Unaudited Interim Condensed Consolidated Financial Statements of

NAV CANADA

Three months ended November 30, 2017 and 2016

NAV CANADA

Interim Condensed Consolidated Statements of Operations (unaudited)

Three months ended November 30

(millions of Canadian dollars)

	Notes	2017	2016
Revenue			
Customer service charges		$ 333	$ 315
Other revenue		14	17
		347	332
Operating expenses			
Salaries and benefits		235	219
Technical services		29	30
Facilities and maintenance		18	18
Depreciation and amortization	7, 8	38	36
Other		20	18
		340	321
Other (income) and expenses			
Finance income		(5)	(16)
Net interest costs relating to employee benefits	6	14	14
Other finance costs		19	31
Other (gains) and losses		(10)	(7)
		18	22
Net income (loss) before income tax and net movement in regulatory deferral accounts		(11)	(11)
Income tax expense		-	1
Net income (loss) before net movement in regulatory deferral accounts		(11)	(12)
Net movement in regulatory deferral accounts related to net income (loss), net of tax	4	14	12
Net income (loss) after net movement in regulatory deferral accounts	1	$ 3	$ -

See accompanying notes to unaudited interim condensed consolidated financial statements.

NAV CANADA

Interim Condensed Consolidated Statements of Comprehensive Income (unaudited)
Three months ended November 30
(millions of Canadian dollars)

	Notes	2017	2016
Net income (loss) after net movement in regulatory deferral accounts		$ 3	$ -
Other comprehensive income (loss)			
Items that will not be reclassified to income or (loss):			
Re-measurements of employee defined benefit plans	6	100	318
Net movement in regulatory deferral accounts related to other comprehensive income	4	(100)	(318)
		-	-
Items that will be reclassified to income or (loss):			
Changes in fair value of cash flow hedges		1	36
Net movement in regulatory deferral accounts related to other comprehensive income	4	(1)	(36)
		-	-
Total other comprehensive income (loss)		-	-
Total comprehensive income (loss)	1	$ 3	$ -

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	November 30 2017	August 31 2017
Assets			
Current assets			
Cash and cash equivalents		$ 227	$ 222
Accounts receivable and other		93	107
Investments	9	70	95
Other		11	11
		401	435
Non-current assets			
Investment in preferred interests	5, 9	365	350
Employee benefits	6	10	11
Investment in equity-accounted investee		7	7
Property, plant and equipment	7	703	705
Intangible assets	8	932	930
Other non-current assets		4	3
		2,021	2,006
Total assets		2,422	2,441
Regulatory deferral account debit balances	4	1,390	1,475
Total assets and regulatory deferral account debit balances		$ 3,812	$ 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	November 30 2017	August 31 2017
Liabilities			
Current liabilities			
Trade and other payables		$ 216	$ 230
Deferred revenue		6	6
Customer service charges refund payable		60	60
Current portion of long-term debt		375	375
		657	671
Non-current liabilities			
Long-term debt		1,220	1,220
Employee benefits	6	1,491	1,586
Deferred tax liability		57	55
Derivative liability		11	12
Other non-current liabilities		2	2
		2,781	2,875
Total liabilities		3,438	3,546
Equity			
Retained earnings		31	28
Total equity		31	28
Total liabilities and equity		3,469	3,574
Regulatory deferral account credit balances	4	343	342
Commitments	10		
Total liabilities, equity and regulatory deferral account credit balances		$ 3,812	$ 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	Accumulated other comprehensive income	Total
Balance August 31, 2016	$ 28	$ -	$ 28
Net income (loss) and net movement in regulatory deferral accounts	-	-	-
Other comprehensive income (loss)	-	-	-
Balance November 30, 2016	$ 28	$ -	$ 28
Balance August 31, 2017	$ 28	$ -	$ 28
Net income (loss) and net movement in regulatory deferral accounts	3	-	3
Other comprehensive income (loss)	-	-	-
Balance November 30, 2017	$ 31	$ -	$ 31

See accompanying notes to unaudited interim condensed consolidated financial statements.

NAV CANADA

Interim Condensed Consolidated Statements of Cash Flows (unaudited)

Three months ended November 30

(millions of Canadian dollars)

	Notes	2017	2016
Cash flows from:			
Operating			
Receipts from customer service charges		$ 344	$ 335
Other receipts		13	10
Commodity tax refund		-	3
Payments to employees and suppliers		(271)	(248)
Pension contributions - current service	6	(21)	(20)
Settlement of curtailed severance benefits	6	(26)	-
Other post-employment payments		(1)	(2)
Interest payments		(20)	(23)
Interest receipts		1	1
		19	56
Investing			
Capital expenditures		(43)	(32)
Income tax refund on investment in preferred interests		4	-
Proceeds from asset-backed commercial paper trusts		-	80
		(39)	48
Financing			
Debt service reserve fund	9	25	-
		25	-
Cash flows from operating, investing and financing activities		5	104
Effect of foreign exchange on cash and cash equivalents		-	1
Increase in cash and cash equivalents		5	105
Cash and cash equivalents at beginning of period		222	119
Cash and cash equivalents at end of period		$ 227	$ 224

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. 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, 2017 (2017 annual consolidated financial statements).

These interim condensed consolidated financial statements were authorized for issue by the Board on January 10, 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) below. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

(f) New standards, amendments and interpretations adopted:

IFRS 9 – Financial Instruments

The Company has early adopted all of the requirements of IFRS 9 (2014) - *Financial Instruments* (IFRS 9) with a date of initial application of September 1, 2017. This standard replaces IAS 39 - *Financial Instruments: recognition and measurement* (IAS 39) and introduces new requirements for the classification and measurement of financial assets and liabilities. It introduces a new general hedge accounting standard, which aligns hedge accounting more closely with risk management. It also modifies the existing impairment model by introducing a new 'expected credit loss' model for calculating impairment. This new standard also increases required disclosures about an entity's risk management strategy, cash flows from hedging activities and the impact of hedge accounting on the consolidated financial statements.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities have been carried forward in IFRS 9.

2. Basis of presentation (continued):

(f) New standards, amendments and interpretations adopted (continued):

The following summarizes the classification and measurement changes for the Company's financial assets and financial liabilities as a result of the adoption of IFRS 9:

	IAS 39	IFRS 9
Financial assets		
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivable and other	Loans and receivables	Amortized cost
Debt service reserve fund	Available-for-sale	Amortized cost
Investment in preferred interests	Fair value through profit or loss[1]	Fair value through profit or loss
Derivative assets	Fair value through profit or loss	Fair value through profit or loss
Financial liabilities		
Trade and other payables	Other financial liabilities	Amortized cost
Derivative liabilities	Fair value through profit or loss	Fair value through profit or loss
Bonds and notes payable	Other financial liabilities	Amortized cost

(1) Under IAS 39, these financial assets were designated as at FVTPL because they contain one or more embedded derivatives and the entire hybrid (combined) contract was designated as at FVTPL rather than separating embedded derivatives. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

The adoption of IFRS 9 did not result in any measurement adjustments to our financial assets and financial liabilities. The impact of the change in the impairment model was not significant as the Company's credit-impaired financial assets are not significant.

The adoption of IFRS 9 did not result in any changes in the eligibility of existing hedge relationships, the accounting for derivative financial instruments designated as effective hedging instruments or the line items in which they are included in the consolidated statements of financial position.

The Company has applied IFRS 9 retrospectively but has elected not to restate comparatives in accordance with the transition requirements. As a result, the comparative information provided continues to be in accordance with the Company's previous accounting policy as disclosed in our 2017 annual consolidated financial statements.

(i) Recognition

Financial assets and financial liabilities including derivatives are recorded when the Company becomes party to the contractual provisions of the financial instruments.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2. Basis of presentation (continued):

(f) New standards, amendments and interpretations adopted (continued):

(ii) Classification

The Company classifies its financial assets and financial liabilities in the following measurement categories:

- those to be measured subsequently at FVTPL; and
- those to be measured at amortized cost.

The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL.

(iii) Measurement

All financial instruments, other than trade receivables without a significant financing component, are required to be measured at fair value on initial recognition. If a financial asset or financial liability is not subsequently measured at FVTPL, then the initial measurement includes transaction costs that are directly attributable to the acquisition or issue of the instrument.

Trade receivables without a significant financing component are initially measured at the transaction price.

The Company's business model objective is to collect contractual cash flows and the contractual cash flows are solely payments of principal and/or interest, and as such financial assets are generally subsequently measured at amortized cost using the effective interest method net of any impairment loss. All other financial assets are measured at fair value with changes, including any interest or dividend income recognized in net income (loss) or other comprehensive income. The Company currently has no financial assets measured at fair value through other comprehensive income.

Financial liabilities are generally subsequently measured at amortized cost using the effective interest method unless they are held for trading, they are derivatives or they have been designated as those to be measured subsequently at FVTPL. The Company has not designated any financial liabilities as measured at FVTPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest. Embedded derivatives in financial liabilities are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract, a separate instrument with the same terms as the embedded derivative meets the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in net income (loss).

(iv) Impairment

The Company uses the “expected credit loss” model for calculating impairment and recognizes expected credit losses as a loss allowance in the consolidated statement of financial position if they relate to a financial asset measured at amortized cost. For trade receivables, the Company applies the simplified approach as permitted by IFRS 9 which requires lifetime expected credit losses be recognized from initial recognition of receivables. The carrying amount of these assets in the consolidated statement of financial position is stated net of any loss allowance.

2. Basis of presentation (continued):

(f) New standards, amendments and interpretations adopted (continued):

(v) Derivatives and hedge accounting

Derivatives are initially recognized and subsequently re-measured at fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivatives are designated as hedging instruments, and if so, the nature of the item being hedged and the type of hedge relationship designated. Changes in the fair value of derivative financial instruments designated as hedging instruments in cash flow hedging relationships are recognized in other comprehensive income (loss). Changes in the fair value of derivative financial instruments that have not been designated are recognized through net income (loss) as they arise.

The Company uses derivative financial instruments to manage risks from fluctuations in foreign exchange rates and interest rates. The Company's derivative assets and liabilities consist of forward dated interest rate swap agreements and bond and foreign exchange forward agreements. The fair values of these derivatives are calculated by discounting expected future cash flows based on current interest and forward exchange rates.

Where permissible, the Company accounts for these financial instruments as cash flow hedges, which ensures that counterbalancing gains and losses are recognized in income in the same period as the hedged item. On initial designation of the hedge, the relationship between the hedged item and the hedging instrument is formally documented, including the Company's risk management objectives and strategies for undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The effectiveness of the hedging relationship is assessed at inception of the contract related to the hedging item and then again at each reporting date to ensure the relationship is and will remain effective. For a cash flow hedge of a forecasted transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net earnings.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability of cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect net income (loss), the effective portion of the change in fair value of the derivative is recognized in other comprehensive income and presented as part of equity. The amount recognized in other comprehensive income is transferred to net income (loss) under the same line item in the statement of operations as the hedged item, in the same period or periods as the hedged cash flows affect net income (loss). Any ineffective portion is recognized immediately in net income (loss).

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognized in other comprehensive income remains in equity until the anticipated transaction affects net income (loss). If the forecasted transaction is no longer expected to occur, then the balance accumulated in equity is recognized immediately in net income (loss).

(g) Critical accounting estimates and judgments:

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

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

Critical judgments and key sources of estimation uncertainty are disclosed in note 2 (d) of the 2017 annual consolidated financial statements.

2. Basis of presentation (continued):

(h) 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 continues to assess the anticipated impact of IFRS 15 - *Revenue from Contracts with Customers* (IFRS 15) on its consolidated financial statements. 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. As the project team continues their review, this impact will be quantified.

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 2017	Regulatory deferral	Recovery/ reversal	November 30 2017
Regulatory deferral account debit balances				
Derivatives	$ 13	$ (1)	$ -	$ 12
Deferred income tax[(1)]	56	2	-	58
Employee benefits:				
Accumulating sick leave	30	-	-	30
Other post-employment benefits re-measurements	41	6	(1)	46
Pension contributions (a)	-	18	(3)	15
Pension re-measurements	1,251	(108)	-	1,143
Supplemental pension re-measurements	33	2	-	35
Realized hedging transaction	51	-	-	51
	$ 1,475	$ (81)	$ (4)	$ 1,390
Regulatory deferral account (credit) balances				
Rate stabilization account	$ (131)	$ -	$ 3	$ (128)
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)	(15)	-	(200)
Investment in equity-accounted investee	(4)	-	-	(4)
Realized hedging transaction	(5)	-	-	(5)
	$ (342)	$ (6)	$ 5	$ (343)

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

(1) The total regulatory deferral of income tax related to the Company's investment in Aireon LLC (Aireon) is $57 as at November 30, 2017 (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).

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 November 30	
	2017	2016
Before net movement in regulatory deferral accounts:		
Revenue	$ 347	$ 332
Operating expenses	340	321
Other (income) and expenses	18	22
Income tax expense	-	1
	(11)	(12)
Net movement in regulatory deferral accounts:		
Rate stabilization adjustments:		
Favourable variances from planned results	-	(17)
Initial approved adjustment[1]	3	10
	3	(7)
Other regulatory deferral account adjustments:		
Employee benefit pension contributions	24	30
Other employee benefits	-	(3)
Investment in preferred interests, before tax	(15)	(10)
Income tax	2	1
Realized hedging transactions	-	1
	11	19
	14	12
Net income (loss), after rate stabilization and regulatory deferral account adjustments	$ 3	$ -

(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).

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

(a) Pension contributions:

Included in regulatory deferral account debit balances at November 30, 2017 is $15 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:

	November 30 2017	August 31 2017
Employee benefit liability (note 6)	$ (1,117)	$ (1,198)
Less:		
Regulatory deferrals of non-cash adjustments	1,143	1,251
Benefit contributions in excess of benefit expense	$ 26	$ 53
Regulatory debit (credit) balances - recovery of contributions	$ 15	$ (9)
Regulatory expense (greater) less than contributions	$ 41	$ 44

The Company uses a regulatory approach to determine the net charge to net income (loss) for pension benefit costs. The objective of this approach is to reflect the cash cost of the funded pension plans in net income (loss) by recording an adjustment to the related regulatory deferral account. These regulatory adjustments are the difference between the pension benefit costs as determined by IAS 19 *Employee Benefits* and the annual going concern cash cost of the plan. Included in the regulatory deferral related to pension contributions of $15, is the recovery of $3 of solvency deficiency contributions of $44 paid in fiscal 2017. The full amount of $44 is expected to be recovered by the fiscal year ending August 31, 2020. The funding of employee benefits as compared to the expense, net of regulatory adjustments, recorded in the consolidated statement of operations is summarized below.

	Three months ended November 30	
	2017	2016
Consolidated statement of operations		
Pension current service costs[(1)]	$ 43	$ 43
Net finance costs[(1)]	10	11
Less: Regulatory deferrals	(24)	(30)
	29	24
Company cash contributions		
Going concern current service payments	26	24
Regulatory recovery of fiscal 2017 solvency contributions	$ 3	$ -

(1) Pension current service costs do not include $1 related to the Company's unfunded pension plan (fiscal 2017 - $1) and net finance costs do not include $1 related to the Company's unfunded pension plan (fiscal 2017 - $1).

5. Investment in preferred interests of Aireon:

As discussed in note 11 to the 2017 annual consolidated financial statements, the Company's overall investment in Aireon was implemented in five stages. As at November 30, 2017, the Company has invested $150 U.S. ($193 CDN) (August 31, 2017 - $150 U.S. ($187 CDN)). The Company is represented by six out of the eleven directors on Aireon's board of directors. The Company's investment in Aireon is in preferred interests, which are redeemable and convertible to common equity.

As at November 30, 2017, the Company has recognized net deferred tax liabilities of $44 U.S. ($57 CDN) (August 31, 2017 - $55 CDN). On December 22, 2017 the U.S. government passed legislation to reduce the federal corporate income tax rate from 35% to 21%. As a result, the Company's deferred tax liability is expected to reflect this new rate for the quarter ended February 28, 2018. If the new tax rate had been substantively enacted as at November 30, 2017, the deferred tax liability reported on the condensed consolidated statement of financial position would have been reduced to $29 U.S. ($37 CDN).

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

Aireon's fiscal year end is December 31. IAS 28 *Investments in Associates and Joint Ventures* limits the difference between the end of the reporting period of a joint venture and that of the investor to no more than three months and requires adjustment to the results for any significant transactions that occur during the intervening period. The Company has chosen a two month lag period and therefore the November 30, 2017, November 30, 2016 and August 31, 2017 information presented below is based on Aireon's financial position and financial performance as at September 30, 2017, September 30, 2016 and June 30, 2017, respectively. All amounts are translated from U.S. dollars.

Aireon's financial information as at and for the three months ended November 30, 2017 reflects the adoption of IFRS 9. No significant transactions occurred during the intervening periods that were necessary to adjust for in Aireon's financial information presented as at and for the three months ended November 30, 2017 and 2016.

	November 30 2017	August 31 2017
Current assets		
Cash and cash equivalents	$ 56	$ 65
Prepaid expenses and other current assets	18	14
Non-current assets		
Property, plant and equipment	492	488
	$ 566	$ 567
Current liabilities		
Trade and other payables	$ (7)	$ (8)
Deferred revenue	(1)	-
Non-current liabilities		
Financial liabilities	(687)	(670)
	$ (695)	$ (678)
Net assets	$ (129)	$ (111)

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

	Three months ended November 30	
	2017	2016
Interest expense	$ 6	$ 2
Net loss	$ (19)	$ (5)
Other comprehensive income (loss)	(1)	(1)
Total comprehensive income (loss)	$ (20)	$ (6)

6. Employee benefits:

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

	Three months ended November 30			
	2017	2016	2017	2016
	Pension benefit plans		Other benefit plans	
Statement of operations				
Current service costs	$ 44	$ 44	$ 1	$ 1
Curtailment expense	-	-	(1)	-
Interest cost	61	57	2	2
Interest income on plan assets	(50)	(45)	-	-
Total expense	$ 55	$ 56	$ 2	$ 3
Statement of other comprehensive income				
Re-measurements:				
Return on plan assets, excluding interest income on plan assets	$ (226)	$ 107	$ -	$ -
Actuarial (gains) losses	120	(414)	6	(11)
Total recognized in other comprehensive income	$ (106)	$ (307)	$ 6	$ (11)

Net interest costs relating to employee benefits of $14 for the three months ended November 30, 2017 are comprised of interest costs and interest income on plan assets as noted above for pension benefit plans and other post-employment benefits, including $1 of interest costs related to long-term sick leave benefits.

During fiscal 2017, the Company recorded a curtailment loss on its severance benefits of $11 which was included in salaries and benefits expense. During the three months ended November 30, 2017, the curtailment expense was adjusted by $1 to reflect the elections made by represented employees. During the three months ended November 30, 2017, $26 has been paid to settle the curtailed severance benefits. The remaining settlement will be paid in fiscal 2018.

6. Employee benefits (continued):

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

	Funded plans			Unfunded plans		
	November 30 2017	August 31 2017	November 30 2016	November 30 2017	August 31 2017	November 30 2016
Discount rate	3.50%	3.60%	3.80%	3.40%	3.52%	3.67%

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

	Three months ended November 30	
	2017	2016
Funded pension plan		
Going concern current service costs	$ 26	$ 24
Unfunded pension plan	1	1
Unfunded other defined benefit plans	1	2
Less: capitalized amounts	(1)	(1)
	$ 27	$ 26

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

As described in note 13 to the 2017 annual consolidated financial statements, the Company has met its calendar 2017 solvency funding requirements of $58 with $14 of letters of credit and $44 in cash special payments. As at November 30, 2017, the Company has put in place letters of credit totaling $477 to meet its cumulative pension solvency funding requirements.

6. Employee benefits (continued):

Employee benefits are comprised of the following:

	November 30 2017	August 31 2017
Recognized asset for long-term disability benefits	$ 10	$ 11

	November 30 2017	August 31 2017
Present value of funded defined benefit obligations	$ (6,978)	$ (6,794)
Fair value of plan assets	5,861	5,596
Liability for funded defined benefit obligations	(1,117)	(1,198)
Liability for unfunded pension defined benefit obligations	(100)	(97)
Liability for unfunded other defined benefit obligations	(227)	(246)
Recognized liability for defined benefit plans	(1,444)	(1,541)
Long-term employee benefit liabilities	(47)	(45)
Total long-term employee benefit liabilities	$ (1,491)	$ (1,586)

7. 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	-	-	20	20
Transfers	9	3	(12)	-
Balance at November 30, 2017	$ 236	$ 629	$ 110	$ 975
Accumulated depreciation				
Balance at August 31, 2017	$ 39	$ 211	$ -	$ 250
Depreciation	4	18	-	22
Balance at November 30, 2017	$ 43	$ 229	$ -	$ 272
Carrying amounts				
At August 31, 2017	$ 188	$ 415	$ 102	$ 705
At November 30, 2017	$ 193	$ 400	$ 110	$ 703

8. 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	-	-	-	19	19
Disposals and write-offs	-	-	-	(1)	(1)
Transfers	-	4	14	(18)	-
Balance at November 30, 2017	$ 702	$ 169	$ 207	$ 43	$ 1,121
Accumulated amortization					
Balance at August 31, 2017	$ 75	$ 53	$ 45	$ -	$ 173
Amortization	7	4	5	-	16
Balance at November 30, 2017	$ 82	$ 57	$ 50	$ -	$ 189
Carrying amounts					
At August 31, 2017	$ 627	$ 112	$ 148	$ 43	$ 930
At November 30, 2017	$ 620	$ 112	$ 157	$ 43	$ 932

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.

	November 30, 2017		
	Amortized Cost	FVTPL	Fair value hierarchy
Financial assets			
Cash and cash equivalents [1]	$ 227	$ -	
Accounts receivable and other	92	-	
Current investments			
Debt service reserve fund[2]	70	-	
Other current assets			
Derivative assets[3]	-	1	Level 2
Investment in preferred interests[4]	-	365	Level 3
Other non-current assets			
Investments[5]		1	Level 3
Long-term receivables	3	-	
	$ 392	$ 367	
Financial liabilities			
Trade and other payables			
Trade payables and accrued liabilities	$ 213	$ -	
Derivative liabilities[3]	-	1	Level 2
Long-term debt (including current portion)			
Bonds and notes payable[6]	1,595	-	
Long-term derivative liabilities[3]	-	11	Level 2
	$ 1,808	$ 12	

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					
Long-term receivables	3	-	-	-	
	$ 327	$ 95	$ 350	$ -	
Financial liabilities					
Trade and other payables					
Trade payables and accrued liabilities	$ -	$ -	$ -	$ 227	
Derivative liabilities[3]	-	-	1	-	Level 2
Long-term debt (including current portion)					
Bonds and notes payable[6]	-	-	-	1,595	
Long-term derivative liabilities[3]	-	-	12	-	Level 2
	$ -	$ -	$ 13	$ 1,822	

(1) Cash and cash equivalents includes $80 of short-term investments as at November 30, 2017 (August 31, 2017 - $79).

(2) During the three months ended November 30, 2017, 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.

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

(4) The fair value of the Company's investment in preferred interests of Aireon is based on the price paid by three additional major air navigation service providers, namely ENAV (Italy), the Irish Aviation Authority (IAA), and Naviair (Denmark) (the Additional Investors) for preferred interests in Aireon with substantially the same characteristics as it was determined that this represents the best estimate of fair value. See note 9 (a)(i) for further discussion of the fair value.

(5) The fair value of this financial asset was determined using a discounted cash flow approach.

(6) 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 November 30, 2017, the fair value was $1,827 (August 31, 2017 - $1,835), inclusive of accrued interest of $22 (August 31, 2017 - $22).

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

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

	Investment in preferred interests
Fair value as at August 31, 2017	$ 350
Net increase in fair value[1]	3
Effect of foreign exchange	12
Fair value as at November 30, 2017	$ 365

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

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

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:

	November 30, 2017					
			Carrying amount			
	Contract Rate	Nominal amount of hedging instrument in CDN	Assets	Liabilities	Classification on statement of financial position	Changes in fair value used for calculating ineffectiveness
Cash flow hedges						
Interest rate risk						
Interest rate swaps[1]	2.79640	$175	$ -	$10	Derivative liabilities	$ -
Interest rate swaps[1]	2.77800	$25	$ -	$1	Derivative liabilities	$1
Bond forward[2]	1.76400	$137	$ -	$1	Trade and other payables	$ -

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

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

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

(2) The Company holds a bond forward agreement to mitigate the potential impact of rising interest rates on the cost of refinancing the Series MTN 2013-1 General Obligation Notes that will mature on April 19, 2018.

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

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

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

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

	Three months ended November 30	
	2017	2016
Net gain (loss) on derivatives designated as cash flow hedges		
Foreign currency forwards	$ -	$ 1
Interest rate swaps	1	35
	$ 1	$ 36

For the three months ended November 30, 2017 and 2016, the derivatives designated as cash flow hedges were considered to be fully effective and no ineffectiveness has been recognized in net income (loss).

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

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 three months ended November 30, 2017, except as noted below.

(a) Market risk

(i) Other price risk:

As discussed in note 5, the fair value of the Company's investment in Aireon increased to $365 as at November 30, 2017 (August 31, 2017 - $350). A change of 5% in the fair value would impact finance income (other finance costs) by approximately $12 U.S. ($15 CDN) as at November 30, 2017 (August 31, 2017 - $12 U.S. ($15 CDN)).

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

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

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

Aireon's liquidity has been under pressure due to delays in launching the satellites on which Aireon's payloads are hosted. For this reason, the payment of the Company's fourth and fifth tranche investments were brought forward with certain milestones waived. Aireon is currently working to secure short-term bridge financing and subsequent 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. Subsequent to November 30, 2017, the Company has committed to providing a short-term facility of up to $29 U.S. ($37 CDN) to Aireon, if required.

The Company believes the investment in preferred interests of Aireon will provide the returns it is seeking. The price paid by the Additional Investors remains the best evidence of fair value as at November 30, 2017.

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 November 30, 2017:

	Remaining payments – for years ending August 31						
	Total	2018	2019	2020	2021	2022	Thereafter
Trade payables and accrued liabilities	$ 191	$ 191	$ -	$ -	$ -	$ -	$ -
Derivative liabilities	12	1	11	-	-	-	-
Long-term debt (including current portion) [1], [2]	1,600	375	275	25	275	25	625
Interest payments [2]	592	57	69	53	46	39	328
Capital commitments [3]	135	75	13	15	6	4	22
Operating leases	38	7	8	7	7	7	2
	$ 2,568	$ 706	$ 376	$ 100	$ 334	$ 75	$ 977

(1) Payments represent principal of $1,600. The Company intends to refinance principal maturities at their maturity dates. The Company may choose to repay a portion of these maturities with available cash and/or may increase the size of a re-financing to generate additional liquidity or for other purposes, and/or may choose to redeem in whole or in part an issue in advance of its scheduled maturity.

(2) Further details on interest rates and maturity dates on long-term debt are provided in note 16 to the 2017 annual consolidated financial statements.

(3) The Company has firm commitments for the acquisition of PP&E and intangible assets amounting to $135 as at November 30, 2017 (August 31, 2017 - $141).