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Unaudited Interim Condensed Consolidated Financial Statements of

NAV CANADA

Three months ended November 30, 2020 and 2019

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

	Notes	2020	2019
Revenue			
Customer service charges	3	$ 189	$ 348
Other revenue		13	16
		202	364
Operating expenses			
Salaries and benefits	4	203	265
Technical services		38	29
Facilities and maintenance		15	18
Depreciation and amortization	6, 7	40	37
Other		13	20
		309	369
Other (income) and expenses			
Finance income		(4)	(4)
Net interest expense relating to employee benefits		14	15
Other finance costs		23	20
Other gains, net of losses		(2)	-
		31	31
Net loss before net movement in regulatory deferral accounts		(138)	(36)
Net movement in regulatory deferral accounts related to net loss, net of tax	5	68	39
Net income (loss) after net movement in regulatory deferral accounts	1	$ (70)	$ 3

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

	Notes	2020	2019
Net income (loss) after net movement in regulatory deferral accounts		$ (70)	$ 3
Total other comprehensive income (loss)		-	-
Total comprehensive income (loss)	1	$ (70)	$ 3

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 2020	August 31 2020
Assets			
Current assets			
Cash and cash equivalents		$ 320	$ 689
Accounts receivable and other		73	77
Investments		218	218
Other		8	9
		619	993
Non-current assets			
Property, plant and equipment	6	730	740
Intangible assets	7	862	874
Investment in preferred interests		338	336
Long-term receivables		36	1
Investment in equity-accounted investee		7	7
Employee benefits		3	4
Other non-current assets		3	3
		1,979	1,965
Total assets		2,598	2,958
Regulatory deferral account debit balances	5	2,180	2,112
Total assets and regulatory deferral account debit balances		$ 4,778	$ 5,070

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 2020	August 31 2020
Liabilities			
Current liabilities			
Bank loan		$ -	$ 223
Trade and other payables		234	262
Current portion of long-term debt		275	275
Deferred revenue		11	11
Other current liabilities		7	6
		527	777
Non-current liabilities			
Employee benefits		2,071	2,042
Long-term debt		2,013	2,013
Deferred tax liability		21	21
Lease liability		3	3
Other non-current liabilities		1	2
		4,109	4,081
Total liabilities		4,636	4,858
Equity			
Retained earnings (deficit)		(42)	28
Total equity		(42)	28
Total liabilities and equity		4,594	4,886
Regulatory deferral account credit balances	5	184	184
Commitments	9		
Total liabilities, equity and regulatory deferral account credit balances		$ 4,778	$ 5,070

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, 2019	$ 28	$ -	$ 28
Net income after net movement in regulatory deferral accounts	3	-	3
Other comprehensive income (loss)	-	-	-
Balance November 30, 2019	$ 31	$ -	$ 31
Balance August 31, 2020	$ 28	$ -	$ 28
Net loss after net movement in regulatory deferral accounts	(70)	-	(70)
Other comprehensive income (loss)	-	-	-
Balance November 30, 2020	$ (42)	$ -	$ (42)

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	2020	2019
Cash flows from (used in):			
Operating			
Receipts from customer service charges		$ 155	$ 353
Other receipts		11	10
Government grants received		32	-
Payments to employees and suppliers		(268)	(276)
Pension contributions - current service		(34)	(25)
Other post-employment payments		(2)	(2)
Interest payments		(26)	(17)
Interest receipts		1	1
		(131)	44
Investing			
Capital expenditures		(18)	(37)
Proceeds from sale of property, plant and equipment		4	-
Short-term loan		-	(1)
		(14)	(38)
Financing			
Net repayment of bank loans		(223)	(8)
Payment of lease liabilities		(1)	(1)
		(224)	(9)
Decrease in cash and cash equivalents		(369)	(3)
Cash and cash equivalents at beginning of period		689	30
Cash and cash equivalents at end of period		$ 320	$ 27

See accompanying notes to unaudited interim condensed consolidated financial statements.

1. General Information

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 statements of operations after recording adjustments to the rate stabilization account. As a result, the Company expects 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 5.

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 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 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, 2020 (2020 annual consolidated financial statements).

These interim condensed consolidated financial statements were authorized for issue by the Board on January 13, 2021.

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 the highest revenue from air traffic experienced in the fourth quarter (June to August). This demand pattern was principally a result of the higher number of leisure travellers and their preference for travel in the summer months. The COVID-19 pandemic and the resulting economic contraction continues to have a significant negative impact on global air traffic and the aviation industry, therefore the normal seasonality pattern is not expected to occur in the fiscal year ending August 31, 2021 (fiscal 2021). The pandemic is expected to continue to have a negative impact on air travel globally until such time as travel restrictions are eased, airline passenger concerns about air travel due to COVID-19 subside, and consumer demand for air travel returns. The Company has a cost structure that is largely fixed, and accordingly costs do not vary significantly throughout the year.

The Company continues to review, monitor and take actions to reduce capital and operating spending, while at the same time ensuring the continued fulfillment of the Company's mandate to safely operate and maintain the Canadian air navigation system as an essential service and to protect the safety of its employees.

(e) Significant accounting policies

Significant accounting policies used in these interim condensed consolidated financial statements are disclosed in note 3 of the 2020 annual consolidated financial statements. The accounting policies have been applied consistently to all periods presented.

(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 2020 annual consolidated financial statements.

(millions of Canadian dollars)

3. Revenue

Customer service charges by type of air navigation service provided for the three months ended November 30 were as follows:

	2020	2019
Enroute [(1)]	$ 104	$ 182
Terminal [(2)]	69	132
Daily / annual / quarterly [(3)]	5	22
North Atlantic and international communication [(4)]	11	12
	$ 189	$ 348

Air traffic volumes, as measured by weighted charging units (a measure of the number of flights, aircraft size and distance flown), decreased 58.8% year over year. The significant decrease in air traffic volumes and associated customer service charges is mainly due to the impact of the COVID-19 pandemic.

(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.

In September 2020, the Canadian Transportation Agency (CTA) received an appeal by WestJet of the revised customer service charges implemented on September 1, 2020, requesting, among other things, the cancellation of the revised charges. The appeal alleged that the Company did not comply with two of the charging principles in the ANS Act. On January 12, 2021, the CTA dismissed the appeal filed by WestJet and in doing so, upheld the Company's revised service charges which came into effect on September 1, 2020.

4. Salaries and benefits

Salaries and benefits expenses for the three months ended November 30 were comprised of the following:

	2020	2019
Salaries and other	$ 163	$ 205
Government grant [(1)]	(42)	-
Severance and termination costs [(2)]	30	-
Fringe benefits (excluding pension)	10	14
Pension current service cost	51	56
Less: capitalized salaries and benefits	(9)	(10)
	$ 203	$ 265

(millions of Canadian dollars)

4. Salaries and benefits (continued)

(1) Receipts under the Canada Emergency Wage Subsidy have been recorded as a reduction to Salaries and benefits expenses. During the three months ended November 30, 2020, the Company recognized $42 as a reduction to Salaries and benefits in the interim condensed consolidated statements of operations. The amount receivable at November 30, 2020 was $10.

(2) On September 22, 2020 and December 9, 2020, the Company announced workforce reductions through the elimination of permanent jobs. The job cuts were across all departments and included operational students. These reductions were undertaken to address the significant impact of the COVID-19 pandemic on air traffic levels and associated revenues. Costs of $30 associated with the workforce reductions that had been approved as at November 30, 2020 were accrued for as at that date. The costs related mainly to severance and termination. During the three months ended November 30, 2020, $4 has been paid.

5. Financial statement impact of regulatory accounting

(a) 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 2020	Regulatory deferral	Recovery/ reversal	November 30 2020
Regulatory deferral account debit balances				
Rate stabilization account (b)	$ 255	$ 42	$ -	$ 297
Derivatives	4	-	-	4
Deferred income tax	21	-	-	21
Employee benefits:				
Accumulating sick leave	23	-	-	23
Other post-employment benefits re-measurements	26	-	(2)	24
Pension contributions (c)	371	26	-	397
Pension re-measurements	1,306	-	-	1,306
Supplemental pension re-measurements	38	-	(1)	37
Realized hedging transaction	68	-	-	68
Allowance for doubtful accounts [1]	-	3	-	3
	$ 2,112	$ 71	$ (3)	$ 2,180
Regulatory deferral account (credit) balances				
Derivatives	$ (1)	-	-	$ (1)
Employee benefits:				
Long-term disability contributions	(5)	-	2	(3)
Change in the fair value of the investment in preferred interests	(171)	(2)	-	(173)
Investment in equity-accounted investee	(4)	-	-	(4)
Realized hedging transaction	(2)	-	-	(2)
Lease offset	(1)	-	-	(1)
	$ (184)	$ (2)	$ 2	$ (184)

(millions of Canadian dollars)

5. Financial statement impact of regulatory accounting (continued)

(a) Regulatory Deferral Accounts (continued)

(1) The Company is deferring the non-cash impact of accounting for lifetime estimated credit losses in accordance with IFRS 9 using regulatory accounting. See note 8 for discussion of the impact on the Company's credit risk.

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

	Three months ended November 30	
	2020	2019
Before net movement in regulatory deferral accounts:		
Revenue	$ 202	$ 364
Operating expenses	309	369
Other (income) and expenses	31	31
	(138)	(36)
Net movement in regulatory deferral accounts:		
Rate stabilization adjustments (b)	42	-
Other regulatory deferral account adjustments:		
Employee benefit pension contributions	26	42
Other employee benefits	(1)	-
Investment in preferred interests, before tax	(2)	(2)
Investment in equity-accounted investee	-	(1)
Allowance for doubtful accounts	3	-
	26	39
	68	39
Net income (loss), after rate stabilization and regulatory deferral account adjustments	$ (70)	$ 3

(b) Rate Stabilization Account

The rate stabilization account 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.

(millions of Canadian dollars)

5. Financial statement impact of regulatory accounting (continued)

(b) Rate Stabilization Account (continued)

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

	Three months ended November 30 2020	2019
Rate stabilization account (debit) credit balance, beginning of period	$ (255)	$ 93
Variances from planned results:		
Revenue higher (lower) than planned	8	(5)
Operating expenses lower than planned	16	9
Other (income) and expenses lower (higher) than planned	2	(6)
Net movement in other regulatory deferral accounts	6	11
Total variances from planned results	32	9
Initial approved adjustment [1]	(74)	(9)
Net movement in rate stabilization account recorded in net income (loss)	(42)	-
Rate stabilization account (debit) credit balance, end of period	$ (297)	$ 93

[1] In order to achieve breakeven results of operations in fiscal 2021, the Board approved the fiscal 2021 budget with an increase to the debit position of the rate stabilization account as a result of a planned shortfall of $295 (fiscal year ended August 31, 2020 - $35), which will be reflected in the rate stabilization account evenly throughout the fiscal year.

(c) Pension Contributions

Included in regulatory deferral account debit balances at November 30, 2020 is $397 relating to the recovery through customer service charges of pension contributions (August 31, 2020 - $371). The accrued pension benefit liability, net of regulatory deferrals is as follows:

	November 30 2020	August 31 2020
Employee benefit liability	$ (1,669)	$ (1,643)
Less:		
Regulatory deferrals of non-cash adjustments	1,306	1,306
Benefit contributions less than benefit expense	$ (363)	$ (337)
Regulatory debit balances - recovery of contributions	$ 397	$ 371
Regulatory expense cumulatively less than contributions	$ 34	$ 34

(millions of Canadian dollars)

5. Financial statement impact of regulatory accounting (continued)

(c) 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 $397, 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 interim condensed consolidated statements of operations is summarized below.

	Three months ended November 30	
	2020	2019
Consolidated statements of operations		
Pension current service expense (1)	$ 50	$ 54
Net interest expense (1)	11	13
Less: Regulatory deferrals	(26)	(42)
	35	25
Company cash pension contributions		
Going concern current service	35	25
Regulatory recovery of fiscal 2017 solvency contributions	$ -	$ -

(1) For the three months ended November 30, 2020, pension current service expense does not include $1 related to the Company's unfunded pension plan (three months ended November 30, 2019 - $2) and net interest expense does not include $1 related to the Company's unfunded pension plan (three months ended November 30, 2019 - $1).

(millions of Canadian dollars)

6. 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, 2020	$ 294	$ 800 [2]	$ 124 [2]	$ 1,218
Additions	-	-	13	13
Disposal	-	(3)	-	(3)
Transfers	9	11	(20)	-
Balance at November 30, 2020	$ 303	$ 808	$ 117	$ 1,228
Accumulated depreciation				
Balance at August 31, 2020	$ 90	$ 388	$ -	$ 478
Depreciation	6	17	-	23
Disposal	-	(3)	-	(3)
Balance at November 30, 2020	$ 96	$ 402	$ -	$ 498
Carrying amounts				
At August 31, 2020	$ 204	$ 412 [2]	$ 124 [2]	$ 740
At November 30, 2020	$ 207	$ 406	$ 117	$ 730

(1) Included in Land and buildings is the right-of-use asset related to the Company's head office lease. Depreciation of $1 was recognized during the three months ended November 30, 2020 (three months ended November 30, 2019 - $1). The carrying amount as at November 30, 2020 is $5 (August 31, 2020 - $6).

(2) Includes reclassification of amounts previously reported.

(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, 2020	$ 702	$ 198	$ 283 [1]	$ 57 [1]	$ 1,240
Additions	-	-	-	5	5
Transfers	-	4	7	(11)	-
Balance at November 30, 2020	$ 702	$ 202	$ 290	$ 51	$ 1,245
Accumulated amortization					
Balance at August 31, 2020	$ 150	$ 102	$ 114	$ -	$ 366
Amortization	6	5	6	-	17
Balance at November 30, 2020	$ 156	$ 107	$ 120	$ -	$ 383
Carrying amounts					
At August 31, 2020	$ 552	$ 96	$ 169 [1]	$ 57 [1]	$ 874
At November 30, 2020	$ 546	$ 95	$ 170	$ 51	$ 862

[1] Includes reclassification of amounts previously reported.

(millions of Canadian dollars)

8. 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 2020 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, 2020		
	Amortized Cost	FVTPL	Fair value hierarchy
Financial assets			
Cash and cash equivalents [1]	$ 320	$ -	
Accounts receivable and other	71	-	
Current investments			
Short-term investments [2]	145		
Debt service reserve fund	73	-	
Investment in preferred interests [3]	-	338	Level 3
Other non-current assets			
Long-term receivables [4]	36	-	
Related party loan receivable	3	-	
	$ 648	$ 338	
Financial liabilities			
Trade and other payables			
Trade payables and accrued liabilities	$ 229	$ -	
Other current liabilities			
Derivative liabilities [5]	-	4	Level 2
Long-term debt (including current portion)			
Bonds and notes payable [6]	2,288	-	Level 2
	$ 2,517	$ 4	

(millions of Canadian dollars)

8. Financial instruments and financial risk management (continued)

Summary of financial instruments (continued)

	August 31, 2020		
	Amortized Cost	FVTPL	Fair value hierarchy
Financial assets			
Cash and cash equivalents (1)	$ 689	$ -	
Accounts receivable and other	73	-	
Current investments			
Short-term investments (2)	145		
Debt service reserve fund	73	-	
Investment in preferred interests (3)	-	336	Level 3
Other non-current assets			
Long-term receivables	1	-	
Related party loan receivable	3	-	
	$ 984	$ 336	
Financial liabilities			
Bank loan (7)	$ 223	$ -	
Trade and other payables			
Trade payables and accrued liabilities	255	-	
Other current liabilities			
Derivative liabilities (5)	-	3	Level 2
Long-term debt (including current portion)			
Bonds and notes payable (6)	2,288	-	Level 2
Other non-current liabilities			
Long-term derivative liabilities (5)	-	1	
	$ 2,766	$ 4	

(1) As at November 30, 2020, cash and cash equivalents include $40 of highly liquid instruments with original terms to maturity of less than three months (August 31, 2020 - $430).

(2) Short term investments are instruments invested in Canadian government T-bills, earning fixed rates of interests, averaging 0.24%, with an original maturity of more than three months.

(3) This instrument is recorded at fair value based on the valuation technique described in note 12 of the 2020 annual consolidated financial statements.

(4) Long-term receivables include $35 of deferred payments related to the September 1, 2020 service charge increase as described in note 8 (b).

(5) 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.

(6) The fair value of the Company's bonds and notes payable are classified as Level 2 in the fair value hierarchy as they are determined using secondary market asking prices at the reporting date. As at November 30, 2020, the fair value was $2,671 (August 31, 2020 - $2,659), inclusive of accrued interest of $24 (August 31, 2020 - $27).

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

(millions of Canadian dollars)

8. Financial instruments and financial risk management (continued)

Summary of financial instruments (continued)

There have been no transfers between levels of the fair value hierarchy since August 31, 2020.

Level 3 financial instruments

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, 2020	$ 336
Net increase in fair value [1]	3
Effect of foreign exchange [2]	(1)
Fair value as at November 30, 2020	$ 338

[1] Net increase in fair value includes accrued dividend income and is included in Finance income on the interim condensed consolidated statements of operations.

[2] Included in Other gains on the interim condensed consolidated statements of operations.

For the fair value of the investment in preferred interests of Aireon, reasonably possible changes at the reporting date to one of the significant unobservable inputs, holding other inputs constant, would have the following effects on net income (loss):

	Increase	Decrease
Number of years over which cash flow is expected (change of 1 year)	$ (39)	$ 52
Risk-adjusted discount rate (1% movement (100 basis points))	$ (39)	$ 39

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) of the 2020 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, 2020, except as noted below.

(a) Interest rate risk

Investments included in the Company's cash and cash equivalents and debt service reserve fund earn interest at prevailing and fluctuating market rates. If interest rates decline, earnings on these instruments would fall. During the three months ended November 30, 2020, the Company repaid borrowings of $223 under its syndicated credit facility. As a result of the repayment and change in cash and cash equivalents, as at November 30, 2020, a 100 basis point change in variable interest rates would result in an annual difference of approximately $4 in the Company's earnings before rate stabilization adjustments (August 31, 2020 - $1).

8. Financial instruments and financial risk management (continued)

Financial risk management (continued)

(b) Credit risk

The Company revised its customer service charges effective September 1, 2020, increasing charges by an average of 29.5% on overall rate levels. The service charge increase includes provisions to ease the cash flow burden of the increase on customers through payment deferral mechanisms. For the Company's fiscal 2021, the portion of monthly invoices related to the service charge increase can be deferred and will become payable in equal installments over the following five fiscal years. These provisions increase the Company's exposure to credit risk as payments required in advance and security deposits under the Company's credit policies may not be sufficient to cover potential losses.

The Company establishes an allowance for doubtful accounts that represents its estimate of lifetime expected credit losses to be incurred in respect of accounts receivable. Given the high degree of uncertainty caused by the COVID-19 pandemic, the estimates and judgments made by management in the preparation of the expected credit loss allowance are subject to estimation uncertainty. Based on the Company's current estimates and assumptions, including but not limited to current and forecasted economic and credit conditions as well as recent trend for customer collections, the Company recorded an expected credit loss allowance of $4 during the three months ended November 30, 2020.

(c) Liquidity risk

During the three months ended November 30, 2020, the Company repaid net borrowing of $223 under its syndicated credit facility, increasing the credit facilities available for unrestricted use to $573 (August 31, 2020 - $350).

Separate from the Company's syndicated credit facility are letter of credit facilities for pension funding purposes which increased to $590 as at November 30, 2020 (August 31, 2020 - $540). As at November 30, 2020, $533 was drawn for pension solvency funding purposes.

(millions of Canadian dollars)

9. Commitments

The following table presents a maturity analysis of the Company's undiscounted contractual cash flows for its financial liabilities, capital commitments and lease liabilities as at November 30, 2020:

	Remaining payments – for years ending August 31						
	Total	2021	2022	2023	2024	2025	Thereafter
Trade payables and accrued liabilities	$ 205	$ 205	$ -	$ -	$ -	$ -	$ -
Derivative liabilities	4	4	-	-	-	-	-
Long-term debt (including current portion) [1], [2]	2,300	275	25	25	25	25	1,925
Interest payments [2]	1,452	57	78	76	74	73	1,094
Capital commitments	104	42	13	8	6	7	28
Lease liability	6	3	3	-	-	-	-
Future lease liability[3]	59	-	-	2	3	3	51
Related party loan [4]	14	14	-	-	-	-	-
	$ 4,144	$ 600	$ 119	$ 111	$ 108	$ 108	$ 3,098

(1) Payments represent principal of $2,300. 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 2020 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.

(4) The Company has an agreement with Aireon to provide a subordinated loan up to a total of $11 U.S. ($14 CDN).