

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

A WHOLLY-OWNED SUBSIDIARY OF CANADA DEVELOPMENT INVESTMENT CORPORATION,  
A FEDERAL CROWN CORPORATION.

## Annual Report 2021

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## Corporate Address

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**CANADA ENTERPRISE EMERGENCY  
FUNDING CORPORATION**

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**Telephone:** (416) 966-2221  
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# Directors and Officers as at March 7, 2022

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## BOARD OF DIRECTORS

**Sandra Rosch, ICD.D**

Chair of CEEFC  
Executive Vice President and Director  
Labrador Iron Ore Royalty Corporation  
Toronto, Ontario

**Nathalie Bernier, FCPA, FCA**

Director  
Montreal, Quebec

**Michael Carter**

Director  
Toronto, Ontario

**Barry Pollock**

Director  
Toronto, Ontario

**Jim McArdle**

Director  
Ottawa, Ontario

**Jennifer Reynolds, ICD.D**

CEO  
Women Corporate Directors Foundation  
Toronto, Ontario

**Zoltan Ambrus**

President and Chief Executive Officer  
of CEEFC and Vice President of CDEV  
Toronto, Ontario

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## OFFICERS

**Zoltan Ambrus**

President and Chief Executive Officer

**Noreen E. Flaherty, BA, LLB**

Legal Counsel and Corporate Secretary

**Al Hamdani, CFA**

Vice President

**Andrew StafI, CPA, CA**

Vice President, Finance

# Mandate and Corporate Governance Practices

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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.

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## **FINANCIAL SUPPORT TO THE CANADIAN AIRLINE INDUSTRY**

### **LOANS AND EQUITY INVESTMENTS**

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

### **CEEFC RESPONSIBILITIES AND GOVERNANCE PRACTICES**

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.

As part of the Government of Canada's strategy to combat climate change, CEEFC is in the process of developing its own reporting for climate-related financial risks starting for calendar year 2022 using the standards of the Task Force on Climate-related Financial Disclosures.

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

The public communications of CEEFC, including this Annual 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 owns 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.

CEEFC 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 the Corporation is now monitoring and managing these funded loans.

### Loans issued

Borrower	Agreement Signed	As at December 31, 2021	
		Total Loan Commitment	Amount funded
Conuma Resources Ltd.	Oct. 2020	120 million	120.0 million
Sunwing Vacations Inc.	Jan. 2021	348 million	227.1 million
Transat A.T. Inc.	Apr. 2021	390 million	220.0 million
Porter Aircraft Leasing Corp.	Jun. 2021	250 million	60.0 million
		\$ 1,108 million	\$ 627.1 million

### Voucher refund loans issued

Borrower	Agreement Signed	As at December 31, 2021	
		Total Loan Commitment	Amount funded
Air Canada	Apr. 2021	1,273.3 million	1,273.3 million
Transat A.T. Inc.	Apr. 2021	310.0 million	310.0 million
Porter Aircraft Leasing Corp.	Jun. 2021	20.5 million	9.5 million
Sunwing Vacations Inc.	Jun. 2021	100.3 million	98.1 million
		\$ 1,704.1 million	\$ 1,690.9 million

### Loans Repaid

In 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 million and \$194 million respectively.

### Loan Facilities Cancelled

On November 19, 2021 Air Canada cancelled its secured and unsecured loan facilities of \$4 billion. The loan facilities were never drawn upon.

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## Warrants

Due to the cancellation of the loan facilities by Air Canada on November 19, 2021 the 7.3 million unvested warrants were automatically cancelled. Subsequent to December 31, 2021, Air Canada repurchased the 7.3 million vested warrants for negotiated proceeds of \$82 million.

## 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. All of CEEFC's airline borrowers have been severely impacted by domestic and international travel restrictions and other economic impacts from COVID-19 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. LEEFF borrowers are required to produce an annual climate-related financial disclosure report which follows the recommendations of the Financial Stability Board's Taskforce on Climate-Related Financial Disclosures. Reports are required to be produced in June of each year, with the first set of reports produced in June 2021.

## 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 CEEFC's 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 are subject to fluctuations in value due to performance in the overall stock market, risks of the airline industry and the corporate performance of each 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.

## Financial Statements for the year ended December 31, 2021

The financial statements for the year ended December 31, 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.

Total revenue, excluding the Government contribution for the year ended December 31, 2021, was \$106 million compared to \$3 million for the period ended December 31, 2020. The revenue primarily consisted of the interest earned on the funded loans to its borrowers, including the amortization of certain loan and transaction fees over the expected life of the loans. As a result of the termination of the Air Canada secured and unsecured loan facilities, professional fees and transaction costs amounting to \$11 million was recognized in income in the year ended December 31, 2021. The two loan repayments in 2021 increased revenue by \$12 million due to the earlier recognition of fees and transaction costs. The revenue in 2020 was significantly low as it primarily consisted of interest and amortization of loan and transaction fees earned on the funded loans of two borrowers. The budgeted revenue for 2021 of \$216 million is higher than the actual revenue of \$106 million due to a higher budgeted level of loans.

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. The expenses primarily consisted of financial and legal advisory fees in connection with financial and legal due diligence on loan applications. Total expenses for the year ended December 31, 2021, were \$6 million compared to \$14 million for the period ended December 31, 2020. The decrease in expenses is mainly due to the decrease in professional fees of \$7 million. In 2020 the professional fees incurred were high, mainly due to the services provided by legal and financial advisers for the development and implementation of the LEEFF program. Certain contingent professional fees incurred are recovered in the same period from the borrower. During the year ended December 31, 2021, \$9 million in contingent incremental expenses were recovered from borrowers. The variance between the actual \$6 million versus the budgeted expenses \$23 million is due to fewer actual loan applications than budgeted. No provision for credit loss was incurred in the period as no loans were impaired as at December 31, 2021.

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The Government contribution for the year ended December 31, 2021, was \$2,890 million compared to \$200 million for the period ended December 31, 2020 and represents the preference shares issued to the Government of Canada.

Cash and cash equivalents as at December 31, 2021, totaled \$333 million compared to \$83 million in the prior period. Cash increased, raised through the issuance of \$2,890 million in preference shares to the Government of Canada, the repayment of \$380 million in loans offset by the funding of \$2.6 billion in loans and \$500 million in equity investments. See also the Statement of Cash Flow for the period ended December 31, 2021.

Loans to borrowers as at December 31, 2021, totaled \$2,348 million compared to \$112 million in the prior period. The increase is due to the funding of loans to five new borrowers of \$2,378 million, additional funding to two existing borrowers of \$210 million, offset by repayments of \$380 million in loans, net of adjustments for accrued interest computed based on the effective interest rate methodology, interest payments received in cash and the adjustments resulting from the early repayment of loans. For up-to-date details on loans issued, please refer to the CEEFC website ([www.ceefc-cfuec.ca](http://www.ceefc-cfuec.ca)).

The common shares in Air Canada are recorded at cost of \$500 million. The Air Canada and Air Transat warrants are recorded at cost which is nil under the PSAS accounting framework.

No dividends were paid to the common or preference shareholders during 2021.

### **New accounting standards**

Commencing January 1, 2022, CEEFC will be early adopting the following new standards, that are required to be effective on or after April 1, 2022.

PS 1201 – Financial Statement Presentation replaces PS 1200 – Financial Statement Presentation

Changes in the values of financial assets and financial liabilities arising from their remeasurement will be reported in the new Statement of Remeasurement of Gains and Losses.

PS 3450 – Financial instruments

Under the new standard, warrants and common shares which are currently being measured at cost, would initially and subsequently be recorded at fair value. Embedded derivatives that require separation will also initially and subsequently be measured at fair value. The changes in value for each period of these three items will be recorded in the Statement of Remeasurement Gains and Losses. When the fair value change is realized, the realized gain or loss is recognized in the Statement of Operations and Accumulated Surplus and removed from the Statement of Remeasurement Gains and Losses. Loans to borrowers will continue to be accounted for under the EIR method wherein interest income is recognized at the effective interest rate. The actual computation of the loan value and revenue would change due to the separate consideration of warrants, equity shares and the embedded derivatives which may be deducted from the loan amount. Accordingly, the existence of such instruments within the loan may affect the EIR and interest income recognized.



# Management Responsibility for Financial Statements

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The accompanying 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 March 7, 2022. The 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. An internal audit was conducted during the year ended December 31, 2021.

As President and Chief Executive Officer and Vice President, Finance of CEEFC, we have reviewed the Corporation’s 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 December 31, 2021, and its financial performance and cash flows for the year ended December 31, 2021.



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



**Andrew Staf, CPA, CA**  
Vice President, Finance  
CEEFC

March 7, 2022



## INDEPENDENT AUDITORS' REPORT

To the Minister of Finance

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Canada Enterprise Emergency Funding Corporation (the Corporation), which comprise the statement of financial position as at 31 December 2021, and the statement of operations and accumulated surplus, statement of change in net financial assets and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 December 2021, and the results of its operations, changes in its net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

#### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

#### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## **Report on Compliance with Specified Authorities**

### *Opinion*

In conjunction with the audit of the financial statements, we have audited transactions of Canada Enterprise Emergency Funding Corporation coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Canada Business Corporations Act*, the articles and by-laws of Canada Enterprise Emergency Funding Corporation, and the directive issued pursuant to section 89 of the *Financial Administration Act*.

In our opinion, the transactions of Canada Enterprise Emergency Funding Corporation that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in Canadian public sector accounting standards have been applied on a basis consistent with that of the preceding year.

### *Responsibilities of Management for Compliance with Specified Authorities*

Management is responsible for Canada Enterprise Emergency Funding Corporation's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable Canada Enterprise Emergency Funding Corporation to comply with the specified authorities.

*Auditors' Responsibilities for the Audit of Compliance with Specified Authorities*

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.

Yours sincerely,



Marise Bédard, CPA, CA  
Principal  
for the Auditor General of Canada

Ottawa, Canada  
7 March 2022



Chartered Professional Accountants,  
Licensed Public Accountants

# Statement of Financial Position

(Thousands of Canadian Dollars)

	December 31, 2021	December 31, 2020
<b>Financial Assets</b>		
Cash and cash equivalents (Note 5)	\$ 332,928	\$ 82,673
Interest and other receivables	67	389
Loans to borrowers (Note 6)	2,348,236	111,822
Equity investments (Note 7)	500,000	–
Due from shareholder (Note 8)	–	187
	<b>3,181,231</b>	<b>195,071</b>
<b>Financial Liabilities</b>		
Trade payables	1,812	5,613
Due to shareholder (Note 8)	257	–
	<b>2,069</b>	<b>5,613</b>
<b>Net Financial Assets and Accumulated Surplus (Note 9)</b>	<b>\$ 3,179,162</b>	<b>\$ 189,458</b>

Commitments (Note 11)

Subsequent Events (Note 12)

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

On behalf of the Board:  Director  Director

# Statement of Operations and Accumulated Surplus

(Thousands of Canadian Dollars)

		Year ended December 31, 2021	For the period from incorporation on May 11 to December 31, 2020
	Budget Note 4	Actual	Actual
<b>Revenue</b>			
Interest income – loans	\$ 215,600	\$ 105,304	\$ 3,156
Interest income – bank	–	266	49
	215,600	105,570	3,205
<b>Expenses</b>			
Professional fees	18,496	4,737	12,464
Management fees (Note 8)	1,900	678	535
Salaries and benefits	1,687	283	375
Other	720	168	374
	22,803	5,866	13,748
<b>Annual surplus (deficit) before government contribution</b>	192,797	99,704	(10,543)
<b>Government contribution (Notes 2(e), 9)</b>	2,700,000	2,890,000	200,001
<b>Annual Surplus</b>	2,892,797	2,989,704	189,458
Accumulated surplus, beginning of period	1,042,670	189,458	–
<b>Accumulated surplus, end of period</b>	\$ 3,935,467	\$ 3,179,162	\$ 189,458

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

# Statement of Change in Net Financial Assets

(Thousands of Canadian Dollars)

		<b>Year ended</b> <b>December 31, 2021</b>	For the period from incorporation on May 11 to December 31, 2020
	Budget Note 4	<b>Actual</b>	Actual
Annual Surplus	\$ 2,892,797	<b>\$ 2,989,704</b>	\$ 189,458
Net Financial Assets, beginning of period	1,042,670	<b>189,458</b>	—
<b>Net Financial Assets, end of period</b>	<b>\$ 3,935,467</b>	<b>\$ 3,179,162</b>	<b>\$ 189,458</b>

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



# Statement of Cash Flow

(Thousands of Canadian Dollars)

	Year ended December 31, 2021	For the period from incorporation on May 11 to December 31, 2020
<b>Operating activities:</b>		
Annual Surplus	\$ 2,989,704	\$ 189,458
Adjustments for non-cash items:		
Interest income – loans (Notes 2(f), 6)	(105,304)	(3,156)
Loan interest and fees received in cash (Notes 2(f), 6)	57,015	145
	<b>2,941,415</b>	<b>186,447</b>
Change in non-cash working capital:		
Interest and other receivables	322	–
Due to (from) shareholder	444	(187)
Trade payables	(3,801)	5,613
	<b>(3,035)</b>	<b>5,426</b>
Change in cash provided by operating activities	<b>2,938,380</b>	<b>191,873</b>
<b>Investing activities:</b>		
Loans issued, net of transaction fees and recoverable expenses	<b>(2,568,225)</b>	<b>(109,200)</b>
Loan repayments	380,100	–
Purchase of equity investments (Note 7)	(500,000)	–
Change in cash used in investing activities	<b>(2,688,125)</b>	<b>(109,200)</b>
Cash and cash equivalents, beginning of period	82,673	–
<b>Cash and cash equivalents, end of period</b>	<b>\$ 332,928</b>	<b>\$ 82,673</b>

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

# Notes to the Financial Statements

Year ended December 31, 2021

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

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## 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 a non-agent Crown Corporation and is subject to the *Financial Administration Act* (“FAA”) but is not subject to provisions of the *Income Tax Act*. Whilst CEEFC is a wholly-owned subsidiary of CDEV, CEEFC has not been consolidated within CDEV as CDEV is not deemed to have control over CEEFC.

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 6 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 6 for further details.

## 2. SIGNIFICANT ACCOUNTING POLICIES:

These financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards (“PSAS”) as issued by the Public Sector Accounting Board.

### a) Cash and cash equivalents:

Cash and cash equivalents include funds deposited in bank accounts and highly liquid short-term investments at Canadian financial institutions that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. Cash and cash equivalents are recorded at cost.

### b) Loans to borrowers:

Loans to borrowers include loans advanced under the LEEFF program and are recorded initially at cost, which is the cash or value of other assets given up, or liabilities assumed, and subsequently measured at amortized cost less valuation allowances and write-offs.

Under terms of the LEEFF program, if the Corporation provides unsecured loans to Canadian public companies or private subsidiaries of Canadian public companies, it will receive warrants, exercisable for common shares of the borrower. Borrowers without publicly-traded shares are required to provide the Corporation with compensation in the form of additional fees based on the amount of the unsecured loan that are payable at the repayment or maturity of the unsecured loan.

Transaction fees are included as part of the initial carrying value of the loan. Transaction fees and loan fees are included in the carrying value of the loan based on the effective interest rate method (“EIRM”). Professional fees incurred relevant to a loan are recovered directly from the borrower upon the issuance of the loan but recognized in income through EIRM.

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 EIRM.

Loans to borrowers are measured and presented based on PSAS section 3050.

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**c) Impairment of financial assets:**

At each reporting date, the Corporation assesses all financial assets or groups of financial assets to determine whether there is any objective evidence of impairment. Where there is evidence of impairment, a valuation allowance is recorded to reduce the loans and other receivables to their expected net recoverable value. The valuation allowance reflects the risk of loss based on past events, current circumstances, and all available information at the date of the preparation of the financial statements. Losses as a result of a valuation allowance are recorded in the Statement of Operations and Accumulated Surplus.

**d) Derivative instruments:**

Warrants, received as part of loans to Canadian public company borrowers or their private subsidiaries, are derivative financial instruments since they have a zero or small initial net investment, their value changes in response to the price of the underlying equity securities, and they will be settled at a future date.

**e) Government contribution:**

Government contribution represents the common share issued to CDEV and the preference shares issued to the Government of Canada. Both the common and preference shares are recorded at cost based on the proceeds received at the time the shares were issued. For further details, see Note 9.

**f) Revenue recognition:**

Interest revenue on loans to borrowers is recognized on an accrual basis and reported as revenue in the period earned. Interest revenue ceases to be accrued when the collectability of either principal or interest is not reasonably assured. Interest income is recognized in the Statement of Operations and Accumulated Surplus in the period it is earned using EIRM, whereby estimated future cash payments or receipts over the expected life of the loan are discounted using the effective interest rate and added to the gross carrying amount of the loan. The effective interest rate is determined based on the Corporation's estimates of future cash flows considering all contractual terms of the loan, but not expected credit losses. The calculation of the effective interest rate also includes any transaction costs not directly recovered from the borrower and transaction and loan fees received or receivable that are an integral part of the effective interest rate. Any interest that is paid in kind by the borrower is added to the carrying amount and principal of the loan.

**g) Foreign currency transactions:**

Transactions in foreign currencies are translated to Canadian dollars at the exchange rate in existence at the date of the transaction and included in the Statement of Operations and Accumulated Surplus. Monetary assets and liabilities denominated in foreign currencies are translated using exchange rates prevailing at the end of each reporting period. Foreign exchange gains or losses are recognized as Other expenses on the Statement of Operations and Accumulated Surplus.

**h) Measurement uncertainty:**

The timely preparation of the financial statements requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates.

In the process of applying its accounting policies, management has made certain assumptions related to the amount and timing of when borrowers would request additional advances on their unused loan commitment facilities and the borrowers ability to meet their loan repayment obligations based on their projected cash flow and financial projection.

## Notes to the Financial Statements (continued)

Year ended December 31, 2021

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

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### **i) Equity investments:**

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

#### **ij) 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.

#### **ij) 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 net recoverable value, through the Statement of Operations and Accumulated Surplus.

### **3. ADOPTION OF NEW ACCOUNTING STANDARDS:**

The following are upcoming standards and amendments that are effective for fiscal years beginning on or after April 1, 2022, which CEEFC has decided to early adopt beginning on January 1, 2022 and must be implemented concurrently. These new standards have not been applied to the 2021 Financial Statements. Management continues to assess the impact on its financial statements of the following upcoming changes to PSAS.

#### *PS 1201 – Financial Statement Presentation replaces PS1200 – Financial Statement Presentation*

This standard establishes general reporting principles and standards for the disclosure of information in the financial statements of the Corporation. The Standard introduces the Statement of Remeasurement Gains and Losses separate from the Statement of Operations and Accumulated Surplus. The new statement reports the changes in the values of financial assets and financial liabilities arising from their remeasurement at current exchange rates and/or fair value.

#### *PS 3450 – Financial instruments*

This standard establishes accounting and reporting requirements for all types of financial instruments including derivatives. The standard requires fair value measurement for derivatives and portfolio investments in equity instruments that are quoted in an active market. All other financial instruments can be elected to be measured at cost, amortized cost or fair value. Unrealized gains and losses arising from changes in fair value are presented in the new Statement of Remeasurement Gains and Losses. In particular, the standard is expected to have an impact on the following instruments:

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a) Warrants - PS 3450 requires warrants to be initially and subsequently recorded at fair value. Changes in the fair value of warrants (unrealized gain or loss) each period are recognized in the Statement of Remeasurement Gains and Losses. When the change in the fair value is realized on the sale or execution of the warrants, the realized gain or loss is recognized in the Statement of Operations and Accumulated Surplus.

b) Embedded derivatives – Under PS 3450, CEEFC would be required to conduct an assessment to determine whether embedded derivatives within existing and future loans would require separation from the host loan and measurement thereafter as a standalone derivative instrument. Under the standard, an embedded derivative is required to be separated if it is not clearly and closely related to the host instrument. Embedded derivatives that require separation will, initially and subsequently, be measured at fair value with changes in the fair value each period (unrealized gain or loss) being recorded in the Statement of Remeasurement Gains and Losses. When the change in the fair value is realized on the execution of the derivatives, the realized gain or loss is recognized in the Statement of Operations and Accumulated Surplus. CEEFC has identified two embedded derivatives within its loans; (a) prepayment options (b) foreign exchange derivatives.

c) Equity shares - Under PS 3450, any equity shares acquired as part of the loans provided to Borrowers, would be subject to measurement at fair value. Where the shares have been subscribed to at below fair value, the difference between the fair value of the shares and the subscription price would be included in the carrying value of the loan and accounted for under the EIRM. Changes in the fair value of acquired shares each period would be recorded in the Statement of Remeasurement Gains and Losses. When the change in the fair value is realized on the sale of the acquired shares, the realized gain or loss is recognized in the Statement of Operations and Accumulated Surplus.

d) Loans – Under PS 3450, loans provided to Borrowers will continue to be accounted for under the EIR method wherein interest income is recognized at the effective interest rate. However, the application of the EIR method requires consideration of the financial instruments listed in (a), (b) and (c) above and accordingly the existence of such instrument within the loan to Borrowers may affect the EIR and interest income recognized. Management is currently assessing the impact of the aforementioned instruments on the EIRM in its consolidated financial statements.

## Notes to the Financial Statements (continued)

Year ended December 31, 2021

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

### 4. BUDGET:

The original budget that was approved by the Board had been prepared on a cash basis, whereas these financial statements are prepared on an accrual basis in compliance with PSAS. Accordingly, for inclusion in the Statement of Operations and Accumulated Surplus and Statement of Change in Net Financial Assets, 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 EIRM. Refer to Note 2(f) for further details on EIRM.

	Year ended December 31, 2021		
	Approved budget cash basis	Adjustments	PSAS-based
<b>Revenue</b>			
Interest income – loans	\$ 167,000	\$ 48,600	\$ 215,600
	167,000	48,600	215,600
<b>Expenses</b>			
Professional fees	18,496	–	18,496
Management fees	1,900	–	1,900
Salaries and benefits	1,687	–	1,687
Other	720	–	720
	22,803	–	22,803
<b>Annual surplus before government contribution</b>	<b>\$ 144,197</b>	<b>\$ 48,600</b>	<b>\$ 192,797</b>

### 5. CASH AND CASH EQUIVALENTS:

Cash comprise of bank balances and short-term investments comprise of banker's acceptances that are highly liquid.

The following table provides the cash balances as at December 31, 2021 and December 31, 2020.

	As at	
	December 31, 2021	December 31, 2020
Bank balances	\$ 182,954	\$ 82,673
Cash equivalents <sup>1</sup>	149,974	–
<b>Cash and cash equivalents</b>	<b>\$ 332,928</b>	<b>\$ 82,673</b>

<sup>1</sup> Banker's acceptance to mature in less than 30 days.

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## 6. 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.

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 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 7(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.

## Notes to the Financial Statements (continued)

Year ended December 31, 2021

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

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### 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 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 December 31, 2021 and December 31, 2020.

	As at	
	December 31, 2021	December 31, 2020
<b>Number of borrowers</b>	<b>5</b>	<b>2</b>
<b>Total loan commitment</b>		
Unsecured loan facilities	\$ 886,400	\$ 256,000
Secured loan facilities	221,600	64,000
Airline voucher refund facilities	1,704,051	–
	\$ 2,812,051	\$ 320,000
<b>Total cumulative loan drawdown</b>		
Unsecured loan facilities	\$ 501,690	\$ 88,000
Secured loan facilities	125,423	22,000
Airline voucher refund facilities	1,690,870	–
	\$ 2,317,983	\$ 110,000
<b>Outstanding loan balance<sup>1</sup></b>		
Unsecured loan facilities	\$ 532,667	\$ 89,787
Secured loan facilities	124,384	22,035
Airline voucher refund facilities	1,691,185	–
	\$ 2,348,236	\$ 111,822

<sup>1</sup>including accrued interest based on EIRM, transaction fees, and legal and financial advisory expenses recovered from borrowers.

As at December 31, 2021, the Loans to borrowers balance includes accrued but unpaid interest of \$43,480, \$4,721 and \$315 (December 31, 2020 – \$2,428, \$195, and nil) on the unsecured, secured, and airline voucher refund facilities, respectively.

For the year ended December 31, 2021, the amount of interest income recognized in the Statement of Operations and Accumulated Surplus using EIR was \$105,304. Based on the terms of the loan agreements, the amount of interest and fees collected from borrowers in cash during the same period was \$57,015.

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

2022	\$ 24,000
2023	46,134
2024	51,734
2025	104,514
2026	415,006
2027 and beyond	1,691,185
	\$ 2,332,573

## Notes to the Financial Statements (continued)

Year ended December 31, 2021

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

### d) Repayment of loans and cancellation of facilities:

On October 22, 2021 and November 1, 2021 Gateway Casinos & Entertainment Limited ("Gateway") and Goodlife Fitness Centres Inc. ("Goodlife") repaid all of their loan obligations to CEEFC. The aggregate principal of the secured and unsecured loans repaid, amounted to \$205 million for Gateway Casinos & Entertainment Limited and \$184 million for Goodlife Fitness Centres.

On November 19, 2021, Air Canada terminated the \$4 billion undrawn secured and unsecured LEEFF loan facilities with CEEFC. As a result of the termination of the facilities, \$11 million professional fees and transaction cost that were amortized over the life of the secured and unsecured loan facilities were recognized in income in the period ended December 31, 2021.

## 7. 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 in actual dollars for an aggregate purchase price of \$500,000. As at December 31, 2021, the carrying value of these shares was \$500,000 (December 31, 2020 – nil). The market value of these shares was \$455,794 as at December 31, 2021.

### b) Warrants:

As indicated in Note 6, if the borrower is a public company instead of a loan fee the Corporation receives warrants exercisable for common voting shares. The following table summarizes the warrants issued to the Corporation. As at December 31, 2021, the carrying value of the warrants was nil (December 31, 2020 – nil).

Company	Warrants issued as at December 31, 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)	December 31, 2021 Amount	December 31, 2020 Number of warrants (in 000's)	December 31, 2020 Amount
Air Canada	7,289	\$ 27.2698	April 2031	7,289	\$ –	–	\$ –
Air Transat	13,000	4.5000	April 2031	7,333	–	–	–
					\$ –	–	\$ –

On April 12, 2021 Air Canada issued 14.6 million Air Canada warrants to CEEFC. One-half of Air Canada warrants vested on the closing date of April 12, 2021 with the balance to vest in the same proportion and at the same time as advances are made under the unsecured loan facility. Due to the termination of the unused secured and unsecured loan facilities by Air Canada on November 19, 2021, all unvested Air Canada warrants of 7.3 million were automatically cancelled.

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

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## 8. 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.

CDEV provides management services to the Corporation related to executives, administration, banking, financial, and support services. During the year ended December 31, 2021 and for the period from incorporation on May 11 to December 31, 2020, the amounts paid amounted to \$678 and \$535 respectively. These amounts are reported as Management fees on the 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.

	Year ended December 31, 2021	For the period from incorporation on May 11 to December 31, 2020
Professional fees	\$ 91	\$ 1,942
Salaries and benefits, including director fees and expenses	283	375
Other expenses	19	115
	\$ 393	\$ 2,432

## 9. ACCUMULATED SURPLUS:

Accumulated surplus consists of the accumulated surplus at the beginning of the period plus annual surplus (deficit) before government contribution plus the government contribution. 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 year ended December 31, 2021 (December 31, 2020 – nil).

As at December 31, 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.

## Notes to the Financial Statements (continued)

Year ended December 31, 2021

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

### 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 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.

Changes to the preference shares issued and outstanding is summarized below.

	Year ended December 31, 2021		For the period from Incorporation on May 11 to December 31, 2020	
	Number of shares (in 000's)	Amount	Number of shares (in 000's)	Amount
Balance, beginning of period	200	\$ 200,000	–	\$ –
Shares issued	2,890	2,890,000	200	200,000
Balance, end of period	3,090	\$ 3,090,000	200	\$ 200,000

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## 10. 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. Collateralization is the security package provided to a counterparty's secured lenders alongside which the Corporation's secured facility is provided.

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 December 31, 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 financial statements.

### 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.

CEEFC's secured loans are based on floating reference rates plus an applicable margin as determined by a borrower's existing secured lenders. Applicable margins are predetermined at the time of loan origination however fluctuations in interest rates which impact floating reference rates will impact CEEFC's interest income. CEEFC's unsecured loans are based on fixed interest rates and therefore not exposed to fluctuations.

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.

Changes in commodity prices will impact the credit risk of certain CEEFC borrowers which operate in the commodities sector, however CEEFC's operations do not have any exposure to commodity prices.

CEEFC has no exposure to foreign exchange risk since its loans and revenues are denominated in Canadian dollars.

## Notes to the Financial Statements (continued)

Year ended December 31, 2021

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

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### c) Liquidity risk:

Liquidity risk is the risk of having insufficient cash or collateral to meet financial obligations in a timely and cost-effective manner. Liquidity risk arises from mismatched cash flows related to assets and liabilities and due to the inability to sell marketable securities in a timely and cost-effective manner.

CEEFC manages its liquidity by issuing preference shares to the Government of Canada as required in accordance with the funding agreement to provide funding for the administration and implementation of the LEEFF program. CEEFC also holds cash and cash equivalents to fund its operations.

### d) 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 December 31, 2021, the COVID-19 and the variants continues to present challenges to the Corporation's operations and business environment. 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. To mitigate the operational risk CEEFC has been diligently following the guidance provided by the government and the health authorities to ensure all safety precautions have been adhered to. The COVID-19 and its variants also present challenges for CEEFC's borrowers and CEEFC's overall credit risk exposure which are carefully monitored to ensure that the overall exposure to these credit risks are considered in CEEFC's loan monitoring procedures and overall planning.

## 11. COMMITMENTS:

As at December 31, 2021, the Corporation had loan commitments of \$2,812,051 (December 31, 2020 – \$320,000), less the amount drawn of \$2,317,983 (December 31, 2020 – \$110,000), the terms of which are as discussed in Note 6.

## 12. SUBSEQUENT EVENTS:

### Sale of Warrants:

On January 28, 2022 Air Canada repurchased the 7.3 million vested Air Canada warrants at a negotiated amount of \$82 million. The gain that is expected to be recognized due to the repurchase of warrants by Air Canada is \$82 million.

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