Unaudited Interim Condensed Consolidated Financial Statements of

NAV CANADA

Three and nine months ended May 31, 2019 and 2018

NAV CANADA

Interim Condensed Consolidated Statements of Operations (unaudited)

(millions of Canadian dollars)

	Notes	Three months ended May 31 2019	Three months ended May 31 2018	Nine months ended May 31 2019	Nine months ended May 31 2018
Revenue					
Customer service charges	3	$ 338	$ 334	$ 986	$ 962
Other revenue		13	15	39	39
		351	349	1,025	1,001
Operating expenses					
Salaries and benefits		261	256	761	731
Technical services		29	28	83	81
Facilities and maintenance		16	16	48	47
Depreciation and amortization	6, 7	39	39	115	114
Other		22	22	68	68
		367	361	1,075	1,041
Other (income) and expenses					
Finance income		(3)	(44)	(11)	(53)
Net interest expense relating to employee benefits		9	14	28	41
Other finance costs		19	20	56	58
Other gains, net of losses		(10)	(4)	(14)	(12)
		15	(14)	59	34
Net income (loss), before income tax and net movement in regulatory deferral accounts		(31)	2	(109)	(74)
Income tax (recovery) expense		-	10	-	(9)
Net loss, before net movement in regulatory deferral accounts		(31)	(8)	(109)	(65)
Net movement in regulatory deferral accounts related to net income (loss), net of tax	4	17	-	49	15
Net loss, after net movement in regulatory deferral accounts	1	$ (14)	$ (8)	$ (60)	$ (50)

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 2019	Three months ended May 31 2018	Nine months ended May 31 2019	Nine months ended May 31 2018
Net loss, after net movement in regulatory deferral accounts		$ (14)	$ (8)	$ (60)	$ (50)
Other comprehensive income (loss)					
Items that will not be reclassified to income or (loss):					
Re-measurements of employee defined benefit plans		-	-	-	100
Net movement in regulatory deferral accounts related to other comprehensive income		-	-	-	(100)
		-	-	-	-
Items that will be reclassified to income or (loss):					
Amortization of loss on cash flow hedge		-	-	-	1
Changes in fair value of cash flow hedges		(6)	(4)	(10)	4
Net movement in regulatory deferral accounts related to other comprehensive income		6	4	10	(5)
		-	-	-	-
Total other comprehensive income (loss)		-	-	-	-
Total comprehensive loss	1	$ (14)	$ (8)	$ (60)	$ (50)

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 2019	August 31 2018
Assets			
Current assets			
Cash and cash equivalents		$ 22	$ 38
Accounts receivable and other		97	102
Investments		72	71
Other		12	17
		203	228
Non-current assets			
Investment in preferred interests	5	443	418
Property, plant and equipment	6	736	735
Intangible assets	7	909	932
Related party loans receivable		2	12
Investment in equity-accounted investee		6	6
Employee benefits		2	2
Other non-current assets		2	1
		2,100	2,106
Total assets		2,303	2,334
Regulatory deferral account debit balances	4	1,023	954
Total assets and regulatory deferral account debit balances		$ 3,326	$ 3,288

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 2019	August 31 2018
Liabilities			
Current liabilities			
Bank loan		$ 55	$ -
Trade and other payables		222	247
Deferred revenue		7	4
Current portion of long-term debt	8	25	275
		309	526
Non-current liabilities			
Long-term debt	8	1,442	1,219
Employee benefits		1,151	1,070
Deferred tax liability		52	50
Other non-current liabilities		1	1
		2,646	2,340
Total liabilities		2,955	2,866
Equity			
Retained earnings (deficit)		(32)	28
Total equity		(32)	28
Total liabilities and equity		2,923	2,894
Regulatory deferral account credit balances	4	403	394
Commitments	10		
Total liabilities, equity and regulatory deferral account credit balances		$ 3,326	$ 3,288

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, 2017	$ 28	$ -	$ 28
Net loss after net movement in regulatory deferral accounts	(50)	-	(50)
Other comprehensive income (loss)	-	-	-
Balance May 31, 2018	$ (22)	$ -	$ (22)
Balance August 31, 2018	$ 28	$ -	$ 28
Net loss after net movement in regulatory deferral accounts	(60)	-	(60)
Other comprehensive income (loss)	-	-	-
Balance May 31, 2019	$ (32)	$ -	$ (32)

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 2019	Three months ended May 31 2018	Nine months ended May 31 2019	Nine months ended May 31 2018
Cash flows from (used in):					
Operations					
Receipts from customer service charges		$ 323	$ 314	$ 991	$ 944
Refund of customer service charges		-	-	-	(33)
Other receipts		14	15	48	40
Payments to employees and suppliers		(284)	(276)	(857)	(804)
Pension contributions - current service		(23)	(21)	(71)	(68)
Pension contributions - solvency deficiency		-	(1)	-	(1)
Other post-employment contributions		(1)	(2)	(3)	(5)
Settlement of curtailed severance benefits		-	-	-	(42)
Interest payments		(20)	(20)	(60)	(60)
Interest receipts		1	-	2	3
		10	9	50	(26)
Investing					
Capital expenditures		(29)	(39)	(95)	(124)
Loans to related parties		-	(9)	11	(10)
Income tax refund on investment in preferred interests		-	-	-	5
Proceeds from asset-backed commercial paper trusts		-	-	-	1
Settlement of derivative assets		-	-	-	2
		(29)	(48)	(84)	(126)
Financing					
Issuance of long-term debt	8	248	273	248	273
Repayment of long-term debt	8	(275)	(375)	(275)	(375)
Net proceeds from bank loans		40	40	55	40
Disbursements from settlement of derivatives		(9)	(5)	(9)	(5)
Debt service reserve fund		-	-	(1)	25
		4	(67)	18	(42)
Decrease in cash and cash equivalents		(15)	(106)	(16)	(194)
Cash and cash equivalents at beginning of period		37	134	38	222
Cash and cash equivalents at end of period		$ 22	$ 28	$ 22	$ 28

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 4.

The ANS Act requires that the Company communicate proposed new or revised charges to customers in advance of their introduction and to consult thereon. Customers may make representations to the Company as well as appeal revised charges to the Canadian Transportation Agency on the grounds that the Company either breached the charging principles in the ANS Act or failed to provide statutory notice.

NAV CANADA is domiciled in Canada. The address of NAV CANADA's registered office is 77 Metcalfe Street, Ottawa, Ontario, Canada K1P 5L6. These interim condensed consolidated financial statements of NAV CANADA include the accounts of its subsidiaries.

2. Basis of presentation:

(a) Statement of compliance:

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) 34 *Interim Financial Reporting*. As permitted under this standard, these interim condensed consolidated financial statements do not include all of the disclosures required for annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended August 31, 2018 (2018 annual consolidated financial statements).

These interim condensed consolidated financial statements were authorized for issue by the Board on July 12, 2019.

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, unless otherwise indicated. All information presented has been rounded to the nearest million dollars.

(d) Seasonality:

The Company's operations have historically varied throughout the fiscal year, with 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 2018 annual consolidated financial statements, except for the application of new standards, amendments and interpretations effective September 1, 2018 as described in note 2 (f) of the Company's November 30, 2018 interim condensed financial statements, which details the impact and changes in accounting policies as a result of the adoption of IFRS 15 – Revenue from Contracts with Customers (IFRS 15) and IFRIC 22 – Foreign Currency Transactions and Advance Consideration, both effective September 1, 2018. No other changes to significant accounting policies have been made subsequently. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

(f) Critical accounting estimates and judgments:

The preparation of these interim condensed consolidated financial statements requires management to make estimates and judgments about the future.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal actual results.

Critical judgments and key sources of estimation uncertainty are disclosed in note 2 (d) of the 2018 annual consolidated financial statements.

2. Basis of presentation (continued):

(g) Future accounting pronouncements:

The International Accounting Standards Board (IASB) has issued a number of standards, amendments and interpretations that are not yet effective, as disclosed in the Company's 2018 annual consolidated financial statements and November 30, 2018 and February 28, 2019 interim condensed financial statements. The Company continues to analyze these standards and amendments to determine the extent of their impact on its consolidated financial statements.

The Company has the following update regarding its progress in implementing future standards:

IFRS 16 – Leases (IFRS 16)

In January 2016, the IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard will replace IAS 17 – Leases (IAS 17), and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires recognition of assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17, maintaining the classification of leases as operating or finance leases, and accounting for the lease according to its classification. IFRS 16 is to be applied retrospectively, using either a full retrospective approach or a modified retrospective approach, for annual periods beginning on or after January 1, 2019. Earlier application is permitted, but only if IFRS 15 has also been adopted.

The Company has completed a detailed review of those contracts in the scope of IFRS 16 to determine the accounting impacts and has determined that the impact is expected to be minimal. We are now reviewing disclosure requirements. The Company anticipates using the modified retrospective approach on transition to IFRS 16. For any lease that meets the definition of a lease in accordance with IFRS 16 and was previously classified as an operating lease, the Company anticipates measuring its right of use asset at an amount equal to the lease liability upon adoption of IFRS 16 on September 1, 2019.

(millions of Canadian dollars)

3. Revenue:

Customer service charges by type of air navigation service provided were as follows:

	Three months ended		Nine months ended	
	May 31 2019	May 31 2018	May 31 2019	May 31 2018
Enroute [1]	$ 171	$ 172	$ 495	$ 492
Terminal [2]	133	127	389	371
Daily / annual / quarterly [3]	23	24	68	67
North Atlantic and international communication [4]	11	11	34	32
	$ 338	$ 334	$ 986	$ 962

(1) Enroute charges related to air navigation services provided or made available to aircraft during the enroute phase of the flight, whether they overfly Canadian-controlled airspace or take-off and/or land in Canada. This performance obligation is satisfied at a point in time.

(2) Terminal charges related to air navigation services provided or made available to aircraft at or in the vicinity of an airport. This performance obligation is satisfied at a point in time.

(3) Daily / annual / quarterly charges related to enroute and terminal air navigation services. These charges generally apply to propeller aircraft and the performance obligations are satisfied over the period in which air navigation services are made available.

(4) North Atlantic and international communication charges related to certain air navigation and communication services provided or made available to aircraft while in airspace over the North Atlantic Ocean. These services are provided outside of Canadian sovereign airspace but for which Canada has air traffic control responsibility pursuant to international agreements. The international communication charges also include services provided or made available while in Canadian airspace in the north. These performance obligations are satisfied at a point in time.

(millions of Canadian dollars)

4. Financial statement impact of regulatory deferral accounts:

In accordance with disclosures required for entities subject to rate regulation, the Company's regulatory deferral account balances are as follows:

	August 31 2018	Regulatory deferral	Recovery/ reversal	May 31 2019
Regulatory deferral account debit balances				
Deferred income tax (1)	$ 50	$ 2	$ -	$ 52
Employee benefits:				
Accumulating sick leave	25	-	(1)	24
Other post-employment benefits re-measurements	20	-	(4)	16
Pension contributions (a)	98	66	-	164
Pension re-measurements	643	-	-	643
Supplemental pension re-measurements	55	-	(2)	53
Realized hedging transaction	63	9	(1)	71
	$ 954	$ 77	$ (8)	$ 1,023
Regulatory deferral account (credit) balances				
Rate stabilization account (2)	$ (124)	$ (4)	$ 14	$ (114)
Derivatives	(3)	10	(9)	(2)
Employee benefits:				
Long-term disability contributions	(5)	-	3	(2)
Change in the fair value of the investment in preferred interests	(253)	(25)	-	(278)
Investment in equity-accounted investee	(3)	-	-	(3)
Realized hedging transaction	(6)	-	2	(4)
	$ (394)	$ (19)	$ 10	$ (403)

(1) The total regulatory deferral of income tax related to the Company's investment in Aireon LLC (Aireon) is $51 as at May 31, 2019 (August 31, 2018 - $49). The remaining deferral relates to the Company's share of net assets of Searidge Technologies Inc.

(2) When establishing customer service charges, the Board considers the balance in the rate stabilization account, the extent to which operating costs are variable and available liquidity and sets the level as appropriate.

(millions of Canadian dollars)

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

The table below shows the impact of rate stabilization adjustments and net movement in regulatory deferral accounts on the net income (loss) as reported in the interim condensed consolidated statement of operations:

	Three months ended		Nine months ended	
	May 31 2019	May 31 2018	May 31 2019	May 31 2018
Before net movement in regulatory deferral accounts:				
Revenue	$ 351	$ 349	$ 1,025	$ 1,001
Operating expenses	367	361	1,075	1,041
Other (income) and expenses	15	(14)	59	34
Income tax (recovery) expense	-	10	-	(9)
	(31)	(8)	(109)	(65)
Net movement in regulatory deferral accounts:				
Rate stabilization adjustments:				
Unfavourable (favourable) variances from planned results	6	11	(4)	2
Initial approved adjustment [(1)]	5	2	14	7
	11	13	10	9
Other regulatory deferral account adjustments:				
Employee benefit pension contributions	21	24	66	78
Other employee benefits	(3)	(2)	(5)	(4)
Investment in preferred interests, before tax	(14)	(46)	(25)	(62)
Investment in equity-accounted investee	1	-	-	-
Income tax	1	10	2	(7)
Realized hedging transactions	-	1	1	1
	6	(13)	39	6
	17	-	49	15
Net loss, after net movement in regulatory deferral accounts	$ (14)	$ (8)	$ (60)	$ (50)

(1) In order to achieve breakeven results of operations in the fiscal year ending August 31, 2019 (fiscal 2019), the Board approved a reduction of the rate stabilization account as a result of a planned shortfall. As a result, $18 is being transferred out of the rate stabilization account evenly throughout the fiscal year (fiscal year ending August 31, 2018 (fiscal 2018) - $10).

(millions of Canadian dollars)

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

(a) Pension contributions:

Included in regulatory deferral account debit balances at May 31, 2019 is $164 relating to the recovery through customer service charges of pension contributions (August 31, 2018 - $98). The accrued pension benefit liability, net of regulatory deferrals is as follows:

	May 31 2019	August 31 2018
Employee benefit liability	$ (773)	$ (707)
Less:		
Regulatory deferrals of non-cash adjustments	643	643
Benefit contributions less than benefit expense	$ (130)	$ (64)
Regulatory debit balances - recovery of contributions	$ 164	$ 98
Regulatory expense cumulatively less than contributions	$ 34	$ 34

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 $164, is the recovery of $10 of solvency deficiency contributions of $44 paid in the fiscal year ending August 31, 2017 (fiscal 2017). The remaining balance of $34 is expected to be recovered through future customer service charges. The funding of employee pension benefits as compared to the expense, net of regulatory adjustments, recorded in the consolidated statement of operations is summarized below.

	Three months ended		Nine months ended	
	May 31 2019	May 31 2018	May 31 2019	May 31 2018
Consolidated statement of operations				
Pension current service expense (1)	$ 41	$ 44	$ 123	$ 130
Net interest expense (1)	6	10	18	31
Less: Regulatory deferrals	(21)	(24)	(66)	(78)
	26	30	75	83
Company cash pension contributions				
Going concern current service	26	27	75	75
Solvency deficiency payments	-	1	-	1
	26	28	75	76
Regulatory recovery of fiscal 2017 solvency contributions	$ -	$ 2	$ -	$ 7

(millions of Canadian dollars)

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

(1) For the three and nine months ended May 31, 2019, pension current service expense does not include $1 and $4, respectively, related to the Company's unfunded pension plan (three and nine months ended May 31, 2018 - $1 and $3 respectively) and net interest expense does not include $nil and $2, respectively, related to the Company's unfunded pension plan (three and nine months ended May 31, 2018 - $1 and $3, respectively).

5. Investment in preferred interests of Aireon:

As discussed in note 11 to the 2018 annual consolidated financial statements, the Company's investment in Aireon is in preferred interests.

During the nine months ended May 31, 2019, Aireon entered into a long-term financing agreement with a major international bank and used a portion of the funds drawn under that agreement to settle the bridge financing made available by the Company of $29 U.S. ($37 CDN) and other long-term liabilities. Aireon repaid $8 U.S. ($11 CDN), representing the total drawn under the bridge financing agreement along with accrued interest.

6. Property, plant and equipment:

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

	Land and buildings	Systems and equipment	Assets under development	Total
Cost				
Balance at August 31, 2018	$ 266	$ 628	$ 146	$ 1,040
Additions	-	-	66	66
Transfers	11	98	(109)	-
Balance at May 31, 2019	$ 277	$ 726	$ 103	$ 1,106
Accumulated depreciation				
Balance at August 31, 2018	$ 51	$ 254	$ -	$ 305
Depreciation	13	52	-	65
Balance at May 31, 2019	$ 64	$ 306	$ -	$ 370
Carrying amounts				
At August 31, 2018	$ 215	$ 374	$ 146	$ 735
At May 31, 2019	$ 213	$ 420	$ 103	$ 736

(millions of Canadian dollars)

7. Intangible assets:

Intangible assets are comprised of the following:

	Air navigation right	Purchased software	Internally developed software	Assets under development	Total
Cost					
Balance at August 31, 2018	$ 702	$ 170	$ 229	$ 60	$ 1,161
Additions	-	-	-	28	28
Disposals and write-offs	-	-	-	(1)	(1)
Transfers	-	4	55	(59)	-
Balance at May 31, 2019	$ 702	$ 174	$ 284	$ 28	$ 1,188
Accumulated amortization					
Balance at August 31, 2018	$ 100	$ 64	$ 65	$ -	$ 229
Amortization	19	14	17	-	50
Balance at May 31, 2019	$ 119	$ 78	$ 82	$ -	$ 279
Carrying amounts					
At August 31, 2018	$ 602	$ 106	$ 164	$ 60	$ 932
At May 31, 2019	$ 583	$ 96	$ 202	$ 28	$ 909

(millions of Canadian dollars)

8. Long-term debt:

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

	May 31 2019	August 31 2018
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	200	225
	450	475
Issued under the General Obligation Indenture:		
$250 face value 3.209% general obligation notes, series MTN 2019-1, maturing September 29, 2050 (1)	250	-
$275 face value 3.293% general obligation notes, series MTN 2018-1, maturing March 30, 2048	275	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, matured April 17, 2019 (1)	-	250
	1,025	1,025
Total bonds and notes payable	1,475	1,500
Adjusted for deferred financing costs and discounts	(8)	(6)
Carrying value of total bonds and notes payable	1,467	1,494
Less: current portion of long-term debt (2)	(25)	(275)
Total long-term debt	$ 1,442	$ 1,219

(1) On March 29, 2019, the Company issued $250 Series MTN 2019-1 General Obligation Notes due on September 29, 2050. The notes have an annual interest rate of 3.209%. The proceeds from these notes were used to repay the Company's $250 Series MTN 2009-1 General Obligation Notes on April 17, 2019.

(2) The current portion of long-term debt relates to the annual amortization payment of $25 for the Series 97-2 amortizing revenue bonds.

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, 2019.

(millions of Canadian dollars)

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 2018 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, 2019		
	Amortized Cost	FVTPL	Fair value hierarchy
Financial assets			
Cash and cash equivalents [(1)]	$ 22	$ -	
Accounts receivable and other	97	-	
Current investments			
Debt service reserve fund	72	-	
Other current assets			
Derivative assets [(2)]	-	1	Level 2
Investment in preferred interests [(3)]	-	443	Level 3
Related party loan receivable	2	-	
Other non-current assets			
Non-current derivative assets [(2)]	-	1	Level 2
Long-term receivables	1	-	
	$ 194	$ 445	
Financial liabilities			
Bank loan [(4)]	$ 55	$ -	
Trade and other payables			
Trade payables and accrued liabilities	219	-	
Long-term debt (including current portion)			
Bonds and notes payable [(5)]	1,467	-	Level 2
	$ 1,741	$ -	

(millions of Canadian dollars)

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

	August 31, 2018		
	Amortized Cost	FVTPL	Fair value hierarchy
Financial assets			
Cash and cash equivalents (1)	$ 38	$ -	
Accounts receivable and other	102	-	
Current investments			
Debt service reserve fund	71	-	
Other current assets			
Derivative assets (2)	-	3	Level 2
Investment in preferred interests (3)	-	418	Level 2
Related party loans receivable (6)	12	-	
Other non-current assets			
Long-term receivables	1	-	
	$ 224	$ 421	
Financial liabilities			
Trade and other payables			
Trade payables and accrued liabilities	$ 244	$ -	
Long-term debt (including current portion)			
Bonds and notes payable (5)	1,494	-	Level 2
	$ 1,738	$ -	

(1) Cash and cash equivalents includes $5 of short-term investments as at May 31, 2019 (August 31, 2018 - $15).

(2) 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.

(3) This instrument is recorded at fair value based on the valuation technique described in note 11 of the 2018 annual consolidated financial statements.

(4) This bank loan is drawn from the Company's syndicated credit facility in the form of a Banker's Acceptance and has a discount rate based on the Canadian Dollar Offered Rate (CDOR) plus an applicable margin.

(5) The fair value of the Company's bonds and notes payable is classified as Level 2 in the fair value hierarchy as it is determined using secondary market ask prices at the reporting date. As at May 31, 2019, the fair value was $1,709 (August 31, 2018 - $1,678), inclusive of accrued interest of $21 (August 31, 2018 - $22).

(6) During fiscal 2018, the Company provided bridge financing to Aireon which was repaid during the nine months ended May 31, 2019. See note 5 for details.

During the nine months ended May 31, 2019, the investment in preferred interests of Aireon was transferred from Level 2 to Level 3 of the fair value hierarchy. The transfer is due to the passage of time since the most recent input of observable market data, and the increased level of judgment used in determining the fair value. There have been no other transfers between levels since August 31, 2018.

(millions of Canadian dollars)

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

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

	Investment in preferred interests
Fair value as at August 31, 2018	$ 418
Net increase in fair value [(1)]	9
Effect of foreign exchange	16
Fair value as at May 31, 2019	$ 443

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

Derivative financial instruments

From time to time, the Company holds forward dated interest rate swap agreements and bond and foreign exchange forward agreements to hedge risks from fluctuations in foreign exchange rates and interest rates. The time frame and manner in which we manage these risks varies for each item based upon our assessment of the risk and available alternatives for mitigating the risk.

Details of the derivative financial instruments for which the Company has applied hedge accounting are as follows:

	May 31, 2019					
			Carrying amount			
	Contract Rate	Notional amount of hedging instrument	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)]	1.27384	$4	$ -	$ -	Other assets (current)	$ -
Foreign currency forwards [(2)]	1.30444	$38	$1	$ -	Other assets (current)	$1
Foreign currency forwards [(3)]	1.31142	$8	$ -	$ -	Other assets (current)	$ -

(millions of Canadian dollars)

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

	August 31, 2018					
			Carrying amount			
	Contract Rate	Notional amount of hedging instrument	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)	1.27472	$7	$ -	$ -	Other assets	$ -
Interest rate risk						
Bond forward (4)	2.20672	$190	$3	$ -	Other assets (current)	$3

(1) As at May 31, 2019, the Company holds four forward contracts with a notional value of approximately $1 each to purchase a total of $3 U.S. ($4 CDN) to hedge monthly payments to Aireon related to satellite surveillance costs through to the end of fiscal 2019. The contract rate shown in the table is an average of the rates for all four forward contracts. As at August 31, 2018, the Company held seven forward contracts to purchase a total of $5 U.S. ($7 CDN).

(2) The Company holds twelve forward contracts with a total notional value of $29 U.S. ($38 CDN) to hedge monthly payments to Aireon related to satellite surveillance costs for the fiscal year ending August 31, 2020 (fiscal 2020). The contract rate shown in the table is an average of rates for all twelve forward contracts.

(3) The Company holds four forward contracts with a notional value of approximately $2 each to purchase a total of $6 U.S. ($8 CDN) to hedge payments related to the Company's insurance premiums in fiscal 2020.

(4) In June 2018, the Company settled previously held interest rate swap agreements at a loss of $8 and entered into a bond forward contract to mitigate the potential impact of rising interest rates on the cost of refinancing the Company's $250 Series MTN 2009-1 General Obligation Notes that matured on April 17, 2019. The bond forward was closed in March 2019 upon issuance of $250 Series MTN 2019-1 General Obligation Notes at a loss of $9.

The Company's hedging relationships are subject to ineffectiveness should the timing of the forecasted transaction not occur as intended or as a result of changes in counterparty risk.

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

	Three months ended		Nine months ended	
	May 31 2019	May 31 2018	May 31 2019	May 31 2018
Net gain (loss) on derivatives designated as cash flow hedges				
Foreign currency forwards	$ 1	$ -	$ 1	$ -
Interest rate swaps	-	(4)	-	6
Bond forward	(7)	-	(11)	(2)
	$ (6)	$ (4)	$ (10)	$ 4

(millions of Canadian dollars)

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

For the three and nine months ended May 31, 2019 and 2018, 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 2018 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, 2019, except as noted below.

(a) Liquidity risk

As at May 31, 2019, the Company's credit facilities available for unrestricted use are $355 (August 31, 2018 - $388). The decrease is largely due to the bank loan of $55 outstanding at May 31, 2019, partially offset by an increase of $25 in letter of credit facilities for pension funding purposes.

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 and related party commitments as at May 31, 2019:

	Remaining payments – for years ending August 31						
	Total	2019	2020	2021	2022	2023	Thereafter
Bank loan	$ 55	$ 55	$ -	$ -	$ -	$ -	$ -
Trade payables and accrued liabilities	198	198	-	-	-	-	-
Long-term debt (including current portion) (1), (2)	1,475	-	25	275	25	25	1,125
Interest payments (2)	1,000	18	70	63	56	54	739
Capital commitments	101	33	26	6	4	13	19
Operating lease commitments	84	1	7	5	5	6	60
	$ 2,913	$ 305	$ 128	$ 349	$ 90	$ 98	$ 1,943

(1) Payments represent principal of $1,475. 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.