CDEV

Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

Annual Report 2012

Canada Development Investment Corporation

La Corporation de développement des investissements du Canada

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 consolidated results of operations for Canada Development Investment Corporation (CDEV) for the year ended December 31, 2012.

CDEV continued to undertake work under the Government's ongoing review of corporate asset holdings. During the year, at the Government's request, we initiated the sales process for Ridley Terminals Inc. For this project we have hired financial and legal advisors and developed a sales plan.

Canada Hibernia Holding Corporation (CHHC) had a successful year. CHHC sold 4.2 million barrels of crude oil during the year, less than 2011, when 4.7 million barrels were sold. The decrease in sales was due to a planned shutdown in rig operations for maintenance work. CHHC recognized a 3% increase in average crude oil price over 2011. The average price in 2012 was approximately C$113 per barrel. CHHC paid $131 million in provincial royalties, $41 million in net profits interest, $70 million in provincial and federal income taxes, as well as $120 million in dividends to CDEV.

In 2012 CDEV paid $146 million in dividends. These were sourced from CHHC profits and dividends from GM preferred shares. Canada GEN Investment Corporation, CDEV's wholly owned subsidiary, retains an approximate 10% holding in GM common shares.

Canada Eldor Inc., which is responsible for administration of outstanding issues pursuant to prior divestitures, finalized an agreement with Cameco where it paid Cameco $13.95 million and is now exempt from future responsibility to Cameco for radioactive waste costs in the Port Hope area.

During 2012 CDEV 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 8, 2013

Directors and Officers as at March 8, 2013

Minister Responsible for CDEV
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)
Director
St. John's, Newfoundland and Labrador

Nicholas Wemyss, PGeo (2) (3)
Director
Victoria, British Columbia

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

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

Benita M. Warmbold, FCPA, 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, CPA, CA
Vice-President, Finance

Zoltan Ambrus
Vice-President

Patrice S. Walch-Watson
Corporate Secretary

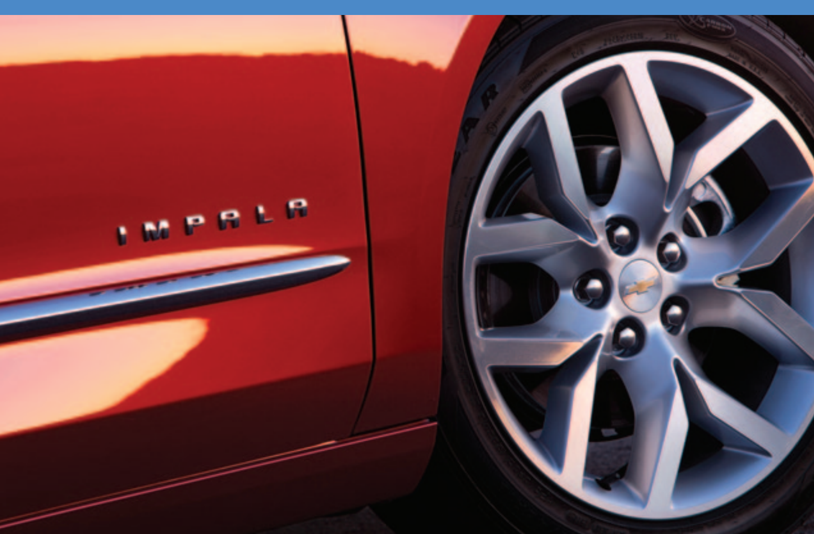
Committees of the Board

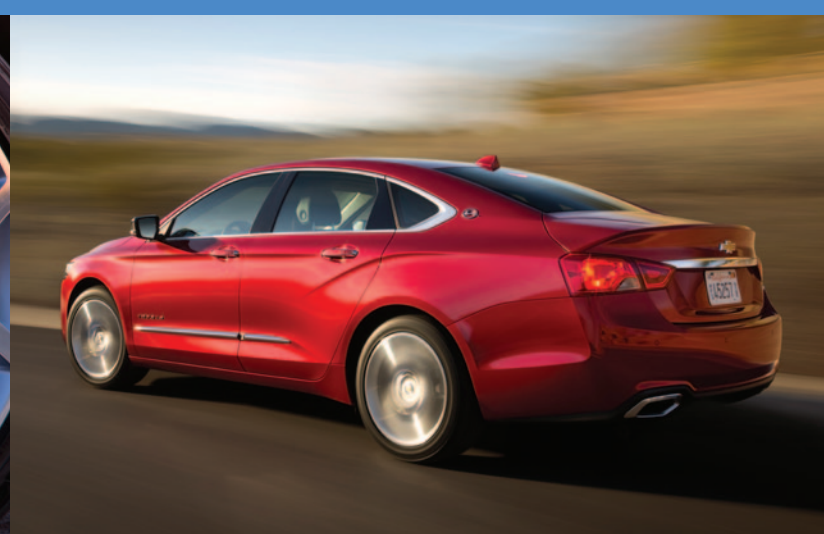
(1) Audit Committee
(2) Nominating and Governance Committee
(3) Human Resources and Compensation Committee

CDEV 2012 Overview

Canada Development Investment Corporation paid $146 million in dividends to Government.

The value of Canada GEN Investment Corporation's investment in GM common shares increased $1.1 billion in 2012.





Canada Hibernia Holding Corporation realized net revenue of $298 million during the year with prices up and production curtailed by a planned maintenance shutdown.

We initiated the sales process for Ridley Terminals Inc. on behalf of the Government.

Corporate Governance Practices

CDEV (formerly “CDIC”) reports to Parliament through the Minister of Finance. From 1995 to November 2007, CDEV 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 CDEV 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.

CDEV’s Board of Directors supervises and oversees the conduct of the business and affairs of CDEV. The Board currently consists of the Chairman and six 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 CDEV management.

Attendance at directors’ meetings is outstanding and each director dedicates appropriate time outside of board meetings to the governance of the Corporation. CDEV and each subsidiary have separate and active boards of directors that meet 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 of the Corporation from a strategic point of view.

To assist it in carrying out its stewardship of CDEV, the Board has established three committees, being the Nominating and Governance Committee, the Human Resources and Compensation Committee and the Audit Committee. The Nominating and Governance Committee deals with matters related to corporate governance. It continues to review CDEV’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 Human Resources and Compensation Committee assists the Board in matters pertaining to human resources and compensation strategy, policies and practices, including reviewing compensation of the executives. 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 CDEV’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 public stakeholders meeting. As well, meetings are held as required with the Minister of Finance 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. CDEV 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 ("CDEV"), including this annual report, may include forward-looking statements that reflect our expectations regarding CDEV'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

CDEV, 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. CDEV'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 our 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 the federal government's interest in the 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 Corporation entered into in 1988. GEN was incorporated in 2009 and holds common and preferred stock of General Motors Company ("GM").

Since CDEV'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 CDEV through 2012 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 2012. In addition, CHHC has paid a total of $1.67 billion in cumulative dividends.

In 2009, the Minister of Finance requested that CDEV participate in the Government's on-going review of corporate asset holdings, referred to as the Corporate Asset Management Review ("CAMR") programme. 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 submission to the Minister.

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 CDEV and its subsidiaries. CHHC has a 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 2012 as compared to our key objectives, outlined in its 2012-2016 Corporate Plan is as follows:

Key Objectives:

- To manage our investments in the Hibernia oilfield and General Motors and continue to oversee the management of CEI's obligations.
- To continue to manage the portions of the CAMR 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 $173 million and paid dividends to CDEV of $120 million during the year.

- We received dividends from GM preferred shares of $36 million.

- We paid total dividends to the Government of $146 million.

- CEI finalized an 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 about the costs to be borne by CEI.

- We continued to manage CAMR projects in 2012. Activities included preparing statements of work, issuing requests for proposals, evaluating and engaging consultants, monitoring and reviewing their work. In 2012 the Minister of Finance requested CDEV to manage the process for the potential sale of Ridley Terminals Inc. ("RTI"), another federal Crown corporation. Activities on this project include hiring a financial advisor to assist in the sale, hiring a legal advisor and managing the process with relevant stakeholders. The process is structured in a staged approach with CDEV currently managing the initial advisory stage which includes development of a sales process.

Canada Hibernia Holding Corporation

Hibernia oil production in 2012 was lower than 2011, due to a planned production platform maintenance shut down during the third quarter. The shut down was longer than planned because of inclement weather, repair complications, and the completion of unscheduled maintenance activities. These unexpected challenges resulted in a slower ramp up to full production than planned. Consequently, average production for the total project for 2012 was 130,200 barrels of oil per day ("BOPD") which was lower than CHHC's budget of 140,000 BOPD, and actual production in 2011 of 154,400 BOPD. Oil production has now been brought back up to expected levels.

Hibernia Owners will continue to focus on the successful development of the Hibernia Southern Extension ("HSE") to the original field, in addition to optimizing recovery and production, and drilling additional well pairs in the existing Hibernia field area. Capital work continued in 2012 for the development of the HSE Unit. The drilling of subsea water injection wells will commence in 2014 with completion of the currently approved project by late 2015 or early 2016. The drilling of these additional producer-injector well pairs in the HSE Unit will add considerable incremental production. The HSE Unit development plan involves drilling water injection wells from a floating drilling rig, pipeline supply of injection water from the platform to these wells and drilling oil producing wells from the platform. Hibernia Owners are also considering development options for the Ben Nevis Avalon crude oil reservoir of the Hibernia Project. Decisions regarding the project's components will likely occur in 2013 and 2014. Further, construction of a new gas lift system, designed to improve well productivity and enhance production has been ongoing. This project is expected to be completed in 2014.

Canada Eldor Inc.

In the first quarter of 2012 CEI completed a settlement with Cameco Corporation with respect to previous historic waste obligations, CEI paid Cameco $14 million to settle certain of these obligations. The payment was funded by a withdrawal from CEI's special account in the Consolidated Revenue Fund. CEI is no longer responsible for any costs relating to radioactive waste at the refineries under the 1988 purchase and sale agreement. CEI continues to pay for costs relating to the decommissioning of former mine site properties and for retiree benefits of certain former employees. A plan is in place to undertake work to allow for the eventual transfer of the mine site properties to the Institutional Control programme of the Province of Saskatchewan.

Management Discussion and Analysis of Results (continued):

Canada GEN Investment Corporation

At year end, GEN held approximately 10% of the outstanding common shares of General Motors (“GM”) as well as $419 million in GM preferred shares. GEN’s relative holding percentage increased from 9% in 2011 due to the reduction in outstanding common shares in GM near year end. Our GM holdings will be managed in a commercial manner and disposed of when market conditions are appropriate. During 2012, GM common shares traded in a range of approximately US$19 to US$29 per share. GEN retains a financial advisor to provide advice to management regarding the investment.

During 2012, the fair value of the GM common shares increased from $2.9 billion to $4.0 billion, a reflection of the increase in the share price of the GM shares from US $20.27 at December 31, 2011 to US $28.83 at December 31, 2012, adjusted for foreign exchange.

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. CHHC is also affected by regulatory changes under the C-NLOPB and other regulators.

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

Any future realization of value for the GM investments will depend upon both the capabilities of the 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 economic environment in 2012 in North America improved from 2011 as evidenced by US light vehicle sales increasing 13% to 14.5 million units while sales in Western Europe decreased 9% to approximately 13.1 million units. The S&P 500 index was up approximately 13% from December 2011 (1,258 index value) to December 2012 (1,426).

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 in all aspects of the operation including safety, efficiency and environmental protection. CHHC employs prudent risk management practices in consultation with the operator and maintains suitable insurance coverage that it regards as economically sound.

Another significant risk to CHHC’s earnings and cash flow is the change in crude oil prices which can be volatile due to global economic events and conditions. A C$1.00 change in the price of oil realized by CHHC impacts net revenues and earnings before tax by C$0.63 per barrel (C$0.62 in 2011) or $2.6 million ($2.9 million in 2011). CHHC does not hedge crude oil prices. However, given the relatively low variable cost of production, changes in crude oil prices are not likely to affect CHHC’s ability to meet its obligations.

CHHC’s portion of the cost for decommissioning the Hibernia platform of $108 million in today’s costs is estimated based on known procedures and costs today for undertaking the decommissioning in approximately 2050. It is possible that these costs may change materially before decommissioning due to regulatory changes, technological changes and inflation among other variables. To help reduce this risk, CHHC has deposited $96 million with the Consolidated Revenue Fund to specifically provide for decommissioning costs. CHHC is dependent on oil tankers to ship crude oil to its customers or the Newfoundland Transshipment facility. To reduce single source tanker risk in case of reduced tanker availability, it has entered agreements to access alternate shipping services.

CEI is subject to liabilities due to its undertakings to Cameco as part of a 1988 Purchase and Sale agreement. The provision determined for mine site restoration is based on estimates for expected restoration and monitoring work over a ten year period. The actual costs may vary materially due to changes in inflation, changes in cost estimates in a difficult northern environment and changes in regulatory requirements. To help reduce this risk, CEI has deposited $26 million with the Consolidated Revenue Fund from which unknown future liabilities could be settled. The settlement with Cameco regarding historic waste has removed 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. Changes in share price do not impact GEN's cash flow or the ability to meet its obligations. GEN does not undertake hedging of its GM holdings.

The majority of our assets and those of two 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 1.0170 at December 31, 2011 and 0.9949 on December 31, 2012, a 2% devaluation of the US dollar. 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.

The two contingencies disclosed in our financial statements have been analyzed by management and our legal counsel. The outcomes of both are expected to be favourable to CDEV and its subsidiaries.

Financial Statements for the Year Ending December 31, 2012

The financial statements for 2012 with comparative figures for 2011 have been prepared using International Financial Accounting Standards.

Consolidated revenue for 2012 was $336 million compared to $475 million in 2011. In the prior year we recorded a gain on the sale of Chrysler interests of $112 million. The decline is also due to a decrease in net oil revenue by $25 million from the prior year. Total expenses, excluding the unrealized change in fair value of held for trading financial assets, were $75 million in 2012 compared to $62 million in 2011. The increase is primarily due to higher depletion and depreciation and operating and production costs by $7 million, and a $5 million increase in other provisions expense.

Net oil revenue in 2012, after deducting marketing fees, royalties and net profits interest, was $298 million, a 7.6% decrease from 2011, as a result of lower production partially offset by higher crude prices. Further, there was a delay of the last 2012 cargo into 2013 which lowered 2012 results but will increase 2013 results. Due to strong prices for Dated Brent Crude Oil, CHHC averaged CAD $113 per bbl vs. CAD $110 per bbl in 2011. The increase in depletion and depreciation in 2012 resulted from the net effects of revised estimates of remaining reserve volumes and associated future development costs and an increase in the future decommissioning obligation. Operating and production costs were somewhat higher than 2011 due to additional costs of well workovers, as well as the platform turnaround. After-tax comprehensive income of CHHC was $173 million, a $20 million decrease from 2011. CHHC paid dividends to CDEV of $120 million during 2012 compared to $217 million in the prior year.

The decommissioning obligation of CHHC increased by $26 million primarily due to a revision in the estimated cost of abandonment to $108 million, net of changes to the inflation rate applied of 2.0%, the discount rate of 2.4% used and the estimated year of abandonment changing from 2045 to 2050. The increase in the provision for decommissioning obligation has been recognized by a corresponding increase in property and equipment assets. These assets are then depleted with production.

The mine site restoration provision related to CEI increased by $6 million in 2012 primarily due to expected increases in site restoration work and monitoring efforts required to make the properties related to the former mine site suitable for transfer to the Province of Saskatchewan's Institutional Control programme. The work is expected to take place over the next ten years and is discounted at a rate of 1.38%.

GEN received $36 million in preferred share dividends from GM in 2012, which is consistent with the prior year. GEN incurred operating costs of $1.1 million in 2012 which was significantly lower than 2011 costs of $1.6 million due to a decrease in advisory costs.

The investment value of GM common shares increased to $4.02 billion in 2012 from $2.89 billion in 2011 as a result of the changes in the market price of GM common shares and the related foreign exchange. The increase in the value of GM common shares at year end is reflected in other comprehensive income ("OCI") of $1.13 billion. The increase was despite a decrease of approximately $63 million due to the devaluation of the USD.

We experienced a $7 million unrealized loss on the GM preferred shares held, primarily due to a loss on foreign exchange. In the comparative period in 2011, we experienced a $5 million gain, also mainly due to foreign exchange changes. The preferred shares are valued based on the present value of cash flows from these financial instruments using a discount rate of 6.5% compared to 7.5% in 2011.

Professional fee expenses increased over the prior year due to an increased level of management effort required to manage its operations, investments and its responsibilities under the CAMR programme, and the new divestiture mandate received in 2012 for RTI.

We paid dividends to the Government during 2012 totaling $146 million. These dividends were funded from dividends received from CHHC, and dividends received from GEN relating to GM preferred share dividends. Dividends paid in 2011 totaled $413 million, which included proceeds from the sale of Chrysler interests.

Management's Responsibility For Financial Statements

The accompanying consolidated financial statements of Canada Development Investment Corporation ("CDEV") are the responsibility of management and were authorized for issue by the Board of Directors on March 8, 2013. 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.

CDEV 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 CDEV'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 CDEV'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, CDEV 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 CDEV 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, 2012, and financial performance and cash flows for the year ended December 31, 2012.

Michael Carter
Executive Vice-President
Canada Development Investment Corporation

Andrew Stafl, CPA, CA
Vice-President, Finance
Canada Development Investment Corporation

March 8, 2013

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 statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income (loss), consolidated statement of changes in shareholder's equity and consolidated statement of cash flows for the year then ended, 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 audit. We conducted our audit 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 auditors' 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 auditors consider 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 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 2012, and its financial performance and its cash flows for the year then ended 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 have been applied on a basis consistent with that of the preceding year.

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

KPMG LLP

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

Chartered Accountants,
Licensed Public Accountants

8 March 2013
Ottawa, Canada

Consolidated Statement of Financial Position

As at December 31
(Thousands of Canadian Dollars)

		2012		2011
Assets				
Current assets:				
Cash and cash equivalents (note 5)	$	97,325	$	72,997
Accounts receivable		62,083		33,120
Inventory		4,042		4,971
Prepaid expenses		309		305
Cash on deposit in the Consolidated Revenue Fund (note 6)		2,742		17,363
		166,501		128,756
Non-current assets:				
Cash on deposit in the Consolidated Revenue Fund (note 6)		119,070		117,415
Cash and cash equivalents held in escrow (note 7)		5,969		5,550
Property and equipment (note 8)		163,067		139,140
Investments (note 9)		4,435,652		3,315,214
Deferred tax asset (note 13)		4,378		1,187
		4,728,136		3,578,506
	$	4,894,637	$	3,707,262
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	49,185	$	25,097
Current portion of finance lease obligation (note 10)		1,809		1,636
Current portion of defined benefit obligation (note 12)		270		378
Current portion of other provisions (note 11(b))		2,416		16,691
Income taxes payable		1,142		20,939
		54,822		64,741
Non-current liabilities:				
Finance lease obligation (note 10)		1,947		3,593
Provision for decommissioning obligation (note 11(a))		94,017		67,643
Other provisions (note 11(b))		16,930		10,249
Defined benefit obligation (note 12)		2,207		2,264
		115,101		83,749
Shareholder's equity:				
Share capital (note 14)		1		1
Contributed surplus (note 14)		3,216,294		3,216,294
Accumulated deficit		(364,234)		(402,738)
Accumulated other comprehensive income		1,872,653		745,215
		4,724,714		3,558,772
Commitments (note 17)				
Contingencies (note 18)				
	$	4,894,637	$	3,707,262

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

On behalf of the Board:

Director

Director

Consolidated Statement of Comprehensive Income (Loss)

Year ended December 31
(Thousands of Canadian Dollars)

	2012	2011
Revenue:		
Crude oil revenue, net of royalties and net profits interest (note 16)	$ 297,987	$ 322,506
Dividends (note 9)	35,991	36,277
Gain on sale of investment (note 9)	-	112,312
Interest income	2,319	3,737
	336,297	474,832
Expenses:		
Depletion and depreciation (note 8)	37,114	32,594
Production and operating (note 16)	18,610	15,776
Change in fair value of held-for-trading financial assets (note 9)	7,000	(5,000)
Professional fees	8,209	7,391
Salary and benefits	2,924	2,603
Change in estimates of other provisions (note 11)	8,204	3,084
Other expenses	829	960
Foreign exchange gain	(567)	(961)
Defined benefit expense	92	127
	82,415	56,574
Finance costs:		
Unwind of discount on decommissioning obligations (note 11)	1,764	1,382
Interest on finance lease obligation	121	219
Unwind of discount on other provisions (note 11)	170	333
	2,055	1,934
Profit before income taxes	251,827	416,324
Income taxes (note 13):		
Current	70,455	83,389
Deferred	(3,191)	(2,656)
	67,264	80,733
Profit	184,563	335,591
Other comprehensive income (loss):		
Items that will not be reclassified to profit or loss:		
Net actuarial gains (losses) on defined benefit obligations	(199)	370
Items that may be reclassified subsequently to profit or loss:		
Net change in fair value of available-for-sale financial assets	1,127,438	(1,801,762)
Realized gain on available-for-sale financial assets transferred to profit or loss	-	(112,312)
	1,127,438	(1,914,074)
	1,127,239	(1,913,704)
Comprehensive income (loss)	$ 1,311,802	$ (1,578,113)

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

Consolidated Statement of Changes in Shareholder's Equity

Year ended December 31
(Thousands of Canadian Dollars)

		2012		2011
Share capital				
Balance, beginning and end of year	$	1	$	1
Contributed surplus				
Balance, beginning of year		3,216,294		3,912,184
Dividends paid		-		(20,000)
Transfer to accumulated deficit		-		(675,890)
Balance, end of year		3,216,294		3,216,294
Accumulated deficit				
Balance, beginning of year		(402,738)		(1,021,721)
Profit		184,563		335,591
Actuarial gain (loss) on defined benefit obligations		(199)		370
Dividends paid		(145,860)		(392,868)
Transfer from contributed surplus		-		675,890
Balance, end of year		(364,234)		(402,738)
Accumulated other comprehensive income				
Balance, beginning of year		745,215		2,659,289
Realized gain on sale of investment		-		(112,312)
Net change in fair value of available-for-sale financial assets		1,127,438		(1,801,762)
Balance, end of year		1,872,653		745,215
Total shareholder's equity	$	4,724,714	$	3,558,772

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

Consolidated Statement of Cash Flows

Year ended December 31
(Thousands of Canadian Dollars)

	2012	2011
Cash provided by (used in):		
Operating activities:		
Profit	$ 184,563	$ 335,591
Adjustments for:		
Depletion and depreciation	37,114	32,594
Income tax expense	67,264	80,733
Defined benefits paid in excess of expenses	(364)	(7)
Finance interest, net	121	219
Interest income from CRF	(1,034)	(1,128)
Unwind of discount on decommissioning obligations	1,764	1,382
Unrealized foreign exchange loss (gain)	(108)	68
Change in fair value of held-for-trading assets	7,000	(5,000)
Gain on sale of investments	-	(112,312)
Change in other provisions	(7,594)	1,981
Decommissioning obligations incurred	(2,162)	(2,845)
Income taxes paid	(90,252)	(72,494)
	196,312	258,782
Change in non-cash working capital (note 15)	(7,298)	(4,455)
	189,014	254,327
Financing activities:		
Dividends paid	(145,860)	(392,868)
Dividend paid from contributed surplus	-	(20,000)
Finance interest paid	(121)	(219)
Lease obligation payments	(1,365)	(1,433)
	(147,346)	(414,520)
Investing activities:		
Proceeds on sale of investments	-	132,312
Purchase of property and equipment	(33,505)	(30,343)
Withdrawal from Consolidated Revenue Fund (note 6)	14,000	-
Cash and cash equivalents held in escrow	(419)	138
Change in non-cash working capital (note 15)	2,584	1,199
	(17,340)	103,306
Increase (decrease) in cash and cash equivalents	24,328	(56,887)
Cash and cash equivalents, beginning of year	72,997	129,884
Cash and cash equivalents, end of year	$ 97,325	$ 72,997

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

1. Reporting entity:

Canada Development Investment Corporation ("the Corporation" or "CDEV") 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 CDEV 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 CDEV's capabilities, while maintaining the capacity to divest CDEV'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 Corporate Asset Management 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 site restoration and retiree defined benefit obligations. Previous historic waste obligations have been settled as discussed in note 11.

CHHC was incorporated under the provisions of the *Canada Business Corporations Act* and was acquired by CDEV 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 holds an 8.5% working interest in the Hibernia Development Project and an 8.5% equity interest in the Hibernia Management and Development Company Ltd. ("HMDC"). CHHC's interest in the Hibernia Development Project has been recorded in CHHC's financial statements which are consolidated into CDEV's financial statements.

In 2010, CHHC and other participants signed agreements with the Province of Newfoundland and Labrador (the "Province"), and received regulatory approval from the Canada-Newfoundland and Labrador Offshore Petroleum Board ("C-NLOPB") for further development of the Hibernia Southern Extension Unit ("HSE"). CHHC's unit interest is 5.08%. In February 2011, CHHC and other participants signed the remaining necessary agreements with the Province and the Government for the project and authorized full funding of the HSE Unit development. The project will result in significant capital expenditures to develop the required facilities and add additional reserves and may extend production of the field beyond its original projected life.

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") and 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 (a related party to CDEV and GEN) to GM.

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"). On July 21, 2011, all of the Corporation's interests in Chrysler were sold to Fiat for US $140 million in cash.

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”).

The consolidated financial statements were authorized for issue by the Board of Directors on March 8, 2013.

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
- inventory is measured at the lower of cost to produce or net realizable 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 for site restoration including the estimation of future costs, including inflation, timing and other variables to complete restoration. Significant judgment is also necessary when determining whether there is an indication that a financial or non-financial asset may be impaired.

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.

2. Basis of preparation (continued):

d) Use of estimates and judgments (continued):

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).

e) Change in accounting policy:

IAS 1, Presentation of Financial Statements ("IAS 1")

IAS 1 was amended in June 2011 to provide additional disclosure in the other comprehensive income section of the financial statements by grouping items of other comprehensive income into two categories: (a) items that will not be reclassified to net income; and (b) items that may be reclassified subsequently to net profit or loss when specific conditions are met. The amendments are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. The Corporation adopted these amendments early, effective January 1, 2012 and applied them retrospectively. The adoption of these amendments only resulted in presentation changes on the consolidated statement of comprehensive income (loss).

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.

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 CDEV.

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.:

All of CHHC's oil exploration and development activities are conducted jointly through HMDC with other owners and accordingly, the financial statements reflect only CHHC's proportionate interest in such activities. CHHC holds an 8.5% equity interest in HMDC, and a 5.08% interest in the HSE development. CHHC is one of six participants in these joint arrangements. HMDC acts as agent and operator for the participants in the Hibernia Development Project located east of St John's, NL, Canada. HMDC's principal place of business is: 100 New Gower Street, Suite 1000, St. John's, NL A1C 6K3.

The consolidated financial statements include CHHC's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs. All project expenditures, other than those costs relating to the transportation of oil from the Gravity Based Structure, marketing fees, royalties, net profits interest and insurance, are charged to the Joint Account which is owned by the participants in proportion to their working interest. 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. The Joint Account is funded directly by CHHC and the other owners.

c) Cash and cash equivalents:

Cash and cash equivalents include short-term investments, which are considered to be highly liquid investments with original maturities of three months or less.

3. Significant accounting policies (continued):

d) Inventory:

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 the lower of cost to produce or net realizable value 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.

e) Property and equipment:

(i) Recognition and measurement:

Items of property and equipment, which include oil development and production assets, are measured at acquisition cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into cash generating units (CGU's) for impairment testing. The Corporation has grouped its development and production assets into one CGU. 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 net within "Other Income" or "Expenses" in the consolidated statement 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 the consolidated statement of comprehensive income (loss) as incurred. Such capitalized oil interests 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.

(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.

3. Significant accounting policies (continued):

e) Property and equipment (continued):

Depreciation methods, useful lives and residual values are reviewed at each reporting date. Depletion and depreciation on assets under construction begins only when the asset is complete and is put into service.

f) 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. Subsequent to initial recognition, 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 statement 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.

g) 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 statement 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 from 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.

g) Financial instruments (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. 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. Classification of held-to-maturity occurs only when the Company has the intention and ability to hold the asset to maturity. 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 common shares in GM are designated as available-for-sale financial assets. This investment is 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 statement 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).

3. Significant accounting policies (continued):

h) 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 statement of comprehensive income (loss).

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 the consolidated statement of comprehensive income (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.

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 consolidated statement of comprehensive income (loss).

In respect of other assets, impairment losses in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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.

3. Significant accounting policies (continued):

i) 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.

j) 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. Provision is made for the estimated cost of these activities. Prior to a settlement with Cameco in the first quarter of 2012, CEI was also responsible for historic waste.

CHHC's activities give rise to dismantling, decommissioning and site disturbance remediation 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 statement of financial position date. 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.

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

3. Significant accounting policies (continued):

l) 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.

Deferred tax is recognized using the balance sheet method, providing for 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, but 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.

m) 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.

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:

A number of new standards, amendments to standards and interpretations are effective for future annual periods, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Corporation are set out below. The Corporation does not plan to adopt these standards early.

IFRS 7, *Financial Instruments: Disclosures* ("IFRS 7") and IAS 32, *Financial Instruments: Presentation* ("IAS 32")

In December 2011, the IASB issued amendments to IFRS 7 and IAS 32. The amendments are effective for annual periods beginning on or after January 1, 2013 for IFRS 7 and January 1, 2014 for IAS 32. The amendments to IFRS 7 (Disclosures — Offsetting Financial Assets and Financial Liabilities) require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information to evaluate the effect of netting arrangements on an entity's financial position. The amendments to IAS 32 clarify the meaning and the application of the IAS 32 criteria. The Corporation does not expect the amendments to have a material impact on its consolidated financial statements because of the nature of the Corporation's operations and the types of financial assets and financial liabilities that it holds.

IFRS 9, *Financial Instruments* ("IFRS 9")

In November 2009, the IASB issued IFRS 9 with further revisions in October 2010 to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with early adoption permitted. 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 continues to evaluate the potential impact of IFRS 9 on its consolidated financial statements.

IFRS 10, *Consolidated Financial Statements* ("IFRS 10")

IFRS 10 was issued in May 2011 with amendments in June and December 2012. It 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, a new definition of control, and continuous reassessment. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Corporation has determined that the adoption of the new standard will not impact the Corporation's results and financial position.

IFRS 11, *Joint Arrangements* ("IFRS 11")

IFRS 11 issued in May 2011, 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. The Corporation has determined that the adoption of the new standard will not have a material impact on its consolidated financial statements.

IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12")

IFRS 12 includes disclosure requirements about subsidiaries, joint ventures, joint operations 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. The Corporation has determined that adoption of the new standard will result in increased disclosures primarily with respect to the Corporation's interest in the Hibernia Development Project.

IFRS 13, *Fair Value Measurement* ("IFRS 13")

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. The Corporation has assessed that the new standard will not have a material impact on its consolidated financial statements.

4. Recent accounting pronouncements (continued):

IAS 19, *Employee Benefits* (“IAS 19”)

In June 2011, the IASB released amendments to IAS 19 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. The Corporation does not use the corridor method and hence has assessed that the amendments will not have a material impact on its consolidated financial statements.

IAS 27, *Separate Financial Statements* (“IAS 27”) and IAS 28, *Investments in Associates and Joint Ventures* (“IAS 28”)

The IASB has also amended existing standards IAS 27 and IAS 28. IAS 27 has been amended for the issuance of IFRS 10 but retains the current guidance for separate 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. These amendments are effective January 1, 2013. The Corporation has determined that the amendments will not have an impact on its consolidated financial statements.

Annual Improvements to IFRS 2009–2011 Cycle

The IASB published Annual Improvements 2009-2011 Cycle in May 2012 as part of its annual improvements process. The amendments are generally intended to clarify requirements rather than result in substantive changes to current practice. The standards affected include IAS 1, *Presentation of Financial Statements*, IAS 16, *Property, Plant & Equipment*, IAS 32, *Financial Instruments: Presentation*, IAS 34, *Interim Financial Reporting* and IFRS 1, *First-time adoption of IFRS*. The amendments will be effective for annual periods beginning on January 1, 2013, with earlier application permitted. The Corporation has assessed that the amendments will not have an impact on its consolidated financial statements.

5. Cash and cash equivalents:

Cash and cash equivalents on the consolidated statement of financial position include cash, term deposits and bankers’ acceptances. Interest revenue arising on cash and cash equivalents was earned at interest rates ranging from 1.0% to 1.15% for 2012 (2011 - 0.10% to 1.32%). The details are as follows:

	2012	2011
Bank balances	$ 24,923	$ 8,544
Short term investments	72,402	64,453
Cash and cash equivalents	$ 97,325	$ 72,997

Years ended December 31, 2012 and 2011 (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:

		2012		2011
Balance, beginning of year	$	134,778	$	133,650
Allocated interest		1,034		1,128
Withdrawal		(14,000)		-
Balance, end of year	$	121,812	$	134,778
Represented by:				
Current portion	$	2,742	$	17,363
Non-current portion		119,070		117,415
	$	121,812	$	134,778

At December 31, 2012, the balance in the CRF consists of deposits of $26,098 held for CEI and $95,714 held for CHHC.

CEI has deposited cash in the CRF to provide for obligations resulting from the sale of assets and other potential future liabilities related to site restoration. 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 site restoration obligations. During 2012, a withdrawal was made from the CRF to fund the settlement of historic waste obligations, as discussed in note 11(b).

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 0.85% during the year (2011 - 0.84%). 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 (2011- $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, 2015, and is renewed every three years.

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 $3,419 (2011 - $3,000) 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, 2012 and 2011 (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
Cost				
Balance at December 31, 2011	$ 29,237	$ 13,547	$ 167,680	$ 210,464
Cash additions for the year	22,922	-	10,583	33,505
Decommissioning adjustments	-	-	26,772	26,772
Balance at December 31, 2012	$ 52,159	$ 13,547	$ 205,035	$ 270,741
Depletion and depreciation				
Balance at December 31, 2011	$ 29,236	$ 5,520	$ 36,568	$ 71,324
Depletion and depreciation	17,859	2,760	15,731	36,350
Balance at December 31, 2012	$ 47,095	$ 8,280	$ 52,299	$ 107,674
Carrying amounts:				
At December 31, 2011	$ 1	$ 8,027	$ 131,112	$ 139,140
At December 31, 2012	$ 5,064	$ 5,267	$ 152,736	$ 163,067

Certain costs have been excluded from the calculations of depletion and depreciation, including costs of equipment and facilities currently under construction of $20,796 at December 31, 2012 (December 31, 2011 – $nil). There was no impairment to property and equipment for the years ended December 31, 2012 and 2011. Offshore production facilities include $80,335 (2011 - $53,563) of capitalized costs relating to decommissioning obligations, which will be depreciated over the life of the asset.

9. Investments:

	2012	2011
Financial assets at fair value through profit or loss:		
Preferred shares in GM	$ 419,000	$ 426,000
16,101,695 Series A Fixed Rate Cumulative Perpetual Preferred Stock		
Dividend rate 9.0% paid quarterly, liquidation preference value: US$25 per share		
Available-for-sale assets:		
Common shares in GM	4,016,652	2,889,214
140,084,746 common shares		
	$ 4,435,652	$ 3,315,214

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

	2012	2011
Change in fair value of assets at fair value through profit or loss:		
Preferred shares in GM		
Unrealized foreign exchange loss (gain)	$ 9,000	$ (9,000)
Unrealized fair value (gain) loss	(2,000)	4,000
	$ 7,000	$ (5,000)

Years ended December 31, 2012 and 2011 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

9. Investments (continued):

Net change in fair value of available-for-sale assets (in OCI):				
Membership interest in Chrysler				
Unrealized fair value gain	$	-	$	37,825
Realized gain on sale of membership interest		-		(112,312)
Common shares in GM				
Unrealized fair value gain (loss)		1,127,438		(1,839,587)
	$	1,127,438	$	(1,914,074)

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, are 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 6.5% (2011 – 7.5%) based on comparable preferred equity instruments, comparative debt instruments and the particular attributes of the preferred share issue including the liquidation preference value of US$25 per preferred share. The change in value has been recorded in profit as a change in fair value of held-for-trading financial assets of $7,000 (loss) (2011 – ($5,000) (gain). There are no sales restrictions on the preferred shares. Preferred share dividends from GM are received quarterly in US dollars. In 2012, GEN received $35,991 (2011 - $36,119) in preferred share dividends.

Available-for-sale financial assets:

The investment in the common shares of GM is designated as available-for-sale financial assets.

The GM common shares have a quoted market price in an active market and, accordingly, the shares held at December 31, 2012 and 2011 were measured at fair value with any changes recorded in other comprehensive income. The balance in accumulated other comprehensive income at December 31, 2011 and 2012 relates solely to the changes in fair value of the GM common shares.

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.

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 $5,127 in 2012 (2011 - $5,552). 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, one of which was exercised in November, 2012 and cannot exceed a total lease term of 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 lease is cancelled in 2014. The leased assets are presented on the consolidated statement of financial position within 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:

2013	$	1,894
2014		1,977
Minimum lease payments		3,871
Less amount representing interest		(115)
Finance lease obligation	$	3,756
The total finance lease obligation is comprised of the following:		
Current portion of finance lease obligation	$	1,809
Non-current portion of finance lease obligation	$	1,947
Finance lease obligation	$	3,756

Years ended December 31, 2012 and 2011 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

10. Finance lease obligation (continued):

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 capital and operating elements of CHHC's tanker time charter transportation costs. The funds received are netted against operating expense on the consolidated statement of comprehensive income (loss) and totaled $5,165 (2011 - $5,204).

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 $233,500 at December 31, 2012, (2011 - $159,983). 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 2050. At December 31, 2012 a risk-free rate of 2.36% (2011 – 2.49%) and an inflation rate at December 31, 2012 of 2.0% (2011 – 1.9%) was used to calculate the provision.

Changes to decommissioning obligations were as follows:

		2012		2011
Decommissioning obligations, beginning of year	$	67,643	$	44,695
Unwind of discount		1,764		1,382
Changes in estimates		26,772		24,411
Obligations settled		(2,162)		(2,845)
Decommissioning obligations, end of year	$	94,017	$	67,643

(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. Other provisions as at the date of the consolidated statement of financial position include site restoration, and for prior periods, historic waste, as follows:

		Site Restoration		Historic Waste		Total
Balance at December 31, 2011	$	12,990	$	13,950	$	26,940
Change in estimates		10,921		-		10,921
Reversal of provisions		(2,717)		-		(2,717)
Obligations settled		(2,018)		(13,950)		(15,968)
Unwind of discount		170		-		170
Balance at December 31, 2012	$	19,346	$	-	$	19,346
Current		2,416		-		2,416
Non-current		16,930		-		16,930
Other provisions	$	19,346	$	-	$	19,346

Years ended December 31, 2012 and 2011 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

11. Provisions (continued):

(b) Other provisions (continued):

(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 2022 (2011 – 2021). The future estimate of costs for site restoration has been discounted at rate of 1.38% (2011 – 1.65%) and an inflation rate of 2.0% (2011 – 1.9%) was used to calculate the provision at December 31, 2012. The current estimate for costs and the amount accrued as at December 31, 2012 is $19,346 (2011 - $12,990).

(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.

During the first quarter of 2012, CEI and Cameco finalized an agreement on the historic waste liabilities whereby CEI paid Cameco $13,950 to settle CEI's responsibilities to Cameco relating to the historic waste obligations. The payment was funded by a withdrawal from the CRF. CEI is no longer responsible for any costs relating to radioactive waste at the refineries under the 1988 purchase and sale 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 future 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. The next valuation will be on or before December 31, 2014.

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

		2012		2011
Defined benefit obligation:				
Balance, beginning of year	$	2,642	$	3,019
Benefits paid		(456)		(134)
Interest expense (defined benefit expense)		92		127
Actuarial (gain) loss in other comprehensive income		199		(370)
Balance, end of year	$	2,477	$	2,642
Defined benefit obligation represented by:				
Current portion	$	270	$	378
Non-current portion		2,207		2,264
	$	2,477	$	2,642

Years ended December 31, 2012 and 2011 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

12. Defined benefit obligation (continued):

Actuarial gains (losses) recognized in other comprehensive income:

		2012		2011
Cumulative amount as at January 1	$	214	$	(156)
Recognized during the year		(199)		370
Cumulative amount as at December 31	$	15	$	214

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 future benefit obligation are:

	2012	2011
Discount rate	3.3%	3.7%
Rate of increase in medical benefits	7.0%	7.0%
Rate of increase in dental benefits	4.0%	4.0%

The assumed health care cost trend rate as at December 31, 2012 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 (2011 - 7.0% per annum). The assumed dental trend rate is 4.0% per annum (2011 – 4.0%). Increasing or decreasing the assumed health care cost trend rates by one percentage point would have the following effect for 2012:

		Increase		Decrease
Defined benefit obligation	$	131	$	118
Total interest cost		5		(5)

Historical information:

		December 31, 2012		December 31, 2011		December 31, 2010		January 1, 2010
Present value of the defined benefit obligation	$	2,477	$	2,642	$	3,019	$	2,946
Experience adjustments arising on plan liabilities		156		417		-		(307)

Years ended December 31, 2012 and 2011 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

13. Income taxes:

CDEV, CEI 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.

a) Income tax expense:

The components of tax expense for 2012 and 2011 are as follows:

		2012		2011
Current tax expense				
Current period	$	70,455	$	84,179
Adjustment for prior periods		-		(790)
	$	70,455	$	83,389
Deferred tax expense				
Origination and reversal of temporary differences		(3,191)		(2,889)
Changes in tax rates applied to temporary differences		-		233
	$	(3,191)	$	(2,656)
Total income tax expense	$	67,264	$	80,733

b) Reconciliation of effective tax rate

The statutory combined federal and provincial income tax rates applicable to CHHC declined from 29.8% in 2011 to 28.4% in 2012, primarily a result of federal tax rates declining in the year.

		2012		2011
Profit for the period (see note 22)	$	172,679	$	193,320
Total income tax expense		67,264		80,733
Income before income tax	$	239,943	$	274,053
Income tax using CHHC's combined federal and provincial Canadian tax rate 28.4% (2011 - 29.8%)	$	68,143	$	81,668
Changes in tax rates applied to temporary differences		-		233
Non-deductible expenses		13		10
Investment tax credits		(554)		(199)
Change in unrecognized temporary differences		-		(382)
Under provided in prior periods		227		133
Revisions and reassessments to prior years' returns		(565)		(730)
	$	67,264	$	80,733

Unrecognized deferred tax assets:

At December 31, 2012, the company has not recognized the tax benefit in respect of investment tax credits, net of tax on utilization, associated with experimental development claims for the 2006 taxation year. The claim for investment tax credits is under dispute with the Canada Revenue Agency and management has determined the recoverability of these credits is uncertain.

Years ended December 31, 2012 and 2011 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

13. Income taxes (continued):

		2012		2011
Unrecognized tax assets under appeal with tax authorities	$	1,384	$	1,384

Recognized deferred tax assets (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**
At December 31, 2011	$	(993)	$	(17,944)	$	19,143	$	981	$	1,187
Credited/(charged) to the statement of comprehensive income (loss)		217		(4,609)		7,613		(30)		3,191
At December 31, 2012	$	(776)	$	(22,553)	$	26,756	$	951	$	4,378

14. Share capital and contributed surplus:

		2012		2011
Share Capital:				
Authorized - unlimited number of common shares				
Issued and fully paid - 101 common shares (2011 - 101)	$	1	$	1

The holder of common shares is entitled to receive dividends as declared from time to time, and is 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.

15. Supplemental cash flow disclosure:

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

		2012		2011
Decrease (increase) in accounts receivable	$	(28,963)	$	2,743
Decrease (increase) in inventory		165		(374)
Decrease (increase) in prepaid expenses		(4)		112
(Decrease) increase in accounts payable and accrued liabilities		24,088		(5,737)
Change in non-cash working capital items	$	(4,714)	$	(3,256)
Relating to:				
Operating activities	$	(7,298)	$	(4,455)
Investing activities		2,584		1,199
Change in non-cash working capital items	$	(4,714)	$	(3,256)

Years ended December 31, 2012 and 2011 (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:

		2012		2011
Gross oil revenue	$	470,950	$	521,981
Less: marketing fees		(353)		(411)
Less: royalties		(131,281)		(152,582)
Less: net profits interest		(41,329)		(46,482)
Net oil revenue	$	297,987	$	322,506

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

		2012		2011
Hibernia joint account operating	$	16,366	$	13,885
Crude oil tanker operating		7,762		8,040
Recoveries of crude oil tanker operating		(5,165)		(5,204)
Facility use fees net of incidental net profits interest		(353)		(945)
Total production and operating	$	18,610	$	15,776

17. Commitments:

(a) 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.

Within 1 year	$	10,535
After 1 year but less than 5 years		26,437
After 5 years		2,385
	$	39,357

(b) 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, 2012 there have been no draws on the promissory note (2011 – 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 December 31, 2012 and 2011, there have been no draws on the letters of credit.

(c) 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 $3,361 (2011 - $ 3,468) which is included in accounts payable and accrued liabilities.

Years ended December 31, 2012 and 2011 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

18. Contingencies:

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.

The Corporation or its subsidiaries, in the normal course of its operations, may become subject to a variety of legal and other claims against the Corporation. Where it is probable that a past event will require an outflow of resources to settle the obligation and a reliable estimate can be made, management accrues its best estimate of the costs to satisfy such claims. CHHC is a party to an ongoing contractual dispute, the outcome of which is expected to be favorable to CHHC, and thus no amount has been recognized in the financial statements.

19. Capital management:

The Corporation considers its capital structure as the aggregate of its shareholder's equity of $4,724,714 (2011 - $3,558,772), 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 monitors changes in economic conditions and the risk characteristics of the underlying petroleum industry. CEI monitors its cash and cash equivalents position and its cash held in the CRF so that it can meet its liabilities. 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 CDEV's consolidated operations expose the Corporation to risks arising from its financial instruments. These risks include 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.

(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. CHHC has assessed the risk of non-collection of funds as low, as CHHC shares cargos with the marketer. Of the total amount of accounts receivable, 92% (2011 – 90%) relates to accounts receivable from the marketer, which has all been collected subsequent to year end. Furthermore, the marketer maintains credit surveillance over all pre-approved buyers.

Credit risk associated with the GM preferred shares is mitigated by the liquidation preference feature of $25 per share in addition to a priority claim against GM for any unpaid dividends.

20. Risks to the Corporation (continued):

(a) Credit risk (continued):

The carrying amount of the GM preferred shares, 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, 2012 and 2011 and did not provide for any doubtful accounts nor was it required to write-off any receivables during 2012 or 2011. As at December 31, 2012 the following amounts were included in accounts receivable:

		2012		2011
Outstanding under 120 days	$	60,742	$	33,084
Outstanding greater than 120 days		1,341		36
Total accounts receivable	$	62,083	$	33,120

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 credit rating of R1 High by Dominion Bond Rating Service.

(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, 2012 of $97,325 (2011 - $72,997), 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. 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.

(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 the risk of foreign exchange movements.

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.

(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.

Years ended December 31, 2012 and 2011 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

20. Risks to the Corporation (continued):

(c) Market risk (continued):

(iii) Interest rate risk:

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

(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 profit and cash flows if the Corporation disposes of the GM common shares. 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 $403,724 (2011- $284,092).

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. For any 1% change in the discount rate used to value the GM preferred shares, profit would be impacted approximately $8,000 (2011 - $10,000) plus any impact in the USD/CAD exchange rate.

(d) Fair value of financial instruments:

The following table summarizes information on the fair value measurement of the Corporation's financial assets as December 31, 2012 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)
December 31, 2012				
Cash on deposit in the CRF	$ 121,812	$ 121,812	$ -	$ -
Preferred shares in GM	419,000	-	419,000	-
Common shares in GM	4,016,652	4,016,652	-	-
Total	$ 4,557,464	$ 4,138,464	$ 419,000	$ -
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 cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate fair value because of the short-term nature of these items.

Years ended December 31, 2012 and 2011 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

21. Related party transactions:

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

CDEV paid dividends to the Government of Canada for the year ended December 31, 2012 in the amount of $145,860 (2011 - $412,868).

a) Key management personnel compensation:

Key management personnel are comprised of the directors and executive officers of CDEV 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.

		2012		2011
Key management personnel compensation comprised of:				
Salaries, other short-term employee benefits, director fees	$	2,440	$	1,886

b) Other related party transactions affecting profit:

		2012		2011
CRF Interest income	$	1,034	$	1,128

c) Items affecting Statement of Financial Position:

		2012		2011
Cash on deposit in CRF	$	121,812	$	$ 134,778

22. Supplementary information:

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

		2012		2011
Statement of Financial Position:				
Assets:				
Current	$	134,992	$	81,356
Non-current		269,128		240,783
		404,120		322,139
Liabilities:				
Current		51,312		46,738
Non-current		95,964		71,236
		147,276		117,974
Shareholder’s Equity		256,844		204,165
	$	404,120	$	322,139

Years ended December 31, 2012 and 2011 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

22. Supplementary information (continued):

		2012		2011
Statement of Comprehensive Income (loss):				
Revenue:				
Crude oil revenue, net of royalties and net profits interest	$	297,987	$	322,506
Other income		871		1,990
Expense:				
Total expenses		(58,915)		(50,443)
Income taxes		(67,264)		(80,733)
Net income and Comprehensive income	$	172,679	$	193,320

		2012		2011
Statement of Cash Flows:				
Cash provided (used) by:				
Operating activities	$	177,416	$	227,892
Financing activities		(121,486)		(218,652)
Investing activities		(30,376)		(27,067)
Decrease in cash and cash equivalents	$	25,554	$	(17,827)

23. Reclassification of prior year comparative figures:

Certain prior year comparative figures have been reclassified to conform to the current year's presentation. The reclassification relates to the consolidated statement of cash flows only and is not material.

Years ended December 31, 2012 and 2011 (All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)