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Unaudited Interim Condensed Consolidated Financial Statements of

NAV CANADA

Three and six months ended February 28, 2021 and February 29, 2020

NAV CANADA

Interim Condensed Consolidated Statements of Operations (unaudited)

(millions of Canadian dollars)

	Notes	Three months ended February 28 2021	Three months ended February 29 2020	Six months ended February 28 2021	Six months ended February 29 2020
Revenue					
Customer service charges	3	$ 177	$ 309	$ 366	$ 657
Other revenue		2	13	15	29
		179	322	381	686
Operating expenses					
Salaries and benefits	4	210	277	413	542
Technical services		41	37	79	66
Facilities and maintenance		14	18	29	36
Depreciation and amortization	6, 7	38	39	78	76
Other		14	16	27	36
		317	387	626	756
Other (income) and expenses					
Finance income		(3)	(5)	(7)	(9)
Net interest expense relating to employee benefits		13	16	27	31
Other finance costs		24	17	47	37
Other (gains) and losses		6	(3)	4	(3)
		40	25	71	56
Net loss before income tax and net movement in regulatory deferral accounts		(178)	(90)	(316)	(126)
Income tax expense		2	-	2	-
Net loss, before net movement in regulatory deferral accounts		(180)	(90)	(318)	(126)
Net movement in regulatory deferral accounts related to net loss, net of tax	5	123	40	191	79
Net loss, after net movement in regulatory deferral accounts	1	$ (57)	$ (50)	$ (127)	$ (47)

See accompanying notes to unaudited interim condensed consolidated financial statements.

NAV CANADA

Interim Condensed Consolidated Statements of Comprehensive Loss (unaudited)

(millions of Canadian dollars)

	Notes	Three months ended February 28 2021	Three months ended February 29 2020	Six months ended February 28 2021	Six months ended February 29 2020
Net loss, after net movement in regulatory deferral accounts		$ (57)	$ (50)	$ (127)	$ (47)
Other comprehensive income (loss)					
Items that will not be reclassified to income or (loss):					
Re-measurements of employee defined benefit plans	8	647	-	647	-
Net movement in regulatory deferral accounts related to other comprehensive income	5	(647)	-	(647)	-
		-	-	-	-
Items that will be reclassified to income or (loss):					
Amortization of loss on cash flow hedges		1	1	1	1
Net movement in regulatory deferral accounts related to other comprehensive income		(1)	(1)	(1)	(1)
		-	-	-	-
Total other comprehensive income (loss)		-	-	-	-
Total comprehensive loss	1	$ (57)	$ (50)	$ (127)	$ (47)

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 2021	August 31 2020
Assets			
Current assets			
Cash and cash equivalents		$ 498	$ 689
Accounts receivable and other		54	77
Investments		148	218
Other		14	9
		714	993
Non-current assets			
Property, plant and equipment	6	723	740
Intangible assets	7	845	874
Investment in preferred interests		334	336
Long-term receivables		51	1
Investment in equity-accounted investee		7	7
Employee benefits	8	4	4
Other non-current assets		3	3
		1,967	1,965
Total assets		2,681	2,958
Regulatory deferral account debit balances	5	1,649	2,112
Total assets and regulatory deferral account debit balances		$ 4,330	$ 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	February 28 2021	August 31 2020
Liabilities			
Current liabilities			
Bank loan		$ -	$ 223
Trade and other payables		208	262
Current portion of long-term debt	9	25	275
Deferred revenue		15	11
Other current liabilities		7	6
		255	777
Non-current liabilities			
Employee benefits	8	1,459	2,042
Long-term debt	9	2,511	2,013
Deferred tax liability		22	21
Lease liability		2	3
Other non-current liabilities		1	2
		3,995	4,081
Total liabilities		4,250	4,858
Equity			
Retained earnings (deficit)		(99)	28
Total equity		(99)	28
Total liabilities and equity		4,151	4,886
Regulatory deferral account credit balances	5	179	184
Commitments	11		
Total liabilities, equity and regulatory deferral account credit balances		$ 4,330	$ 5,070

See accompanying notes to unaudited interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Changes in Equity (unaudited)

(millions of Canadian dollars)

	Retained earnings (deficit)	Accumulated other comprehensive income	Total
Balance August 31, 2019	$ 28	$ -	$ 28
Net loss, after net movement in regulatory deferral accounts	(47)	-	(47)
Other comprehensive income (loss)	-	-	-
Balance February 29, 2020	$ (19)	$ -	$ (19)
Balance August 31, 2020	$ 28	$ -	$ 28
Net loss, after net movement in regulatory deferral accounts	(127)	-	(127)
Other comprehensive income (loss)	-	-	-
Balance February 28, 2021	$ (99)	$ -	$ (99)

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 2021	Three months ended February 29 2020	Six months ended February 28 2021	Six months ended February 29 2020
Cash flows from (used in):					
Operating					
Receipts from customer service charges		$ 155	$ 316	$ 310	$ 669
Other receipts		17	26	28	36
Government grants received	4	26	-	58	-
Payments to employees and suppliers		(266)	(281)	(534)	(557)
Pension contributions - current service	8	(26)	(21)	(60)	(46)
Other post-employment payments		(4)	(2)	(6)	(4)
Interest payments		(20)	(19)	(46)	(36)
Interest receipts		-	-	1	1
		(118)	19	(249)	63
Investing					
Capital expenditures		(20)	(43)	(38)	(80)
Proceeds from sale of property, plant and equipment		-	-	4	-
Short-term loan		-	1	-	-
Proceeds from maturity of short-term investments		70	-	70	-
		50	(42)	36	(80)
Financing					
Net proceeds from issuance of long-term debt	9	498	-	498	-
Repayment of long-term debt	9	(250)	-	(250)	-
Net proceeds from (repayment of) bank loans		-	44	(223)	36
Payment of lease liabilities		(1)	-	(2)	(1)
		247	44	23	35
Cash flows from (used in) operating, investing and financing activities		179	21	(190)	18
Effect of foreign exchange on cash and cash equivalents		(1)	-	(1)	-
Increase (decrease) in cash and cash equivalents		178	21	(191)	18
Cash and cash equivalents at beginning of period		320	27	689	30
Cash and cash equivalents at end of period		$ 498	$ 48	$ 498	$ 48

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. These interim financial statements of NAV CANADA include the accounts of its subsidiaries.

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 were authorized for issue by the Board on April 8, 2021.

(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). This demand pattern was principally a result of the higher number of leisure travellers and their preference for travel in the summer months. The COVID-19 pandemic and the resulting economic contraction continues to have a significant negative impact on global air traffic and the aviation industry; therefore, the normal seasonality pattern is not expected to occur in the fiscal year ending August 31, 2021 (fiscal 2021). The pandemic is expected to continue to have a negative impact on air travel domestically and globally until such time as travel restrictions are eased, airline passenger concerns about air travel due to COVID-19 subside, and consumer demand for air travel returns.

The Company continues to review, monitor and take actions to reduce capital and operating 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 of its employees.

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 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.

(millions of Canadian dollars)

2. Basis of presentation (continued)

(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.

(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		Six months ended	
	February 28 2021	February 29 2020	February 28 2021	February 29 2020
Enroute (1)	$ 96	$ 150	$ 200	$ 332
Terminal (2)	64	126	133	258
Daily / annual / quarterly (3)	5	21	10	43
North Atlantic and international communication (4)	12	12	23	24
	$ 177	$ 309	$ 366	$ 657

(millions of Canadian dollars)

3. Revenue (continued)

Air traffic volumes, 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 57.4% year over year. Excluding the effect of an extra day for the leap year ending August 31, 2020 (fiscal 2020), air traffic volumes in the first six months of fiscal 2021 decreased 57.2%. The significant decrease in air traffic volumes 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 2020.

(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		Six months ended	
	February 28 2021	February 29 2020	February 28 2021	February 29 2020
Salaries and other	$ 161	$ 205	$ 324	$ 410
Government grant (1)	(16)	-	(58)	-
Severance and termination costs (2)	(1)	-	29	-
Fringe benefits (excluding pension)	22	25	32	39
Pension current service cost	50	56	101	112
Less: capitalized salaries and benefits	(6)	(9)	(15)	(19)
	$ 210	$ 277	$ 413	$ 542

(1) Receipts under the Canada Emergency Wage Subsidy program, which the Company started to receive beginning May 2020, have been recorded as a reduction to Salaries and benefits expenses. During the three and six months ended February 28, 2021, the Company recognized $16 and $58, respectively, as a reduction to Salaries and benefits in the interim condensed consolidated statements of operations (interim statements of operations).

(millions of Canadian dollars)

4. Salaries and benefits (continued)

(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. During the three and six months ended February 28, 2021, an adjustment of $1 and costs of $29, respectively, associated with the workforce reductions were recognized. The costs related mainly to severance and termination. As at February 28, 2021, $8 has been paid.

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	February 28 2021
Regulatory deferral account debit balances				
Rate stabilization account (b)	$ 255	$ 123	$ -	$ 378
Derivatives	4	(1)	-	3
Deferred income tax	21	1	-	22
Employee benefits:				
Accumulating sick leave	23	-	-	23
Other post-employment benefits re-measurements	26	-	(4)	22
Pension contributions (c)	371	62	-	433
Pension re-measurements	1,306	(647)	-	659
Supplemental pension re-measurements	38	-	(2)	36
Realized hedging transaction	68	-	-	68
Allowance for doubtful accounts [1]	-	5	-	5
	$ 2,112	$ (457)	$ (6)	$ 1,649
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)	2	-	(169)
Investment in equity-accounted investee	(4)	-	-	(4)
Realized hedging transaction	(2)	-	-	(2)
Lease offset	(1)	-	-	(1)
	$ (184)	$ 2	$ 3	$ (179)

(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 10 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		Six months ended	
	February 28 2021	February 29 2020	February 28 2021	February 29 2020
Revenue	$ 179	$ 322	$ 381	$ 686
Operating expenses	317	387	626	756
Other (income) and expenses	40	25	71	56
Income tax expense	2	-	2	-
Net loss, before net movement in regulatory deferral accounts	(180)	(90)	(318)	(126)
Net movement in regulatory deferral accounts:				
Rate stabilization adjustments (b)	81	2	123	2
Other regulatory deferral account adjustments:				
Employee benefit pension contributions	36	46	62	88
Other employee benefits	(3)	(2)	(4)	(2)
Investment in preferred interests, before tax	4	(8)	2	(10)
Investment in equity-accounted investee	-	-	-	(1)
Income tax	2	1	2	1
Realized hedging transactions	1	1	1	1
Allowance for doubtful accounts	2	-	5	-
	42	38	68	77
	123	40	191	79
Net loss, after net movement in regulatory deferral accounts	$ (57)	$ (50)	$ (127)	$ (47)

(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 February 28 2021	Three months ended February 29 2020	Six months ended February 28 2021	Six months ended February 29 2020
Rate stabilization account (debit) credit balance, beginning of period	$ (297)	$ 93	$ (255)	$ 93
Variances from planned results:				
Revenue lower than planned	(31)	(10)	(23)	(15)
Operating expenses lower than planned	22	6	38	15
Other (income) and expenses (higher) lower than planned	(7)	1	(5)	(5)
Net movement in other regulatory deferral accounts	8	10	14	21
Total variances from planned results	(8)	7	24	16
Initial approved adjustment (1)	(73)	(9)	(147)	(18)
Net movement in rate stabilization account recorded in net loss	(81)	(2)	(123)	(2)
Rate stabilization account (debit) credit balance, end of period	$ (378)	$ 91	$ (378)	$ 91

(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 at February 28, 2021 is $433 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:

	February 28 2021	August 31 2020
Employee benefit liability	$ (1,058)	$ (1,643)
Less:		
Regulatory deferrals of non-cash adjustments	659	1,306
Benefit contributions less than benefit expense	$ (399)	$ (337)
Regulatory debit balances - recovery of contributions	$ 433	$ 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 $433, 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		Six months ended	
	February 28 2021	February 29 2020	February 28 2021	February 29 2020
Consolidated statements of operations				
Pension current service expense [1]	$ 49	$ 55	$ 99	$ 109
Net interest expense [1]	11	12	22	25
Less: Regulatory deferrals	(36)	(46)	(62)	(88)
	24	21	59	46
Company cash pension contributions				
Going concern current service	24	21	59	46
Regulatory recovery of fiscal 2017 solvency contributions	$ -	$ -	$ -	$ -

[1] For the three and six months ended February 28, 2021, pension current service expense does not include $1 and $2 respectively, related to the Company's unfunded pension plan (three and six months ended February 29, 2020 - $1 and $3, respectively) and net interest expense does not include $1 and $2 respectively, related to the Company's unfunded pension plan (three and six months ended February 29, 2020 - $1 and $2 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	-	-	28	28
Disposal	-	(4)	-	(4)
Transfers	12	20	(32)	-
Balance at February 28, 2021	$ 306	$ 816	$ 120	$ 1,242
Accumulated depreciation				
Balance at August 31, 2020	$ 90	$ 388	$ -	$ 478
Depreciation	12	32	-	44
Disposal	-	(3)	-	(3)
Balance at February 28, 2021	$ 102	$ 417	$ -	$ 519
Carrying amounts				
At August 31, 2020	$ 204	$ 412 [(2)]	$ 124 [(2)]	$ 740
At February 28, 2021	$ 204	$ 399	$ 120	$ 723

(1) Included in Land and buildings is the right-of-use asset related to the Company's head office lease. Depreciation of $1 was recognized during the six months ended February 28, 2021 (six months ended February 29, 2020 - $2). The carrying amount as at February 28, 2021 is $5 (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	-	-	-	10	10
Disposals	-	-	-	(5)	(5)
Transfers	-	4	11	(15)	-
Balance at February 28, 2021	$ 702	$ 202	$ 294	$ 47	$ 1,245
Accumulated amortization					
Balance at August 31, 2020	$ 150	$ 102	$ 114	$ -	$ 366
Amortization	13	9	12	-	34
Balance at February 28, 2021	$ 163	$ 111	$ 126	$ -	$ 400
Carrying amounts					
At August 31, 2020	$ 552	$ 96	$ 169 [1]	$ 57 [1]	$ 874
At February 28, 2021	$ 539	$ 91	$ 168	$ 47	$ 845

(1) Includes reclassification of amounts previously reported.

8. Employee benefits

During the three and six months ended February 28, 2021, the Company recorded a re-measurement gain in Other comprehensive income (loss) related to its funded pension plans of $647 as a result of an increase in the discount rate to 3.2% at February 28, 2021 (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 February 28, 2021, the Company's long-term employee benefits liabilities are $1,459 (August 31, 2020 - $2,042).

(millions of Canadian dollars)

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 February 28, 2021 is $2,536, 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. 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.

	February 28, 2021		
	Amortized Cost	FVTPL	Fair value hierarchy
Financial assets			
Cash and cash equivalents (1)	$ 498	$ -	
Accounts receivable and other	53	-	
Current investments			
Short-term investments (2)	75	-	
Debt service reserve fund	73	-	
Investment in preferred interests (3)	-	334	Level 3
Long-term receivables (4)	51	-	
Other non-current assets			
Related party loan receivable	3	-	
	$ 753	$ 334	
Financial liabilities			
Trade and other payables			
Trade payables and accrued liabilities	$ 206	$ -	
Other current liabilities			
Derivative liabilities (5)	-	4	Level 2
Long-term debt (including current portion)			
Bonds and notes payable (6)	2,536	-	Level 2
	$ 2,742	$ 4	

(millions of Canadian dollars)

10. 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 [(2)]	145	-	
Debt service reserve fund	73	-	
Investment in preferred interests [(3)]	-	336	Level 3
Long-term receivables	1	-	
Other non-current assets			
Related party loan receivable	3	-	
	$ 984	$ 336	
Financial liabilities			
Bank loan [(7)]	$ 223	$ -	
Trade and other payables			
Trade payables and accrued liabilities	255	-	
Other current liabilities			
Derivative liabilities [(5)]	-	3	Level 2
Long-term debt (including current portion)			
Bonds and notes payable [(6)]	2,288	-	Level 2
Other non-current liabilities			
Long-term derivative liabilities [(5)]	-	1	
	$ 2,766	$ 4	

(1) As at February 28, 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) Short term investments are instruments invested in Canadian government T-bills, earning fixed rates of interests, averaging 0.25%, with an original maturity of more than three months.

(3) This instrument is recorded at fair value based on the valuation technique described in note 12 of the 2020 annual consolidated financial statements.

(4) Long-term receivables are deferred payments related to the September 1, 2020 service charge increase as described in note 10 (b).

(5) 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.

(6) The fair value of the Company's bonds and notes payable are classified as Level 2 in the fair value hierarchy as they are determined using secondary market asking prices at the reporting date. As at February 28, 2021, the fair value was $2,720 (August 31, 2020 - $2,659), inclusive of accrued interest of $27 (August 31, 2020 - $27).

(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.

(millions of Canadian dollars)

10. Financial instruments and financial risk management (continued)

Summary of financial instruments (continued)

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

Level 3 financial instruments

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

	Investment in preferred interests
Fair value as at August 31, 2020	$ 336
Net increase in fair value [(1)]	6
Effect of foreign exchange [(2)]	(8)
Fair value as at February 28, 2021	$ 334

[(1)] Net increase in fair value includes accrued dividend income and is included in Finance income 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)	$ (38)	$ 51
Risk-adjusted discount rate (1% movement (100 basis points))	$ (38)	$ 38

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 six months ended February 28, 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 six months ended February 28, 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 February 28, 2021, a 100 basis point change in variable interest rates would result in an annual difference of approximately $6 in the Company's earnings before rate stabilization adjustments (August 31, 2020 - $1).

10. Financial instruments and financial risk management (continued)

Financial risk management (continued)

(b) 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 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 $2 and $6 during the three and six months ended February 28, 2021.

(c) Liquidity risk

During the six months ended February 28, 2021, the Company repaid net borrowing of $223 under its syndicated credit facility, increasing the credit facilities available for unrestricted use to $573 (August 31, 2020 - $350).

Separate from the Company's syndicated credit facility are letter of credit facilities for pension funding purposes which increased to $593 as at February 28, 2021 (August 31, 2020 - $540). As at February 28, 2021, $539 was drawn for pension solvency funding purposes.

(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 and lease liabilities as at February 28, 2021:

	Remaining payments – for years ending August 31						
	Total	2021	2022	2023	2024	2025	Thereafter
Trade payables and accrued liabilities	$ 180	$ 180	$ -	$ -	$ -	$ -	$ -
Derivative liabilities	4	4	-	-	-	-	-
Long-term debt (including current portion) (1), (2)	2,550	25	25	25	225	25	2,225
Interest payments (2)	1,450	39	82	80	78	75	1,096
Capital commitments	128	51	18	11	12	8	28
Lease liability	5	2	3	-	-	-	-
Future lease liability (3)	59	-	-	2	3	3	51
Related party loan (4)	14	14	-	-	-	-	-
	$ 4,390	$ 315	$ 128	$ 118	$ 318	$ 111	$ 3,400

(1) Payments represent principal of $2,550. 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 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 $11 U.S. ($14 CDN).