Canada Enterprise Emergency Funding Corporation

La Corporation de financement d’urgence d’entreprises du Canada

Third Quarter Report
September 30, 2023

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

Corporate Address:

Canada Enterprise Emergency Funding Corporation
161 Bay Street, Suite 4540
Toronto, Ontario M5J 2S1

Telephone: (416) 966-2221
Facsimile: (416) 966-5485
Website: www.ceefc-cfuec.ca

Management Responsibility For Financial Statements

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 14, 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.

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 September 30, 2023, and its financial performance and cash flows for the nine months ended September 30, 2023.

Zoltan Ambrus
President and Chief Executive Officer
CEEFC

Andrew Stafl, CPA, CA
Vice President, Finance
CEEFC

November 14, 2023

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. 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 has developed its own reporting for climate-related financial risks within a consolidated CDEV report comprising all its subsidiaries. The inaugural report was published in July 2023 for the year 2022, using the standards of the Task Force on Climate-related Financial Disclosures. For further details refer https://cdev.gc.ca/esg/

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 – for the period ended September 30, 2023

The public communications of CEEFC, including this interim 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 ("EIRM") 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 investments 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. Detailed below are the outstanding loans that CEEFC has issued, which the Corporation is now monitoring and managing.

Loans issued

Borrower	Agreement Signed	Total Loan Commitment	Amount Funded
		As at September 30, 2023	
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)[1]	Jul. 2022	150 million	–
		$ 790 million	$ 640 million

[1] The availability period ended on October 29, 2023, and the facility was cancelled with the loans not drawn.

Voucher refund loans issued

Borrower	Agreement Signed	Total Loan Commitment	Amount Funded
		As at September 30, 2023	
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 February 16, 2023, Conuma Resources Ltd. made a partial repayment of $40 million towards the unsecured loan balance. On April 24, 2023 Conuma Resources Ltd repaid the remaining unsecured loan balance. The repayment which comprised of principal, accrued interest and fees amounted to $79 million.

On May 1, 2023 Sunwing Vacations Inc repaid the secured and unsecured loan balances. The repayment which comprised of principal, accrued interest and fees amounted to $247 million.

Subsequent to September 30, 2023, Transat A.T Inc. partially repaid $26 million of the secured loan.

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 were severely impacted by domestic and international travel restrictions and other economic impacts from COVID-19 on their 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 common shares and the warrants are carried at fair value, the fluctuations in share price will impact financial results.

Interim Condensed Financial Statements for the period ended September 30, 2023

The unaudited interim condensed financial statements for the nine months ended September 30, 2023 have been prepared in accordance with Public Sector Accounting Standards ("PSAS"). Although CEEFC is wholly owned by CDEV, CDEV does not consolidate the financial results of CEEFC under CDEV's International Financial Reporting Standards ("IFRS") accounting framework.

Total revenue for the three and nine months ended September 30, 2023, was $31 million and $108 million respectively, compared to $25 million and $164 million for the same period in 2022. The increase in revenue in the third quarter of 2023 compared to the same period in 2022 is mainly due to the increase in interest bearing cash balances and higher interest rates. Revenue on a year-to-date basis decreased in 2023 compared to 2022 mainly due to the $82 million gain on sale of warrants recognized in the first quarter of 2022 offset by the interest earned on loans and bank interest income. The increase in the interest income from loans from $80 million in 2022 to $98 million in 2023 is mainly due to repayment of loans. The increase in bank interest from $2 million in 2022 to $10 million in 2023 is due to the increase in interest bearing cash balances and higher interest rates. The increase in revenue in the third quarter of 2023 is comparable to the budgeted revenue. The increase in the year-to-date revenue of $108 million compared to the budgeted revenue of $75 million is mainly due to the increase in interest rates on loans issued and adjustments due to interest and fees received on the repayment of loans.

Total expenses in the nine-months ended September 30, 2023 were lower than the comparable period due to the $76 million loss on extinguishment of loans in 2022. No provision for credit loss was incurred in the current or comparable period as no loans were impaired.

There was no Government contribution for the three- and nine-months period ended September 30, 2023 and September 30, 2022.

Cash as at September 30, 2023 amounted to $479 million compared to $79 million as at December 31, 2022. The increase in cash is mainly due to the repayment of loans of $313 million and loan interest and fees received of $81 million.

Loans to borrowers totaled $2,392 million as at September 30, 2023 compared to $2,688 million as at December 31, 2022. The decrease is primarily due to repayment of loans of $313 million, loan interest and fees received of $81 million offset by interest calculated based on EIRM of $98 million.

Air Canada price per share on September 30, 2023 was $19.38 compared to $19.39 as at December 31, 2022. Therefore , the fair value of common shares in Air Canada was $418 million on September 30, 2023 and December 31, 2022. The fair value of the Air Transat warrants as at September 30, 2023 was $24 million compared to $21 million reported as at December 31, 2022. The unvested warrants as at September 30, 2023 were valued at nil due to the low probability of being vested. The unvested warrants were valued at $6 million on December 31, 2022. Subsequent to September 30, 2023 the unvested warrants were cancelled due to the cancellation of the loan facility.

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, 2023 and December 31, 2022 remain at $7 million. Subsequent to September 30, 2023 the unvested warrants and the corresponding deferred liability was de-recognized due to the cancellation of the loan facility.

No dividends were paid to the common or preference shareholders during the period ended September 30, 2023.

Interim Condensed Financial Statements of

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Three and nine months ended September 30, 2023

(Unaudited)

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

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

		September 30, 2023		December 31, 2022
Financial Assets				
Cash	$	478,861	$	78,785
Interest and other receivables		2,996		1,472
Loans to borrowers (Note 3)		2,392,415		2,688,193
Equity investments (Note 4)		418,045		418,261
Warrants (Note 4)		24,141		20,946
		3,316,458		3,207,657
Financial Liabilities				
Trade payables		395		686
Due to shareholder (Note 5)		285		224
Deferred liability (Note 6)		7,068		7,068
		7,748		7,978
Net Financial Assets and Accumulated Surplus (Note 7)		3,308,710		3,199,679
Accumulated surplus is comprised of:				
Accumulated operating surplus		3,402,922		3,296,870
Accumulated remeasurement losses		(94,212)		(97,191)
	$	3,308,710	$	3,199,679

Commitments (Note 9)

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

On behalf of the Board: Sandra Rosch Director ______ Director

CANADA ENTERPRISE EMERGENCY FUNDING CORPORATION

Interim Condensed Statement of Operations
(Unaudited)
(Thousands of Canadian Dollars)

	Three months ended September 30			Nine months ended September 30		
		2023	2022		2023	2022
	Budget	Actual	Actual	Budget	Actual	Actual
Revenue						
Interest income – loans	$ 24,722	$ 25,040	$ 24,309	$ 75,243	$ 97,677	$ 80,256
Interest income – bank	–	5,774	1,047	–	10,416	1,686
Gain on sale of warrants	–	–	–	–	–	82,214
	24,722	30,814	25,356	75,243	108,093	164,156
Expenses						
Professional fees	1,000	316	174	3,000	1,191	2,036
Management fees (Note 5)	170	226	170	510	678	509
Salaries and benefits	50	59	56	150	170	167
Loss on extinguishment of loans	–	–	–	–	–	75,521
Other	170	1	21	510	2	24
	1,390	602	421	4,170	2,041	78,257
Surplus before government contribution	23,332	30,212	24,935	71,073	106,052	85,899
Surplus for the period	23,332	30,212	24,935	71,073	106,052	85,899
Accumulated surplus from operations, beginning of period	3,344,294	3,372,710	3,240,126	3,296,553	3,296,870	3,179,162
Accumulated surplus from operations, end of period	$ 3,367,626	$ 3,402,922	$ 3,265,061	$ 3,367,626	$ 3,402,922	$ 3,265,061

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		Nine months ended September 30	
	2023	2022	2023	2022
Accumulated remeasurement gains/(losses), beginning of period	$ 46,872	$ (163,784)	$ (97,191)	$ 24,770
Remeasurement gains(losses) arising during the period				
Unrealized gains/(losses) on equity investments	(121,013)	12,080	(216)	(97,716)
Unrealized gains/(losses) on warrants	(20,071)	(7,364)	3,195	(3,908)
Amount reclassified to the Statement of Operations				
Realized gains on warrants	–	–	–	(82,214)
Net remeasurement gains/(losses), for the period	(141,084)	4,716	2,979	(183,838)
Accumulated remeasurement losses end of period	$ (94,212)	$ (159,068)	$ (94,212)	$ (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 September 30			Nine months ended September 30		
		2023	2022		2023	2022
	Budget	Actual	Actual	Budget	Actual	Actual
Surplus for the period	$ 23,332	$ 30,212	$ 24,935	$ 71,073	$ 106,052	$ 85,899
Net remeasurement gains/(losses) for the period	–	(141,084)	4,716	–	2,979	(183,838)
Increase/(decrease) in financial assets	23,332	(110,872)	29,651	71,073	109,031	(97,939)
Net financial assets, beginning of period	3,344,294	3,419,582	3,076,342	3,296,553	3,199,679	3,179,162
Adjustments to opening net financial assets[1]	–	–	–	–	–	24,770
Net financial assets, end of period	$ 3,367,626	$ 3,308,710	$ 3,105,993	$ 3,367,626	$ 3,308,710	$ 3,105,993

[1] Due to the adoption of PS 3450 on January 1, 2022.

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 September 30		Nine months ended September 30	
	2023	2022	2023	2022
Operating activities:				
Surplus for the period	$ 30,212	$ 24,935	$ 106,052	$ 85,899
Adjustments for non-cash items:				
Interest income – loans (Note 3)	(25,040)	(24,309)	(97,677)	(80,256)
Loss on extinguishment of loans	–	–	–	75,521
Loan interest and fees received in cash (Note 3)	8,630	10,108	80,924	24,485
	13,802	10,734	89,299	105,649
Change in non-cash working capital:				
Interest and other receivables	(1,680)	(377)	(1,524)	(338)
Due to (from) shareholder	6	56	61	24
Trade payables	(226)	(521)	(291)	15
	(1,900)	(842)	(1,754)	(299)
Change in cash provided by operating activities	11,902	9,892	87,545	105,350
Investing activities:				
Loans issued, net of transaction fees and recoverable expenses	–	(118,809)	–	(403,536)
Loan repayments	–	24,000	312,531	34,582
Change in cash provided by/(used in) investing activities	–	(94,809)	312,531	(368,954)
Cash, beginning of period	466,959	154,241	78,785	332,928
Cash, end of period	$ 478,861	$ 69,324	$ 478,861	$ 69,324

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

1. Reporting entity:

Canada Enterprise Emergency Funding Corporation ("CEEFC", or the "Corporation") is a wholly-owned subsidiary of Canada Development Investment Corporation ("CDEV"). CDEV is, in turn, wholly owned by 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 3 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 3 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 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 2022 Audited Financial Statements.

As interim condensed financial statements do not include all of the disclosures that would normally be provided in annual financial statements, these interim condensed financial statements should be read in conjunction with the Corporation's 2022 Audited Financial Statements. Disclosures and information contained in the 2022 Audited Financial Statements apply to this quarter unless otherwise updated herein.

3. 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 4(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.

3. Loans to borrowers (continued):

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 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.

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.

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

3. Loans to borrowers (continued):

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.

	As at	
	September 30, 2023	December 31, 2022
Number of borrowers	4	5
Total loan commitment		
Unsecured loan facilities	$ 632,000	$ 909,691
Secured loan facilities	158,000	192,840
Airline voucher refund facilities	1,735,597	1,735,597
	$ 2,525,597	$ 2,838,128
Total cumulative loan drawdown		
Unsecured loan facilities	$ 512,000	$ 789,691
Secured loan facilities	128,000	162,840
Airline voucher refund facilities	1,735,597	1,735,597
	$ 2,375,597	$ 2,688,128
Outstanding loan balance[1]		
Unsecured loan facilities	$ 530,113	$ 790,813
Secured loan facilities	126,106	161,183
Airline voucher refund facilities	1,736,196	1,736,197
	$ 2,392,415	$ 2,688,193

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

As at September 30, 2023, the Loans to borrowers balance includes accrued but unpaid interest of $46,705 (December 31, 2022 – $74,359) on the unsecured, secured, and airline voucher refund facilities.

For the three and nine months ended September 30, 2023, the amount of interest income recognized in the Statement of Operations using EIR was $25,040 (September 30, 2022 - $24,309) and $97,677 (September 30 , 2022 - $78,746). Based on the terms of the loan agreements, the amount of interest and fees collected from borrowers in cash during the same periods were $8,630 (September 30, 2022 - $10,108) and $80,924 (September 30, 2022 - $24,485) respectively.

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

3. Loans to borrowers (continued):

The following table shows the principal and PIK interest, loan repayments receivable for each of the next five years and beyond based on contractual maturity dates and payments received subsequent to quarter-end.

2023[1]	$	25,600
2024		28,500
2025		73,900
2026		557,800
2027		–
2028		1,736,197
	$	2,421,997

[1]Susequent to September 30, 2023, Transat A.T Inc. partially repaid $25.6 million of the secured loan on October 31, 2023.

d) Repayment of loans:

In February 2023 Conuma Resources Ltd. partially repaid $40,000 of the unsecured loan balance. On April 24, 2023, Conuma Resources Ltd. repaid the remaining unsecured loan obligations with the Corporation. The aggregate principal balance accrued interest and fees received was $78,638.

On May 1, 2023, Sunwing Vacations Inc. repaid the secured and unsecured loan balances with the Corporation. The aggregate principal balance accrued interest and fees received was $246,552.

4. 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, 2023, the fair value of these shares was $418,045 (December 31, 2022 – $418,261). The shares are reported as Equity investments in the Statement of Financial Position.

b) Warrants:

As indicated in Note 3, if the borrower is a public company instead of a loan fee the Corporation receives warrants exercisable for common voting shares. As at September 30, 2023, the fair value of the warrants was $24,141 (December 31, 2022 – $20,946). The outstanding warrants as at September 30, 2023 are all issued by Air Transat. The warrants vest in proportion to the loans advanced under the unsecured loan facility. The fair value of the vested warrants amounted to $24,141. The unvested warrants were valued at nil due to the low probability of being vested.

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

4. Equity investment (continued):

The following table summarizes the warrants issued to the Corporation.

	Warrants issued				Warrants vested as at September 30, 2023		Warrants vested as at December 31, 2022	
Company	**Number of warrants (in 000's)**	**Exercise price per share (in dollars)**	**Maturity Date**	**Number of warrants (in 000's)**	**Amount**	**Number of warrants (in 000's)**	**Amount**
Air Transat	13,000	4.5000	April 2031	13,000	$ 24,141	13,000	$ 14,627
Air Transat	4,688	3.2000	July 2032	–	–	–	–
				13,000	$ 24,141	13,000	$ 14,627

5. Transactions with related parties:

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

During the three- and nine-months period ended September 30, 2023 CDEV provided management services to the Corporation, related to executives, administration, banking, financial, and support services, in respect of which it billed $226 (September 30, 2022 - $170) and $678 (September 30, 2022 - $509) respectively. 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.

	Three months ended September 30 2023	2022
Professional fees	$ –	$ 7
Salaries and benefits, including director fees and expenses	59	54
Other expenses	–	51
	$ 59	$ 112

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

5. Transactions with related parties (continued):

	Nine months ended September 30 2023	2022
Professional fees	$ –	$ 10
Salaries and benefits, including director fees and expenses	167	164
Other expenses	–	51
	$ 167	$ 225

6. Deferred liability:

The fair value of the unvested warrants at 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. As at September 30, 2023 there were 4,687,500 unvested warrants. The carrying value of these warrants as at September 30, 2023 was $7,068 (December 31, 2022 – $7,068).

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)
2022 January 01	13,000	7,333	5,667
2022 February 09	13,000	12,000	1,000
2022 April 29	13,000	13,000	–
2022 July 29	17,688	13,000	4,688

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

7. Accumulated surplus:

Accumulated surplus consists of the accumulated surplus at the beginning of the period plus surplus or less (deficit) before government contribution plus any 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, 2023 (December 31, 2022 – nil).

As at September 30, 2023, the Corporation had 1 authorized and fully paid common share (December 31, 2022 – 1) at a price of $1 (December 31, 2022 – $1) to CDEV.

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

7. Accumulated surplus (continued):

b) Preference shares:

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

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.

	September 30, 2023		December 31, 2022	
	Number of shares (in 000’s)	Amount	Number of shares (in 000’s)	Amount
Balance, beginning of period	3,090	$ 3,090,000	3,090	$ 3,090,000
Shares issued	–	–	–	–
Balance, end of period	3,090	$ 3,090,000	3,090	$ 3,090,000

8. 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.

8. Financial risk management (continued):

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 September 30, 2023, there were no loan balances which are past due or considered impaired (December 31, 2022 – 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.

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.

8. 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 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 resulted 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, 2023.

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

8. Financial risk management (continued):

Fair Value Hierarchy for Assets and Liabilities Measured at Fair Value

	September 30, 2023				December 31, 2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets measured at fair value								
Equity investments	$ 418,045	$ –	$ –	$ 418,045	$ 418,261	$ –	$ –	$ 418,261
Warrants	–	–	24,141	24,141	–	–	20,946	20,946
	$ 418,045	$ –	$ 24,141	$ 442,186	$ 418,261	$ –	$ 20,946	$ 439,207

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, 2023 and September 30, 2022.

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

	Fair value as at July 1, 2023	Total Remeasurement Gains (Losses) arising during the period	Movements: Additions	Movements: Sales/ Cancellations	Transfers: Into Level 3	Transfers: Out of Level 3	Fair value as at September 30, 2023	Change in unrealized gains (losses) on instruments still held
Assets measured at fair value								
Warrants	$ 44,212	$ (20,071)	$ –	$ –	$ –	$ –	$ 24,141	$ (20,071)
	$ 44,212	$ (20,071)	$ –	$ –	$ –	$ –	$ 24,141	$ (20,071)

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

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

8. Financial risk management (continued):

	Fair value as at January 1, 2023	Total Remeasurement Gains (Losses) arising during the period	Movements		Transfers		Fair value as at September 30, 2023	Change in unrealized gains (losses) on instruments still held
			Additions	Sales/ Cancellations	Into Level 3	Out of Level 3		
Assets measured at fair value								
Warrants	$ 20,946	$ 3,195	$ –	$ –	$ –	$ –	$ 24,141	$ 3,195
	$ 20,946	$ 3,195	$ –	$ –	$ –	$ –	$ 24,141	$ 3,195

	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/ Cancellations	Into Level 3	Out of Level 3		
Assets measured at fair value								
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.

Sensitivity Analysis of Level 3 Financial Assets and Liabilities

	September 30, 2023		December 31, 2022	
	Increase in fair value	Decrease in fair value	Increase in fair value	Decrease in fair value
Assets measured at fair value				
Warrants	$ 2,180	$ 2,482	$ 9,727	$ 6,681
	$ 2,180	$ 2,482	$ 9,727	$ 6,681

9. Commitments:

As at September 30, 2023, the Corporation had loan commitments of $2,525,597 (December 31, 2022 – $2,838,128). The amount of loans drawn is $2,375,597 (December 31, 2022 – $2,688,128), the terms of which are as discussed in Note 3.