Unaudited Interim Condensed Consolidated Financial Statements of

NAV CANADA

Three and six months ended February 28, 2017 and February 29, 2016

NAV CANADA

Interim Condensed Consolidated Statements of Operations (unaudited)

(millions of Canadian dollars)

	Notes	Three months ended February 28 2017	Three months ended February 29 2016	Six months ended February 28 2017	Six months ended February 29 2016
Revenue					
Customer service charges		$ 284	$ 295	$ 599	$ 619
Other revenue		12	14	29	32
		296	309	628	651
Operating expenses					
Salaries and benefits		228	215	447	418
Technical services		26	28	56	58
Facilities and maintenance		18	17	36	33
Depreciation and amortization	7, 8	37	35	73	70
Other		19	12	37	24
		328	307	649	603
Other (income) and expenses					
Finance income	3	(19)	(7)	(35)	(10)
Net interest costs relating to employee benefits	6	13	10	27	21
Other finance costs	9	20	25	51	50
Other (gains) and losses		1	(3)	(6)	(6)
		15	25	37	55
Net income (loss) before income tax and net movement in regulatory deferral accounts		(47)	(23)	(58)	(7)
Income tax expense	5	5	1	6	1
Net income (loss) before net movement in regulatory deferral accounts		(52)	(24)	(64)	(8)
Net movement in regulatory deferral accounts related to net income (loss), net of tax	4	18	(15)	30	(33)
Net income (loss) after net movement in regulatory deferral accounts		$ (34)	$ (39)	$ (34)	$ (41)

See accompanying notes to unaudited interim condensed consolidated financial statements.

NAV CANADA

Interim Condensed Consolidated Statements of Comprehensive Income (unaudited)

(millions of Canadian dollars)

	Notes	Three months ended February 28 2017	Three months ended February 29 2016	Six months ended February 28 2017	Six months ended February 29 2016
Net income (loss) after net movement in regulatory deferral accounts		$ (34)	$ (39)	$ (34)	$ (41)
Other comprehensive income (loss)					
Items that will not be reclassified to income or (loss):					
Re-measurements of employee defined benefit plans	6	158	(139)	476	(22)
Net movement in regulatory deferral accounts related to other comprehensive income	4	(158)	139	(476)	22
		-	-	-	-
Items that will be reclassified to income or (loss):					
Amortization of loss on cash flow hedge to net income (loss)		1	-	1	-
Changes in fair value of cash flow hedges		-	(63)	36	(74)
Net movement in regulatory deferral accounts related to other comprehensive income	4	(1)	63	(37)	74
		-	-	-	-
Total other comprehensive income (loss)		-	-	-	-
Total comprehensive income (loss)		$ (34)	$ (39)	$ (34)	$ (41)

See accompanying notes to unaudited interim condensed consolidated financial statements.

NAV CANADA

Interim Condensed Consolidated Statements of Financial Position (unaudited)

(millions of Canadian dollars)

	Notes	February 28 2017	August 31 2016
Assets			
Current assets			
Cash and cash equivalents		$ 276	$ 119
Accounts receivable and other		101	107
Investments	10	94	373
Other		11	10
		482	609
Non-current assets			
Investment in preferred interests	5, 10	333	291
Employee benefits	6	3	-
Property, plant and equipment	7	665	664
Intangible assets	8	941	953
		1,942	1,908
Total assets		2,424	2,517
Regulatory deferral account debit balances	4	1,197	1,708
Total assets and regulatory deferral account debit balances		$ 3,621	$ 4,225

See accompanying notes to unaudited interim condensed consolidated financial statements.

NAV CANADA

Interim Condensed Consolidated Statements of Financial Position (unaudited)

(millions of Canadian dollars)

	Notes	February 28 2017	August 31 2016
Liabilities			
Current liabilities			
Trade and other payables		$ 205	$ 202
Deferred revenue		6	6
Current portion of long-term debt	9	25	25
		236	233
Non-current liabilities			
Long-term debt	9	1,594	1,694
Employee benefits	6	1,282	1,694
Deferred tax liability	5	51	45
Derivative liability		15	54
Provisions		1	1
		2,943	3,488
Total liabilities		3,179	3,721
Equity			
Retained earnings (deficit)		(6)	28
Total equity		(6)	28
Total liabilities and equity		3,173	3,749
Regulatory deferral account credit balances	4	448	476
Commitments	11		
Total liabilities, equity and regulatory deferral account credit balances		$ 3,621	$ 4,225

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, 2015	$ 28	$ -	$ 28
Net income (loss) and net movement in regulatory deferral accounts	(41)	-	(41)
Other comprehensive income (loss)	-	-	-
Balance February 29, 2016	$ (13)	$ -	$ (13)
Balance August 31, 2016	$ 28	$ -	$ 28
Net income (loss) and net movement in regulatory deferral accounts	(34)	-	(34)
Other comprehensive income (loss)	-	-	-
Balance February 28, 2017	$ (6)	$ -	$ (6)

See accompanying notes to unaudited interim condensed consolidated financial statements.

NAV CANADA

Interim Condensed Consolidated Statements of Cash Flows (unaudited)

(millions of Canadian dollars)

	Notes	Three months ended February 28 2017	Three months ended February 29 2016	Six months ended February 28 2017	Six months ended February 29 2016
Cash flows from:					
Operations					
Receipts from customer service charges		$ 280	$ 301	$ 615	$ 646
Other receipts		14	15	24	28
Commodity tax refund		-	4	3	4
Payments to employees and suppliers		(244)	(251)	(492)	(471)
Pension contributions - current service	6	(25)	(25)	(45)	(46)
Pension contributions - special payments	6	-	(7)	-	(14)
Other post-employment payments		(2)	(2)	(4)	(3)
Interest payments		(21)	(26)	(44)	(50)
Interest receipts		1	1	2	2
		3	10	59	96
Investing					
Capital expenditures		(28)	(29)	(60)	(63)
Investment in preferred interests	5	(16)	-	(16)	-
Proceeds from asset-backed commercial paper trusts	10	212	-	292	2
Income tax payment on investment in preferred interests		(5)	-	(5)	-
Recoverable input tax payments on termination of cross border transaction		-	-	-	26
		163	(29)	211	(35)
Financing					
Issuance of medium term notes		-	248	-	248
Repayment of medium term notes		-	(450)	-	(450)
Redemption of medium term notes	9	(110)	-	(110)	-
Disbursements from settlement of derivatives		-	(51)	-	(51)
Debt service reserve fund		-	20	-	20
		(110)	(233)	(110)	(233)
Cash flows from operating, investing and financing activities		56	(252)	160	(172)
Effect of foreign exchange on cash and cash equivalents		(4)	1	(3)	1
Increase (decrease) in cash and cash equivalents		52	(251)	157	(171)
Cash and cash equivalents at beginning of period		224	310	119	230
Cash and cash equivalents at end of period		$ 276	$ 59	$ 276	$ 59

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 after recording adjustments to the rate stabilization account. 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, 2016 (2016 annual consolidated financial statements).

These interim condensed consolidated financial statements were authorized for issue by the Board on April 12, 2017.

(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 either fair value through profit or loss (FVTPL) or available for sale (AFS), 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 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 Company's 2016 annual consolidated financial statements, except for the application of new standards, amendments and interpretations effective September 1, 2016. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

In December 2014, the International Accounting Standards Board (IASB) issued Disclosure Initiative (Amendments to IAS 1 *Presentation of Financial Statements*). These amendments improve the existing presentation and disclosure requirements and encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements. These amendments were adopted effective September 1, 2016. The adoption of these amendments resulted in no change to these interim condensed consolidated financial statements. Immaterial disclosures are expected to be removed from the Company's annual consolidated financial statements.

(f) 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 (e) of the Company's 2016 annual consolidated financial statements.

(g) Future accounting pronouncements:

The IASB has issued a number of standards and amendments that are not yet effective, as disclosed in note 2 (f) of the Company's 2016 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 commenced its analysis of IFRS 9 *Financial Instruments* and expects to early adopt the requirements of the new standard during its fiscal year ending August 31, 2018.

At this time, the Company does not expect to adopt any of the other standards or amendments noted in our 2016 annual consolidated financial statements before their respective effective dates.

(millions of Canadian dollars)

3. Finance income:

Finance income was comprised of the following:

	Three months ended February 28 2017	Three months ended February 29 2016	Six months ended February 28 2017	Six months ended February 29 2016
Interest income on financial assets classified as loans and receivables (L&R)	$ -	$ -	$ (1)	$ (1)
Net change in fair value of financial assets classified as FVTPL	(19)	(7)	(34)	(9)
	$ (19)	$ (7)	$ (35)	$ (10)

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 2016	Regulatory deferral	Recovery/ reversal	February 28 2017
Regulatory deferral account debit balances				
Derivatives	$ 54	$ (39)	$ -	$ 15
Deferred income tax	45	6	-	51
Employee benefits:				
Accumulating sick leave	30	-	-	30
Other post-employment benefits re-measurements	38	(11)	(1)	26
Pension re-measurements	1,482	(467)	-	1,015
Supplemental pension re-measurements	7	2	-	9
Realized hedging transaction	52	(1)	-	51
	$ 1,708	$ (510)	$ (1)	$ 1,197
Regulatory deferral account (credit) balances				
Rate stabilization account	$ (169)	$ (29)	$ 19	$ (179)
Derivatives	(3)	3	-	-
Employee benefits:				
Pension contributions	(136)	62	-	(74)
Long-term disability contributions	-	-	(2)	(2)
Change in the fair value of the investment in preferred interests	(162)	(26)	-	(188)
Realized hedging transaction	(6)	-	1	(5)
	$ (476)	$ 10	$ 18	$ (448)

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, 2017 (fiscal 2017), the target balance is $101 (year ended August 31, 2016 (fiscal 2016) – $100).

(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		Six months ended	
	February 28 2017	February 29 2016	February 28 2017	February 29 2016
Before net movement in regulatory deferral accounts:				
Revenue	$ 296	$ 309	$ 628	$ 651
Operating expenses	328	307	649	603
Other (income) and expenses	15	25	37	55
Income tax expense	5	1	6	1
	(52)	(24)	(64)	(8)
Net movement in regulatory deferral accounts:				
Rate stabilization adjustments:				
Favourable variances from planned results	(12)	(11)	(29)	(24)
Initial approved adjustment [1]	9	(8)	19	(16)
	(3)	(19)	(10)	(40)
Other regulatory deferral account adjustments:				
Employee benefit pension contributions	32	10	62	21
Other employee benefits	-	-	(3)	(3)
Investment in preferred interests, net of tax	(11)	(6)	(20)	(12)
Realized hedging transactions	-	-	1	1
	21	4	40	7
	18	(15)	30	(33)
Net income (loss), after rate stabilization and regulatory deferral account adjustments	$ (34)	$ (39)	$ (34)	$ (41)

[1] In order to achieve breakeven results of operations, in fiscal 2017, the Board approved a reduction of the rate stabilization account as a result of a planned shortfall. As a result, $38 is being transferred out of the rate stabilization account evenly throughout the fiscal year. In fiscal 2016, the Board approved an increase of the rate stabilization account as a result of a planned excess. Accordingly, $31 was transferred to the rate stabilization account.

(millions of Canadian dollars)

5. Investment in preferred interests of Aireon LLC:

As discussed in note 14 to the 2016 annual consolidated financial statements, the Company's overall investment in Aireon LLC (Aireon) is expected to be implemented in five stages for up to a total of $150 U.S. ($199 CDN) by calendar year 2017. As at February 28, 2017, the Company has invested $135 U.S. ($179 CDN) (August 31, 2016 - $120 U.S. ($157 CDN)). The Company is represented by four out of the eleven directors on Aireon's board of directors. The Company's investment in Aireon is in preferred interests, which are redeemable and convertible to common equity.

The Company completed its fourth tranche investment of $15 U.S. ($16 CDN) on December 21, 2016, increasing the fair value of its investment in preferred interests as well as its deferred tax liability. As at February 28, 2017, the Company's total fully diluted common equity interest on a post conversion basis is 38.1% (August 31, 2016 - 36.5%).

The table below shows the impact of the Company's investment in preferred interests of Aireon and the impact of the use of regulatory accounting on the Company's statement of financial position:

	February 28 2017	August 31 2016
Current assets		
Accounts receivable	$ 5	$ -
Derivative assets and other	-	3
Investment in preferred interests	333	291
Deferred tax liability	(51)	(45)
Financial position impact of the investment in preferred interests of Aireon before regulatory accounting	$ 287	$ 249
Regulatory deferral account debit balances		
Deferred regulatory income tax liability	51	45
	$ 51	$ 45
Regulatory deferral account credit balances		
Cumulative change in fair value of the investment in preferred interests	$ (188)	$ (162)
Unrealized fair value gain on foreign exchange hedging transaction	-	(3)
	$ (188)	$ (165)
Net financial position impact of the investment in preferred interest of Aireon after regulatory accounting	$ 150	$ 129

(millions of Canadian dollars)

5. Investment in preferred interests of Aireon LLC (continued):

Aireon's fiscal year end is December 31. IAS 28, *Investments in Associates and Joint Ventures*, limits the difference between the end of the reporting period of a joint venture and that of the investor to no more than three months and requires adjustment to the results for any significant transactions that occur during the intervening period. The Company has chosen a two month lag period and therefore the February 28, 2017 and August 31, 2016 information presented below is based on Aireon's financial position as at December 31, 2016 and June 30, 2016, respectively, translated from U.S. dollars. Between December 31, 2016 and February 28, 2017, Aireon received an additional tranche investment from one of its other investors. This investment has been reflected in the financial information presented as at February 28, 2017.

	February 28 2017	August 31 2016
Current assets		
Cash and cash equivalents	$ 74	$ 39
Prepaid expenses and other current assets	12	-
Non-current assets		
Property, plant and equipment	477	368
	$ 563	$ 407
Current liabilities		
Trade and other payables	$ (11)	$ (8)
Non-current liabilities		
Financial liabilities	(630)	(465)
	$ (641)	$ (473)
Net assets	$ (78)	$ (66)

(millions of Canadian dollars)

6. Employee benefits:

The Company has recorded net defined pension and other post-employment benefits expenses as follows:

	Three months ended			
	February 28 2017	February 29 2016	February 28 2017	February 29 2016
	Pension benefit plans		Other benefit plans	
Statement of operations				
Current service costs	$ 44	$ 36	$ 3	$ 1
Interest cost	57	58	1	2
Interest income on plan assets	(46)	(50)	-	-
Total expense	$ 55	$ 44	$ 4	$ 3
Statement of other comprehensive income				
Re-measurements:				
Return on plan assets, excluding interest income on plan assets	$ (39)	$ 93	$ -	$ -
Actuarial (gains) losses	(119)	45	-	1
Total (income) cost recognized in other comprehensive income	$ (158)	$ 138	$ -	$ 1

	Six months ended			
	February 28 2017	February 29 2016	February 28 2017	February 29 2016
	Pension benefit plans		Other benefit plans	
Statement of operations				
Current service costs	$ 88	$ 72	$ 4	$ 2
Interest cost	114	117	3	4
Interest income on plan assets	(91)	(101)	-	-
Total expense	$ 111	$ 88	$ 7	$ 6
Statement of other comprehensive income				
Re-measurements:				
Return on plan assets, excluding interest income on plan assets	$ 68	$ 82	$ -	$ -
Actuarial (gains) losses	(533)	(58)	(11)	(2)
Total (income) cost recognized in other comprehensive income	$ (465)	$ 24	$ (11)	$ (2)

Net interest costs relating to employee benefits of $27 for the six months ended February 28, 2017 are comprised of interest costs and interest income on plan assets as noted above for pension benefit plans and other post-employment benefits, including $1 of interest costs related to long-term sick leave benefits.

(millions of Canadian dollars)

6. Employee benefits (continued):

The weighted average discount rates used to determine the re-measurements are as follows:

	Funded plans			Unfunded plans		
	February 28 2017	August 31 2016	February 29 2016	February 28 2017	August 31 2016	February 29 2016
Discount rate	3.90%	3.40%	4.10%	3.74%	3.32%	3.99%

The Company's contributions to its defined benefit plans were as follows:

	Three months ended		Six months ended	
	February 28 2017	February 29 2016	February 28 2017	February 29 2016
Funded pension plan	$ 23	$ 33	$ 47	$ 61
Unfunded pension plan	-	1	1	1
Unfunded other defined benefit	2	1	4	3
Less: capitalized amounts	(1)	(1)	(2)	(2)
	$ 24	$ 34	$ 50	$ 63

On a preliminary basis, going concern pension contributions for fiscal 2017 are currently estimated to be $92 (fiscal 2016 - $112), with no requirement for going concern special payments expected (fiscal 2016 - $20).

As described in note 15 to the 2016 annual consolidated financial statements, the Company has met its pension solvency funding requirements with letters of credit. As at February 28, 2017, the Company has put in place letters of credit totaling $468 (representing 9% of registered pension plan assets as at February 28, 2017) to meet its cumulative pension solvency funding requirements. Commencing in April 2017, the Company will fund its remaining calendar 2017 solvency funding requirements with cash contributions of approximately $42 by the end of fiscal 2017. For the annual period beginning July 1, 2017, solvency funding requirements will be based on the January 1, 2017 actuarial valuations.

(millions of Canadian dollars)

6. Employee benefits (continued):

The balances of employee benefits recorded on the interim condensed consolidated statement of financial position are as follows:

	February 28 2017	August 31 2016
Recognized asset for long-term disability benefits	$ 3	$ -

	February 28 2017	August 31 2016
Present value of funded defined benefit obligations	$ (6,305)	$ (6,720)
Fair value of plan assets	5,364	5,374
Liability for funded defined benefit obligations	(941)	(1,346)
Liability for unfunded pension defined benefit obligations	(72)	(69)
Liability for unfunded other defined benefit obligations	(225)	(233)
Recognized liability for defined benefit plans	(1,238)	(1,648)
Long-term employee benefit liabilities	(44)	(46)
Total long-term employee benefit liabilities	$ (1,282)	$ (1,694)

7. Property, plant and equipment:

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

	Land and buildings	Systems and equipment	Assets under development	Total
Cost				
Balance at August 31, 2016	$ 201	$ 555	$ 73	$ 829
Additions	-	-	44	44
Transfers	19	21	(40)	-
Balance at February 28, 2017	$ 220	$ 576	$ 77	$ 873
Accumulated depreciation				
Balance at August 31, 2016	$ 26	$ 139	$ -	$ 165
Depreciation	6	37	-	43
Balance at February 28, 2017	$ 32	$ 176	$ -	$ 208
Carrying amounts				
At August 31, 2016	$ 175	$ 416	$ 73	$ 664
At February 28, 2017	$ 188	$ 400	$ 77	$ 665

(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	Goodwill	Total
Cost						
Balance at August 31, 2016	$ 702	$ 158	$ 168	$ 33	$ 4	$ 1,065
Additions	-	-	-	18	-	18
Transfers	-	4	5	(9)	-	-
Balance at February 28, 2017	$ 702	$ 162	$ 173	$ 42	$ 4	$ 1,083
Accumulated amortization						
Balance at August 31, 2016	$ 50	$ 34	$ 28	$ -	$ -	$ 112
Amortization	13	9	8	-	-	30
Balance at February 28, 2017	$ 63	$ 43	$ 36	$ -	$ -	$ 142
Carrying amounts						
At August 31, 2016	$ 652	$ 124	$ 140	$ 33	$ 4	$ 953
At February 28, 2017	$ 639	$ 119	$ 137	$ 42	$ 4	$ 941

9. Long-term debt:

Note 21 to the Company's 2016 annual consolidated financial statements provides details of the Company's interest-bearing loans and borrowings. On December 16, 2016, the Company redeemed $100 of its outstanding $350 Series MTN 2009-1 General Obligation Notes. The balance of long-term debt as at February 28, 2017 is $1,619, of which $25 is classified as current debt and was repaid in March 2017.

The Company paid a redemption premium related to the early partial-redemption. This premium of $10 has been expensed in other finance costs for the six months ended February 28, 2017 in the interim condensed consolidated statement of operations.

(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. Other than long-term debt, the carrying amount is equal to the fair value for all of the Company's financial instruments.

	February 28, 2017				
	L&R	AFS	FVTPL	Other financial liabilities	Fair value hierarchy
Financial assets					
Cash and cash equivalents[(1)]	$ 276	$ -	$ -	$ -	Level 1
Accounts receivable and other	101	-	-	-	Level 1
Current investments					
Debt service reserve fund	-	94	-	-	Level 1
Investment in preferred interests[(2),(3)]	-	-	333	-	Level 3
	$ 377	$ 94	$ 333	$ -	
Financial liabilities					
Trade and other payables					
Trade payables and accrued liabilities	$ -	$ -	$ -	$ 201	Level 1
Non-derivative financial liability[(4)]	-	-	-	2	Level 3
Long-term debt					
Bonds and notes payable[(5)]	-	-	-	1,619	Level 2
Long-term derivative liabilities[(6)]	-	-	15	-	Level 2
	$ -	$ -	$ 15	$ 1,822	

(1) Cash and cash equivalents includes $148 of short-term investments.

(2) These financial instruments are designated as FVTPL.

(3) The fair value of the Company's investment in preferred interests of Aireon is based on the price paid by three additional major air navigation service providers, namely ENAV (Italy), the Irish Aviation Authority (IAA), and Naviair (Denmark) for preferred interests in Aireon with substantially the same characteristics as it was determined that this represents the best estimate of fair value.

(4) In accordance with the amended shareholders' agreement for one of the Company's subsidiaries, under certain circumstances a non-controlling shareholder could compel a purchase of their shares at a price equal to their fair value at that time, subject to certain adjustments. The liability was recorded at inception based on the present value of the redemption amount. Changes in the liability due to changes in fair value of the underlying shares are treated as a change in estimate in the period in which they occur.

(5) The fair value of the Company's bonds and notes payable is determined using secondary market ask prices at the reporting date. As at February 28, 2017, the fair value was $1,882 (August 31, 2016 - $2,058), inclusive of interest of $23 (August 31, 2016 - $25).

(6) 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.

There has been no change in classification of financial instruments since August 31, 2016.

(millions of Canadian dollars)

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

During the six months ended February 28, 2017, the Company received the remaining $285 principal balance of its Master Asset Vehicle II (MAV II) Class A-1 and Class A-2 notes. The Company also received the remaining $7 principal balance of restructured asset-backed commercial paper (ABCP). As at February 28, 2017, the Company has investments in other notes with a $nil fair value and a face value of $1.

The following table summarizes the changes in the fair value of financial instruments classified as Level 3:

	MAV II and Ineligible Asset Tracking notes	ABCP	Investment in preferred interests	Total
Fair value as at August 31, 2016	$ 272	$ 7	$ 291	$ 570
Additional investment[(1)]	-	-	16	16
Proceeds[(2)]	(285)	(7)	-	(292)
Net increase in fair value[(3)]	-	-	20	20
Net decrease in fair value provision	13	-	-	13
Effect of foreign exchange	-	-	6	6
Fair value as at February 28, 2017	$ -	$ -	$ 333	$ 333

(1) In fiscal 2017, the Company invested an additional $15 U.S. ($16 CDN) in preferred interests of Aireon (see note 5).

(2) In fiscal 2017, the Company received $285 of principal relating to the MAV II notes, as well as the remaining $7 of principal balance of the restructured ABCP.

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

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 22 (a)-(c) to the Company's 2016 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 six months ended February 28, 2017, except as noted below.

(a) Market risk

(i) Interest rate risk:

During the six months ended February 28, 2017, the Company received the remaining principal relating to its investments in MAV II notes of $285 and the remaining $7 principal balance of ABCP, decreasing the Company's financial assets exposed to interest rate risk. These investments had earned interest at variable rates. The receipt of these notes also reduced the Company's exposure to price and credit risk.

The Company's cash and cash equivalents and debt service reserve fund earn interest at prevailing and fluctuating market rates. Total floating rate financial assets as at February 28, 2017 are $370. If interest rates decline, earnings on these instruments would fall. A 100 basis point change in variable interest rates would result in an annual impact of approximately $4 in the Company's earnings before rate stabilization adjustments.

(millions of Canadian dollars)

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

(a) Market risk (continued)

(i) Interest rate risk (continued):

As discussed in note 9, during the six months ended February 28, 2017, the Company redeemed $100 of the $350 Series MTN 2009-1 General Obligation Notes, reducing the Company's financial liabilities exposed to interest rate risk. These are fixed rate liabilities and are not accounted for as FVTPL or as AFS, therefore the impact of a change in interest rates at the reporting date would not affect the Company's earnings nor its equity.

(ii) Foreign exchange risk:

The Company's exposure to foreign exchange risk related to the U.S. dollar is as follows:

	February 28 2017		August 31 2016	
	CDN	USD	CDN	USD
Financial assets				
Current				
Cash and cash equivalents	$ -	$ -	$ 18	$ 14
Accounts receivable and other	11	8	8	6
Non-current				
Investment in preferred interests	333	251	291	222
	$ 344	$ 259	$ 317	$ 242
Financial liabilities				
Current				
Trade and other payables	$ 1	$ 1	$ 1	$ 1
Non-current				
Deferred tax liability	51	39	45	34
	$ 52	$ 40	$ 46	$ 35
Net exposure	$ 292	$ 219	$ 271	$ 207

The Company designates certain of its forward contracts as cash flow hedging instruments to hedge the Company's exposure to the impact of exchange rate fluctuations. As at February 28, 2017, the Company has entered into a forward contract to purchase $15 U.S. ($20 CDN) to hedge the Canadian dollar cost related to its fifth tranche investment in preferred interests of Aireon at a rate of 1.34 maturing in July 2017.

The foreign exchange rate sensitivity is the net amount of foreign exchange rate exposure of the items at the reporting date, less foreign currency hedges. As at February 28, 2017, if the Canadian dollar strengthened or weakened by 10% against the U.S. dollar, all other variables remaining constant, net income (loss) before net movement in regulatory deferral accounts would have been impacted by $30 (August 31, 2016 - $25).

(iii) Other price risk:

As discussed in note 5, the fourth tranche investment in preferred interests of Aireon was made on December 21, 2016. As a result of the additional investment, the fair value of the investment in Aireon increased to $333 as at February 28, 2017 (August 31, 2016 - $291). A change of 5% in the fair value would impact finance income (other finance costs) by approximately $11 U.S. ($15 CDN) as at February 28, 2017 (August 31, 2016 - $10 U.S. ($13 CDN)).

(millions of Canadian dollars)

11. Commitments:

The following table presents a maturity analysis of the Company's undiscounted contractual cash flows for its financial liabilities, capital commitments, operating leases and investment in preferred interests of Aireon as at February 28, 2017:

	Remaining payments – for years ending August 31						
	Total	2017	2018	2019	2020	2021	Thereafter
Trade payables and accrued liabilities	$ 178	$ 178	$ -	$ -	$ -	$ -	$ -
Non-derivative financial liability	2	2	-	-	-	-	-
Derivative liabilities	15	-	-	15	-	-	-
Long-term debt (including current portion) (1), (2)	1,625	25	375	275	25	275	650
Interest payments (2)	649	37	77	69	53	46	367
Capital commitments (3)	139	42	42	11	12	6	26
Operating leases	40	4	8	7	6	6	9
Investment in preferred interests of Aireon (4)	20	-	20	-	-	-	-
	$ 2,668	$ 288	$ 522	$ 377	$ 96	$ 333	$ 1,052

(1) Payments represent principal of $1,625. 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 21 to the 2016 annual consolidated financial statements.

(3) The Company has firm commitments for the acquisition of PP&E and intangible assets amounting to $139 as at February 28, 2017 (August 31, 2016 - $118).

(4) Payments represent contractual obligations to invest in preferred interests of Aireon, subject to conditions pursuant to the agreements the Company entered into in November 2012 which set out the terms of its participation in Aireon, as amended. Amounts are presented in CDN translated using the hedged rate for the remaining tranche investment.