Canada Enterprise Emergency Funding Corporation

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

Annual Report 2022

Contents

Corporate Address

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

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Directors and Officers as at March 6, 2023

BOARD OF DIRECTORS

Sandra Rosch, ICD.D
Chair of CEEFC
Executive Vice President and Director
Labrador Iron Ore Royalty Corporation
Toronto, Ontario

Nathalie Bernier, FCPA, FCA
Director
Montreal, Quebec

Barry Pollock
Director
Toronto, Ontario

Elizabeth Wademan, CFA, ICD.D
Director
President and CEO, CDEV
Toronto, Ontario

Jim McArdle
Director
Ottawa, Ontario

Jennifer Reynolds, ICD.D
CEO
Women Corporate Directors Foundation
Toronto, Ontario

Zoltan Ambrus
President and CEO, CEEFC
Vice President, CDEV
Toronto, Ontario

OFFICERS

Zoltan Ambrus
President and Chief Executive Officer

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

Al Hamdani, CFA
Vice President

Andrew Stafl, CPA, CA
Vice President, Finance

Mandate and Corporate Governance Practices

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

In early 2020, the Canadian economy was 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 were also constrained due to uncertainties in the financial markets. Without continued access to credit, Canadian businesses faced retrenchment, which could slow prospects for longer-term economic growth. CEEFC was 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") 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 ("the Minister") and was intended to provide bridge financing to Canada's largest employers, whose needs during the COVID-19 pandemic were not being met through conventional financing. The objective of LEEFF is to help protect Canadian jobs, help Canadian businesses weather the economic downturn, and avoid bankruptcies of otherwise viable companies, where possible. LEEFF was not to be used to resolve insolvencies or restructure firms, nor to provide financing to companies that otherwise had the capacity to manage through the crisis. Instead, the additional liquidity made available through LEEFF provided 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) had a significant impact on Canada's economy, as demonstrated by having significant operations in Canada or supporting a significant workforce in Canada;

(b) could generally demonstrate approximately $300 million or more in annual revenues; and

(c) required a minimum loan size of about $60 million.

Companies that received financing through LEEFF were required to 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 also agreed 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 were 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 were 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 the other was a voucher refund facility program available to all Canadian airlines.

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

FINANCIAL SUPPORT TO THE CANADIAN AIRLINE INDUSTRY

LOANS AND EQUITY INVESTMENTS

To qualify for financial support under the Large Airline LEEFF program, 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 could 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 could not 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. The Large Airline LEEFF program is no longer operational.

AIRLINE VOUCHER REFUND LOAN FACILITIES

The voucher loan facilities were provided to Canadian airlines to refund the cancelled travel owing to the COVID-19 pandemic. In order to be eligible for financial assistance for voucher refunds, 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 could not exceed the airline's maximum refund liability. The cap 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 was $2 billion. The interest rate is fixed through the seven-year term. As of December 31, 2022 there is no availability remaining for any voucher refund loan.

AIRLINE LOAN AMENDMENTS

In March of 2022 changes were made to the original LEEFF loans to the existing borrowers in the Canadian airline industry that faced challenges due to the COVID-19 Omicron variant and related travel restrictions. These changes included: 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 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 public company was required to pay under the LEEFF loan program.

CEEFC RESPONSIBILITIES AND GOVERNANCE PRACTICES

At the outset of LEEFF, CEEFC was 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. Currently, CEEFC is responsible for monitoring and managing its portfolio of loans and other assets. CEEFC was 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 within a consolidated CDEV report comprising all its subsidiaries. The reporting will start for the 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 the responsibility of managing the Corporation in accordance with the mandate received from the Minister of Finance. CEEFC has a management team based in Toronto that works closely with external consultants, contractor specialists, and the Board to ensure the effective functioning of the Corporation. CEEFC's parent, CDEV, provides support functions and the expertise of some of its executive team to the Corporation, in exchange for a management fee, through a services agreement.

Management Discussion and Analysis of Results

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

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

Previously, CEEFC was required to receive loan applications and assess the requests against the eligibility criteria and terms approved by the Minister of Finance. With the closure of LEEFF to new applicants, CEEFC no longer performs these functions.

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 its incorporation, CEEFC reviewed and assessed several loan applications from potential borrowers. As detailed below, CEEFC has issued the following loans and the Corporation is now monitoring and managing these funded loans.

Loans issued

		As at December 31, 2022	
Borrower	**Agreement Signed**	**Total Loan Commitment**	**Amount funded**
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	–
		$ 1,103 million	$ 953 million

Voucher refund loans issued

		As at December 31, 2022	
Borrower	**Agreement Signed**	**Total Loan Commitment**	**Amount funded**
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
		$ 1,736 million	$ 1,736 million

Repayment of Loans

On July 18, 2022, Conuma Resources Ltd. repaid the secured loan. The principal and accrued interest received amounted to $24 million.

Subsequent to December 31, 2022, Conuma Resources Ltd. made a partial repayment of $40 million on February 16, 2023 towards the unsecured loan balance.

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 million.

In the third quarter of 2022, the Corporation entered into a loan agreement with Air Transat under the LEEFF program for $150 million. Consequently, the Corporation received an additional 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 had been adversely affected by restrictions on operations and the impacts on the international steel-making industry. The global outbreak of COVID-19 has had limited impact on CEEFC's operations. LEEFF borrowers are required to produce an annual climate-related financial disclosure report which follows the recommendations of the Financial Stability Board's Taskforce on Climate-Related Financial Disclosures. Reports are required to be produced in June of each year.

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 economic conditions, industry dynamics and specific borrower attributes. Given CEEFC's mandate to help Canadian businesses weather the 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 was 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 monitors the activities of companies in 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 PS 3450 as at January 1, 2022, the common shares and the warrants are carried at fair value.

Financial Statements for the year ended December 31, 2022

The financial statements for the year ended December 31, 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 standards below. 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 year ended December 31, 2022, 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 year ended December 31, 2022, was $196 million, compared to $106 million for the year ended 2021. The revenue mostly consisted of interest earned on the funded loans to its borrowers, including the amortization of certain loans and transaction fees over the expected life of the loans. The revenue in 2022 increased compared to the same period in 2021 mainly due to the gain of $82 million recorded in January 2022 for the repurchase of warrants by Air Canada. The budgeted revenue for 2022 of $133 million is lower than the actual revenue of $196 million due to $82 million earned on the sale of warrants. However, the interest earned on loans in the budget was higher than actual due to a higher budgeted level of loans.

A significant portion of professional fees incurred are recovered from borrowers. Under PSAS the fees are recorded in expenses as incurred and the recovery of the fees are recognized through the effective interest rate methodology ("EIRM") over the life of the loan. The expenses primarily consisted of financial and legal advisory fees in connection with financial and legal due diligence on loan applications. The actual expenses incurred for the period ended December 31, 2022 is comparable to the budgeted expenses. No provision for credit loss was incurred in the period as no loans were impaired as at December 31, 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 year ended December 31, 2022. The Government contribution for the year ended December 31, 2021 was $2,890 million which represents the preference shares issued to the Government of Canada.

Cash and cash equivalents as at December 31, 2022, amounted to $79 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 $35 million.

Loans to borrowers totaled $2,688 million as at December 31, 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 $110 million offset by interest received of $35 million, adjustments made due to the adoption of PS 3450 of $27 million, repayment of loans of $34 million, and loss due to extinguishment 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 December 31, 2022, the fair value of common shares in Air Canada was $418 million compared to the carrying value as at December 31, 2021 of $500 million recorded at cost. During the period ended December 31, 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 December 31, 2022 was $21 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 December 31, 2022 was $7 million.

No dividends were paid to the common or preference shareholders during 2022.

Management Responsibility for Financial Statements

The accompanying financial statements of Canada Enterprise Emergency Funding Corporation ("CEEFC" or the "Corporation") are the responsibility of management and were authorized for issue by the Board of Directors on March 6, 2023. 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, 2022.

As President and Chief Executive Officer and Vice President, Finance of CEEFC, we have reviewed the Corporation's financial statements, and based upon our knowledge, having exercised due diligence, we believe they fairly present, in all material respects, the Corporation's financial position as at December 31, 2022, and its financial performance and cash flows for the year ended December 31, 2022.

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

Andrew Stafl, CPA, CA
Vice President, Finance
CEEFC

March 6, 2023

INDEPENDENT AUDITORS' REPORT

To the Minister of Finance

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Canada Enterprise Emergency Funding Corporation (the Corporation), which comprise the statement of financial position as at 31 December 2022, and the statement of operations, statement of remeasurement gains and losses, statement of change in net financial assets and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 December 2022, and the results of its operations, its remeasurement gains and losses, changes in its net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

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

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

Report on Compliance with Specified Authorities

Opinion

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

In our opinion, the transactions of Canada Enterprise Emergency Funding Corporation that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in Canadian public sector accounting standards have been applied, except for the change in the method of accounting for financial instruments as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

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

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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

PricewaterhouseCoopers LLP

Tina Swiderski, CPA
Principal
for the Auditor General of Canada

Chartered Professional Accountants,
Licensed Public Accountants

Ottawa, Canada
6 March 2023

Statement of Financial Position

Year ended December 31
(Thousands of Canadian Dollars)

	2022	2021
Financial Assets		
Cash and cash equivalents (Note 4)	**$ 78,785**	$ 332,928
Interest and other receivables	**1,472**	67
Loans to borrowers (Notes 3, 5)	**2,688,193**	2,348,236
Equity investments (Notes 3, 6)	**418,261**	500,000
Warrants (Notes 3, 6)	**20,946**	–
	3,207,657	3,181,231
Financial Liabilities		
Trade payables	**686**	1,812
Due to shareholder (Note 7)	**224**	257
Deferred liability (Notes 3, 8)	**7,068**	–
	7,978	2,069
Net Financial Assets and Accumulated Surplus (Note 9)	**$ 3,199,679**	$ 3,179,162
Accumulated surplus is comprised of:		
Accumulated operating surplus	**3,296,870**	3,179,162
Accumulated remeasurement (losses)	**(97,191)**	–
	$ 3,199,679	$ 3,179,162

Commitments (Note 11)
The accompanying notes are an integral part of these financial statements.

On behalf of the Board: ______________ Director ______________ Director

Statement of Operations

Year ended December 31
(Thousands of Canadian Dollars)

			2022	2021
		Budget	**Actual**	Actual
Revenue				
Interest income – loans	$	132,569	**$ 111,707**	$ 105,304
Interest income – bank		–	**2,460**	266
Gain on sale of warrants		–	**82,214**	–
		132,569	**196,381**	105,570
Expenses				
Professional fees		3,000	**2,228**	4,737
Management fees (Note 7)		680	**678**	678
Salaries and benefits		200	**222**	283
Loss on extinguishment of loans (Note 5)		–	**75,521**	–
Other		680	**24**	168
		4,560	**78,673**	5,866
Surplus before government contribution		128,009	**117,708**	99,704
Government contribution/(repayment) (Note 9)		(70,000)	**–**	2,890,000
Surplus for the year		58,009	**117,708**	2,989,704
Accumulated surplus from operations, beginning of year		3,412,596	**3,179,162**	189,458
Accumulated surplus from operations, end of year	$	3,470,605	**$ 3,296,870**	$ 3,179,162

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

Statement of Remeasurement Gains and Losses

Year ended December 31
(Thousands of Canadian Dollars)

	2022
Accumulated remeasurement gains, beginning of year adjusted (Note 3)	$ 24,770
Remeasurement (losses) arising during the year	
Unrealized (losses) on equity investments	(37,533)
Unrealized (losses) on warrants	(2,214)
Amount reclassified to the Statement of Operations	
Realized gains on warrants	(82,214)
Net remeasurement (losses), for the year	(121,961)
Accumulated remeasurement (losses), end of year	$ (97,191)

Refer to note 3 for the adoption of new accounting standards and the reason why comparatives are not provided.
The accompanying notes are an integral part of these financial statements.

Statement of Change in Net Financial Assets

Year ended December 31
(Thousands of Canadian Dollars)

				2022		2021
		Budget		**Actual**		Actual
Surplus for the year	$	58,009	**$**	**117,708**	$	2,989,704
Net remeasurement (losses) for the year		–		**(121,961)**		–
Increase (Decrease) in financial assets		58,009		**(4,253)**		2,989,704
Net financial assets, beginning of year		3,412,596		**3,179,162**		189,458
Adjustments to opening net financial assets (Note 3)		–		**24,770**		–
Net financial assets, end of year	$	3,470,605	**$**	**3,199,679**	$	3,179,162

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

Statement of Cash Flow

Year ended December 31
(Thousands of Canadian Dollars)

	2022	2021
Operating activities:		
Surplus for the year	**$ 117,708**	$ 2,989,704
Adjustments for non-cash items:		
Interest income – loans (Note 5)	**(111,707)**	(105,304)
Loss on extinguishment of loans (Note 5)	**75,521**	–
Loan interest and fees received in cash (Note 5)	**35,854**	57,015
	117,376	2,941,415
Change in non-cash working capital:		
Interest and other receivables	**(1,405)**	322
Due to (from) shareholder	**(33)**	444
Trade payables	**(1,127)**	(3,801)
	(2,565)	(3,035)
Change in cash provided by operating activities	**114,811**	2,938,380
Investing activities:		
Loans issued, net of transaction fees and recoverable expenses	**(403,536)**	(2,568,225)
Purchase of equity investment (Note 6)	**–**	(500,000)
Loan repayments	**34,582**	380,100
Change in cash used in investing activities	**(368,954)**	(2,688,125)
Cash and cash equivalents, beginning of year	**332,928**	82,673
Cash and cash equivalents, end of year	**$ 78,785**	$ 332,928

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

Notes to Financial Statements

Year ended December 31, 2022

(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 His 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, was 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 was designed to provide bridge financing to Canada's largest employers, whose needs during the coronavirus ("COVID-19") pandemic were 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 was made available under the LEEFF program to Canadian Air Carriers to provide refunds to travelers, for travel cancellations owing to the pandemic. Financial support could also have included 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 of Finance, CEEFC no longer accepts or processes new LEEFF loan applications.

2. SIGNIFICANT ACCOUNTING POLICIES:

These financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards ("PSAS") as issued by the Public Sector Accounting Board. On January 1, 2022 the Corporation adopted PS 3450 Financial instruments. See Note 3 for more details.

a) Cash and cash equivalents:

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

b) Loans to borrowers:

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

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

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

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

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

c) Impairment of financial assets:

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

d) Financial instruments:

Cash and cash equivalents, interest and other receivables and trade payables are recorded at cost.

Loans to borrowers are financial instruments. Refer to note 2b) for additional information.

Warrants and equity investments are initially recorded and subsequently measured at fair value at each reporting period. The unrealized changes in the fair value is recognized in the Statement of Remeasurement Gains and Losses. When the fair value is realized upon sale or execution of the instrument the realized gain or loss will be reversed out of the Statement of Remeasurement Gains and Losses and reported in the Statement of Operations.

e) Government contribution:

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

f) Deferred liability:

When the warrants are issued, the unvested warrants at inception are recorded against a deferred liability. Subsequent to inception, 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 unvested warrants and the deferred liability are de-recognized.

g) Revenue recognition:

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

h) Foreign currency transactions:

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

i) Measurement uncertainty:

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

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

j) Equity investments:

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

i) Common shares:

Investment in publicly traded shares is recorded at fair value. The changes in fair value are reported in the Statement of Remeasurement Gains and Losses. When the change in the fair value is realized upon sale of the shares the realized gain or loss is reversed from the Statement of Remeasurement Gains and Losses and recorded in the Statement of Operations. Earnings from these investments are recognized only to the extent received or receivable.

ii) Warrants:

Warrants, received as part of the issuance of loans receivable, will vest in the same proportion and at same time advances are made under the loan facility. The vested warrants at inception are netted against the loan receivable. The unvested warrants at inception are recorded against a deferred liability. Subsequently both vested and the unvested warrants are measured at fair value with the change in the fair value being recorded in the Statement of Remeasurement Gains and Losses at the end of the period. The realized fair value upon sale or execution is reversed from the Statement of Remeasurement Gains and Losses and recognized in the Statement of Operations.

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. 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. 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 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.

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.

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 EIRM. 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.

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 EIRM 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 has 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

Statement of Financial Position - Total assets as at January 1, 2022:		**Amount**
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))	(15,049)	
Adjusted opening loan balance of total loan receivables	**2,333,187**	
Total Equity investments, opening balance previously reported	500,000	
Adjustments on account of recognition of equity shares (Note 3(III))	(44,206)	
Adjusted opening balance of total Equity investments	**455,794**	
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))	22,392	
Adjusted opening balance of total Warrants	**98,306**	
Total Adjustments to assets		39,051
Statement of Financial Position - Adjusted balance of total assets as at January 1, 2022		**$ 3,220,282**

Statement of Financial Position - Total liabilities as at January 1, 2022:		**Amount**
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))	12,785	
Adjusted opening balance of deferred liabilities	**12,785**	
Total adjustments to liabilities		12,785
Statement of Financial Position - Adjusted balance of total liabilities as at January 1, 2022		**$ 14,854**

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

3. ADOPTION OF NEW ACCOUNTING STANDARDS (CONTINUED):

Statement of Remeasurement Gains and Losses - Accumulated remeasurement gain/(loss) as at January 1, 2022:		Amount
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))	(44,206)	
Adjusted opening balance of unrealized gain/(losses) on equity investments	**(44,206)**	
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))	(6,938)	
Adjusted opening balance of unrealized gain/(losses) on warrants	**68,976**	
Statement of Remeasurement Gains and Losses - Adjusted balance of Accumulated remeasurement gain / (loss) as at January 1, 2022		**$ 24,770**

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 – Prior to the adoption of PS 3450 the warrants were accounted for at cost. 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. Subsequently, the warrants are measured at fair value with changes in fair value being recognized in the Statement of Remeasurement Gains and 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, which has been recognized in the Statement of Remeasurement Gains and Losses.

II. An adjustment was made to the opening balance of the total assets due to recognition of the warrants received from Air Canada as part of the transition provision of PS 3450. 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 de-recognized from the financial statement as of 31 December 2021. The fair value of the vested portion of the Air Canada warrants, on adoption is $75,914.

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 and was recorded at cost. 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 of $582,415 and the cash amount paid of $500,000 was recognized as an unrealized gain of $82,415 in the Statement of Remeasurement Gains and Losses as Air Canada did not draw down on the loan commitment. Subsequent to initial recognition, a loss of $126,621 was recognized in the Accumulated remeasurement gains / (losses) opening balance adjustment, owing to the change in the fair value of the common equity shares. The total adjustment on account of the unrealized gain recognized at inception and the subsequent fair value movement of the shares amounted to a loss of $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 the 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 Air Transat warrants amounted to $9,761 on 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. There was no requirement for a deferred liability prior to PS 3450.

4. CASH AND CASH EQUIVALENTS:

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

The following table provides the cash balances.

	2022	2021
Bank balances	**$ 78,785**	$ 182,954
Cash equivalents[1]	**–**	149,974
Cash and cash equivalents	**$ 78,785**	$ 332,928

[1] Banker's acceptance to mature in less than 30 days.

5. LOANS TO BORROWERS:

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

a) Original LEEFF Loans (including Non-Large Airline Companies):

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

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

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

If the borrower is a Canadian publicly traded company (or the private subsidiary of a Canadian publicly traded company), the Corporation receives warrants with the option to purchase the borrower's (or their parent publicly traded company's) common shares with an aggregate exercise price equal to 18.75% of the total commitment unsecured loan facility. Vested warrants are exercisable in whole or in part, at any time or times after the date vested and during the 10-year term, provided that 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 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.

The emergence of the COVID-19 Omicron variant and related travel advisories resulted in the COVID-19 pandemic persisting longer than originally anticipated and correspondingly borrowers in the Airline industry were facing a delayed recovery and longer time to restart operations. Consequently, during the first quarter of 2022 the amendments to the current LEEFF terms were made 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 interest 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.

5. LOANS TO BORROWERS (CONTINUED):

b) Large Airline Company Facilities:

To qualify for financial support, airline companies (hereafter known as the “Airline”) had to 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 could not exceed 20% of the total principal amount of the secured and unsecured loan facilities.

The loan facilities may be revolving loans or non-revolving term loans and may be divided into one or more tranches. The principal amount of the unsecured loan facility may not exceed 80% of the total principal amount of the secured and unsecured loan facilities. The interest rate on the loan facilities may be fixed or floating and the maturity date of the loan facilities is up to seven years from the closing date. On the closing date of the loan, the borrower was required to pay a non-refundable transaction fee of 25 bps of the aggregate commitment amount of the loan to the Corporation. The borrower was 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 was a Canadian public company, the Corporation would 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 to vest on the closing date and the balance to 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 had to 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 was able to borrow under this program is $2,000,000 and the amount borrowed had to be in the form of non-revolving term loan. The interest rate on this facility was the Government of Canada seven-year bond rate and the maturity date is up to seven years from the closing date.

The following table provides a breakdown of the loan facilities.

	2022	2021
Number of borrowers	**5**	5
Total loan commitment		
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
Total cumulative loan drawdown		
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
Outstanding loan balance[1]		
Unsecured loan facilities (Note 3(l))	**$ 790,813**	$ 532,667
Secured loan facilities	**161,183**	124,384
Airline voucher refund facilities	**1,736,197**	1,691,185
	$ 2,688,193	$ 2,348,236

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

As at December 31, 2022, the Loans to borrowers balance includes accrued but unpaid interest of $74,359 (December 31, 2021 – $48,516) on the unsecured, secured, and airline voucher refund facilities.

For the year ended December 31, 2022, the amount of interest income recognized in the Statement of Operations using EIR was $110,197 (December 31, 2021 - $105,304). Based on the terms of the loan agreements, the amount of interest and fees collected from borrowers in cash during the same periods were $35,854 (December 31, 2021 - $57,015).

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 the first quarter of 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 $75,521.

(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 and payments received subsequent to year-end.

2022	$ –
2023[1]	48,889
2024	139,136
2025[1]	79,818
2026	733,395
2027 and beyond	1,736,197
	$ 2,737,435

[1] Subsequent to December 31, 2022, a partial repayment of $40,000 was made by Conuma Resources Ltd. and has been reflected in the table.

d) 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 December 31, 2022, the fair value of these shares was $418,261 (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 December 31, 2022, the fair value of the warrants was $20,946 (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 $14,627 and $6,319 respectively.

The following table summarizes the warrants issued to the Corporation.

	Warrants issued			Warrants vested as at			
				2022		2021	
Company	Number of warrants (in 000's)	Exercise price per share (in dollars)	Maturity Date	**Number of warrants (in 000's)**	**Amount[1]**	Number of warrants (in 000's)	Amount[1]
Air Canada	–	–	–	**–**	**$ –**	7,289	$ –
Air Transat	13,000	4.5000	April 2031	**13,000**	**14,627**	7,333	–
Air Transat	4,688	3.2000	July 2032	**–**	**–**	–	–
					$ 14,627		$ –

[1] With the adoption of PS 3450 on January 1, 2022, the warrants are valued at fair value as at December 31, 2022. As at December 31, 2021, the warrants were at cost.

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 $82,214.

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 the Corporation that are paid by the Corporation, not including the management fees charged by CDEV to the Corporation.

During the year ended December 31, 2022 CDEV provided management services to the Corporation, related to executives, administration, banking, financial, and support services, in respect of which it billed $678 (December 31, 2021 - $678). These amounts are reported as Management fees on the Statement of Operations.

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 the expenses paid by CDEV and reimbursed by CEEFC.

		2022		2021
Professional fees	**$**	**10**	$	91
Salaries and benefits, including director fees and expenses		**219**		283
Other expenses		**52**		19
	$	**281**	$	393

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. Warrants vest in proportion to the loans advanced under the unsecured loan facility. As the warrants vest, the deferred liability and the corresponding unvested portion of the warrants are de-recognized. On January 1, 2022 there were 13 million warrants issued and on April 29, 2022 these warrants were fully vested. On July 29, 2022 Air Transat issued 4.7 million warrants. As at December 31, 2022 these warrants remained unvested. The carrying value of the deferred liability as at December 31, 2022 was $7,068 (December 31, 2021 – nil).

The following table summarizes the movement of warrants after the adoption of PS 3450 on January 1, 2022[1].

Date	Total number of warrants (in 000's)	Number of warrants vested (in 000's)	Number of warrants unvested (in 000's)
1/1/2022	13,000	7,333	5,667
2/9/2022	13,000	12,000	1,000
4/29/2022	13,000	13,000	–
7/29/2022	17,688	13,000	4,688

[1] There was no requirement for a deferred liability prior to the adoption of PS 3450 on January 1, 2022.

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

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 year ended December 31, 2022 (December 31, 2021 – nil).

As at December 31, 2022, the Corporation had 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.

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. 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 are summarized below.

	2022		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 and Statement of Operations. This note provides information about the Corporation's exposure to each of these risks as well as the Corporation's objectives, policies, and processes for measuring and managing them.

a) Credit risk:

Credit risk is the risk of financial loss to the Corporation if counterparties do not fulfill their contractual obligations. The carrying amount of loans to borrowers represents the Corporation's maximum credit exposure. The Corporation attempts to mitigate this risk by requiring collateralization for its secured loan facilities. Collateralization is the security package provided to a counterparty's secured lenders alongside which the Corporation's secured facility is provided.

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

As at December 31, 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.

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

10. FINANCIAL RISK MANAGEMENT (CONTINUED):

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).

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 year ended December 31, 2022.

Fair Value Hierarchy for Assets and Liabilities Measured at Fair Value

				2022
	Level 1	Level 2	Level 3	Total[1]
Assets measured at fair value				
Equity investments	$ 418,261	$ –	$ –	$ 418,261
Warrants	–	–	20,946	20,946
	$ 418,261	$ –	$ 20,946	$ 439,207

[1] Only current figures are provided upon adoption of PS 3450 and PS 1201.018. As at December 31, 2021 the equity investments and the warrants were reported at cost.

The following table reconcile changes in fair value of all assets and liabilities measured at fair value using significant Level 3 unobservable inputs for the year ended December 31, 2022.

Reconciliation of Changes in Fair Value for Level 3 Assets and Liabilities

	Fair value as at January 1, 2022	Total Remeasurement Gains (Losses) arising during the period	Movements		Transfers		Fair value as at December 31, 2022[1]	Change in unrealized gains (losses) on instruments still held
			Additions	Sales	Into Level 3	Out of Level 3		
Assets measured at fair value								
Warrants	$ 98,306	$ (2,214)	$ 7,068	$ (82,214)	$ –	$ –	$ 20,946	$ (8,514)
	$ 98,306	$ (2,214)	$ 7,068	$ (82,214)	$ –	$ –	$ 20,946	$ (8,514)

[1] Only current figures are provided upon adoption of PS 3450 and PS 1201.018. As at December 31, 2021 the warrants were reported at cost.

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.

Sensitivity Analysis of Level 3 Financial Assets and Liabilities

		2022
	Increase in fair value[1]	Decrease in fair value[1]
Assets measured at fair value		
Warrants	$ 9,727	$ 6,681
	$ 9,727	$ 6,681

[1] Only current figures are provided upon adoption of PS 3450 and PS 1201.018. As at December 31, 2021 the warrants were reported at cost.

10. FINANCIAL RISK MANAGEMENT (CONTINUED):

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 December 31, 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. Effect of COVID-19 and its variants still present certain challenges for the recovery of 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 December 31, 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.

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