

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF NAV CANADA

THREE AND SIX MONTHS ENDED FEBRUARY 28, 2023 AND 2022

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NAV CANADA
Interim Condensed Consolidated Statements of Operations (unaudited)

(millions of Canadian dollars)	Notes	Three months ended		Six months ended	
		February 28		February 28	
		2023	2022	2023	2022
Revenue					
Customer service charges	3	\$ 366	\$ 300	\$ 788	\$ 621
Other revenue		22	13	35	37
		<u>388</u>	<u>313</u>	<u>823</u>	<u>658</u>
Operating expenses					
Salaries and benefits		252	244	491	472
Technical services		39	37	78	78
Facilities and maintenance		17	20	32	34
Depreciation and amortization	5, 6	35	36	72	73
Other	8	28	13	46	30
		<u>371</u>	<u>350</u>	<u>719</u>	<u>687</u>
Other (income) and expenses					
Finance income		(6)	(4)	(12)	(7)
Net interest expense relating to employee benefits		10	10	20	19
Other finance costs		19	21	46	42
Other		(3)	2	(8)	(1)
		<u>20</u>	<u>29</u>	<u>46</u>	<u>53</u>
Net income (loss), before net movement in regulatory deferral accounts					
		<u>(3)</u>	<u>(66)</u>	<u>58</u>	<u>(82)</u>
Net movement in regulatory deferral accounts related to net income (loss), net of tax					
	4	(33)	35	(104)	(6)
Net loss, after net movement in regulatory deferral accounts					
	1	<u>\$ (36)</u>	<u>\$ (31)</u>	<u>\$ (46)</u>	<u>\$ (88)</u>

See accompanying notes to unaudited interim condensed consolidated financial statements.

NAV CANADA
Interim Condensed Consolidated Statements of Comprehensive Income (Loss)
(unaudited)

(millions of Canadian dollars)	Notes	Three months ended		Six months ended	
		February 28		February 28	
		2023	2022	2023	2022
Net loss, after net movement					
in regulatory deferral accounts		\$ (36)	\$ (31)	\$ (46)	\$ (88)
Other comprehensive income (loss)					
Items that will be reclassified to					
income or (loss)					
Amortization of loss on cash flow					
hedges		1	1	1	1
Change in fair value of cash					
flow hedges		-	(1)	1	-
Net movement in regulatory deferral					
accounts related to other					
comprehensive income		(1)	-	(2)	(1)
		-	-	-	-
Total other comprehensive income (loss)		-	-	-	-
Total comprehensive loss	1	\$ (36)	\$ (31)	\$ (46)	\$ (88)

See accompanying notes to unaudited interim condensed consolidated financial statements.

NAV CANADA**Interim Condensed Consolidated Statements of Financial Position (unaudited)**

(millions of Canadian dollars)	Notes	February 28 2023	August 31 2022
Assets			
Current assets			
Cash and cash equivalents		\$ 411	\$ 392
Accounts receivable and other		112	141
Investments	9	174	154
Other		20	10
		<u>717</u>	<u>697</u>
Non-current assets			
Property, plant and equipment	5	729	729
Intangible assets	6	723	743
Investment in preferred interests	9	238	229
Long-term receivables		63	75
		<u>1,753</u>	<u>1,776</u>
Total assets		<u>2,470</u>	<u>2,473</u>
Regulatory deferral account debit balances	4	1,248	1,341
Total assets and regulatory deferral account debit balances		<u>\$ 3,718</u>	<u>\$ 3,814</u>

See accompanying notes to unaudited interim condensed consolidated financial statements.

NAV CANADA

Interim Condensed Consolidated Statements of Financial Position (unaudited)

(millions of Canadian dollars)	Notes	February 28 2023	August 31 2022
Liabilities			
Current liabilities			
Trade and other payables		\$ 233	\$ 213
Current portion of long-term debt	7	201	25
Deferred revenue		6	3
Other		8	7
		<u>448</u>	<u>248</u>
Non-current liabilities			
Long-term debt	7	2,169	2,463
Employee benefits		929	910
Lease liability		36	37
Other	8	22	9
		<u>3,156</u>	<u>3,419</u>
Total liabilities		<u>3,604</u>	<u>3,667</u>
Equity			
Retained earnings (deficit)		(18)	28
Total equity		<u>(18)</u>	<u>28</u>
Total liabilities and equity		<u>3,586</u>	<u>3,695</u>
Regulatory deferral account credit balances	4	132	119
Commitments	10		
Total liabilities, equity and regulatory deferral account credit balances		<u>\$ 3,718</u>	<u>\$ 3,814</u>

See accompanying notes to unaudited interim condensed consolidated financial statements.

NAV CANADA

Interim Condensed Consolidated Statements of Changes in Equity (unaudited)

(millions of Canadian dollars)	Retained earnings (deficit)	Accumulated other comprehensive income	Total
Balance August 31, 2021	\$ 28	\$ -	\$ 28
Net loss, after net movement in regulatory deferral accounts	(88)	-	(88)
Other comprehensive income (loss)	-	-	-
Balance February 28, 2022	<u>\$ (60)</u>	<u>\$ -</u>	<u>\$ (60)</u>
Balance August 31, 2022	\$ 28	\$ -	\$ 28
Net loss, after net movement in regulatory deferral accounts	(46)	-	(46)
Other comprehensive income (loss)	-	-	-
Balance February 28, 2023	<u>\$ (18)</u>	<u>\$ -</u>	<u>\$ (18)</u>

See accompanying notes to unaudited interim condensed consolidated financial statements.

NAV CANADA

Interim Condensed Consolidated Statements of Cash Flow (unaudited)

(millions of Canadian dollars)	Notes	Three months ended		Six months ended	
		2023	February 28 2022	2023	February 28 2022
Cash flows from (used in):					
Operating					
Receipts from customer service charges		\$ 372	\$ 316	\$ 832	\$ 648
Other receipts		30	18	41	28
Government grants received		-	-	1	4
Payments to employees and suppliers		(301)	(256)	(570)	(506)
Pension contributions - current service		(23)	(16)	(49)	(42)
Other post-employment payments		(3)	(3)	(5)	(5)
Interest payments		(15)	(16)	(42)	(42)
Interest receipts		6	-	10	1
		<u>66</u>	<u>43</u>	<u>218</u>	<u>86</u>
Investing					
Capital expenditures		(30)	(20)	(54)	(43)
Investment in regulatory assets		(3)	(2)	(5)	(3)
Government grants received	5, 6	1	-	3	-
Proceeds from sale of investment in equity-accounted investee		-	7	-	7
Net loan repayment from related party		-	5	-	3
Purchase of short-term investments		(19)	-	(19)	-
		<u>(51)</u>	<u>(10)</u>	<u>(75)</u>	<u>(36)</u>
Financing					
Repurchase of long-term debt	7	-	-	(125)	-
Payment of lease liabilities		-	-	(1)	(1)
		<u>-</u>	<u>-</u>	<u>(126)</u>	<u>(1)</u>
Cash flows from operating, investing and financing activities		15	33	17	49
Effect of foreign exchange on cash and cash equivalents		1	(1)	2	(1)
Increase in cash and cash equivalents		16	32	19	48
Cash and cash equivalents at beginning of period		395	335	392	319
Cash and cash equivalents at end of period		\$ 411	\$ 367	\$ 411	\$ 367

See accompanying notes to unaudited interim condensed consolidated financial statements.

NAV CANADA

Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Three and six months ended February 28, 2023 and 2022 (millions of Canadian dollars)

1. General Information

NAV CANADA was incorporated as a non-share capital corporation pursuant to Part II of the *Canada Corporations Act* to acquire, own, manage, operate, maintain and develop the Canadian civil air navigation system (the ANS), as defined in the *Civil Air Navigation Services Commercialization Act* (the ANS Act). NAV CANADA has been continued under the *Canada Not-for-profit Corporations Act*. The fundamental principles governing the mandate conferred on NAV CANADA by the ANS Act include the right to provide civil air navigation services and the exclusive ability to set and collect customer service charges for such services. NAV CANADA and its subsidiaries' (collectively, the Company) core business is to provide air navigation services, which is the Company's only reportable segment. The Company's air navigation services are provided primarily within Canada.

The charges for civil air navigation services provided by the Company are subject to the economic regulatory framework set out in the ANS Act. The ANS Act provides that the Company may establish new charges and amend existing charges for its services. In establishing new charges or revising existing charges, the Company must follow the charging principles set out in the ANS Act. These principles prescribe that, among other things, charges must not be set at levels which, based on reasonable and prudent projections, would generate revenue exceeding the Company's current and future financial requirements in relation to the provision of civil air navigation services. Pursuant to these principles, the Board of Directors of the Company (the Board), acting as rate regulator, approves the amount and timing of changes to customer service charges.

The Company plans its operations to result in an annual financial breakeven position on the consolidated statements of operations after recording adjustments to the rate stabilization account. As a result, the Company expects no net change in retained earnings on an annual basis. The impacts of rate regulation on the Company's interim condensed consolidated financial statements (the financial statements) are described in note 4.

The ANS Act requires that the Company communicate proposed new or revised charges to customers in advance of their introduction and to consult thereon. Customers may make representations to the Company as well as appeal revised charges to the Canadian Transportation Agency on the grounds that the Company either breached the charging principles in the ANS Act or failed to provide statutory notice.

NAV CANADA is domiciled in Canada. The address of NAV CANADA's registered office is 151 Slater Street, Ottawa, Ontario, Canada K1P 5H3.

2. Basis of presentation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Accounting Standards (IAS) 34 *Interim Financial Reporting*. As permitted under this standard, these financial statements do not include all of the disclosures required for annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended August 31, 2022 (2022 annual financial statements).

These financial statements include the accounts of all NAV CANADA subsidiaries and were authorized for issue by the Board on April 6, 2023.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for the following items:

- financial instruments that are classified as fair value through profit or loss (FVTPL), which are measured at fair value; and
- defined benefit liabilities that are recognized as the net of the present value of defined benefit obligations and plan assets measured at fair value.

2. Basis of presentation (continued)

(c) Functional and reporting currency

These financial statements are presented in Canadian dollars (CDN), which is the Company's functional and reporting currency and all information presented has been rounded to the nearest million dollars, unless otherwise indicated.

(d) Seasonality

The Company's operations have historically varied throughout the fiscal year, with the highest revenue from air traffic experienced in the fourth quarter (June to August). This demand pattern is principally a result of the higher number of leisure travellers and their preference for travel in the summer months. The Company has a cost structure that is largely fixed, and accordingly costs do not vary significantly throughout the year.

(e) Significant accounting policies

Significant accounting policies used in these financial statements are disclosed in note 3 of the 2022 annual financial statements. The accounting policies have been applied consistently to all periods presented.

(f) Critical accounting estimates and judgments

The preparation of these financial statements requires management to make estimates and judgments about the future.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal actual results.

Critical judgments and key sources of estimation uncertainty are disclosed in note 2 (d) of the 2022 annual financial statements.

(g) Future accounting pronouncements

The International Accounting Standards Board (IASB) has issued a number of standards and amendments that are not yet effective. The Company continues to analyze these standards and amendments to determine the extent of their impact on its financial statements. At this time, the Company does not expect to adopt any of these standards or amendments before their effective dates.

The amendment below is applicable for the Company for reporting periods beginning on or after January 1, 2024:

IAS 1 Non-current Liabilities with Covenants

In October 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1). The amendment improves the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with covenants. The amendment also responds to stakeholders' concerns about the classification of such a liability as current or non-current. The extent of the impact of the amendment on the Company has not yet been determined.

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Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Three and six months ended February 28, 2023 and 2022 (millions of Canadian dollars)

3. Revenue

Customer service charges by type of air navigation service provided were as follows:

	Three months ended		Six months ended	
	February 28		February 28	
	2023	2022	2023	2022
Enroute ⁽¹⁾	\$ 175	\$ 152	\$ 387	\$ 319
Terminal ⁽²⁾	155	120	319	242
Daily / annual / quarterly ⁽³⁾	12	9	29	21
North Atlantic and international communication ⁽⁴⁾	24	19	53	39
	<u>\$ 366</u>	<u>\$ 300</u>	<u>\$ 788</u>	<u>\$ 621</u>

- (1) Charges related to air navigation services provided or made available to aircraft during the enroute phase of the flight, whether they overfly Canadian-controlled airspace or take-off and/or land in Canada. This performance obligation is satisfied at a point in time.
- (2) Charges related to air navigation services provided or made available to aircraft at or in the vicinity of an airport. This performance obligation is satisfied at a point in time.
- (3) Charges related to enroute and terminal air navigation services. These charges generally apply to propeller aircraft and the performance obligations are satisfied over the period in which air navigation services are made available.
- (4) Charges related to certain air navigation and communication services provided or made available to aircraft while in airspace over the North Atlantic Ocean. These services are provided outside of Canadian sovereign airspace but for which Canada has air traffic control responsibility pursuant to international agreements. The international communication charges also include services provided or made available while in Canadian airspace in the north. These performance obligations are satisfied at a point in time.

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Notes to Interim Condensed Consolidated Financial Statements (unaudited)
Three and six months ended February 28, 2023 and 2022 (millions of Canadian dollars)
4. Financial statement impact of regulatory accounting
(a) Regulatory deferral accounts

In accordance with disclosures required for entities subject to rate regulation, the Company's regulatory deferral account balances are as follows:

	August 31 2022	Deferral	Recovery/ reversal	February 28 2023
Rate stabilization account (b)	\$ 574	\$ -	\$ (112)	\$ 462
Employee pension benefits:				
Pension contributions (c)	624	24	-	648
Other pension benefits:				
Accumulating sick leave	16	-	-	16
Long-term disability contributions	6	-	(6)	-
Realized hedging transactions	65	-	(1)	64
Leases	-	1	-	1
Decommissioning liability	1	-	-	1
Allowance for expected credit losses	9	-	(1)	8
Cloud computing arrangements	46	5	(3)	48
Debit balances	\$ 1,341	\$ 30	\$ (123)	\$ 1,248
Derivatives	\$ (2)	\$ (1)	\$ -	\$ (3)
Employee pension benefits:				
Pension re-measurements	(2)	-	-	(2)
Other pension benefits:				
Accumulating sick leave	(3)	-	-	(3)
Other post-employment benefits re-measurements	(45)	-	(2)	(47)
Supplemental pension re- measurements	(3)	-	(1)	(4)
Change in the fair value of the investment in preferred interests ⁽¹⁾	(64)	(9)	-	(73)
Credit balances	\$ (119)	\$ (10)	\$ (3)	\$ (132)

⁽¹⁾ The increase in the period is as a result of the effect of foreign exchange.

4. Financial statement impact of regulatory accounting (continued)

(a) Regulatory deferral accounts (continued)

The table below shows the impact of rate stabilization adjustments and net movement in regulatory deferral accounts on net income (loss):

	Three months ended		Six months ended	
	February 28		February 28	
	2023	2022	2023	2022
Revenue	\$ 388	\$ 313	\$ 823	\$ 658
Operating expenses	371	350	719	687
Other (income) and expenses	20	29	46	53
Net income (loss), before net movement in regulatory deferral accounts	(3)	(66)	58	(82)
Rate stabilization adjustments (b)	(34)	5	(112)	(54)
Other regulatory deferral account adjustments:				
Employee benefit pension contributions	12	28	24	54
Other employee benefits	(8)	(3)	(9)	(3)
Investment in preferred interests, before tax	(4)	(1)	(9)	(8)
Investment in equity-accounted investee	-	4	-	4
Other	1	2	2	1
	1	30	8	48
Net movement in regulatory deferral accounts	(33)	35	(104)	(6)
Net loss, after net movement in regulatory deferral accounts	\$ (36)	\$ (31)	\$ (46)	\$ (88)

(b) Rate stabilization account

The rate stabilization account balance is comprised of operating deferrals. Should actual revenue exceed the Company's actual expenses, such excess is reflected as a credit to the rate stabilization account. Conversely, should actual revenue be less than actual expenses, such shortfall is reflected as a debit to the rate stabilization account. A credit balance in the rate stabilization account represents amounts returnable through reductions in future customer service charges, while a debit balance represents amounts recoverable through future customer service charges.

When establishing customer service charges, the Board considers, among other things:

- (i) the statutory requirement to provide air navigation services;
- (ii) air traffic results and forecasts;
- (iii) financial and operating requirements, including the current and anticipated balance in the rate stabilization account and the extent to which operating costs are variable and can be contained;
- (iv) the recovery of pension contributions on a cash basis; and
- (v) updates to our financial forecasts, debt servicing and financial requirements, and resulting financial coverage ratios.

4. Financial statement impact of regulatory accounting (continued)

(b) Rate stabilization account (continued)

The table below shows the net movements in the rate stabilization account:

	Three months ended		Six months ended	
	February 28		February 28	
	2023	2022	2023	2022
Debit balance, beginning of period	\$ (496)	\$ (597)	\$ (574)	\$ (656)
Variations from planned results:				
Revenue higher than planned	10	17	49	96
Operating expenses lower (higher) than planned	3	(5)	21	(5)
Other (income) and expenses lower (higher) than planned	2	1	(1)	6
Net movement in other regulatory deferral accounts	(14)	3	(22)	(1)
Total variances from planned results	1	16	47	96
Initial approved adjustment ⁽¹⁾	33	(21)	65	(42)
Net movement recorded in net income (loss)	34	(5)	112	54
Debit balance, end of period	\$ (462)	\$ (602)	\$ (462)	\$ (602)

⁽¹⁾ In order to achieve breakeven results of operations after the application of rate regulated accounting, the Board approved the fiscal year ending August 31, 2023 (fiscal 2023) budget with a decrease to the debit position of the rate stabilization account as a result of a planned excess of \$129 (fiscal year ended August 31, 2022 (fiscal 2022) - planned shortfall of \$85), which is being reflected in the rate stabilization account evenly throughout the fiscal year.

(c) Pension contributions

Included in regulatory deferral account debit balances as at February 28, 2023 is \$648 which relates to the recovery of pension contributions through customer service charges (August 31, 2022 - \$624). After regulatory accounting, the pension benefit liability on the statement of financial position is:

	February 28	August 31
	2023	2022
Pension benefit liability	\$ (612)	\$ (588)
Less:		
Regulatory deferrals of non-cash adjustments	(2)	(2)
Benefit contributions less than benefit expense	(614)	(590)
Regulatory debit balance - recovery of contributions	648	624
Regulatory expense cumulatively less than contributions	\$ 34	\$ 34

4. Financial statement impact of regulatory accounting (continued)

(c) Pension contributions (continued)

The Company uses a regulatory approach to determine the net charge to net income (loss) for pension benefit costs for its funded plan. The objective of this approach is to reflect the cash cost of the funded pension plan in net income (loss) by recording an adjustment to the related regulatory deferral account. These regulatory adjustments are the difference between the pension benefit costs as determined by IAS 19 *Employee Benefits* and the annual going concern cash cost of the plan. Included in the regulatory deferral related to pension contributions of \$648, is the recovery of \$10 of solvency deficiency contributions of \$44 paid in the fiscal year ended August 31, 2017. The remaining balance of \$34 is expected to be recovered through customer service charges. The funding of employee pension benefits as compared to the expense, net of regulatory adjustments, recorded in the consolidated statements of operations is summarized below.

	Three months ended		Six months ended	
	February 28 2023	February 28 2022	February 28 2023	February 28 2022
Consolidated statements of operations				
Pension current service expense ⁽¹⁾	\$ 28	\$ 46	\$ 56	\$ 91
Net interest expense ⁽¹⁾	7	6	13	13
Less: Regulatory deferrals	(12)	(28)	(24)	(54)
	<u>\$ 23</u>	<u>\$ 24</u>	<u>\$ 45</u>	<u>\$ 50</u>
Company cash pension contributions				
Going concern current service - cash payment	\$ 23	\$ 17	\$ 48	\$ 43
Going concern current service - accrued	-	7	(3)	7
	<u>\$ 23</u>	<u>\$ 24</u>	<u>\$ 45</u>	<u>\$ 50</u>

⁽¹⁾ For the six months ended February 28, 2023, pension current service expense does not include \$1 related to the Company's unfunded pension plan (six months ended February 28, 2022 - \$1). Net interest expense for the three and six months ended February 28, 2023 does not include \$1 and \$2 respectively, related to the Company's unfunded pension plan (three and six months ended February 28, 2022 - \$1 and \$2 respectively).

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Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Three and six months ended February 28, 2023 and 2022 (millions of Canadian dollars)

5. Property, plant and equipment

Property, plant and equipment are comprised of the following:

	Land and buildings	Systems and equipment	Assets under ⁽¹⁾ development	Total
Cost				
Balance at August 31, 2022	\$ 423	\$ 771	\$ 154	\$ 1,348
Additions	-	-	42	42
Disposals	-	(1)	-	(1)
Transfers	21	28	(49)	-
Balance at February 28, 2023	\$ 444	\$ 798	\$ 147	\$ 1,389
Accumulated depreciation				
Balance at August 31, 2022	\$ 124	\$ 495	\$ -	\$ 619
Depreciation	12	29	-	41
Balance at February 28, 2023	\$ 136	\$ 524	\$ -	\$ 660
Carrying amounts				
At August 31, 2022	\$ 299	\$ 276	\$ 154	\$ 729
At February 28, 2023	\$ 308	\$ 274	\$ 147	\$ 729

⁽¹⁾ Additions to assets under development are shown net of \$1 related to government funding under the National Trade Corridors Fund (NTCF).

6. Intangible assets

Intangible assets are comprised of the following:

	Air navigation right	Purchased software	Internally developed software	Assets under ⁽¹⁾ development	Total
Cost					
Balance at August 31, 2022	\$ 702	\$ 181	\$ 293	\$ 36	\$ 1,212
Additions	-	-	-	11	11
Transfers	-	-	4	(4)	-
Balance at February 28, 2023	\$ 702	\$ 181	\$ 297	\$ 43	\$ 1,223
Accumulated amortization					
Balance at August 31, 2022	\$ 200	\$ 116	\$ 153	\$ -	\$ 469
Amortization	13	5	13	-	31
Balance at February 28, 2023	\$ 213	\$ 121	\$ 166	\$ -	\$ 500
Carrying amounts					
At August 31, 2022	\$ 502	\$ 65	\$ 140	\$ 36	\$ 743
At February 28, 2023	\$ 489	\$ 60	\$ 131	\$ 43	\$ 723

⁽¹⁾ Additions to assets under development are shown net of \$4 related to government funding under the NTFCF.

NAV CANADA**Notes to Interim Condensed Consolidated Financial Statements (unaudited)**

Three and six months ended February 28, 2023 and 2022 (millions of Canadian dollars)

7. Long-term debt

On November 29, 2022, the Company repurchased \$119 of its revenue bonds and certain General Obligation Notes. Specifically, the following notional amounts were repurchased: \$43 of the Series 96-3 revenue bonds, \$46 of the Series 97-2 amortizing revenue bonds, \$15 of the Series 2021-1 General Obligation Notes, and \$15 of the Series 2021-2 General Obligation Notes.

The Company paid a net premium of \$6 related to the partial repurchase in advance of the maturity dates. This premium of \$6 is reflected in other finance costs for the six months ended February 28, 2023.

The Company's long-term debt and security are described in note 14 of the 2022 annual financial statements. The Company's outstanding debt was comprised of the following:

	February 28 2023	August 31 2022
Bonds and notes payable ⁽¹⁾		
Issued under the Master Trust Indenture:		
\$250 face value 7.40% revenue bonds, series 96-3, maturing June 1, 2027	\$ 207	\$ 250
\$500 initial face value 7.56% amortizing revenue bonds, series 97-2, maturing March 1, 2027	79	125
	<u>286</u>	<u>375</u>
Issued under the General Obligation Indenture:		
\$300 face value 0.937% general obligation notes, series 2021-1, maturing February 9, 2026	285	300
\$200 face value 0.555% general obligation notes, series 2021-2, maturing February 9, 2024	185	200
\$550 face value 2.924% general obligation notes, series 2020-1, maturing September 29, 2051	550	550
\$300 face value 2.063% general obligation notes, series 2020-2, maturing May 29, 2030	300	300
\$250 face value 3.209% general obligation notes, series MTN 2019-1, maturing September 29, 2050	250	250
\$275 face value 3.293% general obligation notes, series MTN 2018-1, maturing March 30, 2048	275	275
\$250 face value 3.534% general obligation notes, series MTN 2016-1, maturing February 23, 2046	250	250
	<u>2,095</u>	<u>2,125</u>
Total bonds and notes payable	<u>2,381</u>	2,500
Adjusted for deferred financing costs and discounts	(11)	(12)
Carrying value of total bonds and notes payable	<u>2,370</u>	2,488
Less: current portion of long-term debt ⁽²⁾	(201)	(25)
Total long-term debt	<u>\$ 2,169</u>	<u>\$ 2,463</u>

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Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Three and six months ended February 28, 2023 and 2022 (millions of Canadian dollars)

7. Long-term debt (continued)

- (1) The bonds and notes payable are redeemable in whole or in part at the option of the Company at any time at the higher of par and the Canada yield price plus a redemption premium.
- (2) The current portion of long-term debt relates to the \$185 Series 2021-2 General Obligation Notes, that mature on February 9, 2024 and the annual amortization payment of \$16 for the Series 97-2 amortizing revenue bonds.

8. Provisions

Provisions for onerous contracts have been recognized where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits to be received. During the three and six months ended February 28, 2023, additions to onerous provisions were recorded in the amount of \$13 related to a technology sales and services contract which is not expected to be completed until the fiscal year ending August 31, 2025. This amount is included in Other operating expenses on the consolidated statements of operations. As at February 28, 2023, onerous provisions of \$19 are included in other non-current liabilities on the statements of financial position (August 31, 2022 - \$6).

9. Financial instruments and financial risk management

Summary of financial instruments

The following table presents the carrying amount of the Company's financial instruments, by classification category and includes the fair value hierarchy classification for each financial instrument as defined in note 16 of the 2022 annual financial statements. Excluding long-term debt, the carrying amount approximates the fair value of all of the Company's financial instruments.

As at February 28, 2023	Amortized Cost		FVTPL	Fair value hierarchy
Financial assets				
Cash and cash equivalents ⁽¹⁾	\$	411	\$ -	
Accounts receivable and other		109	-	
Current investments				
Short-term investments ⁽²⁾		99	-	
Debt service reserve fund		75	-	
Other current assets				
Derivative assets ⁽³⁾		-	3	Level 2
Investment in preferred interests ⁽⁴⁾		-	238	Level 3
Long-term receivables ⁽⁵⁾		63	-	
	\$	757	\$ 241	
Financial liabilities				
Trade and other payables				
Trade payables and accrued liabilities	\$	229	\$ -	
Long-term debt (including current portion)				
Bonds and notes payable ⁽⁶⁾		2,370	-	Level 2
	\$	2,599	\$ -	

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Notes to Interim Condensed Consolidated Financial Statements (unaudited)
Three and six months ended February 28, 2023 and 2022 (millions of Canadian dollars)
9. Financial instruments and financial risk management (continued)
Summary of financial instruments (continued)

As at August 31, 2022	Amortized Cost		FVTPL	Fair value hierarchy
Financial assets				
Cash and cash equivalents ⁽¹⁾	\$	392	\$ -	
Accounts receivable and other		137	-	
Current investments				
Short-term investments ⁽²⁾		80	-	
Debt service reserve fund		74	-	
Other current assets				
Derivative assets ⁽³⁾		-	2	Level 2
Investment in preferred interests ⁽⁴⁾		-	229	Level 3
Long-term receivables ⁽⁵⁾		75	-	
	\$	758	\$ 231	
Financial liabilities				
Trade and other payables				
Trade payables and accrued liabilities	\$	207	\$ -	
Other current liabilities				
Derivative liabilities ⁽³⁾		-	1	Level 2
Long-term debt (including current portion)				
Bonds and notes payable ⁽⁶⁾		2,488	-	Level 2
	\$	2,695	\$ 1	

(1) As at February 28, 2023, cash and cash equivalents include \$129 of highly liquid instruments with original terms to maturity of less than three months (August 31, 2022 - \$175).

(2) Short-term investments consist of a Banker's Acceptance with an original maturity of more than three months.

(3) Derivative assets and liabilities are recorded at fair value determined using prevailing foreign exchange market rates and interest rates at the reporting date.

(4) This instrument is recorded at fair value based on the valuation technique described in note 12 of the 2022 annual financial statements. The increase in the carrying value as at February 28, 2023 is as a result of the effect of foreign exchange and is included in Other (within Other (income) and expenses) on the consolidated statements of operations.

(5) Long-term receivables include \$68 of deferred payments related to the September 1, 2020 customer service charge increase as described in note 16 (b) of the 2022 annual financial statements (August 31, 2022 - \$81), which are presented net of an estimated credit loss provision of \$6 (August 31, 2022 - \$7).

(6) The fair value of the Company's bonds and notes payable is classified as Level 2 in the fair value hierarchy as it is determined using secondary market ask prices at the reporting date. As at February 28, 2023, the fair value was \$2,067 (August 31, 2022 - \$2,227), inclusive of accrued interest of \$22 (August 31, 2022 - \$25).

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Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Three and six months ended February 28, 2023 and 2022 (millions of Canadian dollars)

9. Financial instruments and financial risk management (continued)

Summary of financial instruments (continued)

There have been no transfers between levels of the fair value hierarchy since August 31, 2022.

For the fair value of the investment in preferred interests of Aireon, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on net income (loss):

	Increase	Decrease
Commencement of expected cash flows (change of 1 year)	\$ (33)	\$ 30
Risk-adjusted discount rate (1% movement (100 basis points))	\$ (34)	\$ 40

Financial risk management

The Company is exposed to several risks as a result of holding financial instruments, including interest rate risk, foreign exchange risk, price risk, credit risk and liquidity risk. The Company's exposure to financial risks and how the Company manages each of those risks are described in note 16 (a)-(c) of the 2022 annual financial statements. There were no significant changes to those risks or to the Company's management of exposure to those risks during the six months ended February 28, 2023, except as noted below.

Liquidity risk

Separate from the Company's syndicated credit facility are letter of credit facilities for pension funding purposes of \$810 as at February 28, 2023 (August 31, 2022 - \$810). The maturity date for \$400 of credit facilities was extended by one year during the six months ended February 28, 2023 and all facilities will mature on December 31, 2023. As at February 28, 2023, \$724 was drawn for pension solvency funding purposes (August 31, 2022 - \$684).

10. Commitments

The following table presents a maturity analysis of the Company's undiscounted contractual cash flows for its financial liabilities, capital commitments, lease liabilities and other commitments as at February 28, 2023:

	Remaining payments – for years ending August 31						
	Total	2023	2024	2025	2026	2027	Thereafter
Trade payables and accrued liabilities	\$ 211	\$ 211	\$ -	\$ -	\$ -	\$ -	-
Long-term debt (including current portion) ^{(1), (2)}	2,381	16	201	16	301	222	1,625
Interest payments ⁽²⁾	1,262	35	71	70	67	65	954
Capital commitments	114	58	21	8	5	7	15
Lease liability	58	1	3	3	3	3	45
Related party loan ⁽³⁾	15	15	-	-	-	-	-
	\$ 4,041	\$ 336	\$ 296	\$ 97	\$ 376	\$ 297	\$ 2,639

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Notes to Interim Condensed Consolidated Financial Statements (unaudited)

Three and six months ended February 28, 2023 and 2022 (millions of Canadian dollars)

10. Commitments (continued)

- (1) Payments represent principal of \$2,381. The Company may choose to repay a portion of these maturities with available cash and/or may increase the size of a re-financing to generate additional liquidity or for other purposes, and/or may choose to redeem in whole or in part an issue in advance of its scheduled maturity.
- (2) Further details on interest rates and maturity dates on long-term debt are provided in note 7.
- (3) The Company has an agreement with Aireon to provide a subordinated loan up to a total of \$15 CDN (\$11 U.S.) through June 2026 or the date on which the senior credit facility is paid in full and terminated or refinanced.