Serving a world in motion
Au service d'un
monde en mouvement
navcanada.ca

Unaudited Interim Condensed Consolidated Financial Statements of

NAV CANADA

Three months ended November 30, 2019 and 2018

NAV CANADA

Interim Condensed Consolidated Statements of Operations (unaudited)
Three months ended November 30

(millions of Canadian dollars)

	Notes	2019	2018
Revenue			
Customer service charges	3	$ 348	$ 344
Other revenue		16	13
		364	357
Operating expenses			
Salaries and benefits		265	245
Technical services		29	27
Facilities and maintenance		18	15
Depreciation and amortization	5, 6	37	38
Other		20	23
		369	348
Other (income) and expenses			
Finance income		(4)	(4)
Net interest expense relating to employee benefits		15	10
Other finance costs		20	19
Other gains, net of losses		-	(8)
		31	17
Net loss before net movement in regulatory deferral accounts		(36)	(8)
Net movement in regulatory deferral accounts related to net loss, net of tax	4	39	6
Net income (loss) after net movement in regulatory deferral accounts	1	$ 3	$ (2)

See accompanying notes to unaudited interim condensed consolidated financial statements.

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

	Notes	2019	2018
Net income (loss) after net movement in regulatory deferral accounts		$ 3	$ (2)
Other comprehensive income (loss)			
Items that will be reclassified to income or (loss):			
Changes in fair value of cash flow hedges		-	5
Net movement in regulatory deferral accounts related to other comprehensive income	4	-	(5)
		-	-
Total other comprehensive income (loss)		-	-
Total comprehensive income (loss)	1	$ 3	$ (2)

See accompanying notes to unaudited interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Financial Position (unaudited)

(millions of Canadian dollars)

	Notes	November 30 2019	August 31 2019
Assets			
Current assets			
Cash and cash equivalents		$ 27	$ 30
Accounts receivable and other		99	98
Investments		73	72
Other		12	13
		211	213
Non-current assets			
Investment in preferred interests		441	439
Property, plant and equipment	5	753	750
Intangible assets	6	899	906
Investment in equity-accounted investee		7	6
Related party loan receivable		3	3
Other non-current assets		1	1
		2,104	2,105
Total assets		2,315	2,318
Regulatory deferral account debit balances	4	2,126	2,087
Total assets and regulatory deferral account debit balances		$ 4,441	$ 4,405

See accompanying notes to unaudited interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Financial Position (unaudited)

(millions of Canadian dollars)

	Notes	November 30 2019	August 31 2019
Liabilities			
Current liabilities			
Bank loan		$ -	$ 8
Trade and other payables		228	242
Derivative liabilities		-	1
Deferred revenue		6	7
Current portion of long-term debt		25	25
Other current liabilities		3	-
		262	283
Non-current liabilities			
Long-term debt		1,443	1,443
Employee benefits		2,272	2,226
Deferred tax liability		48	48
Lease liability		5	-
Other non-current liabilities		1	1
		3,769	3,718
Total liabilities		4,031	4,001
Equity			
Retained earnings		31	28
Total equity		31	28
Total liabilities and equity		4,062	4,029
Regulatory deferral account credit balances	4	379	376
Commitments	8		
Total liabilities, equity and regulatory deferral account credit balances		$ 4,441	$ 4,405

See accompanying notes to unaudited interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Changes in Equity (unaudited)

(millions of Canadian dollars)

	Retained earnings	Accumulated other comprehensive income	Total
Balance August 31, 2018	$ 28	$ -	$ 28
Net loss after net movement in regulatory deferral accounts	(2)	-	(2)
Other comprehensive income (loss)	-	-	-
Balance November 30, 2018	$ 26	$ -	$ 26
Balance August 31, 2019	$ 28	$ -	$ 28
Net income after net movement in regulatory deferral accounts	3	-	3
Other comprehensive income (loss)	-	-	-
Balance November 30, 2019	$ 31	$ -	$ 31

See accompanying notes to unaudited interim condensed consolidated financial statements.

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

	Notes	2019	2018
Cash flows from (used in):			
Operating			
Receipts from customer service charges		$ 353	$ 361
Other receipts		10	13
Payments to employees and suppliers		(276)	(289)
Pension contributions - current service		(25)	(26)
Other post-employment payments		(2)	(1)
Interest payments		(17)	(20)
Interest receipts		1	-
		44	38
Investing			
Capital expenditures		(37)	(32)
Short-term loan		(1)	-
		(38)	(32)
Financing			
Net repayment of bank loans		(8)	-
Principal payment of lease liabilities		(1)	-
		(9)	-
Increase (decrease) in cash and cash equivalents		(3)	6
Cash and cash equivalents at beginning of period		30	38
Cash and cash equivalents at end of period		$ 27	$ 44

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, 2019 (2019 annual consolidated financial statements).

These interim condensed consolidated financial statements were authorized for issue by the Board on January 9, 2020.

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). This demand pattern is principally a result of the higher number of leisure travellers and their preference for 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 2019 annual consolidated financial statements, except for the application of new standards, amendments and interpretations effective September 1, 2019 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

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee that had mandatory effective dates for annual periods beginning on or after January 1, 2019.

The following standard was adopted by the Company effective September 1, 2019.

<u>IFRS 16 – Leases</u>

In January 2016, the IASB issued IFRS 16 *Leases* (IFRS 16), which replaces IAS 17 *Leases* (IAS 17) and related interpretations. IFRS 16 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 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 effective for annual periods beginning on or after January 1, 2019.

The Company adopted IFRS 16 effective September 1, 2019, using the modified retrospective approach, in accordance with the transitional provisions of the standard. As a result, the comparative information provided continues to be in accordance with the Company's previous accounting policy as disclosed in our 2019 annual consolidated financial statements.

2. Basis of presentation (continued)

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

The effect of applying IFRS 16 on September 1, 2019 had no impact on opening retained earnings as the right-of-use assets were initially measured at an amount equal to the lease liabilities. As at September 1, 2019 the Company recorded $9 as a right-of-use asset within Property, plant and equipment and a total of $9 within Current lease liability ($3) and Lease liability ($6) on the consolidated statement of financial position (see table below). Depreciation charges for the right-of-use asset are recorded in Depreciation and amortization. Interest expense on the lease liability is recorded in Other finance costs in the consolidated statement of operations.

As permitted by IFRS 16, the Company elected not to recognize lease liabilities and right-of-use assets for short-term leases and leases of low value assets, which will continue to be expensed on a straight-line basis over the lease term. The Company has also applied the practical expedient whereby we have used hindsight when determining the lease term when the lease contract contains options to extend or terminate the lease.

New Requirements

The following accounting policy applies as at September 1, 2019 following adoption of IFRS 16:

The Company enters into leases for buildings in the normal course of business. Lease contracts are typically made for fixed periods but may include renewal or termination options.

The Company assesses whether a contract is, or contains, a lease at the inception of the contract. A lease contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract contains a right to control the use of an identified asset, we assess whether:

- the contract involves the use of an identified asset;
- we have the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use; and
- we have the right to direct the use of the asset.

Right-of-use assets are initially measured at cost, comprised of the initial measurement of the corresponding lease liabilities (see below), adjusted for lease payments made at or before the commencement date, and initial direct costs, less any lease incentives received. They are subsequently depreciated on a straight-line basis to the earlier of the end of the useful life of the underlying asset or the end of the lease term. Right-of-use assets are reduced by impairment losses, if any.

Lease liabilities are recognized with the corresponding right-of-use assets for all lease agreements.

Lease liabilities are initially measured at the present value of the future lease payments, discounted using our incremental borrowing rate on the date of initial recognition. Lease payments included in the measurement of a lease liability include:

- fixed lease payments, less any lease incentives;
- variable lease payments that depend on an index or rate;
- payments relating to renewal option periods that are reasonably certain to be exercised (or periods subject to termination options that are not reasonably certain to be exercised).

They are subsequently measured at amortized cost using the effective interest method.

(millions of Canadian dollars)

2. Basis of presentation (continued)

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

Lease liabilities are remeasured, with a corresponding adjustment to the related right-of-use assets, when there is a change in variable lease payments arising from a change in an index or rate, or when the Company changes its assessment of whether renewal or termination options will be exercised.

Variable lease payments that do not depend on an index or rate are not included in the measurement of lease liabilities or right-of-use assets. The related payments are expensed in operating expenses in the period in which the event or condition that triggers those payments occurs.

Short-term leases and leases of low-value assets are expensed on a straight-line basis over the lease term.

Impact on Financial Statements

The following table summarizes the impact of adopting IFRS 16 on our September 1, 2019 consolidated statement of financial position:

	As previously reported August 31, 2019	IFRS 16 impacts	Restated September 1, 2019
Property, plant and equipment	$ 750	$ 9	$ 759
Total assets and regulatory deferral account debit balances	$ 4,405	$ 9	$ 4,414
Current portion of lease liability	$ -	$ 3	$ 3
Lease liability	-	6	6
Total liabilities	$ 4,001	$ 9	$ 4,010
Total liabilities, equity and regulatory deferral account credit balances	$ 4,405	$ 9	$ 4,414

The table below presents a reconciliation of commitments under operating leases as at August 31, 2019 to the lease liability recorded as at September 1, 2019:

	September 1, 2019
Operating lease commitments as at August 31, 2019	$ 84
Discounted using the incremental borrowing rate as at September 1, 2019	**$ 66**
Less: Contracts outside the scope of IFRS 16, including short-term leases and leases of low-value items	$ (16)
Lease commitments that have not yet commenced	(41)
Lease liability as at September 1, 2019	**$ 9**

The weighted average incremental borrowing rate applied to the lease liability was 1.84%.

(millions of Canadian dollars)

2. Basis of presentation (continued)

(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 2019 annual consolidated financial statements.

3. Revenue

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

	Three months ended November 30	
	2019	2018
Enroute [(1)]	$ 182	$ 177
Terminal [(2)]	132	130
Daily / annual / quarterly [(3)]	22	24
North Atlantic and international communication [(4)]	12	13
	$ 348	$ 344

(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 2019	Regulatory deferral	Recovery/ reversal	November 30 2019
Regulatory deferral account debit balances				
Deferred income tax	$ 48	$ -	$ -	$ 48
Employee benefits:				
Accumulating sick leave	27	-	-	27
Other post-employment benefits re-measurements	31	-	(2)	29
Pension contributions (b)	194	42	-	236
Pension re-measurements	1,653	-	-	1,653
Supplemental pension re-measurements	64	-	(1)	63
Long-term disability contributions	-	(1)	2	1
Realized hedging transaction	70	-	(1)	69
	$ 2,087	$ 41	$ (2)	$ 2,126
Regulatory deferral account (credit) balances				
Rate stabilization account (a)	$ (93)	$ (9)	$ 9	$ (93)
Derivatives	(1)	-	-	(1)
Employee benefits:				
Long-term disability contributions	(1)	-	1	-
Change in the fair value of the investment in preferred interests	(274)	(2)	-	(276)
Investment in equity-accounted investee	(3)	(1)	-	(4)
Realized hedging transaction	(4)	-	1	(3)
Lease offset [1]	-	(2)	-	(2)
	$ (376)	$ (14)	$ 11	$ (379)

[1] The Company is deferring the non-cash impacts of accounting for its head office lease in accordance with IFRS 16 using regulatory accounting. Only actual cash payments made by the Company are included for rate setting purposes.

(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 November 30	
	2019	2018
Before net movement in regulatory deferral accounts:		
Revenue	$ 364	$ 357
Operating expenses	369	348
Other (income) and expenses	31	17
	(36)	(8)
Net movement in regulatory deferral accounts:		
Rate stabilization adjustments (a)	-	(4)
Other regulatory deferral account adjustments:		
Employee benefit pension contributions	42	20
Investment in preferred interests, before tax	(2)	(11)
Investment in equity-accounted investee	(1)	(1)
Income tax	-	1
Realized hedging transactions	-	1
	39	10
	39	6
Net income (loss), after rate stabilization and regulatory deferral account adjustments	$ 3	$ (2)

(a) Rate Stabilization Account

The rate stabilization account credit balance is comprised of operating deferrals. Should actual revenue exceed the Company's actual expenses, such excess is reflected as a credit to the rate stabilization account. Conversely, should actual revenue be less than actual expenses, such shortfall is reflected as a debit to the rate stabilization account. A debit balance in the rate stabilization account represents amounts recoverable through future customer service charges, while a credit balance represents amounts returnable through reductions in future customer service charges.

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

In September 2019, the Canadian Transport Agency received an appeal by the International Air Transport Association of the revised customer service charges which were implemented on September 1, 2019 and those that took effect on January 1, 2020. Refer to note 9 for further details.

(millions of Canadian dollars)

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

The table below shows the net movements in the rate stabilization account:

	Three months ended November 30	
	2019	2018
Rate stabilization account balance, beginning of period	$ 93	$ 124
Variances from planned results:		
Revenue lower than planned	(5)	(1)
Operating expenses lower than planned	9	12
Other (income) and expenses (higher) lower than planned	(6)	12
Net movement in other regulatory deferral accounts	11	(14)
Total variances from planned results	9	9
Initial approved adjustment [1]	(9)	(5)
Net movement in rate stabilization account recorded in net income (loss)	-	4
Rate stabilization account balance, end of period	$ 93	$ 128

[1] In order to achieve breakeven results of operations in the year ending August 31, 2020 (fiscal 2020), the Board approved a reduction of the rate stabilization account as a result of a planned shortfall. As a result, $35 is being transferred out of the rate stabilization account evenly throughout the fiscal year (year ended August 31, 2019 - $18).

(b) Pension contributions

Included in regulatory deferral account debit balances at November 30, 2019 is $236 relating to the recovery through customer service charges of pension contributions (August 31, 2019 - $194). The accrued pension benefit liability, net of regulatory deferrals is as follows:

	November 30 2019	August 31 2019
Employee benefit liability	$ (1,855)	$ (1,813)
Less:		
Regulatory deferrals of non-cash adjustments	1,653	1,653
Benefit contributions less than benefit expense	$ (202)	$ (160)
Regulatory debit balances - recovery of contributions	$ 236	$ 194
Regulatory expense cumulatively less than contributions	$ 34	$ 34

(millions of Canadian dollars)

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

(b) Pension contributions (continued)

The Company uses a regulatory approach to determine the net charge to net income (loss) for pension benefit costs for its funded plans. The objective of this approach is to reflect the cash cost of the funded pension plans in net income (loss) by recording an adjustment to the related regulatory deferral account. These regulatory adjustments are the difference between the pension benefit costs as determined by IAS 19 *Employee Benefits* and the annual going concern cash cost of the plan. Included in the regulatory deferral related to pension contributions of $236, is the recovery of $10 of solvency deficiency contributions of $44 paid in the fiscal year ended August 31, 2017 (fiscal 2017). The remaining balance of $34 is expected to be recovered through future customer service charges. The funding of employee pension benefits as compared to the expense, net of regulatory adjustments, recorded in the consolidated statement of operations is summarized below.

	Three months ended November 30	
	2019	2018
Consolidated statement of operations		
Pension current service expense [(1)]	$ 54	$ 41
Net interest expense [(1)]	13	6
Less: Regulatory deferrals	(42)	(20)
	25	27
Company cash pension contributions		
Going concern current service	25	27
Regulatory recovery of fiscal 2017 solvency contributions	$ -	$ -

(1) For the three months ended November 30, 2019, pension current service expense does not include $2 related to the Company's unfunded pension plan (three months ended November 30, 2018 - $1) and net interest expense does not include $1 related to the Company's unfunded pension plan (three months ended November 30, 2018 - $1).

(millions of Canadian dollars)

5. Property, plant and equipment

Property, plant and equipment are comprised of the following:

	Land and buildings[1]	Systems and equipment	Assets under development	Total
Cost				
Balance at August 31, 2019	$ 280	$ 745	$ 117	$ 1,142
IFRS 16 transitional amount	9	-	-	9
Additions	-	-	14	14
Transfers	1	47	(48)	-
Balance at November 30, 2019	$ 290	$ 792	$ 83	$ 1,165
Accumulated depreciation				
Balance at August 31, 2019	$ 69	$ 323	$ -	$ 392
Depreciation	5	15	-	20
Balance at November 30, 2019	$ 74	$ 338	$ -	$ 412
Carrying amounts				
At August 31, 2019	$ 211	$ 422	$ 117	$ 750
At November 30, 2019	$ 216	$ 454	$ 83	$ 753

(1) Included in Land and buildings is the right-of-use asset related to the Company's head office lease (refer to note 2 (f)). Depreciation of $1 was recognized during the three months ended November 30, 2019, resulting in a carrying amount as at November 30, 2019 of $8.

(millions of Canadian dollars)

6. 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, 2019	$ 702	$ 195	$ 265	$ 39	$ 1,201
Additions	-	-	-	10	10
Transfers	-	-	20	(20)	-
Balance at November 30, 2019	$ 702	$ 195	$ 285	$ 29	$ 1,211
Accumulated amortization					
Balance at August 31, 2019	$ 125	$ 83	$ 87	$ -	$ 295
Amortization	6	5	6	-	17
Balance at November 30, 2019	$ 131	$ 88	$ 93	$ -	$ 312
Carrying amounts					
At August 31, 2019	$ 577	$ 112	$ 178	$ 39	$ 906
At November 30, 2019	$ 571	$ 107	$ 192	$ 29	$ 899

(millions of Canadian dollars)

7. Financial instruments and financial risk management

Summary of financial instruments

The following table presents the carrying amount of the Company's financial instruments, by classification category and includes the fair value hierarchy classification for each financial instrument as defined in note 15 of the 2019 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, 2019		
	Amortized Cost	FVTPL	Fair value hierarchy
Financial assets			
Cash and cash equivalents [1]	$ 27	$ -	
Accounts receivable and other	97	-	
Current investments			
Debt service reserve fund	73	-	
Other current assets			
Other receivable	1	-	
Derivative assets [2]	-	1	Level 2
Investment in preferred interests [3]	-	441	Level 3
Related party loan receivable	3	-	
Other non-current assets			
Long-term receivables	1	-	
	$ 202	$ 442	
Financial liabilities			
Trade and other payables			
Trade payables and accrued liabilities	$ 222	$ -	
Long-term debt (including current portion)			
Bonds and notes payable [4]	1,468	-	Level 2
Lease liabilities (including current portion) [5]	8	-	
	$ 1,698	$ -	

(millions of Canadian dollars)

7. Financial instruments and financial risk management (continued)

Summary of financial instruments (continued)

	August 31, 2019		
	Amortized Cost	FVTPL	Fair value hierarchy
Financial assets			
Cash and cash equivalents [1]	$ 30	$ -	
Accounts receivable and other	94	-	
Current investments			
Debt service reserve fund	72	-	
Other current assets			
Derivative assets [2]	-	1	Level 2
Investment in preferred interests [3]	-	439	Level 3
Related party loan receivable	3	-	
Other non-current assets			
Long-term receivables	1	-	
	$ 200	$ 440	
Financial liabilities			
Bank loan [6]	$ 8	$ -	
Trade and other payables			
Trade payables and accrued liabilities	233	-	
Derivative liabilities [2]	-	1	Level 2
Long-term debt (including current portion)			
Bonds and notes payable [4]	1,468	-	Level 2
	$ 1,709	$ 1	

(1) Cash and cash equivalents includes $5 of short-term investments as at November 30, 2019 (August 31, 2019 - $5).

(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 10 of the 2019 annual consolidated financial statements.

(4) 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 asking prices at the reporting date. As at November 30, 2019, the fair value was $1,745 (August 31, 2019 - $1,771), inclusive of accrued interest of $21 (August 31, 2019 - $20).

(5) Lease liabilities are measured on a discounted cash flow basis using their incremental borrowing rate.

(6) This bank loan was 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 plus an applicable margin.

There have been no transfers between levels of the fair value hierarchy since August 31, 2019.

(millions of Canadian dollars)

7. Financial instruments and financial risk management (continued)

Summary of financial instruments (continued)

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

	Investment in preferred interests
Fair value as at August 31, 2019	$ 439
Net increase in fair value [1]	3
Effect of foreign exchange	(1)
Fair value as at November 30, 2019	$ 441

[1] Net increase in fair value includes accrued dividend income.

Financial risk management

The Company is exposed to several risks as a result of holding financial instruments, including interest rate risk, foreign exchange risk, price risk, credit risk and liquidity risk. The Company's exposure to financial risks and how the Company manages each of those risks are described in note 15 (a)-(c) to the 2019 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, 2019, except as noted below.

(a) Liquidity risk

As at November 30, 2019, the Company's credit facilities available for unrestricted use are $549 (August 31, 2019 - $374). On September 12, 2019, the Company's credit facility with a syndicate of Canadian financial institutions was increased by $175 to a total of $850. The credit facility is comprised of two equal tranches maturing on September 12, 2022 and September 12, 2024.

(millions of Canadian dollars)

8. Commitments

The following table presents a maturity analysis of the Company's undiscounted contractual cash flows for its financial liabilities, capital commitments, contract commitments and lease liabilities as at November 30, 2019:

	Remaining payments – for years ending August 31						
	Total	2020	2021	2022	2023	2024	Thereafter
Trade payables and accrued liabilities	$ 203	$ 203	$ -	$ -	$ -	$ -	$ -
Long-term debt (including current portion) (1), (2)	1,475	25	275	25	25	25	1,100
Interest payments (2)	965	53	63	56	54	52	687
Capital commitments	101	48	14	9	12	3	15
Operating contract commitments	15	3	3	3	3	1	2
Future lease liabilities(3)	59	-	-	-	2	3	54
Lease liability	8	2	3	3	-	-	-
	$ 2,826	$ 334	$ 358	$ 96	$ 96	$ 84	$ 1,858

(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 14 of the 2019 annual consolidated financial statements.

(3) The Company has entered into a commitment for the lease of head office space commencing in the fiscal year ending August 31, 2023. The annual commitment is approximately $3 with a term of 20 years. The current head office lease is set to expire on October 31, 2022.

Subsequent to November 30, 2019, the Company has entered into an agreement with Aireon to provide a subordinated loan, up to a total of $11 U.S. ($15 CDN).

9. Subsequent events

The Canadian Transportation Agency received an appeal by the International Air Transport Association (IATA) dated September 13, 2019 of the revised customer services charges. The appeal alleges that the Company did not comply with notice requirements and with two of the charging principles in the ANS Act. The Company disagrees with IATA's appeal. The Company has filed material in support of its defence of the appeal and is awaiting a decision. The outcome of this appeal is indeterminable at this time.