

*Canada Enterprise
Emergency Funding Corporation*

*La Corporation de financement
d'urgence d'entreprises du Canada*

Third Quarter Report September 30, 2021

*A subsidiary of Canada Development
Investment Corporation*

*Une filiale de La Corporation de
développement des investissements du Canada*

Quarterly Financial Report – including MD&A

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Statement of Management Responsibility by Senior Officials

The accompanying unaudited interim condensed financial statements of Canada Enterprise Emergency Funding Corporation (“CEEFC” or the “Corporation”) are the responsibility of management and were authorized for issue by the Board of Directors on November 12, 2021. The interim financial statements have been prepared by the Corporation in accordance with the Public Sector Accounting Standards. Where alternative accounting methods exist, the Corporation has chosen those it deems most appropriate in the circumstances.

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

The Board of Directors carries out its responsibilities for the financial statements in this report principally through its Audit Committee. The Audit Committee reviews CEEFC’s financial statements and reports its findings to the Board for its consideration and approval. The Audit Committee also meets with the Corporation’s joint auditors to discuss auditing matters and financial reporting issues. Internal audits have yet to be conducted since the Corporation is still in its first full year of operation.

As President and Chief Executive Officer and Vice President, Finance of CEEFC, we have reviewed the Corporation’s interim condensed financial statements, and based upon our knowledge, having exercised due diligence, we believe they fairly present, in all material respects, the Corporation’s financial position as at September 30, 2021, and its financial performance and cash flows for the nine months ended September 30, 2021.



Zoltan Ambrus, CFA, LLB
President and Chief Executive Officer
CEEFC



Andrew Stafli, CPA, CA
Vice President, Finance
CEEFC

November 12, 2021

Mandate and Corporate Governance Practices

Canada Enterprise Emergency Funding Corporation (“CEEFC” or the “Corporation”) was incorporated on May 11, 2020 and is wholly-owned by Canada Development Investment Corporation (“CDEV”), a federal Crown corporation. CEEFC is a non-agent Crown corporation and is not subject to the *Income Tax Act* of Canada.

Since early 2020, the Canadian economy has been facing substantial challenges due to the global drop in demand for goods and services caused by the coronavirus (“COVID-19”) pandemic. Companies’ abilities to access credit have also been constrained due to uncertainties in the financial markets. Without continued access to credit, Canadian businesses have faced and may continue to face retrenchment, which could slow prospects for longer-term economic growth. CEEFC has been mandated to assist the Government of Canada (“Government of Canada” or the “Government”) as part of Canada’s COVID-19 Economic Response Plan through the implementation of the Large Employer Emergency Financing Facility (“LEEFF”) along with Innovation, Science and Economic Development Canada (“ISED”) and the Department of Finance.

LEEFF Loans

The LEEFF program is managed in accordance with terms and conditions approved by the Minister of Finance and is intended to provide bridge financing to Canada’s largest employers, whose needs during the COVID-19 pandemic are not being met through conventional financing. The objective of LEEFF is to help protect Canadian jobs, help Canadian businesses weather the current economic downturn, and avoid bankruptcies of otherwise viable companies, where possible. LEEFF will not be used to resolve insolvencies or restructure firms, nor will it provide financing to companies that otherwise have the capacity to manage through the crisis. Instead, the additional liquidity made available through LEEFF provides emergency funding support for large Canadian enterprises facing financial challenges due to the economic impact of the COVID-19 pandemic, allowing these businesses and their suppliers to remain active during this difficult time and positioning them for a rapid economic recovery. The program is open to large Canadian employers who:

- (a) have a significant impact on Canada’s economy, as demonstrated by having significant operations in Canada or supporting a significant workforce in Canada;
- (b) can generally demonstrate approximately \$300 million or more in annual revenues; and
- (c) require a minimum loan size of about \$60 million.

Companies that receive financing through LEEFF must agree to sustain their domestic operations, make reasonable commercial efforts to minimize the loss of jobs, and demonstrate a clear plan to return to financial stability. They must also agree to place restrictions on executive compensation, dividends, and share buybacks and publish annual climate-related disclosure reports indicating how their future operations will support environmental sustainability and Canada’s climate goals. Standard LEEFF loans are funded on an 80% unsecured basis, with the remaining 20% funded on a secured basis on terms identical to those of the borrowers’ existing secured lenders. Fees are charged based on the loan commitment and other loan fees are payable upon repayment. Interest rates escalate through the term of the five-year unsecured loan.

In April, the government provided two additional financial support programs to be made available to Canadian airlines under the LEEFF program. One is available to the largest Canadian airlines and a voucher refund facility program is available to all Canadian airlines.

Financial Support to the Canadian Airline Industry

Loans to the largest Canadian airlines

To qualify for financial support, airline companies must meet the following requirements:

- (a) be incorporated or otherwise formed under the federal laws of Canada or a Canadian provincial or territorial jurisdiction
- (b) have a minimum of \$4 billion in 2019 annual revenue,
- (c) not be involved in active insolvency proceedings, and
- (d) have significant operations or workforce in Canada.

The financial support may take the form of secured and unsecured loan facilities, or an equity investment with secured and unsecured loan facilities. In the case of an equity investment, the Corporation's investment in the common voting shares of an airline cannot exceed 20% of the total principal amount of the secured and unsecured loan facilities.

Airline voucher refund loan facilities

The voucher loan facilities are provided to the Canadian airlines to refund the cancelled travel owing to the COVID – 19 pandemic. In order to be eligible for the financial assistance for a voucher refund, the airline must be a customer-facing airline and must meet the following requirements:

- (a) be incorporated or otherwise formed under the federal laws of Canada or a Canadian provincial or territorial Jurisdiction;
- (b) have a minimum of \$300 million in annual pre-COVID-19 revenue; and
- (c) not be involved in active insolvency proceedings.

The voucher facility will be a non-revolving term facility under the LEEFF loan program. The aggregate amount of the voucher facility shall not exceed the maximum liability. The cap that is applicable to a particular airline will be between 80% and 100% of the airline's estimate of the maximum liability. The maximum amount that an airline can borrow under this program is \$2 billion. The voucher refund loan facility will be a non-revolving term loan. The interest rate will be fixed through the seven-year term.

CEEFC Responsibilities

CEEFC is responsible for receiving applications, performing financial analysis and due diligence, assessing the requests against the eligibility criteria and terms approved by the Minister of Finance, and entering into and funding transactions in accordance with such terms. CEEFC is responsible for monitoring and managing the loans it makes. CEEFC is funded through preference shares issued to the Government of Canada in accordance with a funding agreement.

The Board of CEEFC was appointed by CDEV and is responsible for the overall strategy and operation of the Corporation. The Board has engaged a President and Chief Executive Officer with responsibility to manage the Corporation in accordance with the mandate received from the Minister of Finance. CEEFC has a management team based in Toronto that works closely with external consultants, contractor specialists, and the Board to ensure the effective functioning of the Corporation. CEEFC's parent, CDEV, provides support functions and the expertise of some of its executive team to the Corporation, in exchange for a management fee, through a services agreement.

Management Discussion and Analysis of Results – for the period ended September 30, 2021

The public communications of CEEFC, including this quarterly report, may include forward-looking statements that reflect management's expectations regarding CEEFC's objectives, strategies, outlooks, plans, anticipations, estimates, and intentions. By their very nature, forward-looking statements involve numerous factors and assumptions, and they are subject to inherent risks and uncertainties, both general and specific. In particular, predictions, forecasts, projections, or other elements of forward-looking statements may not be achieved.

A number of risks, uncertainties, and other factors could also cause actual results to differ materially from what is currently expected. Specifically, CEEFC's interest income on loans is calculated using the effective interest rate method which includes a number of assumptions concerning the timing of expected loan draws and loan repayments. These assumptions may change based on updated information and could give rise to gains or losses over the actual terms of the loans. Such gains or losses are recognized in the Statement of Operations and Accumulated Surplus in the period in which assumptions are updated. CEEFC also has equity instruments that are subject to market risk that will affect the future financial results when sales are made.

Corporate Performance

As part of its mandate, CEEFC is required to receive loan applications, assess the requests against the eligibility criteria and terms approved by the Minister of Finance, and fund eligible transactions. In addition, CEEFC must monitor and manage its loans.

Performance: CEEFC was incorporated and developed processes and procedures to implement the LEEFF program. CEEFC also engaged financial and legal advisors to assist in evaluating loan applications and executing loan documents. Since incorporation, CEEFC reviewed and assessed several loan applications from potential borrowers. As detailed below, CEEFC has issued the following loans and voucher refund loans and the Corporation is now monitoring and managing these funded loans. Subsequent to September 30, 2021, two of the borrowers fully repaid their loans including any fees owed upon repayment.

Loans issued

Borrower	Agreement Signed	As at September 30, 2021	
		Total Loan Commitment	Amount Funded
Gateway Casinos & Entertainment Ltd.	Sep. 2020	\$ 200 million	\$ 200.0 million
Conuma Resources Ltd.	Oct. 2020	120 million	120.0 million
Sunwing Vacations Inc.	Jan. 2021	348 million	185.9 million
Goodlife Fitness Centres Inc.	Feb. 2021	310 million	180.1 million
Air Canada	Apr. 2021	3,975 million	–
Transat A.T. Inc.	Apr. 2021	390 million	200.0 million
Porter Aircraft Leasing Corp.	Jun. 2021	250 million	60.0 million
		<u>\$ 5,593 million</u>	<u>\$ 946.0 million</u>

**Management Discussion and Analysis of Results – for the period ended September 30, 2021
(continued)**

Voucher refund loans issued

Borrower	Agreement Signed	As at September 30, 2021	
		Total Loan Commitment	Amount Funded
Air Canada	Apr. 2021	\$ 1,404 million	\$ 1,205.2 million
Transat A.T. Inc.	Apr. 2021	310 million	310.0 million
Porter Aircraft Leasing Corp.	Jun. 2021	20 million	–
Sunwing Vacations Inc.	Jun. 2021	100 million	77.2 million
		\$ 1,834 million	\$ 1,592.4 million

Loans Repaid

Subsequent to September 30, 2021, Gateway Casinos & Entertainment Ltd and Goodlife Fitness Centres Inc repaid all loan obligations with CEEFC. The repayment which comprised of principal, accrued interest and fees, amounted to \$226.6 million and \$193.8 million respectively.

Analysis of External Business Environment

The management of CEEFC's loan portfolio will depend on overall market and economic conditions as well as factors specific to CEEFC's borrowers. As at September 30, 2021, all of CEEFC's borrowers have been impacted by federal and/or provincial restrictions on their operations, and another borrower operates in the steel-making coal business which has been impacted by restrictions on operations and the impacts on international markets on the steel-making industry. The global outbreak of COVID-19 has had limited impact on CEEFC's operations.

Risks

A substantial amount of credit risk is associated with LEEFF loans based on the terms and eligibility criteria of the program. The financial performance of CEEFC is highly dependent on the timing of any economic recovery and the impact of the current and future COVID-19 waves. Given the mandate to help Canadian businesses weather the current economic downturn and avoid bankruptcies of otherwise viable firms where possible, it is expected that there will be losses in the portfolio. CEEFC's main role is to lend based on conditions set by the Government's LEEFF term sheet and not on an assessment of the borrower's creditworthiness. CEEFC has a high tolerance for macro-economic risks and for potential financial losses within the terms of the LEEFF program. However, CEEFC will monitor the activities of its loan portfolio.

The investment in Air Canada common shares and holdings of common share warrants in Air Canada and Air Transat is subject to fluctuations in value due to performance in the overall stock market, risks of the airline industry and the borrower. The fluctuations in share price will impact future financial results. At present the common shares and the warrants are carried at cost unless there is an other than temporary impairment.

Management Discussion and Analysis of Results – for the period ended September 30, 2021 (continued)

Interim Condensed Financial Statements for the period ended September 30, 2021

The unaudited interim condensed financial statements for the nine months ended September 30, 2021, have been prepared in accordance with Public Sector Accounting Standards (“PSAS”). Although CEEFC is wholly owned by CDEV, CDEV does not consolidate the financial results of CEEFC under CDEV’s International Financial Reporting Standards (“IFRS”) accounting framework, as determined under IFRS 10.

Total revenue, excluding the Government contribution for the nine months ended September 30, 2021, was \$70 million and primarily consisted of the interest earned on the funded loans to the seven borrowers, including the amortization of certain loan and transaction fees over the expected life of the loans. The budgeted revenue of \$136 million is significantly higher than the actual revenue due to a higher budgeted level of loans expected to be issued.

A significant portion of professional fees incurred are recovered from borrowers. Under PSAS the fees are recorded in expenses as incurred and the recovery of the fees are recognized through the effective interest rate methodology (EIRM) over the life of the loan. Total expenses for the nine months ended September 30, 2021, were \$5 million and primarily consisted of financial and legal advisory fees in connection with financial and legal due diligence on loan applications. Certain contingent professional fees that are incurred are recovered in the same period from the borrower. During the 9 month period ended September 30, 2021, \$9 million in contingent incremental expenses were recovered from borrowers. The expense and the recovery were included in the effective interest rate (EIR) calculation. As the expense and the recovery naturally offset, there is no impact to revenue and expenses. The variance on the actual versus the budgeted expenses is due to fewer than anticipated loan applications. No provision for credit loss was incurred in the period as no loans were impaired as at September 30, 2021.

The Government contribution for the nine months ended September 30, 2021, was \$2,890 million and represents the preference shares issued to the Government of Canada.

Cash as at September 30, 2021, totaled \$62 million. The cash was raised through the issuance of preference shares to the Government of Canada amounting to \$2,890 million and was partially offset by the funding of loans. Subsequent to September 30, 2021, funds received from settlement of loans amounted to \$420 million. See also the Interim Condensed Statement of Cash Flow for the period ended September 30, 2021.

Loans to borrowers as at September 30, 2021, totaled \$2,581 million, representing a \$2,469 million increase from the balance as at December 31, 2020. The increase during the nine months is due to the funding of loans to five new borrowers along with additional funding to two existing borrowers, partially offset by adjustments for accrued interest computed based on the effective interest rate methodology and interest payments received in cash. For up-to-date details on loans issued, please refer to the CEEFC website (www.ceefc-cfuec.ca).

The common shares in Air Canada are recorded at cost. The warrants held for Air Canada and Air Transat are recorded at cost which is nil under the PSAS accounting framework.

No dividends were paid to the common or preference shareholders during the first, second and third quarter of 2021.

Interim Condensed Financial Statements of

**CANADA ENTERPRISE EMERGENCY FUNDING
CORPORATION**

Three and nine months ended September 30, 2021

(Unaudited)

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

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

	September 30, 2021	December 31, 2020
Financial Assets		
Cash	\$ 61,931	\$ 82,673
Interest receivable	3,332	389
Loans to borrowers (Note 4)	2,581,010	111,822
Equity investments (Note 5)	500,000	-
Due from shareholder (Note 6)	-	187
	3,146,273	195,071
Financial Liabilities		
Trade payables	1,704	5,613
Due to shareholder (Note 6)	252	-
	1,956	5,613
Net Financial Assets and Accumulated Surplus (Note 7)	\$ 3,144,317	\$ 189,458

Commitments (Note 9)
Contingencies (Note 10)
Subsequent Events (Note 11)

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

On behalf of the Board:  Director  Director

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Interim Condensed Statement of Operations and Accumulated Surplus
(Unaudited)
(Thousands of Canadian Dollars)

	Three months ended September 30, 2021		Nine months ended September 30, 2021		For the period from incorporation on May 11 to September 30, 2020
	Note 3 Budget	Actual	Note 3 Budget	Actual	Actual
Revenue					
Interest income – loans	\$ 62,475	\$ 45,106	\$ 135,975	\$ 70,021	\$ 89
Interest income – bank	–	37	–	95	14
	62,475	45,143	135,975	70,116	103
Expenses					
Professional fees	4,624	1,744	13,872	4,356	7,536
Management fees	475	170	1,425	509	904
Salaries and benefits	422	55	1,266	225	224
Other	180	20	540	167	188
	5,701	1,989	17,103	5,257	8,852
Operating profit (loss) before government contribution	56,774	43,154	118,872	64,859	(8,749)
Government contribution (Note 7)	375,000	770,000	1,125,000	2,890,000	100,001
Net operating profit	431,774	813,154	1,243,872	2,954,859	91,252
Accumulated surplus, beginning of period	3,085,099	2,331,163	2,273,001	189,458	–
Accumulated surplus, end of period	\$ 3,516,873	\$ 3,144,317	\$ 3,516,873	\$ 3,144,317	\$ 91,252

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

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Interim Condensed Statement of Change in Net Financial Assets
(Unaudited)
(Thousands of Canadian Dollars)

	Three months ended		Nine months ended		For the period
	September 30, 2021		September 30, 2021		from
	Budget	Actual	Budget	Actual	incorporation
					on May 11 to
					September
					30, 2020
					Actual
Net operating profit	\$ 431,774	\$ 813,154	\$ 1,243,872	\$ 2,954,859	\$ 91,252
Net Financial Assets, beginning of period	3,085,099	2,331,163	2,273,001	189,458	–
Net Financial Assets, end of period	\$ 3,516,873	\$ 3,144,317	\$ 3,516,873	\$ 3,144,317	\$ 91,252

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

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Interim Condensed Statement of Cash Flow
 Unaudited
 (Thousands of Canadian Dollars)

	Three months ended September 30, 2021	Nine months ended September 30, 2021	For the period from incorporation on May 11 to September 30, 2020
Operating activities:			
Net operating profit (loss)	\$ 813,154	\$ 2,954,859	\$ 91,252
Adjustments for non-cash items:			
Interest income – loans (Note 4)	(45,106)	(70,021)	(89)
Loan interest received in cash (Note 4)	6,986	9,353	–
	775,034	2,894,191	91,163
Change in non-cash working capital:			
Interest receivable	(3,332)	(2,943)	(7)
Due to shareholder	(52)	439	1,670
Trade payables	705	(3,908)	2,891
	(2,679)	(6,412)	4,554
Change in cash provided by operating activities	772,355	2,887,779	95,717
Investing activities:			
Loans issued, net of transaction fees and recoverable expenses	(725,588)	(2,408,521)	(59,500)
Purchase of equity investments (Note 5)	-	(500,000)	–
Change in cash used in investing activities	(725,588)	(2,908,521)	(59,500)
Cash, beginning of period	15,164	82,673	–
Cash, end of period	\$ 61,931	\$ 61,931	\$ 36,217
Represented by:			
Cash	\$ 61,931	\$ 61,931	\$ 36,217

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

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2021

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

1. Reporting entity:

Canada Enterprise Emergency Funding Corporation (“CEEFC”, or the “Corporation”) is a wholly-owned subsidiary of Canada Development Investment Corporation (“CDEV”). CDEV is, in turn, wholly owned by Her Majesty in Right of Canada (the “Government” or the “Government of Canada”). In compliance with a directive (P.C. 2020-305) given by the Governor in Council, CDEV incorporated CEEFC under the *Canada Business Corporations Act* (“CBCA”) on May 11, 2020. The Corporation is subject to the *Financial Administration Act* (“FAA”) but is not subject to provisions of the *Income Tax Act*.

The objective of the Corporation, as established by the directive (P.C. 2020-307) pursuant to section 89 of the FAA, is to administer, approve, and fund transactions in accordance with the terms approved by the Minister of Finance in relation to the Large Employer Emergency Financing Facility program (“LEEFF Program” or the “Financing Program”). The Financing Program is designed to provide bridge financing to Canada’s largest employers, whose needs during the coronavirus (“COVID-19”) pandemic are not being met through conventional financing. Refer to Note 4 for further details of the Financing Program.

In April 2021 the LEEFF program was expanded to provide financial assistance to Canadian Air Carriers. In addition to the unsecured and secured loan facilities, a LEEFF Air Carrier Voucher Facility is made available under the LEEFF program to Canadian Air Carriers to provide refunds to travelers, for travel cancellations owing to the pandemic. Financial support may also include an investment by the Corporation, in common voting shares of the airline. Refer to Note 5 for further details.

2. Significant accounting policies:

These interim condensed financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards (“PSAS”) as issued by the Public Sector Accounting Board. These interim condensed financial statements were prepared using the same accounting policies as described in Note 2 of the Corporation’s 2020 Audited Financial Statements.

As interim condensed financial statements do not include all of the disclosures that would normally be provided in annual financial statements, these interim condensed financial statements should be read in conjunction with the Corporation’s 2020 Audited Financial Statements. Disclosures and information contained in the 2020 Audited Financial Statements apply to this quarter unless otherwise updated herein.

The following new accounting policies have been adopted by the Corporation effective January 1, 2021.

a) Equity investments:

Equity investments includes investment in common shares and warrants in Canadian publicly traded companies.

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2021

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

2. Significant accounting policies (continued):

i) Common shares:

Investment in publicly traded shares are carried at cost unless there is an other than temporary impairment, in which case the investment would be written down to an amount that approximates its net recoverable value, through the Statement of Operations and Accumulated Surplus. Earnings from these investments are recognized only to the extent received or receivable.

ii) Warrants:

Warrants, received as part of the issuance of loans receivable, have a zero or nominal initial net value and are measured at cost, unless there is an other than temporary impairment, in which case the warrants would be written down to the actual value, through the Statement of Operations and Accumulated Surplus.

b) Incremental Cost:

Incremental fees that meet the definition of a transaction cost and are contingent on the issuance of the loan, such as fees to consultants that are involved in the structuring of the loans are included in the effective interest rate (EIR) calculation. As these fees are charged to the borrower and are considered integral to the returns, the recovery too will be included in the EIR calculation. The expenditure and recovery are both considered as offsetting cash flows with no impact to the interest calculated on effective interest rate method (EIRM).

3. Budget included in the Interim Condensed Statement of Operations and Accumulated Surplus:

The original budget that was approved by the Board had been prepared on a cash basis, whereas these interim condensed financial statements are prepared on an accrual basis in compliance with PSAS. Accordingly, for inclusion in the Interim Condensed Statement of Operations and Accumulated Surplus, the budget has been adjusted from a cash basis to an accrual basis under PSAS. As indicated in the following reconciliation, the adjustment required to the budget was to interest income. In the original budget, interest income was computed using the contractual interest rates included in the loan agreements. Under PSAS accrual accounting, interest income must be computed using the effective interest rate methodology ("EIRM"). Refer to Note 2(f) of the 2020 Audited Financial Statements for further details on EIRM.

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2021

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

3. Budget included in the Interim Condensed Statement of Operations and Accumulated Surplus (continued):

	Three months ended September 30, 2021			nine months ended September 30, 2021		
	Approved budget cash basis	Adjustments	Revised budget PSAS-based	Approved budget cash basis	Adjustments	Revised budget PSAS-based
Revenue						
Interest income – loans	\$ 46,125	\$ 16,350	\$ 62,475	\$ 112,125	\$ 23,850	\$135,975
Interest income – bank	–	–	–	–	–	–
Income (loss) from financial instruments at fair value through profit or loss	–	–	–	–	–	–
	46,125	16,350	62,475	112,125	23,850	135,975
Expenses						
Professional fees	4,624	–	4,624	13,872	–	13,872
Management fees	475	–	475	1,425	–	1,425
Salaries and benefits	422	–	422	1,266	–	1,266
Other	180	–	180	540	–	540
	5,701	–	5,701	17,103	–	17,103
Operating profit before government contribution	\$ 40,424	\$ 16,350	\$ 56,774	\$ 95,022	\$ 23,850	\$118,872

4. Loans to borrowers:

The Corporation issues loans under the LEEFF Program as described below.

(a) Original LEEFF Loans:

To qualify for a loan for all non-Airline companies, a borrower must seek financing of \$60,000 or more, have significant operations or workforce in Canada, and not be involved in active insolvency proceedings. The loan is provided by way of two loan facilities: (i) an unsecured loan facility equal to 80% of the aggregate loan, and (ii) a secured loan facility equal to 20% of the aggregate loan. The loan is advanced in tranches over 12 months and interest is charged based on the terms and conditions of the loan agreements with the borrower. The duration of the unsecured loan facility is five years. The secured loan facility matches the terms of the borrower's existing secured debt. At the option of the borrower, the principal amount plus accrued and unpaid interest under the loan facilities may be repaid in whole or in part without penalty at any time. Amounts repaid may not be reborrowed. For two years after issuance of the unsecured loan facility, a borrower may elect to make interest 'payments in kind' ("PIK Interest") by adding the interest to the principal of the loan. PIK Interest added to the principal amount bears interest at the applicable interest rate and is treated as part of the principal balance.

The obligations in respect to the secured loan facility of each borrower is secured by a perfected security interest in tangible and intangible assets of the borrower (i) that are currently unencumbered and are satisfactory to the Corporation in its sole discretion, or (ii) that are subject to security interests in favour of first priority senior secured lenders ("Senior Lenders") of the borrower, which security interest shall rank equally with the security interests in favour of the Senior Lenders.

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2021

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

4. Loans to borrowers (continued):

Interest accrues daily and the annual rate charged on the drawn portion of the unsecured loan facility is 5%, 8%, 10%, 12%, and 14% in years one to five, respectively. Upon any event of default, the applicable interest rate will be increased by 2% per annum. The interest rate charged on the drawn portion of the secured loan facility is the interest rate applicable on the borrower's existing secured loan agreement.

If the borrower is a Canadian publicly traded company (or the private subsidiary of a Canadian publicly traded company), the Corporation receives warrants with the option to purchase the borrower's (or their parent publicly traded company's) common shares with an aggregate exercise price equal to 18.75% of the total commitment amount of the unsecured loan facility. Warrants are vested in proportion to the loans advanced under unsecured loan facility. Vested warrants are exercisable in whole or in part, at any time or times after the date vested and during the 10 year term, provided, the number of warrants, together with all warrants previously exercised, do not exceed more than half of the warrants vested within one year from the closing date. If the loan is repaid within a year, half of all vested warrants will be cancelled. Refer to Note 5(b) for additional details on the warrants received by the Corporation.

Private borrowers that are not Canadian publicly traded companies are charged a non-refundable fee equal to 6.25% of the aggregate principal amount advanced of the unsecured loan facility, payable on the maturity date of the unsecured loan facility. If the loan is not repaid in full within one year of loan issuance, an additional 6.25% fee will be payable on the maturity date of the unsecured loan facility.

On the closing date of the loan, the borrower is required to pay a non-refundable transaction fee of 25 bps of the aggregate commitment amount of the loan to the Corporation. The borrower is also required to reimburse the Corporation for legal and financial advisory expenses incurred by the Corporation related to the borrower's loan.

(b) Large Airline Company Facilities:

To qualify for financial support, airline companies (hereafter known as the "Airline") must meet the following requirements: (i) be incorporated or otherwise formed under the federal laws of Canada or a Canadian provincial or territorial jurisdiction, (ii) have a minimum of \$4,000,000 in 2019 annual revenue, (iii) not be involved in active insolvency proceedings, and (iv) have significant operations or workforce in Canada. The financial support may take the form of secured and unsecured loan facilities, or an equity investment with secured and unsecured loan facilities. In the case of an equity investment, the Corporation's investment in the common voting shares of an Airline cannot exceed 20% of the total principal amount of the secured and unsecured loan facilities.

The loan facilities may be revolving loans or non-revolving term loans and may be divided into one or more tranches. The principal amount of the unsecured loan facility may not exceed 80% of the total principal amount of the secured and unsecured loan facilities. The interest rate on the loan facilities may be fixed or floating and the maturity date of the loan facilities is up to seven years from the closing date. On the closing date of the

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4. Loans to borrowers (continued):

loan, the borrower is required to pay a non-refundable transaction fee of 25 basis points (“bps”) of the aggregate commitment amount of the loan to the Corporation. The borrower is also required to reimburse the Corporation for legal and financial advisory expenses incurred by the Corporation related to the borrower’s loan.

If the airline is a Canadian public company, the Corporation will receive warrants exercisable for common voting shares with an aggregate exercise price equal to 10% of the total principal amount of the secured and unsecured loan facilities. One-half of the warrants will vest on the closing date and the balance will vest in the same proportion and at the same time as advances are made under the unsecured loan facilities. Vested warrants are exercisable, in whole or in part, within the 10 year term.

(c) Airline Voucher Refund Facilities:

To qualify for a loan under the airline voucher refunds program, an airline must meet the following requirements: (i) be incorporated or otherwise formed under the federal laws of Canada or a Canadian provincial or territorial jurisdiction, (ii) have a minimum of \$300,000 in annual pre-COVID-19 revenue, and (iii) not be involved in active insolvency proceedings. The maximum amount that an airline can borrow under this program is \$2,000,000 and the amount borrowed must be in the form of non-revolving term loan. The interest rate on this facility is the Government of Canada seven-year bond rate and the maturity date is up to seven years from the closing date.

The following table provides a breakdown of the loan facilities as at September 30, 2021 and December 31, 2020.

	As at	
	September 30, 2021	December 31, 2020
Number of borrowers	7	2
Total loan commitment		
Unsecured loan facilities	\$ 3,769,400	\$ 256,000
Secured loan facilities	1,823,600	64,000
Airline voucher refund facilities	1,834,746	–
	\$ 7,427,746	\$ 320,000
Total cumulative loan drawdown		
Unsecured loan facilities	\$ 756,784	\$ 88,000
Secured loan facilities	189,188	22,000
Airline voucher refund facilities	1,592,407	–
	\$ 2,538,379	\$ 110,000
Outstanding loan balance¹		
Unsecured loan facilities	\$ 803,826	\$ 89,787
Secured loan facilities	184,713	22,035
Airline voucher refund facilities	1,592,471	–
	\$ 2,581,010	\$ 111,822

¹ including accrued interest based on EIRM, transaction fees, and legal and financial advisory expenses recovered from borrowers

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4. Loans to borrowers (continued):

As at September 30, 2021, the Loans to borrowers balance includes accrued but unpaid interest of \$55,826, \$4,776 and \$64 (December 31, 2020 – \$2,428, \$195, and nil) on the unsecured, secured, and airline voucher refund facilities, respectively.

For the three and nine-month periods ended September 30, 2021, the amount of interest income recognized in the Interim Condensed Statement of Operations and Accumulated Surplus using EIRM were \$45,106 and \$70,021, respectively. Based on the terms of the loan agreements, the amount of interest and fees collected from borrowers in cash during the same periods were \$6,986 and \$9,353, respectively.

The following table shows the loan repayments receivable for each of the next five years and beyond.

2022	\$	24,000
2023		78,146
2024		43,487
2025		307,795
2026		509,618
2027 and beyond		1,592,471
	\$	2,555,517

Repayment of Loans

Subsequent to September 30, 2021, Gateway Casinos & Entertainment Limited ("Gateway") repaid all of its loan obligations to CEEFC on October 22, 2021, and Goodlife Fitness Centres Inc. ("Goodlife") repaid all of its loan obligations to CEEFC on November 01, 2021. The aggregate principal of the secured and unsecured loans repaid, amounted to \$205 million and \$184 million for Gateway Casinos & Entertainment Limited and Goodlife Fitness Centres, respectively. As a result of the early repayments, income recognition in relation to interest and fees on these two loans was accelerated resulting in an additional \$12 million of income in the period ended September 30, 2021.

5. Equity investments:

Equity investments include the following:

a) Publicly traded shares:

On April 12, 2021, the Corporation purchased 21,570,942 Class B Voting Shares of Air Canada at a price of \$23.1793 per share for an aggregate purchase price of \$500,000. As at September 30, 2021, the carrying value of these shares was \$500,000 (December 31, 2020 – nil).

b) Warrants:

As indicated in Note 4, the Corporation receives warrants exercisable for common voting shares of publicly traded companies. The following table summarizes the warrants issued to the Corporation. As at September 30, 2021, the carrying value of the warrants was nil (December 31, 2020 – nil).

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5. Equity investments (continued):

Company	Warrants issued as at September 30, 2021			Warrants vested as at			
	Number of warrants (in 000's)	Exercise price per share (in dollars)	Maturity Date	Number of warrants (in 000's)	Amount	Number of warrants (in 000's)	Amount
Air Canada	14,577	\$27.2698	April 2031	7,288	\$ -	-	\$ -
Air Transat	13,000	4.5000	April 2031	6,667	-	-	-
					\$ -	-	\$ -

One-half of Air Canada warrants will vest on the closing date of April 12, 2021 and the balance will vest in the same proportion and at the same time as advances are made under the unsecured loan facilities.

Warrants issued by Air Transat are vested in proportion to the loans advanced under the unsecured loan facility.

6. Transactions with related parties:

Related parties include the parent entity, CDEV and its subsidiaries, all Government of Canada departments, agencies, and Crown corporations, and key management personnel. Key management personnel are comprised of the directors and executive officers of Corporation that are paid by the Corporation, not including the management fees charged by CDEV to the Corporation.

During the three and nine month periods ended September 30, 2021, CDEV provided management services to the Corporation related to executive, administrative, banking, financial, and support services, in respect of which it billed an amount of \$170 and \$509, respectively including Harmonized Sales Tax ("HST") and is reported as Management fees on the Interim Condensed Statement of Operations and Accumulated Surplus.

The Corporation also agreed to reimburse CDEV, for certain expenses CDEV incurred on behalf of the Corporation including (i) professional and advisory fees and expenses, (ii) salaries and employee benefits, (iii) director fees and expenses, and (iv) insurance and other expenses that may be agreed upon by the parties from time to time. The following table summarizes these expenses.

	Three months ended September 30, 2021	Nine months ended September 30, 2021	For the period from incorporation on May 11 to September 30, 2020
Professional fees	\$ 11	\$ 64	\$ 964
Salaries and benefits, including director fees and expenses	55	225	161
Other expenses	18	18	70
	\$ 84	\$ 307	\$ 1,195

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7. Accumulated surplus:

Accumulated surplus consists of the Operating profit (loss) before government contribution plus the government contribution as described in Note 2(e) of the 2020 Audited Financial Statements. The following are additional details about the Corporation's government contribution.

a) Common shares:

The Corporation is authorized to issue an unlimited number of common shares. Holders of these shares are entitled to dividends, as and when declared from time to time, and are entitled to one vote per share at general meetings of the Corporation. No dividends were declared during the three or nine month periods ended September 30, 2021.

As at September 30, 2021, the Corporation issued 1 authorized and fully paid common share (December 31, 2020 – 1) at a price of \$1 (December 31, 2020 – \$1) to CDEV.

b) Preference shares:

On June 18, 2020, a Funding Agreement was entered into between CEEFC and the Minister of Finance representing the Government of Canada regarding the funding of CEEFC, pursuant to paragraphs 60.2(2)(a)(i) and 60.2(2)(a)(iii) of the FAA. The funding is by way of subscription for Class A Preference Shares ("Preference Shares") of the Corporation on the terms set forth in the Funding Agreement to provide funding to CEEFC for the administration and implementation of the LEEFF Program.

The holders of the Preference Shares are not entitled to vote at any meeting of the shareholders of the Corporation, except where the holders of another class or series of shares of the Corporation are entitled to vote separately as a class or series.

The holders of the Preference Shares, in priority to the holders of the common shares and any other shares ranking junior to the Preference Shares, are entitled to receive preferential dividends as and when they are declared by the Board of Directors. If, in any fiscal year, the Board of Directors has not declared any dividends on the Preference Shares, then the holders of such shares shall have no right to any such dividend for that year.

Subject to the CBCA, the Corporation may, upon giving at least 30 days' notice, redeem all or any part of the outstanding Preference Shares at a price of \$1 per Preference Share, together with all declared but unpaid dividends.

The aggregate proceeds from preference shares issued to the Government are included as an addition to the 'Government contribution' line on the Interim Condensed Statement of Operations and Accumulated Surplus. When these shares are redeemed by the Corporation, the aggregate redemption amount will be a deduction against this line item.

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7. Accumulated surplus (continued):

Changes to the Preference Shares issued and outstanding is summarized below.

	2021				2020	
	Three months ended September 30		Nine months ended September 30		For the period from Incorporation on May 11 to September 30	
	Number of shares (in 000's)	Amount	Number of shares (in 000's)	Amount	Number of shares (in 000's)	Amount
Balance, beginning of period	2,320	\$ 2,320,000	200	\$ 200,000	—	\$ —
Shares issued	770	770,000	2,890	2,890,000	100	100,000
Balance, end of period	3,090	\$ 3,090,000	3,090	\$ 3,090,000	100	\$ 100,000

8. Financial risk management:

The nature of the Corporation's operations exposes the Corporation to risks that may have a material effect on cash flows, statement of operations, and accumulated surplus. This note provides information about the Corporation's exposure to each of these risks as well as the Corporation's objectives, policies, and processes for measuring and managing them.

(a) Credit risk:

Credit risk is the risk of financial loss to the Corporation if counterparties do not fulfill their contractual obligations. The carrying amount of Loans to borrowers represents the Corporation's maximum credit exposure. The Corporation attempts to mitigate this risk by requiring collateralization for its secured loan facilities.

The Corporation's unsecured loan facilities have been made to borrowers with limited borrowing alternatives that are facing challenging financial circumstances. The Corporation issues these loans based on compliance with terms provided to the Corporation by the Minister of Finance. The Corporation does not undertake a full credit assessment of the borrower, nor does it lend money based on the borrower's ability to repay the loan. Instead, the Corporation issues these loans based on a number of other criteria, including the borrower's agreement to make efforts to minimize the loss of employment and to sustain its domestic business activities, as well as the borrower's ability to demonstrate a plan to return to financial stability. The Corporation's credit risk is therefore considered very high, and loans are monitored for indicators of impairment.

As at September 30, 2021, there were no loan balances which are past due or considered impaired (December 31, 2020 – nil). Therefore, no allowance for loan losses has been recorded on the interim condensed financial statements.

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8. Financial risk management (continued):

(b) Market risk:

Market risk is the risk of financial loss from adverse movements in market prices including interest rates, credit spreads, equity prices, foreign exchange rates, and commodity prices.

The change in equity prices will affect the value of common shares and warrants held by the corporation. Changes in market price of shares and warrants will impact the "fair value" of these instruments but not their carrying value. As the shares and warrants are carried at cost, there is no impact, unless there is an, other than temporary impairment.

(c) COVID-19:

In March 2020, the World Health Organization declared a global pandemic following the outbreak of COVID-19. The spread of COVID-19 has resulted in a significant increase in economic uncertainty, and information on the global economic impacts of COVID-19 as well as the duration of the pandemic continues to evolve.

As at September 30, 2021, the COVID-19 pandemic continues to present challenges to the Corporation's operations and business environment, whilst it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and conditions of the Corporation the last several months have shown improvement in market conditions enabling many businesses to obtain credit.

9. Commitments:

As at September 30, 2021, the Corporation had loan commitments of \$7,427,746 (December 31, 2020 – \$320,000), less the amount drawn of \$2,538,379 (December 31, 2020 – \$110,000), the terms of which are as discussed in Note 4.

10. Contingencies:

Recovery of professional fees:

During the normal course of operations, the Corporation engages legal and financial advisors in the provision of services relating to potential loans. Such professional fees are recoverable from borrowers upon the signing of a loan agreement. These expenses are included as professional fees on the Interim Condensed Statement of Operations and Accumulated Surplus as incurred. As at September 30, 2021, it is estimated that up to \$90 of these expenses are recoverable if loan agreements are signed.

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11. Subsequent Events:

(a) Repayment of Unsecured and Secured Loans:

On October 22, 2021, Gateway Casinos & Entertainment Limited repaid all of its loan obligations to CEEFC. The total repayment amount was \$226,644 which comprised of the aggregate unsecured and secured loan principal balance, accrued interest and fees.

On November 01, 2021, Goodlife Fitness Centres Inc, repaid all of its loan obligations to CEEFC. The total repayment amount was \$193,782 which comprised of the aggregate unsecured and secured loan principal balance, accrued interest and fees.