GOVERNMENT OF CANADA

*EJR Sen Rating(Curr/Prj) AA/ AA

Rating Analysis - 8/16/24

The Canadian economy returned to growth in the first quarter of 2024, with real GDP increasing by 1.7%. However, this was slower than the 2.1% growth projected in the April Monetary Policy Report. Domestic demand remained solid, with final domestic demand rising by 2.9%. Consumption grew by around 3%, roughly in line with population growth, supported by increased spending on motor vehicles and various services.

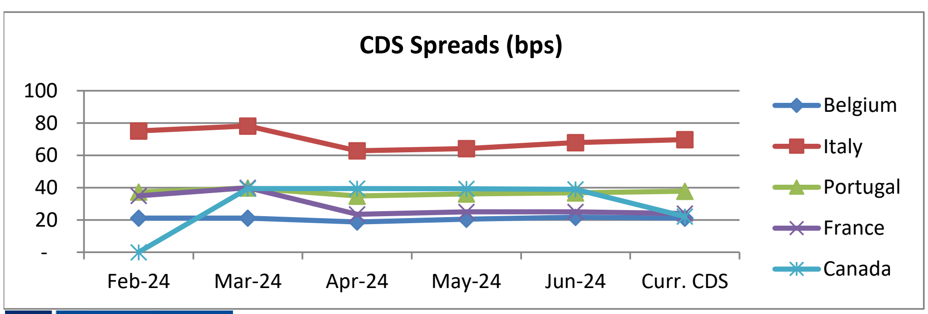
Annual wage growth remained at around 4%, but with volatility across different measures. The combination of 4% wage growth and weak productivity growth means unit labor costs continue to rise at an above-average pace. Restrictive monetary policy is broadly agreed to have worked in restraining activity and slowing the rate of inflation. In summary, while the Canadian economy returned to growth in Q1 2024, the pace was slower than expected. Domestic demand was solid, led by consumption, but inventory investment was a drag. Wage growth remains elevated relative to productivity, putting upward pressure on inflation, which the central bank is combating with restrictive policy. Affirming.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2021	2022	2023	P2024	P2025	P2026
Debt/ GDP (%)	114.8	105.4	117.0	106.1	94.3	81.2
Govt. Sur/Def to GDP (%)	-2.7	0.2	1.0	8.6	9.8	11.2
Adjusted Debt/GDP (%)	114.8	105.4	117.0	106.2	94.5	81.3
Interest Expense/ Taxes (%)	9.1	10.1	11.2	11.3	11.4	11.6
GDP Growth (%)	13.4	11.8	2.7	2.5	3.6	3.6
Foreign Reserves/Debt (%)	3.5	3.7	3.5	4.0	4.4	5.0
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	64.0	-2.6	64.0	3.8	6.3	AA+
Republic Of Austria	AA+	81.2	-1.8	81.2	4.2	6.9	BBB
French Republic	AA	117.2	-4.8	117.2	5.9	6.2	BB+
United Kingdom	AA	143.8	-6.2	143.8	10.5	7.2	BBB-

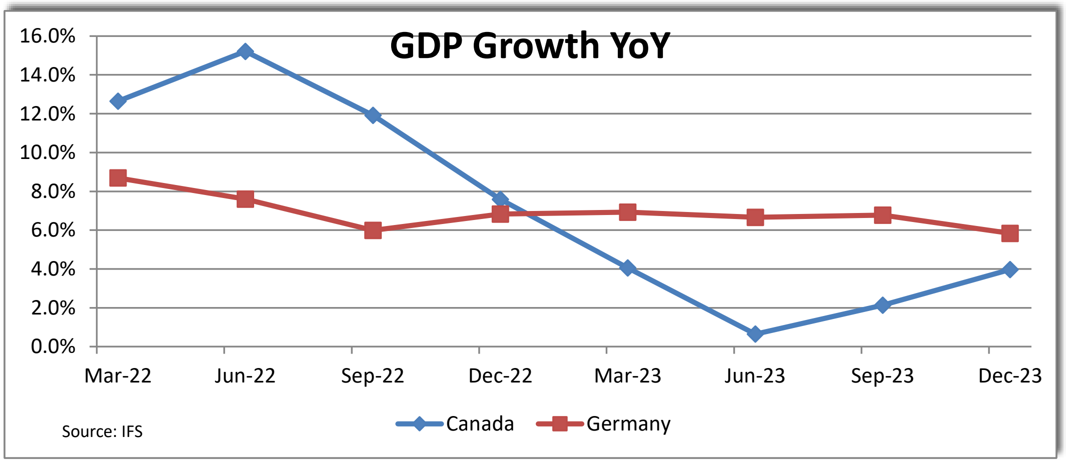


Country	EJR Rtg.	CDS
Belgium	A+	21
Italy	A+	70
Portugal	A+	38
France	AA-	24
Canada	AA	22

Egan-Jones Ratings Company

Economic Growth

The 2024 wildfire season in Canada is expected to pose a high risk, particularly in drought-stricken regions like Alberta and British Columbia. Last year's record wildfires forced oil and gas producers to shut in up to 200,000 barrels per day of oil output and 170,000 barrels per day of refining capacity. Real GDP grew 0.3% month-over-month in April, a strong start to Q2 in line with consensus. However, preliminary data suggests growth slowed to 0.1% in May. Output-based GDP is now tracking just below 2% annualized growth for Q2, implying upside risk to the current 0.8% forecast, though the output data has overestimated expenditure GDP in recent quarters. Canadian economy got off to a strong start in Q2, with broad-based growth in April and signs of continued momentum in services spending, though goods output remains mixed. Upside risks to the Q2 GDP forecast exist, but will depend on the upcoming trade data.



Fisical Policy

Canada's net debt-to-GDP ratio is significantly lower than that of its G7 peers. The country's deficits are modest and declining, particularly relative to the size of its economy. The budgetary balance is expected to improve slightly from the $40.1 billion deficit projected for 2023-24 in Budget 2023, at $40 billion or -1.4% of GDP. Budget 2024 is consistent with the government's fiscal anchor and these fiscal objectives. Notably, Budget 2024 surpasses the government's debt-to-GDP fiscal objective, forecasting a significant fall from 2023-24 and onwards.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Canada	1.01	0.00	22.13
Germany	-2.55	64.01	11.51
Netherlands	-0.26	51.34	24.00
Austria	-1.81	81.16	21.16
France	-4.84	117.19	69.77
United Kingd	-6.24	143.77	37.73

Sources: Thomson Reuters and IFS

Unemployment

The June Labor Force Survey was a surprise all around, but not in a way that made the Bank of Canada’s job any easier. Job growth slowed more than expected and the unemployment rose another 0.2%-pt to a two-and-a-half year high of 6.4%. Yet wage growth firmed on the month, with the year-ago pace of average hourly earnings accelerating to 5.4% from 5.1% in May for all workers, and to 5.6% from 5.2% for permanent employees.

Unemployment (%)	2022	2023
Canada	5.28	5.41
Germany	3.07	3.03
Netherlands	3.54	3.54
Austria	4.76	5.11
France	7.32	7.34
United Kingd	3.90	3.80

Source: Intl. Finance Statistics

Banking Sector

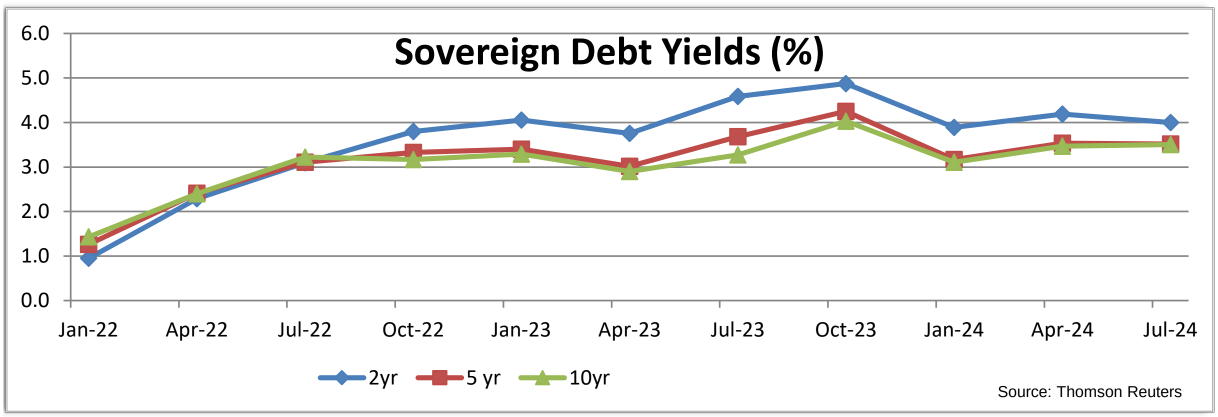
The large Canadian banks built strong capital ratios in 2023 due to increases in the domestic stability buffer set by the regulator. Most of the banks currently have discounts on their respective dividend reinvestment plans (DRIPs), and some have suggested that they plan to revisit the discount as early as the upcoming second quarter.

Bank Assets (billions of local currency)

	Assets	Mkt Cap/ Assets %
ROYAL BANK OF CA	2006.53	10.27
TORONTO-DOM BANK	1955.14	6.77
BANK OF NOVA SCO	1411.04	5.45
BANK OF MONTREAL	1347.01	6.22
CAN IMPL BK COMM	975.69	6.29
Total	7,695.4	
EJR's est. of cap shortfall at 10% of assets less market cap		209.1
Canada's GDP		2,888.9

Funding Costs

The Bank of Canada (BoC) cut its key interest rate by 25 basis points to 4.75% in its June 2024 meeting, as expected. The central bank signaled that further rate cuts are likely if inflation continues to slow as anticipated. The BoC noted it has stronger confidence that disinflation is converging toward the 2% target, justifying a less restrictive policy stance. Both of the Bank's preferred measures of underlying inflation moved below the 3% threshold in April and are expected to keep decreasing throughout the year, along with the headline CPI.



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 Rank	2020 Rank	Change in 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 above average in its overall rank of 72.4 for Economic Freedom with 100 being best.

Heritage Foundation 2024 Index of Economic Freedom
World Rank 72.4*

	2024 Rank**	2023 Rank	Change in Rank	World Avg.
Property Rights	88.6	88.5	0.1	53.4
Government Integrity	73.1	83.1	-10.0	43.7
Judical Effectiveness	95.0	95.1	-0.1	48.8
Tax Burden	75.8	75.0	0.8	78.1
Gov't Spending	34.7	35.0	-0.3	64.2
Fiscal Health	33.9	32.2	1.7	52.1
Business Freedom	84.1	87.9	-3.8	62.1
Labor Freedom	69.5	69.0	0.5	55.9
Monetary Freedom	70.3	74.8	-4.5	67.2
Trade Freedom	83.6	83.4	0.2	69.8

*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 1.4% per annum in the last fiscal year which is disappointing. We expect tax revenues will grow approximately 1.4% per annum over the next couple of years and 1.4% 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 a 2.4% 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%	4.5	1.4	**1.4**	**1.4**
Social Contributions Growth %	4.5	26.3	**26.0**	**25.7**
Grant Revenue Growth %	0.0	1.1	**1.1**	**1.1**
Other Revenue Growth %	0.0	0.8	**1.3**	**1.3**
Other Operating Income Growth%	0.0	0.8	**0.8**	**0.8**
Total Revenue Growth%	4.4	4.3	**2.4**	**2.2**
Compensation of Employees Growth%	6.3	5.0	**5.0**	**5.0**
Use of Goods & Services Growth%	7.6	(1.3)	**(1.3)**	**(1.3)**
Social Benefits Growth%	6.9	1.8	**1.8**	**1.8**
Subsidies Growth%	(5.2)	(8.0)		
Other Expenses Growth%	11.7	11.7	**11.7**	**11.7**
Interest Expense	1.8	2.7	**2.7**	
Currency and Deposits (asset) Growth%	(8.2)	0.0		
Securities other than Shares LT (asset) Growth%	8.2	0.0		
Loans (asset) Growth%	(57.9)	380.9	**1.4**	**1.4**
Shares and Other Equity (asset) Growth%	(74.8)	(169.8)	**2.0**	**2.0**
Insurance Technical Reserves (asset) Growth%	0.0	0.3	**0.3**	**0.3**
Financial Derivatives (asset) Growth%	(3.2)	0.0		
Other Accounts Receivable LT Growth%	(0.1)	(0.5)	**(0.5)**	**(0.5)**
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%	(0.3)	(5.6)	**3.0**	**3.0**
Currency & Deposits (liability) Growth%	(2.1)	0.3	**0.3**	**0.3**
Securities Other than Shares (liability) Growth%	8.8	0.4	**0.3**	**0.3**
Loans (liability) Growth%	(0.5)	(2.7)	**0.5**	**0.5**
Insurance Technical Reserves (liability) Growth%	0.0	(0.1)	**(0.1)**	**(0.1)**
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 5.

ANNUAL REVENUE AND EXPENSE STATEMENT
(BILLIONS CAD)

	2020	2021	2022	2023	P2024	P2025
Taxes	674	757	810	821	833	844
Social Contributions	108	121	139	176	222	279
Grant Revenue	1	1	1	1	1	1
Other Revenue	166	185	199	200	203	206
Other Operating Income	167	186	200	202	202	202
Total Revenue	948	1,064	1,149	1,199	1,460	1,532
Compensation of Employees	293	317	333	350	367	386
Use of Goods & Services	213	230	239	236	233	230
Social Benefits	367	302	287	292	298	303
Subsidies	118	63	37	34	34	34
Other Expenses	60	61	63	70	79	88
Grant Expense	7	6	8	7	5	4
Depreciation	78	84	93	95	95	95
Total Expenses excluding interest	1,136	1,063	1,061	1,078	1,112	1,141
Operating Surplus/Shortfall	-187	1	89	121	349	391
Interest Expense	66	69	82	92	94	97
Net Operating Balance	-253	-69	7	29	255	295

ANNUAL BALANCE SHEETS

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

Base Case	ANNUAL BALANCE SHEETS (BILLIONS CAD)					
ASSETS	2020	2021	2022	2023	P2024	P2025
Currency and Deposits (asset)	188	235	185	198	474	855
Securities other than Shares LT (asset)	394	412	449	449	449	449
Loans (asset)	61	121	3	15	15	15
Shares and Other Equity (asset)	17	-32	14	-9	-10	-10
Insurance Technical Reserves (asset)	144	166	169	169	170	170
Financial Derivatives (asset)						
Other Accounts Receivable LT	391	432	454	452	450	448
Monetary Gold and SDR's						
Other Assets					1,560	1,560
Additional Assets	1,256	1,395	1,529	1,560		
Total Financial Assets	2,452	2,729	2,803	2,834	3,108	3,487
LIABILITIES						
Other Accounts Payable	444	527	489	461	475	489
Currency & Deposits (liability)	7	7	7	7	7	7
Securities Other than Shares (liability)	2,342	2,368	2,297	2,306	2,312	2,319
Loans (liability)	169	179	196	191	-64	-359
Insurance Technical Reserves (liability)	374	348	347	346	346	345
Financial Derivatives (liability)						
Other Liabilities	11	29	30	29	29	29
Liabilities	3,346	3,457	3,365	3,340	3,360	3,444
Net Financial Worth	-894	-728	-562	-506	-252	43
Total Liabilities & Equity	2,452	2,729	2,803	2,834	3,108	3,487

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-"; the median rating for the peers is significantly higher than the issuer's rating.

Changes in Indicative Ratios

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

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 version #16 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, governmental filings 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%	1.4	5.4	(2.6)	AA+	AA+	AA
Social Contributions Growth %	26.0	29.0	23.0	AA+	AA+	AA+
Other Revenue Growth %	1.3	4.3	(1.7)	AA+	AA+	AA+
Total Revenue Growth%	2.4	4.4	0.4	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**

Aug 16, 2024

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Subramanian NG
Senior Rating Analyst

Reviewer Signature: **Today's Date**

Steve Zhang

Aug 16, 2024

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Steve Zhang
Senior 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.