

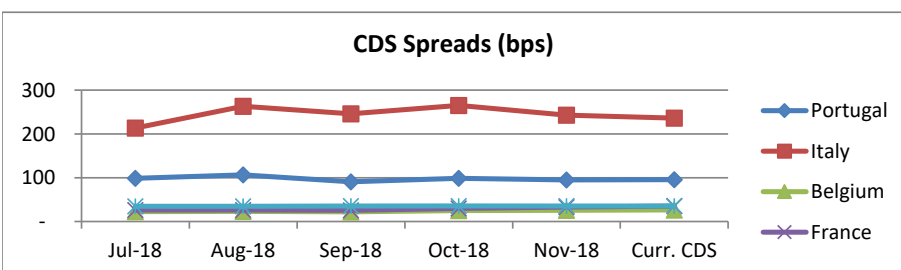
The Canadian economy continues to grow, supported by higher exports and very good business investments levels. However, as uncertainty has increased and financial conditions have turned less accommodative in recent quarters, the tailwinds supporting investment could fade in coming quarters. The Bank of Canada took a clear dovish turn in their December monetary policy statement and now the consensus expect the next rate hike to come at a date later than the January meeting, and pencil in the next hike for the BoC's meeting in April. Some supportive data, such as employment report and revival in oil prices due to OPEC cuts, should keep the BoC raising rates very gradually. One stumbling block being the Albertan government's recent decision to mandate the curtailment of oil production to support prices. These production cuts will have some direct effect on output in the Canadian economy. Otherwise, the Canadian economy is on an upward trend of moderate growth in 2019 - 2020. Affirming.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2015	2016	2017	P2018	P2019	P2020
Debt/ GDP (%)	91.6	92.4	89.6	91.8	93.4	94.5
Govt. Sur/Def to GDP (%)	0.3	-0.6	-0.3	-4.4	-4.0	-3.4
Adjusted Debt/GDP (%)	91.6	92.4	89.6	91.8	93.4	94.5
Interest Expense/ Taxes (%)	11.0	10.7	10.4	10.2	10.1	9.9
GDP Growth (%)	0.2	2.0	5.3	2.6	2.6	2.5
Foreign Reserves/Debt (%)	5.0	5.3	5.2	5.3	5.1	5.3
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	64.1	1.0	64.1	4.4	3.7	AA+
French Republic	AA	97.0	-2.5	97.0	6.3	2.8	AA-
Kingdom Of Belgium	AA	103.1	-0.8	103.1	8.1	3.4	AA-
Republic Of Italy	BBB-	131.8	-3.0	131.8	13.1	2.1	BBB
Portugal Republic	BB+	125.7	-3.9	125.7	15.3	4.4	A-

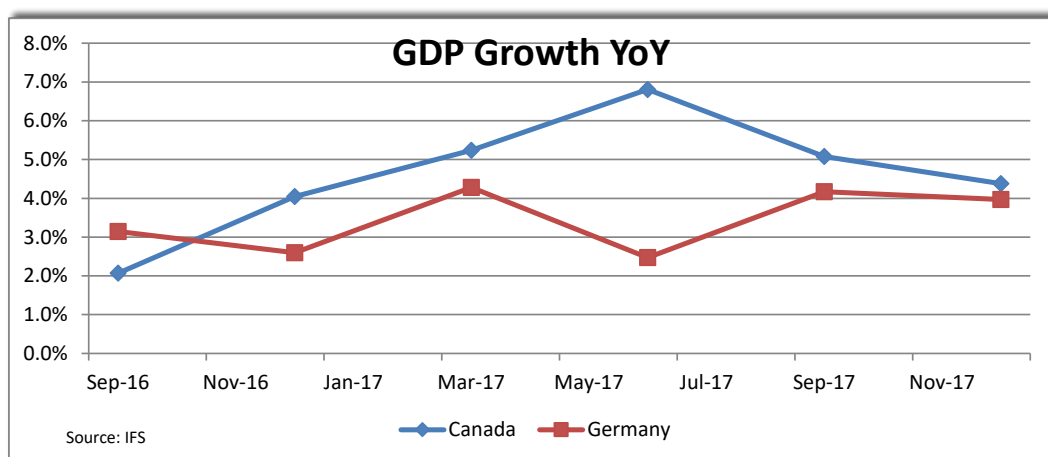


Country	CDS
Portugal	95
Italy	236
Belgium	26
France	35
Canada	36

Economic Growth

Canadian Q3 2018 GDP growth moderated to 2.0% from the 2.9% increase in Q2 2018, though initial signs suggest a further slowing in Q4.

Over the first three quarters of this year quarterly growth has averaged 2.2% which is down from the growth recorded in 2017. The projected further weakening in Q4 is more influenced by the slump in oil prices could weigh on activity as well though with the duration a function of how long the slump persists. The central bank is largely expected to move the current overnight rate of 1.75% to within its estimate of 'neutral' within a range of 2.50% to 3.50%. However, such will be dependent on indications that any slowing in Q4 proves transitory.



Fiscal Policy

The budget deficit for 2017/18 was C\$19.0B, down from the previous stated estimate of C\$19.4B. The changes mean the final federal 2017 debt-to-gross domestic product ratio is 89.6%, down from 92.4% in previous year. The Liberal government predicts the ratio will continue to fall in the next couple of years. While Canada's trade deficit widened to C\$1.2B in October with Western Canadian oil prices continuing to fall in the month - a worry.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Canada	-0.29	89.60	35.57
Germany	1.02	64.10	13.29
France	-2.54	97.00	35.28
Belgium	-0.79	103.10	26.49
Italy	-2.96	131.80	236.02
Portugal	-3.92	125.70	95.33

Sources: Thomson Reuters and IFS

Unemployment

Employment was up 94k in November, the third consecutive monthly increase. All of the gains were full-time, as has been the case year-to-date. Job gains were broadly-based across the country with solid growth in BC, Alberta, Ontario and Quebec. The unemployment rate fell from 6.99% in 2016 to 6.34% in 2017. Wage growth was once again the fly in the ointment, with hourly wages for permanent employees up just 1.5% from a year earlier. The OECD's unit labor cost indicator shows that Canadian labor costs are running at 1.9%.

Unemployment (%)	2016		2017	
	Jan	Nov	Jan	Nov
Canada	6.99	6.99	6.34	6.34
Germany	4.13	4.13	3.76	3.76
France	10.07	10.07	9.43	9.43
Belgium	7.86	7.86	7.16	7.16
Italy	11.68	11.68	11.23	11.23
Portugal	11.18	11.18	8.97	8.97

Source: Intl. Finance Statistics

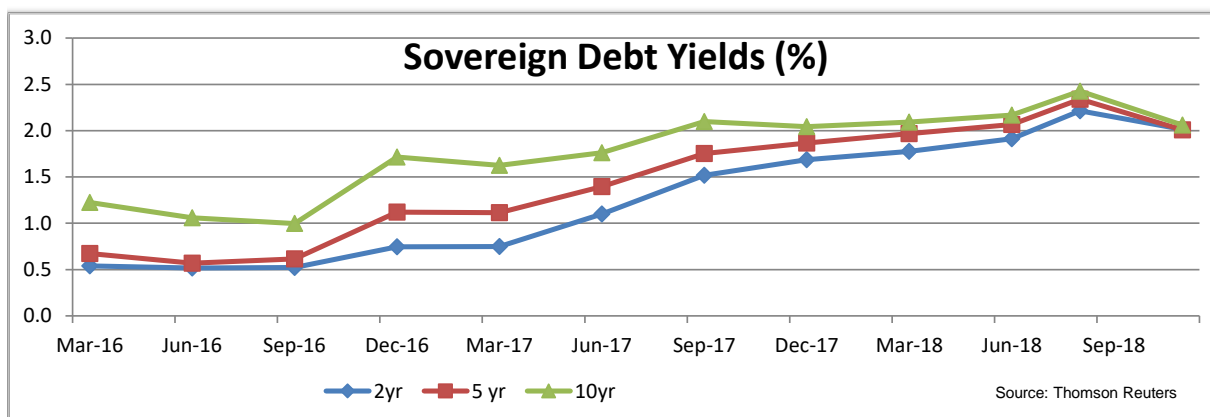
Banking Sector

Concern about the ability of housing market and consumer balance sheets to withstand rate hikes and other policy changes seem largely assuaged. Canadian loan growth remains strong, with solid commercial lending offsetting slowing personal lending. Office of the Superintendent of Financial Institutions said Wednesday that, effective April 30 next year, it will hike its "Domestic Stability Buffer" to 1.75% of a bank's risk-weighted assets (such as mortgages) from current level of 1.5% - a systemic positive.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
ROYAL BANK OF CA	1334.73	10.16
TORONTO-DOM BANK	1334.90	9.56
BANK OF NOVA SCO	998.49	8.83
BANK OF MONTREAL	774.05	7.61
CAN IMPL BK COMM	597.10	7.92
Total	5,039.3	
EJR's est. of cap shortfall at		
10% of assets less market cap		46.4
Canada's GDP		2,144.4

Funding Costs

Solid economic growth has led interest rates in Canada to rise from historically low levels. From 2016 to 2017, yields on five-year sovereign bonds have risen by as much as 75 basis points and are currently about 30 basis points higher than a year ago, contributing to higher bank funding costs. This is reflected in five-year fixed mortgage rates have increased by about 110 bps, while rates for new variable mortgages rose by close to 40 bps.



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 18 (1 is best, 189 worst) is strong.

The World Bank's Doing Business Survey*			
	2018	2017	Change in
	Rank	Rank	Rank
Overall Country Rank:	18	22	4
Scores:			
Starting a Business	2	2	0
Construction Permits	54	57	3
Getting Electricity	105	108	3
Registering Property	33	43	10
Getting Credit	12	7	-5
Protecting Investors	8	7	-1
Paying Taxes	16	17	1
Trading Across Borders	46	46	0
Enforcing Contracts	114	112	-2
Resolving Insolvency	11	15	4

* 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 77.7 for Economic Freedom with 100 being best.

Heritage Foundation 2018 Index of Economic Freedom				
World Rank 77.7*				
	2018	2017	Change in	World
	Rank**	Rank	Rank	Avg.
Property Rights	87.5	88.3	-0.8	51.5
Government Integrity	78.3	81.6	-3.3	42.1
Judicial Effectiveness	77.1	80.8	-3.7	46.9
Tax Burden	76.7	77.4	-0.7	76.7
Gov't Spending	52.3	52.3	0.0	63.5
Fiscal Health	81.2	80.3	0.9	66.3
Business Freedom	81.8	81.9	-0.1	64.8
Labor Freedom	71.3	73.1	-1.8	58.9
Monetary Freedom	77.5	77.8	-0.3	76.0
Trade Freedom	88.1	88.4	-0.3	75.9

*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 4.8% per annum in the last fiscal year which is disappointing. We expect tax revenues will grow approximately 4.8% per annum over the next couple of years and 4.8% 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 5.8% 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%	5.0	4.8	4.8	4.8
Social Contributions Growth %	3.2	1.8	1.8	1.8
Grant Revenue Growth %	0.0	5.1	5.1	5.1
Other Revenue Growth %	0.0	40.8	4.3	4.3
Other Operating Income Growth%	0.0	4.0	4.0	4.0
Total Revenue Growth%	4.0	5.0	5.8	5.2
Compensation of Employees Growth%	0.0	4.2	4.2	4.2
Use of Goods & Services Growth%	0.3	0.0		
Social Benefits Growth%	2.1	4.1	4.1	4.1
Subsidies Growth%	1.3	0.2		
Other Expenses Growth%	0.0			
Interest Expense	1.8	3.3	3.3	
Currency and Deposits (asset) Growth%	0.0	0.0		
Securities other than Shares LT (asset) Growth%	0.0	0.0		
Loans (asset) Growth%	(1.8)	5.2	4.8	4.8
Shares and Other Equity (asset) Growth%	0.0	(0.7)	2.0	2.0
Insurance Technical Reserves (asset) Growth%	0.0	0.0		
Financial Derivatives (asset) Growth%	0.0	0.0		
Other Accounts Receivable LT Growth%	0.0	0.0		
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%	0.0	0.0		
Securities Other than Shares (liability) Growth%	0.0	0.0		
Loans (liability) Growth%	(2.7)	1.9	1.9	1.9
Insurance Technical Reserves (liability) Growth%	0.0	0.0		
Financial Derivatives (liability) Growth%	0.0	0.0		
Additional ST debt (1st year)(millions 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					
	(MILLIONS CAD)					
	2014	2015	2016	2017	P2018	P2019
Taxes	538,788	566,092	573,970	601,662	630,542	660,808
Social Contributions	93,337	95,671	97,310	99,060	100,841	102,655
Grant Revenue	1,039	1,067	1,112	1,169	1,229	1,292
Other Revenue	14,664	16,066	13,841	19,482	20,324	21,202
Other Operating Income	125,965	123,146	125,637	130,714	130,714	130,714
Total Revenue	773,793	802,042	811,870	852,087	883,650	916,670
Compensation of Employees	237,859	244,442	252,407	262,997	274,031	285,529
Use of Goods & Services						
Social Benefits	182,593	193,707	205,548	213,972	222,741	231,870
Subsidies	18,044	18,332	19,221	19,263	19,265	19,267
Other Expenses				229,638	229,638	229,638
Grant Expense	87,878	89,946	95,771	98,224	100,740	103,320
Depreciation	64,130	66,723	67,944	69,948	69,948	69,948
Total Expenses excluding interest	707,051	734,577	763,790	795,818	916,363	939,571
Operating Surplus/Shortfall	66,742	67,465	48,080	56,269	-32,714	-22,901
Interest Expense	<u>62,498</u>	<u>62,338</u>	<u>61,243</u>	<u>62,565</u>	<u>64,602</u>	<u>66,706</u>
Net Operating Balance	4,244	5,127	-13,163	-6,296	-97,316	-89,607

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					
	(MILLIONS CAD)					
Base Case	2014	2015	2016	2017	P2018	P2019
ASSETS						
Currency and Deposits (asset)	-3,311	21,376	297	14,230	14,230	14,230
Securities other than Shares LT (asset)	146,014	164,885	156,589	161,194	161,194	161,194
Loans (asset)	215,239	233,960	235,476	247,822	259,717	272,184
Shares and Other Equity (asset)	353,876	371,103	341,222	338,903	345,681	352,595
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)						
Other Accounts Receivable LT					0	0
Monetary Gold and SDR's						
Other Assets					82,968	82,968
Additional Assets	<u>-18,657</u>	<u>-44,797</u>	<u>51,424</u>	<u>82,968</u>		
Total Financial Assets	693,161	746,527	785,008	845,117	863,791	883,171
LIABILITIES						
Other Accounts Payable						
Currency & Deposits (liability)					0	0
Securities Other than Shares (liability)						
Loans (liability)	64,997	67,129	69,445	70,734	168,050	257,657
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)						
Other Liabilities	<u>2,152,875</u>	<u>2,224,866</u>	<u>2,251,392</u>	<u>2,274,339</u>	<u>2,274,339</u>	<u>2,274,339</u>
Liabilities	2,217,872	2,291,995	2,320,837	2,345,073	1,813,849	1,922,836
Net Financial Worth	<u>-960,062</u>	<u>-936,102</u>	<u>-908,609</u>	<u>-852,743</u>	<u>-950,059</u>	<u>-1,039,666</u>
Total Liabilities & Equity	1,257,810	1,355,893	1,412,228	1,492,330	863,791	883,171

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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

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 Nov 5, 2018 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 upon 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%	4.8	8.8	0.8	AA-	AA-	AA-
Social Contributions Growth %	1.8	4.8	(1.2)	AA-	AA-	AA-
Other Revenue Growth %	4.3	7.3	1.3	AA-	AA-	AA-
Total Revenue Growth%	5.8	7.8	3.8	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.

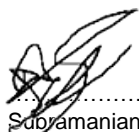
ATTESTATION FORM

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

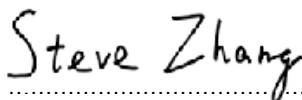


December 26, 2018

Subramanian NG
Senior Rating Analyst

Reviewer Signature:

Today's Date



December 26, 2018

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.