

*Canada Enterprise  
Emergency Funding Corporation*

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

## Third Quarter Report September 30, 2022

*A subsidiary of Canada Development  
Investment Corporation*

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

# Quarterly Financial Report – including MD&A

## Contents

Statement of Management Responsibility by Senior Officials	1
<hr/>	
Mandate and Corporate Governance Practices	2
<hr/>	
Management Discussion and Analysis of Results	4
<hr/>	
Interim Condensed Financial Statements of Canada Enterprise Emergency Funding Corporation for the period ended September 30, 2022	8
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## Management Responsibility For Financial Statements

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The accompanying unaudited interim condensed financial statements of Canada Enterprise Emergency Funding Corporation (“CEEFC” or the “Corporation”) are the responsibility of management and were authorized for issue by the Board of Directors on November 15, 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 interim financial statements, and based upon our knowledge, having exercised due diligence, we believe they fairly present, in all material respects, the Corporation’s financial position as at September 30, 2022, and its financial performance and cash flows for the nine months ended September 30, 2022.



**Zoltan Ambrus**  
President and Chief Executive Officer  
CEEFC



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

November 15, 2022

## 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 was 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 2021, the government provided two additional financial support programs to be made available to Canadian airlines under the LEEFF program. One was available to the largest Canadian airlines and a voucher refund facility program was available to all Canadian airlines.

LEEFF was launched at the outset of the COVID-19 pandemic to provide bridge financing to large Canadian employers to help them preserve their employment, operations and investment activities until they could access more traditional market financing. As of July 29, 2022 the Corporation will no longer accept new LEEFF applications.

## **Financial Support to the Canadian Airline Industry**

### **Loans and Equity Investments**

To qualify for financial support, airline companies must have met 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. Air Canada was the only airline to have a facility approved under these terms, and in November 2021 Air Canada canceled this facility without ever having drawn on it.

### **Airline voucher refund loan facilities**

The voucher loan facilities were 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 have been a customer-facing airline and must have met 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 was between 80% and 100% of the airline's estimate of the maximum refund liability. The maximum amount that an airline could borrow under this program is \$2 billion. The interest rate is fixed through the seven-year term. As of September 30, 2022 there is no availability remaining for any voucher refund loan.

In March of 2022 changes were made to the original LEEFF loans to the existing borrowers in the Canadian airline industry that have faced challenges due to the COVID-19 Omicron variant and related travel restrictions. These changes include, deferring the start of the increase in interest rates on LEEFF unsecured loans until December 31, 2023, extending until December 31, 2024 the time that an airline has the option to pay interest in kind (PIK) by adding it to the principal of its unsecured loan and extending to December 31, 2023 the period that an airline has to repay its unsecured LEEFF loan in order to cancel half of the warrants a Canadian public company issued in respect of its LEEFF loan or not incur the additional 6.25 per cent loan fee that a borrower that is not a Canadian public company is required to pay under LEEFF loan program.

### **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.

## **Mandate and Corporate Governance Practices (continued)**

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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 – for the period ended September 30, 2022**

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 term 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.

**Management Discussion and Analysis of Results – for the period ended September 30, 2022  
(continued)**

**Loans issued**

<b>Borrower</b>	<b>Agreement Signed</b>	<b>As at September 30, 2022</b>	
		<b>Total Loan Commitment</b>	<b>Amount Funded</b>
Conuma Resources Ltd.	Oct. 2020	\$ 96 million	\$ 96 million
Sunwing Vacations Inc.	Jan. 2021	217 million	217 million
Transat A.T. Inc. (Tranche 1)	Apr. 2021	390 million	390 million
Porter Aircraft Leasing Corp.	Jun. 2021	250 million	250 million
Transat A.T. Inc. (Tranche 2 & 3)	Jul. 2022	150 million	–
		<b>\$ 1,103 million</b>	<b>\$ 953 million</b>

**Voucher refund loans issued**

<b>Borrower</b>	<b>Agreement Signed</b>	<b>As at September 30, 2022</b>	
		<b>Total Loan Commitment</b>	<b>Amount Funded</b>
Air Canada	Apr. 2021	\$ 1,273 million	\$ 1,273 million
Transat A.T. Inc.	Apr. 2021	353 million	353 million
Porter Aircraft Leasing Corp.	Jun. 2021	10 million	10 million
Sunwing Vacations Inc.	Jun. 2021	100 million	100 million
		<b>\$ 1,736 million</b>	<b>\$ 1,736 million</b>

**Repayment of Loans.**

On July 18, 2022, Conuma Resources Limited repaid the secured loan. The principal and accrued interest received amounted \$24.1 million.

**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. In January 2022, Air Canada repurchased the 7.3 million vested warrants for negotiated proceeds of \$82.2 million.

In Q3 2022 the Corporation entered into a loan agreement with Air Transat under the LEEFF program for \$150 million. Consequently, the Corporation received 4.7 million warrants from Air Transat.

**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

## **Management Discussion and Analysis of Results – for the period ended September 30, 2022 (continued)**

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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 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 financial results. Due to the implementation of PS3450 as at January 1, 2022, the common shares and the warrants are carried at fair value.

### **Interim Condensed Financial Statements for the period ended September 30, 2022**

The unaudited interim condensed financial statements for the nine months ended September 30, 2022 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.

Effective January 1, 2022, the Corporation early adopted the following standards. These standards have been applied on a prospective basis without restating the 2021 comparative figures. For further details refer to Note 3, Adoption of new accounting standards of the Corporation's nine months ended September 30, 2022, Interim Condensed Financial Statements.

- a) PS 1201 – Financial Statement Presentation replaces PS1200 – Financial Statement Presentation
- b) PS 3450 – Financial instruments
- c) PS 2601– Foreign Currency Translation

Total revenue, excluding the Government contribution for the three months and nine months ended September 30, 2022, was \$25 million and \$164 million respectively, compared to \$45 million and \$70 million for the same period in 2021. The revenue mostly consisted of 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. The revenue in the third quarter of 2022 decreased compared to the same period in 2021 due to the higher EIR earned on the repayment of loans by two borrowers in Q3 2021. The increase in revenue on a year-to-date basis is mainly due to a gain of \$82 million recorded in January 2022 for the repurchase of warrants by Air Canada and also due to higher loan balances compared to the same period in 2021. The decrease in the actual revenue of \$25 million compared to the Budgeted revenue of \$32 million in the third quarter of 2022 is mainly due to a loss on adjustment attributable to loan modification. The increase in the actual compared to the budgeted for the year-to-date is mainly due to the gain of \$82 million earned on the repurchase of warrants.



## Management Discussion and Analysis of Results – for the period ended September 30, 2022 (continued)

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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. The actual expenses incurred for the three months and nine months as at September 30, 2022 is comparable to the budgeted expenses. No provision for credit loss was incurred in the period as no loans were impaired as at September 30, 2022.

In March 2022 due to the decrease in the interest rates and the extension of PIK offered to the Airline industry, the Corporation incurred a substantial modification or extinguishment. Consequently, the Corporation de-recognized the amortized cost of the original loan and recognized a new loan at cost resulting in a loss on extinguishment of \$76 million.

There was no Government contribution for the three months and nine months period ended September 30, 2022. The Government contribution for the three months and Nine months ended September 30, 2021 amounted to \$770 million and \$2,890 million which represents the preference shares issued to the Government of Canada.

Cash and cash equivalents as at September 30, 2022, amounted to \$69 million compared to \$333 million as at December 31, 2021. The decrease in cash is mainly due to loans issued for \$405 million offset by the sale of warrants of \$82 million, repayment of loans of \$34 million, and interest received during the period of \$25 million.

Loans to borrowers totaled \$2,668 million as at September 30, 2022 compared to \$2,348 million as at December 31, 2021. The increase is primarily due to the funding of loans to existing borrowers for \$405 million, interest calculated based on EIRM of \$79 million offset by interest received of \$25 million, adjustments made due to the adoption of PS 3450 of \$27 million, repayment of loans of \$34 million and loss on adjustment due to modification of loans \$76 million.

Due to adoption of the new accounting standard PS 3450 on January 1, 2022, the common shares and warrants are initially and subsequently recorded at fair value. As at September 30, 2022, the fair value of common shares in Air Canada was \$358 million compared to the carrying value as at December 31, 2021 of \$ 500 million recorded at cost. During the period ended September 30, 2022, Air Canada repurchased the 7.3 million outstanding vested Air Canada warrants for \$82 million. On July 29, 2022, the Corporation received 4.7 million additional warrants from Air Transat. The fair value of the warrants as at September 30, 2022 was \$19 million. As at December 31, 2021 the Air Canada and Air Transat warrants were nil, recorded at cost under the PSAS accounting framework.

Deferred liability represents the fair value of the unvested warrants at inception and is not adjusted for fair value movements. As the warrants vest the deferred liability and the corresponding unvested portion of the warrants are de-recognized. The deferred liability as at September 30, 2022 was \$7 million.

No dividends were paid to the common or preference shareholders during the nine months ended September 30, 2022.

Interim Condensed Financial Statements of

**CANADA ENTERPRISE EMERGENCY FUNDING  
CORPORATION**

Three and nine months ended September 30, 2022

(Unaudited)

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

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

	September 30, 2022	December 31, 2021
<b>Financial Assets</b>		
Cash and cash equivalents (Note 4)	\$ 69,324	\$ 332,928
Interest and other receivables	405	67
Loans to borrowers (Notes 3, 5)	2,668,110	2,348,236
Equity investments (Notes 3, 6)	358,078	500,000
Warrants (Notes 3, 6)	19,252	-
	<b>3,115,169</b>	<b>3,181,231</b>
<b>Financial Liabilities</b>		
Trade payables	1,827	1,812
Due to shareholder (Note 7)	281	257
Deferred liability (Notes 3, 8)	7,068	-
	<b>9,176</b>	<b>2,069</b>
<b>Net Financial Assets and Accumulated Surplus (Note 9)</b>	<b>3,105,993</b>	<b>3,179,162</b>
Accumulated surplus is comprised of:		
Accumulated operation surplus	3,265,061	3,179,162
Accumulated remeasurement (losses)	(159,068)	-
	<b>\$ 3,105,993</b>	<b>\$ 3,179,162</b>

Commitments (Note 11)

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

On behalf of the Board:



Director



Director

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

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

	Three months ended September 30			Nine months ended September 30		
	2022		2021	2022		2021
	Budget	Actual	Actual	Budget	Actual	Actual
<b>Revenue</b>						
Interest income – loans	\$ 32,837	\$ 24,309	\$ 45,106	\$ 99,181	\$ 80,256	\$ 70,021
Interest income – bank	–	1,047	37	–	1,686	95
Gain on sale of warrants	–	–	–	–	82,214	–
	32,837	25,356	45,143	99,181	164,156	70,116
<b>Expenses</b>						
Professional fees	750	174	1,744	2,250	2,036	4,356
Management fees (Note 7)	170	170	170	510	509	509
Salaries and benefits	50	56	55	150	167	225
Loss on adjustment due to modifications of loans (Note 5)	–	–	–	–	75,521	–
Other	170	21	20	510	24	167
	1,140	421	1,989	3,420	78,257	5,257
<b>Surplus (deficit) before government contribution</b>	31,697	24,935	43,154	95,761	85,899	64,859
<b>Government contribution (Note 9)</b>	50,000	–	770,000	250,000	–	2,890,000
<b>Surplus for the period</b>	81,697	24,935	813,154	345,761	85,899	2,954,859
Accumulated operating surplus, beginning of period	3,676,660	3,240,126	2,331,163	3,412,596	3,179,162	189,458
<b>Accumulated operating surplus, end of period</b>	\$ 3,758,357	\$ 3,265,061	\$ 3,144,317	\$ 3,758,357	\$ 3,265,061	\$ 3,144,317

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

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Interim Condensed Statement of Remeasurement Gains and Losses  
(Unaudited)  
(Thousands of Canadian Dollars)

	Three months ended September 30 2022	Nine months ended September 30 2022
<b>Accumulated remeasurement gains (losses), beginning of period adjusted (Note 3)</b>	\$ (163,784)	\$ 24,770
<b>Remeasurement gains (losses) arising during the period</b>		
Unrealized gains (losses) on equity investments	12,080	(97,716)
Unrealized gains (losses) on warrants	(7,364)	(3,908)
<b>Amount reclassified to the statement of operations and accumulated surplus</b>		
Realized gains on warrants	-	(82,214)
<b>Net remeasurement gains (losses), for the period</b>	4,716	(183,838)
<b>Accumulated remeasurement losses end of period</b>	\$ (159,068)	\$ (159,068)

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

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

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

	Three months ended			Nine months ended		
	September 30			September 30		
	2022	2021		2022	2021	
	Budget	Actual	Actual	Budget	Actual	Actual
Surplus for the period	\$ 81,697	\$ 24,935	\$ 813,154	\$ 345,761	\$ 85,899	\$ 2,954,859
Net remeasurement gain/ (loss) for the period	–	4,716	–	–	(159,068)	–
Increase/ (decrease) in financial assets	81,697	29,651	813,154	345,761	(73,169)	2,954,859
Net financial assets, beginning of period	3,676,660	3,076,342	2,331,163	3,412,596	3,179,162	189,458
<b>Net financial assets, end of period</b>	<b>\$ 3,758,357</b>	<b>\$ 3,105,993</b>	<b>\$ 3,144,317</b>	<b>\$ 3,758,357</b>	<b>\$ 3,105,993</b>	<b>\$ 3,144,317</b>

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

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2022	2021	2022	2021
<b>Operating activities:</b>				
Surplus for the period	\$ 24,935	\$ 813,154	\$ 85,899	\$ 2,954,859
Adjustments for non-cash items:				
Interest income – loans (Note 5)	(24,309)	(45,106)	(80,256)	(70,021)
Loss on adjustment due to modifications of loans	–	–	75,521	–
Loan interest and fees received in cash (Note 5)	10,108	6,986	24,485	9,353
	10,734	775,034	105,649	2,894,191
Change in non-cash working capital:				
Interest and other receivables	(377)	(3,332)	(338)	(2,943)
Due to (from) shareholder	56	(52)	24	439
Trade payables	(521)	705	15	(3,908)
	(842)	(2,679)	(299)	(6,412)
Change in cash provided by operating activities	9,892	772,355	105,350	2,887,779
<b>Investing activities:</b>				
Loans issued, net of transaction fees and recoverable expenses	(118,809)	(725,588)	(403,536)	(2,408,521)
Purchase of equity investment (Note 6)	–	–	–	(500,000)
Loan repayments	24,000	–	34,582	–
Change in cash used in investing activities	(94,809)	(725,588)	(368,954)	(2,908,521)
Cash and cash equivalents, beginning of period	154,241	15,164	332,928	82,673
<b>Cash and cash equivalents, end of period</b>	<b>\$ 69,324</b>	<b>\$ 61,931</b>	<b>\$ 69,324</b>	<b>\$ 61,931</b>

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

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2022

(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 5 for further details of the Financing Program.

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

As of July 2022, as directed by the Minister, CEEFC no longer accepts or processes new LEEFF loan applications.

## 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 2021 Audited Financial Statements with the exception of the standards that were adopted on January 1, 2022 relating to PS 3450 Financial instruments. See Note 3 for more details.

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 2021 Audited Financial Statements as well as Note 3 relating to the transition of PS 3450. Disclosures and information contained in the 2021 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 and nine months ended September 30, 2022

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

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### 3. Adoption of new accounting standards:

The following standards and amendments that are effective for fiscal years commencing on or after April 1, 2022, have been early adopted beginning on January 1, 2022 and implemented concurrently. The *PS 2601 Foreign Currency Translation* has also been adopted, however it has no significant impact on the Corporation.

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

This standard establishes general reporting principles and standards for the disclosure of information in government financial statements. 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. When the change in the fair value is realized, the realized gain or loss is recognized in the Statement of Operations and Accumulated Surplus. In accordance with the standard the accumulated surplus or deficit is presented as the total of the accumulated operating surplus or deficit and accumulated remeasurement gains and losses.

#### *PS 3450 – Financial instruments*

This standard establishes accounting and reporting requirements for 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 addition, the standard adds new requirements to clarify when financial liabilities are de-recognized and that offsetting of a financial liability and financial asset is prohibited in the absence of a legally enforceable right to set off and an intention to settle on a net basis or simultaneous settlement. In particular for the Corporation the standard has an impact on the following instruments:

- a) Warrants - PS 3450 requires warrants to be initially recorded and subsequently measured 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 –PS 3450, require the Corporation to conduct an assessment to determine whether a financial instrument contains embedded derivatives that would require separation from the host instrument and measurement thereafter as a standalone derivative instrument. Under the standard, an embedded derivative is required to be separated if it meets the definition of a derivative and is not closely related to the host instrument and the hybrid instrument is not measured at fair value. Embedded derivatives that require separation are subsequently measured at fair value with changes in the fair value in 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 settlement or termination of the derivatives, the realized gain or loss is recognized in the Statement of Operations and Accumulated Surplus.

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2022

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

### 3. Adoption of new accounting standards (continued):

- c) Equity shares - Under PS 3450, any equity shares acquired as part of the loans provided to Borrowers are subject to initial recognition and subsequent measurement at fair value. Where the shares have been subscribed to at below fair value, the difference between the fair value of the shares at the time of acquisition and the subscription price paid is included in the carrying value of the loan and accounted for under the effective interest rate method ("EIR"). Should the loan commitment not be drawn upon at inception, the difference between the fair value of the loan and the subscription price paid is recorded in the Statement of Remeasurement Gains and Losses. Subsequent to initial recognition, changes in the fair value of shares each period are recorded in the Statement of Remeasurement Gains and Losses. When the change in the fair value is realized on the sale of the 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 at amortized cost wherein interest income is recognized at the effective interest rate. However, the application of the EIR methodology requires consideration of the financial instruments listed in (a), (b) and (c) above and accordingly the existence of such an instrument within the loan to Borrowers will affect the EIR and interest income recognized.

The standards have been applied based on the transitional provisions of PS 1201, PS 3450 and PS 2601. The financial statements of periods prior to 1 January 2022, including comparative information have not been restated. The impact of the adoption of these standards on the opening balances at 1 January 2022 is as follows:

#### Summary of adjustments

<b>Statement of Financial Position - Total assets as at January 1, 2022:</b>	<b>Amount</b>
Total assets, opening balance as previously reported	\$ 3,181,231
Total loans to borrowers, opening balance as previously reported	2,348,236
Adjustments to loan receivables (Note 3(I))	<u>(15,049)</u>
<b>Adjusted opening loan balance of total loan receivables</b>	<b>2,333,187</b>
Total Equity investments, opening balance previously reported	500,000
Adjustments on account of recognition of equity shares (Note 3(III))	<u>(44,206)</u>
<b>Adjusted opening balance of total Equity investments</b>	<b>455,794</b>
Total warrants, opening balance as previously reported	–
Adjustments on account of recognition of Air Canada warrants (Note 3(II))	75,914
Adjustments on account of recognition of warrants (Note 3(I) & Note 3(IV))	<u>22,392</u>
<b>Adjusted opening balance of total Warrants</b>	<b>98,306</b>
Total Adjustments to assets	39,051
<b>Statement of Financial Position - Adjusted opening balance of total assets</b>	<b>\$ 3,220,282</b>

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2022

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

## 3. Adoption of new accounting standards (continued):

<b>Statement of Financial Position - Total liabilities as at January 1, 2022:</b>	<b>Amount</b>
Total liabilities, opening balance as previously reported	\$ 2,069
Total deferred liabilities, opening balance as previously reported	–
Adjustments on account of recognition of deferred liabilities (Note 3(IV))	<u>12,785</u>
<b>Adjusted opening balance of deferred liabilities</b>	<b>12,785</b>
Total adjustments to liabilities	12,785
<b>Statement of Financial Position - Adjusted opening balance of total liabilities</b>	<b>\$ 14,854</b>

<b>Statement of Remeasurement Gains and Losses - Accumulated remeasurement gain/(loss) as at January 1, 2022:</b>	<b>Amount</b>
Accumulated remeasurement gain / (loss), opening balance as previously reported	\$ –
Total unrealized gains(losses) on equity investments previously reported	–
Adjustments on account of fair value movement of equity investments (Note 3(III))	<u>(44,206)</u>
<b>Adjusted opening balance of unrealized gain/(losses) on equity investments</b>	<b>(44,206)</b>
Total unrealized gains(losses) on warrants previously reported	–
Adjustments on account of fair value movement of Air Canada Warrants (Note 3(II))	75,914
Adjustments on account of fair value movement of warrants (Note 3(I))	<u>(6,938)</u>
<b>Adjusted opening balance of unrealized gain/(losses) on warrants</b>	<b>68,976</b>
<b>Statement of Remeasurement Gains and Losses - Adjusted opening balance of Accumulated remeasurement gain / (loss)</b>	<b>\$ 24,770</b>

Key adjustments resulting from the adoption of these accounting standards are as follows:

- I. An adjustment was made to the loan receivables balance on adoption of PS 3450 due to the following:

Accounting for warrants – Under PS 3450, warrants are initially recognized and subsequently measured at fair value. On initial recognition, the fair value of the warrants is adjusted against the loan receivable balance to determine the carrying value of the loans receivable at inception. The aforementioned accounting for the warrants at inception results in a higher EIR at inception as compared to the accounting prior to the adoption of PS 3450. Subsequently, the warrants are measured at fair value with changes in fair value being recognized in the Statement of Remeasurement Gains / Losses. The accounting for the warrants at inception has resulted in an adjustment to the opening balance of loan receivables by an amount of \$15,049. Subsequent to initial recognition, the fair value of the warrants has declined by \$6,938.

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2022

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

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## 3. Adoption of new accounting standards (continued):

- II. An adjustment was made to the opening balance of the total assets due to recognition of the warrants received from Air Canada. Corporation received 14.6 million warrants from Air Canada in April 2021 as part of the loan transaction. This was due to 50% of the warrants issued vesting immediately upon grant on the signing of the loan agreement without any draw on the loan as a condition. Further, as the fair value gain on the vested portion of the Air Canada warrants remains unrealized as at January 1, 2022, the entire fair value on the initial recognition and subsequent movement of the vested portion of the Air Canada warrants have been recognized in the Accumulated remeasurement gains / (losses) opening balance.

In November 2021, Air Canada cancelled its loan facility with the Corporation and confirmed its intent to repurchase the vested portion of the warrants. In light of such cancellation, the unvested portion of the warrants has been cancelled and as such they have been derecognized from the financial statement as of 31 December 2021. The fair value of the vested portion of the Air Canada warrants, which continued to exist, as of January 2022, amounted to \$75,914. The vested warrants were repurchased in January 2022 by Air Canada on the repurchase date for a gain of \$ 82 million.

- III. In April 2021, the Corporation acquired common equity shares from Air Canada at a 15% discount to market value as part of the loan transaction for an amount of \$500,000. In line with the requirements of PS 3450, the common equity shares have been initially recognized and subsequently measured at fair value. At inception, the difference between the fair market value of the common equity shares and the cash amount paid has been recognized as an unrealized gain in the Statement of Remeasurement Gains and Losses as Air Canada did not draw down on the loan commitment. Subsequent to initial recognition, any movement in the fair value of the shares has been recognized in the Accumulated remeasurement gains / losses opening balance adjustment. The total adjustment on account of the unrealized loss recognized at inception and the fair value of movement of the shares amounted to \$44,206 as at January 1, 2022.

- IV. An adjustment was made to the total liabilities balance on adoption of PS 3450 due to the recognition of a deferred liability corresponding to the fair value of the unvested portion of the warrants received by Corporation at inception. As the warrants vest, the deferred liability and the corresponding unvested portion of the warrants are de-recognized, and the vested warrants are recognized against loan receivables. Subsequent to inception, the deferred liability is not adjusted for fair value movements and is maintained at the original value until the warrants vest. Fair value movements in the unvested warrants will therefore impact the Statement of Remeasurement Gains and Losses each period. The fair value of the unvested portion of the warrants amounted to \$9,761 on of January 1, 2022 while the balance of the deferred liability amounted to \$12,785 and therefore an adjustment has been made to the total assets and total liabilities of the Corporation.

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2022

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

## 4. 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 September 30, 2022, and December 31, 2021.

	As at	
	September 30, 2022	December 31, 2021
Bank balances	\$ 69,324	\$ 182,954
Cash equivalents <sup>1</sup>	–	149,974
Cash and cash equivalents	\$ 69,324	\$ 332,928

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

## 5. 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.

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2022

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

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## 5. Loans to borrowers (continued):

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 6(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.

The emergence of the COVID-19 Omicron variant and related travel advisories have resulted in the COVID-19 pandemic persisting longer than originally anticipated and correspondingly borrowers in the Airline industry are facing a delayed recovery and longer time to restart operations. Consequently, in February of 2022 the government has made amendments to the current LEEFF program to assist the existing airline borrowers with their financial needs by deferring the start of the increase in interest rates on LEEFF unsecured loans until December 31, 2023, extend the option to PIK until December 31, 2024 and extend to December 31, 2023, the period that an airline has to repay its unsecured LEEFF loan in order to (i) cancel half of the warrants a Canadian public company issued in respect of its LEEFF loan or (ii) not incur the additional 6.25 per cent loan fee that a borrower that is not a Canadian public company is required to pay under LEEFF program.

### 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.

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2022

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

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## **5. Loans to borrowers (continued):**

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.

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2022

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

## 5. Loans to borrowers (continued):

The following table provides a breakdown of the loan facilities as at September 30, 2022 and December 31, 2021.

	As at	
	September 30, 2022	December 31, 2021
<b>Number of borrowers</b>	<b>5</b>	<b>5</b>
<b>Total loan commitment</b>		
Unsecured loan facilities	\$ 909,691	\$ 886,400
Secured loan facilities	192,840	221,600
Airline voucher refund facilities	1,735,597	1,704,051
	\$ 2,838,128	\$ 2,812,051
<b>Total cumulative loan drawdown</b>		
Unsecured loan facilities	\$ 789,691	\$ 501,690
Secured loan facilities	162,840	125,423
Airline voucher refund facilities	1,735,597	1,690,870
	\$ 2,688,128	\$ 2,317,983
<b>Outstanding loan balance<sup>1</sup></b>		
Unsecured loan facilities (Note 3(I))	\$ 771,077	\$ 532,667
Secured loan facilities	160,837	124,384
Airline voucher refund facilities	1,736,196	1,691,185
	\$ 2,668,110	\$ 2,348,236

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

As at September 30, 2022, the Loans to borrowers balance includes accrued but unpaid interest of \$54,277 (December 31, 2021 – \$48,156) on the unsecured, secured, and airline voucher refund facilities.

For the three and nine months ended September 30, 2022, the amount of interest income recognized in the Statement of Operations and Accumulated Surplus using EIR was \$24,309 (September 30, 2021 - \$45,106) and \$78,746 (September 30, 2021 - \$70,021) respectively. Based on the terms of the loan agreements, the amount of interest and fees collected from borrowers in cash during the same periods were \$10,108 (September 30, 2021 - \$6,986) and \$24,485 (September 30, 2021 - \$9,353) respectively.

The EIR on a loan is computed based on the cash flows first estimated by the Corporation. Any change to the estimated cash flow or terms that does not constitute a substantial modification or extinguishment results in a modification gain or loss. Such modification gain or loss is computed by discounting the revised estimated cashflows at the original EIR. Where changes in estimated cash flows or loan terms result in a substantial modification or extinguishment, the Corporation de-recognizes the amortized cost of the original loan and recognizes a new loan at cost. In Q1 2022 amendments in the loan terms to the airline borrowers constituted an extinguishment event for loans provided to airline borrowers. The Corporation de-recognized the original loans and recognized new loans at cost for airline borrowers which resulted in a loss on extinguishment amounting to \$76 million.



# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2022

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

## 5. Loans to borrowers (continued):

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

2022	\$	–
2023		8,889
2024		139,136
2025		119,818
2026		724,267
2027 and beyond		1,736,197
	\$	2,728,307

## Repayment of Loans

Conuma Resources Ltd repaid its secured loan on July 18, 2022. The principal and interest received was \$ 24,112.

## 6. 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 September 30, 2022, the fair value of these shares was \$358,078 (December 31, 2021 – \$500,000 valued at cost).

### b) Warrants:

As indicated in Note 5, if the borrower is a public company instead of a loan fee the Corporation receives warrants exercisable for common voting shares. On July 29, 2022, the Corporation received an additional 4,687,500 warrants from Air Transat. As at September 30, 2022, the fair value of the warrants was \$19,252 (December 31, 2021 – nil, valued at cost). Warrants issued by Air Transat are vested in proportion to the loans advanced under the unsecured loan facility. The fair value of the vested and unvested warrants amounted to \$13,381 and \$5,871 respectively.

The following table summarizes the warrants issued to the Corporation.

Company	Warrants issued as at September 30, 2022			Warrants vested as at			
	Number of warrants (in 000's)	Exercise price per share (in dollars)	Maturity Date	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
				Number of warrants (in 000's)	Amount <sup>1</sup>	Number of warrants (in 000's)	Amount <sup>1</sup>
Air Canada	–	–	–	–	\$ –	7,289	\$ –
Air Transat	13,000	4.5000	April 2031	13,000	13,381	7,333	–
Air Transat	4,688	3.2000	July 2032	–	–	–	–
					\$ 13,381		\$ –

As per PS 3450 the warrants are valued at fair value as at September 30, 2022. As at December 31, 2021, the warrants are at cost.

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2022

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

## 6. Equity investments (continued):

On November 19, 2021, Air Canada cancelled all the secured and unsecured loan facilities with the Corporation. Due to the cancellation of the loan facilities, all unvested Air Canada warrants of 7.3 million were automatically cancelled. On January 28, 2022, Air Canada repurchased all the outstanding vested Air Canada warrants of 7.3 million for a negotiated price of \$82 million. Refer Note 3(II) for further details.

## 7. Transactions with related parties:

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

During the three and nine-month periods ended September 30, 2022 CDEV provides management services to the Corporation related to executives, administration, banking, financial, and support services, in respect of which it billed an amount of \$170 (September 30, 2021 - \$170) and \$509 (September 30, 2021 - \$509) 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 tables summarizes these expenses.

	Three months ended September 30	
	2022	2021
Professional fees	\$ 7	\$ 11
Salaries and benefits, including director fees and expenses	54	55
Other expenses	51	18
	<u>\$ 112</u>	<u>\$ 84</u>

	Nine months ended September 30	
	2022	2021
Professional fees	\$ 10	\$ 64
Salaries and benefits, including director fees and expenses	164	225
Other Expenses	51	18
	<u>\$ 225</u>	<u>\$ 307</u>

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2022

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

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## 8. Deferred Liability:

Due to the adoption of PS 3450, the fair value of the unvested warrants on inception is recorded against a deferred liability. The deferred liability is not adjusted for fair value movements and is maintained at the original value until the warrants vest. As the warrants vest, the deferred liability and the corresponding unvested portion of the warrants are de-recognized. On July 29, 2022 Air Transat issued 4.7 million warrants. As at September 30, 2022 these warrants remained unvested. The carrying value of the deferred liability as at September 30, 2022 was \$7,068 (December 31, 2021 – nil).

## 9. Accumulated surplus:

Accumulated surplus consists of the accumulated surplus at the beginning of the period plus 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 period ended September 30, 2022 (December 31, 2021 – nil).

As at September 30, 2022, the Corporation issued 1 authorized and fully paid common share (December 31, 2021 – 1) at a price of \$1 (December 31, 2021 – \$1) to CDEV.

### b) Preference shares:

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

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

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

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2022

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

## 9. Accumulated surplus (continued):

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.

	September 30, 2022		December 31, 2021	
	Number of shares (in 000's)	Amount	Number of shares (in 000's)	Amount
Balance, beginning of period	3,090	\$ 3,090,000	200	\$ 200,000
Shares issued	–	–	2,890	2,890,000
Balance, end of period	3,090	\$ 3,090,000	3,090	\$ 3,090,000

## 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.

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2022

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

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## 10. Financial risk management (continued):

As at September 30, 2022, there were no loan balances which are past due or considered impaired (December 31, 2021 – 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.

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.

### 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 the inability to sell marketable securities to generate liquidity 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) Fair value of financial instruments:

The Corporation classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy used has the following levels:

**Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

**Level 3:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2022

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

## 10. Financial risk management (continued):

### Valuation methods and assumptions

#### a) Equity securities

The fair value of equity investments is based on quoted prices in active markets and has been classified as Level 1.

#### b) Warrants

The Air Transat warrants have been classified as a Level 3 due to the lack of traded options in the market, which result in using a significant and unobservable input for the warrant valuation – volatility and discount for lack of marketability (DLOM). The valuation model used to calculate the DLOM is the Finnerty put option pricing model, estimated based on the historical volatility. Historical volatility is considered as a level 3 input in option pricing. The fair value of the Air Transat warrants is valued based on the historical volatility, which was used as a proxy for the underlying asset's option implied volatility.

Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period during which the change has occurred. There were no movements between levels in the fair value hierarchy during the period ended September 30, 2022.

### Fair Value Hierarchy for Assets and Liabilities Measured at Fair Value

				As at September 30, 2022
	Level 1	Level 2	Level 3	Total
<b>Assets measured at fair value</b>				
Equity investments	\$ 358,078	\$ -	\$ -	358,078
Warrants	-	-	19,252	19,252
	\$ 358,078	\$ -	\$ 19,252	\$ 377,330

The following tables reconcile changes in fair value of all assets and liabilities measured at fair value using significant Level 3 unobservable inputs for the three and nine months ended September 30, 2022.

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2022

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

## 10. Financial risk management (continued):

### Reconciliation of Changes in Fair Value for Level 3 Assets and Liabilities for the three months period ended September 30, 2022

	Fair value as at July 1, 2022	Total Remeasurement Gains (Losses) arising during the period	Movements		Transfers		Fair value as at September 30, 2022	Change in unrealized gains (losses) on instruments still held
			Additions	Sales	Into Level 3	Out of Level 3		
<b>Assets measured at fair value</b>								
Warrants	\$ 19,548	\$ (7,364)	\$ 7,068	\$ -	\$ -	\$ -	\$ 19,252	\$ (7,364)
	\$ 19,548	\$ (7,364)	\$ 7,068	\$ -	\$ -	\$ -	\$ 19,252	\$ (7,364)

### Reconciliation of Changes in Fair Value for Level 3 Assets and Liabilities for the Nine months period ended September 30, 2022

	Fair value as at January 1, 2022	Total Remeasurement Gains (Losses) arising during the period	Movements		Transfers		Fair value as at September 30, 2022	Change in unrealized gains (losses) on instruments still held
			Additions	Sales	Into Level 3	Out of Level 3		
<b>Assets measured at fair value</b>								
Warrants	\$ 98,306	\$ (3,908)	\$ 7,068	\$ 82,214	\$ -	\$ -	\$ 19,252	\$ (10,208)
	\$ 98,306	\$ (3,908)	\$ 7,068	\$ 82,214	\$ -	\$ -	\$ 19,252	\$ (10,208)

The following table summarizes the potential impact of the unobservable inputs used in the warrant fair value estimation ("Sensitivity Testing"): the volatility and discount for lack of marketability (DLOM). To estimate the DLOM, a Finnerty put option model has been used. The only unobservable input in the DLOM estimation is the underlying assets volatility. Therefore, to conduct the sensitivity testing for the volatilities used in the warrant and DLOM valuation, a shift of +/- 10% has been applied in the unobservable input – the historical volatility of the underlying share.

# CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Notes to the Interim Condensed Financial Statements (unaudited)

Three and nine months ended September 30, 2022

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

## 10. Financial risk management (continued):

### Sensitivity Analysis of Level 3 Financial Assets and Liabilities

	As at September 30, 2022	
	Increase in fair value	Decrease in fair value
<b>Assets measured at fair value</b>		
Warrants	\$ 2,478	\$ 3,175
	\$ 2,478	\$ 3,175

#### e) COVID-19:

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

As at September 30, 2022, the COVID-19 and the variants continue 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 is considered in CEEFC's loan monitoring procedures and overall planning.

#### 11. Commitments:

As at September 30, 2022, the Corporation had loan commitments of \$2,838,128 (December 31, 2021 – \$2,812,051), less the amount drawn of \$2,688,128 (December 31, 2021 – \$2,317,983), the terms of which are as discussed in Note 5.