

*Canada Enterprise
Emergency Funding Corporation*

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

**First Quarter Report
March 31, 2021**

*A subsidiary of Canada Development
Investment Corporation*

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

Quarterly Financial Report – including MD&A

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Corporate Address:

Canada Enterprise Emergency Funding Corporation
1240 Bay Street, Suite 302
Toronto, Ontario M5R 2A7

Telephone: (416) 966-2221

Facsimile: (416) 966-5485

Website: www.ceefc-cfuec.ca

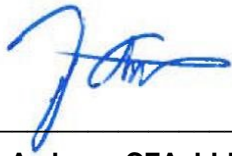
Statement of Management Responsibility by Senior Officials

The accompanying unaudited interim condensed financial statements of Canada Enterprise Emergency Funding Corporation ("CEEFC" or the "Corporation") are the responsibility of management and were authorized for issue by the Board of Directors on May 17, 2021. The interim financial statements have been prepared by the Corporation in accordance with the Public Sector Accounting Standards. Where alternative accounting methods exist, the Corporation has chosen those it deems most appropriate in the circumstances.

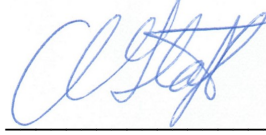
CEEFC maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial records are reliable and form a proper basis for the preparation of the financial statements, and that its assets are properly accounted for and adequately safeguarded.

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

As President and Chief Executive Officer and Vice President, Finance of CEEFC, we have reviewed the Corporation's interim condensed financial statements, and based upon our knowledge, having exercised due diligence, we believe they fairly present, in all material respects, the Corporation's financial position as at March 31, 2021, and its financial performance and cash flows for the three months ended March 31, 2021.



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



Andrew Stafli, CPA, CA
Vice President, Finance
CEEFC

May 17, 2021

Mandate and Corporate Governance Practices

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

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

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.

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

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

Management Discussion and Analysis of Results – for the period ended March 31, 2021

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

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

Corporate Performance

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

Performance: CEEFC was incorporated and developed processes and procedures to implement the LEEFF program. CEEFC also engaged financial and legal advisors to assist in evaluating loan applications and executing loan documents. Since incorporation, CEEFC reviewed and assessed several loan applications from potential borrowers. As detailed below, CEEFC has issued four loans to date and the Corporation is now monitoring and managing these funded loans.

<u>Borrower</u>	<u>Agreement Signed</u>	<u>As at March 31, 2021</u>	
		<u>Total Loan Commitment</u>	<u>Amount Funded</u>
Gateway Casinos & Entertainment Ltd.	Sept. 2020	\$ 200 million	\$ 100.0 million
Conuma Resources Ltd.	Oct. 2020	120 million	79.0 million
Sunwing Vacations Inc.	Jan. 2021	348 million	50.0 million
Goodlife Fitness Centres Inc.	Feb. 2021	310 million	85.2 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. As at March 31, 2021, all of CEEFC's borrowers have been impacted by federal and/or provincial restrictions on their operations, and another borrower operates in the steel-making coal business which has been impacted by restrictions on operations and the impacts on international markets on the steel-making industry. The global outbreak of COVID-19 has had limited impact on CEEFC's operations other than to affect the general interest in LEEFF for 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 the current and future COVID-19 waves. Given the mandate to help Canadian businesses weather the current economic downturn and avoid bankruptcies of otherwise viable firms where possible, it is expected that there will be losses in the portfolio. CEEFC's main role is to lend based on conditions set by the Government's LEEFF term sheet and not on an assessment of the borrower's creditworthiness. CEEFC has a high tolerance for macro-economic risks and for potential financial losses within the terms of the LEEFF program. However, CEEFC will monitor the activities of its loan portfolio.

Interim Condensed Financial Statements for the three-month period ended March 31, 2021

The unaudited interim condensed financial statements for the three months ended March 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, as determined under IFRS 10.

Total revenue, excluding the Government contribution for the three months ended March 31, 2021, was \$8 million and primarily consisted of the interest earned on the funded loans to four borrowers, including the amortization of certain loan and transaction fees over the expected life of the loans. The budgeted revenue of \$28 million is significantly higher than the actual revenue due to a higher budgeted level of loans expected to be issued.

Total expenses for the three months ended March 31, 2021 were \$2 million and primarily consisted of financial and legal advisory fees in connection with financial and legal due diligence on loan applications. The variance versus the budgeted expenses is due to fewer than anticipated loan applications. No provision for credit loss was incurred in the period as no loans were impaired as at March 31, 2021.

The Government contribution for the three months ended March 31, 2021, was \$220 million and represents the preference shares issued to the Government of Canada.

Cash as at March 31, 2021, totaled \$98 million. The cash was raised through the issuance of \$220 million of preference shares to the Government of Canada and was partially offset by the funding of loans. Subsequent to March 31, 2021, the Corporation issued an additional \$705 million of preference shares as discussed in Note 10 of the Interim Condensed Financial Statements. See also the Interim Condensed Statement of Cash Flow for the period ended March 31, 2021.

Loans to borrowers as at March 31, 2021, totaled \$319 million, representing a \$207 million increase from the balance as at December 31, 2020. The increase during the quarter is due to the funding of loans to two new borrowers along with additional funding to two existing borrowers, partially offset by adjustments for accrued interest computed based on the effective interest rate methodology and interest payments received in cash. As discussed in Note 10 of the Interim Condensed Financial Statements, subsequent to March 31, 2021, the Corporation entered into financing support and loan facility agreements with an additional two borrowers, funding \$100 million. For up-to-date details on loans issued, please refer to the CEEFC website (www.ceefc-cfuec.ca).

Trade payables as at March 31, 2021, totaled \$1 million and represent unpaid invoices, primarily to legal and financial advisors.

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

Interim Condensed Financial Statements of

**CANADA ENTERPRISE EMERGENCY FUNDING
CORPORATION**

Three months ended March 31, 2021

(Unaudited)

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

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

	March 31, 2021	December 31, 2020
Financial Assets		
Cash	\$ 97,677	\$ 82,673
Interest receivable	5	389
Loans to borrowers (Note 4)	318,964	111,822
Due from shareholder (Note 5)	–	187
	416,646	195,071
Financial Liabilities		
Trade payables	1,363	5,613
Due to shareholder (Note 5)	71	–
	1,434	5,613
Net Financial Assets and Accumulated Surplus (Note 6)	\$ 415,212	\$ 189,458
Commitments (Note 8)		
Contingencies (Note 9)		
Subsequent Events (Note 10)		

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

On behalf of the Board:  Director  Director

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

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

	Three months ended March 31, 2021	
	Note 3 Budget	Actual
Revenue		
Interest income – loans	\$ 28,175	\$ 7,486
Interest income – bank	–	20
	28,175	7,506
Expenses (Note 5)		
Professional fees	4,624	1,433
Management fees	475	170
Salaries and benefits	422	74
Other	180	75
	5,701	1,752
Operating profit before government contribution	22,474	5,754
Government contribution (Note 6)	375,000	220,000
Net operating profit	397,474	225,754
Accumulated surplus, beginning of period	2,273,001	189,458
Accumulated surplus, end of period	\$ 2,670,475	\$ 415,212

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

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

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

	Three months ended March 31, 2021	
	Note 3 Budget	Actual
Net operating profit	\$ 397,474	\$ 225,754
Net Financial Assets, beginning of the period	2,273,001	189,458
Net Financial Assets, end of the period	\$ 2,670,475	\$ 415,212

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

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

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

	Three months ended March 31, 2021
Operating activities:	
Net operating profit	\$ 225,754
Adjustments for non-cash items:	
Interest income – loans (Note 4)	(7,486)
Less: Loan interest received in cash (Note 4)	471
	218,739
Change in non-cash working capital:	
Interest receivable	384
Due from (to) shareholder	258
Trade payables	(4,250)
	(3,608)
Change in cash provided by (used in) operating activities	215,131
Investing activities:	
Loans issued, net of transaction fees	(200,127)
Change in cash provided by (used in) investing activities	(200,127)
Cash, beginning of period	82,673
Cash, end of period	\$ 97,677
Represented by:	
Cash	\$ 97,677

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

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three months ended March 31, 2021

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

1. Reporting entity:

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

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

2. Significant accounting policies:

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

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

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three months ended March 31, 2021

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

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

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

	Three months ended March 31, 2021		
	Approved budget Cash basis	Adjustments	Revised budget PSAS-based
Revenue			
Interest income – loans	\$ 28,625	\$ (450)	\$ 28,175
Expenses			
Professional fees	4,624	–	4,624
Management fees	475	–	475
Salaries and benefits	422	–	422
Other	180	–	180
	5,701	–	5,701
Operating profit before government contribution	\$ 22,924	\$ (450)	\$ 22,474

4. Loans to borrowers:

The Corporation issues loans under the LEEFF Program. To qualify for a loan for 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 are secured by a perfected security interest in tangible and intangible assets of the borrower (i) that are currently unencumbered and are satisfactory to the Corporation in its sole discretion, or (ii) that are subject to security interests in favour of first priority senior secured lenders (“Senior Lenders”) of the borrower, which security interest shall rank equally with the security interests in favour of the Senior Lenders.

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three months ended March 31, 2021

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

4. Loans to borrowers (continued):

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

If the borrower is a Canadian publicly traded company (or the private subsidiary of a Canadian publicly traded company), the Corporation receives warrants with the option to purchase the borrower's (or their parent publicly traded company's) common shares with an aggregate exercise price equal to 18.75% of the total commitment amount of the unsecured loan facility. 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 March 31, 2021 (December 31, 2020 – nil).

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.

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

	March 31, 2021	December 31, 2020
		As at
Number of borrowers	4	2
Total loan commitment		
Unsecured loan facilities	\$ 782,400	\$ 256,000
Secured loan facilities	195,600	64,000
	\$ 978,000	\$ 320,000
Total cumulative loan drawdown		
Unsecured loan facilities	\$ 251,360	\$ 88,000
Secured loan facilities	62,840	24,000
	\$ 314,200	\$ 110,000
Outstanding loan balance¹		
Unsecured loan facilities	\$ 256,792	\$ 89,787
Secured loan facilities	62,172	22,035
	\$ 318,964	\$ 111,822

¹ including accrued interest based on EIRM and transaction fees

As at March 31, 2021, the Loans to borrowers balance includes accrued but unpaid interest of \$6,902 and \$113 (December 31, 2020 – \$2,428 and \$195) on the unsecured and secured loan facilities, respectively.

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three months ended March 31, 2021

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

4. Loans to borrowers (continued):

For the three months ended March 31, 2021, the amount of interest income recognized in the Interim Condensed Statement of Operations and Accumulated Surplus using EIRM was \$7,486. Based on the terms of the loan agreements, the amount of interest collected from borrowers in cash during this same period was \$860.

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 three-month period ended March 31, 2021, CDEV provided management services to the Corporation related to executive, administrative, banking, financial, and support services, in respect of which it billed an amount of \$170, including Harmonized Sales Tax ("HST") and is reported as Management fees on the Interim Condensed Statement of Operations and Accumulated Surplus.

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

	Three months ended March 31, 2021
Professional fees	\$ 15
Salaries and benefits, including director fees and expenses	74
Other expenses	–
	\$ 89

6. Accumulated surplus:

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

a) Common shares:

The Corporation is authorized to issue an unlimited number of common shares. Holders of these shares are entitled to dividends, as and when declared from time to time, and are entitled to one vote per share at general meetings of the Corporation. No dividends were declared during the quarter ended March 31, 2021.

As at March 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.

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three months ended March 31, 2021

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

6. Accumulated surplus (continued):

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 March 31, 2021, the Government had subscribed for 420 thousand Preference Shares (December 31, 2020 – 200 thousand) for an aggregate purchase price of \$420,000 (December 31, 2020 – \$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 Interim Condensed Statement of Operations and Accumulated Surplus. When these shares are redeemed by the Corporation, the aggregate redemption amount will be a deduction against this line item.

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three months ended March 31, 2021

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

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

(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 March 31, 2021, the COVID-19 pandemic continues to present challenges to the Corporation's 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 March 31, 2021, the Corporation had loan commitments of \$978,000 (December 31, 2020 – \$320,000), less the amount drawn of \$314,200 (December 31, 2020 – \$110,000), the terms of which are as discussed in Note 4.

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three months ended March 31, 2021

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

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. These expenses are included as professional fees on the Interim Condensed Statement of Operations and Accumulated Surplus as incurred. As at March 31, 2021, it is estimated that up to \$3,500 of these expenses are recoverable if loan agreements are signed.

10. Subsequent Events:

(a) Financial support agreements with Air Canada:

On April 12, 2021, the Corporation entered into an agreement, different from the LEEFF Program as described in Note 4, with Air Canada whereby the Corporation provided a secured loan facility of \$1,500,000, three unsecured loan facilities totaling \$2,475,000, and a voucher refund facility of \$1,404,000. As at May 17, 2021, no amounts were drawn under these facilities.

The Corporation received 14,576,564 warrants of Air Canada with an exercise price of \$27.2698 per share, exercisable until April 2031. Half of the warrants vested on April 12, 2021 and the remaining warrants will vest in proportion to the amounts that Air Canada draws under the unsecured loan facility. The Corporation also purchased 21,570,942 Class B Voting Shares of Air Canada at a price of \$23.1793 per share for an aggregate purchase price of \$500,000.

(b) Preference shares issued:

In April 2021, the Corporation issued 705 thousand Preference Shares to the Government of Canada for \$705,000.

(c) Other Loan agreements:

On April 29, 2021, the Corporation entered into a loan agreement under the LEEFF Program and voucher refund facility agreements with a company in the amount of \$390,000 and \$310,000, respectively. As at May 17, 2021, a total of \$100,000 was drawn down under these agreements.