Unaudited Interim Condensed Consolidated Financial Statements of

# NAV CANADA

Three and nine months ended May 31, 2018 and 2017

## NAV CANADA

**Interim Condensed Consolidated Statements of Operations (unaudited)**

(millions of Canadian dollars)

| | Notes | Three months ended May 31 2018 | Three months ended May 31 2017 | Nine months ended May 31 2018 | Nine months ended May 31 2017 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Customer service charges | | $ 334 | $ 319 | $ 962 | $ 918 |
| Other revenue | | 15 | 13 | 39 | 42 |
| | | 349 | 332 | 1,001 | 960 |
| **Operating expenses** | | | | | |
| Salaries and benefits | | 256 | 249 | 731 | 696 |
| Technical services | | 30 | 27 | 86 | 83 |
| Facilities and maintenance | | 17 | 17 | 54 | 53 |
| Depreciation and amortization | 6, 7 | 39 | 37 | 114 | 110 |
| Other | | 19 | 18 | 56 | 55 |
| | | 361 | 348 | 1,041 | 997 |
| **Other (income) and expenses** | | | | | |
| Finance income | | (44) | (4) | (53) | (39) |
| Net interest costs relating to employee benefits | 5 | 14 | 14 | 41 | 41 |
| Other finance costs | | 20 | 19 | 58 | 70 |
| Other (gains) and losses | | (4) | (13) | (12) | (19) |
| | | (14) | 16 | 34 | 53 |
| Net income (loss) before income tax and net movement in regulatory deferral accounts | | 2 | (32) | (74) | (90) |
| Income tax (recovery) expense | 4 | 10 | 3 | (9) | 9 |
| **Net loss before net movement in regulatory deferral accounts** | | (8) | (35) | (65) | (99) |
| Net movement in regulatory deferral accounts related to net income (loss), net of tax | 3 | - | 27 | 15 | 57 |
| **Net loss after net movement in regulatory deferral accounts** | 1 | $ (8) | $ (8) | $ (50) | $ (42) |

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 2018 | Three months ended May 31 2017 | Nine months ended May 31 2018 | Nine months ended May 31 2017 |
|---|---|---|---|---|---|
| **Net loss after net movement in regulatory deferral accounts** | | $ (8) | $ (8) | $ (50) | $ (42) |
| **Other comprehensive income (loss)** | | | | | |
| **Items that will not be reclassified to income or (loss):** | | | | | |
| Re-measurements of employee defined benefit plans | 5 | - | (219) | 100 | 257 |
| Net movement in regulatory deferral accounts related to other comprehensive income | 3 | - | 219 | (100) | (257) |
| | | - | - | - | - |
| **Items that will be reclassified to income or (loss):** | | | | | |
| Amortization of loss on cash flow hedge | | - | - | 1 | 1 |
| Changes in fair value of cash flow hedges | | (4) | (6) | 4 | 30 |
| Net movement in regulatory deferral accounts related to other comprehensive income | 3 | 4 | 6 | (5) | (31) |
| | | - | - | - | - |
| **Total other comprehensive income (loss)** | | - | - | - | - |
| **Total comprehensive loss** | 1 | $ (8) | $ (8) | $ (50) | $ (42) |

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 2018 | August 31 2017 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | $ 28 | $ 222 |
| Accounts receivable and other | | 97 | 107 |
| Investments | 9 | 71 | 95 |
| Other | | 9 | 11 |
| | | 205 | 435 |
| **Non-current assets** | | | |
| Investment in preferred interests | 4, 9 | 412 | 350 |
| Related party loans receivable | 4, 9 | 12 | 2 |
| Employee benefits | 5 | 7 | 11 |
| Investment in equity-accounted investee | | 7 | 7 |
| Property, plant and equipment | 6 | 712 | 705 |
| Intangible assets | 7 | 931 | 930 |
| Other non-current assets | | 1 | 1 |
| | | 2,082 | 2,006 |
| **Total assets** | | 2,287 | 2,441 |
| Regulatory deferral account debit balances | 3 | 1,428 | 1,475 |
| **Total assets and regulatory deferral account debit balances** | | $ 3,715 | $ 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 | May 31 2018 | August 31 2017 |
|---|---|---|---|
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Bank loan | 9 | $ 40 | $ - |
| Trade and other payables | | 216 | 229 |
| Derivative liabilities | | 6 | 1 |
| Deferred revenue | | 7 | 6 |
| Customer service charges refund payable | | - | 60 |
| Current portion of long-term debt | 8 | 275 | 375 |
| | | 544 | 671 |
| **Non-current liabilities** | | | |
| Long-term debt | 8 | 1,219 | 1,220 |
| Employee benefits | 5 | 1,539 | 1,586 |
| Deferred tax liability | 4 | 48 | 55 |
| Derivative liability | 9 | - | 12 |
| Other non-current liabilities | | 2 | 2 |
| | | 2,808 | 2,875 |
| **Total liabilities** | | 3,352 | 3,546 |
| **Equity** | | | |
| Retained earnings (deficit) | | (22) | 28 |
| **Total equity** | | (22) | 28 |
| **Total liabilities and equity** | | 3,330 | 3,574 |
| Regulatory deferral account credit balances | 3 | 385 | 342 |
| Commitments | 10 | | |
| **Total liabilities, equity and regulatory deferral account credit balances** | | $ 3,715 | $ 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 | (42) | - | (42) |
| Other comprehensive income (loss) | - | - | - |
| **Balance May 31, 2017** | $ (14) | $ - | $ (14) |
| **Balance August 31, 2017** | $ 28 | $ - | $ 28 |
| Net income (loss) and net movement in regulatory deferral accounts | (50) | - | (50) |
| Other comprehensive income (loss) | - | - | - |
| **Balance May 31, 2018** | $ (22) | $ - | $ (22) |

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 2018 | Three months ended May 31 2017 | Nine months ended May 31 2018 | Nine months ended May 31 2017 |
|---|---|---|---|---|---|
| **Cash flows from:** | | | | | |
| **Operations** | | | | | |
| Receipts from customer service charges | | $ 314 | $ 308 | $ 944 | $ 923 |
| Refund of customer service charges | | - | - | (33) | - |
| Other receipts | | 15 | 23 | 40 | 47 |
| Commodity tax refund | | - | - | - | 3 |
| Payments to employees and suppliers | | (276) | (264) | (804) | (755) |
| Pension contributions - current service | 5 | (21) | (21) | (68) | (66) |
| Pension contributions - solvency deficiency | | (1) | (24) | (1) | (24) |
| Pension contributions - special payments | | - | (3) | - | (3) |
| Other post-employment contributions | | (2) | (1) | (5) | (5) |
| Settlement of curtailment severance benefits | 5 | - | - | (42) | - |
| Interest payments | | (20) | (21) | (60) | (65) |
| Interest receipts | | - | 2 | 3 | 3 |
| | | 9 | (1) | (26) | 58 |
| **Investing** | | | | | |
| Capital expenditures | | (39) | (37) | (124) | (97) |
| Investment in preferred interests | | - | - | - | (16) |
| Proceeds from sale of investment in subsidiary | | - | 4 | - | 4 |
| Loans to related parties | | (9) | - | (10) | - |
| Income tax refund (payment) on investment in preferred interests | | - | - | 5 | (5) |
| Proceeds from asset-backed commercial paper trusts | | - | 1 | 1 | 293 |
| Settlement of derivative assets | | - | - | 2 | - |
| | | (48) | (32) | (126) | 179 |
| **Financing** | | | | | |
| Issuance of long-term debt | 8 | 273 | - | 273 | - |
| Repayment of long-term debt | 8 | (375) | (25) | (375) | (25) |
| Redemption of long-term debt | | - | - | - | (110) |
| Net proceeds from bank loans | | 40 | - | 40 | - |
| Disbursements from settlement of derivatives | | (5) | - | (5) | - |
| Debt service reserve fund | 9 | - | - | 25 | - |
| | | (67) | (25) | (42) | (135) |
| **Cash flows from operating, investing and financing activities** | | (106) | (58) | (194) | 102 |
| Effect of foreign exchange on cash and cash equivalents | | - | - | - | (3) |
| **Increase (decrease) in cash and cash equivalents** | | (106) | (58) | (194) | 99 |
| **Cash and cash equivalents at beginning of period** | | 134 | 276 | 222 | 119 |
| **Cash and cash equivalents at end of period** | | $ 28 | $ 218 | $ 28 | $ 218 |

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 July 12, 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 and the changes noted below related to the Company's investment in preferred interests of Aireon LLC (Aireon). The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

In May 2018, an additional major air navigation service provider (ANSP) made an investment in Aireon (note 4). As a result of this investment, the Company's total fully diluted common equity interest on a post-conversion basis is 37.2% (August 31, 2017 – 40.9%). The Company has determined that the structure of its investment in Aireon is no longer a joint venture; however, the Company is able to exert significant influence over the strategy, financial and operating activities of Aireon.

As at May 31, 2018, the Company's share of Aireon's net assets is $nil and therefore the Company's share of Aireon's net income (loss) and other comprehensive income (OCI) is $nil. Until the Company exercises its right to convert its preferred interests to common interests, it does not have access to Aireon's net assets and accordingly this investment continues to be accounted for as a financial instrument.

### (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.

## 2. Basis of presentation (continued):

### (f) Critical accounting estimates and judgments (continued):

Critical judgments and key sources of estimation uncertainty are disclosed in note 2 (d) of the 2017 annual consolidated financial statements, except those impacted by the changes in the Company's investment in preferred interests of Aireon and further discussed below.

(i) Critical judgments:

- As a result of the changes in the Company's investment in preferred interests of Aireon (as described in note 4), the Company no longer has joint control or classifies its investment as a joint arrangement. There are no other critical judgments with respect to the investment in preferred interests of Aireon.

(ii) Key sources of estimates and assumption uncertainties:

- Fair value of investment in preferred interests

  The Company's investment in preferred interests of Aireon is accounted for as a financial instrument and designated as FVTPL. In May 2018, an additional ANSP made an investment in Aireon. The Company used the price paid by that investor (note 4) as a basis to estimate the fair value of Aireon and its investment in the entity through preferred interests in subsequent reporting periods. The measurement is subject to estimation uncertainty and is dependent on the successful achievement of operational, technical and financial objectives by Aireon, as described in notes 4 and 9.

### (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:

<u>IFRS 15 – Revenue from Contracts with Customers</u>

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 2017 annual consolidated financial statements, have been assessed as having a possible effect on the Company in the future:

<u>IAS 28 – Investments in Associates and Joint Ventures</u>

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.

**2. Basis of presentation (continued):**

**(g) Future accounting pronouncements (continued):**

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.

IAS 19 – Employee Benefits

In February 2018, the IASB issued amendments to IAS 19 – *Employee Benefits* clarifying that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period and that the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in OCI. The amendments apply for plan amendments, curtailments or settlements that occur on or after January 1, 2019. Earlier application is permitted.

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, IAS 19 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.

### 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 | May 31 2018 |
|---|---|---|---|---|
| **Regulatory deferral account debit balances** | | | | |
| Derivatives | $ 13 | $ (5) | $ (2) | $ 6 |
| Deferred income tax [1] | 56 | (7) | - | 49 |
| Employee benefits: | | | | |
| Accumulating sick leave | 30 | - | (1) | 29 |
| Other post-employment benefits re-measurements | 41 | 6 | (5) | 42 |
| Pension contributions (a) | - | 77 | (8) | 69 |
| Pension re-measurements | 1,251 | (108) | - | 1,143 |
| Supplemental pension re-measurements | 33 | 2 | - | 35 |
| Realized hedging transaction | 51 | 5 | (1) | 55 |
| | $ 1,475 | $ (30) | $ (17) | $ 1,428 |
| **Regulatory deferral account (credit) balances** | | | | |
| Rate stabilization account | $ (131) | $ 2 | $ 7 | $ (122) |
| Derivatives | - | (5) | 5 | - |
| 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) | (62) | - | (247) |
| Investment in equity-accounted investee | (4) | - | - | (4) |
| Realized hedging transaction | (5) | (2) | 1 | (6) |
| | $ (342) | $ (58) | $ 15 | $ (385) |

[1] The total regulatory deferral of income tax related to the Company's investment in Aireon is $48 as at May 31, 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).

### 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 | | Nine months ended | |
|---|---|---|---|---|
| | May 31 2018 | May 31 2017 | May 31 2018 | May 31 2017 |
| Before net movement in regulatory deferral accounts: | | | | |
| Revenue | $ 349 | $ 332 | $ 1,001 | $ 960 |
| Operating expenses | 361 | 348 | 1,041 | 997 |
| Other (income) and expenses | (14) | 16 | 34 | 53 |
| Income tax (recovery) expense | 10 | 3 | (9) | 9 |
| | (8) | (35) | (65) | (99) |
| Net movement in regulatory deferral accounts: | | | | |
| Rate stabilization adjustments: | | | | |
| Unfavourable (favourable) variances from planned results | 11 | (8) | 2 | (37) |
| Initial approved adjustment [1] | 2 | 10 | 7 | 29 |
| | 13 | 2 | 9 | (8) |
| Other regulatory deferral account adjustments: | | | | |
| Employee benefit pension contributions | 24 | 27 | 78 | 89 |
| Other employee benefits | (2) | 8 | (4) | 5 |
| Investment in preferred interests, before tax | (46) | (8) | (62) | (34) |
| Investment in equity-accounted investee | - | (5) | - | (5) |
| Income tax | 10 | 3 | (7) | 9 |
| Realized hedging transactions | 1 | - | 1 | 1 |
| | (13) | 25 | 6 | 65 |
| | - | 27 | 15 | 57 |
| Net loss, after rate stabilization and regulatory deferral account adjustments | $ (8) | $ (8) | $ (50) | $ (42) |

[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).

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

(a) Pension contributions:

Included in regulatory deferral account debit balances at May 31, 2018 is $69 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:

| | May 31 2018 | August 31 2017 |
|---|---|---|
| Employee benefit liability (note 5) | $ (1,175) | $ (1,198) |
| Less: | | |
| Regulatory deferrals of non-cash adjustments | 1,143 | 1,251 |
| Benefit contributions (less than) in excess of benefit expense | $ (32) | $ 53 |
| Regulatory debit (credit) balances - recovery of contributions | $ 69 | $ (9) |
| Regulatory expense cumulatively less than contributions | $ 37 | $ 44 |

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 $69, is the recovery of $7 of solvency deficiency contributions of $44 paid in fiscal 2017. The remaining balance of $37 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 | | Nine months ended | |
|---|---|---|---|---|
| | May 31 2018 | May 31 2017 | May 31 2018 | May 31 2017 |
| Consolidated statement of operations | | | | |
| Pension current service costs [1] | $ 44 | $ 43 | $ 130 | $ 130 |
| Net finance costs [1] | 10 | 11 | 31 | 33 |
| Less: Regulatory deferrals | (24) | (27) | (78) | (89) |
| | 30 | 27 | 83 | 74 |
| Company cash contributions | | | | |
| Going concern current service | 27 | 24 | 75 | 71 |
| Going concern special payments | - | 3 | - | 3 |
| Solvency deficiency payments | 1 | 24 | 1 | 24 |
| | 28 | 51 | 76 | 98 |
| Regulatory recovery (deferral) of fiscal 2017 solvency contributions | $ 2 | $ (24) | $ 7 | $ (24) |

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

(a) Pension contributions (continued):

(1) For the three months ended May 31, 2018, pension current service costs do not include $1 related to the Company's unfunded pension plan (three months ended May 31, 2017 - $1) and net finance costs do not include $1 related to the Company's unfunded pension plan (three months ended May 31, 2017 - $nil). For the nine months ended May 31, 2018, pension current service costs do not include $3 related to the Company's unfunded pension plan (nine months ended May 31, 2017 - $2) and net finance costs do not include $3 related to the Company's unfunded pension plan (nine months ended May 31, 2017 - $1).

## 4. Investment in preferred interests of Aireon:

In November 2012, the Company entered into agreements (the November 2012 agreements) setting out the terms of its participation in Aireon. Aireon's mandate is to provide global satellite-based surveillance capability for ANSPs around the world through Automatic Dependent Surveillance-Broadcast (ADS-B) receivers built as an additional payload on the Iridium Communication Inc. (Iridium) NEXT satellite constellation. It is expected that Iridium's launch schedule will enable Aireon to commence operations in calendar year 2019.

In December 2013, the November 2012 agreements were amended (the December 2013 agreements) to provide for the making of an aggregate investment of $120 U.S. ($155 CDN) in Aireon by three additional major ANSPs, namely ENAV (Italy), the Irish Aviation Authority (IAA), and Naviair (Denmark).

On May 15, 2018, the December 2013 agreements were amended (the May 2018 agreements) to provide for the making of an additional investment of $69 U.S. ($89 CDN) in Aireon by NATS, the United Kingdom's ANSP.

As at May 31, 2018, the Company's investment in Aireon is $150 U.S. ($194 CDN) (August 31, 2017 - $150 U.S. ($187 CDN)). Following entering into the May 2018 agreements, the Company is represented by five out of the eleven directors on Aireon's board of directors.

In accordance with the May 2018 agreements, a portion of Iridium's existing common equity interest in Aireon will be redeemed for a payment from Aireon of $120 U.S. ($155 CDN) to finalize the ownership interests of all Aireon's investors. Upon this redemption and the related conversion of all preferred interests into common equity interests, NAV CANADA will hold 45.3% of the fully diluted common equity interests of Aireon (51% prior to the NATS investment), ENAV and NATS will each hold 11.1%, and each of IAA and Naviair will hold 5.3%, with the remaining 21.8% being retained by Iridium. This redemption is subject to Aireon's availability of funds and is expected to occur by August 31, 2021.

As at May 31, 2018, the Company's total fully diluted common equity interest on a post conversion basis is 37.2% (August 31, 2017 - 40.9%).

Upon the initial investment by ENAV, IAA and Naviair in February 2014, the price paid by these three investors for preferred interests in Aireon with substantially the same characteristics was considered to be a reliable estimate of the fair value of Aireon. The Company used this valuation to measure the fair value of its investment in Aireon as at August 31, 2017. Following the investment by NATS in May 2018, the Company has used the price paid by NATS for an investment of preferred interests in Aireon to determine the fair value of its investment as at May 31, 2018, as it was determined that this represents the best estimate of fair value (note 9).

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 May 31, 2018 of $38 U.S. ($48 CDN) (August 31, 2017 - $45 U.S. ($55 CDN)) reflects this new rate.

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

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 2018 | August 31 2017 |
|---|---|---|
| Current assets | | |
| Accounts receivable and other | $ - | $ 5 |
| Investment in preferred interests | 412 | 350 |
| Deferred tax liability | (48) | (55) |
| Financial position impact of the investment in preferred interests of Aireon before regulatory accounting | $ 364 | $ 300 |
| Regulatory deferral account debit balances | | |
| Deferred regulatory income tax liability | $ 48 | $ 55 |
| Regulatory deferral account credit balances | | |
| Cumulative change in fair value of the investment in preferred interests | $ (247) | $ (185) |
| Net financial position impact of the investment in preferred interest of Aireon after regulatory accounting | $ 165 | $ 170 |

The net impact on the financial position of the Company's investment in preferred interests of Aireon after regulatory accounting reflects the actual amounts paid for the Company's investment in Aireon (at the exchange rates prevailing on the dates of the transactions).

The use of regulatory deferral accounts defers the accounting recognition of transactions related to the Company's investment in Aireon on the Company's consolidated statement of operations. As a result, there is no net impact on the Company's consolidated statement of operations for the nine months ended May 31, 2018 related to the Company's investment in Aireon. These amounts are not considered for rate setting purposes until realized in cash through the receipt of dividends net of tax.

Aireon is in start-up phase without any operations, with minimal revenue and the majority of its expenditures being capitalized. As discussed above, 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 significant influence over the strategy, 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.

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

On February 28, 2018, the Company entered into an agreement with Aireon to provide bridge financing, up to a total of $29 U.S. ($38 CDN), with an annual interest rate of 11%. Amounts drawn under the agreement were to be repaid on the earlier of June 29, 2018 and the date at which Aireon receives funding under a senior credit facility. In May 2018, the bridge loan agreement was amended to extend the maturity date to the earlier of September 30, 2019 and the date on which the initial funding under a senior credit facility is made. The amount of financial commitment under the amended agreement remains the same. As at May 31, 2018, Aireon has drawn $7 U.S. ($10 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 an associate or 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, 2018, May 31, 2017 and August 31, 2017 information presented below is based on Aireon's financial position and financial performance as at March 31, 2018, March 31, 2017 and June 30, 2017, respectively. All amounts are translated from U.S. dollars.

Aireon's financial information as at and for the three and nine months ended May 31, 2018 reflects the adoption of IFRS 9. Aireon's financial information as at and for the three and nine months ended May 31, 2018 has been updated to include the additional investment in preferred interests by NATS on May 15, 2018.

| | May 31 2018 | August 31 2017 |
|---|---|---|
| Current assets | | |
| Cash and cash equivalents | $ 118 | $ 65 |
| Prepaid expenses and other current assets | 19 | 14 |
| Non-current assets | | |
| Property, plant and equipment | 575 | 488 |
| | $ 712 | $ 567 |
| Current liabilities | | |
| Trade and other payables | $ (7) | $ (8) |
| Deferred revenue | (1) | - |
| Member bridge loan | (14) | - |
| Non-current liabilities | | |
| Financial liabilities | (854) | (670) |
| | $ (876) | $ (678) |
| Net assets | $ (164) | $ (111) |

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

| | Three months ended May 31 2018 | Three months ended May 31 2017 | Nine months ended May 31 2018 | Nine months ended May 31 2017 |
|---|---|---|---|---|
| Interest expense | $ 8 | $ 3 | $ 20 | $ 7 |
| Net income (loss) | $ (29) | $ (9) | $ (70) | $ (9) |
| Other comprehensive income (loss) | (2) | 1 | (2) | (3) |
| Total comprehensive income (loss) | $ (31) | $ (8) | $ (72) | $ (12) |

**5. Employee benefits:**

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

| | Three months ended May 31 | | | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | Pension benefit plans | | Other benefit plans | |
| Statement of operations | | | | |
| Current service costs | $ 45 | $ 44 | $ 2 | $ 1 |
| Curtailment expense | - | - | - | 9 |
| Interest cost | 61 | 57 | 3 | 3 |
| Interest income on plan assets | (50) | (46) | - | - |
| Total expense | $ 56 | $ 55 | $ 5 | $ 13 |
| Statement of other comprehensive income | | | | |
| Re-measurements [1]: | | | | |
| Return on plan assets, excluding interest income on plan assets | $ - | $ (307) | $ - | $ (1) |
| Actuarial losses | - | 515 | - | 12 |
| Total cost recognized in other comprehensive income | $ - | $ 208 | $ - | $ 11 |

## 5. Employee benefits (continued):

| | Nine months ended May 31 | | | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | Pension benefit plans | | Other benefit plans | |
| Statement of operations | | | | |
| Current service costs | $ 133 | $ 132 | $ 3 | $ 5 |
| Curtailment expense | - | - | (1) | 9 |
| Interest cost | 184 | 171 | 6 | 6 |
| Interest income on plan assets | (150) | (137) | - | - |
| Total expense | $ 167 | $ 166 | $ 8 | $ 20 |
| Statement of other comprehensive income | | | | |
| Re-measurements: | | | | |
| Return on plan assets, excluding interest income on plan assets | $ (226) | $ (239) | $ - | $ (1) |
| Actuarial (gains) losses | 120 | (18) | 6 | 1 |
| Total (income) cost recognized in other comprehensive income | $ (106) | $ (257) | $ 6 | $ - |

(1) During the three months ended May 31, 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 $41 for the nine months ended May 31, 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 nine months ended May 31, 2018, the curtailment expense decreased by $1 to reflect the elections made by represented employees. The curtailed severance benefits were settled during the nine months ended May 31, 2018 with cash payments of $42.

Actuarial valuations for pension funding purposes are performed annually as at January 1 and are required to be filed with the Office of the Superintendent of Financial Institutions Canada (OSFI) by June of the same year. Accordingly, going concern pension contributions for the annual period beginning July 1, 2018 will be based on the January 1, 2018 actuarial valuations, with a retroactive adjustment to the beginning of the calendar year. The regulations governing the funding of federally regulated pension plans require actuarial valuations to be performed on both a going concern and a solvency basis. The actuarial valuations performed as at January 1, 2018 and filed with OSFI in June 2018, reported a going concern surplus of $503 (2017 - $242). A statutory solvency surplus of $561 was reported as at January 1, 2018 (2017 - $334) based on the assumption that the September 1, 2016 plan text restatement, which included the plan termination amendment that is currently subject to OSFI's review, was in effect on the valuation date. Had the amendment not been included, there would have been a statutory solvency deficiency of $89 as of January 1, 2018 (2017 - $289). The amendment does not impact the going concern valuation.

**5. Employee benefits (continued):**

As at May 31, 2018, the Company has put in place letters of credit totaling $494 to meet its calendar 2018 pension solvency funding requirements, on a pre-amendment basis, as per the January 1, 2018 actuarial valuations.

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

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | May 31 2018 | May 31 2017 | May 31 2018 | May 31 2017 |
| Funded pension plans | | | | |
| Going concern current service | $ 27 | $ 24 | $ 75 | $ 71 |
| Going concern special payments | - | 3 | - | 3 |
| Solvency deficiency payments | 1 | 24 | 1 | 24 |
| | 28 | 51 | 76 | 98 |
| Unfunded pension plan | 1 | 1 | 2 | 2 |
| Unfunded other defined benefit plans | 2 | 1 | 5 | 5 |
| Less: capitalized amounts | (2) | (2) | (4) | (4) |
| | $ 29 | $ 51 | $ 79 | $ 101 |

On a preliminary basis, going concern pension contributions for fiscal 2018 are estimated to be $96 (fiscal 2017 - $91), with no requirement for going concern special payments expected (fiscal 2017 - $nil).

Employee benefits are comprised of the following:

| | May 31 2018 | August 31 2017 |
|---|---|---|
| Recognized asset for long-term disability benefits | $ 7 | $ 11 |

| | May 31 2018 | August 31 2017 |
|---|---|---|
| Liability for funded defined benefit obligations | $ (1,175) | $ (1,198) |
| Liability for unfunded pension defined benefit obligations | (103) | (97) |
| Liability for unfunded other defined benefit obligations | (214) | (246) |
| Recognized liability for defined benefit plans | (1,492) | (1,541) |
| Long-term employee benefit liabilities | (47) | (45) |
| Total long-term employee benefit liabilities | $ (1,539) | $ (1,586) |

### 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 | - | - | 73 | 73 |
| Transfers | 31 | 28 | (59) | - |
| Balance at May 31, 2018 | $ 258 | $ 654 | $ 116 | $ 1,028 |
| Accumulated depreciation | | | | |
| Balance at August 31, 2017 | $ 39 | $ 211 | $ - | $ 250 |
| Depreciation | 11 | 55 | - | 66 |
| Balance at May 31, 2018 | $ 50 | $ 266 | $ - | $ 316 |
| Carrying amounts | | | | |
| At August 31, 2017 | $ 188 | $ 415 | $ 102 | $ 705 |
| At May 31, 2018 | $ 208 | $ 388 | $ 116 | $ 712 |

### 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 | - | - | - | 50 | 50 |
| Disposals and write-offs | - | - | - | (1) | (1) |
| Transfers | - | 9 | 27 | (36) | - |
| Balance at May 31, 2018 | $ 702 | $ 174 | $ 220 | $ 56 | $ 1,152 |
| Accumulated amortization | | | | | |
| Balance at August 31, 2017 | $ 75 | $ 53 | $ 45 | $ - | $ 173 |
| Amortization | 19 | 14 | 15 | - | 48 |
| Balance at May 31, 2018 | $ 94 | $ 67 | $ 60 | $ - | $ 221 |
| Carrying amounts | | | | | |
| At August 31, 2017 | $ 627 | $ 112 | $ 148 | $ 43 | $ 930 |
| At May 31, 2018 | $ 608 | $ 107 | $ 160 | $ 56 | $ 931 |

## 8. Long-term debt:

The Company's outstanding long-term debt was comprised of the following:

| | May 31 2018 | August 31 2017 |
|---|---|---|
| Bonds and notes payable | | |
| Issued under the Master Trust Indenture: | | |
| $250 face value 7.40% revenue bonds, series 96-3, maturing June 1, 2027 | $ 250 | $ 250 |
| $500 initial face value 7.56% amortizing revenue bonds, series 97-2, maturing March 1, 2027 | 225 | 250 |
| | 475 | 500 |
| Issued under the General Obligation Indenture: | | |
| $275 face value 3.293% general obligation notes, series MTN 2018-1, maturing March 30, 2048 [(1)] | 275 | - |
| $250 face value 3.534% general obligation notes, series MTN 2016-1, maturing February 23, 2046 | 250 | 250 |
| $250 face value 4.397% general obligation notes, series MTN 2011-1, maturing February 18, 2021 | 250 | 250 |
| $250 face value 5.304% general obligation notes, series MTN 2009-1, maturing April 17, 2019 | 250 | 250 |
| $350 face value 1.949% general obligation notes, series MTN 2013-1, matured April 19, 2018 [(1)] | - | 350 |
| | 1,025 | 1,100 |
| Total bonds and notes payable | 1,500 | 1,600 |
| Adjusted for deferred financing costs and discounts | (6) | (5) |
| Carrying value of total bonds and notes payable | 1,494 | 1,595 |
| Less: current portion of long-term debt [(2)] | (275) | (375) |
| Total long-term debt | $ 1,219 | $ 1,220 |

(1) 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 were used to partially repay the Company's $350 Series MTN 2013-1 General Obligation Notes on April 19, 2018. The remainder of the maturity was repaid with available cash and by drawing on the Company's syndicated credit facility.

(2) The current portion of long-term debt relates to the $250 Series MTN 2009-1 General Obligation Notes that mature in April 2019 and the annual amortization payment of $25 for the Series 97-2 amortizing revenue bonds.

### 8. Long-term debt (continued):

The bonds and notes payable are redeemable in whole or in part at the option of the Company at any time at the higher of par and the Canada yield price plus a redemption premium. The Series 97-2 bonds are amortizing bonds repayable in 20 consecutive equal annual instalments of $25 principal on March 1 of each year until maturity on March 1, 2027.

The Company is in compliance with all covenants of the Master Trust Indenture and General Obligation Indenture as at May 31, 2018.

### 9. 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.

| | May 31, 2018 | | |
|---|---|---|---|
| | Amortized Cost | FVTPL | Fair value hierarchy |
| Financial assets | | | |
| Cash and cash equivalents [1] | $ 28 | $ - | |
| Accounts receivable and other | 97 | - | |
| Current investments | | | |
| Debt service reserve fund [2] | 71 | - | |
| Other current assets | | | |
| Derivative assets [3] | - | 1 | Level 2 |
| Investment in preferred interests [4] | - | 412 | Level 2 |
| Other non-current assets | | | |
| Related party loans receivable [5] | 12 | - | |
| Long-term receivables | 1 | - | |
| | $ 209 | $ 413 | |
| Financial liabilities | | | |
| Bank loan [6] | $ 40 | $ - | |
| Trade and other payables | | | |
| Trade payables and accrued liabilities | 213 | - | |
| Derivative liabilities [3] | - | 6 | Level 2 |
| Long-term debt (including current portion) | | | |
| Bonds and notes payable [7] | 1,494 | - | |
| | $ 1,747 | $ 6 | |

## 9. 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 | | | | | |
| Related party loans receivable | 2 | - | - | - | |
| Long-term receivables | 1 | - | - | - | |
| | $ 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 [7] | - | - | - | 1,595 | |
| Long-term derivative liabilities [3] | - | - | 12 | - | Level 2 |
| | $ - | $ - | $ 13 | $ 1,822 | |

(1) Cash and cash equivalents includes $15 of short-term investments as at May 31, 2018 (August 31, 2017 - $79).

(2) During the nine months ended May 31, 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) This instrument is recorded at fair value based on the valuation technique described in note 4.

(5) During the nine months ended May 31, 2018, the Company provided bridge financing of $10 to Aireon. See note 4 for details.

(6) This bank loan is drawn from the Company's syndicated credit facility in the form of a Bankers' Acceptance and has a discount rate based on the Canadian Dollar Offered Rate (CDOR) plus an applicable margin. It matured on June 22, 2018.

(7) 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 May 31, 2018, the fair value was $1,413 (August 31, 2017 - $1,835), inclusive of accrued interest of $22 (August 31, 2017 - $22).

## 9. Financial instruments and financial risk management (continued):

During the nine months ended May 31, 2018, the investment in preferred interests of Aireon was transferred from Level 3 to Level 2 of the fair value hierarchy due to the recent transaction as noted in 4. There have been no other transfers between levels since August 31, 2017.

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 2:

| | Investment in preferred interests |
|---|---|
| Fair value as at August 31, 2017 | $ 350 |
| Net increase in fair value [(1)] | 48 |
| Effect of foreign exchange | 14 |
| Fair value as at May 31, 2018 | $ 412 |

(1) Net increase in fair value includes accrued dividend income. See note 4 for further information on the increase in fair value.

*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:

| | May 31, 2018 | | | | | |
|---|---|---|---|---|---|---|
| | | | Carrying amount | | | |
| | Contract Rate | Notional 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 forwards [(1)] | 1.27502 | $8 | $ - | $ - | Other assets (current and non-current) | $ - |
| Interest rate risk | | | | | | |
| Interest rate swaps [(2)] | 2.79640 | $175 | $ - | $5 | Derivative liabilities (current) | $5 |
| Interest rate swaps [(2)] | 2.77800 | $25 | $ - | $1 | Derivative liabilities (current) | $1 |
| Bond forward [(3)] | 1.76400 | $137 | $ - | $ - | N/A | $3 |
| Bond forward [(3)] | 2.47417 | $137 | $ - | $ - | N/A | $(5) |

**9. Financial instruments and financial risk management (continued):**

| | August 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | | Notional amount of hedging instrument in CDN | Carrying amount | | | |
| | Contract Rate | | 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 [4] | 1.10070 | $16 | $ - | $ - | N/A | $(3) |
| Foreign currency forward [5] | 1.34383 | $20 | $ - | $ - | N/A | $ - |
| Interest rate risk | | | | | | |
| Interest rate swaps [2] | 2.79640 | $175 | $ - | $10 | Derivative liabilities | $37 |
| Interest rate swaps [2] | 2.77800 | $25 | $ - | $2 | Derivative liabilities | $5 |
| Bond forward [3] | 1.76400 | $137 | $ - | $1 | Trade and other payables | $(1) |

(1) The Company holds eight forward contracts with a notional value of approximately $1 CDN each to purchase a total of $6 U.S. ($8 CDN) to hedge monthly payments to Aireon related to satellite surveillance costs for January through August 2019. The contract rate shown in the table is an average of the rates for all eight forward contracts.

(2) 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.

(3) 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 matured 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. The new bond forward agreement was closed in March 2018 upon issuance of the $275 Series MTN 2018-1 General Obligation Notes.

(4) 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.

(5) 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.

**9. Financial instruments and financial risk management (continued):**

The following table summarizes the hedging components of other comprehensive income:

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | May 31 2018 | May 31 2017 | May 31 2018 | May 31 2017 |
| Net gain (loss) on derivatives designated as cash flow hedges | | | | |
| Foreign currency forwards | $ - | $ - | $ - | $ (3) |
| Interest rate swaps | (4) | (6) | 6 | 33 |
| Bond forward | - | - | (2) | - |
| | $ (4) | $ (6) | $ 4 | $ 30 |

For the three and nine months ended May 31, 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 nine months ended May 31, 2018, except as noted below.

(a) Market risk

(i) Foreign exchange risk:

The Company's exposure to foreign exchange risk related to the U.S. dollar has increased since August 31, 2017 as a result of the increase in fair value of its investment in preferred interests of Aireon to $412 CAD ($318 U.S.) (August 31, 2017 - $350 CAD ($281 U.S.)).

As at May 31, 2018, 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 $38 (August 31, 2017 - $30).

(ii) Other price risk:

As discussed in note 4, the fair value of the Company's investment in Aireon increased to $412 as at May 31, 2018 (August 31, 2017 - $350). A change of 5% in the fair value would impact finance income (other finance costs) by approximately $14 U.S. ($18 CDN) as at May 31, 2018 (August 31, 2017 - $12 U.S. ($15 CDN)).

Aireon will provide global satellite-based surveillance capability for air navigation service providers around the world. It is expected that Aireon will commence operations in calendar year 2019.

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.

## 9. Financial instruments and financial risk management (continued):

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. ($38 CDN) (see note 4). 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.

## 10. 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 May 31, 2018:

| | Remaining payments – for years ending August 31 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | 2018 | 2019 | 2020 | 2021 | 2022 | Thereafter |
| Bank loan | $ 40 | $ 40 | $ - | $ - | $ - | $ - | $ - |
| Trade payables and accrued liabilities | 191 | 191 | - | - | - | - | - |
| Derivative liabilities | 6 | - | 6 | - | - | - | - |
| Long-term debt (including current portion) (1), (2) | 1,500 | - | 275 | 25 | 275 | 25 | 900 |
| Interest payments (2) | 826 | 19 | 78 | 62 | 55 | 48 | 564 |
| Capital commitments (3) | 119 | 54 | 17 | 16 | 6 | 4 | 22 |
| Operating leases | 167 | 2 | 9 | 8 | 7 | 9 | 132 |
| Related party loan (4) | 28 | - | - | 28 | - | - | - |
| | $ 2,877 | $ 306 | $ 385 | $ 139 | $ 343 | $ 86 | $ 1,618 |

(1) Payments represent principal of $1,500. 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 8.

(3) The Company has firm commitments for the acquisition of PP&E and intangible assets amounting to $119 as at May 31, 2018 (August 31, 2017 - $141).

(4) This is the undrawn commitment under the bridge financing agreement with Aireon. As at May 31, 2018, Aireon has drawn $7 U.S. ($10 CDN).