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Unaudited Interim Condensed Consolidated Financial Statements of

NAV CANADA

Three and six months ended February 28, 2022 and 2021

NAV CANADA

Interim Condensed Consolidated Statements of Operations (unaudited)

(millions of Canadian dollars)

	Notes	Three months ended February 28 2022	Three months ended February 28 2021	Six months ended February 28 2022	Six months ended February 28 2021
Revenue					
Customer service charges	3	$ 300	$ 177	$ 621	$ 366
Other revenue		13	2	37	15
		313	179	658	381
Operating expenses					
Salaries and benefits	4	244	211	472	415
Technical services		37	41	78	79
Facilities and maintenance		20	14	34	29
Depreciation and amortization	7, 8	36	36	73	75
Other		13	14	30	27
		350	316	687	625
Other (income) and expenses					
Finance income		(4)	(3)	(7)	(7)
Net interest expense relating to employee benefits		10	13	19	27
Other finance costs		21	24	42	47
Other		2	6	(1)	4
		29	40	53	71
Net loss, before income tax and net movement in regulatory deferral accounts		(66)	(177)	(82)	(315)
Income tax expense		-	2	-	2
Net loss, before net movement in regulatory deferral accounts		(66)	(179)	(82)	(317)
Net movement in regulatory deferral accounts related to net loss, net of tax	5	35	122	(6)	190
Net loss, after net movement in regulatory deferral accounts	1	$ (31)	$ (57)	$ (88)	$ (127)

See accompanying notes to unaudited interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Comprehensive Loss (unaudited)

(millions of Canadian dollars)

	Notes	Three months ended February 28 2022	Three months ended February 28 2021	Six months ended February 28 2022	Six months ended February 28 2021
Net loss, after net movement in regulatory deferral accounts		$ (31)	$ (57)	$ (88)	$ (127)
Other comprehensive income (loss)					
Items that will not be reclassified to income or (loss):					
Re-measurements of employee defined benefit plans		-	647	-	647
Net movement in regulatory deferral accounts related to other comprehensive income	5	-	(647)	-	(647)
		-	-	-	-
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)	-	-	-
Net movement in regulatory deferral accounts related to other comprehensive income		-	(1)	(1)	(1)
		-	-	-	-
Total other comprehensive income (loss)		-	-	-	-
Total comprehensive loss	1	$ (31)	$ (57)	$ (88)	$ (127)

See accompanying notes to unaudited interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Financial Position (unaudited)

(millions of Canadian dollars)

	Notes	February 28 2022	August 31 2021
Assets			
Current assets			
Cash and cash equivalents		$ 367	$ 319
Accounts receivable and other		101	106
Investments		74	73
Assets held for sale	6	22	-
Other		14	10
		578	508
Non-current assets			
Property, plant and equipment	7	682	717
Intangible assets	8	755	776
Investment in preferred interests		307	299
Long-term receivables		96	116
Investment in equity-accounted investee	9	-	7
Employee benefits		4	-
		1,844	1,915
Total assets		2,422	2,423
Regulatory deferral account debit balances	5	1,751	1,757
Total assets and regulatory deferral account debit balances		$ 4,173	$ 4,180

See accompanying notes to the unaudited interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Financial Position (unaudited)

(millions of Canadian dollars)

	Notes	February 28 2022	August 31 2021
Liabilities			
Current liabilities			
Trade and other payables		$ 221	$ 204
Current portion of long-term debt		25	25
Deferred revenue		2	8
Other		8	3
		256	240
Non-current liabilities			
Long-term debt		2,487	2,487
Employee benefits		1,323	1,266
Deferred tax liability		13	12
Other		7	1
		3,830	3,766
Total liabilities		4,086	4,006
Equity			
Retained earnings (deficit)		(60)	28
Total equity		(60)	28
Total liabilities and equity		4,026	4,034
Regulatory deferral account credit balances	5	147	146
Commitments	11		
Total liabilities, equity and regulatory deferral account credit balances		$ 4,173	$ 4,180

See accompanying notes to the unaudited interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Changes in Equity (unaudited)

(millions of Canadian dollars)

	Retained earnings (deficit)	Accumulated other comprehensive income	Total
Balance August 31, 2020	$ 28	$ -	$ 28
Net loss, after net movement in regulatory deferral accounts	(127)	-	(127)
Other comprehensive income (loss)	-	-	-
Balance February 28, 2021	$ (99)	$ -	$ (99)
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	$ (60)	$ -	$ (60)

See accompanying notes to the unaudited interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Cash Flows (unaudited)

(millions of Canadian dollars)

	Notes	Three months ended February 28 2022	Three months ended February 28 2021	Six months ended February 28 2022	Six months ended February 28 2021
Cash flows from (used in):					
Operating					
Receipts from customer service charges		$ 316	$ 155	$ 648	$ 310
Other receipts		18	17	28	28
Government grants received	4	-	26	4	58
Payments to employees and suppliers		(256)	(266)	(506)	(534)
Pension contributions - current service		(16)	(26)	(42)	(60)
Other post-employment payments		(3)	(4)	(5)	(6)
Interest payments		(16)	(20)	(42)	(46)
Interest receipts		-	-	1	1
		43	(118)	86	(249)
Investing					
Capital expenditures		(20)	(19)	(43)	(36)
Investment in regulatory assets		(2)	(1)	(3)	(2)
Proceeds from sale of property, plant and equipment		-	-	-	4
Proceeds from sale of investment in equity-accounted investee	9	7	-	7	-
Net loan repayment from related party	9	5	-	3	-
Proceeds from maturity of short-term investments		-	70	-	70
		(10)	50	(36)	36
Financing					
Net proceeds from issuance of long-term debt		-	498	-	498
Repayment of long-term debt		-	(250)	-	(250)
Net repayment of bank loans		-	-	-	(223)
Payment of lease liabilities		-	(1)	(1)	(2)
		-	247	(1)	23
Cash flows from (used in) operating, investing and financing activities		33	179	49	(190)
Effect of foreign exchange on cash and cash equivalents		(1)	(1)	(1)	(1)
Increase (decrease) in cash and cash equivalents		32	178	48	(191)
Cash and cash equivalents at beginning of period		335	320	319	689
Cash and cash equivalents at end of period		$ 367	$ 498	$ 367	$ 498

See accompanying notes to unaudited interim condensed consolidated financial statements.

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 5.

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 77 Metcalfe Street, Ottawa, Ontario, Canada K1P 5L6.

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, 2021 (2021 annual financial statements).

These financial statements include the accounts of all NAV CANADA subsidiaries and were authorized for issue by the Board on April 7, 2022.

(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 was principally a result of the higher number of leisure travellers and their preference for travel in the summer months. The COVID-19 pandemic and the resulting economic contraction continues to have a significant negative impact on global air traffic and the aviation industry. While the normal seasonality pattern may occur in the fiscal year ending August 31, 2022 (fiscal 2022), its impact is likely to be muted.

The Company has a cost structure that is largely fixed, and accordingly costs do not vary significantly throughout the year. The Company continues to review, monitor and manage spending, while at the same time ensuring the continued fulfillment of the Company's mandate to safely operate and maintain the Canadian air navigation system as an essential service and to protect the safety and well-being of its employees, while positioning itself to support a post-pandemic recovery in air travel and to strategically invest in the long-term future of the Company.

(e) Significant accounting policies

Significant accounting policies used in these financial statements are disclosed in note 3 of the 2021 annual financial statements, with the exception of the change in accounting policy described below. The accounting policies have been applied consistently to all periods presented.

- Implementation costs associated with Software as a Service (or cloud computing) arrangements

  As a result of the IFRS Interpretations Committee's agenda decision entitled "Configuration or Customization Costs in a Cloud Computing Arrangement (IAS 38)", the Company reviewed its accounting policy with respect to implementation costs associated with cloud computing arrangements. The Company assessed whether these costs would give rise to a software intangible asset over which the Company has control, and in applying the guidance in the agenda decision, it was determined that they generally do not give rise to such an asset. Accordingly, the implementation costs of cloud computing arrangements are recorded within operating expenses in the statements of operations as incurred.

  The Board, acting as rate regulator, has approved the creation of regulatory deferral account debit balances for these costs. These balances will be recovered over time by amortizing them over the terms of the cloud computing arrangements.

  These changes have been applied retrospectively.

  As a result of this accounting policy change, intangible assets have decreased by $43 and regulatory deferral account debit balances have increased by $43 as at August 31, 2021, from that previously reported in the 2021 annual financial statements. There is no net impact to net income (loss) after the application of regulatory accounting.

(millions of Canadian dollars)

2. Basis of presentation (continued)

(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 2021 annual financial statements.

3. Revenue

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

	Three months ended		Six months ended	
	February 28 2022	February 28 2021	February 28 2022	February 28 2021
Enroute [1]	$ 152	$ 96	$ 319	$ 200
Terminal [2]	120	64	242	133
Daily / annual / quarterly [3]	9	5	21	10
North Atlantic and international communication [4]	19	12	39	23
	$ 300	$ 177	$ 621	$ 366

(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.

(millions of Canadian dollars)

4. Salaries and benefits

Salaries and benefits expenses were comprised of the following:

	Three months ended		Six months ended	
	February 28 2022	February 28 2021	February 28 2022	February 28 2021
Salaries and other	$ 182	$ 161	$ 361	$ 324
Government grant [1]	-	(16)	(4)	(58)
Severance and termination costs	-	(1)	-	29
Fringe benefits (excluding pension)	23	22	37	32
Pension current service cost	46	50	92	101
Less: capitalized salaries and benefits	(7)	(5)	(14)	(13)
	$ 244	$ 211	$ 472	$ 415

(1) Receipts under the Canada Emergency Wage Subsidy program, which the Company started to receive beginning in May 2020, have been recorded as a reduction to salaries and benefits expenses. The program ended October 23, 2021.

(millions of Canadian dollars)

5. Financial statement impact of regulatory accounting

(a) Regulatory Deferral Accounts

The Company's regulatory deferral account balances were as follows:

	August 31 2021	Regulatory deferral	Recovery/ reversal	February 28 2022
Regulatory deferral account debit balances				
Rate stabilization account (b)	$ 656	$ 42	$ (96)	$ 602
Deferred income tax	12	1	-	13
Employee pension benefits:				
Pension contributions (c)	518	54	-	572
Pension re-measurements	392	-	-	392
Other employee benefits:				
Accumulating sick leave	23	-	-	23
Other post-employment benefits re-measurements	14	-	(3)	11
Supplemental pension re-measurements	19	-	(2)	17
Realized hedging transactions	67	-	(1)	66
Decommissioning liability	1	-	-	1
Allowance for expected credit losses	12	-	(1)	11
Cloud computing arrangements [1]	43	3	(3)	43
	$ 1,757	$ 100	$ (106)	$ 1,751
Regulatory deferral account (credit) balances				
Other employee benefits:				
Long-term disability contributions	$ (6)	$ -	$ 2	$ (4)
Investment in preferred interests	(134)	(8)	-	(142)
Investment in equity-accounted investee	(4)	4	-	-
Realized hedging transactions	(1)	-	-	(1)
Lease offset	(1)	-	1	-
	$ (146)	$ (4)	$ 3	$ (147)

[1] The Company is deferring the impact of the implementation costs associated with cloud computing arrangements on the statements of operations by using regulatory accounting as approved by the Board, acting as rate regulator. These balances will be recovered over time by amortizing them over the terms of the cloud computing arrangements.

(millions of Canadian dollars)

5. 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) as reported in the statements of operations:

	Three months ended February 28 2022	Three months ended February 28 2021	Six months ended February 28 2022	Six months ended February 28 2021
Revenue	$ 313	$ 179	$ 658	$ 381
Operating expenses	350	316	687	625
Other (income) and expenses	29	40	53	71
Income tax expense	-	2	-	2
Net loss, before net movement in regulatory deferral accounts	(66)	(179)	(82)	(317)
Rate stabilization adjustments (b)	5	81	(54)	123
Other regulatory deferral account adjustments:				
Employee benefit pension contributions	28	36	54	62
Other employee benefits	(3)	(3)	(3)	(4)
Investment in preferred interests, before tax	(1)	4	(8)	2
Investment in equity-accounted investee	4	-	4	-
Allowance for expected credit losses	-	2	(1)	5
Other	2	2	2	2
	30	41	48	67
Net movement in regulatory deferral accounts	35	122	(6)	190
Net loss, after net movement in regulatory deferral accounts	$ (31)	$ (57)	$ (88)	$ (127)

(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 debit balance in the rate stabilization account represents amounts recoverable through future customer service charges, while a credit balance represents amounts returnable through reductions in future customer service charges.

When establishing customer service charges, the Board considers the balance in the rate stabilization account, the extent to which operating costs are variable and available liquidity and sets the level as appropriate.

(millions of Canadian dollars)

5. 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 2022	February 28 2021	February 28 2022	February 28 2021
Debit balance, beginning of period	$ (597)	$ (297)	$ (656)	$ (255)
Variances from planned results:				
Revenue higher (lower) than planned	17	(31)	96	(23)
Operating expenses (higher) lower than planned	(5)	22	(5)	38
Other (income) and expenses lower (higher) than planned	1	(7)	6	(5)
Net movement in other regulatory deferral accounts	3	8	(1)	14
Total variances from planned results	16	(8)	96	24
Initial approved adjustment [(1)]	(21)	(73)	(42)	(147)
Net movement recorded in net loss	(5)	(81)	54	(123)
Debit balance, end of period	$ (602)	$ (378)	$ (602)	$ (378)

(1) In order to achieve breakeven results of operations after the application of rate regulated accounting, the Board approved the fiscal 2022 budget with an increase to the debit position of the rate stabilization account as a result of a planned shortfall of $85 (fiscal year ended August 31, 2021 (fiscal 2021) - $295), which will be reflected in the rate stabilization account evenly throughout the fiscal year.

(millions of Canadian dollars)

5. Financial statement impact of regulatory accounting (continued)

(c) Pension Contributions

Included in regulatory deferral account debit balances as at February 28, 2022 is $572 relating to the recovery through customer service charges of pension contributions (August 31, 2021 - $518). The accrued pension benefit liability, net of regulatory deferrals was:

	February 28 2022	August 31 2021
Employee benefit liability	$ (930)	$ (876)
Less:		
Regulatory deferrals of non-cash adjustments	392	392
Benefit contributions less than benefit expense	$ (538)	$ (484)
Regulatory debit balances - recovery of contributions	$ 572	$ 518
Regulatory expense cumulatively less than contributions	$ 34	$ 34

The Company uses a regulatory approach to determine the net charge to net income (loss) for pension benefit costs for its funded plans. The objective of this approach is to reflect the cash cost of the funded pension plans 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 $572, 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 future 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 2022	February 28 2021	February 28 2022	February 28 2021
Consolidated statements of operations				
Pension current service expense [1]	$ 46	$ 49	$ 91	$ 99
Net interest expense [1]	6	11	13	22
Less: Regulatory deferrals	(28)	(36)	(54)	(62)
	$ 24	$ 24	$ 50	$ 59
Company pension contributions				
Going concern current service - cash payment	$ 17	$ 24	$ 43	$ 59
Going concern current service - accrued	7	-	7	-
	$ 24	$ 24	$ 50	$ 59

[1] For the six months ended February 28, 2022, pension current service expense does not include $1 related to the Company's unfunded pension plan (three and six months ended February 28, 2021 - $1 and $2 respectively). For the three and six months ended February 28, 2022, net interest expense does not include $1 and $2 respectively, related to the Company's unfunded pension plan (three and six months ended February 28, 2021 - $1 and $2 respectively).

(millions of Canadian dollars)

6. Assets Held for Sale

As at February 28, 2022, the Company has met the requirements to disclose certain assets related to its conference center facility in Cornwall, Ontario, the NAV CENTRE, as held for sale as it is highly probable that they will be recovered primarily through sale rather than through continued use. Such assets, or disposal groups, are measured at the lower of the carrying amount and fair value less costs to sell. A purchase and sale agreement has been signed and the sale is expected to close on June 30, 2022. The Company has accrued $1 in other current liabilities for closing costs and other liabilities associated with the sale.

The carrying value of the Company's property, plant and equipment associated with the NAV CENTRE disposal group is $22.

7. Property, plant and equipment

Property, plant and equipment was comprised of the following:

	Land and buildings[1]	Systems and equipment	Assets under development	Total
Cost				
Balance at August 31, 2021	$ 341	$ 815	$ 122	$ 1,278
Additions	-	-	34	34
Reclass to assets held for sale [2]	(28)	(16)	-	(44)
Disposals	(2)	(6)	(4)	(12)
Transfers	34	(7)	(27)	-
Balance at February 28, 2022	$ 345	$ 786	$ 125	$ 1,256
Accumulated depreciation				
Balance at August 31, 2021	$ 113	$ 448	$ -	$ 561
Depreciation	12	29	-	41
Reclass to assets held for sale [2]	(9)	(13)	-	(22)
Disposals	(1)	(5)	-	(6)
Balance at February 28, 2022	$ 115	$ 459	$ -	$ 574
Carrying amounts				
At August 31, 2021	$ 228	$ 367	$ 122	$ 717
At February 28, 2022	$ 230	$ 327	$ 125	$ 682

(1) Included in Land and buildings is the right-of-use asset related to the Company's head office lease. Depreciation of $1 was recognized during the six months ended February 28, 2022 (six months ended February 28, 2021 - $1). The carrying amount as at February 28, 2022 is $2 (August 31, 2021 - $3).

(2) As discussed in note 6, the Company has classified certain assets related to the NAV CENTRE as assets held for sale as at February 28, 2022.

(millions of Canadian dollars)

8. Intangible assets

Intangible assets were comprised of the following:

	Air navigation right	Purchased software	Internally developed software	Assets under development	Total
Cost					
Balance at August 31, 2021	$ 702	$ 170	$ 285	$ 31	$ 1,188
Additions	-	-	-	11	11
Disposals	-	(1)	(1)	-	(2)
Transfers	-	-	12	(12)	-
Balance at February 28, 2022	$ 702	$ 169	$ 296	$ 30	$ 1,197
Accumulated amortization					
Balance at August 31, 2021	$ 175	$ 106	$ 131	$ -	$ 412
Amortization	13	6	13	-	32
Disposals	-	(1)	(1)	-	(2)
Balance at February 28, 2022	$ 188	$ 111	$ 143	$ -	$ 442
Carrying amounts					
At August 31, 2021	$ 527	$ 64	$ 154	$ 31	$ 776
At February 28, 2022	$ 514	$ 58	$ 153	$ 30	$ 755

9. Investment in equity-accounted investee

In December 2021, the Company sold its investment in Searidge Technologies Inc. (Searidge). Prior to the sale, the Company owned 50% of the issued and outstanding shares of Searidge. Proceeds were commensurate with the carrying value of $7 at the time of sale (August 31, 2021 - $7). In connection with the sale, the loan receivable from Searidge of $5 was repaid (August 31, 2021 - $3).

(millions of Canadian dollars)

10. 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 15 of the 2021 annual financial statements. Excluding long-term debt, the carrying amount approximates the fair value of all of the Company's financial instruments.

	February 28, 2022		
	Amortized Cost	FVTPL	Fair value hierarchy
Financial assets			
Cash and cash equivalents	$ 367	$ -	
Accounts receivable and other	99	-	
Current investments			
Debt service reserve fund	74	-	
Investment in preferred interests (1)	-	307	Level 3
Long-term receivables (2)	96	-	
	$ 636	$ 307	
Financial liabilities			
Trade and other payables			
Trade payables and accrued liabilities	$ 217	$ -	
Long-term debt (including current portion)			
Bonds and notes payable (3)	2,512	-	Level 2
	$ 2,729	$ -	

	August 31, 2021		
	Amortized Cost	FVTPL	Fair value hierarchy
Financial assets			
Cash and cash equivalents	$ 319	$ -	
Accounts receivable and other	105	-	
Current investments			
Debt service reserve fund	73	-	
Investment in preferred interests (1)	-	299	Level 3
Long-term receivables (2)	116	-	
	$ 613	$ 299	
Financial liabilities			
Trade and other payables			
Trade payables and accrued liabilities	$ 201	$ -	
Other current liabilities			
Derivative liabilities (4)	-	1	Level 2
Long-term debt (including current portion)			
Bonds and notes payable (3)	2,512	-	Level 2
	$ 2,713	$ 1	

(millions of Canadian dollars)

10. Financial instruments and financial risk management (continued)

Summary of financial instruments (continued)

(1) This instrument is recorded at fair value based on the valuation technique described in note 12 of the 2021 annual financial statements.

(2) Long-term receivables include $95 of deferred payments related to the September 1, 2020 customer service charge increase as described in note 15 (b) of the 2021 annual financial statements (August 31, 2021 - $112). The loan receivable from Searidge was repaid during the three months ended February 28, 2022 (August 31, 2021 - $3).

(3) The fair value of the Company's bonds and notes payable are classified as Level 2 in the fair value hierarchy as they are determined using secondary market asking prices at the reporting date. As at February 28, 2022, the fair value was $2,511 (August 31, 2021 - $2,722), inclusive of accrued interest of $26 (August 31, 2021 - $26).

(4) Current and non-current derivative liabilities are recorded at fair value determined using prevailing foreign exchange market rates and interest rates at the reporting date.

There have been no transfers between levels of the fair value hierarchy since August 31, 2021.

Level 3 financial instruments

The following table summarizes the changes in the fair value of the Company's investment in preferred interests of Aireon LLC (Aireon), which is classified as Level 3:

	Investment in preferred interests
Fair value as at August 31, 2021	$ 299
Net increase in fair value (1)	6
Effect of foreign exchange (2)	2
Fair value as at February 28, 2022	$ 307

(1) Includes accrued dividend income and is included in finance income.

(2) Included in other within other (income) and expenses.

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 loss:

	Increase	Decrease
Number of years over which cash flow is expected (change of 1 year)	$ (22)	$ 28
Risk-adjusted discount rate (1% movement (100 basis points))	$ (36)	$ 43

(millions of Canadian dollars)

10. Financial instruments and financial risk management (continued)

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 15 (a)-(c) of the 2021 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, 2022, except as noted below.

(a) Liquidity risk

Separate from the Company's syndicated credit facility are letter of credit facilities for pension funding purposes which increased to $810 as at February 28, 2022 (August 31, 2021 - $621). Two of the facilities totaling $400 will mature on December 31, 2022 and two facilities totaling $410 will mature on December 31, 2023, unless extended. As at February 28, 2022, $645 was drawn for pension solvency funding purposes.

11. Commitments

The following table presents a maturity analysis of the Company's undiscounted contractual cash flows for its financial liabilities, capital commitments and lease liabilities as at February 28, 2022:

	Remaining payments – for years ending August 31						
	Total	2022	2023	2024	2025	2026	Thereafter
Trade payables and accrued liabilities	$ 195	$ 195	$ -	$ -	$ -	$ -	$ -
Long-term debt (including current portion) [1], [2]	2,525	25	25	225	25	325	1,900
Interest payments [2]	1,368	40	80	78	75	72	1,023
Capital commitments	110	49	14	12	8	5	22
Lease liability	1	1	-	-	-	-	-
Future lease liability [3]	59	-	2	3	3	3	48
Related party loan [4]	14	14	-	-	-	-	-
	$ 4,272	$ 324	$ 121	$ 318	$ 111	$ 405	$ 2,993

[1] Payments represent principal of $2,525. 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 13 of the 2021 annual financial statements.

[3] The Company has entered into a commitment for the lease of head office space commencing in the fiscal year ending August 31, 2023. The annual commitment is approximately $3 with a term of 20 years. The current head office lease is set to expire on October 31, 2022.

[4] The Company has an agreement with Aireon to provide a subordinated loan up to a total of $14 CDN ($11 U.S.).