Canada Enterprise Emergency Funding Corporation

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

ANNUAL REPORT

2020

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CORPORATE ADDRESS

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

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DIRECTORS AND OFFICERS AS AT MARCH 8, 2021

BOARD OF DIRECTORS

Sandra Rosch, MBA
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

Jim McArdle
Director
Ottawa, Ontario

Jennifer Reynolds, ICD.D
President and CEO
Toronto Finance International
Toronto, Ontario

Zoltan Ambrus, CFA, LLB
President and Chief Executive Officer
of CEEFC and Vice President of CDEV
Toronto, Ontario

OFFICERS

Zoltan Ambrus, CFA, LLB
President and Chief Executive Officer
of CEEFC and Vice President of CDEV

Noreen E. Flaherty, BA, LLB
Legal Counsel and Corporate Secretary

Al Hamdani
Vice President

Andrew Stafl, CPA, CA
Vice President, Finance

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 has 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 Government of Canada's Large Employer Emergency Financing Facility ("LEEFF") in cooperation with Innovation, Science and Economic Development Canada ("ISED") and the Department of Finance.

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 a loan 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. LEEFF loans are funded on an 80% unsecured basis, and 20% 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.

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 is responsible for the overall strategy and operation of the Corporation. It 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.

CORPORATE PERFORMANCE

A key objective from the CDEV 2020 Corporate Plan included the incorporation of a new, non-agent subsidiary to administer the LEEFF program to help Canadian businesses and industries recover from the economic impact of the COVID-19 pandemic. The new subsidiary became CEEFC. 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: In 2020, 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. It issued its first two loans in September and October, as detailed below, and is now monitoring and managing these funded loans.

	As at December 31, 2020	
Borrower	**Total Loan Commitment**	**Amount funded**
Gateway Casinos & Entertainment Ltd.	$ 200 million	$ 60 million
Conuma Resources Ltd.	$ 120 million	$ 50 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. At year-end, one of CEEFC's two borrowers operates in the gambling and entertainment sector which has been impacted by provincial restrictions on its operations, and the other 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 other than to affect the general interest in LEEFF to some potential borrowers.

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 COVID-19 and its second wave or related impacts. 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 of 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 to limit any losses of loans issued.

FINANCIAL STATEMENTS FOR THE PERIOD SINCE INCORPORATION TO DECEMBER 31, 2020

The financial statements for the period from incorporation on May 11, 2020 to December 31, 2020 have been prepared in accordance with the 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 period ended December 31, 2020, was $3 million and primarily consisted of the interest earned on the funded loans to two borrowers, including the amortization of certain loan and transaction fees over the expected life of the loans. The budgeted revenue of $49 million is significantly higher than the actual revenue due to a higher budgeted level of loans issued in 2020 with resulting higher budgeted revenue.

Total expenses for the period ended December 31, 2020, were $14 million and primarily consisted of professional fees incurred to legal and financial advisors for their services including assistance with the development and implementation of the LEEFF program and conducting legal and financial due diligence on the loan applications. During the first half of 2020, third-party professional advisors worked closely with CEEFC and Government officials to determine CEEFC's role, set up the LEEFF program, and develop lending terms. Their fees of approximately $5 million are not expected to continue in future years. Legal and financial advisory fees incurred to issue loans are recovered from the borrower upon closing of the loan. At year-end, CEEFC estimates that approximately $2 million of the 2020 professional fees may be recovered through the issuance of loans after year-end. The budgeted expenses are higher due to higher budgeted loans issued and related estimates of advisory fees and other costs. The budget was developed early in the LEEFF program, without the benefit of any loan issuance in CEEFC's first year of existence. No provision for credit loss was incurred in the period as no loans were impaired as at December 31, 2020.

The Government contribution for the period ended December 31, 2020, was $200 million and represents the common share issued to CDEV and the preference shares issued to the Government of Canada.

Cash as at December 31, 2020, totaled $83 million. The cash was raised through the issuance of $200 million of preference shares to the Government of Canada and was partially offset by the funding of the loans. Subsequent to December 31, 2020, the Corporation issued an additional $100 million of preference shares as discussed in Note 10(b) of the Financial Statements. See also the Statement of Cash Flow for the period ended December 31, 2020.

Loans to borrowers as at December 31, 2020, totaled $112 million, representing $110 million of loans funded to two borrowers net of adjustments for accrued interest computed based on the effective interest rate methodology, and net of interest payments received in cash. As discussed in Note 10(a) of the Financial Statements, the Corporation entered into loan facility agreements with two additional borrowers after year-end, funding $135 million. For up-to-date details on loans issued, please see the CEEFC website (www.ceefc-cfuec.ca).

Trade and other payables as at December 31, 2020, totaled $6 million and represent unpaid invoices, primarily to legal and financial advisors.

No dividends were paid to the common or preference shareholders during 2020.

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

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 8, 2021. 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 annual 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. Due to 2020 being the Corporation's first partial year of operations, no internal audits were conducted.

These financial statements have been audited by the Corporation's joint auditors, the Auditor General of Canada and PricewaterhouseCoopers LLP, whose report is presented separately.

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, believe they fairly present in all material respects the financial position as at December 31, 2020, and the financial performance and cash flows for the period since incorporation on May 11, 2020 to December 31, 2020.

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

Andrew Stafl, CPA, CA
Vice President, Finance
CEEFC

March 8, 2021

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 2020, and the statement of operations and accumulated surplus, statement of change in net financial assets and statement of cash flow for the period from incorporation on 11 May 2020 to 31 December 2020, 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 2020, and the results of its operations, changes in its net financial assets and its cash flows for the period from incorporation on 11 May 2020 to 31 December 2020 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* described in Note 1 to the financial statements.

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.

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.

Marise Bédard

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

Ottawa, Canada
8 March 2021

PricewaterhouseCoopers LLP

Chartered Professional Accountants,
Licensed Public Accountants

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

(THOUSANDS OF CANADIAN DOLLARS)

		2020
Financial Assets		
Cash	$	82,673
Interest receivable and other		389
Loans to borrowers (Note 4)		111,822
Due from shareholder (Note 5)		187
		195,071
Financial Liabilities		
Trade and other payables		5,613
		5,613
Net Financial Assets and Accumulated Surplus (Note 6)	$	189,458

Commitments (Note 8)
Contingencies (Note 9)
Subsequent Events (Note 10)
The accompanying notes are an integral part of these financial statements.

On behalf of the Board: Sandra Rosch Director ______ Director

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

(THOUSANDS OF CANADIAN DOLLARS)

	For the period from incorporation on May 11 to December 31, 2020 **(Budget)** Note 3	For the period from incorporation on May 11 to December 31, 2020 **(Actual)**
Revenue		
Interest income – loans	$ 49,000	$ 3,156
Interest income – bank	–	49
	49,000	3,205
Expenses (Note 5)		
Professional fees	24,000	12,464
Management fees	–	535
Salaries and benefits	–	375
Other	2,000	374
	26,000	13,748
Operating profit (loss) before government contribution	**23,000**	**(10,543)**
Government contribution (Notes 2(e), 6)	**2,250,001**	**200,001**
Net operating profit	**2,273,001**	**189,458**
Accumulated surplus, beginning of period	–	–
Accumulated surplus, end of period	**$ 2,273,001**	**$ 189,458**

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

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

(THOUSANDS OF CANADIAN DOLLARS)

	For the period from incorporation on May 11 to December 31, 2020 **(Budget)** Note 3	For the period from incorporation on May 11 to December 31, 2020 **(Actual)**
Net operating profit	$ 2,273,001	$ 189,458
Net Financial Assets, beginning of the period	–	–
Net Financial Assets, end of the period	**$ 2,273,001**	**$ 189,458**

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

STATEMENT OF CASH FLOW

(THOUSANDS OF CANADIAN DOLLARS)

		For the period from incorporation on May 11 to December 31, 2020
Operating activities:		
Net operating profit	$	189,458
Adjustments for non-cash items:		
Interest income – loans (Note 2(f))		(3,156)
Less: Loan interest received in cash (Note 2(f))		145
		186,447
Change in non-cash working capital:		
Due from shareholder		(187)
Trade and other payables		5,613
		5,426
Change in cash provided by (used in) operating activities		191,873
Investing activities:		
Loans issued, net of transaction fees		(109,200)
Change in cash provided by (used in) investing activities		(109,200)
Cash, beginning of period		–
Cash, end of period	**$**	**82,673**
Represented by:		
Cash	$	82,673

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

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"). Pursuant to a directive (P.C. 2020-305) given by the Governor in Council, CDEV complied and incorporated CEEFC under the *Canada Business Corporations Act* ("CBCA") on May 11, 2020. The Corporation is subject to the *Financial Administrative Act* ("FAA") but is not subject to provisions of the *Income Tax Act*.

The objective of the Corporation is, as issued in the directive (P.C. 2020-307) pursuant to section 89 of the FAA, to administer, approve, and fund transactions in accordance with the terms approved by the Minister of Finance in relation to the Government's Large Employer Emergency Financing Facility program ("LEEFF" or the "Loan Program"). The Loan 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 Loan Program.

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:

Cash include funds deposited in bank accounts at Canadian financial institutions that are due on demand. Cash is 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. In such instances, the cost of the unsecured loan receivable is the residual value after deducting the initial fair value of the accompanying warrants. 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.

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

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 6.

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.

For the period May 11 to December 31, 2020, the amount of interest income recognized in the Statement of Operations and Accumulated Surplus using EIRM was $3,156. Based on the terms of the loan agreements, the amount of interest collected from borrowers in cash during this same period was $145.

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.

(ALL DOLLAR AMOUNTS ARE STATED IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

3. BUDGET INCLUDED IN THE STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS:

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, 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 EIRM. Refer to Note 2(f) for further details on EIRM.

	For the period from incorporation on May 11 to December 31, 2020		
	Approved budget Cash basis	Adjustments	Revised budget PSAS-based
Revenue			
Interest income – loans	$ 30,000	$ 19,000	$ 49,000
Expenses			
Professional fees	24,000	–	24,000
Other	2,000	–	2,000
	26,000	–	26,000
Operating profit before government contribution	**$ 4,000**	**$ 19,000**	**$ 23,000**

4. LOANS TO BORROWERS:

The Corporation issues loans under the LEEFF program. To qualify for a loan, 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 amount of the unsecured loan facility. There are certain restrictions on the vesting and exercising of the warrants within the first year of the loan. No warrants were received by the Corporation as at December 31, 2020.

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 basis points of the aggregate commitment amount of the loan to the Corporation.

As at December 31, 2020, CEEFC has made available $256,000 of unsecured loan facilities and $64,000 of secured loan facilities for an aggregate loan commitment of $320,000 to two borrowers. The total drawdowns under these loan agreements amounted to $110,000 at December 31, 2020. Transaction fees collected on these loans amounted to $800.

The outstanding balance on these loan facilities, including accrued interest based on EIRM and transaction fees is included in the following table:

		As at December 31, 2020
Unsecured loan facilities	$	89,787
Secured loan facilities		22,035
	$	**111,822**

As at December 31, 2020, the Loans to borrowers balance includes accrued but unpaid interest of $2,428 and $195 on the unsecured and secured loan facilities, respectively.

Principal repayments receivable in each of the next five years are as follows:

2021	$	–
2022		10,000
2023		–
2024		–
2025		100,000

(ALL DOLLAR AMOUNTS ARE STATED IN THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE INDICATED)

5. 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 period May 11 to December 31, 2020, 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 $535, including Harmonized Sales Tax ("HST") and is 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.

	Expenses for the period from incorporation on May 11 to December 31, 2020
Professional fees	$ 1,942
Salaries and benefits, including director fees and expenses	375
Other expenses	115
	$ 2,432

6. ACCUMULATED SURPLUS:

Accumulated surplus consists of the Operating profit (loss) before government contribution plus the government contribution as described in Note 2(e). 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 period May 11 to December 31, 2020.

As at December 31, 2020, the Corporation issued 1 common share (authorized and fully paid) at a price of $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.

As at December 31, 2020, the Government had subscribed for 200 thousand Preference Shares for an aggregate purchase price of $200,000.

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.

7. 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 include loans that are subordinate to other secured loan facilities and have been made to borrowers with limited borrowing alternatives and which 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, 2020, there are no loan balances which are past due or considered impaired. Therefore, no allowance for loan losses has been recorded in the financial statements.

(b) 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, 2020, market conditions have improved as nations have started to vaccinate their citizens. However, the COVID-19 pandemic continues to present challenges to our operations and business environment, and 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.

8. COMMITMENTS:

As at December 31, 2020, the Corporation had loan commitments of $320,000, less the amount drawn of $110,000, the terms of which are as discussed in Note 4.

9. 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. As at December 31, 2020, the Statement of Operations and Accumulated Surplus included professional fee expenses in the amount of $12,464. It is estimated that up to $2,400 of these expenses are recoverable if loan agreements are signed.

10. SUBSEQUENT EVENTS:

(a) Loan facility agreements:

During January and February 2021, the Corporation entered into loan facility agreements with two new borrowers, in the amount of $658,000 after post-closing adjustments. A total of $135,200 was drawn down under these agreements as at March 8, 2021.

(b) Preference shares issued:

On January 26, 2021, the Corporation issued 100 thousand Preference Shares for an aggregate purchase price of $100,000 to the Government of Canada.

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