Unaudited Interim Condensed Consolidated Financial Statements of

NAV CANADA

Three and nine months ended May 31, 2017 and 2016

NAV CANADA

Interim Condensed Consolidated Statements of Operations (unaudited)

(millions of Canadian dollars)

	Notes	Three months ended May 31 2017	Three months ended May 31 2016	Nine months ended May 31 2017	Nine months ended May 31 2016
Revenue					
Customer service charges		$ 319	$ 326	$ 918	$ 945
Other revenue		13	11	42	43
		332	337	960	988
Operating expenses					
Salaries and benefits	3	249	220	696	638
Technical services		27	29	83	87
Facilities and maintenance		17	17	53	50
Depreciation and amortization	10, 11	37	36	110	106
Other		18	17	55	41
		348	319	997	922
Other (income) and expenses					
Finance income	4	(4)	(5)	(39)	(15)
Net interest costs relating to employee benefits	9	14	10	41	31
Other finance costs	12	19	22	70	72
Other (gains) and losses	5	(13)	7	(19)	1
		16	34	53	89
Net income (loss) before income tax and net movement in regulatory deferral accounts		(32)	(16)	(90)	(23)
Income tax expense		3	-	9	1
Net income (loss) before net movement in regulatory deferral accounts		(35)	(16)	(99)	(24)
Net movement in regulatory deferral accounts related to net income (loss), net of tax	6	27	8	57	(25)
Net income (loss) after net movement in regulatory deferral accounts		$ (8)	$ (8)	$ (42)	$ (49)

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 May 31 2017	Three months ended May 31 2016	Nine months ended May 31 2017	Nine months ended May 31 2016
Net income (loss) after net movement in regulatory deferral accounts		$ (8)	$ (8)	$ (42)	$ (49)
Other comprehensive income (loss)					
Items that will not be reclassified to income or (loss):					
Re-measurements of employee defined benefit plans	9	(219)	(155)	257	(177)
Net movement in regulatory deferral accounts related to other comprehensive income	6	219	155	(257)	177
		-	-	-	-
Items that will be reclassified to income or (loss):					
Amortization of loss on cash flow hedge to net income (loss)		-	-	1	-
Changes in fair value of cash flow hedges		(6)	6	30	(68)
Net movement in regulatory deferral accounts related to other comprehensive income	6	6	(6)	(31)	68
		-	-	-	-
Total other comprehensive income (loss)		-	-	-	-
Total comprehensive income (loss)		$ (8)	$ (8)	$ (42)	$ (49)

See accompanying notes to unaudited interim condensed consolidated financial statements.

NAV CANADA

Interim Condensed Consolidated Statements of Financial Position (unaudited)

(millions of Canadian dollars)

	Notes	May 31 2017	August 31 2016
Assets			
Current assets			
Cash and cash equivalents		$ 218	$ 119
Accounts receivable and other		95	107
Investments	13	95	373
Other		11	10
		419	609
Non-current assets			
Investment in preferred interests	7, 13	342	291
Investment in equity-accounted investee	8	8	-
Property, plant and equipment	10	672	664
Intangible assets	11	933	953
Other non-current assets		5	-
		1,960	1,908
Total assets		2,379	2,517
Regulatory deferral account debit balances	6	1,433	1,708
Total assets and regulatory deferral account debit balances		$ 3,812	$ 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	May 31 2017	August 31 2016
Liabilities			
Current liabilities			
Trade and other payables		$ 201	$ 202
Deferred revenue		5	6
Current portion of long-term debt	12	375	25
		581	233
Non-current liabilities			
Long-term debt	12	1,220	1,694
Employee benefits	9	1,516	1,694
Deferred tax liability	7	53	45
Derivative liability		21	54
Other non-current liabilities		2	1
		2,812	3,488
Total liabilities		3,393	3,721
Equity			
Retained earnings (deficit)		(14)	28
Total equity		(14)	28
Total liabilities and equity		3,379	3,749
Regulatory deferral account credit balances	6	433	476
Commitments	14		
Total liabilities, equity and regulatory deferral account credit balances		$ 3,812	$ 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	(49)	-	(49)
Other comprehensive income (loss)	-	-	-
Balance May 31, 2016	$ (21)	$ -	$ (21)
Balance August 31, 2016	$ 28	$ -	$ 28
Net income (loss) and net movement in regulatory deferral accounts	(42)	-	(42)
Other comprehensive income (loss)	-	-	-
Balance May 31, 2017	$ (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)

	Notes	Three months ended May 31 2017	Three months ended May 31 2016	Nine months ended May 31 2017	Nine months ended May 31 2016
Cash flows from:					
Operations					
Receipts from customer service charges		$ 308	$ 313	$ 923	$ 959
Other receipts		23	12	47	40
Commodity tax refund		-	-	3	4
Payments to employees and suppliers		(264)	(243)	(755)	(714)
Pension contributions - current service	9	(21)	(21)	(66)	(67)
Pension contributions - solvency deficiency	9	(24)	-	(24)	-
Pension contributions - special payments	9	(3)	(7)	(3)	(21)
Other post-employment contributions		(1)	(2)	(5)	(5)
Interest payments		(21)	(25)	(65)	(75)
Interest receipts		2	1	3	3
		(1)	28	58	124
Investing					
Capital expenditures		(37)	(30)	(97)	(93)
Investment in preferred interests	7	-	-	(16)	-
Proceeds from sale of investment in subsidiary	8	4	-	4	-
Income tax payment on investment in preferred interests		-	-	(5)	-
Recoverable input tax payments on termination of cross border transaction		-	-	-	26
Proceeds from asset-backed commercial paper trusts	13	1	-	293	2
		(32)	(30)	179	(65)
Financing					
Issuance of medium term notes		-	-	-	248
Repayment of medium term notes	12	(25)	(25)	(25)	(475)
Redemption of medium term notes	12	-	-	(110)	-
Net proceeds from bank loans		-	40	-	40
Disbursements from settlement of derivatives		-	-	-	(51)
Debt service reserve fund		-	-	-	20
		(25)	15	(135)	(218)
Cash flows from operating, investing and financing activities		(58)	13	102	(159)
Effect of foreign exchange on cash and cash equivalents		-	-	(3)	1
Increase (decrease) in cash and cash equivalents		(58)	13	99	(158)
Cash and cash equivalents at beginning of period		276	59	119	230
Cash and cash equivalents at end of period		$ 218	$ 72	$ 218	$ 72

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 6.

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 July 13, 2017.

2. Basis of presentation (continued):

(b) Basis of measurement:

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

- financial instruments that are classified and designated as 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.

(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:

Except as described below, 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.

In April 2017, the Company sold a portion of its investment in Searidge Technologies Inc. (Searidge) which is owned through NAV CANADA ATM Inc. As a result of the sale, the Company now owns 50% (August 31, 2016 – 70%) of the issued and outstanding shares of Searidge.

The Company has classified its investment in Searidge as an investment in a joint venture. A joint venture exists when there is a contractual arrangement that establishes joint control over its activities and requires unanimous consent of the parties sharing control for strategic financial and operating decisions, and where the parties have rights to the net assets of the arrangement.

Interests in joint ventures are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the participant's share of the net income (loss) and other comprehensive income of equity-accounted investees, until the date on which joint control ceases. The Company's investment in the equity-accounted investee is reduced for distributions received during the fiscal year.

If the Company's share of losses of the equity-accounted investee equals or exceeds its interest in the equity-accounted investee, the Company discontinues recognizing its share of further losses. Additional losses are provided for, and a liability is recognized only to the extent the Company has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investee.

(millions of Canadian dollars)

2. Basis of presentation (continued):

(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* (IFRS 9) and expects to early adopt the requirements of the new standard with a date of initial application of September 1, 2017, applying all of the requirements of IFRS 9 retrospectively (prospectively for hedging requirements) without restatement of comparatives. While the adoption of IFRS 9 is expected to change the classification of several of the Company's financial instruments, the changes in classification are not expected to result in any changes in measurement. The new impairment guidelines are expected to impact the Company's carrying value of financial assets at amortized cost. The impact of the loss allowance is currently being quantified but is not expected to be material. The Company also expects to increase disclosures related to its hedging relationships. These assessments were made based on an analysis of the Company's financial instruments as at May 31, 2017 and the facts and circumstances that existed at that date. As facts and circumstances may change during the period leading up to the initial date of application, the assessment of the potential impacts is subject to change.

The Company is in the process of assessing the anticipated impact of IFRS 15 *Revenue from Contracts with Customers* on its consolidated financial statements. The Company has formed a project team to evaluate and implement the standard and has begun a detailed review of its current contracts under the standard's five-step model.

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.

3. Salaries and benefits:

Salaries and benefits expenses were comprised of the following:

	Three months ended		Nine months ended	
	May 31 2017	May 31 2016	May 31 2017	May 31 2016
Salaries and other (excluding curtailment loss)	$ 185	$ 173	$ 530	$ 505
Curtailment loss (note 9)	9	-	9	-
Fringe benefits (excluding pension)	22	21	54	52
Pension current service cost	44	37	132	109
Less: capitalized salaries and benefits	(11)	(11)	(29)	(28)
	$ 249	$ 220	$ 696	$ 638

(millions of Canadian dollars)

4. Finance income:

Finance income was comprised of the following:

	Three months ended		Nine months ended	
	May 31 2017	May 31 2016	May 31 2017	May 31 2016
Interest income on other financial assets classified as loans and receivables (L&R)	$ -	$ -	$ (1)	$ (1)
Interest income on financial assets classified as AFS	(1)	(1)	(1)	(1)
Net change in fair value of financial assets classified as FVTPL	(3)	(4)	(37)	(13)
	$ (4)	$ (5)	$ (39)	$ (15)

5. Other gains and losses:

Other gains and losses was comprised of the following:

	Three months ended		Nine months ended	
	May 31 2017	May 31 2016	May 31 2017	May 31 2016
Foreign exchange (gains) and losses	$ (6)	$ 7	$ (12)	$ 1
Realized gain on sale of investment in subsidiary	(2)	-	(2)	-
Unrealized gain on sale of investment in subsidiary	(5)	-	(5)	-
	$ (13)	$ 7	$ (19)	$ 1

(millions of Canadian dollars)

6. 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	May 31 2017
Regulatory deferral account debit balances				
Derivatives	$ 54	$ (33)	$ -	$ 21
Deferred income tax	45	9	-	54
Employee benefits:				
Accumulating sick leave	30	-	(1)	29
Other post-employment benefits re-measurements	38	9	(1)	46
Pension re-measurements	1,482	(285)	-	1,197
Supplemental pension re-measurements	7	28	-	35
Realized hedging transaction	52	(1)	-	51
	$ 1,708	$ (273)	$ (2)	$ 1,433
Regulatory deferral account (credit) balances				
Rate stabilization account	$ (169)	$ (37)	$ 29	$ (177)
Derivatives	(3)	3	-	-
Employee benefits:				
Pension contributions [1]	(136)	89	-	(47)
Long-term disability contributions	-	-	(2)	(2)
Change in the fair value of the investment in preferred interests	(162)	(35)	-	(197)
Investment in equity-accounted investee	-	(5)	-	(5)
Realized hedging transaction	(6)	-	1	(5)
	$ (476)	$ 15	$ 28	$ (433)

(1) Included in the regulatory deferral related to pension contributions of $89, is $24 of solvency contributions which are expected to be recovered by the fiscal year ending August 31, 2020.

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)

6. 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		Nine months ended	
	May 31 2017	May 31 2016	May 31 2017	May 31 2016
Before net movement in regulatory deferral accounts:				
Revenue	$ 332	$ 337	$ 960	$ 988
Operating expenses	348	319	997	922
Other (income) and expenses	16	34	53	89
Income tax expense	3	-	9	1
	(35)	(16)	(99)	(24)
Net movement in regulatory deferral accounts:				
Rate stabilization adjustments:				
Favourable variances from planned results	(8)	(9)	(37)	(33)
Initial approved adjustment [1]	10	(7)	29	(23)
	2	(16)	(8)	(56)
Other regulatory deferral account adjustments:				
Employee benefit pension contributions	27	19	89	40
Other employee benefits	8	(1)	5	(4)
Investment in preferred interests, before tax	(8)	6	(34)	(7)
Investment in equity-accounted investee	(5)	-	(5)	-
Income tax	3	-	9	1
Realized hedging transactions	-	-	1	1
	25	24	65	31
	27	8	57	(25)
Net income (loss), after rate stabilization and regulatory deferral account adjustments	$ (8)	$ (8)	$ (42)	$ (49)

[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 evenly throughout the fiscal year.

(millions of Canadian dollars)

7. 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. ($203 CDN) by calendar year 2017. As at May 31, 2017, the Company has invested $135 U.S. ($182 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 May 31, 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:

	May 31 2017	August 31 2016
Current assets		
Accounts receivable	$ 5	$ -
Derivative assets and other	-	3
Investment in preferred interests	342	291
Deferred tax liability	(53)	(45)
Financial position impact of the investment in preferred interests of Aireon before regulatory accounting	$ 294	$ 249
Regulatory deferral account debit balances		
Deferred regulatory income tax liability	53	45
	$ 53	$ 45
Regulatory deferral account credit balances		
Cumulative change in fair value of the investment in preferred interests	$ (197)	$ (162)
Unrealized fair value gain on foreign exchange hedging transaction	-	$ (3)
	$ (197)	$ (165)
Net financial position impact of the investment in preferred interest of Aireon after regulatory accounting	$ 150	$ 129

(millions of Canadian dollars)

7. 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 May 31, 2017, May 31, 2016 and August 31, 2016 information presented below is based on Aireon's financial position and financial performance as at March 31, 2017, March 31, 2016 and June 30, 2016, respectively. All amounts are translated from U.S. dollars. 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 nine months ended May 31, 2017 and 2016 and the year ended August 31, 2016.

	May 31 2017	August 31 2016
Current assets		
Cash and cash equivalents	$ 57	$ 39
Prepaid expenses and other current assets	11	-
Non-current assets		
Property, plant and equipment	488	368
	$ 556	$ 407
Current liabilities		
Trade and other payables	$ (5)	$ (8)
Non-current liabilities		
Financial liabilities	(648)	(465)
	$ (653)	$ (473)
Net assets	$ (97)	$ (66)

	Three months ended		Nine months ended	
	May 31 2017	May 31 2016	May 31 2017	May 31 2016
Interest expense	$ 3	$ 2	$ 7	$ 6
Net loss	$ (9)	$ (6)	$ (9)	$ (22)
Other comprehensive income (loss)	1	4	(3)	1
Total comprehensive income (loss)	$ (8)	$ (2)	$ (12)	$ (21)

(millions of Canadian dollars)

8. Investment in equity-accounted investee:

Searidge is a privately-held corporation that provides software development and technology solutions in support of the air traffic control and airport operations market.

On April 28, 2017, the Company sold a portion of its investment in Searidge for proceeds of $4. As a result of the sale, the Company now owns 50% of the issued and outstanding shares of Searidge. The Company previously owned 70% as disclosed in note 3(a)(i) of the 2016 annual consolidated financial statements.

The Company has determined that its 50% interest in Searidge gives rise to joint control based on the contractual terms of the arrangement that requires unanimous consent of all parties involved in key decisions over relevant activities. The Company has classified its investment as a joint venture as the Company has an interest in the net assets of Searidge based on the legal form and substance of the arrangement.

A summary of the accounts of Searidge that were deconsolidated as of April 28, 2017 is as follows:

Receivables and prepayments	$ 5
Property, plant and equipment and intangible assets	5
Accounts payable and accrued liabilities	(5)
Carrying value of interest in Searidge	5
Cash received	4
Fair value of investment in Searidge retained	8
	12
Gain on sale and loss of control	$ 7

As at May 31, 2017, the Company's equity-accounted share in Searidge's comprehensive income is $nil.

(millions of Canadian dollars)

9. Employee benefits:

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

	Three months ended May 31			
	2017	2016	2017	2016
	Pension benefit plans		Other benefit plans	
Statement of operations				
Current service costs	$ 44	$ 37	$ 1	$ 2
Curtailment loss	-	-	9	-
Interest cost	57	58	3	2
Interest income on plan assets	(46)	(50)	-	-
Total expense	$ 55	$ 45	$ 13	$ 4
Statement of other comprehensive income				
Re-measurements:				
Return on plan assets, excluding interest income on plan assets	$ (307)	$ (176)	$ (1)	$ -
Actuarial (gains) losses	515	319	12	12
Total (income) cost recognized in other comprehensive income	$ 208	$ 143	$ 11	$ 12

	Nine months ended May 31			
	2017	2016	2017	2016
	Pension benefit plans		Other benefit plans	
Statement of operations				
Current service costs	$ 132	$ 109	$ 5	$ 4
Curtailment loss	-	-	9	-
Interest cost	171	175	6	6
Interest income on plan assets	(137)	(151)	-	-
Total expense	$ 166	$ 133	$ 20	$ 10
Statement of other comprehensive income				
Re-measurements:				
Return on plan assets, excluding interest income on plan assets	$ (239)	$ (93)	$ (1)	$ -
Actuarial (gains) losses	(18)	260	1	10
Total (income) cost recognized in other comprehensive income	$ (257)	$ 167	$ -	$ 10

(millions of Canadian dollars)

9. Employee benefits (continued):

Net interest costs relating to employee benefits of $41 for the nine months ended May 31, 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.

During the third quarter of fiscal 2017, the Company recorded a curtailment loss on its severance benefits of $9 which is included in salaries and benefits expense. The cash settlement to curtail the severance benefits is to occur in the fiscal year ending August 31, 2018. The curtailment expense results from collective agreement amendments for one of the Company's unions which eliminate future eligibility to the Company's severance plan for represented employees who so elect, cash settlement on a voluntary basis, by August 31, 2017.

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

	Funded plans			
	May 31 2017	February 28 2017	August 31 2016	May 31 2016
Discount rate	3.50%	3.90%	3.40%	3.80%

	Unfunded plans			
	May 31 2017	February 28 2017	August 31 2016	May 31 2016
Discount rate	3.38%	3.74%	3.32%	3.64%

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

	Three months ended		Nine months ended	
	May 31 2017	May 31 2016	May 31 2017	May 31 2016
Funded pension plan	$ 51	$ 29	$ 98	$ 90
Unfunded pension plan	1	-	2	1
Unfunded other defined benefit	1	2	5	5
Less: capitalized amounts	(2)	(1)	(4)	(3)
	$ 51	$ 30	$ 101	$ 93

On a preliminary basis, going concern pension contributions for fiscal 2017 are currently estimated to be $91 (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 May 31, 2017, the Company has put in place letters of credit totaling $476 (representing 8% of registered pension plan assets as at May 31, 2017) to meet its cumulative pension solvency funding requirements. Commencing in April 2017, the Company began funding its remaining calendar 2017 solvency funding requirements of $45 with cash contributions. As at May 31, 2017, solvency contributions of $24 have been made. 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)

9. Employee benefits (continued):

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

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

	May 31 2017	August 31 2016
Present value of funded defined benefit obligations	$ (6,853)	$ (6,720)
Fair value of plan assets	5,727	5,374
Liability for funded defined benefit obligations	(1,126)	(1,346)
Liability for unfunded pension defined benefit obligations	(98)	(69)
Liability for unfunded other defined benefit obligations	(248)	(233)
Recognized liability for defined benefit plans	(1,472)	(1,648)
Long-term employee benefit liabilities	(44)	(46)
Total long-term employee benefit liabilities	$ (1,516)	$ (1,694)

10. 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	-	-	73	73
Derecognition[1]	-	(1)	-	(1)
Transfers	23	36	(59)	-
Balance at May 31, 2017	$ 224	$ 590	$ 87	$ 901
Accumulated depreciation				
Balance at August 31, 2016	$ 26	$ 139	$ -	$ 165
Depreciation	10	55	-	65
Derecognition[1]	-	(1)	-	(1)
Balance at May 31, 2017	$ 36	$ 193	$ -	$ 229
Carrying amounts				
At August 31, 2016	$ 175	$ 416	$ 73	$ 664
At May 31, 2017	$ 188	$ 397	$ 87	$ 672

[1] Derecognition is a result of the deconsolidation of the Company's investment in Searidge. See note 8.

(millions of Canadian dollars)

11. 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	-	-	-	29	-	29
Derecognition[1]	-	-	-	-	(4)	(4)
Transfers	-	6	15	(21)	-	-
Balance at May 31, 2017	$ 702	$ 164	$ 183	$ 41	$ -	$ 1,090
Accumulated amortization						
Balance at August 31, 2016	$ 50	$ 34	$ 28	$ -	$ -	$ 112
Amortization	19	14	12	-	-	45
Balance at May 31, 2017	$ 69	$ 48	$ 40	$ -	$ -	$ 157
Carrying amounts						
At August 31, 2016	$ 652	$ 124	$ 140	$ 33	$ 4	$ 953
At May 31, 2017	$ 633	$ 116	$ 143	$ 41	$ -	$ 933

[1]Derecognition is a result of the deconsolidation of the Company's investment in Searidge. See note 8.

12. 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 Company paid a redemption premium related to the early partial-redemption. This premium of $10 has been expensed in other finance costs for the nine months ended May 31, 2017 in the interim condensed consolidated statement of operations.

The balance of long-term debt as at May 31, 2017 is $1,595, of which $375 is classified as current debt. The amount in current debt relates to the $350 Series MTN 2013-1 General Obligation Notes that mature in April 2018, and the annual amortization payment of $25 for the Series 97-2 amortizing revenue bonds.

(millions of Canadian dollars)

13. 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.

	May 31, 2017				
	L&R	AFS	FVTPL	Other financial liabilities	Fair value hierarchy
Financial assets					
Cash and cash equivalents [1]	$ 218	$ -	$ -	$ -	Level 1
Accounts receivable and other[2]	90	-	-	-	Level 1
Current investments					
Debt service reserve fund	-	95	-	-	Level 1
Other current assets					
Derivative assets[3]	-	-	1	-	Level 2
Investment in preferred interests[4],[5]	-	-	342	-	Level 3
Other non-current assets					
Long-term receivables	2	-	-	-	Level 1
	$ 310	$ 95	$ 343	$ -	
Financial liabilities					
Trade and other payables					
Trade payables and accrued liabilities[2]	$ -	$ -	$ -	$ 199	Level 1
Long-term debt					
Bonds and notes payable[6]	-	-	-	1,595	Level 2
Long-term derivative liabilities[3]	-	-	21	-	Level 2
	$ -	$ -	$ 21	$ 1,794	

(1) Cash and cash equivalents includes $107 of short-term investments.

(2) Only the carrying value of financial instruments within these categories are included.

(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) These financial instruments are designated as FVTPL.

(5) 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.

(6) The fair value of the Company's bonds and notes payable is determined using secondary market ask prices at the reporting date. As at May 31, 2017, the fair value was $1,877 (August 31, 2016 - $2,058), inclusive of accrued interest of $22 (August 31, 2016 - $25).

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

(millions of Canadian dollars)

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

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]	(286)	(7)	-	(293)
Net increase in fair value[3]	-	-	22	22
Net decrease in fair value provision	14	-	-	14
Effect of foreign exchange	-	-	13	13
Fair value as at May 31, 2017	$ -	$ -	$ 342	$ 342

(1) In fiscal 2017, the Company invested an additional $15 U.S. ($16 CDN) in preferred interests of Aireon (see note 7).

(2) In fiscal 2017, the Company received $285 of principal relating to the MAV II notes and $1 related to its investment in other notes, as well as the remaining $7 of principal balance of the restructured asset-backed commercial paper (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 nine months ended May 31, 2017, except as noted below.

(a) Market risk

(i) Interest rate risk:

During the nine months ended May 31, 2017, the Company received the remaining principal relating to its investments in MAV II notes, investments in other notes, and the remaining 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 May 31, 2017 are $313. 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 $3 in the Company's earnings before rate stabilization adjustments.

(millions of Canadian dollars)

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

As discussed in note 12, during the nine months ended May 31, 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:

	May 31 2017		August 31 2016	
	CDN	USD	CDN	USD
Financial assets				
Current				
Cash and cash equivalents	$ -	$ -	$ 18	$ 14
Accounts receivable and other	5	4	8	6
Other				
Derivative assets	1	1	-	-
Non-current				
Investment in preferred interests	342	253	291	222
Long-term receivable	1	1	-	-
	$ 349	$ 259	$ 317	$ 242
Financial liabilities				
Current				
Trade and other payables	$ 1	$ 1	$ 1	$ 1
Net exposure	$ 348	$ 258	$ 316	$ 241

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 May 31, 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 on July 5, 2017. The Company intends to hold the cash upon maturity of the hedge until the fifth tranche investment is made. This payment is expected to be made by July 31, 2017.

The foreign exchange rate sensitivity on the Company's financial instruments is the net amount of foreign exchange rate exposure of the items at the reporting date, less foreign currency hedges. As at May 31, 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 $35 (August 31, 2016 - $29).

(iii) Other price risk:

As discussed in note 7, 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 $342 as at May 31, 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 May 31, 2017 (August 31, 2016 - $10 U.S. ($13 CDN)).

(millions of Canadian dollars)

14. 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 May 31, 2017:

	Remaining payments – for years ending August 31						
	Total	2017	2018	2019	2020	2021	Thereafter
Trade payables and accrued liabilities	$ 177	$ 177	$ -	$ -	$ -	$ -	$ -
Derivative liabilities	21	-	-	21	-	-	-
Long-term debt (including current portion) (1), (2)	1,600	-	375	275	25	275	650
Interest payments (2)	628	16	77	69	53	46	367
Capital commitments (3)	155	46	49	13	15	6	26
Operating leases	39	2	8	7	7	6	9
Investment in preferred interests of Aireon (4)	20	-	20	-	-	-	-
	$ 2,640	$ 241	$ 529	$ 385	$ 100	$ 333	$ 1,052

(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 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 $155 as at May 31, 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. This payment is expected to be made by July 31, 2017.