Unaudited Interim Condensed Consolidated Financial Statements of

NAV CANADA

Three months ended November 30, 2018 and 2017

NAV CANADA

Interim Condensed Consolidated Statements of Operations (unaudited)

Three months ended November 30

(millions of Canadian dollars)

	Notes	2018	2017
Revenue			
Customer service charges	3	$ 344	$ 333
Other revenue		13	14
		357	347
Operating expenses			
Salaries and benefits		245	235
Technical services		27	28
Facilities and maintenance		15	15
Depreciation and amortization	5, 6	38	38
Other		23	24
		348	340
Other (income) and expenses			
Finance income		(4)	(5)
Net interest costs relating to employee benefits		10	14
Other finance costs		19	19
Other (gains) and losses		(8)	(10)
		17	18
Net income (loss) before net movement in regulatory deferral accounts		(8)	(11)
Net movement in regulatory deferral accounts related to net income (loss), net of tax	4	6	14
Net income (loss) after net movement in regulatory deferral accounts	1	$ (2)	$ 3

See accompanying notes to unaudited interim condensed consolidated financial statements.

NAV CANADA

Interim Condensed Consolidated Statements of Comprehensive Income (unaudited)

Three months ended November 30

(millions of Canadian dollars)

	Notes	2018	2017
Net income (loss) after net movement in regulatory deferral accounts		$ (2)	$ 3
Other comprehensive income (loss)			
Items that will not be reclassified to income or (loss):			
Re-measurements of employee defined benefit plans		-	100
Net movement in regulatory deferral accounts related to other comprehensive income	4	-	(100)
		-	-
Items that will be reclassified to income or (loss):			
Changes in fair value of cash flow hedges		5	1
Net movement in regulatory deferral accounts related to other comprehensive income	4	(5)	(1)
		-	-
Total other comprehensive income (loss)		-	-
Total comprehensive income (loss)	1	$ (2)	$ 3

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	November 30 2018	August 31 2018
Assets			
Current assets			
Cash and cash equivalents		$ 44	$ 38
Accounts receivable and other		87	102
Related party loan receivable		11	-
Investments	7	71	71
Other		20	17
		233	228
Non-current assets			
Investment in preferred interests		429	418
Related party loans receivable		2	12
Employee benefits		1	2
Investment in equity-accounted investee		7	6
Property, plant and equipment	5	733	735
Intangible assets	6	928	932
Other non-current assets		1	1
		2,101	2,106
Total assets		2,334	2,334
Regulatory deferral account debit balances	4	972	954
Total assets and regulatory deferral account debit balances		$ 3,306	$ 3,288

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	November 30 2018	August 31 2018
Liabilities			
Current liabilities			
Trade and other payables		$ 223	$ 247
Deferred revenue		5	4
Current portion of long-term debt		275	275
		503	526
Non-current liabilities			
Long-term debt		1,219	1,219
Employee benefits		1,095	1,070
Deferred tax liability		50	49
Other non-current liabilities		2	2
		2,366	2,340
Total liabilities		2,869	2,866
Equity			
Retained earnings		26	28
Total equity		26	28
Total liabilities and equity		2,895	2,894
Regulatory deferral account credit balances	4	411	394
Commitments	8		
Total liabilities, equity and regulatory deferral account credit balances		$ 3,306	$ 3,288

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	Accumulated other comprehensive income	Total
Balance August 31, 2017	$ 28	$ -	$ 28
Net income (loss) and net movement in regulatory deferral accounts	3	-	3
Other comprehensive income (loss)	-	-	-
Balance November 30, 2017	$ 31	$ -	$ 31
Balance August 31, 2018	$ 28	$ -	$ 28
Net income (loss) and net movement in regulatory deferral accounts	(2)	-	(2)
Other comprehensive income (loss)	-	-	-
Balance November 30, 2018	$ 26	$ -	$ 26

See accompanying notes to unaudited interim condensed consolidated financial statements.

NAV CANADA

Interim Condensed Consolidated Statements of Cash Flows (unaudited)

Three months ended November 30

(millions of Canadian dollars)

	Notes	2018	2017
Operating			
Receipts from customer service charges		$ 361	$ 344
Other receipts		13	13
Payments to employees and suppliers		(289)	(271)
Pension contributions - current service		(26)	(21)
Other post-employment payments		(1)	(1)
Settlement of curtailed severance benefits		-	(26)
Interest payments		(20)	(20)
Interest receipts		-	1
		38	19
Investing			
Capital expenditures		(32)	(43)
Income tax refund on investment in preferred interests		-	4
		(32)	(39)
Financing			
Debt service reserve fund	7	-	25
		-	25
Cash flows from operating, investing and financing activities		6	5
Increase in cash and cash equivalents		6	5
Cash and cash equivalents at beginning of period		38	222
Cash and cash equivalents at end of period		$ 44	$ 227

See accompanying notes to unaudited interim condensed consolidated financial statements.

1. Reporting entity:

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 statement of operations after recording adjustments to the rate stabilization account. As a result, we expect no net change in retained earnings on an annual basis. The impacts of rate regulation on the Company's interim condensed consolidated 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 77 Metcalfe Street, Ottawa, Ontario, Canada K1P 5L6. These interim condensed consolidated financial statements of NAV CANADA include the accounts of its subsidiaries.

2. Basis of presentation:

(a) Statement of compliance:

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) 34 *Interim Financial Reporting*. As permitted under this standard, these interim condensed consolidated 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, 2018 (2018 annual consolidated financial statements).

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

These interim condensed consolidated financial statements were authorized for issue by the Board on January 9, 2019.

2. Basis of presentation (continued):

(b) Basis of measurement:

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

- financial instruments that are classified and designated 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.

(c) Functional and reporting currency:

These interim condensed consolidated financial statements are presented in Canadian dollars (CDN), which is the Company's functional and reporting currency. 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 highest revenue from air traffic experienced in the fourth quarter (June to August). The increased air traffic is a result of more leisure 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 interim condensed consolidated financial statements are disclosed in note 3 of the 2018 annual consolidated financial statements, except for the application of new standards, amendments and interpretations effective September 1, 2018 as described in note 2 (f) below. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

(f) New standards, amendments and interpretations adopted:

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee that had mandatory effective dates for annual periods beginning on or after January 1, 2018.

The following standards were adopted by the Company effective September 1, 2018:

<u>IFRS 15 – Revenue from Contracts with Customers (IFRS 15)</u>

(IFRS 15) introduces a new revenue recognition model for contracts with customers to depict the transfer of goods and/or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods and/or services. The model contains two approaches for recognizing revenue, at a point in time or over time, and features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized.

In accordance with the transition provisions in IFRS 15, the new standard has been adopted retrospectively. The effect on net earnings of the application of IFRS 15 to revenue contracts in progress at September 1, 2017 is $nil. The Company reviewed its revenue streams and major contracts with customers using the IFRS 15 five-step model and there were no changes to net earnings or the timing of revenue recognized.

Under IFRS 15, the Company has applied the following practical expedient:

- Completed contracts that begin and end within the same annual reporting period and those completed before September 1, 2017 were not restated.

2. Basis of presentation (continued):

(f) New standards, amendments and interpretations adopted (continued):

IFRS 15 – Revenue from Contracts with Customers (IFRS 15) (continued)

Revenue is measured based on the consideration specified in a contract with a customer and is recognized as the Company satisfies the performance obligations in the contract and transfers control over a product or service to a customer.

(i) Customer service charges

The majority of the Company's revenues are from customer service charges for air navigation services. Revenue is recognized as air navigation services are rendered. Rates for customer service charges are those approved by the Board, acting as rate regulator.

Refunds of customer service charges are recognized when approved by the Board, acting as rate regulator, or when a constructive obligation exists.

The Company's general payment terms provide for payment periods of thirty days for air navigation services, but shorter payment terms are imposed where customer circumstances warrant. Our credit policies also require payments in advance or satisfactory security to be posted under certain circumstances.

(ii) Service and development contracts

Revenue is recognized as services are rendered. Revenue from a contract to provide services is generally recognized on a straight line basis over the period of service.

In general, revenue for development contracts is recognized as performance obligations are satisfied over time. Revenue is recognized by reference to the stage of completion of the contract activity at the end of the reporting date, measured using the cost-to-cost measure of progress. Under the cost-to-cost measure of progress, the extent of progress toward completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenue is recorded proportionally as costs are incurred.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increase or decrease in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In some cases, revenue is recognized at a point in time, when performance obligations are satisfied; typically upon completion of the contract.

When management determines that it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

Contract balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable or unbilled receivables (accounts receivable and other), and customer advances and deposits (deferred revenue) on the consolidated statement of financial position.

Customer service charges are billed on a monthly basis in line with revenue recognition, resulting in accounts receivable. The exception to this are annual / quarterly charges, which generally apply to propeller aircraft and are billed annually or quarterly and deferred and recognized over the period in which services are rendered, resulting in deferred revenue.

For service and development contracts, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Depending on the timing of revenue recognition in relation to billing, it may result in accrued revenue.

2. Basis of presentation (continued):

(f) New standards, amendments and interpretations adopted (continued):

IFRIC 22 – Foreign Currency Transactions and Advance Considerations (IFRIC 22)

IFRIC 22 clarifies that the date of the transaction for the purpose of determining the foreign currency exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The Company has adopted IFRIC 22 effective September 1, 2018, with no resulting impact on the consolidated financial statements.

(g) Critical accounting estimates and judgments:

The preparation of these interim condensed consolidated 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 2018 annual consolidated financial statements.

(h) Future accounting pronouncements:

The International Accounting Standards Board (IASB) has issued a number of standards, amendments and interpretations that are not yet effective, as disclosed in note 2 (f) of the 2018 annual consolidated financial statements. The Company continues to analyze these standards and amendments to determine the extent of their impact on its consolidated financial statements.

The Company has the following update regarding its progress in implementing future standards:

IFRS 16 – Leases (IFRS 16)

In January 2016, the IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard will replace IAS 17 *Leases*, and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires recognition of assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17, maintaining the classification of leases as operating or finance leases, and accounting for the lease according to its classification. IFRS 16 is to be applied retrospectively, using either a full retrospective approach or a modified retrospective approach, for annual periods beginning on or after January 1, 2019. Earlier application is permitted, but only if IFRS 15 has also been adopted.

The Company is in the process of assessing the anticipated impact of IFRS 16 on its consolidated financial statements. The Company has formed a project team, identified its current contracts containing lease components and is conducting a detailed review of those contracts to determine the accounting impacts. The Company anticipates using the modified retrospective approach on transition to IFRS 16.

(millions of Canadian dollars)

2. Basis of presentation (continued):

(h) Future accounting pronouncements (continued):

The following revision and amendment issued by the IASB, and not already disclosed in the Company's 2018 annual consolidated financial statements, have been assessed as having a possible effect on the Company in the future:

Conceptual Framework for Financial Reporting (the Framework):

On March 29, 2018 the IASB issued a revised version of the Framework on which it develops new accounting standards. The Framework is not an accounting standard and does not override the requirements that exist in other IFRS Standards. The revised Framework describes that financial information must be relevant and faithfully represented to be useful, provides revised definitions and recognition criteria for assets and liabilities, and confirms that different measurement bases are useful and permitted.

The IASB also issued *Amendments to References to the Conceptual Framework in IFRS Standards* (the Amendments) to update references in IFRS Standards to previous versions of the Framework. Both the revised Framework and Amendments are effective January 1, 2020 with earlier application permitted. The extent of the impact of the change has not yet been determined.

3. Revenue:

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

	Three months ended November 30	
	2018	2017
Enroute (1)	$ 177	$ 174
Terminal (2)	130	124
Daily / annual / quarterly (3)	24	23
North Atlantic and international communication (4)	13	12
	$ 344	$ 333

(1) Enroute 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) Terminal 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) Daily / annual / quarterly 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) North Atlantic and international communication 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. Financial statement impact of 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 2018	Regulatory deferral	Recovery/ reversal	November 30 2018
Regulatory deferral account debit balances				
Deferred income tax [1]	$ 50	$ 1	$ -	$ 51
Employee benefits:				
Accumulating sick leave	25	-	-	25
Other post-employment benefits re-measurements	20	-	(2)	18
Pension contributions (a)	98	20	-	118
Pension re-measurements	643	-	-	643
Supplemental pension re-measurements	55	-	(1)	54
Realized hedging transaction	63	-	-	63
	$ 954	$ 21	$ (3)	$ 972
Regulatory deferral account (credit) balances				
Rate stabilization account [2]	$ (124)	$ (9)	$ 5	$ (128)
Derivatives	(3)	(5)	-	(8)
Employee benefits:				
Long-term disability contributions	(5)	-	3	(2)
Change in the fair value of the investment in preferred interests	(253)	(11)	-	(264)
Investment in equity-accounted investee	(3)	(1)	-	(4)
Realized hedging transaction	(6)	-	1	(5)
	$ (394)	$ (26)	$ 9	$ (411)

(1) The total regulatory deferral of income tax related to the Company's investment in Aireon is $50 as at November 30, 2018 (August 31, 2018 - $49). The remaining deferral relates to the Company's share of net assets of Searidge Technologies Inc.

(2) The long-term target credit balance of the rate stabilization account is 7.5% of total planned annual expenses net of other (income) and expenses, excluding non-recurring items, on an ongoing basis. For the year ending August 31, 2019 (fiscal 2019), the target balance is $110 (year ended August 31, 2018 (fiscal 2018) – $104).

(millions of Canadian dollars)

4. Financial statement impact of regulatory deferral accounts (continued):

The table below shows the impact of rate stabilization adjustments and net movement in regulatory deferral accounts on the net income (loss) as reported in the interim condensed consolidated statement of operations:

	Three months ended November 30	
	2018	2017
Before net movement in regulatory deferral accounts:		
Revenue	$ 357	$ 347
Operating expenses	348	340
Other (income) and expenses	17	18
	(8)	(11)
Net movement in regulatory deferral accounts:		
Rate stabilization adjustments:		
Favourable variances from planned results	(9)	-
Initial approved adjustment [1]	5	3
	(4)	3
Other regulatory deferral account adjustments:		
Employee benefit pension contributions	20	24
Investment in preferred interests, before tax	(11)	(15)
Investment in equity-accounted investee	(1)	-
Income tax	1	2
Realized hedging transactions	1	-
	10	11
	6	14
Net income (loss), after rate stabilization and regulatory deferral account adjustments	$ (2)	$ 3

(1) In order to achieve breakeven results of operations in fiscal 2019, the Board approved a reduction of the rate stabilization account as a result of a planned shortfall. As a result, $18 is being transferred out of the rate stabilization account evenly throughout the fiscal year (fiscal 2018 - $10).

(millions of Canadian dollars)

4. Financial statement impact of regulatory deferral accounts (continued):

(a) Pension contributions:

Included in regulatory deferral account debit balances at November 30, 2018 is $118 relating to the recovery through customer service charges of pension contributions (August 31, 2018 - $98). The accrued pension benefit liability, net of regulatory deferrals is as follows:

	November 30 2018	August 31 2018
Employee benefit liability	$ (727)	$ (707)
Less:		
Regulatory deferrals of non-cash adjustments	643	643
Benefit contributions (less than) in excess of benefit expense	$ (84)	$ (64)
Regulatory debit (credit) balances - recovery of contributions	$ 118	$ 98
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 $118, is the recovery of $10 of solvency deficiency contributions of $44 paid in fiscal 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 statement of operations is summarized below.

	Three months ended November 30	
	2018	2017
Consolidated statement of operations		
Pension current service costs (1)	$ 41	$ 43
Net finance costs (1)	6	10
Less: Regulatory deferrals	(20)	(24)
	27	29
Company cash contributions		
Going concern current service	27	26
Regulatory recovery of fiscal 2017 solvency contributions	$ -	$ 3

(1) Pension current service costs do not include $1 related to the Company's unfunded pension plan (November 30, 2017 - $1) and net finance costs do not include $1 related to the Company's unfunded pension plan (November 30, 2017 - $1).

(millions of Canadian dollars)

5. Property, plant and equipment:

Property, plant and equipment (PP&E) are comprised of the following:

	Land and buildings	Systems and equipment	Assets under development	Total
Cost				
Balance at August 31, 2018	$ 266	$ 628	$ 146	$ 1,040
Additions	-	-	21	21
Transfers	10	48	(58)	-
Balance at November 30, 2018	$ 276	$ 676	$ 109	$ 1,061
Accumulated depreciation				
Balance at August 31, 2018	$ 51	$ 255	$ -	$ 306
Depreciation	4	18	-	22
Balance at November 30, 2018	$ 55	$ 273	$ -	$ 328
Carrying amounts				
At August 31, 2018	$ 215	$ 374	$ 146	$ 735
At November 30, 2018	$ 221	$ 403	$ 109	$ 733

6. Intangible assets:

Intangible assets are comprised of the following:

	Air navigation right	Purchased software	Internally developed software	Assets under development	Total
Cost					
Balance at August 31, 2018	$ 702	$ 170	$ 229	$ 60	$ 1,161
Additions	-	1	1	10	12
Transfers	-	4	2	(6)	-
Balance at November 30, 2018	$ 702	$ 175	$ 232	$ 64	$ 1,173
Accumulated amortization					
Balance at August 31, 2018	$ 100	$ 64	$ 65	$ -	$ 229
Amortization	6	4	6	-	16
Balance at November 30, 2018	$ 106	$ 68	$ 71	$ -	$ 245
Carrying amounts					
At August 31, 2018	$ 602	$ 106	$ 164	$ 60	$ 932
At November 30, 2018	$ 596	$ 107	$ 161	$ 64	$ 928

(millions of Canadian dollars)

7. 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 17 of the 2018 annual consolidated financial statements. Excluding long-term debt, the carrying amount approximates the fair value for all of the Company's financial instruments.

	November 30, 2018		
	Amortized Cost	FVTPL	Fair value hierarchy
Financial assets			
Cash and cash equivalents [(1)]	$ 44	$ -	
Accounts receivable and other	87	-	
Current investments			
Debt service reserve fund	71	-	
Related party loan receivable [(2)]	11	-	
Other current assets			
Derivative assets [(3)]	-	9	Level 2
Investment in preferred interests [(4)]	-	429	Level 2
Other non-current assets			
Related party loan receivable	2	-	
Long-term receivables	1	-	
	$ 216	$ 438	
Financial liabilities			
Trade and other payables			
Trade payables and accrued liabilities	$ 220	$ -	
Long-term debt (including current portion)			
Bonds and notes payable [(5)]	1,494	-	Level 2
	$ 1,714	$ -	

(millions of Canadian dollars)

7. Financial instruments and financial risk management (continued):

	August 31, 2018		
	Amortized Cost	FVTPL	Fair value hierarchy
Financial assets			
Cash and cash equivalents [1]	$ 38	$ -	
Accounts receivable and other	102	-	
Current investments			
Debt service reserve fund	71	-	
Other current assets			
Derivative assets [3]	-	3	Level 2
Investment in preferred interests [4]	-	418	Level 2
Other non-current assets			
Related party loans receivable [2]	12	-	
Long-term receivables	1	-	
	$ 224	$ 421	
Financial liabilities			
Trade and other payables			
Trade payables and accrued liabilities	$ 244	$ -	
Long-term debt (including current portion)			
Bonds and notes payable [5]	1,494	-	Level 2
	$ 1,738	$ -	

(1) Cash and cash equivalents includes $15 of short-term investments as at November 30, 2018 (August 31, 2018 - $15).

(2) Bridge financing provided to Aireon during fiscal 2018 (August 31, 2018 - $10).

(3) Current and non-current 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 11 of the 2018 annual consolidated financial statements.

(5) 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 November 30, 2018, the fair value was $1,644 (August 31, 2018 - $1,678), inclusive of accrued interest of $22 (August 31, 2018 - $22).

There have been no transfers between levels of the fair value hierarchy since August 31, 2018.

(millions of Canadian dollars)

7. Financial instruments and financial risk management (continued):

The following table summarizes the changes in the fair value of the Company's investment in preferred interests of Aireon, which is classified as Level 2:

	Investment in preferred interests
Fair value as at August 31, 2018	$ 418
Net increase in fair value (1)	3
Effect of foreign exchange	8
Fair value as at November 30, 2018	$ 429

(1) Net increase in fair value includes accrued dividend income.

Derivative financial instruments

From time to time, the Company holds forward dated interest rate swap agreements and bond and foreign exchange forward agreements to hedge risks from fluctuations in foreign exchange rates and interest rates. The time frame and manner in which we manage these risks varies for each item based upon our assessment of the risk and available alternatives for mitigating the risk.

Details of the derivative financial instruments for which the Company has applied hedge accounting are as follows:

	November 30, 2018					
			Carrying amount			
	Contract Rate	Notional amount of hedging instrument	Assets	Liabilities	Classification on statement of financial position	Changes in fair value used for calculating ineffectiveness
Cash flow hedges						
Foreign exchange risk						
Foreign currency forwards (1)	1.27472	$7	$ -	$ -	Other assets (current)	$ -
Interest rate risk						
Bond forward (2)	2.20672	$190	$8	$ -	Other assets (current)	$5

(millions of Canadian dollars)

7. Financial instruments and financial risk management (continued):

	August 31, 2018					
			Carrying amount			
	Contract Rate	Notional amount of hedging instrument	Assets	Liabilities	Classification on statement of financial position	Changes in fair value used for calculating ineffectiveness
Cash flow hedges						
Foreign exchange risk						
Foreign currency forwards (1)	1.27472	$7	$ -	$ -	Other assets	$ -
Interest rate risk						
Bond forward (2)	2.20672	$190	$3	$ -	Other assets (current)	$3

(1) The Company holds seven forward contracts with a notional value of approximately $1 each to purchase a total of $5 U.S. ($7 CDN) to hedge monthly payments to Aireon related to satellite surveillance costs from the third quarter through to the end of fiscal 2019. The contract rate shown in the table is an average of the rates for all seven forward contracts. Subsequent to November 30, 2018, the Company is no longer applying hedge accounting to two of these forward contracts.

(2) In June 2018, the Company settled the interest rate swap agreements at a loss of $8 and entered into a bond forward contract to mitigate the potential impact of rising interest rates on the cost of refinancing a portion of the Company's $250 Series MTN 2009-1 General Obligation Notes that will mature on April 17, 2019.

The Company's hedging relationships are subject to ineffectiveness should the timing of the forecasted transaction not occur as intended or as a result of changes in counterparty risk.

The following table summarizes the hedging components of other comprehensive income:

	Three months ended November 30	
	2018	2017
Net gain (loss) on derivatives designated		
as cash flow hedges		
Interest rate swaps	$ -	$ 1
Bond forward	5	-
	$ 5	$ 1

For the three months ended November 30, 2018 and 2017, the derivatives designated as cash flow hedges were considered to be fully effective and no ineffectiveness has been recognized in net income (loss).

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 17 (a)-(c) to the 2018 annual consolidated financial statements. There were no significant changes to those risks or to the Company's management of exposure to those risks during the three months ended November 30, 2018.

(millions of Canadian dollars)

8. Commitments:

The following table presents a maturity analysis of the Company's undiscounted contractual cash flows for its financial liabilities, capital commitments, and operating leases and related party commitments as at November 30, 2018:

	Remaining payments – for years ending August 31						
	Total	2019	2020	2021	2022	2023	Thereafter
Trade payables and accrued liabilities	$ 198	$ 198	$ -	$ -	$ -	$ -	$ -
Long-term debt (including current portion) [1], [2]	1,500	275	25	275	25	25	875
Interest payments [2]	787	58	62	55	48	46	518
Capital commitments [3]	78	28	19	6	3	3	19
Operating lease commitments	85	5	6	5	5	5	59
Related party loan [4]	29	29	-	-	-	-	-
	$ 2,677	$ 593	$ 112	$ 341	$ 81	$ 79	$ 1,471

[1] Payments represent principal of $1,500. The Company intends to refinance principal maturities at their maturity dates. 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 16 of the fiscal 2018 annual consolidated financial statements.

[3] The Company has firm commitments for the acquisition of PP&E and intangible assets amounting to $78 as at November 30, 2018 (August 31, 2018 - $103).

[4] This is the undrawn commitment under the bridge financing agreement with Aireon. As at November 30, 2018, Aireon has drawn $7 U.S. ($10 CDN). Subsequent to November 30, 2018, the amount drawn, including accrued interest, was repaid.