industry and the relative performance of GM within it.

The majority of our assets and those of our subsidiaries are impacted by foreign exchange fluctuations. CHHC’s revenues are based on US dollar prices. The assets of GEN are denominated in US dollars. The US/CDN exchange rate was 0.9946 at December 31, 2010 and 1.0170 on December 31, 2011, an increase of 2%. As assets are divested, any future cash proceeds will be impacted by changes in the exchange rate. Dividends from the GM preferred shares are also impacted by changes in the US/CDN exchange rate. Neither we nor our subsidiaries, undertake hedging activity.

Financial Statements for the Year Ending December 31, 2011

The financial statements for 2011 with comparable figures for 2010 have been prepared using International Financial Accounting Standards (IFRS).

Consolidated revenue for 2011 was $475 million compared to $926 million in 2010. During 2010 we recorded a gain on the sale of GM common shares of $637 million compared to a lower gain from the sale of Chrysler interests of $112 million in 2011. Total expenses, excluding the unrealized change in fair value of held for trading financial assets, were $62 million in 2011 compared to $77 million in 2010. The decrease is primarily due to lower depletion and depreciation and operating and production costs.

Total Hibernia oil production during 2011 exceeded forecasts as a result of new production from new wells and well workover activities on existing wells undertaken in the prior year. 2011 net oil revenue, after royalties and net profit interest (NPI), was $323 million. The decrease in depletion and depreciation resulted from changes in estimates in proved plus probable reserves in 2011 as compared to 2010. Operating and production costs were lower due to reduced costs of well workovers, as well as recoveries of tanker transportation costs pursuant to the Capacity Reservation Agreement with one of the Hibernia partners. An increase in provision for decommissioning obligation of $25 million was the result of a change in the assumed inflation rate and discount rate as compared to those used in 2010. A corresponding increase in property and equipment offsets this change. After-tax profit of CHHC was $193 million, a significant increase over 2010, of $127 million. CHHC paid dividends to CDIC of $217 million during 2011 compared to $116 million in the prior year.

We recognized a gain on the sale of Chrysler interests of $112 million based on proceeds of $132 million (US$140 million). The cost of the investment in Chrysler was US$18 million or C$20 million on June 10, 2009, the date of acquisition. The proceeds were paid as a dividend, two thirds to the government of Canada and one third paid to the Ontario government upon direction of the Minister of Finance.

GEN received $36 million in preferred share dividends from GM in 2011, not significantly different from 2010. GEN incurred operating costs of $1.7 million in 2011, which was significantly lower than 2010 of $4.9 million due to the costs associated with the GM IPO in 2010.

The investment value of GM common shares decreased from $4.73 billion in 2010 to $2.89 billion in 2011 as a result of the changes in the market price of GM common shares. The decrease in the value of GM common shares at year end is reflected in the other comprehensive loss (OCI) of $1.84 billion. Approximately $106 million of the change was due to an increase in the USD/CAD exchange rate.

Notably, our professional fee expenses were lower than the prior year due to the decreased level of management effort required to manage its operations, investments and its responsibilities under the asset review programme. Such efforts include monitoring the investments and discussions with the investee companies and advisors and managing asset review projects.

We paid dividends to the Government during 2011 totaling $413 million. These dividends were funded from dividends received from CHHC, proceeds from the sale of Chrysler interests, and dividends received from GEN relating to preferred share dividends. Dividends paid in 2010 totaled $1,289 million, which included proceeds from the GM IPO.

We experienced a $5 million unrealized gain on the GM preferred shares held, primarily due to foreign exchange depreciation. In the comparative period in 2010, we experienced a $26 million loss.

Other Comprehensive Income (OCI) for 2011 was a loss of $1,914 million of which $1,840 million related to changes in the market value of GM common shares and foreign exchange rate changes offset by a $38 million gain in the value of the Chrysler interest and the transfer of a $112 million gain from OCI to revenue.

International Financial Reporting Standards (IFRS)

As a result of the conversion to IFRS there are certain significant changes to the manner in which financial results are recognized and measured in the financial statements.

CHHC now depletes its property and equipment based on a unit of production basis over its proved plus probable reserves as opposed to proved reserves that were used under previous Generally Accepted Accounting Principles (GAAP). As well, CHHC depletes its drilling costs on a unit of production basis over proved plus probable reserves. The depletion policy under the previous GAAP was based on units of production over proved reserves. CHHC uses the straight line method of depreciating the capital element of the finance lease of a crude oil tanker.

Our automotive investments are fair valued under IFRS. As at December 31, 2010 under previous GAAP, the interest in Chrysler was recorded at cost. At December 31, 2009, both Chrysler and the GM common shares were recorded at cost.

Reconciliation of Previously Released Financial Results

Our IFRS accounting policies are provided in note 3 to the consolidated financial statements. In addition, note 23 presents reconciliations between our 2010 financial results previously released using Canadian GAAP and our 2010 results under IFRS. The reconciliations include the consolidated statement of financial position as at January 1, 2010, and December 31, 2010 and consolidated statement of comprehensive income (loss) for the year ended December 31, 2010.

We will monitor new developments in standards by the International Accounting Standards Board (IASB) and the Accounting Standards Board (AcSB) and consider the impact of proposed changes on current plans and decisions taken.

Accounting Policy Changes and the Impact of Transition to IFRS

Property and equipment (“P&E”) – This includes oil and gas assets in the development and production phases. CHHC has allocated the amount recognized under the previous GAAP as at January 1, 2010 to one Cash Generation Unit (CGU).

Sales of P&E – Under previous GAAP, proceeds from sales of P&E were deducted from the full cost pool without recognition of a gain or loss unless the deduction resulted in a change in the depletion rate of 20 percent or greater. Under IFRS, gains and losses from sales of P&E are recorded in income.

Impairment of P&E assets – Under IFRS, impairment tests of P&E are performed at the Cash Generating Unit (CGU) level as opposed to the entire P&E balance but since CHHC determined it has only one CGU, no change occurred. There was no impairment to P&E on January 1, 2010, December 31, 2010 or December 31, 2011 under IFRS.

Provision for decommissioning obligation of CHHC– Under the previous GAAP this obligation, previously disclosed as “asset retirement obligations” was discounted at a credit adjusted risk-free rate of 5.0 percent. Under IFRS a risk-free rate is used. This change resulted in an increase to the obligation on transition (January 1, 2010) of $8.6 million with an offsetting charge to the opening deficit. As at December 31, 2010 the decommissioning obligation was $17 million higher.

Depletion and depreciation expense – Under IFRS depletion is calculated using proved plus probable reserves, instead of proved reserves under previous GAAP. This resulted in lower depletion and depreciation expense under IFRS as compared to the previous GAAP. Finance expenses - Under IFRS, finance expenses are disclosed on a separate line item in the consolidated statement of comprehensive income (loss). Finance expense includes the interest portion of leasing costs and the interest portion of the accretion of decommissioning expense.

Financial Instruments - International Accounting Standard 39 (IAS 39)

Investments in equity financial instruments are measured at fair value unless the financial instrument does not have a quoted price in an active market and the fair value cannot be reliably measured. Under the previous GAAP, the common shares in GM and the membership interest in Chrysler were measured at cost at December 31, 2009. As the fair value of all equity investments held by us can be reliably measured, this resulted in a change in the measurement basis on transition to IFRS. The impact on the opening statement of financial position at January 1, 2010 is a significant increase in value of the investments in the membership interest in Chrysler and the GM common shares to fair value, with the difference recorded in Accumulated Other Comprehensive Income (AOCI) which is part of shareholder’s equity. Changes in fair value after transition are recorded through Other Comprehensive Income during the period. Any recognized gains or losses due to a sale or derecognition are transferred from AOCI to profit and loss in the period.

The GM preferred shares continue to be recorded at fair value with changes in fair value recognized in profit and loss.

Employee Benefits - International Accounting Standard (IAS 19)

Under IFRS, we recognize actuarial gains and losses directly in equity. At the transition date, unrecognized actuarial gains and losses were recognized in opening accumulated deficit. This resulted in a $0.7 million debit to accumulated deficit at January 1, 2010 with a corresponding credit to the accrued benefit liability.

On transition to IFRS on January 1, 2010 we used certain exemptions allowed under IFRS 1 First Time Adoption of International Reporting Standards. The exemptions used were as follows:

Full Cost Accounting – IFRS 1 allows an entity that used full cost accounting under its previous GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under the entity’s previous GAAP and to measure oil and gas assets in the development and production phases by allocating the amount determined under the entity’s previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date. CHHC used the value of proved plus probable reserves to allocate its opening value of development and production assets.

We elected to apply the IFRS 1 exemption for disclosure requirements of defined benefit plans, allowing us to disclose this information prospectively from the date of transition to IFRS.

Management's Responsibility For Financial Statements

The accompanying consolidated financial statements of Canada Development Investment Corporation (CDIC) are the responsibility of management and were authorized for issue by the Board of Directors on March 9, 2012. The consolidated financial statements have been prepared by the Corporation in accordance with International Financial Reporting Standards. The financial statements of the Corporation's three wholly-owned subsidiaries for which it has responsibility have been consolidated with those of the Corporation. When alternative accounting methods exist, the Corporation has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on best estimates and judgments. The Corporation has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with that in the consolidated financial statements.

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

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

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 and Vice-President, Finance, we have reviewed its consolidated financial statements and based upon our knowledge, having exercised due diligence, believe they fairly present in all material respects the financial position as at December 31, 2011 and 2010 and January 1, 2010, and financial performance and cash flows for the years ended December 31, 2011 and 2010.

Michael Carter
Executive Vice-President
Canada Development Investment Corporation

Andrew Stafl
Vice-President, Finance
Canada Development Investment Corporation

March 9, 2012

Auditor General of Canada
Vérificateur général du Canada

KPMG

Independent Auditors' Report

To the Minister of Finance

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Canada Development Investment Corporation, which comprise the consolidated statements of financial position as at 31 December 2011, 31 December 2010 and 1 January 2010, and the consolidated statements of comprehensive income (loss), consolidated statements of changes in shareholder's equity and consolidated statements of cash flows for the years ended 31 December 2011 and 31 December 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Development Investment Corporation as at 31 December 2011, 31 December 2010 and 1 January 2010, and its financial performance and its cash flows for the years ended 31 December 2011 and 31 December 2010 in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards, adopted as explained in Note 23 to the consolidated financial statements, have been applied on a consistent basis for all periods presented.

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

KPMG LLP

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

Chartered Accountants,
Licensed Public Accountants

9 March 2012
Ottawa, Canada

Consolidated Statements of Financial Position

(Thousands of Canadian Dollars)

	December 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets:			
Cash and cash equivalents (note 5)	$ 72,997	$ 129,884	$ 105,416
Accounts receivable	33,120	35,863	15,019
Income taxes recoverable	-	-	7,654
Inventory	4,971	4,109	6,941
Prepaid expenses	305	417	374
Cash on deposit in the Consolidated Revenue Fund (note 6)	17,363	7,746	7,284
	128,756	178,019	142,688
Non-current assets:			
Cash on deposit in the Consolidated Revenue Fund (note 6)	117,415	125,904	130,752
Cash and cash equivalents held in escrow (note 7)	5,550	5,688	2,550
Property and equipment (note 8)	139,140	117,467	122,705
Investments (note 9)	3,315,214	5,244,289	4,148,410
Deferred tax asset (note 13)	1,187	-	-
	3,578,506	5,493,348	4,404,417
	$ 3,707,262	$ 5,671,367	$ 4,547,105
Liabilities and Shareholder's Equity			
Current liabilities:			
Accounts payable and accrued liabilities	$ 25,097	$ 30,834	$ 50,629
Current portion of finance lease obligation (note 10)	1,636	1,552	989
Current portion of defined benefit obligation (note 12)	378	345	360
Current portion of other provisions (note 11)	16,691	7,208	6,712
Income taxes payable	20,939	10,044	-
	64,741	49,983	58,690
Non-current liabilities:			
Finance lease obligation (note 10)	3,593	5,042	6,967
Provision for decommissioning obligation (note 11)	67,643	44,695	40,328
Other provisions (note 11)	10,249	17,751	15,828
Defined benefit obligation (note 12)	2,264	2,674	2,587
Deferred tax liability (note 13)	-	1,469	3,281
	83,749	71,631	68,991
Shareholder's equity:			
Share capital (note 14)	1	1	1
Contributed surplus (note 14)	3,216,294	3,912,184	3,912,184
Accumulated deficit	(402,738)	(1,021,721)	(493,538)
Accumulated other comprehensive income	745,215	2,659,289	1,000,777
	3,558,772	5,549,753	4,419,424
Commitments (note 17)			
Contingencies (note 18)			
Subsequent event (note 11(bii), note 18 (c))			
	$ 3,707,262	$ 5,671,367	$ 4,547,105

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

On behalf of the Board:

Director

Director

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, 2011 and 2010
(Thousands of Canadian Dollars)

	2011	2010
Revenue:		
Gain on sale of investments (note 9)	$ 112,312	$ 637,391
Crude oil revenue, net of royalties and net profits interest (note 16)	322,506	248,789
Dividends (note 9)	36,277	36,856
Gain on disposition of property and equipment (note 8)	-	1,695
Interest income	3,737	1,414
	474,832	926,145
Expenses:		
Depletion and depreciation (note 8)	32,594	39,881
Production and operating (note 16)	15,776	19,427
Change in fair value of held-for-trading assets (note 9)	(5,000)	26,000
Professional fees	7,391	9,802
Salary and benefits	2,603	2,126
Change in estimates of other provisions (note 11)	3,084	4,186
Other expenses	960	383
Foreign exchange loss (gain)	(961)	1,387
Defined benefit expense	127	147
	56,574	103,339
Finance costs:		
Interest on finance lease obligation	219	816
Unwind of discount on decommissioning obligations	1,382	1,691
Unwind of discount on other provisions	333	290
	1,934	2,797
Profit before income taxes	416,324	820,009
Income taxes (note 13):		
Current income tax expense	83,389	60,718
Deferred income tax recovery	(2,656)	(1,812)
	80,733	58,906
Profit	335,591	761,103
Other comprehensive income (loss):		
Net actuarial gains (losses) on defined benefit obligations	370	(156)
Net change in fair value of available-for-sale financial assets	(1,801,762)	2,303,523
Realized gain on available-for-sale financial assets transferred to profit or loss	(112,312)	(645,011)
	(1,913,704)	1,658,356
Comprehensive income (loss)	$ (1,578,113)	$ 2,419,459

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

Consolidated Statements of Changes in Shareholder's Equity

Years ended December 31, 2011 and 2010
(Thousands of Canadian Dollars)

	2011	2010
Share capital		
Balance, beginning and end of year	$ 1	$ 1
Contributed surplus		
Balance, beginning of year	3,912,184	3,912,184
Dividends paid	(20,000)	-
Transfer to accumulated deficit (note 14)	(675,890)	-
Balance, end of year	3,216,294	3,912,184
Accumulated deficit		
Balance, beginning of year	(1,021,721)	(493,538)
Profit	335,591	761,103
Actuarial gain (loss) on defined benefit obligations	370	(156)
Dividends paid	(392,868)	(1,289,130)
Transfer from contributed surplus	675,890	-
Balance, end of year	(402,738)	(1,021,721)
Accumulated other comprehensive income		
Balance, beginning of year	2,659,289	1,000,777
Realized gain on sale of investment	(112,312)	(645,011)
Net change in unrealized gain on available-for-sale financial assets	(1,801,762)	2,303,523
Balance, end of year	745,215	2,659,289
Total shareholder's equity	$ 3,558,772	$ 5,549,753

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

Consolidated Statements of Cash Flows

Years ended December 31, 2011 and 2010
(Thousands of Canadian Dollars)

	2011	2010
Cash provided by (used in):		
Operating activities:		
Profit for the year	$ 335,591	$ 761,103
Adjustments for:		
Gain on sale of investments	(112,312)	(637,391)
Deferred income tax recoveries	(2,656)	(1,812)
Depletion and depreciation	32,594	39,881
Defined benefits paid in excess of expenses	(7)	(84)
Finance interest	219	816
Interest income from CRF	(1,128)	(614)
Unwind of discount on decommissioning obligations	1,382	1,691
Unrealized foreign exchange loss (gain)	68	(394)
Change in fair value of held-for-trading assets	(5,000)	26,000
Gain from disposition of property and equipment	-	(1,695)
Change in other provisions	1,981	2,419
Decommissioning obligations incurred	(2,845)	(2,374)
	247,887	187,546
Change in non-cash working capital (note 15)	4,889	(20,523)
	252,776	167,023
Financing activities:		
Dividends paid	(392,868)	(1,289,130)
Dividend paid from contributed surplus	(20,000)	-
Interest paid	(219)	(816)
Lease obligation payments	(1,433)	(968)
	(414,520)	(1,290,914)
Investing activities:		
Proceeds on sale of investments	132,312	1,174,025
Proceeds on disposition of property and equipment	-	1,695
Purchase of property and equipment	(30,343)	(27,955)
Withdrawal from Consolidated Revenue Fund (note 6)	-	5,000
Cash and cash equivalents held in escrow	138	(3,138)
Change in non-cash working capital (note 15)	2,750	(1,268)
	104,857	1,148,359
Increase (decrease) in cash and cash equivalents	(56,887)	24,468
Cash and cash equivalents, beginning of year	129,884	105,416
Cash and cash equivalents, end of year	$ 72,997	$ 129,884

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

1. Reporting entity:

Canada Development Investment Corporation ("the Corporation" or "CDIC") was incorporated in 1982 under the provisions of the *Canada Business Corporations Act* and is wholly-owned by Her Majesty in Right of Canada. The Corporation is an agent Crown corporation listed in Schedule III, Part II of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. In November 2007, the Minister of Finance informed CDIC that its mandate "should reflect a future focused on the ongoing management of its current holdings in a commercial manner, providing assistance to the Government of Canada ("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". In late 2009, the Corporation began assisting the Department of Finance in its Asset Review programme involving the review of certain Government corporate assets.

The address of the Corporation's registered office is 79 Wellington Street West, Suite 3000, Box 270, TD Centre Toronto, Ontario M5K 1N2. The address of the Corporation's principal place of business is 1240 Bay Street, Suite 302, Toronto, Ontario M5R 2A7.

The Corporation consolidates three wholly-owned subsidiaries: Canada Eldor Inc. ("CEI") Canada Hibernia Holding Corporation ("CHHC"), and Canada GEN Investment Corporation ("GEN").

CEI was incorporated under the provisions of the *Canada Business Corporations Act*. It is subject to the *Financial Administration Act*, is an agent of Her Majesty in Right of Canada and is not subject to the provisions of the *Income Tax Act*. During 1988, CEI sold substantially all of its assets and operations to Cameco Corporation ("Cameco") in exchange for share capital of the purchaser and a promissory note. As a result of the sale of the Cameco shares and the assumption of certain of CEI's remaining debt by the Government 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 defined benefits. These obligations are discussed in notes 11 and 12.

CHHC was incorporated under the provisions of the *Canada Business Corporations Act* and was acquired by CDIC in March 1993. CHHC is subject to the *Financial Administration Act* and the *Income Tax Act*. CHHC's sole purpose is the holding and management of its interest in the Hibernia Development Project. CHHC's interest in the Hibernia Development Project has been recorded in CHHC's financial statements which are consolidated into CDIC's financial statements.

GEN was incorporated under the provisions of the *Canada Business Corporations Act* and was acquired by the Corporation on May 30, 2009. GEN is subject to the *Financial Administration Act* but is not subject to the *Income Tax Act*. GEN owns common shares in General Motors Company ("GM") plus Series A Fixed Rate Cumulative Perpetual Preferred Stock with a liquidation preference value of US$25/preferred share. GEN received the shares of GM as a result of loans made by Export Development Canada's Canada Account ("EDC") (a related party to CDIC and GEN) to GM.

The loans were transferred to GEN for $nil consideration at their fair value of $3,149,000. The carrying amount of the loans at the time of transfer was determined to be equal to the fair value of the shares in GM received by the company.

Canada CH Investment Corporation ("CH") was consolidated until July 21, 2011. CH was incorporated under the provisions of the *Canada Business Corporations Act* and was acquired by the Corporation on May 29, 2009. CH's sole activity was to hold an investment in Chrysler Group LLC (Chrysler). The membership interest in the limited liability corporation was received from Chrysler as a result of loans made by EDC, a related party to CDIC and CH, to Chrysler Group LLC ("Chrysler"). During the year, all of the Corporation's interests in Chrysler were sold to Fiat for US $140 million in cash. The cost of the investment in Chrysler was approximately US $18,000 or CAD $20,000 on the date of acquisition, June 10, 2009. The closing date of the sale was July 21, 2011. These investments are discussed in note 9.

2. Basis of preparation:

a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). These are the Corporation's first annual consolidated financial statements prepared in accordance with IFRS and IFRS 1, First-time Adoption of International Financial Reporting Standards has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in note 23.

The consolidated financial statements were authorized for issue by the Board of Directors on March 9, 2012.

2. Basis of preparation (continued):

b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value

The methods used to measure fair values are discussed in note 3.

c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

d) Use of estimates and judgments:

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 8 – Property and equipment
- Note 9 – Investments
- Note 11 – Provisions
- Note 18 – Contingencies

Considerable judgment is used in measuring and recognizing provisions and the exposure to contingent liabilities. Judgment is necessary to determine the likelihood that pending litigation or other claims will succeed, or a liability will arise and to quantify the possible range of the final settlement. Some uncertainties relate to CEI's future costs of fulfilling its obligations under the agreement of purchase and sale as discussed in note 11(b).

A provision is set up for decommissioning costs which will be incurred when certain of CHHC's tangible long-lived assets are retired. Assumptions, based on current economic factors which management believes are reasonable, have been made to estimate the future liability. However, the actual cost of decommissioning is uncertain and cost estimates may change in response to numerous factors including changes in legal requirements, technological advances, inflation and the timing of expected decommissioning and restoration. The impact to net earnings over the remaining economic life of the assets could be significant due to the changes in cost estimates as new information becomes available. In addition, CHHC determines the appropriate discount rate at the end of each reporting period. This discount rate, which is not credit adjusted, is used to determine the present value of the estimated future cash outflows required to settle the obligation and may change in response to numerous market factors.

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of oil reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material.

The fair value determination of certain financial instruments and the evaluation of impairment involve the use of significant estimates and assumptions.

Judgment was used in determining not to consolidate the results of PPP Canada Inc. which is wholly-owned by the Corporation as discussed in note 3(a) Basis of consolidation.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently by the Corporation and its subsidiaries to all years presented in these consolidated financial statements, and in preparing the opening IFRS consolidated statement of financial position at January 1, 2010 for the purposes of the transition to IFRS.

a) Basis of consolidation:

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

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

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

All of CHHC's oil exploration and development activities are conducted jointly with others and accordingly, the financial statements reflect only CHHC's proportionate interest in such activities. The consolidated financial statements include CHHC's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs. 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.

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 classified as loans and receivables.

d) Property and equipment:

(i) Recognition and measurement:

Items of property and equipment, which include oil development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses.

When significant parts of an item of property and equipment, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in the consolidated statements of comprehensive income (loss).

(ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

3. Significant accounting policies (continued):

(iii) Depletion and depreciation:

The net carrying value of property and equipment is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

Proven and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

The depletion and depreciation methods for certain production assets for the current and comparative periods are as follows:

Drilling costs	Unit of production
Crude oil tanker	Straight line over life of lease
Offshore production facilities	Unit of production

CHHC has deemed the estimated useful life of the offshore production facilities, which includes the gravity base structure, topsides and offshore loading system to be consistent with the reserve lives of the areas for which they serve, with the exception of facility turnarounds and major overhauls which may be necessary to extend the life of these facilities. As a result, CHHC includes the cost of these assets within their associated major component for the purpose of depletion using the unit of production method.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

e) Leased assets:

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequently, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases, which are not recognized on the Corporation's consolidated statements of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

f) Impairment:

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are recognized in the consolidated statements of comprehensive income (loss).

3. Significant accounting policies (continued):

f) Impairment: (continued)

For available-for-sale assets, if there is objective evidence of impairment, any losses recognized in other comprehensive income are reclassified to income. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be attributed objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss. For available-for-sale equity investments, impairment losses cannot be reversed.

(ii) Non-financial assets:

The carrying amounts of the Corporation's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For the purpose of impairment testing, development and production assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("cash generating units" or "CGU's"). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. CHHC has grouped its development and production assets into one CGU.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of comprehensive income (loss).

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

g) Foreign currency transactions:

Transactions in foreign currencies are translated to Canadian dollars at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the period end date exchange rates. Non-monetary items which are measured using historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognized in other comprehensive income.

h) Inventories:

Inventory of crude oil is an asset that is held for sale in the ordinary course of business, and is valued at the lower of cost to produce, including production and operating, transportation and depletion and depreciation, or net realizable value. Crude oil lifted below or above CHHC's working interest share of production results in production underlifts or overlifts. Net underlifts are recorded at cost in inventory and net overlifts are recorded in accounts payable and accrued liabilities at fair market value. CHHC follows the first-in, first-out basis of accounting for inventories.

3. Significant accounting policies (continued):

i) Provisions:

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Decommissioning obligations:

Decommissioning obligations include obligations relating to the sale of assets by CEI and provisions relating to CHHC's oil activities. Under the terms of the purchase and sale agreement in 1988 between CEI and Cameco, CEI is responsible for obligations relating to site restoration and historic waste. Provision is made for the estimated cost of these activities.

CHHC's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category. The decommissioning obligations are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the end of the reporting period. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as unwind of discount on decommissioning obligations within finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

j) Defined benefit obligation:

CEI has a post-employment benefit plan and is obligated to fund certain post-employment 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:

(i) The cost of the defined 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 assumed to be paid every year after retirement as long as the member or dependent lives. The valuation is based upon a discount rate derived from the yield of a high quality corporate bond and other actuarial assumptions, which represent management's best estimates. The calculation is performed annually by a qualified actuary using the projected unit credit method. The benefit obligations are not pre-funded.

(ii) Actuarial gains (losses) on the defined benefit obligation arise from differences between the actual and expected experience and from changes in the actuarial assumptions used to determine the defined benefit obligation. The Corporation recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income, and reports them in accumulated deficit.

k) Income taxes:

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred tax expense (recovery) is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, where they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued):

l) Revenue recognition:

Revenue from the sale of crude oil is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. Revenue from the sale of crude oil is recognized when the Bill of Lading for a shipment is obtained. The Bill of Lading transfers the significant risks and rewards of ownership to the buyer. Revenue is presented net of marketing fees, royalties and net profits interest.

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

m) Financial instruments:

(i) Recognition:

All financial assets and financial liabilities are initially recognized on the date at which the Corporation becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Corporation has a legally enforceable right to offset the amounts and intends either to settle on a net basis or to realize the asset and liability simultaneously.

Transaction costs of financial instruments at fair value through profit or loss are recognized in profit or loss immediately. Transaction costs of other financial instruments are included in the initial measurement of the financial instrument.

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability. The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

(ii) Classification and measurement:

(a) Financial Assets

Financial instruments are, for measurement purposes, grouped into classes. The classification depends on the purpose and is determined at initial recognition. The Corporation has the following financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such upon initial recognition. Financial assets are designated as fair value through profit or loss if the Corporation manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Corporation's documented risk management or investment strategy. Derivatives are also classified as fair value through profit or loss unless they are designated as hedges. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Corporation designated its cash on deposit in the Consolidated Revenue Fund as fair value through profit or loss. The preferred shares in GM are designated as fair value through profit or loss. The Air Canada warrants are classified as fair value through profit or loss.

3. Significant accounting policies (continued):

Held-to-maturity financial assets

Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest method, less any impairment losses. The fair value of held-to-maturity investments is stated at carrying amount which approximates fair value due to their short terms to maturity. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Corporation from classifying investment securities as held-to-maturity for the current and the following two financial years. Cash equivalents held in escrow are classified as held-to-maturity.

Loans and receivables

Loans and receivables, comprised of cash and cash equivalents and accounts receivable are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The membership interest in Chrysler and the common shares in GM are designated as available-for-sale financial assets. These investments are carried at fair value with subsequent changes in fair value, other than impairment losses, recognized in other comprehensive income, and presented within equity. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(b) Financial liabilities

All of the Corporation's financial liabilities are classified as other financial liabilities and are initially measured at fair value plus any directly attributable transaction costs. Subsequent to the initial recognition and measurement, these non-derivative financial liabilities are measured at amortized cost using the effective interest method. The Corporation's non-derivative financial liabilities consist of accounts payable and accrued liabilities.

(iii) Disclosures

Fair value measurements recognized in the consolidated statements of financial position are classified using a three level fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices available in active markets for identical assets and liabilities. Fair value of assets and liabilities included in Level 2 include valuations using inputs other than quoted prices for which all significant inputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The required disclosures are included in note 20(d).

n) Finance costs and income:

Finance costs comprise interest expense on finance lease, unwinding of the discount on decommissioning obligations, unwinding of the discount on other provisions and impairment losses recognized on financial assets. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

4. Recent accounting pronouncements:

IAS 1, Presentation of Financial Statements

In June 2011, the International Accounting Standards Board ("IASB") published amendments to IAS 1 Presentation of Financial Statements. The amendments revise the way other comprehensive income is presented, requiring separate subtotals for those elements which may be reclassified to profit or loss subsequently and those elements that will not. The amendments are applicable to annual periods beginning on or after July 1, 2012, with early adoption permitted. The Corporation is assessing the impact of the amendments on its consolidated financial statements.

IFRS 7 Disclosures – Transfers of Financial Assets

In October 2010 the IASB issued Amendments to IFRS 7 Disclosures – Transfers of Financial Assets, which is effective for annual periods beginning on or after January 1, 2012. The amendments to IFRS 7 require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. The amendments define "continuing involvement" for the purposes of applying the disclosure requirements. The Corporation does not expect the amendments to have a material impact on the financial statements, because of the nature of the Corporation's operations and the types of financial assets that it holds.

IFRS 9, Financial Instruments

On November 12, 2009, the IASB issued IFRS 9 Financial instruments (IFRS 9) with further revisions on October 28, 2010 to replace IAS 39 Financial Instruments: Recognition and Measurement. On December 20, 2011, the IASB changed the mandatory effective date of IFRS 9 to January 1, 2015. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The Corporation has not yet determined the impact of IFRS 9 on its Consolidated Financial Statements.

IFRS 10, Consolidated Financial Statements

IFRS 10 Consolidated Financial Statements will replace portions of IAS 27 Consolidated and Separate Financial Statements and interpretation SIC-12 Consolidation – Special Purpose Entities. The key features of IFRS 10 include consolidation using a single control model, definition of control, considerations on power, and continuous reassessment. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Corporation has not yet assessed the impact of the new standard on the consolidated financial statements.

IFRS 11, Joint Arrangements

IFRS 11 Joint Arrangements will apply to interests in joint arrangements where there is joint control. IFRS 11 would require joint arrangements to be classified as either joint operations or joint ventures. In addition, the option to account for joint ventures, previously called jointly controlled entities, using proportionate consolidation would be removed, and equity accounting would be required. IFRS 11 supersedes IAS 31, Interests in Joint Ventures. These amendments are effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Corporation has not yet assessed the impact of the new standard on the consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 Disclosure of Interests in Other Entities includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities and replaces existing disclosure requirements. This standard is effective for annual periods beginning on or after January 1, 2013. Entities will be permitted to apply any of the disclosure requirements in IFRS 12 before the effective date. The Corporation has not yet assessed the impact of the new standard on the consolidated financial statements.

4. Recent accounting pronouncements (continued):

IFRS 13, Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements, when fair value is required or permitted by IFRS. IFRS 13 sets out in a single IFRS a framework for measuring fair value and requires enhanced disclosures about fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and early adoption is permitted. The Corporation has assessed that the new standard will not have a material impact on the consolidated financial statements.

IAS 27, Separate Financial Statements and IAS 28, Investments in Associates and Joint Ventures

The IASB have also made amendments to existing standards IAS 27 and IAS 28. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13. The Corporation has not yet assessed the impact of the amendments on the consolidated financial statements.

IAS 19 Employee Benefits

In June 2011, the IASB released amendments to IAS 19, Employee Benefits which, among other things, eliminate the corridor method that defers the recognition of gains and losses, to streamline the presentation of changes in assets and liabilities arising from employee benefit plans and to enhance the disclosure requirements. The amended version of IAS 19 will be effective for the annual periods beginning on January 1, 2013, with earlier application permitted. The Corporation does not use the corridor method and hence does not expect the amendments to have a material impact on the Corporation's financial statements.

5. Cash and cash equivalents:

Cash and cash equivalents on the consolidated statements of financial position include cash, bank indebtedness, term deposits and bankers' acceptances. Interest revenue arising on cash and cash equivalents was earned at interest rates ranging from 0.10% to 1.32% for 2011 (2010 - 0.10% to 1.12%). The details are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Bank balances	$ 8,544	$ 1,691	$ 15,947
Short term investments	64,453	128,193	89,469
Cash and cash equivalents	$ 72,997	$ 129,884	$ 105,416

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

6. Cash on deposit in the Consolidated Revenue Fund:

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

		December 31, 2011		December 31, 2010		January 1, 2010
CEI, beginning of year	$	39,538	$	44,357	$	44,181
Allocated interest		334		181		176
Withdrawal		-		(5,000)		-
CEI, end of year	$	39,872	$	39,538	$	44,357
CHHC, beginning of year	$	94,112	$	93,679	$	93,308
Allocated interest		794		433		371
CHHC, end of year	$	94,906	$	94,112	$	93,679
CRF, end of year	$	134,778	$	133,650	$	138,036
Represented by:						
Current portion	$	17,363	$	7,746	$	7,284
Non-current portion		117,415		125,904		130,752
	$	134,778	$	133,650	$	138,036

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

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

Funds held in these accounts are interest bearing at a rate of 90% of the three-month treasury bill tender rate. The average interest rate was 0.84 % during the year (December 31, 2010 - 0.46%, January 1, 2010 - $0.40%). Access to these funds is unrestricted.

7. Cash and cash equivalents held in escrow:

In the granting of drilling and other work authorizations associated with Hibernia development and production, the Canada-Newfoundland Labrador Offshore Petroleum Board ("C-NLOPB") requires evidence of financial responsibility. CHHC maintains an escrow account in the amount of $2,550 (December 31, 2010 - $2,550, January 1, 2010 - $2,550) to satisfy this requirement. The C-NLOPB has the right to make claims against the cash equivalents held in escrow under certain circumstances and CHHC retains any interest earned on the account. The current escrow agreement will expire on June 1, 2012, and is renewed annually.

Similarly the C-NLOPB requires a letter of credit as evidence that certain research and development commitments will be carried out. CHHC maintains an escrow account in the amount of $3,000 (December 31, 2010 - $3,138, January 1, 2010 - $ nil) to secure the letter of credit and satisfy this obligation. The C-NLOPB has the right to make claims on the letter of credit if sufficient qualifying commitments have not been made by the maturity date. CHHC retains any interest earned on the account.

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

8. Property and equipment:

		Drilling costs		Crude oil tanker		Offshore production facilities		Total
Deemed Cost								
Balance at January 1, 2010	$	4	$	13,547	$	109,154	$	122,705
Additions for the year		18,420		-		14,585		33,005
Balance at December 31, 2010		18,424		13,547		123,739		155,710
Additions for the year		10,813		-		43,941		54,754
Balance at December 31, 2011	$	29,237	$	13,547	$	167,680	$	210,464
Depletion and depreciation:								
Deemed Balance at January 1, 2010	$	-	$	-	$	-	$	-
Depletion and depreciation for the year		18,423		2,760		17,060		38,243
Balance at December 31, 2010		18,423		2,760		17,060		38,243
Depletion and depreciation for the year		10,813		2,760		19,508		33,081
Balance at December 31, 2011	$	29,236	$	5,520	$	36,568	$	71,324

		Drilling costs		Crude oil tanker		Offshore production facilities		Total
Carrying amounts:								
At January 1, 2010	$	4	$	13,547	$	109,154	$	122,705
At December 31, 2010	$	1	$	10,787	$	106,679	$	117,467
At December 31, 2011	$	1	$	8,027	$	131,112	$	139,140

In February 2010, CHHC sold an equity interest in the Hibernia Southern Extension Unit for gross proceeds of $1,695. CHHC recognized and recorded a gain on sale of property and equipment of $1,695 during the first quarter of 2010.

Certain costs have been excluded from the calculations of depletion and depreciation, including costs of equipment currently under construction of $ nil at December 31, 2011 (December 31, 2010 - $4,218, January 1, 2010 - $ nil), and costs where proven reserves have not yet been allocated of $ nil at December 31, 2011 (December 31, 2010 - $1,853, January 1, 2010 - $ nil). There was no impairment to property and equipment for the years ended December 31, 2011 and 2010.

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

9. Investments:

	December 31, 2011	December 31, 2010	January 1, 2010
Financial assets at fair value through profit or loss:			
Preferred shares in GM	$ 426,000	$ 421,000	$ 447,000
16,101,695 Series A Fixed Rate Cumulative Perpetual Preferred Stock			
Dividend rate 9.0% paid quarterly, liquidation preference value: US$25 per share			
Common share warrants in Air Canada	-	-	633
Available-for-sale assets:			
Membership interest in Chrysler	-	94,487	37,677
24,615 Class A Units			
Common shares in GM	2,889,214	4,728,802	3,663,100
140,084,746 common shares (after 3:1 stock split) (December 2010 - 140,084,746 common shares January 2010 – 58,368,644 common shares pre-split)			
	$ 3,315,214	$ 5,244,289	$ 4,148,410

The changes in investment balances by each classification of financial instruments reflected in the consolidated statements of comprehensive income (loss) are as follows:

	2011	2010
Change in fair value of assets at fair value through profit or loss:		
Preferred shares in GM		
Unrealized foreign exchange (gain) loss	$ (9,000)	$ 22,000
Unrealized fair value loss	4,000	4,000
	$ (5,000)	$ 26,000
Net change in fair value of available-for-sale assets:		
Membership interest in Chrysler		
Unrealized fair value gain	$ 37,825	$ 56,810
Realized gain on sale of membership interest	(112,312)	-
Common shares in GM		
Unrealized fair value (loss) gain	(1,839,587)	2,246,713
Realized gain on sale of investment	-	(645,011)
	$ (1,914,074)	$ 1,658,512

	2011	2010
Gain on sale of investments:		
Membership interest in Chrysler		
Realized fair value gain	112,312	-
Common shares in GM		
Realized fair value gain	-	636,157
Common share warrants in Air Canada		
Realized fair value gain	-	1,234
	$ 112,312	$ 637,391

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

9. Investments (continued):

Financial assets at Fair Value through profit or loss:

Held-for-trading financial assets are measured at fair value as at the consolidated statement of financial position date.

The GM preferred shares, which do not trade publicly, were classified as held-for-trading at initial recognition. Upon transition to IFRS, these were designated as fair value through profit or loss. They could not be classified as available-for–sale due to the inability to measure the embedded option by the issuer to redeem the shares after December 30, 2014. Since this option cannot be reasonably valued separately, the entire preferred share instrument is measured at fair value. Fair value has been determined based on the net present value of cash flows discounted at an interest rate of comparable preferred equity instruments and the particular attributes of the preferred share issue including the liquidation preference value of US$25/ preferred share. The change in value has been recorded in earnings as an unrealized foreign exchange gain of $9,000 (2010 - loss of $22,000) and an unrealized fair value loss of $4,000 (2010 - $4,000). There are no sales restrictions on the preferred shares. Preferred share dividends from GM are received quarterly in US dollars. In 2011, GEN received $36,119 (2010 - $36,856) in preferred share dividends.

The warrants to purchase Air Canada shares were sold in 2010. The net proceeds were $1,867 and CDIC recognized a gain of $1,234.

Available-for-sale financial assets:

Upon initial recognition of the investments in the common shares of GM and membership interest in Chrysler in fiscal 2009, these investments were designated as available-for-sale financial assets. As at January 1, 2010 and December 31, 2010, the investment in Chrysler is recorded at fair value, with any change in value recorded in other comprehensive income. As there was no public market for the interest at that time, fair value was determined through a methodology using acceptable industry practices. The Chrysler interests were sold to Fiat on July 21, 2011 for proceeds of US $140,000 or CDN $132,312. The deemed cost of the interests was $20,000 resulting in a gain on sale of investment of $112,312. Proceeds were in turn paid out as dividends from Contributed Surplus of $20,000 and the balance from Accumulated Deficit.

The GM common shares did not have a quoted market price in an active market at January 1, 2010 and, accordingly, were measured at fair value using standard valuation techniques including discounted cash flow and market multiples analysis On November 18, 2010, GM launched its initial public offering (IPO) of stock on the New York Stock Exchange and the Toronto Stock Exchange. The GM common shares had a quoted market price in an active market at this date and, accordingly, the shares held at December 31, 2010 were re-measured at fair value with the difference between its initial carrying amount of $2,143,999 recorded in other comprehensive income.

Prior to the IPO, the GM shares were subject to a stock split of three to one, increasing common share holdings from 58,368,644 shares to 175,105,932 shares. In November and December 2010, GEN sold 35,021,186 of its common shares at the IPO price of US $33 per share less a commission cost of 0.75% resulting in a realized gain of $636,157.

GEN was party to an Underwriting Agreement and other agreements which restricted it from selling the common shares under certain conditions which expired in May 2011.

The balance in accumulated other comprehensive income at January 1, 2010 and December 31, 2010 and 2011 relates solely to the changes in fair value of the GM and Chrysler investments.

Determination of fair values

Fair values for publicly traded shares are generally determined by the last bid price for the security from the exchange where it is principally traded. A discount has been applied to the value of the GM common shares based on the restrictions to GEN's ability to sell the shares in calculating the January 1, 2010 and December 31, 2010 fair values. The restrictions on the sale of GM shares expired in May 2011 therefore a discount was not applied at December 31, 2011. The fair value of available-for-sale investments not traded in an active market was determined using acceptable industry practices, including valuation techniques that considers earnings multiples of public companies in the same industries as well as discounted expected future cash flows.

10. Finance lease obligation:

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 for both finance and operating elements was approximately $5,552 in 2011 (December 31, 2010 - $5,960, January 1, 2010 - $5,099). Payments commenced in 1997 for an initial term of ten years. The agreement provided for one five-year extension which was exercised in November 2007. In addition, there are five two-year optional extensions and the total lease term cannot exceed twenty-five years. The time charter of the crude oil tanker has been treated as a finance lease for accounting purposes. Accordingly, CHHC's 25.373% interest in the tanker has been capitalized assuming the first two extensions are exercised and the lease is cancelled in 2014. CHHC is expected to extend the lease for an additional two extension periods. The extensions have not been exercised as at the date of the consolidated statements of financial position, and are not reflected in the calculations. The leased assets are presented on the consolidated statements of financial position under property and equipment.

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

2012	$	1,796
2013		1,936
2014		1,730
Minimum lease payments		5,462
Less amount representing interest		(233)
Finance lease obligation	$	5,229
The total finance lease obligation is comprised of the following:		
Current portion of finance lease obligation	$	1,636
Non-current portion of finance lease obligation		3,593
Finance lease obligation	$	5,229

CHHC has entered into a Capacity Reservation Agreement ("CRA") with another Hibernia Owner for the use of a portion of the time allocated to CHHC for the tanker time charter. The CRA became effective November 7, 2010. The agreement provides for reimbursement of a portion of both the finance and operating elements of CHHC's tanker time charter transportation costs. The funds received are netted against operating expense on the consolidated statements of comprehensive income (loss) and totaled $5,204 (2010 - $951).

11. Provisions:

(a) Provision for decommissioning obligations of CHHC:

CHHC's provision for decommissioning obligations is 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 to be incurred. CHHC estimates the total future undiscounted liability to be $159,983 at December 31, 2011, (2010 - $144,904) and $124,232 at January 1, 2010. Estimates of decommissioning obligation costs can change significantly based on factors such as operating experience and changes in legislation and regulations.

These obligations will be settled based on the useful lives of the underlying assets, which currently extend up to the year 2045.
At December 31, 2011 a risk-free rate of 2.49% (2010 – 3.52%) and 4.10% at January 1, 2010; and an inflation rate at December 31, 2011 of 1.9% (2010 – 1.66%) and 1.46% at January 1, 2010 was used to calculate the provision.

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

11. Provisions (continued):

Changes to decommissioning obligations were as follows:

		2011		2010
Decommissioning obligations, beginning of year	$	44,695	$	40,328
Unwind of discount		1,382		1,691
Changes in estimates		24,411		5,050
Obligations settled		(2,845)		(2,374)
Decommissioning obligations, end of year	$	67,643	$	44,695

(b) Other provisions:

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. Decommissioning obligations include site restoration and historic waste as follows:

		Site Restoration		Historic Waste		Total
Balance at January 1, 2010	$	11,530	$	11,010	$	22,540
Change in estimates		4,878		-		4,878
Reversal of provisions		(692)		-		(692)
Obligations settled		(2,057)		-		(2,057)
Unwind of discount		290		-		290
Balance at December 31, 2010	$	13,949	$	11,010	$	24,959
Change in estimates		2,256		2,940		5,196
Reversal of provisions		(2,112)		-		(2,112)
Obligations settled		(1,436)		-		(1,436)
Unwind of discount		333		-		333
Balance at December 31, 2011	$	12,990	$	13,950	$	26,940
Non-current		10,249		-		10,249
Current		2,741		13,950		16,691
Other provisions	$	12,990	$	13,950	$	26,940

(i) 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. These estimates are based on variables and assumptions which are subject to uncertainty including the time to completion and the costs over this period. The costs are estimated over a period ending in 2021 (2010 – 2020). The future estimate of costs for site restoration has been discounted at rate of 1.65% (2010 – 2.86%) and an inflation rate of 1.9% (2010 – 0%) was used to calculate the provision at December 31, 2011. The current estimate for costs and the amount accrued as at December 31, 2011 is $12,990 (December 31, 2010 - $13,949, January 1, 2010 - $11,530).

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

11. Provisions (continued):

(b) Other provisions: (continued)

(ii) 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.

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.

In March 2004, an agreement of Purchase and Sale was signed by the Government, Cameco and CEI, which allows the Government to acquire the Port Granby and Welcome waste sites. On exercise of that option, the agreement stipulates that Cameco would make payments to CEI for the remaining portion of its joint cost obligation in five equal annual instalments. When the Government assumes ownership of both 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. As at December 31, 2011, the Government had acquired the Welcome Site but had not yet exercised its option regarding Port Granby.

CEI and Cameco are responsible for joint costs until such time as ownership of both sites transfers to the Government. Under the 1988 agreement, CEI has an ongoing obligation relating to the miscellaneous wastes stored on site in two specific storage locations at Port Granby. In 2007, CEI informed Cameco that it disagreed with Cameco's interpretation of joint wastes in the 1988 Agreement. CEI had declined to pay invoices since 2005 billed by Cameco for actual costs incurred. CEI had accrued $11,010 at December 31, 2007 for joint costs based on estimates provided by Cameco. Due to the uncertainties outlined above, no revision to the accrual could be reasonably determined. Accordingly, the historic waste provision remained unchanged at $11,010 at January 1, 2010 and December 31, 2010.

Subsequent to year end, CEI and Cameco reached an agreement in principle on the historic waste liabilities whereby CEI will pay Cameco $13,950 conditional upon Natural Resources Canada ("NRCan") taking ownership and assumption of the Port Granby waste site by June 30 2012, such date to be extended upon mutual agreement. CEI will then no longer be responsible for any costs under the joint waste agreement. CEI is not aware of any condition under which NRCAN would not assume the Port Granby site and therefore has based the provision for historic waste at December 31, 2011 upon the conditions in this agreement.

12. Defined benefit obligation:

CEI is obligated to fund certain post-employment benefits related to former employees who retired prior to October 1988 pursuant to the terms of the purchase and sale agreement in 1988 between CEI and Cameco. These benefits include life insurance and medical and dental benefits. CEI measures its present value of the defined benefit obligation as at December 31 of each year. The most recent actuarial valuation of the post-employment benefit plan was done as at December 31, 2011.

Information about CEI's post-employment benefit plan is as follows:

		2011		2010
Defined benefit obligation:				
Balance, beginning of year	$	3,019	$	2,947
Benefits paid		(134)		(231)
Interest expense (defined benefit expense)		127		147
Actuarial (gain) loss in other comprehensive income		(370)		156
Balance, end of year	$	2,642	$	3,019
Defined benefit obligation represented by:				
Current portion	$	378	$	345
Non-current portion		2,264		2,674
	$	2,642	$	3,019

Actuarial gains (losses) recognized in other comprehensive income:

		2011		2010
Cumulative amount as at January 1	$	(156)	$	-
Recognized during the year		370		(156)
Cumulative amount as at December 31	$	214	$	(156)

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

	2011	2010
Discount rate	3.7%	4.3%
Rate of increase in medical benefits	7.0%	9.0%
Rate of increase in dental benefits	4.0%	5.0%

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

12. Defined benefit obligation (continued):

The assumed health care cost trend rate as at December 31, 2011 is 7.0% per annum for 2012, 2013 and 2014 then grading down by 0.5% per annum to the ultimate rate of 5.0% in 2018 (2010 - 9.0% per annum). The assumed dental trend rate is 4.0% per annum (2010 – 5%). Increasing or decreasing the assumed health care cost trend rates by one percentage point would have the following effect for 2011:

	Increase	Decrease
Defined benefit obligation	$ 140	$ (126)
Total interest cost	4	(4)

Historical information:

	December 31, 2011	December 31, 2010	January 1, 2010
Present value of the defined benefit obligation	$ 2,642	$ 3,019	$ 2,946
Experience adjustments arising on plan liabilities	417	-	(307)

13. Income taxes:

CDIC, CEI, CH and GEN are not subject to income tax in Canada. CHHC is subject to income tax. Dividends received by GEN are not subject to income tax within the United States. CH was subject to income tax in the United States.

a) Income tax expense:

The components of tax expense for 2011 and 2010 are as follows:

	2011	2010
Current tax expense		
Current period	$ 84,179	$ 62,698
Adjustment for prior periods	(790)	(1,980)
	$ 83,389	$ 60,718
Deferred tax expense		
Origination and reversal of temporary differences	(2,889)	(1,512)
Tax rates	233	(300)
Changes in unrecognized deductible temporary differences	-	-
	$ (2,656)	$ (1,812)
Total income tax expense	$ 80,733	$ 58,906

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

13. Income taxes (continued):

b) Reconciliation of effective tax rate

The statutory combined federal and provincial income tax rates applicable to CHHC declined from 31.3% in 2010 to 29.8% in 2011, primarily a result of federal tax rates declining from 18% to 16.5% in the year.

Year ended December 31		2011		2010
Profit for the period	$	193,320	$	127,103
Total income tax expense		80,733		58,906
Income before income tax	$	274,053	$	186,009
Income tax using CHHC's combined federal and provincial Canadian tax rate 29.8% (2010 - 31.3%)	$	81,668	$	58,277
Changes in tax rates applied to temporary differences		233		(300)
Non-deductible expenses		10		7
Investment tax credits		(199)		(153)
Change in unrecognized temporary differences		(382)		1,889
Under (over) provided in prior periods		133		(1,522)
Revisions and reassessments to prior years' returns		(730)		708
	$	80,733	$	58,906
Unrecognized deferred tax assets:				
Unrecognized tax assets under appeal with tax Authorities	$	1,384	$	1,384

Recognized deferred tax assets and liabilities:

Deferred tax assets refer to estimated deductible temporary differences between carrying value and tax basis of certain assets. The amount of deferred tax assets and liabilities are as follows:

Deferred tax assets and liabilities	**Inventory**	**Property and Equipment**	**Provisions**	**Accrued liabilities**	**Total**
As at January 1, 2010	$ (1,460)	$ (14,506)	$ 11,483	$ 1,202	$ (3,281)
Credited/(charged) to the statement of comprehensive income (loss)	763	(242)	1,290	1	1,812
At December 31, 2010	(697)	(14,748)	12,773	1,203	(1,469)
Credited/(charged) to the statement of comprehensive income (loss)	(296)	(3,196)	6,370	(222)	2,656
At December 31, 2011	(993)	(17,944)	19,143	981	1,187

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

14. Share capital and contributed surplus:

	December 31, 2011	December 31, 2010	January 1, 2010
Share Capital:			
Authorized - unlimited number of common shares			
Issued and fully paid - 101 common shares (2010 - 101)	$ 1	$ 1	$ 1

The holders of common shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Corporation.

Contributed surplus is a component of shareholder's equity used to record the transfer of capital to the Corporation by a related party, or by the government directly, where no cash is received but assets are received or liabilities assumed. In 2011, two amounts, totalling $675,890 have been reclassified from contributed surplus to accumulated deficit. The amount of $536,000 represents proceeds paid out by the Corporation as dividends from the sale of GM common shares in 2010 corresponding to the proportion of the value of those assets initially received as contributed surplus. A second amount of $139,890 is related to assets no longer held by the Corporation. For assets no longer held by the corporation, any gains or losses on such subsidiaries or assets are now reflected in accumulated deficit. In addition, a dividend of $20,000 was paid from contributed surplus upon the sale of the Chrysler investment.

The remaining amount in contributed surplus is comprised of $2,613,000 related to the proportion of the initial contributed surplus of the GM investments held at year end and $603,294 related to debt of CEI that was assumed by the government in prior periods.

15. Supplemental cash flow disclosure:

Changes in non-cash working capital balances for the years ended December 31 include the following:

	2011	2010
Decrease (increase) in accounts receivable	$ 2,743	$ (20,844)
Decrease (increase) in income taxes recoverable	-	7,654
Decrease (increase) in inventory	(374)	1,193
Decrease (increase) in prepaid expenses	112	(43)
(Decrease) increase in accounts payable and accrued liabilities	(5,737)	(19,795)
Increase (decrease) in income taxes payable	10,895	10,044
Change in non-cash working capital items	$ 7,639	$ (21,791)
Relating to:		
Operating activities	$ 4,889	$ (20,523)
Investing activities	2,750	(1,268)
Change in non-cash working capital items	$ 7,639	$ (21,791)

During the year ended December 31, 2011 CHHC paid taxes of $72,580 (2010 - $42,426) and interest of $219 (2010 - $849) of which $219 (2010 - $816) was related to finance lease obligations.

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

16. Crude oil revenue, net of royalties and net profits interest and production and operating expenses:

(a) Crude oil revenue, net of royalties and net profits interest for the years ended December 31 is as follows:

		2011		2010
Gross oil revenue	$	521,981	$	389,732
Less: marketing fees		(411)		(266)
Less: royalties		(152,582)		(106,189)
Less: net profits interest		(46,482)		(34,488)
Net oil revenue	$	322,506	$	248,789

(b) Royalties:

Pursuant to the Hibernia Development Project Royalty Agreement and the Hibernia Development Project Royalty Amending Agreement, CHHC paid royalties on net transfer revenue at a rate of 30% with the exception of production from the designated “AA” fault blocks within the Hibernia oil reservoir, which was paid at a rate of 42.5%.

(c) Net Profits Interest:

CHHC is also party to the Net Profits Interest (NPI) Agreement, which provides for a 10% NPI payment to the Government of Canada by all Hibernia owners. The NPI payment is based on each owner’s cumulative sales revenue, less cumulative eligible capital, operating and transportation costs.

(d) Production and operating expenses for the years ended December 31 are as follows:

		2011		2010
Hibernia joint account operating	$	13,885	$	15,554
Crude oil tanker operating		8,040		7,500
Recoveries of crude oil tanker operating		(5,204)		(951)
Other transportation recoveries		-		(2,676)
Facility use fees net of incidental net profits interest		(945)		-
Total production and operating	$	15,776	$	19,427

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

17. Commitments:

(a) CHHC is party to a Reserved Capacity Services Agreement with Newfoundland Transshipment Limited whereby CHHC acquired the right to the use of the transshipment terminal for crude oil storage and transshipment. CHHC is committed to pay a portion of the cost of operation of the terminal over a ten-year period, which expires on December 31, 2020. CHHC's share of the annual obligations is subject to annual calculations and is approximately $794 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 obligations, are approximately as follows:

2012	$	7,344
2013		3,794
2014		2,680
2015		1,767
2016		1,644
Thereafter		1,605
	$	18,834

(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 C-NLOPB in the event of potential claims under certain sections of the Canada Newfoundland Atlantic Accord Implementation Act, the Newfoundland Offshore Petroleum Drilling Regulations and the Newfoundland Offshore Area Petroleum Production and Conservation Regulations. The note will expire on April 30, 2013. At December 31, 2011 there have been no draws on the promissory note (December 31, 2010 – nil, January 1, 2010 – nil). CHHC's share of this commitment is $5,950.

In addition, the owners are required to provide further proof of financial responsibility by depositing letters of credit or cash in the gross amount of $30,000 with the C-NLOPB (note 7). At January 1, 2010, December 31, 2010 and December 31, 2011, there have been no draws on the letters of credit.

(d) CHHC has an annual obligation to spend funds based on the oil production for the year on qualifying research and development projects, pursuant to guidelines prescribed by C-NLOPB. CHHC currently has a shortfall in research and development spending and has therefore recorded a liability in the amount of $ 3,468 (December 31, 2010 - $4,248, January 1, 2010 - $2,683) which is included in accounts payable and accrued liabilities.

18. Contingencies:

(a) 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. On November 16, 2011, the action was discontinued against the Government and CEI by court order.

(b) 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 Deloro 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. While no liability is admitted, the financial impact on the Corporation, if defence against the action is unsuccessful, is currently not determinable.

(c) In 2011, a lawsuit was filed in the State of Missouri against Multidata Systems International Inc., MDS Nordion Inc., CDIC and others. The lawsuit alleges that the plaintiffs were overexposed to radiation during treatments received at a clinic in Panama. A motion to dismiss the claim against CDIC on the basis of a previous voluntary dismissal with prejudice has been filed. The ultimate magnitude of this liability, if any, is not reasonably estimable at this time. No accrual has been made on the consolidated statement of financial position by the Corporation. Subsequent to year end, CDIC was dismissed without prejudice from this claim.

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

19. Capital management:

The Corporation considers its capital structure as the aggregate of its shareholder's equity of $3,558,772 (December 31, 2010 - $5,549,753, January 1, 2010 - $4,419,424), which is comprised of its share capital, contributed surplus, accumulated other comprehensive income and accumulated deficit. The Corporation and its subsidiaries' objectives when managing capital are to prudently manage its revenues, expenses, assets, liabilities and general dealings to ensure that it effectively achieves its objectives and purpose, while remaining a going concern.

In the case of CHHC, so that it can continue to provide returns for shareholders and benefits for other stakeholders, CHHC is continually monitoring changes in economic conditions and the risk characteristics of the underlying petroleum industry. CEI is constantly monitoring its cash position so that it can meet its liabilities. CH and GEN were capitalized with contributed surplus as a result of receiving equity interests without making expenditures. GEN relies on cash dividends received from the preferred shares it holds and on sales of common shares to fund operations. Due to the limited expenditures forecast at present for GEN, these funding sources are considered adequate to maintain operations.

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

20. Risks to the Corporation:

Overview:

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

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

The Corporation does not use derivative instruments, such as interest rate swaps or forward foreign currency contracts, or other tools and strategies to manage its market related risks.

(a) Credit risk:

Credit risk is the risk of financial loss to the Corporation if counterparties do not fulfill their contractual obligations. The most significant exposure to this risk is relative to the sale and marketing of crude oil. During 2011, the majority of CHHC's oil production was sold through a marketing arrangement. CHHC has assessed the risk of non-collection of funds as low, as the marketer maintains credit surveillance over all pre-approved buyers and CHHC shares cargos with the marketer.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Corporation did not have an allowance for doubtful accounts as at December 31, 2011 and 2010 and January 1, 2010 and did not provide for any doubtful accounts nor was it required to write-off any receivables during 2011 or 2010. As at December 31, 2011 the following amounts were included in accounts receivable:

	December 31, 2011	December 31, 2010	January 1, 2010
Outstanding under 120 days	$ 33,084	$ 35,671	$ 14,912
Outstanding greater than 120 days	36	192	107
Total accounts receivable	$ 33,120	$ 35,863	$ 15,019

Cash and cash equivalents, as well as cash and cash equivalents held in escrow are held by major Canadian chartered banks. All cash equivalents are purchased from issuers with a rating of R1 High.

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

20. Risks to the Corporation (continued):

(b) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its work commitments and/or other financial obligations as they become due. The Corporation's approach to managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meets its liabilities when due. Trade payables are normally payable within 30 days of invoice.

The Corporation's liquidity is dependent upon its operating cash flows. Expected future cash flow from the working interest in the Hibernia Development Project currently exceeds estimated operating expenses and future capital expenditures. Considering these circumstances and the cash and cash equivalents balance at December 31, 2011 of $72,997 (December 31, 2010 - $129,884, January 1, 2010 - $105,416), the Corporation's liquidity risk is assessed as insignificant. Some operating expenses and commitments of subsidiaries can be funded by capital contributions from the Corporation to maintain the liquidity of subsidiaries.

(c) Market risk:

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

(i) Foreign exchange risk:

Foreign exchange risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The underlying market prices in Canada for oil are impacted by changes in the exchange rate between the Canadian and United States dollar. All of CHHC's oil production is transacted in United States dollars and is converted to Canadian dollars at spot rates, exposing the Corporation to foreign exchange movements. A 1% change to the CAD/USD exchange rate would have an impact to after-tax net income of approximately $2,348 for the year ended December 31, 2011 (2010 - $1,389).

Foreign exchange risk associated with available-for-sale equity instruments denominated in a foreign currency is considered in other price risk. Since dividend income is received in a foreign currency (U.S. dollars), the Corporation's cash flows are exposed to foreign exchange fluctuations. The Corporation is exposed to foreign exchange rates upon any fair valuation of financial instruments with changes impacting earnings or other comprehensive income as well as impacting dividend income converted into Canadian dollars. A 1% change in the CAD/USD exchange rate would have an impact on net income of $362 (2010 - $362).

(ii) Commodity price risk:

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices, affecting results of operations and cash generated from operating activities. Prices received by CHHC for its production are impacted by world economic events that dictate the levels of supply and demand. All of CHHC's oil production is sold at spot rates, exposing CHHC to the risk of price movements. A $1.00 change to the price per barrel of oil would have an impact to after-tax net income of approximately $2,057 for the year ended December 31, 2011 (2010 - $2,150).

(iii) Interest rate risk:

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

A change of 1.0% to the interest rate would have an impact to after-tax net income of approximately $ 2,264 (2010 - $1,793).

(iv) Other Price risk:

Price risk is the risk that the fair value of certain financial instruments is subject to market price fluctuations. Price risk associated with available-for-sale equity instruments includes the consideration of foreign exchange.

Changes in market values will impact other comprehensive income and future earnings and cash flows when the Corporation might dispose of the share holdings. Given that some of the Corporation's financial instruments are denominated in a foreign currency; the adjustment due to foreign currency translation may also cause market price fluctuations. For any 10% change in the price of GM common shares, other comprehensive income would be impacted US $284,092 (2010- $475,447).

If a market commences for the preferred GM shares, the fair value of such assets will be directly exposed to other price risk and changes in market values will impact profit and loss. For any 1% change in the discount rate used to value the GM preferred shares, net income would be impacted approximately $10,000 (2010 - $14,000) plus any impact in the USD/CAD exchange rate.

20. Risks to the Corporation (continued):

(d) Fair value of financial instruments:

The following table summarizes information on the fair value measurement of the Corporation's assets as of January 1, 2010 and December 31, 2010 and 2011 grouped by the fair value level:

	Total	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
January 1, 2010				
Cash on deposit in the CRF	$ 138,036	$ 138,036	$ -	$ -
Air Canada warrants	633	-	-	633
Preferred shares in GM	447,000	-	447,000	-
Common shares in GM	3,663,100	-	-	3,663,100
Membership Interest in Chrysler	37,677	-	-	37,677
Total	$ 4,286,446	$ 138,036	$ 447,000	$ 3,701,410
December 31, 2010				
Cash on deposit in the CRF	$ 133,650	$ 133,650	$ -	$ -
Preferred shares in GM	421,000	-	421,000	-
Common shares in GM	4,728,802	-	4,728,802	-
Membership Interest in Chrysler	94,487	-	-	94,487
Total	$ 5,377,939	$ 133,650	$ 5,149,802	$ 94,487
December 31, 2011				
Cash on deposit in the CRF	$ 134,778	$ 134,778	$ -	$ -
Preferred shares in GM	426,000	-	426,000	-
Common shares in GM	2,889,214	2,889,214	-	-
Total	$ 3,449,992	$ 3,023,992	$ 426,000	$ -

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

The following table provides a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3 Equity investments
Opening Balance, January 1, 2010	$ 3,701,410
Total gains or losses:	
Recognized in other comprehensive income	2,303,523
Recognized in profit or loss on assets sold	(645,644)
Sales	(536,000)
Transfers out of Level 3 attributable to changes in the observability of market data	(4,728,802)
Balance at December 31, 2010	$ 94,487
Total gains or losses:	
Recognized in other comprehensive income	37,825
Recognized in profit or loss on assets sold	(112,312)
Sales	(20,000)
Balance at December 31, 2011	$ -

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

20. Risks to the Corporation (continued):

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

During the year ended December 31,2010 the investment in GM common shares was transferred out of Level 3 to Level 2 of the fair value hierarchy as the shares became publicly listed on an active market during the year having previously been unquoted. Due to restrictions on the shares, the shares were grouped as Level 2. During 2011, the common shares in GM moved from level 2 to level 1 in the fair value hierarchy when the fair value was determined based solely on the market price.

21. Related party transactions:

The ultimate controlling party of the Corporation is the Government of Canada.

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under its stated mandate.

CDIC paid dividends to the Government of Canada for the year ended December 31, 2011 in the amount of $ 412,868 (2010 - $1,289,130) of which $20,000 was from contributed surplus.

a) Key management personnel compensation

Key management personnel are comprised of the directors and executive officers of CDIC and its subsidiaries. In addition to their salaries, the Corporation also provides non-cash benefits to executive officers.

There were no amounts paid to key management personnel relating to post-employment benefits, other long-term benefits, termination benefits or share-based payment.

		2011		**2010**
Key management personnel compensation comprised of:				
Salaries, other short-term employee benefits, director fees	$	1,886	$	1,796

b) Other related party transactions affecting profit:

		Transaction value Year ended December 31		
		2011		2010
Dividends paid	$	412,868	$	1,289,130
CRF Interest income		1,128		614

c) Items affecting Statement of Financial Position

		December 31, 2011		December 31, 2010		January 1, 2010
Cash on deposit in CRF	$	134,778	$	133,650	$	138,036

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

22. Supplementary information:

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

Statement of Financial Position:

		2011		2010
Assets:				
Current	$	81,356	$	100,955
Non-current		240,783		217,267
		322,139		318,222
Liabilities:				
Current		46,738		39,171
Non-current		71,236		51,206
		117,974		90,377
Shareholder's Equity		204,165		227,845
	$	322,139	$	318,222

Statement of Comprehensive Income (loss):

Revenue:				
Crude oil revenue, net of royalties and net profits interest	$	322,506	$	248,789
Other income		1,990		346
Expense:				
Total expenses		(50,443)		(63,126)
Income taxes		(80,733)		(58,906)
Comprehensive income	$	193,320	$	127,103

Statement of Cash Flows:

Cash provided (used) by:				
Operating activities	$	226,341	$	139,820
Financing activities		(215,700)		(115,935)
Investing activities		(28,468)		(31,915)
Decrease in cash and cash equivalents	$	(17,827)	$	(8,030)

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

23. Transition to IFRS:

As stated in note 2(a), these are the Corporation's first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Corporation's date of transition).

In preparing its opening IFRS statement of financial position, the Corporation has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian generally accepted accounting principles (GAAP). IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Corporation's financial position, financial performance and cash flows is set out in the following reconciliations and the notes that accompany the reconciliations.

On transition to IFRS on January 1, 2010 the Corporation used certain exemptions allowed under IFRS 1. The exemptions used were:

Full Cost Accounting - IFRS 1 allows an entity that used full cost accounting under its previous GAAP to elect, at the time of adoption to IFRS, to measure oil and gas assets in the development and production phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date. CHHC has used reserve values as at January 1, 2010 to allocate the cost of development and production assets to its CGU.

Provision for decommissioning obligations - CHHC elected to use a decommissioning obligations exemption that allows for the re-measurement of decommissioning obligations on IFRS transition to be offset to retained earnings.

The Corporation also elected under IFRS 1, in respect of defined benefits, to disclose the annual amounts of the present value of the defined benefit obligation and plan deficit and the related experience adjustments prospectively for periods commencing from the date of transition.

23. Transition to IFRS (continued):

Reconciliation of Financial Position and Equity at December 31, 2010 and January 1, 2010

	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
			Dec 31/10			Jan 1/10	
Assets							
Current assets:							
Cash and cash equivalents		$ 129,884	$	$ 129,884	$ 105,416	$	$ 105,416
Accounts receivable		35,863		35,863	15,019		15,019
Income taxes recoverable		-		-	7,654		7,654
Inventory	(viii)(iii)	4,104	5	4,109	6,941		6,941
Prepaid expenses		417		417	374		374
Cash on deposit in the CRF		7,746		7,746	7,284		7,284
		178,014	5	178,019	142,688	-	142,688
Non-current assets:							
Cash on deposit in the CRF		125,904		125,904	130,752		130,752
Cash and cash equivalents held in escrow		5,688		5,688	2,550		2,550
Property and equipment	(iii)(iv)(v)	105,492	11,975	117,467	122,705		122,705
Investments	(ii)	5,169,802	74,487	5,244,289	3,147,633	1,000,777	4,148,410
		$ 5,584,900	$ 86,467	$ 5,671,367	$ 3,546,328	$ 1,000,777	$ 4,547,105
Liabilities and Shareholder's Equity							
Current liabilities:							
Accounts payable and accrued liabilities	(viii)	$ 31,515	$ (681)	$ 30,834	$ 50,629	$	$ 50,629
Current portion of finance lease obligation		1,552		1,552	989		989
Current portion of defined benefit obligation		345		345	360		360
Current portion of other provisions		7,208		7,208	6,712		6,712
Income taxes payable		10,044		10,044	-		-
		50,664	(681)	49,983	58,690	-	58,690
Non-current liabilities:							
Finance lease obligation		5,042		5,042	6,967		6,967
Provision for decommissioning obligations	(iv)	27,583	17,112	44,695	31,691	8,637	40,328
Other provisions		17,751		17,751	15,828		15,828
Defined benefit obligation	(i)	1,882	792	2,674	1,905	682	2,587
Deferred tax liability	(iv)	2,760	(1,291)	1,469	5,786	(2,505)	3,281
		55,018	16,613	71,631	62,177	6,814	68,991
Shareholder's equity:							
Share capital		1		1	1		1
Contributed surplus		3,912,184		3,912,184	3,912,184		3,912,184
Accumulated deficit		(1,017,769)	(3,952)	(1,021,721)	(486,724)	(6,814)	(493,538)
Accumulated other comprehensive income	(ii)	2,584,802	74,487	2,659,289	-	1,000,777	1,000,777
		5,479,218	70,535	5,549,753	3,425,461	993,963	4,419,424
		$ 5,584,900	$ 86,467	$ 5,671,367	$ 3,546,328	$ 1,000,777	$ 4,547,105

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

23. Transition to IFRS (continued):

Reconciliation of comprehensive income for the year ended December 31, 2010

	Note	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue:				
Gain on sale of investments		$ 637,391	$	$ 637,391
Crude oil revenue, net of royalties and net profits interest		248,789		248,789
Dividends		36,856		36,856
Gain on sale of property and equipment	(v)	-	1,695	1,695
Interest income		1,414		1,414
		924,450	1,695	926,145
Expenses:				
Depletion and depreciation	(iii)	42,478	(2,597)	39,881
Production and operating		19,427		19,427
Change in fair value of held-for-trading assets		26,000		26,000
Other expenses	(ix)	383		383
Salary and benefits	(ix)	2,126		2,126
Professional fees	(ix)	9,802		9,802
Foreign exchange loss		1,387		1,387
Change in estimates of other provisions	(ix)	4,186		4,186
Defined benefits expense	(i)	193	(46)	147
		105,982	(2,643)	103,339
Finance costs:				
Interest on finance lease obligation		816		816
Unwind of discount on decommissioning obligations	(iv)	1,585	106	1,691
Unwind of discount on other provisions	(ix)	290		290
		2,691	106	2,797
Profit before income taxes		815,777	4,232	820,009
Current income tax expense		60,718		60,718
Deferred income tax recovery	(vi)	(3,026)	1,214	(1,812)
Profit		758,085	3,018	761,103
Other comprehensive income (loss)				
Net change in fair value of available-for-sale financial assets	(ii)	3,229,813	(926,290)	2,303,523
Realized gain on available-for-sale financial assets transferred to profit or loss		(645,011)		(645,011)
Net actuarial loss on defined benefit plan	(i)		(156)	(156)
Other comprehensive income (loss)		2,584,802	(926,446)	1,658,356
Comprehensive income (loss)		$ 3,342,887	$ (923,428)	$ 2,419,459

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

23. Transition to IFRS (continued):

(a) Material adjustments to the consolidated statement of cash flows for 2010

There are no material differences between the consolidated statement of cash flows presented under IFRS and the consolidated statement of cash flows presented under previous GAAP.

(b) Notes to the reconciliations

(i) Defined benefit obligation:

Under IFRS the Corporation's accounting policy is to recognize all actuarial gains and losses immediately in other comprehensive income. Under previous GAAP, the Corporation used the corridor method to amortize the excess of the actuarial gain (loss) over 10% of the benefits obligation over the average remaining life expectancy of the former employees. The average remaining life expectancy of the former employees at December 31, 2010 was 8.5 years. As the new policy was applied retrospectively, at the date of transition, the Corporation recognized all previously unrecognized cumulative actuarial gains and losses in opening accumulated deficit resulting in an increase to the benefit obligation of $682 and a corresponding increase in the accumulated deficit. The unrecognized actuarial gains and losses exceeding the corridor that were recognized in profit or loss for the year ending December 31, 2010 ($46) under previous GAAP were reversed, and all actuarial gains and losses arising in 2010 ($156) were recognized in other comprehensive income.

The impact arising from the change is summarized as follows:

	For the year ended December 31, 2010
Consolidated statement of comprehensive income (loss)	
Operating costs	$ (46)
Other comprehensive income	156
Adjustment	$ 110

	January 1, 2010	December 31, 2010
Consolidated statement of financial position		
Increase in defined benefit obligation	$ 682	$ 792
Increase in accumulated deficit	$ (682)	$ (792)

Defined benefits were grouped with other provisions relating to CEI under previous GAAP. Under IFRS the defined benefit obligation and related expense is presented separately.

(ii) Financial instruments:

IAS 39 requires that the Corporation measure at fair value its investments in equity instruments classified as available-for-sale financial assets that do not have a quoted market price in an active market. Under previous GAAP, these investments were classified as available-for-sale and measured at cost. At the date of transition, the fair value of the equity instruments not quoted in an active market was $ 3,700,777 and their carrying amount under previous GAAP was $2,700,000.

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

23. Transition to IFRS (continued):

(b) Notes to the reconciliations (continued)

The impact arising from the change is summarized as follows:

		For the year ended December 31, 2010
Consolidated statement of comprehensive income (loss)		
Other comprehensive income	$	(926,290)
Net adjustment		(926,290)

		January 1, 2010		December 31, 2010
Consolidated statement of financial position				
Increase in investments	$	1,000,777	$	74,487
Increase in accumulated other comprehensive income		1,000,777		74,487
Adjustment to retained earnings	$	-	$	-

(iii) Property and Equipment

IFRS 1 election for full cost oil and gas entities

CHHC elected an IFRS 1 exemption whereby the previous GAAP full cost pool was measured upon transition to IFRS, specifically development and production assets were reclassified from the full cost pool to property and equipment at the amount that was recorded under previous GAAP.

Impairment of property and equipment

In accordance with IFRS, impairment tests of property and equipment must be performed at the CGU level as opposed to the entire property and equipment balance which was required under the previous GAAP through the full cost ceiling test. An impairment is recognized if the carrying value exceeds the recoverable amount for a CGU. For CHHC, the recoverable amount is determined using fair value less cost to sell based on discounted future cash flows of proved plus probable reserves using forecast prices and costs. There was no impairment to property and equipment on transition on January 1, 2010 or for the year ended December 31, 2010. Property and equipment impairments can be reversed in the future if the recoverable amount increases.

Depletion policy:

Upon transition to IFRS, CHHC adopted a policy of depleting oil interests on a unit of production basis over proved plus probable reserves. The depletion policy under previous GAAP was based on units of production over proved reserves (see (viii). IFRS requires depletion and depreciation to be calculated based on individual components (i.e. fields or combinations thereof).

There was no impact of this difference on adoption of IFRS on January 1, 2010 as a result of the IFRS 1 election as discussed above.

The change in policy resulted in a decrease to depletion of $2,597 for the year ended December 31, 2010, with a corresponding change to property, plant and equipment.

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

23. Transition to IFRS (continued):

		For the year ended December 31, 2010
Consolidated statement of comprehensive income (loss)		
Decrease in depletion and depreciation	$	(2,597)
Adjustment before income tax	$	(2,597)

		January 1, 2010		December 31, 2010
Consolidated statement of financial position				
Increase in property and equipment	$	-	$	1,911
Increase in inventory		-		686
Increase in retained earnings	$	-	$	2,597

(iv) Provision for decommissioning obligations:

Under previous GAAP decommissioning obligations were discounted at a credit adjusted risk-free rate of 5 percent. Under IFRS the estimated cash flows to abandon and remediate the wells and facilities has been risk adjusted therefore the provision is discounted at the risk-free rate in effect at the end of each reporting period. The result of using a lower discount rate was an increase to the obligation on transition of $8,637 with an offsetting charge to the opening deficit, net of the deferred income tax effect of $2,505. The change in the decommissioning obligations each period as a result of changes in the discount rate will result in an offsetting charge to property and equipment. As at December 31, 2010, the decommissioning obligation was $17,112 higher than under previous GAAP due to the change in discount rate and its impact on the liabilities incurred or acquired during 2010.

The impact arising from the change is summarized as follows:

		For the year ended December 31, 2010
Consolidated statement of comprehensive income (loss)		
Increase in unwind of discount on decommissioning obligations	$	106
Adjustment	$	106

		January 1, 2010		December 31, 2010
Consolidated statement of financial position				
Increase in decommissioning obligation	$	8,637	$	17,112
Increase in property and equipment		-		8,369
Decrease in retained earnings	$	8,637	$	8,743

Under previous GAAP unwind of the discount was included in depletion and depreciation. Under IFRS it is included in finance expenses.

(v) Gains and losses on sales of property and equipment

Under previous GAAP, proceeds from divestitures were deducted from the full cost pool without recognition of a gain or loss unless the deduction resulted in a change in the depletion rate of 20 percent or greater, in which case a gain or loss was recorded. Under IFRS, gains and losses are recorded on divestitures and are calculated as the difference between the proceeds and the net book value of the asset disposed. For the year ended December 31, 2010, CHHC recognized a $1,695 gain on disposition of the equity interest in HSE under IFRS compared to nil under the previous GAAP.

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

23. Transition to IFRS (continued):

(b) Notes to the reconciliations (continued)

(vi) Deferred income taxes:

The adjustment to deferred income taxes on transition relates to the opening adjustment to the decommissioning obligations. The opening adjustment for the decommissioning obligations was charged through the deficit on the consolidated statement of financial position thereby creating a temporary difference on the liability. The deferred income tax impact of the opening adjustment was a deferred income tax asset of $2,505.

Under IFRS there is no requirement to separate the portion of deferred income taxes related to current assets or liabilities.

Adjustments to deferred income taxes have been made in regards to the adjustments noted above that resulted in a change to the temporary difference between tax and accounting values. The deferred tax recovery for the year ended December 31, 2010 was reduced by $1,214.

(vii) Finance expenses

Under IFRS a separate line item is required in the consolidated statement of comprehensive income (loss) for finance expenses. The items under the previous GAAP that were reclassified to finance expenses were interest and financing expense, which includes the unwind of discount of the decommissioning obligations, unwind of discount on other provisions and interest on the finance lease obligation.

(viii) Inventory

Adjustments to inventory have been made as a result of changes in the basis of calculation of depletion and depreciation. Under previous GAAP, oil interests were depleted based on proved reserves. Under IFRS, oil interests are depleted based on proved plus probable reserves. Inventory was increased by $686 at December 31, 2010. Depletion and depreciation as at year end December 31, 2010 were redetermined based on proved plus probable reserves and flowed through inventory, which is valued at the lower of cost and net realizable value, where cost includes transportation and depletion and depreciation.

In addition, inventory was reduced by $681 as a result of reclassifying the inventory liability from accounts payable and accrued liabilities to inventory at December 2010.

(ix) Reclassifications of expenses

Under IFRS, the Corporation presents its expenses by nature. As a result, the following amounts have been reclassified on the consolidated statement of comprehensive income (loss):

	Canadian GAAP	Reclassification for IFRS presentation	December 31, 2010 Restated
Corporate and divestiture expenses	$ 10,397	$ (10,397)	$ -
Asset review expenses	1,914	(1,914)	-
Other expenses	-	383	383
Salary and benefits	-	2,126	2,126
Professional fees	-	9,802	9,802
Site restoration costs	4,476	(290)	4,186
Unwind of discount on other provisions	-	290	290
Total	$ 16,787	$ -	$ 16,787

Years ended December 31, 2011 and 2010 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)