

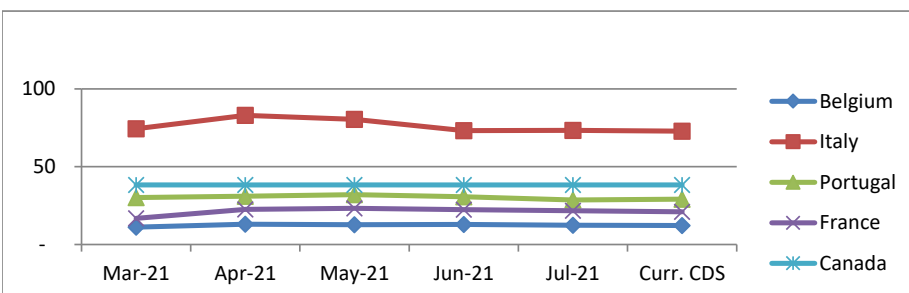
The Canadian economy will rebound strongly and grow by 6.1% in 2021 and 3.8% in 2022, thanks to reduced COVID-19 restrictions in H2 2021 and buoyant external demand. Bank of Canada lowered its Q2'21 real GDP growth forecast from 3.5% to 2.0%, and expects 7.3% growth in Q3'21. These developments will be echoed in a recovery in the labour market. Nevertheless, output levels is expected to remain below trend and underlying inflationary pressures is likely to be contained. After increasing again in 2021, the public debt burden is expected to stabilise in 2022.

A third wave of COVID-19 cases began in March and peaked mid-April. Containment measures have included a province-wide stay-at-home order in Ontario, localised lockdowns in Quebec and tighter restrictions in British Columbia and Alberta. Following a slow start, the rate of vaccination has increased substantially; as of mid-May, over 45% of the population had received at least one dose of a COVID-19 vaccine. Monetary and fiscal policy support remains substantial. We are downgrading by a notch.

CREDIT POSITION	Annual Ratios (source for past results: IMF)					
	2018	2019	2020	P2021	P2022	P2023
Debt/ GDP (%)	89.5	86.8	117.8	120.9	124.3	117.9
Govt. Sur/Def to GDP (%)	1.1	0.2	-11.0	-14.2	-16.3	-16.2
Adjusted Debt/GDP (%)	89.5	86.8	117.8	121.0	124.4	118.0
Interest Expense/ Taxes (%)	10.2	10.0	9.7	10.3	10.8	11.1
GDP Growth (%)	4.2	3.6	-4.6	5.5	4.6	4.2
Foreign Reserves/Debt (%)	4.5	4.6	3.6	5.5	5.1	4.2
Implied Sen. Rating	AA	AA	A	A	A	A

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

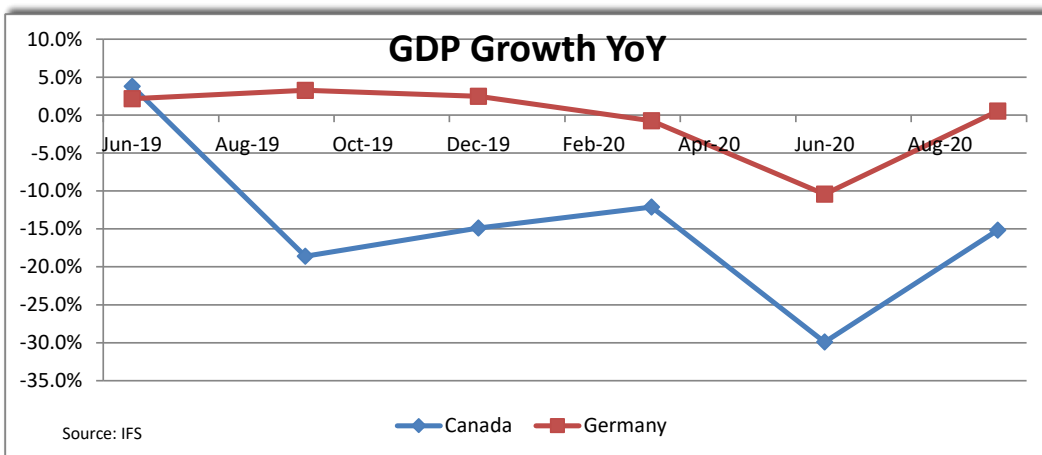
PEER RATIOS	Other NRSRO Sen.	Debt as a % of GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	79.7	-4.2	79.7	2.9	-3.3	A+
Republic Of Austria	AA+	109.1	-8.2	109.1	5.1	-5.1	A-
French Republic	AA	145.9	-8.8	145.9	4.2	-5.5	BBB
United Kingdom	AA	187.8	-12.8	187.8	7.2	-4.8	BBB-



Country	EJR Rtg.	CDS
Belgium	BBB	12
Italy	BBB-	73
Portugal	BBB-	29
France	A+	21
Canada	AA-	38

Economic Growth

Real GDP increased by 0.4% and 0.9% (M/M) in February and March, respectively. Tracking this, the Bank of Canada lowered its Q2'21 real GDP growth forecast from 3.5% ar to 2.0% ar, and expects 7.3% ar growth in Q3'21. The faster pace of vaccination, significant fiscal stimulus, higher prices for oil and other commodity exports and the prospects of increased demand arising from the US fiscal package in March are boosting the recovery. Business sentiment has also become more positive according to the Bank of Canada's Business Outlook Survey. The energy cprice recovery has driven increases in headline consumer price inflation in recent months. Headline CPI increased 3.1% in June compared with 3.6% in May. While a notable deceleration compared with recent months, headline inflation has exceeded the Bank of Canada's target range for three months.



Fiscal Policy

Monetary and fiscal policy support remains substantial. The monetary policy stance remains accommodative notwithstanding the reduction in the scale of the quantitative easing programme announced in April. The Bank of Canada's policy rate remains at 0.25%. bond yields on long-term government securities have increased in recent months. The federal government's National Budget for 2021, commits to keep support for households and businesses on tap. There are prolongations to a number of support schemes, including the Canada Emergency Wage Subsidy and the Canada Recovery Benefit.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Canada	-11.04	117.75	38.29
Germany	-4.19	79.69	10.34
Netherlands	-4.00	69.76	21.00
Austria	-8.17	109.12	12.27
France	-8.79	145.87	72.85
United Kingdc	-12.82	187.83	29.10

Sources: Thomson Reuters and IFS

Unemployment

The overall gain in Labour market, over June and July (325,000) more than recouped the decline in April and May during the third wave of the COVID-19 virus, providing strong evidence that the labor market is healing. The unemployment rate dipped from 7.8% in June to 7.5% in July. As the lifting of pandemic restrictions continues in 2H21 and health-related concerns abate, we expect labor demand to pick up and be very supportive of economic activity. A constructive labor market should prompt a positive assessment of the strength and durability.

	2019	2020
Canada	7.07	9.50
Germany	3.20	4.31
Netherlands	3.38	4.09
Austria	4.51	5.35
France	8.43	8.62
United Kingd	3.74	4.34

Source: Intl. Finance Statistics

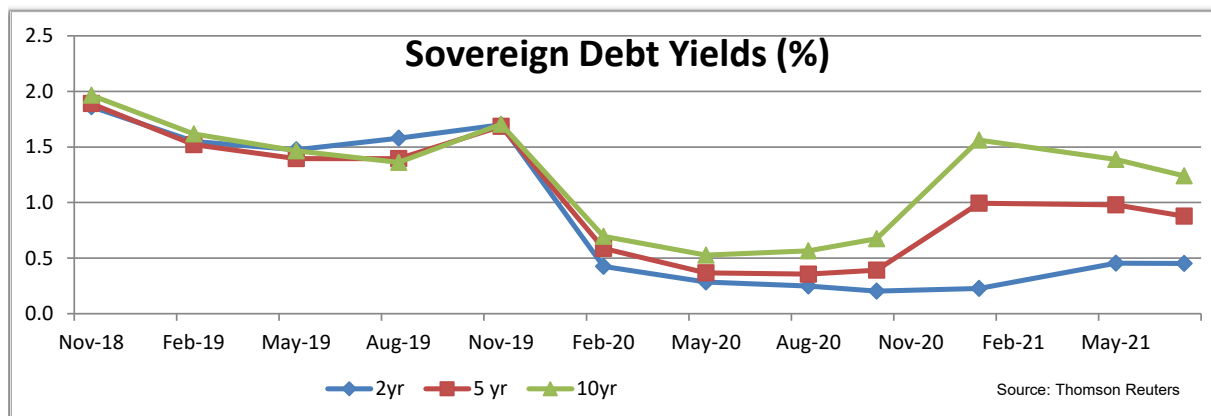
Banking Sector

The Canadian financial system proved resilient during the COVID-19 pandemic, thanks to strong risk management and unprecedented fiscal and monetary policy support. The housing market boom and the corresponding rise in mortgage debt support economic growth in the short term but increase the risk to the Canadian economy and financial system over the medium term.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
ROYAL BANK OF CA	1624.55	11.63
TORONTO-DOM BANK	1715.87	8.87
BANK OF NOVA SCO	1136.47	8.53
BANK OF MONTREAL	949.26	8.70
CAN IMPL BK COMM	<u>769.55</u>	<u>8.57</u>
Total	6,195.7	
EJR's est. of cap shortfall at 10% of assets less market cap		32.9
Canada's GDP		2,204.9

Funding Costs

While the Bank of Canada's Target for the Overnight Rate does influence the pricing of credit, it does not set the interest rates that consumers pay on their loans or receive on their deposits. According to a report from Mortgage Professionals Canada, the average mortgage interest rate fell to 2.6% in 2020 from 3.14% at the end of 2019. Canada 10Y Bond Yield was 1.17% in mid-August. The Canada Government Bond 10Y is expected to trade at 1.31% by the end of this quarter, and at 1.52% in 12 months' time.



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*			
	2021	2020	Change in
	Rank	Rank	Rank
Overall Country Rank:	23	23	0
Scores:			
Starting a Business	3	3	0
Construction Permits	64	64	0
Getting Electricity	124	124	0
Registering Property	36	36	0
Getting Credit	15	15	0
Protecting Investors	7	7	0
Paying Taxes	19	19	0
Trading Across Borders	51	51	0
Enforcing Contracts	100	100	0
Resolving Insolvency	13	13	0

* 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 77.9 for Economic Freedom with 100 being best.

Heritage Foundation 2021 Index of Economic Freedom				
World Rank 77.9*				
	2021	2020	Change in	World
	Rank**	Rank	Rank	Avg.
Property Rights	84.5	87.7	-3.2	53.6
Government Integrity	73.3	90.3	-17.0	45.9
Judicial Effectiveness	87.9	72.7	15.2	45.4
Tax Burden	76.0	76.5	-0.5	77.7
Gov't Spending	49.8	50.9	-1.1	67.1
Fiscal Health	84.2	83.3	0.9	72.1
Business Freedom	81.4	81.7	-0.3	63.2
Labor Freedom	72.4	72.0	0.4	59.5
Monetary Freedom	76.1	76.0	0.1	74.7
Trade Freedom	88.8	87.0	1.8	70.7

*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 seen a decline in taxes of 3.0% per annum in the last fiscal year which is disappointing. We expect tax revenues will decline by approximately 3.0% per annum over the next couple of years and 0.5% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:

GOVERNMENT OF CANADA's total revenue growth has been more than its peers and we assumed a 2.0% decline in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions	
			Yr 1&2	Yr 3,4,5
Taxes Growth%	(6.4)	(3.0)	(3.0)	0.5
Social Contributions Growth %	(0.2)	(0.4)	0.5	0.5
Grant Revenue Growth %	0.0	10.0	10.0	10.0
Other Revenue Growth %	0.0	0.3	(2.7)	(2.7)
Other Operating Income Growth%	0.0	0.0		
Total Revenue Growth%	(4.4)	(2.1)	(2.0)	(1.8)
Compensation of Employees Growth%	4.5	2.7	2.7	2.7
Use of Goods & Services Growth%	4.4	3.5	3.5	3.5
Social Benefits Growth%	7.5	54.3	54.3	48.9
Subsidies Growth%	240.8	230.8		
Other Expenses Growth%	30.2	30.2	15.0	15.0
Interest Expense	1.8	2.5	2.5	
Currency and Deposits (asset) Growth%	30.4	0.0		
Securities other than Shares LT (asset) Growth%	(9.5)	0.0		
Loans (asset) Growth%	20.2	131.6	(3.0)	(3.0)
Shares and Other Equity (asset) Growth%	5.0	30.8	16.4	16.4
Insurance Technical Reserves (asset) Growth%	2.5	0.0		
Financial Derivatives (asset) Growth%	6.7	0.0		
Other Accounts Receivable LT Growth%	8.0	32.3	16.2	16.8
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%	11.3	(1.0)	3.0	3.0
Currency & Deposits (liability) Growth%	1.2	1.6	1.6	1.6
Securities Other than Shares (liability) Growth%	15.0	20.5	14.4	14.4
Loans (liability) Growth%	3.6	3.0	3.0	3.0
Insurance Technical Reserves (liability) Growth%	0.0	2.0	2.0	2.0
Financial Derivatives (liability) Growth%	5.5	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)**

	2017	2018	2019	2020	P2021	P2022
Taxes	622	658	680	660	640	621
Social Contributions	99	104	108	107	108	108
Grant Revenue	1	1	1	1	2	2
Other Revenue	157	169	171	172	167	162
Other Operating Income						
Total Revenue	879	932	960	941	917	894
Compensation of Employees	260	270	282	290	298	306
Use of Goods & Services	186	195	202	209	216	224
Social Benefits	216	224	239	368	568	877
Subsidies	20	25	34	112	112	112
Other Expenses	42	46	47	61	71	81
Grant Expense	5	5	5	6	7	9
Depreciation	70	74	78	80	80	80
Total Expenses excluding interest	800	840	887	1,120	1,352	1,688
Operating Surplus/Shortfall	79	91	74	-179	-435	-794
Interest Expense	63	67	68	64	66	67
Net Operating Balance	16	24	6	-243	-501	-862

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

Base Case	(BILLIONS CAD)					
ASSETS	2017	2018	2019	2020	P2021	P2022
Currency and Deposits (asset)	113	123	136	193	193	193
Securities other than Shares LT (asset)	340	371	413	408	408	408
Loans (asset)	22	22	26	60	58	56
Shares and Other Equity (asset)	17	-12	13	17	20	23
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)						
Other Accounts Receivable LT	255	266	298	395	459	533
Monetary Gold and SDR's				0	0	0
Other Assets					1,199	1,199
Additional Assets	<u>969</u>	<u>1,051</u>	<u>1,067</u>	<u>1,199</u>		
Total Financial Assets	1,716	1,820	1,954	2,271	2,336	2,412
LIABILITIES						
Other Accounts Payable	382	390	396	392	404	416
Currency & Deposits (liability)	6	6	6	7	7	7
Securities Other than Shares (liability)	1,710	1,809	1,951	2,351	2,689	3,076
Loans (liability)	97	100	109	112	613	1,475
Insurance Technical Reserves (liability)	321	334	338	344	351	358
Financial Derivatives (liability)						
Other Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Liabilities	2,517	2,639	2,800	3,207	3,773	4,710
Net Financial Worth	<u>-801</u>	<u>-818</u>	<u>-847</u>	<u>-937</u>	<u>-1,437</u>	<u>-2,299</u>
Total Liabilities & Equity	1,716	1,820	1,954	2,271	2,336	2,412

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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 "A".

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 #15a 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 upon 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 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%	6.0	10.0	2.0	A	A	A
Social Contributions Growth %	7.0	10.0	4.0	A	A	A
Other Revenue Growth %	0.0	3.0	(3.0)	A	A	A
Total Revenue Growth%	7.0	9.0	5.0	A	A	A
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	A	A	A

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

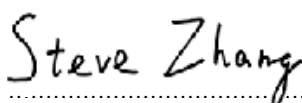


Subramanian NG
Senior Rating Analyst

August 31, 2021

Reviewer Signature:

Today's Date



Steve Zhang
Senior Rating Analyst

August 31, 2021

(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 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.