Serving a world in motion
Au service d'un
monde en mouvement
navcanada.ca

Unaudited Interim Condensed Consolidated Financial Statements of

NAV CANADA

Three and nine months ended May 31, 2021 and 2020

Interim Condensed Consolidated Statements of Operations (unaudited)

(millions of Canadian dollars)

	Notes	Three months ended May 31 2021	Three months ended May 31 2020	Nine months ended May 31 2021	Nine months ended May 31 2020
Revenue					
Customer service charges	3	$ 184	$ 141	$ 550	$ 798
Other revenue		12	18	27	47
		196	159	577	845
Operating expenses					
Salaries and benefits	4	196	244	609	786
Technical services		42	37	121	103
Facilities and maintenance		15	15	44	51
Depreciation and amortization	6, 7	39	41	117	117
Other		13	14	40	50
		305	351	931	1,107
Other (income) and expenses					
Finance income		1	(2)	-	(5)
Net interest expense relating to employee benefits		14	16	41	47
Other finance costs	8	53	127	94	158
Other (gains) and losses		18	(12)	22	(15)
		86	129	157	185
Net loss, before income tax and net movement in regulatory deferral accounts		(195)	(321)	(511)	(447)
Income tax recovery	8	(9)	(27)	(7)	(27)
Net loss, before net movement in regulatory deferral accounts		(186)	(294)	(504)	(420)
Net movement in regulatory deferral accounts related to net loss, net of tax	5	194	280	385	359
Net income (loss), after net movement in regulatory deferral accounts	1	$ 8	$ (14)	$ (119)	$ (61)

See accompanying notes to unaudited interim condensed consolidated financial statements.

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

(millions of Canadian dollars)

	Notes	Three months ended May 31 2021	Three months ended May 31 2020	Nine months ended May 31 2021	Nine months ended May 31 2020
Net income (loss), after net movement in regulatory deferral accounts		$ 8	$ (14)	$ (119)	$ (61)
Other comprehensive income (loss)					
Items that will not be reclassified to income or (loss):					
Re-measurements of employee defined benefit plans	10	-	-	647	-
Net movement in regulatory deferral accounts related to other comprehensive income	5	-	-	(647)	-
		-	-	-	-
Items that will be reclassified to income or (loss):					
Amortization of loss on cash flow hedges		-	-	1	1
Change in fair value of cash flow hedges		(2)	-	(2)	-
Net movement in regulatory deferral accounts related to other comprehensive income		2	-	1	(1)
		-	-	-	-
Total other comprehensive income (loss)		-	-	-	-
Total comprehensive income (loss)	1	$ 8	$ (14)	$ (119)	$ (61)

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	May 31 2021	August 31 2020
Assets			
Current assets			
Cash and cash equivalents		$ 404	$ 689
Accounts receivable and other		78	77
Investments		74	218
Other		14	9
		570	993
Non-current assets			
Property, plant and equipment	6	712	740
Intangible assets	7	828	874
Investment in preferred interests	8	283	336
Long-term receivables		78	4
Investment in equity-accounted investee		7	7
Employee benefits		4	4
		1,912	1,965
Total assets		2,482	2,958
Regulatory deferral account debit balances	5	1,795	2,112
Total assets and regulatory deferral account debit balances		$ 4,277	$ 5,070

See accompanying notes to unaudited interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Financial Position (unaudited)

(millions of Canadian dollars)

	Notes	May 31 2021	August 31 2020
Liabilities			
Current liabilities			
Bank loan		$ -	$ 223
Trade and other payables		189	262
Current portion of long-term debt	9	25	275
Deferred revenue		16	11
Other current liabilities		10	6
		240	777
Non-current liabilities			
Long-term debt	9	2,486	2,013
Employee benefits	10	1,499	2,042
Deferred tax liability		12	21
Lease liability		1	3
Other non-current liabilities		2	2
		4,000	4,081
Total liabilities		4,240	4,858
Equity			
Retained earnings (deficit)		(91)	28
Total equity		(91)	28
Total liabilities and equity		4,149	4,886
Regulatory deferral account credit balances	5	128	184
Commitments	12		
Total liabilities, equity and regulatory deferral account credit balances		$ 4,277	$ 5,070

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, 2019	$ 28	$ -	$ 28
Net loss, after net movement in regulatory deferral accounts	(61)	-	(61)
Other comprehensive income (loss)	-	-	-
Balance May 31, 2020	$ (33)	$ -	$ (33)
Balance August 31, 2020	$ 28	$ -	$ 28
Net loss, after net movement in regulatory deferral accounts	(119)	-	(119)
Other comprehensive income (loss)	-	-	-
Balance May 31, 2021	$ (91)	$ -	$ (91)

See accompanying notes to unaudited interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Cash Flows (unaudited)

(millions of Canadian dollars)

	Notes	Three months ended May 31 2021	Three months ended May 31 2020	Nine months ended May 31 2021	Nine months ended May 31 2020
Cash flows from (used in):					
Operating					
Receipts from customer service charges		$ 139	$ 166	$ 449	$ 835
Other receipts		13	17	41	53
Government grants received	4	30	6	88	6
Payments to employees and suppliers		(256)	(249)	(790)	(806)
Pension contributions - current service		(24)	(23)	(84)	(69)
Other post-employment payments		(1)	(2)	(7)	(6)
Interest payments		(26)	(17)	(72)	(53)
Interest receipts		1	-	2	1
		(124)	(102)	(373)	(39)
Investing					
Capital expenditures		(16)	(26)	(54)	(106)
Proceeds from sale of property, plant and equipment		-	-	4	-
Proceeds from maturity of short-term investments		75	-	145	-
Disbursements from settlement of derivatives		(1)	-	(1)	-
		58	(26)	94	(106)
Financing					
Net proceeds from issuance of long-term debt	9	-	845	498	845
Repayment of long-term debt	9	(25)	(25)	(275)	(25)
Net proceeds from (repayment of) bank loans		-	179	(223)	215
Payment of lease liabilities		-	(1)	(2)	(2)
Debt service reserve fund		-	(1)	-	(1)
		(25)	997	(2)	1,032
Cash flows from (used in) operating, investing and financing activities		(91)	869	(281)	887
Effect of foreign exchange on cash and cash equivalents		(3)	1	(4)	1
Increase (decrease) in cash and cash equivalents		(94)	870	(285)	888
Cash and cash equivalents at beginning of period		498	48	689	30
Cash and cash equivalents at end of period		$ 404	$ 918	$ 404	$ 918

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 (interim 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 interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting. As permitted under this standard, these interim 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, 2020 (2020 annual consolidated financial statements).

These interim financial statements include the accounts of all NAV CANADA subsidiaries and were authorized for issue by the Board on July 9, 2021.

2. Basis of presentation (continued)

(b) Basis of measurement

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

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

(c) Functional and reporting currency

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

(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), principally as a result of the higher number of leisure travellers and their preference for travel in the summer months. The coronavirus (COVID-19) pandemic and the resulting economic contraction continues to have a significant negative impact on global air traffic and the aviation industry; therefore, the normal seasonality pattern is not expected to occur in the fiscal year ending August 31, 2021 (fiscal 2021). While the full duration and scope of the pandemic is unknown, it continues to have a negative impact on the aviation sector, air travel domestically and globally and movement-based revenues, reflected through air traffic levels measured in weighted charging units. We anticipate our revenues will continue to be impacted until such time as air travel restrictions are relaxed and air travel starts to recover.

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.

(e) Significant accounting policies

Significant accounting policies used in these interim financial statements are disclosed in note 3 of the 2020 annual consolidated financial statements. The accounting policies have been applied consistently to all periods presented.

(f) Critical accounting estimates and judgments

The preparation of these interim financial statements requires management to make certain 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 2020 annual consolidated financial statements.

(millions of Canadian dollars)

2. Basis of presentation (continued)

(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 consolidated financial statements. At this time, the Company does not expect to adopt any of these standards or amendments before their effective dates.

IAS 8 Definition of Accounting Estimates

In February 2021, the IASB published Definition of Accounting Estimates (Amendments to IAS 8) to introduce a definition of accounting estimates and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.

The amendment is effective for annual periods beginning on or after January 1, 2023 with early application permitted.

IAS 1 Disclosure of Accounting Policies

In February 2021, the IASB issued Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements.

The amendment is effective for annual periods beginning on or after January 1, 2023 with early application permitted.

3. Revenue

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

	Three months ended		Nine months ended	
	May 31 2021	May 31 2020	May 31 2021	May 31 2020
Enroute [1]	$ 109	$ 72	$ 309	$ 404
Terminal [2]	58	56	191	314
Daily / annual / quarterly [3]	4	6	14	49
North Atlantic and international communication [4]	13	7	36	31
	$ 184	$ 141	$ 550	$ 798

Air traffic levels, as measured by weighted charging units (a measure of the number of billable flights, aircraft size and distance flown in Canadian airspace and the basis for movement-based service charges), decreased 47.1% year over year. The significant decrease in air traffic and associated customer service charges is due to the impact of the COVID-19 pandemic, which impacted revenue commencing in the third quarter of the fiscal year ended August 31, 2020 (fiscal 2020).

(millions of Canadian dollars)

3. Revenue (continued)

(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.

4. Salaries and benefits

Salaries and benefits expenses were comprised of the following:

	Three months ended		Nine months ended	
	May 31 2021	May 31 2020	May 31 2021	May 31 2020
Salaries and other	$ 173	$ 189	$ 497	$ 599
Government grant (1)	(37)	(12)	(95)	(12)
Severance and termination costs (2)	(3)	-	26	-
Fringe benefits (excluding pension)	22	23	54	62
Pension current service cost	50	55	151	167
Less: capitalized salaries and benefits	(9)	(11)	(24)	(30)
	$ 196	$ 244	$ 609	$ 786

(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. During the three and nine months ended May 31, 2021, the Company recognized $37 and $95, respectively, as a reduction to Salaries and benefits in the interim condensed consolidated statements of operations (interim statements of operations) (three and nine months ended May 31, 2020 - $12). The amount receivable as at May 31, 2021 was $7 (May 31, 2020 - $6).

(2) On September 22, 2020 and December 9, 2020, the Company announced workforce reductions through the elimination of permanent jobs. The job cuts were across all departments and included operational students. These reductions were undertaken to address the significant impact of the COVID-19 pandemic on air traffic levels and associated revenues. As of May 31, 2021, $14 has been paid.

In order to ensure the Company is well positioned to support the aviation industry recovery, the Company rescinded surplus notices for 41 employees, reducing accrued severance and termination costs.

(millions of Canadian dollars)

5. 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 2020	Regulatory deferral	Recovery/ reversal	May 31 2021
Regulatory deferral account debit balances				
Rate stabilization account (b)	$ 255	$ 242	$ -	$ 497
Derivatives	4	2	(1)	5
Deferred income tax	21	(9)	-	12
Employee benefits:				
Accumulating sick leave	23	-	-	23
Other post-employment benefits re-measurements	26	-	(6)	20
Pension contributions (c)	371	97	-	468
Pension re-measurements	1,306	(647)	-	659
Supplemental pension re-measurements	38	-	(3)	35
Realized hedging transactions	68	-	(1)	67
Decommissioning liability	-	1	-	1
Allowance for doubtful accounts [1]	-	8	-	8
	$ 2,112	$ (306)	$ (11)	$ 1,795
Regulatory deferral account (credit) balances				
Derivatives	$ (1)	$ -	$ 1	$ -
Employee benefits:				
Long-term disability contributions	(5)	-	2	(3)
Change in the fair value of the investment in preferred interests	(171)	53	-	(118)
Investment in equity-accounted investee	(4)	-	-	(4)
Realized hedging transactions	(2)	-	-	(2)
Lease offset	(1)	-	-	(1)
	$ (184)	$ 53	$ 3	$ (128)

(1) The Company is deferring the non-cash impact of accounting for lifetime estimated credit losses in accordance with IFRS 9 using regulatory accounting. See note 11 for discussion of the impact on the Company's credit risk.

(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 interim statements of operations:

	Three months ended		Nine months ended	
	May 31 2021	May 31 2020	May 31 2021	May 31 2020
Revenue	$ 196	$ 159	$ 577	$ 845
Operating expenses	305	351	931	1,107
Other (income) and expenses	86	129	157	185
Income tax recovery	(9)	(27)	(7)	(27)
Net loss, before net movement in regulatory deferral accounts	(186)	(294)	(504)	(420)
Net movement in regulatory deferral accounts:				
Rate stabilization adjustments (b)	119	169	242	171
Other regulatory deferral account adjustments:				
Employee benefit pension contributions	35	42	97	130
Other employee benefits	(3)	(2)	(7)	(4)
Investment in preferred interests, before tax	51	97	53	87
Investment in equity-accounted investee	-	-	-	(1)
Income tax	(11)	(26)	(9)	(25)
Realized hedging transactions	-	-	1	1
Allowance for doubtful accounts	3	-	8	-
	75	111	143	188
	194	280	385	359
Net income (loss), after net movement in regulatory deferral accounts	$ 8	$ (14)	$ (119)	$ (61)

(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 May 31 2021	Three months ended May 31 2020	Nine months ended May 31 2021	Nine months ended May 31 2020
Rate stabilization account (debit) credit balance, beginning of period	$ (378)	$ 91	$ (255)	$ 93
Variances from planned results:				
Revenue lower than planned	(102)	(216)	(125)	(231)
Operating expenses lower than planned	54	50	92	65
Other (income) and expenses higher than planned	(45)	(77)	(50)	(82)
Net movement in other regulatory deferral accounts	48	83	62	104
Total variances from planned results	(45)	(160)	(21)	(144)
Initial approved adjustment [(1)]	(74)	(9)	(221)	(27)
Net movement in rate stabilization account recorded in net loss	(119)	(169)	(242)	(171)
Rate stabilization account (debit) credit balance, end of period	$ (497)	$ (78)	$ (497)	$ (78)

[(1)] In order to achieve breakeven results of operations in fiscal 2021, the Board approved the fiscal 2021 budget with an increase to the debit position of the rate stabilization account as a result of a planned shortfall of $295 (fiscal 2020 - $35), 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 May 31, 2021 is $468 relating to the recovery through customer service charges of pension contributions (August 31, 2020 - $371). The accrued pension benefit liability, net of regulatory deferrals is as follows:

	May 31 2021	August 31 2020
Employee benefit liability	$ (1,093)	$ (1,643)
Less:		
Regulatory deferrals of non-cash adjustments	659	1,306
Benefit contributions less than benefit expense	$ (434)	$ (337)
Regulatory debit balances - recovery of contributions	$ 468	$ 371
Regulatory expense cumulatively less than contributions	$ 34	$ 34

(millions of Canadian dollars)

5. 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 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 $468, is the recovery of $10 of solvency deficiency contributions of $44 paid in the fiscal year ended August 31, 2017 (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 interim statements of operations is summarized below.

	Three months ended		Nine months ended	
	May 31 2021	May 31 2020	May 31 2021	May 31 2020
Consolidated statements of operations				
Pension current service expense [1]	$ 49	$ 54	$ 148	$ 163
Net interest expense [1]	11	13	33	38
Less: Regulatory deferrals	(35)	(42)	(97)	(130)
	25	25	84	71
Company cash pension contributions				
Going concern current service	25	25	84	71
Regulatory recovery of fiscal 2017 solvency contributions	$ -	$ -	$ -	$ -

[1] For the three and nine months ended May 31, 2021, pension current service expense does not include $1 and $3 respectively, related to the Company's unfunded pension plan (three and nine months ended May 31, 2020 - $1 and $4 respectively) and net interest expense does not include $1 and $3 respectively, related to the Company's unfunded pension plan (three and nine months ended May 31, 2020 - $1 and $3 respectively).

(millions of Canadian dollars)

6. Property, plant and equipment

Property, plant and equipment are comprised of the following:

	Land and buildings[1]	Systems and equipment	Assets under development	Total
Cost				
Balance at August 31, 2020	$ 294	$ 800 [2]	$ 124 [2]	$ 1,218
Additions	-	-	39	39
Disposals	-	(4)	(1)	(5)
Transfers	27	9	(36)	-
Balance at May 31, 2021	$ 321	$ 805	$ 126	$ 1,252
Accumulated depreciation				
Balance at August 31, 2020	$ 90	$ 388	$ -	$ 478
Depreciation	17	49	-	66
Disposals	-	(4)	-	(4)
Balance at May 31, 2021	$ 107	$ 433	$ -	$ 540
Carrying amounts				
At August 31, 2020	$ 204	$ 412 [2]	$ 124 [2]	$ 740
At May 31, 2021	$ 214	$ 372	$ 126	$ 712

(1) Included in Land and buildings is the right-of-use asset related to the Company's head office lease. Depreciation of $2 was recognized during the nine months ended May 31, 2021 (nine months ended May 31, 2020 - $2). The carrying amount as at May 31, 2021 is $4 (August 31, 2020 - $6).

(2) Includes reclassification of amounts previously reported.

(millions of Canadian dollars)

7. 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, 2020	$ 702	$ 198	$ 283 [1]	$ 57 [1]	$ 1,240
Additions	-	-	-	16	16
Disposals	-	-	(3)	(9)	(12)
Transfers	-	5	20	(25)	-
Balance at May 31, 2021	$ 702	$ 203	$ 300	$ 39	$ 1,244
Accumulated amortization					
Balance at August 31, 2020	$ 150	$ 102	$ 114	$ -	$ 366
Amortization	19	12	20	-	51
Disposals	-	-	(1)	-	(1)
Balance at May 31, 2021	$ 169	$ 114	$ 133	$ -	$ 416
Carrying amounts					
At August 31, 2020	$ 552	$ 96	$ 169 [1]	$ 57 [1]	$ 874
At May 31, 2021	$ 533	$ 89	$ 167	$ 39	$ 828

(1) Includes reclassification of amounts previously reported.

8. Investment in preferred interests of Aireon

As at May 31, 2021, the Company recorded a decrease in the fair value of its investment in preferred interests of Aireon LLC (Aireon) to $283 CDN ($235 U.S.) from $336 CDN ($258 U.S.) as at August 31, 2020. Included in the fair value presented in the statement of financial position are dividends receivable of $74 CDN ($61 U.S.) (August 31, 2020 - $76 CDN ($58 U.S.)).

In addition, as a result of the decrease in the fair value, the related net deferred tax liability decreased to $12 CDN ($10 U.S.) as at May 31, 2021 (August 31, 2020 - $21 CDN ($16 U.S.)).

The fair value as at May 31, 2021 was determined using a discounted cash flow model, where the valuation model considers the present value of expected future payments, discounted using a risk-adjusted discount rate. The cash flow projections reflect the continued impact of the COVID-19 pandemic on international air traffic and the resulting impact on Aireon's operations and revenue. The critical assumptions and estimates used when determining the fair value are:

(a) discount rates – the discount rate range used is 15% - 17%, which is generally consistent with discount rates used by other investors in preferred and common equity interests of Aireon; and

(b) expected timing and amount of future dividend payments – the timing and amount of the payments based on Aireon's forecasted after-tax dividend payment schedule has been adjusted to reflect the impact of COVID-19.

After regulatory accounting, the Company's investment in preferred interests of Aireon on the statement of financial position reflects the actual amounts paid by the Company (at the exchange rates prevailing on the dates of the transactions). The use of regulatory deferral accounts defers the accounting recognition of transactions related to the Company's investment in Aireon on the Company's consolidated statement of operations. As a result, there is no net impact on the Company's consolidated statement of operations for the three and nine months ended May 31, 2021 related to the Company's investment in Aireon. These amounts are not considered for rate setting purposes until realized in cash through the receipt of dividends net of tax.

9. Long-term debt

On February 9, 2021, the Company issued $500 of General Obligation Notes in two series: $300 Series 2021-1 General Obligation Notes with an annual interest rate of 0.937%, maturing on February 9, 2026 and $200 Series 2021-2 General Obligation Notes with an annual interest rate of 0.555%, maturing on February 9, 2024.

On February 18, 2021, the Company repaid the $250 Series MTN 2011-1 General Obligation Notes with net proceeds of the issuance. Remaining proceeds of the notes issued will be used for general corporate purposes.

The balance of long-term debt as at May 31, 2021 is $2,511, including $25 classified as current. The amount in current debt relates to the annual amortization payment of $25 for the Series 97-2 amortizing revenue bonds.

10. Employee benefits

During the nine months ended May 31, 2021, the Company recorded a re-measurement gain in Other comprehensive income (loss) (OCI) related to its funded pension plans of $647 as a result of an increase in the discount rate to 3.2% (August 31, 2020 - 2.8%). The re-measurement gains were comprised of actuarial gains of $621 and a return on plan assets $26 greater than the return expected based on the discount rate at August 31, 2020.

As at May 31, 2021, the Company's long-term employee benefits liabilities are $1,499 (August 31, 2020 - $2,042).

(millions of Canadian dollars)

11. 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 2020 annual consolidated financial statements. Excluding long-term debt, the carrying amount approximates the fair value of all of the Company's financial instruments.

	May 31, 2021		
	Amortized Cost	FVTPL	Fair value hierarchy
Financial assets			
Cash and cash equivalents (1)	$ 404	$ -	
Accounts receivable and other	75	-	
Current investments			
Debt service reserve fund	74	-	
Investment in preferred interests (2)	-	283	Level 3
Long-term receivables (3)	78	-	
	$ 631	$ 283	
Financial liabilities			
Trade and other payables			
Trade payables and accrued liabilities	$ 185	$ -	
Other current liabilities			
Derivative liabilities (4)	-	7	Level 2
Long-term debt (including current portion)			
Bonds and notes payable (5)	2,511	-	Level 2
Other non-current liabilities			
Long-term derivative liabilities (4)	-	1	Level 2
	$ 2,696	$ 8	

(millions of Canadian dollars)

11. Financial instruments and financial risk management (continued)

Summary of financial instruments (continued)

	August 31, 2020		
	Amortized Cost	FVTPL	Fair value hierarchy
Financial assets			
Cash and cash equivalents [1]	$ 689	$ -	
Accounts receivable and other	73	-	
Current investments			
Short-term investments [6]	145	-	
Debt service reserve fund	73	-	
Investment in preferred interests [2]	-	336	Level 3
Long-term receivables	4	-	
	$ 984	$ 336	
Financial liabilities			
Bank loan [7]	$ 223	$ -	
Trade and other payables			
Trade payables and accrued liabilities	255	-	
Other current liabilities			
Derivative liabilities [4]	-	3	Level 2
Long-term debt (including current portion)			
Bonds and notes payable [5]	2,288	-	Level 2
Other non-current liabilities			
Long-term derivative liabilities [4]	-	1	Level 2
	$ 2,766	$ 4	

(1) As at May 31, 2021, cash and cash equivalents include $nil of highly liquid instruments with original terms to maturity of less than three months (August 31, 2020 - $430).

(2) This instrument is recorded at fair value based on the valuation technique described in note 8.

(3) Long-term receivables include $75 of deferred payments related to the September 1, 2020 service charge increase as described in note 11 (c) and $3 loan receivable from Searidge Technologies Inc.

(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.

(5) 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 May 31, 2021, the fair value was $2,645 (August 31, 2020 - $2,659), inclusive of accrued interest of $21 (August 31, 2020 - $27).

(6) Short-term investments are instruments invested in Canadian government T-bills, earning fixed rates of interest, averaging 0.25%, with an original maturity of more than three months.

(7) This bank loan was drawn from the Company's syndicated credit facility in the form of a Banker's Acceptance and had a discount rate based on the Canadian Dollar Offered Rate plus an applicable margin.

There have been no transfers between levels of the fair value hierarchy since August 31, 2020.

(millions of Canadian dollars)

11. Financial instruments and financial risk management (continued)

Level 3 financial instruments

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 3:

		Investment in preferred interests
Fair value as at August 31, 2020	$	336
Net decrease in fair value (1)		(27)
Effect of foreign exchange (2)		(26)
Fair value as at May 31, 2021	$	283

(1) Net decrease in fair value includes accrued dividend income and is included in Other finance costs on the interim statements of operations.

(2) Included in Other (gains) and losses on the interim statements of operations.

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
Number of years over which cash flow is expected (change of 1 year)	$	(60)	$	48
Risk-adjusted discount rate (1% movement (100 basis points))	$	(30)	$	30

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 the Company manages these risks varies for each item based upon the Company's 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:

(1) The Company holds foreign exchange forward agreements with a total notional value of $72 CDN ($56 U.S.) to hedge monthly payments to Aireon related to satellite surveillance costs for fiscal 2021 and the fiscal year ending August 31, 2022 (fiscal 2022). The average contract rate is 1.29418. The carrying amount of these contracts is $5 as at May 31, 2021, which is included in current liabilities ($4) and non-current liabilities ($1).

As at August 31, 2020, the Company held foreign exchange forward agreements to purchase a total of $59 CDN ($43 U.S.) with an average rate of 1.37151. The carrying amount of these contracts was $3 as at August 31, 2020 and was included in current liabilities.

(2) The Company holds foreign exchange forward agreements with a notional value of approximately $2 each to purchase a total of $11 CDN ($9 U.S.) to hedge payments related to the Company's insurance premiums in fiscal 2021 and 2022. The average contract rate is 1.28818. The carrying amount of these contracts is $nil as at May 31, 2021.

As at August 31, 2020, the Company held foreign exchange forward agreements to purchase a total of $9 CDN ($6 U.S.) with an average rate of 1.37716. The carrying amount of these contracts was $nil as at August 31, 2020.

11. Financial instruments and financial risk management (continued)

Derivative financial instruments (continued)

The Company's hedging relationships are subject to ineffectiveness should the timing of the forecasted transaction not occur as intended, when actual amounts significantly differ to the estimates, or as a result of changes in counterparty risk. For the three and nine months ended May 31, 2021 and 2020, the derivatives designated as cash flow hedges were considered to be fully effective and no ineffectiveness has been recognized in net income (loss).

For the three and nine months ended May 31, 2021, a loss of $2 was recorded in OCI. For the three and nine months ended May 31, 2020, derivatives designated as cash flow hedges had no impact on OCI.

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 2020 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 nine months ended May 31, 2021, except as noted below.

(a) Interest rate risk

Investments included in the Company's cash and cash equivalents and debt service reserve fund earn interest at prevailing and fluctuating market rates. If interest rates decline, earnings on these instruments would fall. During the nine months ended May 31, 2021, the Company repaid borrowings of $223 under its syndicated credit facility. As a result of the repayment and change in cash and cash equivalents, as at May 31, 2021, a 100 basis point change in variable interest rates would result in an annual difference of approximately $5 in the Company's earnings before rate stabilization adjustments (August 31, 2020 - $1).

(b) Foreign exchange risk

As at May 31, 2021, the Company's net exposure to foreign exchange risk related to the U.S. dollar has decreased from $333 CDN ($257 U.S.) to $276 CDN ($229 U.S.), largely due to the decrease in the fair value of the investment in preferred interests of Aireon. If the Canadian dollar strengthened or weakened by 10% against the U.S. dollar as at May 31, 2021, all other variables remaining constant, net income (loss) before net movement in regulatory deferral accounts would have been impacted by $26 (August 31, 2020 - $31).

(c) Credit risk

The Company revised its customer service charges effective September 1, 2020, increasing charges by an average of 29.5% on overall rate levels. The service charge increase includes provisions to ease the cash flow burden of the increase on customers through payment deferral mechanisms. For the Company's fiscal 2021, the portion of monthly invoices related to the service charge increase can be deferred and will become payable by customers in equal installments over the following five fiscal years. These provisions increase the Company's exposure to credit risk as payments required in advance and security deposits under the Company's credit policies may not be sufficient to cover potential losses.

The Company establishes an allowance for doubtful accounts that represents its estimate of lifetime expected credit losses to be incurred in respect of accounts receivable. Given the high degree of uncertainty caused by the COVID-19 pandemic, the estimates and judgments made by management in the preparation of the expected credit loss allowance are subject to estimation uncertainty. Based on the Company's current estimates and assumptions, including but not limited to current and forecasted economic and credit conditions as well as recent trend for customer collections, the Company recorded an expected credit loss allowance of $3 and $9 during the three and nine months ended May 31, 2021.

(millions of Canadian dollars)

11. Financial instruments and financial risk management (continued)

Financial risk management (continued)

(d) Liquidity risk

During the nine months ended May 31, 2021, the Company repaid net borrowings of $223 under its syndicated credit facility, increasing the credit facilities available for unrestricted use to $574 (August 31, 2020 - $350).

Separate from the Company's syndicated credit facility are letter of credit facilities for pension funding purposes which increased to $598 as at May 31, 2021 (August 31, 2020 - $540). As at May 31, 2021, $549 was drawn for pension solvency funding purposes.

12. 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 May 31, 2021:

	Remaining payments – for years ending August 31						
	Total	2021	2022	2023	2024	2025	Thereafter
Trade payables and accrued liabilities	$ 167	$ 167	$ -	$ -	$ -	$ -	$ -
Derivative liabilities	8	4	3	1	-	-	-
Long-term debt (including current portion) (1), (2)	2,525	-	25	25	225	25	2,225
Interest payments (2)	1,424	13	82	80	78	75	1,096
Capital commitments	129	52	18	11	12	8	28
Lease liability	4	1	3	-	-	-	-
Future lease liability (3)	59	-	-	2	3	3	51
Related party loan (4)	13	13	-	-	-	-	-
	$ 4,329	$ 250	$ 131	$ 119	$ 318	$ 111	$ 3,400

(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 9 above and note 14 of the 2020 annual consolidated 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 $13 CDN ($11 U.S.).