Unaudited Interim Condensed Consolidated Financial Statements of

NAV CANADA

Three and six months ended February 28, 2018 and 2017

NAV CANADA

Interim Condensed Consolidated Statements of Operations (unaudited)

(millions of Canadian dollars)

		Three months ended		Six months ended	
		February 28	February 28	February 28	February 28
	Notes	2018	2017	2018	2017
Revenue					
Customer service charges		$ 295	$ 284	$ 628	$ 599
Other revenue		10	12	24	29
		305	296	652	628
Operating expenses					
Salaries and benefits		240	228	475	447
Technical services		27	26	56	56
Facilities and maintenance		19	18	37	36
Depreciation and amortization	6, 7	37	37	75	73
Other		17	19	37	37
		340	328	680	649
Other (income) and expenses					
Finance income		(4)	(19)	(9)	(35)
Net interest costs relating to employee benefits	5	13	13	27	27
Other finance costs		19	20	38	51
Other (gains) and losses		2	1	(8)	(6)
		30	15	48	37
Net income (loss) before income tax and net movement in regulatory deferral accounts		(65)	(47)	(76)	(58)
Income tax (recovery) expense	4	(19)	5	(19)	6
Net income (loss) before net movement in regulatory deferral accounts		(46)	(52)	(57)	(64)
Net movement in regulatory deferral accounts related to net income (loss), net of tax	3	1	18	15	30
Net income (loss) after net movement in regulatory deferral accounts	1	$ (45)	$ (34)	$ (42)	$ (34)

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 2018	Three months ended February 28 2017	Six months ended February 28 2018	Six months ended February 28 2017
Net income (loss) after net movement in regulatory deferral accounts		$ (45)	$ (34)	$ (42)	$ (34)
Other comprehensive income (loss)					
Items that will not be reclassified to income or (loss):					
Re-measurements of employee defined benefit plans	5	-	158	100	476
Net movement in regulatory deferral accounts related to other comprehensive income	3	-	(158)	(100)	(476)
		-	-	-	-
Items that will be reclassified to income or (loss):					
Amortization of loss on cash flow hedge		1	1	1	1
Changes in fair value of cash flow hedges		7	-	8	36
Net movement in regulatory deferral accounts related to other comprehensive income	3	(8)	(1)	(9)	(37)
		-	-	-	-
Total other comprehensive income (loss)		-	-	-	-
Total comprehensive income (loss)	1	$ (45)	$ (34)	$ (42)	$ (34)

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 2018	August 31 2017
Assets			
Current assets			
Cash and cash equivalents		$ 134	$ 222
Accounts receivable and other		75	107
Investments	8	70	95
Other		11	11
		290	435
Non-current assets			
Investment in preferred interests	4, 8	366	350
Employee benefits	5	9	11
Investment in equity-accounted investee		7	7
Property, plant and equipment	6	706	705
Intangible assets	7	929	930
Other non-current assets		4	3
		2,021	2,006
Total assets		2,311	2,441
Regulatory deferral account debit balances	3	1,390	1,475
Total assets and regulatory deferral account debit balances		$ 3,701	$ 3,916

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 2018	August 31 2017
Liabilities			
Current liabilities			
Trade and other payables		$ 212	$ 230
Deferred revenue		6	6
Customer service charges refund payable		-	60
Current portion of long-term debt		375	375
		593	671
Non-current liabilities			
Long-term debt		1,220	1,220
Employee benefits	5	1,508	1,586
Deferred tax liability	4	38	55
Derivative liability	8	2	12
Other non-current liabilities		2	2
		2,770	2,875
Total liabilities		3,363	3,546
Equity			
Retained earnings (deficit)		(14)	28
Total equity		(14)	28
Total liabilities and equity		3,349	3,574
Regulatory deferral account credit balances	3	352	342
Commitments	9		
Subsequent events	10		
Total liabilities, equity and regulatory deferral account credit balances		$ 3,701	$ 3,916

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, 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)
Balance August 31, 2017	$ 28	$ -	$ 28
Net income (loss) and net movement in regulatory deferral accounts	(42)	-	(42)
Other comprehensive income (loss)	-	-	-
Balance February 28, 2018	$ (14)	$ -	$ (14)

See accompanying notes to unaudited interim condensed consolidated financial statements.

NAV CANADA

Interim Condensed Consolidated Statements of Cash Flows (unaudited)

(millions of Canadian dollars)

		Three months ended		Six months ended	
		February 28	February 28	February 28	February 28
	Notes	2018	2017	2018	2017
Cash flows from:					
Operations					
Receipts from customer service charges		$ 286	$ 280	$ 630	$ 615
Refund of customer service charges		(33)	-	(33)	-
Other receipts		12	14	25	24
Commodity tax refund		-	-	-	3
Payments to employees and suppliers		(257)	(244)	(528)	(492)
Pension contributions - current service	5	(26)	(25)	(47)	(45)
Other post-employment contributions		(2)	(2)	(3)	(4)
Settlement of curtailment severance benefits	5	(16)	-	(42)	-
Interest payments		(20)	(21)	(40)	(44)
Interest receipts		2	1	3	2
		(54)	3	(35)	59
Investing					
Capital expenditures		(42)	(28)	(85)	(60)
Investment in preferred interests		-	(16)	-	(16)
Long-term investments		(1)	-	(1)	-
Income tax refund (payment) on investment in preferred interests		1	(5)	5	(5)
Proceeds from asset-backed commercial paper trusts		1	212	1	292
Settlement of derivative assets		2	-	2	-
		(39)	163	(78)	211
Financing					
Redemption of medium term notes		-	(110)	-	(110)
Debt service reserve fund	8	-	-	25	-
		-	(110)	25	(110)
Cash flows from operating, investing and financing activities		(93)	56	(88)	160
Effect of foreign exchange on cash and cash equivalents		-	(4)	-	(3)
Increase (decrease) in cash and cash equivalents		(93)	52	(88)	157
Cash and cash equivalents at beginning of period		227	224	222	119
Cash and cash equivalents at end of period		$ 134	$ 276	$ 134	$ 276

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 3.

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, 2017 (2017 annual consolidated financial statements).

These interim condensed consolidated financial statements were authorized for issue by the Board on April 11, 2018.

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 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 2017 annual consolidated financial statements, except for the application of new standards, amendments and interpretations effective September 1, 2017 as described in note 2 (f) of the Company's November 30, 2017 interim condensed consolidated financial statements, which detail the impact and changes in accounting policies as a result of the adoption of IFRS 9 – *Financial Instruments* (IFRS 9) effective September 1, 2017. No other changes to significant accounting policies have been made. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

(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 (d) of the 2017 annual consolidated financial statements.

2. Basis of presentation (continued):

(g) 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 2017 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 15 – Revenue from Contracts with Customers

The Company continues to assess the anticipated impact of IFRS 15 - *Revenue from Contracts with Customers* (IFRS 15) on its consolidated financial statements. IFRS 15 will be adopted in the Company's fiscal year ending August 31, 2019. A detailed review of its current contracts under the standard's five-step model is underway. To date, the Company has determined that the recognition and measurement of customer service charges revenue, which represents approximately 96% of total annual revenue, will not change upon adoption of IFRS 15. The impact on adoption to the Company's revenue is largely related to service and development contracts included in other revenue on the consolidated statement of operations and is not expected to be significant. As the project team continues their review, this impact will be quantified.

The following amendments issued by the IASB, and not already disclosed in the Company's November 30, 2017 interim condensed consolidated financial statements, have been assessed as having a possible effect on the Company in the future:

IAS 28 – Investments in Associates and Joint Ventures

In October 2017, the IASB issued narrow-scope amendments to IAS 28 - *Investments in Associates and Joint Ventures* (IAS 28), clarifying that long-term interests in associates and joint ventures, to which the equity method is not applied, are in the scope of both IFRS 9 (including its impairment requirements) and IAS 28. The amendments are effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted.

The amendments to IAS 28 clarify that:

- an entity applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and which, in substance, form part of the net investment in those associates and joint ventures;
- an entity applies the requirements in IFRS 9 to long-term interests before applying the loss absorption and impairment requirements in IAS 28; and
- in applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28.

Annual Improvements to IFRS – 2015-2017 Cycle

On December 12, 2017, as part of the annual improvements process, the IASB issued narrow-scope amendments to IFRS 3 – *Business Combinations,* IFRS 11 – *Joint Arrangements*, IAS 12 – *Income Taxes* and IAS 23 – *Borrowing Costs*. The amendments are effective for annual reporting periods beginning on or after January 1, 2019, with early application permitted. Each of the amendments has its own specific transition requirements.

The Company intends to adopt the amendments to IAS 28 and the amendments from the annual improvements process in its financial statements for the annual period beginning on September 1, 2019. The extent of the impact of adoption of the amendments has not yet been determined.

(millions of Canadian dollars)

3. 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 2017	Regulatory deferral	Recovery/ reversal	February 28 2018
Regulatory deferral account debit balances				
Derivatives	$ 13	$ (8)	$ -	$ 5
Deferred income tax[1]	56	(17)	-	39
Employee benefits:				
Accumulating sick leave	30	-	(1)	29
Other post-employment benefits re-measurements	41	6	(3)	44
Pension contributions (a)	-	50	(5)	45
Pension re-measurements	1,251	(108)	-	1,143
Supplemental pension re-measurements	33	2	-	35
Realized hedging transaction	51	(1)	-	50
	$ 1,475	$ (76)	$ (9)	$ 1,390
Regulatory deferral account (credit) balances				
Rate stabilization account	$ (131)	$ (9)	$ 5	$ (135)
Employee benefits:				
Pension contributions (a)	(9)	9	-	-
Long-term disability contributions	(8)	-	2	(6)
Change in the fair value of the investment in preferred interests	(185)	(16)	-	(201)
Investment in equity-accounted investee	(4)	-	-	(4)
Realized hedging transaction	(5)	-	(1)	(6)
	$ (342)	$ (16)	$ 6	$ (352)

(1) The total regulatory deferral of income tax related to the Company's investment in Aireon LLC (Aireon) is $38 as at February 28, 2018 (August 31, 2017 - $55). The remaining deferral relates to the Company's share of net assets of Searidge Technologies Inc.

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, 2018 (fiscal 2018), the target balance is $104 (year ended August 31, 2017 (fiscal 2017) – $101).

(millions of Canadian dollars)

3. 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 2018	February 28 2017	February 28 2018	February 28 2017
Before net movement in regulatory deferral accounts:				
Revenue	$ 305	$ 296	$ 652	$ 628
Operating expenses	340	328	680	649
Other (income) and expenses	30	15	48	37
Income tax (recovery) expense	(19)	5	(19)	6
	(46)	(52)	(57)	(64)
Net movement in regulatory deferral accounts:				
Rate stabilization adjustments:				
Favourable variances from planned results	(9)	(12)	(9)	(29)
Initial approved adjustment (1)	2	9	5	19
	(7)	(3)	(4)	(10)
Other regulatory deferral account adjustments:				
Employee benefit pension contributions	30	32	54	62
Other employee benefits	(2)	-	(2)	(3)
Investment in preferred interests, before tax	(1)	(16)	(16)	(26)
Income tax	(19)	5	(17)	6
Realized hedging transactions	-	-	-	1
	8	21	19	40
	1	18	15	30
Net income (loss), after rate stabilization and regulatory deferral account adjustments	$ (45)	$ (34)	$ (42)	$ (34)

(1) In order to achieve breakeven results of operations in fiscal 2018, the Board approved a reduction of the rate stabilization account as a result of a planned shortfall. As a result, $10 is being transferred out of the rate stabilization account evenly throughout the fiscal year (fiscal 2017 - $38).

(millions of Canadian dollars)

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

(a) Pension contributions:

Included in regulatory deferral account debit balances at February 28, 2018 is $45 relating to the recovery through customer service charges of pension contributions. At August 31, 2017, $9 was included in regulatory deferral account credit balances. The accrued pension benefit liability, net of regulatory deferrals is as follows:

	February 28 2018	August 31 2017
Employee benefit liability (note 5)	$ (1,149)	$ (1,198)
Less:		
Regulatory deferrals of non-cash adjustments	1,143	1,251
Benefit contributions (less than) in excess of benefit expense	$ (6)	$ 53
Regulatory debit (credit) balances - recovery of contributions	$ 45	$ (9)
Regulatory expense cumulatively less than contributions	$ 39	$ 44

The Company uses a regulatory approach to determine the net charge to net income (loss) for pension benefit costs. 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 $45, is the recovery of $5 of solvency deficiency contributions of $44 paid in fiscal 2017. The remaining balance of $39 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		Six months ended	
	February 28 2018	February 28 2017	February 28 2018	February 28 2017
Consolidated statement of operations				
Pension current service costs[1]	$ 43	$ 44	$ 86	$ 87
Net finance costs[1]	11	11	21	22
Less: Regulatory deferrals	(30)	(32)	(54)	(62)
	24	23	53	47
Company cash contributions				
Going concern current service	22	23	48	47
Regulatory recovery of fiscal 2017 solvency contributions	$ 2	$ -	$ 5	$ -

(1) For the six months ended February 28, 2018, pension current service costs do not include $2 related to the Company's unfunded pension plan (six months ended February 28, 2017 - $1) and net finance costs do not include $2 related to the Company's unfunded pension plan (six months ended February 28, 2017 - $1). For the three months ended February 28, 2018, pension current service costs do not include $1 related to the Company's unfunded pension plan (three months ended February 28, 2017 - $nil) and net finance costs do not include $1 related to the Company's unfunded pension plan (three months ended February 28, 2017 - $nil).

(millions of Canadian dollars)

4. Investment in preferred interests of Aireon:

As discussed in note 11 to the 2017 annual consolidated financial statements, the Company's overall investment in Aireon was implemented in five stages. As at February 28, 2018, the Company has invested $150 U.S. ($192 CDN) (August 31, 2017 - $150 U.S. ($187 CDN)). The Company is represented by six 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.

On December 22, 2017 the U.S. government passed legislation to reduce the federal corporate income tax rate from 35% to 21%. The Company's net deferred tax liability as at February 28, 2018 reflects this new rate and as a result, has been reduced to $30 U.S. ($38 CDN) (August 31, 2017 - $45 U.S. ($55 CDN)).

Aireon is in start-up phase without any operations, with minimal revenue and the majority of its expenditures being capitalized. The Company's preferred interest investment in Aireon is accounted for as a financial instrument as long as the conversion feature remains unexercised. The Company has joint control over the strategic financial and operating activities but holds nil% ownership interest and as such applying the equity method would result in a $nil share of profit (loss) of the equity-accounted investee.

On February 28, 2018, the Company entered into an agreement with Aireon to provide bridge financing, up to a total of $29 U.S. ($37 CDN), with an annual interest rate of 11%. Amounts drawn under the agreement are to be repaid on the earlier of June 29, 2018 and the date at which Aireon receives funding under a senior credit facility. Subsequent to February 28, 2018, Aireon has drawn $7 U.S. ($9 CDN) under the agreement.

Aireon's fiscal year end is December 31. IAS 28 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, 2018, February 28, 2017 and August 31, 2017 information presented below is based on Aireon's financial position and financial performance as at December 31, 2017, December 31, 2016 and June 30, 2017, respectively. All amounts are translated from U.S. dollars.

Aireon's financial information as at and for the three and six months ended February 28, 2018 reflects the adoption of IFRS 9. No significant transactions occurred during the intervening periods that were necessary to adjust for in Aireon's financial information presented as at and for the three and six months ended February 28, 2018.

	February 28 2018	August 31 2017
Current assets		
Cash and cash equivalents	$ 34	$ 65
Prepaid expenses and other current assets	19	14
Non-current assets		
Property, plant and equipment	563	488
	$ 616	$ 567
Current liabilities		
Trade and other payables	$ (5)	$ (8)
Deferred revenue	(1)	-
Non-current liabilities		
Financial liabilities	(761)	(670)
	$ (767)	$ (678)
Net assets	$ (151)	$ (111)

(millions of Canadian dollars)

4. Investment in preferred interests of Aireon (continued):

	Three months ended February 28 2018	Three months ended February 28 2017	Six months ended February 28 2018	Six months ended February 28 2017
Interest expense	$ 6	$ 1	$ 12	$ 4
Net income (loss)	$ (22)	$ 4	$ (41)	$ -
Other comprehensive income (loss)	-	(2)	-	(3)
Total comprehensive income (loss)	$ (22)	$ 2	$ (41)	$ (3)

5. Employee benefits:

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

	Three months ended February 28			
	2018	2017	2018	2017
	Pension benefit plans		Other benefit plans	
Statement of operations				
Current service costs	$ 44	$ 44	$ -	$ 3
Interest cost	62	57	1	1
Interest income on plan assets	(50)	(46)	-	-
Total expense	$ 56	$ 55	$ 1	$ 4
Statement of other comprehensive income				
Re-measurements[1]:				
Return on plan assets, excluding interest income on plan assets	$ -	$ (39)	$ -	$ -
Actuarial (gains) losses	-	(119)	-	-
Total (income) cost recognized in other comprehensive income	$ -	$ (158)	$ -	$ -

(millions of Canadian dollars)

5. Employee benefits (continued):

	Six months ended February 28			
	2018	2017	2018	2017
	Pension benefit plans		Other benefit plans	
Statement of operations				
Current service costs	$ 88	$ 88	$ 1	$ 4
Curtailment expense	-	-	(1)	-
Interest cost	123	114	3	3
Interest income on plan assets	(100)	(91)	-	-
Total expense	$ 111	$ 111	$ 3	$ 7
Statement of other comprehensive income				
Re-measurements:				
Return on plan assets, excluding interest income on plan assets	$ (226)	$ 68	$ -	$ -
Actuarial (gains) losses	120	(533)	6	(11)
Total (income) cost recognized in other comprehensive income	$ (106)	$ (465)	$ 6	$ (11)

(1) During the three months ended February 28, 2018, there were no significant events or changes to the Company's defined pension and other post-employment benefit plans that would require a revaluation. As such, no revaluation was performed and no changes in re-measurements of the plans were recorded in the Company's statement of other comprehensive income.

Net interest costs relating to employee benefits of $27 for the six months ended February 28, 2018 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.

During fiscal 2017, the Company recorded curtailment expense on its severance benefits of $11 which was included in salaries and benefits expense. During the six months ended February 28, 2018, the curtailment expense was adjusted by $1 to reflect the elections made by represented employees. The curtailed severance benefits were settled during the six months ended February 28, 2018 with cash payments of $42.

(millions of Canadian dollars)

5. Employee benefits (continued):

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

	Three months ended		Six months ended	
	February 28 2018	February 28 2017	February 28 2018	February 28 2017
Funded pension plans				
Going concern current service	$ 22	$ 23	$ 48	$ 47
Unfunded pension plan	-	-	1	1
Unfunded other defined benefit plans	2	2	3	4
Less: capitalized amounts	(1)	(1)	(2)	(2)
	$ 23	$ 24	$ 50	$ 50

On a preliminary basis, going concern pension contributions for fiscal 2018 are currently estimated to be $97 (fiscal 2017 - $91), with no requirement for going concern special payments expected (fiscal 2017 - $nil).

As described in note 13 to the 2017 annual consolidated financial statements, the Company has met its calendar 2017 solvency funding requirements of $58 with $14 of letters of credit and $44 in cash special payments. As at February 28, 2018, the Company has put in place letters of credit totaling $481 to meet its cumulative pension solvency funding requirements.

Employee benefits are comprised of the following:

	February 28 2018	August 31 2017
Recognized asset for long-term disability benefits	$ 9	$ 11

	February 28 2018	August 31 2017
Liability for funded defined benefit obligations	$ (1,149)	$ (1,198)
Liability for unfunded pension defined benefit obligations	(102)	(97)
Liability for unfunded other defined benefit obligations	(211)	(246)
Recognized liability for defined benefit plans	(1,462)	(1,541)
Long-term employee benefit liabilities	(46)	(45)
Total long-term employee benefit liabilities	$ (1,508)	$ (1,586)

(millions of Canadian dollars)

6. 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, 2017	$ 227	$ 626	$ 102	$ 955
Additions	-	-	44	44
Transfers	20	8	(28)	-
Balance at February 28, 2018	$ 247	$ 634	$ 118	$ 999
Accumulated depreciation				
Balance at August 31, 2017	$ 39	$ 211	$ -	$ 250
Depreciation	7	36	-	43
Balance at February 28, 2018	$ 46	$ 247	$ -	$ 293
Carrying amounts				
At August 31, 2017	$ 188	$ 415	$ 102	$ 705
At February 28, 2018	$ 201	$ 387	$ 118	$ 706

7. Intangible assets:

Intangible assets were comprised of the following:

	Air navigation right	Purchased software	Internally developed software	Assets under development	Total
Cost					
Balance at August 31, 2017	$ 702	$ 165	$ 193	$ 43	$ 1,103
Additions	-	-	-	32	32
Disposals and write-offs	-	-	-	(1)	(1)
Transfers	-	7	21	(28)	-
Balance at February 28, 2018	$ 702	$ 172	$ 214	$ 46	$ 1,134
Accumulated amortization					
Balance at August 31, 2017	$ 75	$ 53	$ 45	$ -	$ 173
Amortization	13	9	10	-	32
Balance at February 28, 2018	$ 88	$ 62	$ 55	$ -	$ 205
Carrying amounts					
At August 31, 2017	$ 627	$ 112	$ 148	$ 43	$ 930
At February 28, 2018	$ 614	$ 110	$ 159	$ 46	$ 929

(millions of Canadian dollars)

8. 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 2017 annual consolidated financial statements. Excluding long-term debt, the carrying amount approximates the fair value for all of the Company's financial instruments.

	February 28, 2018		
	Amortized Cost	FVTPL	Fair value hierarchy
Financial assets			
Cash and cash equivalents [1]	$ 134	$ -	
Accounts receivable and other	75	-	
Current investments			
Debt service reserve fund[2]	70	-	
Other current assets			
Derivative assets[3]	-	1	Level 2
Investment in preferred interests[4]	-	366	Level 3
Other non-current assets			
Long-term receivables	4	-	
	$ 283	$ 367	
Financial liabilities			
Trade and other payables			
Trade payables and accrued liabilities	$ 207	$ -	
Derivative liabilities[3]	-	3	Level 2
Long-term debt (including current portion)			
Bonds and notes payable[5]	1,595	-	
Long-term derivative liabilities[3]	-	2	Level 2
	$ 1,802	$ 5	

(millions of Canadian dollars)

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

The Company adopted IFRS 9 on September 1, 2017 and has applied IFRS 9 retrospectively, but has elected not to restate comparatives in accordance with transition requirements. The following table presents the carrying amount of the Company's financial instruments, by classification category as at August 31, 2017 in accordance with IAS 39 and the Company's previous accounting policy:

	August 31, 2017				
	L&R	AFS	FVTPL	Other financial liabilities	Fair value hierarchy
Financial assets					
Cash and cash equivalents [1]	$ 222	$ -	$ -	$ -	
Accounts receivable and other	102	-	-	-	
Current investments					
Debt service reserve fund	-	95	-	-	Level 1
Investment in preferred interests[4]	-	-	350	-	Level 3
Other non-current assets					
Long-term receivables	3	-	-	-	
	$ 327	$ 95	$ 350	$ -	
Financial liabilities					
Trade and other payables					
Trade payables and accrued liabilities	$ -	$ -	$ -	$ 227	
Derivative liabilities[3]	-	-	1	-	Level 2
Long-term debt (including current portion)					
Bonds and notes payable[5]	-	-	-	1,595	
Long-term derivative liabilities[3]	-	-	12	-	Level 2
	$ -	$ -	$ 13	$ 1,822	

(1) Cash and cash equivalents includes $39 of short-term investments as at February 28, 2018 (August 31, 2017 - $79).

(2) During the six months ended February 28, 2018, the Company withdrew $25 of surplus funds from the debt service reserve fund.

(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) 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) (the Additional Investors) for preferred interests in Aireon with substantially the same characteristics as it was determined that this represents the best estimate of fair value. See note 8 (a)(i) for further discussion of the fair value.

(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 February 28, 2018, the fair value was $1,773 (August 31, 2017 - $1,835), inclusive of accrued interest of $22 (August 31, 2017 - $22).

There have been no transfers between levels of the fair value hierarchy since August 31, 2017.

(millions of Canadian dollars)

8. 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 3:

	Investment in preferred interests
Fair value as at August 31, 2017	$ 350
Net increase in fair value[1]	6
Effect of foreign exchange	10
Fair value as at February 28, 2018	$ 366

[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:

	February 28, 2018					
			Carrying amount			
	Contract Rate	Nominal amount of hedging instrument in CDN	Assets	Liabilities	Classification on statement of financial position	Changes in fair value used for calculating ineffectiveness
Cash flow hedges						
Interest rate risk						
Interest rate swaps[1]	2.79640	$175	$ -	$2	Derivative liabilities	$8
Interest rate swaps[1]	2.77800	$25	$ -	-	Derivative liabilities	$2
Bond forward[2]	1.76400	$137	$ -	-	N/A	$1
Bond forward[2]	2.47417	$137	$ -	$3	Trade and other payables	$(3)

(millions of Canadian dollars)

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

	August 31, 2017					
			Carrying amount			
	Contract Rate	Nominal amount of hedging instrument in CDN	Assets	Liabilities	Classification on statement of financial position	Changes in fair value used for calculating ineffectiveness
Cash flow hedges						
Foreign exchange risk						
Foreign currency forward[3]	1.10070	$16	$ -	$ -	N/A	$(3)
Foreign currency forward[4]	1.34383	$20	$ -	$ -	N/A	$ -
Interest rate risk						
Interest rate swaps[1]	2.79640	$175	$ -	$10	Derivative liabilities	$37
Interest rate swaps[1]	2.77800	$25	$ -	$2	Derivative liabilities	$5
Bond forward[2]	1.76400	$137	$ -	$1	Trade and other payables	$(1)

(1) The Company holds interest rate swap agreements to hedge the cost of refinancing a portion of the Company's $350 Series MTN 2009-1 General Obligation Notes that will mature on April 17, 2019.

(2) The Company held a bond forward agreement to mitigate the potential impact of rising interest rates on the cost of refinancing the $350 Series MTN 2013-1 General Obligation Notes that will mature on April 19, 2018. The bond forward agreement was closed in January 2018 as a result of changes in our refinancing plans and a new bond forward agreement was simultaneously entered into to align with the revised plan.

(3) The Company held cash related to the hedge of the Canadian dollar cost of the fourth tranche investment in preferred interests of Aireon made in fiscal 2017. The forward contract to purchase $15 U.S. ($16 CDN) matured in June 2015.

(4) The Company held a forward contract to purchase an additional $15 U.S. ($20 CDN) to hedge the Canadian dollar cost related to its fifth tranche investment in preferred interests of Aireon made in fiscal 2017.

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		Six months ended	
	February 28 2018	February 28 2017	February 28 2018	February 28 2017
Net gain (loss) on derivatives designated as cash flow hedges				
Foreign currency forwards	$ -	$ (4)	$ -	$ (3)
Interest rate swaps	9	4	10	39
Bond forward	(2)	-	(2)	-
	$ 7	$ -	$ 8	$ 36

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

For the three and six months ended February 28, 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 2017 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, 2018, except as noted below.

(a) Market risk

(i) Other price risk:

As discussed in note 4, the fair value of the Company's investment in Aireon increased to $366 as at February 28, 2018 (August 31, 2017 - $350). A change of 5% in the fair value would impact finance income (other finance costs) by approximately $12 U.S. ($15 CDN) as at February 28, 2018 (August 31, 2017 - $12 U.S. ($15 CDN)).

Aireon is a joint venture that will provide global satellite-based surveillance capability for air navigation service providers around the world. It is expected that Aireon will commence operations later in calendar year 2018.

The following risks have been identified with respect to the Company's investment in preferred interests of Aireon:

- further delays may occur;
- the technology may not function as intended;
- agreements for data sales may not reach anticipated levels; and
- short or long-term bridge financing may not be obtained.

Aireon's liquidity has been under pressure due to delays in launching the satellites on which Aireon's payloads are hosted. For this reason, the payment of the Company's fourth and fifth tranche investments were brought forward with certain milestones waived. Aireon has secured a short-term facility with certain of its investors, of which the Company has committed $29 U.S. ($37 CDN). Aireon is currently working to secure long-term financing with a major international bank. It is expected that the bridge financing will provide Aireon with sufficient liquidity until such time as the system comes into operation. Further delays however may put pressure on Aireon's liquidity, which may in turn require further bridge financing.

The Company believes the investment in preferred interests of Aireon will provide the returns it is seeking. The price paid by the Additional Investors remains the best evidence of fair value as at February 28, 2018.

(millions of Canadian dollars)

9. 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 as at February 28, 2018:

		Remaining payments – for years ending August 31					
	Total	2018	2019	2020	2021	2022	Thereafter
Trade payables and accrued liabilities	$ 184	$ 184	$ -	$ -	$ -	$ -	$ -
Derivative liabilities	5	3	2	-	-	-	-
Long-term debt (including current portion) (1), (2)	1,600	375	275	25	275	25	625
Interest payments (2)	572	37	69	53	46	39	328
Capital commitments (3)	129	66	16	15	6	4	22
Operating leases	38	4	8	8	7	7	4
Aireon bridge financing (4)	37	37	-	-	-	-	-
	$ 2,565	$ 706	$ 370	$ 101	$ 334	$ 75	$ 979

(1) Payments represent principal of $1,600. 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 to the 2017 annual consolidated financial statements.

(3) The Company has firm commitments for the acquisition of PP&E and intangible assets amounting to $129 as at February 28, 2018 (August 31, 2017 - $141).

(4) Subsequent to February 28, 2018, Aireon has drawn $7 U.S. ($9 CDN) under the bridge financing agreement.

10. Subsequent events:

On March 29, 2018, the Company issued $275 Series MTN 2018-1 General Obligation Notes due on March 30, 2048. The notes have an annual interest rate of 3.293%. The proceeds of these notes will be used to repay the Company's $350 Series MTN 2013-1 General Obligation Notes when they mature on April 19, 2018. The remainder of the maturity will be repaid with available cash and by drawing on the Company's syndicated credit facility, if necessary. The Company also closed the bond forward agreement that had been entered into in January 2018 to mitigate the potential impact of rising interest rates on the cost of the refinancing.

The balance of long-term debt subsequent to the issuance is $1,870, of which $375 is classified as current debt. The amount in current debt relates to the $350 Series MTN 2013-1 General Obligation Notes and the annual amortization payment of $25 for the Series 97-2 amortizing revenue bonds.

Subsequent to February 28, 2018, the Company entered into a lease for its head office premises. Lease payments will commence in fiscal 2023, with a total commitment of $127 over a twenty year term including estimated operating costs. The lease agreement provides for renewal options for periods up to fifteen years.