

The logo for the Canada Development Investment Corporation (CDIC) features the letters "CDIC" in a white, serif font, centered within a white rectangular border. The background of the entire page is a solid dark red color.

CDIC

CANADA DEVELOPMENT INVESTMENT CORPORATION

Third Quarter Report
September 30, 2011



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Statement of Management Responsibility by Senior Officials

Management is responsible for the preparation and fair presentation of these interim condensed consolidated quarterly financial statements in accordance with *IAS 34: Interim Financial Reporting* and for such internal controls as management determines are necessary to enable the preparation of interim condensed consolidated quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the interim condensed consolidated quarterly financial statements.

Based on our knowledge, these unaudited interim condensed consolidated quarterly financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the corporation, as at the date of and for the periods presented in the interim condensed consolidated quarterly financial statements.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on November 14, 2011.

The Corporation's independent auditors have not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.



Michael Carter
Executive Vice-President



Andrew G. Stafli, CA
Vice-President, Finance

Toronto, Ontario

November 14, 2011

Management Discussion and Analysis – for the period ended September 30, 2011

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

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

Corporate Overview

CDIC, a federal crown corporation, was incorporated in 1982 to provide a commercial vehicle for Government equity investment and to manage commercial holdings of the Government. During this fiscal quarter, and the year to date, ended September 30, 2011 the operations and structure of CDIC were the same as those described in the 2010 Annual Report of CDIC, available on our website, www.cdiccei.ca, except that at September 30, 2011 CDIC no longer consolidates the operations and financial statements of Canada CH Investment Corporation (see details below).

Corporate Performance as Compared to Plan

Our performance in Q3 2011 as compared to our key objectives, outlined in our 2011- 2015 Corporate Plan Summary is as follows:

Key Objectives:

- To manage our investments in the Hibernia oilfield, General Motors and Chrysler and continue to oversee the management of CEI's obligations.
- To continue to manage the portions of the asset review programme assigned to us.
- To 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.

Performance:

- We and our subsidiaries continue to manage our investments and obligations as detailed below.
- The interests in Chrysler Group LLC (Chrysler) were sold for US \$140 million (CAD \$132 million).
- Five asset review projects were commenced in the first three quarters of 2011. Our activities included preparing statements of work, issuing requests for proposals, evaluating and engaging consultants, monitoring and reviewing their work.

Canada Hibernia Holding Corporation (CHHC)

2011 financial performance for both the three and nine month periods ended September 30 has exceeded the same periods for 2010. Crude oil sales, net of royalties, net profits interest and marketing fees for the first nine months were \$255 million versus net sales of \$168 million in their corporate plan. The increased performance is due primarily to higher crude oil prices and a higher premium for Brent crude, the market that Hibernia crude is marketed into.

CHHC averaged \$30.32 higher crude prices for the three months ended September 30, 2011 compared to the same period last year. Hibernia oil production continues to be held at high levels, and has averaged 156,000 barrels per day for the first nine months of 2011 compared to 154,000 barrels per day for the same period of 2010.

Development efforts on the Hibernia Southern Extension (HSE) Unit expansion project are continuing in 2011. A set of agreements between the Government of Canada, the Province of Newfoundland and Labrador and the Hibernia owners was completed in February 2011. Sanctioning of the project by the Unit owners quickly followed. Construction and drilling commenced and the first oil from the HSE Unit was produced in June 2011. CHHC's initial HSE Unit working interest is 5.08482% which will be redetermined according to the adjustment process in the Unit Agreement.

Canada Eldor Incorporated (CEI)

CEI continues to monitor and share the costs of disposing of accumulated wastes with Cameco Corporation. CEI has begun arbitration proceedings with Cameco to resolve disagreements over cost sharing. Hearings are expected to commence in December 2011.

Chrysler

On July 21, 2011 we sold all of our interests in Chrysler to Fiat for cash proceeds of US \$140 million (CAD \$132 million). The deemed cost of the investment in Chrysler was US \$18 million or CAD \$20 million on June 10, 2009, the date of acquisition. The proceeds were paid as a dividend, two thirds to the government of Canada and one third paid to the Ontario government upon direction of the Minister of Finance.

General Motors

We continued to monitor the investment in General Motors Company (GM) common and preferred shares. No sale of GM shares was undertaken in the period. Other comprehensive income (OCI) relating to the change in fair value of the GM common shares was not budgeted for in the Corporate Plan. The market value of the GM common shares investment decreased from \$4,729 million at December 31, 2010 to \$2,940 million at September 30, 2011, resulting in a year-to-date OCI loss of \$1,789 million. Approximately \$211 million of the year-to-date change was due to a decrease in the USD/CAD exchange rate.

During the third quarter, the fair value of the GM common shares fell from \$4,102 million to \$2,940 million, a decline of \$1,163 million. This is a reflection of the decline in the share price of the GM shares from US \$30.37 at June 30, 2011 to US \$20.20 at September 30, 2011 a decline of 33%, adjusted for foreign exchange. This drop was in comparison to the

decline in the S&P 500 from 1,321 to 1,131 during the period, a decline of over 14%. The fair value of the GM preferred shares increased by \$15 million in the first nine months of 2011 of which \$18 million was an unrealized foreign exchange gain. No amount was included in the Corporate Plan for the change in fair value of these shares.

Analysis of External Business Environment

The ongoing management of our holdings will depend on overall market and economic conditions as well as factors specific to the underlying company or investment. No material changes have been identified since December 2010 as described in the 2010 Annual Report.

Risks and Contingencies

No material changes in risks and contingencies have been identified since December 2010.

The majority of our assets and those of our subsidiaries continue to be 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/CAD exchange rate was 0.9946 on December 31, 2010 and 1.0389 on September 30, 2011, an increase of 4.4%. 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/CAD exchange rate. Neither we, nor our subsidiaries, undertake hedging activity.

Financial Statements for the Period Ending September 30, 2011

Consolidated revenue for the three months ending September 30, 2011 was \$213 million, an increase of 233% from \$64 million in the prior year period. The increase is due to the recognized gain on sale of the Chrysler interests of \$112 million and higher crude oil revenue. The increase in crude oil revenue was primarily due to higher crude oil prices, which were 41% higher on average than the prior year quarter. Dividend income of \$9 million for the quarter was comparable to 2010. Total expenses for the quarter decreased to \$13 million, excluding the unrealized change in fair value of held for trading financial assets, from \$19 million in the comparative period largely due to lower professional fees, and a gain on foreign exchange of \$2.6 million versus a loss of \$0.9 million in the prior year period.

Professional fees of \$1.5 million for the three months ended September 30, 2011 decreased from \$2.7 million in the prior year period due to the need to retain increased financial and legal advice in Q3 2010 relating to the GM IPO.

Consolidated revenue for the nine months ending September 30, 2011 was \$397 million, an increase from \$216 million in the comparative period in 2010. The increase is due to the gain on sale of the Chrysler interests of \$112 million and higher oil crude oil revenue. Year-to-date crude oil sales increased to \$255 million from \$186 million primarily due to higher crude oil prices, which averaged 38% higher than the prior year period. Total expenses, excluding the unrealized change in fair value of held for trading financial assets, were \$41 million in the nine months ended September 30, 2011 compared to \$51 million in the comparative period in

2010. The decrease is primarily due to lower depletion and depreciation expense and a gain on foreign exchange. The decrease in depletion and depreciation resulted from changes in estimates in proved plus probable reserves in 2011 as compared to 2010.

The fair value of the Chrysler interests increased from \$94 million at December 31, 2010 to \$132 million at July 21, 2011, when the interests were sold to Fiat.

We received dividends from GM of \$27 million in the first nine months of 2011, which was slightly lower than the comparative period in 2010 due to exchange rate fluctuations. We incurred a \$15 million unrealized gain on the GM preferred shares held, primarily due to foreign exchange appreciation. In the comparative period in 2010, we had a \$10 million unrealized loss.

OCI for the nine months ended September 30, 2011 reflected a loss of \$1,864 million of which \$1,789 million related to changes in the fair value of GM common shares. This was offset by a \$38 million gain in the value of the Chrysler interest during the period and the transfer of \$112 million in OCI to revenue due to the recognition of the gain on sale of the Chrysler interests. During the comparative period in 2010, OCI reflected a gain of \$456 million in the value of GM common shares plus a gain of \$7 million in the value of the Chrysler interest.

We paid dividends to the Government during the first nine months of 2011 totaling \$321 million, which included a \$20 million dividend from contributed surplus related to the sale of the Chrysler interests. These dividends were funded from CHHC profit, dividends from the GM preferred shares held and proceeds from the sale of our Chrysler interests. Dividends paid in the comparative period in 2010 were \$78 million. Of the \$321 million in dividends, \$50 million was funded from cash held at June 30, 2011 but no longer required to meet our mandate.

International Financial Reporting Standards (IFRS)

Please see our Financial Statements and Management Discussion and Analysis for the quarter ending June 30, 2011 for details on the impact of our transition to IFRS and our IFRS accounting policies. The 2011 second quarter financial statements contain reconciliations between our 2010 financial results previously released using Canadian GAAP and our 2010 results under IFRS.

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

Interim Condensed Consolidated Financial Statements of

CANADA DEVELOPMENT INVESTMENT CORPORATION

Period ended September 30, 2011

(Unaudited)

CANADA DEVELOPMENT INVESTMENT CORPORATION

Interim Condensed Consolidated Statement of Financial Position
(Unaudited)
(Thousands of Canadian Dollars)

	September 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 136,380	\$ 129,884
Accounts receivable	32,728	35,863
Inventory	3,284	4,109
Prepaid expenses	920	417
Cash on deposit in the Consolidated Revenue Fund	7,386	7,746
	180,698	178,019
Non-current assets:		
Cash on deposit in the Consolidated Revenue Fund	127,124	125,904
Cash and cash equivalents held in escrow	4,227	5,688
Property and equipment (note 5)	115,837	117,467
Investments (note 6)	3,375,788	5,244,289
	3,622,976	5,493,348
	\$ 3,803,674	\$ 5,671,367
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 37,049	\$ 30,834
Current portion of finance lease obligation	1,674	1,552
Current portion of retiree benefit obligation	230	345
Current portion of other provisions (note 7)	6,945	7,208
Income taxes payable	19,119	10,044
	65,017	49,983
Non-current liabilities:		
Finance lease obligation	4,132	5,042
Provision for decommissioning obligation (note 7)	43,687	44,695
Other provisions (note 7)	17,016	17,751
Retiree benefit obligation	2,767	2,674
Deferred tax liability	1,422	1,469
	69,024	71,631
Shareholder's equity:		
Share capital:		
Authorized - unlimited number of common shares		
Issued and fully paid - 101 common shares	1	1
Contributed surplus	3,892,184	3,912,184
Accumulated deficit	(1,018,340)	(1,021,721)
Accumulated other comprehensive income	795,788	2,659,289
	3,669,633	5,549,753
	\$ 3,803,674	\$ 5,671,367

The accompanying notes are an integral part of these interim condensed consolidated financial statements.
On behalf of the Board:



Director



Director

CANADA DEVELOPMENT INVESTMENT CORPORATION

Interim Condensed Consolidated Statement of Comprehensive Income (Loss)
(Unaudited)
(Thousands of Canadian Dollars)

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Revenue:				
Crude oil sales, net of royalties and net profits interest (note 9)	\$91,019	\$ 54,230	\$ 254,679	\$ 186,060
Dividends (note 6)	8,939	9,285	26,915	27,767
Gain on sale of investment (note 6)	112,312	-	112,312	-
Gain on disposition of property and equipment (note 5)	-	-	-	1,695
Interest income	715	442	3,145	806
	212,985	63,957	397,051	216,328
Expenses:				
Depletion and depreciation (note 5)	9,613	10,505	24,132	30,601
Operating and production (note 9)	3,894	4,040	11,350	12,728
Change in fair value of held-for-trading assets (note 6)	(30,000)	14,000	(15,000)	10,000
Other expenses	256	102	484	306
Salary and benefits	489	478	1,908	1,564
Professional fees	1,473	2,736	5,341	5,281
Retiree benefits expense	31	38	94	115
Foreign exchange loss (gain)	(2,641)	910	(2,227)	597
	(16,885)	32,809	26,082	61,192
Finance costs:				
Accretion of decommissioning obligations	307	451	1,108	1,256
Interest on finance lease obligation	42	204	178	624
	349	655	1,286	1,880
Profit before income taxes	229,521	30,493	369,683	153,256
Income taxes:				
Current income taxes	26,089	15,024	65,519	45,278
Deferred tax recovery	(1,509)	(2,012)	(47)	(1,979)
	24,580	13,012	65,472	43,299
Profit	204,941	17,481	304,211	109,957
Other comprehensive income:				
Realized gain on sale of investment	(112,312)	-	(112,312)	-
Net change in fair value of available-for-sale financial assets (note 6)	(1,165,394)	413,200	(1,751,189)	462,704
	(1,277,706)	413,200	(1,863,501)	462,704
Comprehensive income (loss) for the period	\$(1,072,765)	\$430,681	\$(1,559,290)	\$572,661

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

CANADA DEVELOPMENT INVESTMENT CORPORATION

Interim Condensed Consolidated Statement of Changes in Equity
(Unaudited)
(Thousands of Canadian Dollars)

	Three months ended		Nine months ended	
	September 30		September 30	
	2011	2010	2011	2010
Share capital				
Balance, beginning and end of period	\$ 1	\$ 1	\$ 1	\$ 1
Contributed surplus				
Balance, beginning of period	3,912,184	3,912,184	3,912,184	3,912,184
Dividend (note 6)	(20,000)	-	(20,000)	-
Balance, end of period	3,892,184	3,912,184	3,892,184	3,912,184
Accumulated deficit				
Balance, beginning of period	(1,022,251)	(433,283)	(1,021,721)	(493,539)
Profit	204,941	17,481	304,211	109,957
Dividends	(201,030)	(46,000)	(300,830)	(78,220)
Balance, end of period	(1,018,340)	(461,802)	(1,018,340)	(461,802)
Accumulated other comprehensive income				
Balance, beginning of period	2,073,494	1,050,281	2,659,289	1,000,777
Realized gain on sale of investment	(112,312)	-	(112,312)	-
Net change in fair value of available-for-sale financial assets	(1,165,394)	413,200	(1,751,189)	462,704
Balance, end of period	795,788	1,463,481	795,788	1,463,481
Total shareholder's equity	\$ 3,669,633	\$ 4,913,864	\$ 3,669,633	\$ 4,913,864

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

CANADA DEVELOPMENT INVESTMENT CORPORATION

Interim Condensed Consolidated Statement of Cash Flows
(Unaudited)
(Thousands of Canadian Dollars)

	Three months ended		Nine months ended	
	September 30		September 30	
	2011	2010	2011	2010
Cash provided by (used in):				
Operating activities:				
Profit	\$204,941	\$17,481	\$304,211	\$109,957
Adjustments for:				
Deferred income taxes recoveries	(1,509)	(2,012)	(47)	(1,979)
Depletion and depreciation	9,613	10,505	24,132	30,601
Finance interest	(415)	124	(2,125)	22
Accretion of decommissioning obligations	307	451	1,108	1,256
Unrealized foreign exchange loss (gain)	470	(251)	234	(162)
Change in fair value of held-for-trading assets	(30,000)	14,000	(15,000)	10,000
Gain from disposition of property and equipment	-	-	-	(1,695)
Gain on sale of investment	(112,312)	-	(112,312)	-
Increase in other provisions	(411)	(2,389)	(998)	(3,181)
Decrease (Increase) in retiree benefits	29	1,606	(22)	1,573
Decommissioning obligations incurred	(30)	(1,024)	(1,767)	(1,713)
	70,683	38,491	197,414	144,679
Change in non-cash working capital (note 8)	10,022	12,538	18,841	(13,488)
	80,705	51,029	216,255	131,191
Financing activities:				
Dividends paid from retained earnings	(201,030)	(46,000)	(300,830)	(78,220)
Dividend paid from contributed surplus	(20,000)	-	(20,000)	-
Finance interest	415	(124)	2,125	(22)
Lease obligation payments	(386)	(250)	(1,022)	(719)
	(221,001)	(46,374)	(319,727)	(78,961)
Investing activities:				
Proceeds on sale of investment	132,312	-	132,312	-
Proceeds on disposition of property and equipment	-	-	-	1,695
Purchase of property and equipment	(11,327)	(6,562)	(22,435)	(20,669)
Net change in Consolidated Revenue Fund	(281)	(186)	(860)	4,658
Cash and cash equivalents held in escrow	1,461	-	1,461	(3,138)
Change in non-cash working capital (note 8)	642	663	(510)	1,139
	122,807	(6,085)	109,968	(16,315)
Increase (decrease) in cash and cash equivalents	(17,489)	(1,430)	6,496	35,915
Cash and cash equivalents, beginning of period	153,869	142,761	129,884	105,416
Cash and cash equivalents, end of period	\$ 136,380	\$ 141,331	\$ 136,380	\$ 141,331
Represented by:				
Cash	1,410	7,875	1,410	7,875
Cash equivalents	134,970	133,456	134,970	133,456
	\$ 136,380	\$ 141,331	\$ 136,380	\$ 141,331

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

CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Period ended September 30, 2011

(All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

1. Reporting entity:

Canada Development Investment Corporation ("the Corporation" or "CDIC") was incorporated in 1982 under the provisions of the *Canada Business Corporations Act* and is wholly-owned by Her Majesty in Right of Canada. The Corporation is an agent Crown corporation listed in Schedule III, Part II of the *Financial Administration Act* and is not subject to the provisions of the *Income Tax Act*. In November 2007, the Minister of Finance informed CDIC that its mandate "should reflect a future focused on the ongoing management of its current holdings in a commercial manner, providing assistance to the Government of Canada ("Government") in new policy directions suited to CDIC's capabilities, while maintaining the capacity to divest CDIC's existing holdings, and any other government interests assigned to it for divestiture, upon the direction of the Minister of Finance". In late 2009, the Corporation began assisting the Department of Finance in its Asset Review programme involving the review of certain Government corporate assets.

The address of the Corporation's registered office is 79 Wellington Street West, Suite 3000, Box 270, TD Centre Toronto, Ontario M5K 1N2.

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

CEI was incorporated under the provisions of the *Canada Business Corporations Act*. It is subject to the *Financial Administration Act*, is an agent of Her Majesty in Right of Canada and is not subject to the provisions of the *Income Tax Act*. During 1988, CEI sold substantially all of its assets and operations to Cameco Corporation ("Cameco") in exchange for share capital of the purchaser and a promissory note. As a result of the sale of the Cameco shares and the assumption of certain of CEI's remaining debt by the Government in 1995, CEI is left with the net cash proceeds from the final sale of Cameco shares as its only significant asset. CEI's remaining obligations include historic waste, site restoration and retiree benefits. These obligations are discussed in note 7.

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

Canada CH Investment Corporation ("CH") was consolidated until July 21, 2011. CH was incorporated under the provisions of the *Canada Business Corporations Act* and was acquired by the Corporation on May 29, 2009. CH's sole activity was to hold an investment in Chrysler Group LLC (Chrysler). The membership interest was received from Chrysler as a result of loans made by Export Development Canada's Canada Account ("EDC"), (a related party to CDIC and CH), to

CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Period ended September 30, 2011

(All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

1. Reporting entity (continued):

Chrysler Group LLC (“Chrysler”). During the quarter, all of the Corporation’s interests in Chrysler were sold to Fiat for US \$140 million in cash. The cost of the investment in Chrysler was approximately US \$18,000 or CAD \$20,000 on the date of acquisition, June 10, 2009. The closing date of the sale was July 21, 2011 at which time the USD/CAD exchange rate was 0.9451.

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

2. Basis of preparation:

(a) Statement of compliance:

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. These interim condensed consolidated financial statements are part of the period covered by the first International Financial Reporting Standards (“IFRS”) annual financial statements of the Company and IFRS 1, “First-time Adoption of International Financial Reporting Standards” has been applied. The interim condensed consolidated financial statements do not include all of the information required for full annual financial statements.

Please refer to notes 12 and 13 of the interim condensed consolidated financial statements for the period ended June 30, 2011 for an explanation of the impact of the transition from previous Canadian GAAP to IFRS on the Corporation’s consolidated financial statements for the period ended December 31, 2010 and the opening IFRS statement of financial position at January 1, 2010 (the Corporation’s date of transition) and selected annual disclosure relevant to an understanding of the Corporation’s interim financial statements.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors on November 14, 2011.

(b) Basis of measurement:

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

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

The methods used to measure fair values are discussed in note 6.

CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Period ended September 30, 2011

(All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

2. Basis of preparation (continued):

(c) Functional and presentation currency:

These interim condensed 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 5 – Property and equipment
- Note 6 – Investments
- Note 7 – Provisions

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

Decommissioning costs are 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

CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Period ended September 30, 2011

(All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

2. Basis of preparation (continued):

(d) Use of estimates and judgments (continued):

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 financial statements in future periods could be material.

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

Judgment was used in determining not to consolidate the results of PPP Canada Inc. which is wholly-owned by the Corporation as discussed in note 3(a) Basis of consolidation of the June 30, 2011 interim condensed consolidated financial statements.

3. Significant accounting policies:

These interim condensed consolidated financial statements have been prepared following the same accounting policies as the interim condensed consolidated financial statements as at June 30, 2011. The significant accounting policies of the Corporation and its subsidiaries are described in Note 3 of the June 30, 2011 interim condensed consolidated financial statements.

4. Recent accounting pronouncements:

IAS 1, Presentation of Financial Statements

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

IFRS 9, Financial Instruments

In October 2010, the IASB revised IFRS 9, Financial Instruments ("IFRS 9"). IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the

CANADA DEVELOPMENT INVESTMENT CORPORATION

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Period ended September 30, 2011

(All dollar amounts are stated in thousands of Canadian dollars unless otherwise stated)

4. Recent accounting pronouncements (continued):

Corporation's interim and annual consolidated financial statements commencing January 1, 2013. The Corporation is assessing the impact of this new standard on its consolidated financial statements.

IFRS 10, Consolidated Financial Statements

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

IFRS 11, Joint Arrangements

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

IFRS 12, Disclosure of Interests in Other Entities

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

IFRS 13, Fair Value Measurement

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

CANADA DEVELOPMENT INVESTMENT CORPORATION

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4. Recent accounting pronouncements (continued):

consolidated financial statements.

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

The IASB have also made amendments to existing standards IAS 27 and IAS 28. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13.

IAS 19 Employee Benefits

In June 2011, the IASB released amendments to IAS 19, Employee Benefits which eliminate the corridor method that defers the recognition of gains and losses, to streamline the presentation of changes in assets and liabilities arising from employee benefit plans and to enhance the disclosure requirements. The amended version of IAS 19 will be effective for the annual periods beginning on January 1, 2013, with earlier application permitted. The Corporation has not yet assessed the impact of the amendments on the consolidated financial statements.

5. Property and equipment:

	Drilling costs	Crude oil tanker	Offshore production facilities	Total
Cost				
Balance at December 31, 2010	18,424	13,547	123,739	155,710
Additions for the period	7,193	-	14,893	22,086
Balance at September 30, 2011	\$ 25,617	\$ 13,547	\$ 138,632	\$ 177,796
Depletion, depreciation and impairment				
Balance at December 31, 2010	18,423	2,760	17,060	38,243
Depletion and depreciation for the period	7,193	2,070	14,453	23,716
Balance at September 30, 2011	\$ 25,616	\$ 4,830	\$ 31,513	\$ 61,959

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5. Property and equipment (continued):

	Drilling costs	Crude oil tanker	Offshore production facilities	Total
Carrying amounts:				
At December 31, 2010	\$ 1	\$ 10,787	\$ 106,679	\$ 117,467
At September 30, 2011	\$ 1	\$ 8,717	\$ 107,119	\$ 115,837

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

Certain costs have been excluded from the calculations of depletion and depreciation, including costs of equipment currently under construction of \$nil – September 30, 2011 (\$4,218 – December 31, 2010, and costs where proven reserves have not yet been allocated \$nil – September 30, 2011 (\$1,853 – December 31, 2010).

6. Investments:

	September 30, 2011	December 31, 2010
Financial assets at fair value through profit or loss:		
Preferred shares in GM	\$ 436,000	\$ 421,000
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:		
Membership interest in Chrysler	-	94,487
24,615 Class A Units		
Common shares in GM	2,939,788	4,728,802
140,084,746 common shares		
(December 2010 - 140,084,746 common shares)		
	\$ 3,375,788	\$ 5,244,289

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6. Investments (continued):

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

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Change in fair value of assets at fair value through profit or loss:				
Preferred shares in GM				
Unrealized foreign exchange (gain) loss	\$ (31,000)	\$ 13,000	\$ (18,000)	\$ 7,000
Unrealized fair value loss	1,000	1,000	3,000	3,000
	\$ (30,000)	\$ 14,000	\$ (15,000)	\$ 10,000
Change in fair value of available-for-sale assets:				
Membership interest in Chrysler unrealized gain (loss)				
	\$ (2,689)	\$ 6,100	\$ 37,826	\$ 6,604
Realized gain on sale of membership interest	(112,312)	-	(112,312)	-
Common shares in GM unrealized gain (loss)	(1,162,705)	407,100	(1,789,015)	456,100
	\$ (1,277,706)	\$ 413,200	\$ (1,863,501)	\$ 462,704

Financial assets at Fair Value through profit or loss:

Held-for-trading financial assets are accounted for at fair value as at the end of the reporting period.

The GM preferred shares, which do not trade publicly, were designated as held-for-trading at initial recognition. They could not be classified as available-for-sale due to the inability to measure the embedded option by the issuer to redeem the shares after December 30, 2014. Since this option cannot be reasonably valued separately, the entire preferred share instrument is measured at fair value. Fair value has been determined based on the net present value of cash flows discounted at an interest rate of comparable preferred equity instruments and the particular attributes of the preferred share issue including the liquidation preference value of US\$25/ preferred share. There are no sales restrictions on the preferred shares. Preferred share dividends from GM are received quarterly in US dollars. In the first nine months of 2011, GEN received CAD \$26,757 (2010 - \$27,767) in preferred share dividends.

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Period ended September 30, 2011

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6. Investments (continued):

Available-for-sale financial assets:

Upon initial recognition of the investments in the common shares of GM and membership interest in Chrysler in fiscal 2009, these investments were classified as available-for-sale financial assets.

The Chrysler interests were sold to Fiat on July 21, 2011 for proceeds of US \$140,000 or \$132,312. The deemed cost of the interests was \$20,000 resulting in a gain on sale of investment of \$112,312. The proceeds were in turn paid out as dividends from Contributed Surplus of \$20,000 and the balance from Retained Earnings.

The GM common shares did not have a quoted market price in an active market at January 1, 2010 and, accordingly, were accounted for at fair value using standard valuation techniques. On November 18, 2010, GM launched its initial public offering (IPO) of stock on the New York Stock Exchange and the Toronto Stock Exchange. The GM common shares had a quoted market price in an active market at this date. The balance in accumulated other comprehensive income at December 31, 2010 and September 30, 2011 relates solely to the changes in fair value of these investments.

GEN was party to an Underwriting Agreement and other agreements which restricted it from selling the common shares under certain conditions. Therefore, fair value was determined at December 31, 2010 based on the quoted market bid price of the GM common shares less a discount based on the restrictions to GEN's ability to sell the shares. These conditions expired in May 2011 thus the fair value at September 30, 2011 was determined based on the quoted market bid price. .

Determination of fair values

Fair values for publicly traded shares are generally determined by the last bid price for the security from the exchange where it is principally traded. A discount has been applied to the value of the GM common shares based on the restrictions to GEN's ability to sell the shares in calculating the December 31, 2010 value. The fair value of available-for-sale investments not traded in an active market are determined by discounting expected future cash flows. The fair value of held-to-maturity investments is stated at carrying amount which approximates fair value.

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7. 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 \$113,678 at September 30, 2011 and \$144,904 at December 31, 2010. Estimates of decommissioning obligation costs can change significantly based on such factors as operating experience and changes in legislation and regulations.

These obligations will be settled based on the useful lives of the underlying assets, which currently extend up to the year 2045. A risk-free rate was used as follows: September 30, 2011 - 2.77%, and December 31, 2010 - 3.52%. An inflation rate was used as follows: September 30, 2011 - 0.91% and December 31, 2010 - 1.66%.

Changes to decommissioning obligations during the period were as follows:

	September 30, 2011	December 31, 2010
Provision for decommissioning obligations, beginning of period	\$ 44,695	\$ 40,328
Accretion expense	1,108	1,691
Changes in estimates	(349)	5,050
Obligations settled	(1,767)	(2,374)
Provision for decommissioning obligations, end of period	\$ 43,687	\$ 44,695

(b) Other provisions relating to the sale of assets by CEI:

Under the terms of the purchase and sale agreement in 1988 between CEI and Cameco, CEI is responsible for obligations relating to the sale of assets to Cameco. Decommissioning obligations include site restoration and historic waste as follows:

	Site Restoration	Historic Waste	Total
Balance at January 1, 2011	\$13,950	\$ 11,009	\$ 24,959
Provisions used during the period	(998)	-	(998)
Balance at September 30, 2011	12,952	11,009	23,961
Non-current	10,679	6,337	17,016
Current	2,273	4,672	6,945
Other provisions	\$12,952	\$ 11,009	\$ 23,961

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Period ended September 30, 2011

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8. Supplemental cash flow disclosure:

Changes in non-cash working capital balances for the periods ended September 30 include the following:

	Three months ended		Nine months ended	
	September 30		September 30	
	2011	2010	2011	2010
Change in accounts receivable	\$ (4,526)	\$ 13,694	\$ 3,135	\$ (3,561)
Change in income taxes recoverable	-	-	-	7,654
Change in inventory	165	(786)	409	908
Change in prepaid expenses	570	413	(503)	(493)
Change in accounts payable and accrued liabilities	3,504	(4,824)	6,215	(21,561)
Change in income taxes payable	10,951	4,704	9,075	4,704
Change in non-cash working capital items	\$ 10,664	\$ 13,201	\$ 18,331	\$ (12,349)
Relating to:				
Operating activities	\$ 10,022	\$ 12,538	\$ 18,841	\$ (13,488)
Investing activities	642	663	(510)	1,139
Change in non-cash working capital items	\$ 10,664	\$ 13,201	\$ 18,331	\$ (12,349)

During the nine months ended September 30, 2011, the Company paid income taxes of \$59,530 (2010 - \$40,249) and interest of \$179 (2010 - \$656), of which \$178 (2010 - \$623) was related to capital lease obligations.

During the three months ended September 30, 2011, the Company paid income taxes of \$15,900 (2010 - \$14,650) and interest of \$43 (2010 - \$204), of which \$42 (2010 - \$204) was related to capital lease obligations.

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Period ended September 30, 2011

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9. Oil revenue and operating and production expenses:

a) Oil revenue for the three and nine months of 2011 and 2010 are as follows:

	Three months ended		Nine months ended	
	September 30		September 30	
	2011	2010	2011	2010
Gross oil revenue	\$ 147,687	\$ 84,995	\$ 414,976	\$ 292,972
Less: marketing fees	(65)	(55)	(204)	(211)
Less: royalties	(43,112)	(23,236)	(122,627)	(80,906)
Less: net profits interest	(13,491)	(7,474)	(37,466)	(25,795)
Net oil revenue	\$ 91,019	\$ 54,230	\$ 254,679	\$ 186,060

b) Operating and production expenses for the three and nine months of 2010 and 2011 are as follows:

	Three months ended		Nine months ended	
	September 30		September 30	
	2011	2010	2011	2010
Hibernia joint account operating	\$ 3,641	\$ 3,002	\$ 10,038	\$ 9,115
Crude oil tanker operating	1,923	1,579	5,487	5,591
Less: recoveries of crude oil tanker operating	(1,150)	(541)	(3,456)	(1,978)
Less: facility use fees net of incidental net profits interest	(520)	-	(719)	-
Total operating and production	\$ 3,894	\$ 4,040	\$ 11,350	\$ 12,728

10. Related party transactions:

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

The Corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business under its stated mandate. These transactions are measured at the exchange amount, which is the actual amount agreed to by the related parties.

CDIC paid dividends to the Government of Canada for the nine months ended September 30, 2011 in the amount of \$320,830 (2010 - \$78,220), \$20,000 of which was from contributed surplus.