GOVERNMENT OF CANADA

Rating Analysis - 6/30/16

*EJR Sen Rating(Curr/Prj) AA/ AA
*EJR CP Rating: A1+
EJR's 3 yr. Default Probability: 1.0%

Economic prospects in Canada are expected to strengthen and real growth is expected to rise to 2% in 2017. As the drag on natural resources sector gradually reduces, the rest of the economy should gain traction. Inflation is expected to rise to 2% mainly due to rallying oil prices and a reduction in excess capacity. Also, Canada's reliance on fiscal policy to stimulate the economy will help to reduce unemployment. This moderately expansionary deficit financing will be achieved by issuing C$133 Billion sovereign debt, of which C$41 Billion is to be financed this coming year.

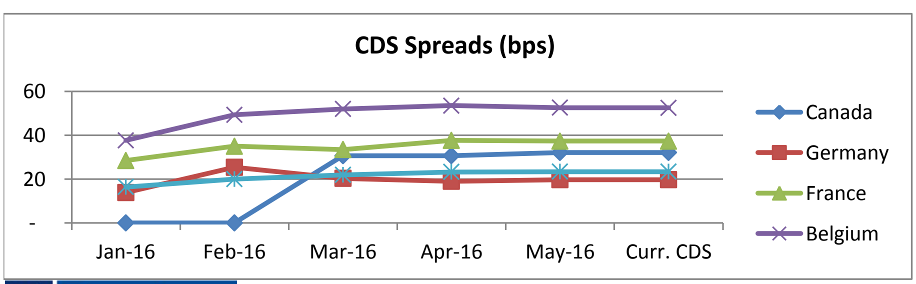
Growth in non-commodity export industries has picked up supported by anticipatory rising interest rates in the United States and recovery of trade partners. Low interest rates in the economy have encouraged household credit growth and supported rapidly rising housing prices. The balance of trade decreased by 65% in 2015 with respect to 2014 numbers. Downgrading to "AA". Note, to reflect the propensity of central banks to support sovereign obligors, we have eased our indicative credit ratios, resulting in some upgrades.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2013	2014	2015	P2016	P2017	P2018
Debt/ GDP (%)	104.2	103.5	106.1	106.7	107.5	108.3
Govt. Sur/Def to GDP (%)	-0.7	-0.5	-1.2	-1.6	-1.9	-2.1
Adjusted Debt/GDP (%)	104.2	103.5	106.1	106.8	107.7	108.5
Interest Expense/ Taxes (%)	12.5	12.0	11.6	11.7	11.8	11.9
GDP Growth (%)	3.4	5.1	0.5	2.3	2.3	2.5
Foreign Reserves/Debt (%)	3.5	3.8	4.3	4.4	4.3	4.1
Implied Sen. Rating	AA	AA	AA-	AA	AA	AA-

INDICATIVE CREDIT RATIOS	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

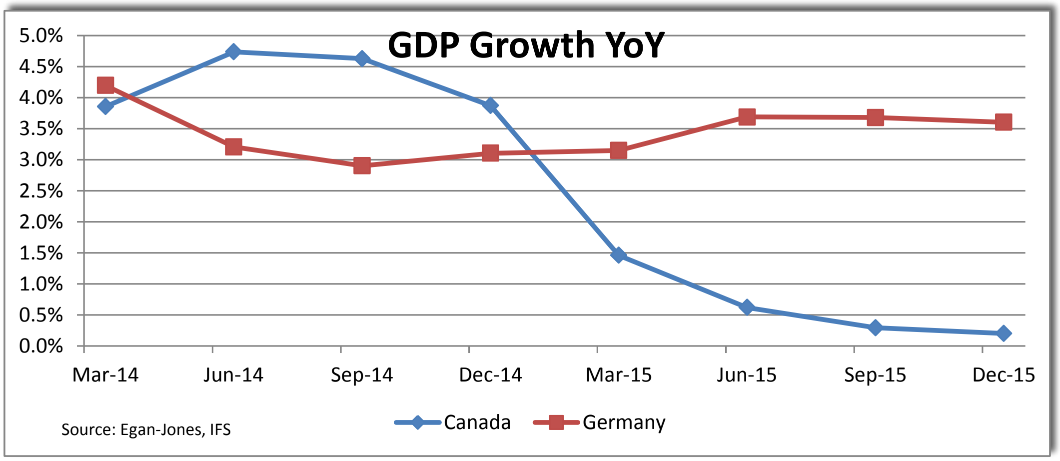
PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	71.2	0.6	71.2	7.0	4.1	AA+
French Republic	AA	96.0	-3.4	96.0	7.0	2.4	AA-
Kingdom Of Belgium	AA	106.0	-2.6	106.0	9.6	1.9	A+
Kingdom Of Sweden	AAA	43.4	1.0	43.4	1.2	6.0	AA+
United Kingdom	AAA	89.2	-3.5	89.2	8.7	4.0	AA+



Country	CDS
Canada	32
Germany	20
France	37
Belgium	53
Sweden	23

Economic Growth

Energy drag: the collapse in the energy and commodity prices over the past several years has hurt growth. Non-energy business investments are currently subdued but should pick up as spare capacity declines. With moderate growth in household incomes, consumption should continue to grow steadily. The unemployment rate is estimated around 6.7% by 2017 provided oil prices and foreign exchange markets are stable. Another factor in the economy to look at is the rising residential housing market, particularly in Toronto and Vancouver where prices have increased by 15% and 30% respectively from last year. These two markets constitute 30% of the overall Canadian housing market. A major reason for this dynamic could be loose credit environment and reliance on fiscal policy to stimulate economy.



Fiscal Policy

As seen from the chart at the right, deficit-to-GDP is 1.17% which will probably deteriorate because of Canada's reliance on fiscal policy to stoke economic growth. The increased expenditure is likely to be focused on infrastructure investments in non-commodity sectors in order to diversify Canada's export portfolio. The debt-to-GDP ratio has not changed significantly over last several years, however the number of 106% is not satisfying, which is among the highest of the peer countries and likely to increase due to the fiscal policy to stimulate the economy.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Canada	-1.17	106.06	32.21
Germany	0.59	71.22	19.79
France	-3.40	95.96	37.35
Belgium	-2.62	105.96	52.56
Sweden	1.02	43.43	23.43
UK	-3.46	89.22	33.95

Sources: Thomson Reuters and IFS

Unemployment

Canada's unemployment rate has long mirrored the United States. As can be seen from the chart at right, Canada is near the median of the peer countries, although, for a good credit, unemployment is high. For the more recent periods, the country's unemployment rate has been near 6.9%. We expect unemployment to decrease further due to infrastructural investments and subsequent job creation.

Unemployment (%)	2014	2015
Canada	6.90	6.90
Germany	6.70	6.01
France	10.30	10.40
Belgium	8.50	8.50
Sweden	7.93	7.40
UK	6.19	5.37

Source: Intl. Finance Statistics

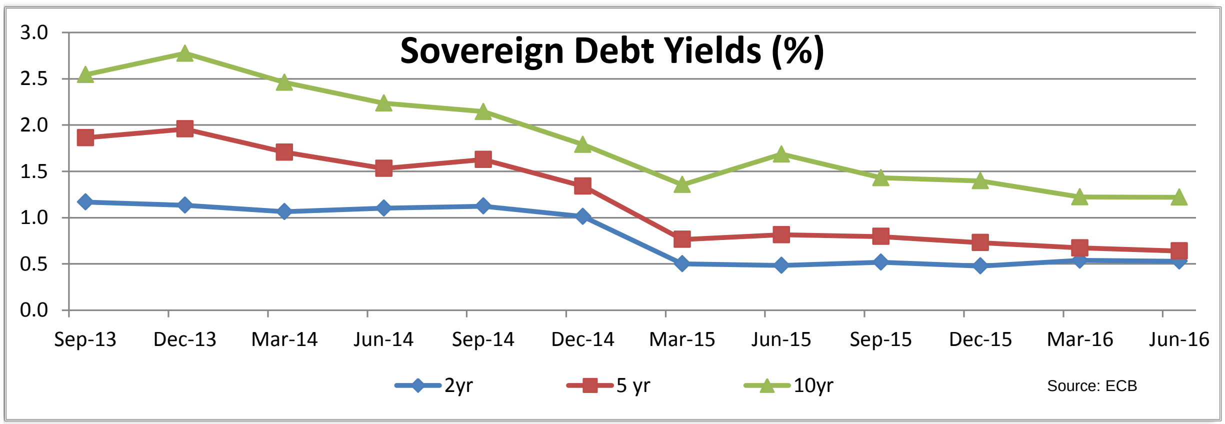
Banking Sector

History has shown that country and bank obligations are linked during times of economic distress. Canada has sizable exposure to its banking sector; total top 5 bank assets are more than twice Canada's GDP (208.5%). Though the banking sector has improved owing to depreciation of currency, the biggest risk to the banking sector remains a housing bust.

Bank Assets (billions of local currency)	Assets	Cap/ Assets %
ROYAL BANK OF CA	1074.21	11.08
TORONTO-DOM BANK	1104.37	9.70
BANK OF NOVA SCO	856.50	9.42
BANK OF MONTREAL	641.88	8.40
CAN IMPL BK COMM	463.31	8.86
Total	4,140.3	
EJR's est. of cap shortfall at 10% of assets less market cap		12.3
Canada's GDP		1,985.7

Funding Costs

Canada's emphasis on fiscal policy and subdued consumption environment will not result in much change in interest rate environment. Based on the chart below we see that 2-year debt yield is at 0.5% and we expect this to persist.



Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 14 (1 is best, 189 worst) is extremely strong.

The World Bank's Doing Business Survey*	2015 Rank	2014 Rank	Change in Rank
Overall Country Rank:	**14**	**13**	**-1**
Scores:			
Starting a Business	3	5	2
Construction Permits	53	51	-2
Getting Electricity	105	103	-2
Registering Property	42	40	-2
Getting Credit	7	6	-1
Protecting Investors	6	6	0
Paying Taxes	9	9	0
Trading Across Borders	44	44	0
Enforcing Contracts	49	49	0
Resolving Insolvency	16	15	-1

* Based on a scale of 1 to 189 with 1 being the highest ranking.

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*EJR CP Rating: A1+
EJR's 3 yr. Default Probability: 1.0%

Economic Freedom

As can be seen below, Canada is strong in its overall rank of 79.1 for Economic Freedom with 100 being best.

Heritage Foundation 2015 Index of Economic Freedom
World Rank 79.1*

	2015 Rank**	2014 Rank	Change in Rank	World Avg.
Property Rights	90	90	0	42.2
Freedom from Corruption	81	87.7	-6.7	41.9
Fiscal Freedom	79.9	79.7	0.2	77.4
Government Spending	48.3	47.3	1	61.7
Business Freedom	89	89.3	-0.3	64.1
Labor Freedom	76.1	83.1	-7	61.3
Monetary Freedom	77.9	76.3	1.6	75.0
Trade Freedom	88.4	88.3	0.1	75.4
Investment Freedom	80	80	0	54.8
Financial Freedom	80	80	0	48.6

*Based on a scale of 1-100 with 100 being the highest ranking.
**The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).
Source: The Heritage Foundation

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*EJR CP Rating: A1+
EJR's 3 yr. Default Probability: 1.0%

Valuation Driver: Taxes Growth:
GOVERNMENT OF CANADA has grown its taxes of 2.2% per annum in the last fiscal year which is disappointing. We expect tax revenues will grow approximately 2.2% per annum over the next couple of years and 2.2% per annum for the next couple of years thereafter.

Valuation Driver: Total Revenue Growth:
GOVERNMENT OF CANADA's total revenue growth has been less than its peers and we assumed no growth in total revenue growth over the next two years.

Income Statement	Peer Median	Co. Avg.	Assumptions Yr 1&2	Yr 3,4,5
Taxes Growth%	4.1	2.2	**2.2**	**2.2**
Social Contributions Growth %	4.0	1.8	**1.8**	**1.8**
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	(5.3)	**2.0**	**2.0**
Other Operating Income Growth%	0.0	0.0		
Total Revenue Growth%	3.9	0.8	**0.8**	**0.7**
Compensation of Employees Growth%	1.0	2.2	**2.2**	**2.2**
Use of Goods & Services Growth%	1.4	2.3	**2.3**	**2.3**
Social Benefits Growth%	2.6	5.6	**5.6**	**5.6**
Subsidies Growth%	5.2	0.2		
Other Expenses Growth%	0.0			
Interest Expense	0.0	3.0	**3.0**	
Currency and Deposits (asset) Growth%	0.0	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	(1.1)	7.0	**2.2**	**2.2**
Shares and Other Equity (asset) Growth%	(2.2)	8.3	**8.3**	**8.3**
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	0.0	0.0		
Other Accounts Receivable LT Growth%	2.1	(1.5)	**(1.5)**	**(1.5)**
Monetary Gold and SDR's Growth %	0.0	0.0	**5.0**	**5.0**
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	0.0			
Currency & Deposits (liability) Growth%	2.4	1.9	**1.9**	**1.9**
Securities Other than Shares (liability) Growth%	1.1	2.2	**1.6**	**1.6**
Loans (liability) Growth%	(1.2)	2.4	**2.4**	**2.4**
Insurance Technical Reserves (liability) Growth%	0.0	(0.5)	**(0.5)**	**(0.5)**
Financial Derivatives (liability) Growth%	0.0	0.0		
Additional ST debt (1st year)(billions CAD)	0.0	0.0		

ANNUAL INCOME STATEMENTS

Below are GOVERNMENT OF CANADA's annual income statements with the projected years based on the assumptions listed on page 3.

ANNUAL REVENUE AND EXPENSE STATEMENT
(BILLIONS CAD)

	2012	2013	2014	2015	P2016	P2017
Taxes	491	514	530	542	554	566
Social Contributions	86	90	94	95	97	99
Grant Revenue						
Other Revenue	128	137	137	130	132	135
Other Operating Income						
Total Revenue	705	741	760	767	783	799
Compensation of Employees	225	231	236	241	246	252
Use of Goods & Services	158	163	166	170	174	178
Social Benefits	170	176	182	192	203	214
Subsidies	19	18	17	17	17	17
Other Expenses				39	39	39
Grant Expense	5	5	5	5	5	4
Depreciation	60	63	65	67	67	67
Total Expenses excluding interest	671	689	706	727	751	772
Operating Surplus/Shortfall	34	52	54	40	31	28
Interest Expense	64	64	64	63	65	67
Net Operating Balance	-29	-12	-9	-23	-33	-39

ANNUAL BALANCE SHEETS

Below are GOVERNMENT OF CANADA's balance sheets with the projected years based on the assumptions listed on page 3.

Base Case			ANNUAL BALANCE SHEETS (BILLIONS CAD)			
ASSETS	2012	2013	2014	2015	P2016	P2017
Currency and Deposits (asset)			92	98	98	98
Securities other than Shares LT (asset)	115		149	173	173	173
Loans (asset)	228	218	210	225	230	235
Shares and Other Equity (asset)	426	479	546	591	640	692
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)						
Other Accounts Receivable LT	241	228	241	237	233	230
Monetary Gold and SDR's						
Other Assets						
Additional Assets	77	211				
Total Financial Assets	1,087	1,135	1,238	1,324	1,374	1,429
LIABILITIES						
Other Accounts Payable						
Currency & Deposits (liability)	6	6	6	6	6	6
Securities Other than Shares (liability)	1,336	1,328	1,445	1,478	1,501	1,524
Loans (liability)	56	59	59	61	94	133
Insurance Technical Reserves (liability)	366	332	356	354	353	351
Financial Derivatives (liability)						
Other Liabilities	282	331	360	400	400	400
Liabilities	2,046	2,056	2,226	2,299	2,382	2,475
Net Financial Worth	-958	-921	-988	-974	-1,008	-1,047
Total Liabilities & Equity	1,087	1,135	1,238	1,324	1,374	1,429

Comments on the Difference between the Model and Assigned Rating

SEC Rule 17g-7(a) Disclosure

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:
For the issuer GOVERNMENT OF CANADA with the ticker of 80710Z CN we have assigned the senior unsecured rating of AA. There are three notches in our rating categories (e.g., A-, A, and A+) other than those deep into speculative grade; for CC, C, and D there are no notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:
We are using the methodology available in our Form NRSRO Exhibit #2 dated May 10, 2015 available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:
The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to page 3 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:
Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:
Our rating is dependant on numerous factors including the reliability, accuracy, and quality of the data relied used in determining the credit rating. The data is sourced from publicly-available 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:
EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:
Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:
EJR uses 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.

10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:
This rating is unsolicited.

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:
Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating, include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:
Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:
Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			**Resulting Ratio-Implied Rating**		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	2.2	6.2	(1.8)	AA	AA	AA
Social Contributions Growth %	1.8	(1.2)	4.8	AA	AA	AA
Other Revenue Growth %	2.0	(1.0)	5.0	AA	AA	AA
Total Revenue Growth%	0.8	0.1	2.8	AA	AA	AA
Monetary Gold and SDR's Growth %	5.0	3.0	7.0	AA	AA	AA

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:
This credit rating is not assigned to an asset-backed security.

ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

1) No part of the credit rating was influenced by any other business activities,
2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature: **Today's Date**

NChaudhari
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June 30, 2016
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Nikhil Chaudhari
Rating Analyst

Reviewer Signature: **Today's Date**

Caroline Ding
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June 30, 2016
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Caroline Ding
Rating Analyst

Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward- looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.