

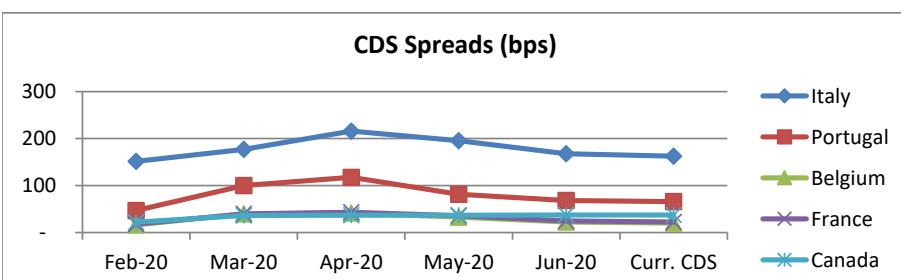
The Canadian economy, weighed by the impact from widespread shutdowns as a result of COVID-19 and also from dramatic declines in global oil prices, is set to face double headwinds to growth in 2020. The country has initiated aggressive fiscal and monetary policy measures - which EJR believes should temporarily aid in smoothening the loss in business and household incomes. But return to 'normal' after a steep decline in activity in 2020, is not expected until the end of 2021.

While household consumption should rebound significantly starting in Q3 and into Q4, soft investment and exports could continue to weigh on GDP growth throughout 2020. OECD expects Canada's annual output to shrink by 9.4% in 2020. While debt to GDP has remained stable over the past couple of years, and in fact has declined a bit, we expect the dual challenge of COVID19 and weak petroleum prices will result in a rise to approximately 96% over the next couple of years. Furthermore, the political challenges of Mr. Trudeau create more uncertainties. With fiscal balances set to deteriorate sharply from additional spending commitments and tax-revenue losses. We are affirming our rating.

CREDIT POSITION	Annual Ratios (source for past results: IMF, CountryEconomy)					
	2016	2017	2018	P2019	P2020	P2021
Debt/ GDP (%)	91.8	90.1	90.0	91.6	93.5	96.3
Govt. Sur/Def to GDP (%)	-0.1	0.5	0.2	-0.3	-0.6	-1.7
Adjusted Debt/GDP (%)	91.8	90.1	90.0	91.7	93.6	96.4
Interest Expense/ Taxes (%)	10.5	10.2	10.3	10.2	10.1	10.1
GDP Growth (%)	1.9	5.6	3.6	2.3	2.3	2.5
Foreign Reserves/Debt (%)	5.3	5.1	4.8	4.6	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

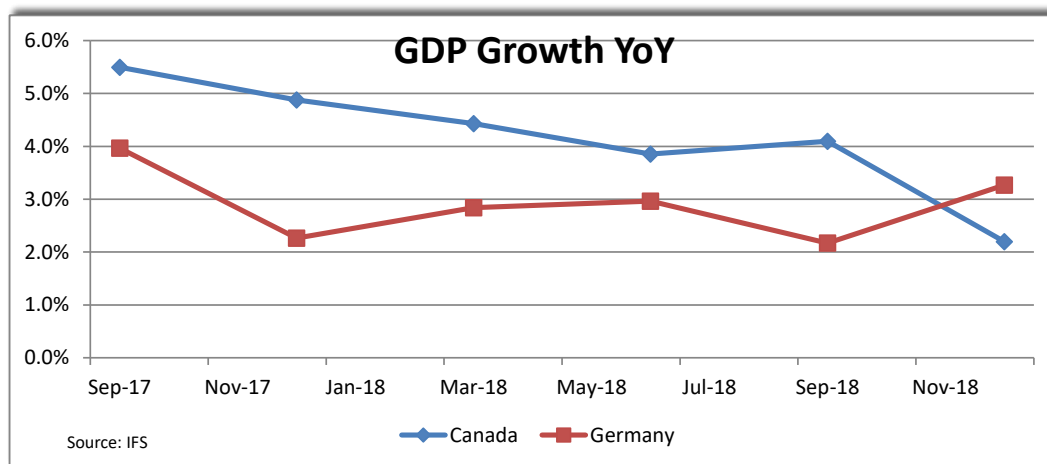
PEER RATIOS	Other NRSROs	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio- Implied Rating*
Federal Republic of Germany	AAA	59.8	1.6	59.8	3.3	2.5	AA+
French Republic	AA	98.1	-2.5	98.1	4.7	2.9	AA-
Kingdom of Belgium	AA	98.7	-1.5	98.7	6.6	4.8	AA+
Republic of Italy	BBB-	134.8	-2.1	134.8	11.7	1.6	BBB+
Portugal Republic	BB+	117.7	-0.7	117.7	12.0	3.9	A+



Country	EJR Rtg.	CDS
Italy	BBB-	162
Portugal	BBB-	66
Belgium	BBB	20
France	A+	22
Canada	AA	37

Economic Growth

The spread of the COVID-19 pandemic and falling oil prices have caused a substantial slowing in activity starting in late Q1 and into Q2. Economic activity fell sharply in Q1, with SAAR output contracting 8.2% - Domestic demand declined sharply, falling 6.0% after increasing 3.1% in Q4'19 and Private consumption too fell by 9.0%, while government consumption dipped 3.8% in Q1. On the positive, the manufacturing sector's share of GDP - the hardest hit sector - has been shrinking in recent years — falling to 10.2% in 2019 from 15.7% in 2000 — and could shrink further still. Information and Communications Technologies sector, from 2014 to 2019, expanded 4.3% per year, more than double aggregate growth (2.0%) and accounted for 4.8% of Canada's GDP in 2019, up from 4.2% in 2007, and has surged above 5% so far in 2020 - and this is more than twice the size of the hard-hit accommodation and food services sector, though still much smaller than the energy sector (9.3% share in 2020). Clearly, there is still a lot of uncertainty, and the way in which the pandemic evolves will be decisive in the coming months.



Fiscal Policy

Efforts are afoot to head off macroeconomic destabilisation, and bolster demand. The Bank of Canada has lowered its policy rate by 150 bps, to 0.25%. It has also supported liquidity through a reduction in the Domestic Stability Buffer Requirement and through more favourable conditions in the term repo market. The Bank also announced at its April meeting that it will buy C\$50 billion of provincial bonds and C\$10 billion of high-grade corporate bonds, although we expect these amounts could be increased if conditions warrant. Headline CPI fell below zero on a year-on-year basis, weighed down by falling energy prices and prices for travel services such as hotels. Core inflation measures have remained very close to target for much of the last year, although weaker demand will imply downside risks.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Canada	0.17	89.96	37.40
Germany	1.58	59.76	14.33
France	-2.53	98.12	22.27
Belgium	-1.52	98.75	20.21
Italy	-2.09	134.80	162.44
Portugal	-0.69	117.74	66.00

Sources: Thomson Reuters, IFS and CountryEconomy

Unemployment

Hours worked in Canada fell by 22.7% in the first three months of the COVID-19 crisis, compared to a decline of 2% during a comparable period in the global financial crisis. Significant job losses as a result of business closures have occurred, with around 3 million jobs lost in March and April. However, the May employment report was unexpectedly strong with around 300k jobs added in May, suggesting the worst of the job losses as passed. More rehiring should occur as re-openings continue, with businesses also supported by a 75% wage subsidy from the federal government.

	Unemployment (%)	
	2017	2018
Canada	6.34	5.83
Germany	3.40	3.20
France	9.11	8.43
Belgium	5.98	5.44
Italy	10.62	9.90
Portugal	7.05	6.33

Source: Intl. Finance Statistics

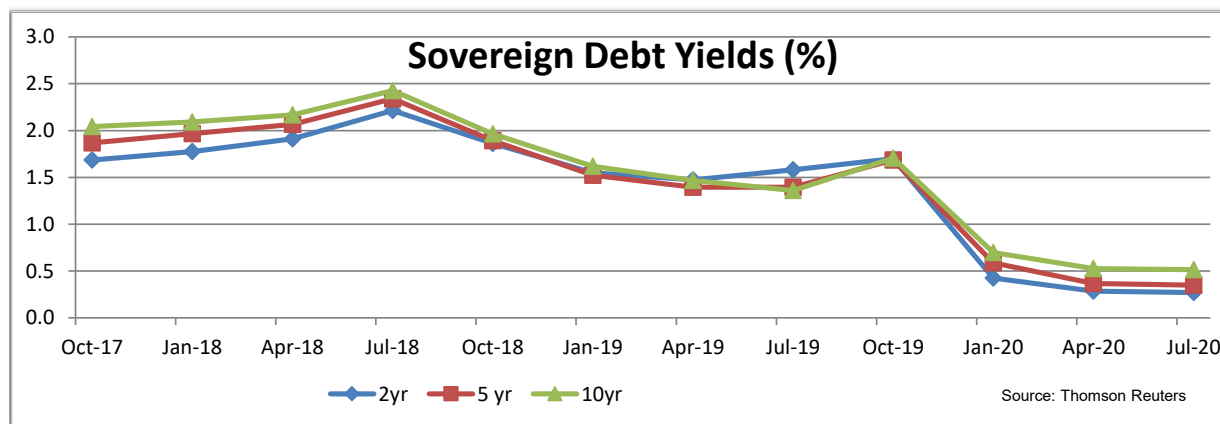
Banking Sector

Canada's macroeconomic deterioration, including rising risks to debt service amid elevated household indebtedness and weak key economic sectors such as oil and gas are key factors which weigh on its Banking sector. Further earnings challenges from a weaker business volumes and rising loan impairment charges/ loan loss provisioning reflect sustained deterioration in banks' credit quality measures. The charges along with several consecutive quarters of negative operating profitability and decline in capital ratios and the absence of plans to rebuild those measures in the near-term are concerns.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
ROYAL BANK OF CA	1334.73	11.73
TORONTO-DOM BANK	1334.90	10.48
BANK OF NOVA SCO	998.49	9.28
BANK OF MONTREAL	774.08	8.35
CAN IMPL BK COMM	<u>597.10</u>	<u>8.56</u>
Total	5,039.3	
EJR's est. of cap shortfall at 10% of assets less market cap		-1.0
Canada's GDP		2,219.1

Funding Costs

Canada 10Y Bond Yield was 0.51 percent as of July 2020 and its 5 Year CDS is currently valued at 33 - revealing a 0.55% implied probability of default, on an assumed 40% recovery rate. Corporate bond issuance between January 2020 and May 2020 jumped 22.5% to \$78.4 billion, and the debt-to-equity ratio of private non-financial corporations jumped to 212% in the first quarter - the highest since 2009. Outlook appears weak given the rising uncertainty and risks around business failures.



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 23 (1 is best, 189 worst) is strong.

The World Bank's Doing Business Survey*			
	2019	2018	Change in
	Rank	Rank	Rank
Overall Country Rank:	23	18	-5
Scores:			
Starting a Business	3	2	-1
Construction Permits	64	54	-10
Getting Electricity	124	105	-19
Registering Property	36	33	-3
Getting Credit	15	12	-3
Protecting Investors	7	8	1
Paying Taxes	19	16	-3
Trading Across Borders	51	46	-5
Enforcing Contracts	100	114	14
Resolving Insolvency	13	11	-2

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

Economic Freedom

As can be seen below, Canada is strong in its overall rank of 78.2 for Economic Freedom with 100 being best.

Heritage Foundation 2020 Index of Economic Freedom				
World Rank 78.2*				
	2020	2019	Change in	World
	Rank**	Rank	Rank	Avg.
Property Rights	87.7	87.0	0.7	56.6
Government Integrity	90.3	69.4	20.9	43.8
Judicial Effectiveness	72.7	84.6	-11.9	45.1
Tax Burden	76.5	76.8	-0.3	77.3
Gov't Spending	50.9	51.3	-0.4	66.0
Fiscal Health	83.3	83.1	0.2	69.1
Business Freedom	81.7	81.9	-0.2	63.3
Labor Freedom	72.0	73.7	-1.7	59.4
Monetary Freedom	76.0	77.2	-1.2	74.6
Trade Freedom	87.0	86.8	0.2	73.8

*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

Credit Quality Driver: Taxes Growth:

GOVERNMENT OF CANADA has grown its taxes of 4.0% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 4.0% per annum over the next couple of years and 4.0% per annum for the next couple of years thereafter.

Credit Quality 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 over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions	
			Yr. 1&2	Yr. 3,4,5
Taxes Growth%	3.7	4.0	4.0	4.0
Social Contributions Growth %	4.1	2.7	2.7	2.7
Grant Revenue Growth %	0.0	5.2	5.2	5.2
Other Revenue Growth %	0.0	2.2	3.6	3.6
Other Operating Income Growth%	0.0	0.0		
Total Revenue Growth%	3.6	3.5	3.5	3.2
Compensation of Employees Growth%	4.4	4.1	4.1	4.1
Use of Goods & Services Growth%	3.3	3.5	3.5	3.5
Social Benefits Growth%	3.3	4.2	4.2	4.2
Subsidies Growth%	7.3	7.5		
Other Expenses Growth%	19.5	19.5	19.5	17.5
Interest Expense	1.8	3.3	3.3	3.3
Currency and Deposits (asset) Growth%	3.9	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	0.8	7.0	4.0	4.0
Shares and Other Equity (asset) Growth%	7.9	7.4	7.4	7.4
Insurance Technical Reserves (asset) Growth%	1.8	0.0		
Financial Derivatives (asset) Growth%	7.6	0.0		
Other Accounts Receivable LT Growth%	0.3	(2.2)	(2.2)	(2.2)
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%	(0.7)	4.8	4.0	4.0
Currency & Deposits (liability) Growth%	5.1	2.1	2.1	2.1
Securities Other than Shares (liability) Growth%	2.7	5.6	3.9	3.9
Loans (liability) Growth%	(2.2)	1.5	1.5	1.5
Insurance Technical Reserves (liability) Growth%	0.0	0.0	0.0	0.0
Financial Derivatives (liability) Growth%	0.0	0.0		
Additional ST debt (1st year)(billions CAD)	0.0	0.0		

ANNUAL OPERATING STATEMENTS

Below are GOVERNMENT OF CANADA's annual income statements with the projected years based on the assumptions listed on page 5.

**ANNUAL REVENUE AND EXPENSE STATEMENT
(BILLIONS CAD)**

	2015	2016	2017	2018	P2019	P2020
Taxes	568	582	616	640	666	692
Social Contributions	96	97	99	102	105	108
Grant Revenue	1	1	1	1	1	1
Other Revenue	139	141	153	156	162	168
Other Operating Income						
Total Revenue	805	821	869	899	933	969
Compensation of Employees	243	249	260	271	282	294
Use of Goods & Services	170	177	185	192	198	205
Social Benefits	194	206	214	223	233	242
Subsidies	19	20	20	21	21	21
Other Expenses	35	38	42	50	59	71
Grant Expense	5	5	5	5	5	6
Depreciation	67	68	69	72	72	72
Total Expenses excluding interest	733	763	796	830	872	912
Operating Surplus/Shortfall	72	59	73	70	61	57
Interest Expense	62	61	63	66	68	70
Net Operating Balance	10	-2	11	4	-7	-14

ANNUAL BALANCE SHEETS

Below are GOVERNMENT OF CANADA's balance sheets with the projected years based on the assumptions listed on page 5.

**ANNUAL BALANCE SHEETS
(BILLIONS CAD)**

Base Case

ASSETS	2015	2016	2017	2018	P2019	P2020
Currency and Deposits (asset)	106	110	108	117	137	137
Securities other than Shares LT (asset)	326	324	343	373	373	373
Loans (asset)	337	342	361	386	402	418
Shares and Other Equity (asset)	486	569	634	681	731	786
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)						
Other Accounts Receivable LT	259	248	251	245	240	234
Monetary Gold and SDR's						
Other Assets						
Additional Assets	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	0	0
Total Financial Assets	1,514	1,592	1,696	1,802	1,882	1,947
LIABILITIES						
Other Accounts Payable	339	350	376	394	410	426
Currency & Deposits (liability)	6	6	6	6	6	6
Securities Other than Shares (liability)	1,657	1,706	1,714	1,811	1,882	1,957
Loans (liability)	88	91	91	92	99	113
Insurance Technical Reserves (liability)	357	329	326	326	327	327
Financial Derivatives (liability)						
Other Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Liabilities	2,448	2,482	2,514	2,630	2,717	2,796
Net Financial Worth	<u>-934</u>	<u>-890</u>	<u>-817</u>	<u>-828</u>	<u>-835</u>	<u>-849</u>
Total Liabilities & Equity	1,514	1,592	1,696	1,802	1,882	1,947

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Egan-Jones is not an NRSRO (as defined by the SEC) for sovereign/municipal issuers and structured finance/ABS issuers.

Comments on the Difference between the Model and Assigned Rating

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "AA" whereas the ratio-implied rating for the most recent period is "AA"; we expect results to remain approximately the same.

Changes in Indicative Ratios

We have not made any adjustment in the indicative ratios at this time.

SEC Rule 17g-7(a) Disclosure (Non-NRSRO)

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+) except for AAA and those deep into speculative grade, i.e., CC, C, and D do not have 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 Methodologies for Determining Credit Ratings (Main Methodology) version #15 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 projections on pages 1, 6, and 7 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 dependent 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 information from the IMF and other similar sources. In some cases, the information is limited because of issues such as the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such issues 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 publicly available information from the IMF, governmental filings, and other similar sources for ratings on sovereign 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 adequate and acceptable.

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%	4.0	8.0	0.0	AA-	AA-	AA-
Social Contributions Growth %	2.7	5.7	(0.3)	AA-	AA-	AA-
Other Revenue Growth %	3.6	6.6	0.6	AA-	AA-	AA-
Total Revenue Growth%	3.5	5.5	1.5	AA-	AA-	AA-
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	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

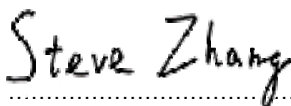


July 30, 2020

.....
Subramanian NG
Senior Rating Analyst

Reviewer Signature:

Today's Date



July 30, 2020

.....
Steve Zhang
Senior Rating Analyst

(Note, see our senior report for additional disclosures.)

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 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.