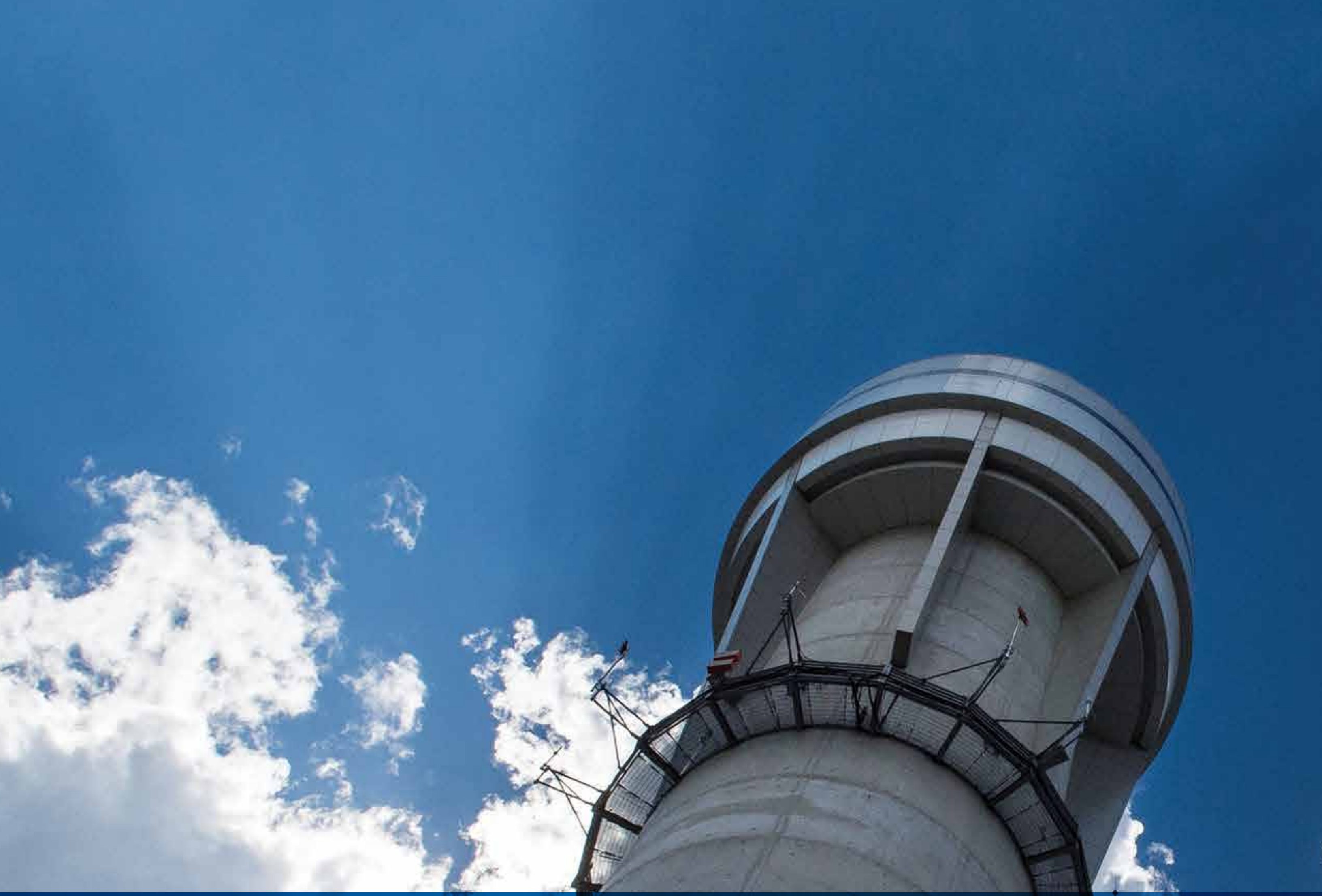
NAV CANADA

THE NEXT LEVEL

ANNUAL REPORT 2016



1996

An agreement is reached to transfer the civil ANS from the Government of Canada to NAV CANADA on November 1.

1997

NAV CANADA announces plans to invest in ANS renewal and reduce administrative costs.

1998

The world's first “glass tower” opens at Toronto Pearson International Airport with touch-sensitive screens replacing paper flight data strips.

1999

Customer service charges are set at full cost recovery as of March 1 and are significantly lower than the Air Transportation Tax they replaced.

2000

NAV CANADA invests to facilitate increased use of fuel-saving polar routes – which grow to over 15,000 flights per year by 2016.

2001

On September 11, airspace in the U.S. and Canada shuts down due to the 9/11 attacks. Within hours, NAV CANADA lands more than 1,500 aircraft without incident.

2002

NAV CANADA and NATS, the U.K. ANSP, sign an agreement leading to increased collaborative development and deployment of technology.

2003

The control tower at Montreal-Pierre Elliott Trudeau International Airport is modernized.

2004

The six Northern Radar Program sites are completed, bringing surveillance to one million square kilometres of Northern airspace.

2005

The Moncton ACC is first to make the transition to CAATS, our automated air traffic system.

2006

Naviair, the Danish ANSP, signs an agreement for the installation of NAV CANADA technology in the new Copenhagen control tower.

2007

Flights crossing North Atlantic airspace are now tracked by Canadian-designed technology, the outcome of a successful partnership between NAV CANADA and NATS.

THE NEXT LEVEL

2008

NAV CANADA introduces its Just Culture program, encouraging employees to communicate openly on safety issues.

2009

On January 1, ADS-B, combined with VHF communications, goes operational over 250,000 square nautical miles of airspace over Hudson Bay.

2010

With its commissioning at the Vancouver ACC and the Edmonton ACC's southern specialties, CAATS is now a national Flight Data Processor, with automated handoffs across the country.

2011

NAV CANADA receives IATA's Eagle Award for Best ANSP, its third to date (the other two coming in 2001 and 2010).

2012

NAV CANADA announces plans for investment in space-based ADS-B through the Aireon joint venture with Iridium Communications Inc., which will enable worldwide aircraft surveillance.

2013

Medium-Term Conflict Detection is implemented in high level airspace sectors of Moncton, Montreal, Edmonton and Winnipeg ACCs.

2014

NAV CANADA completes the national rollout of Controller-Pilot Data Link Communications in Canadian domestic airspace at FL290 and above.

2015

The $66 million Weather Systems Upgrade Program concludes, modernizing and expanding the infrastructure and technology supporting our aviation weather services.

2016

Having invested over $2 billion since 1996, NAV CANADA announces a three-year, $500 million capital expenditure program further investing in people, technology, systems and facility upgrades.

A temporary 3.7 per cent, one-year rate reduction and a 3.9 per cent revision to base rates is introduced. As of September 1, 2016, rates are below the level at which they were introduced in 1999, compared to a 40+ per cent increase in the Consumer Price Index over this time period.

CHANGE IS IN THE AIR

We're excited to reveal to you our new NAV CANADA logo. It forms the cornerstone of our renewed brand identity, which we will be rolling out in 2017. This is the first change to the NAV CANADA 'look' since the Company was founded in 1996. With twenty years of service, it was time to present a fresh image that celebrates our growth, reflects our renewed vision, and points the way as NAV CANADA takes "serving a world in motion" to the next level.

A reinterpretation of our original elliptical logo, our new NAV CANADA signature is less confined, allowing the Company name to be more prominent and impactful. As a nod to the past, the wing has been retained to remind us of the Company's foundation, but updated to offer a sense of upward movement and advancement. We have also chosen a more modern and vibrant blue that reflects the hues in the sky, while radiating a sense of innovation, inspiration and trust.

As part of our brand identity refresh, we have also established brand attributes that are reflective of the character of our Company. We are proud to say that we are committed to safety; ready to reach high with our objectives; prepared to set new standards for achievement and excellence; eager to work collaboratively with industry partners, and focused on finding inventive ways to deliver better service.

We share our new logo with pride and excitement. With two decades of exceptional service behind us, we have matured as a Company – and so too should our identity. It is a true reflection of our commitment to modernize and show leadership in the provision of safe, efficient and cost-effective air navigation services.

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MESSAGE FROM THE CHAIR OF THE BOARD

MARC COURTOIS

It is a great pleasure to introduce the 2016 NAV CANADA Annual Report in this, our 20th year.

The title of this year's report, The Next Level, was selected because it so aptly brings together two concepts that go hand in hand in our business – flight safety and performance.

Flight levels are used in air traffic control to ensure a safe vertical distance is maintained between aircraft. When the pilot of an aircraft requests to move to the next level, or an air traffic controller offers a change in flight level, it is most often to help improve efficiency and performance.

While assigning aircraft to their optimum flight level is a key function of NAV CANADA's air navigation services (ANS), keeping the Company on course at its optimum level is the focus of all our planning and execution.

In my four years as Chair, I have developed a deep appreciation for NAV CANADA's culture of continuous improvement and its drive to be always moving forward in safety, service and efficiency.

From an innovative idea in the early 1990s, to NAV CANADA's creation as a private corporation and its purchase of Canada's air navigation system in 1996, to our three Eagle Awards as world's best Air Navigation Service Provider (ANSP), this Company has always strived to reach the next level and set the pace for the industry.

SAFETY FIRST

Through all the changes of the past 20 years, our focus on safety has remained a constant, driven by a desire to continuously improve and advance.

The Company has an exemplary safety record. We continued this record in fiscal 2016, as measured by a key safety benchmark – the rate of IFR-to-IFR losses of separation per 100,000 aircraft movements. As of August 31, 2016, our five-year moving average was 0.69 per 100,000 movements – well within the top decile of major ANSPs.

We benchmark our safety data against other ANSPs and our past performance. NAV CANADA is an active member of CANSO, the Civil Air Navigation Services Organisation, and we have participated in CANSO's Performance Benchmarking Report for more than 10 years.

We are taking a lead role in CANSO's Standard of Excellence in Air Navigation Services-Safety (SEANS-Safety) program, which is designed to assess the maturity of an ANSP's safety management system (SMS). We are also working with the CANSO group that is developing a system for sharing best safety practices among members.

Our safety record has been among the best for more than a decade. Standing behind this accomplishment are dedicated and skilled people, backed by our strong safety culture and working in close collaboration with our partner organizations around the world.

KEY TO OUR SUCCESS

People have always been the key to NAV CANADA's advancement to new levels. Their role is reflected in our newly revised mission statement, which both reflects our determination to be a world leader and emphasizes our commitment to our employees. You can read our new mission statement on page 17 of this report.

Employee engagement continues to move to the next level, and this is reflected in the Company's annual awards program, Points of Pride. Once again this year, it was my privilege and pleasure to present Chairman's Awards to some of our outstanding employees at National Awards Night 2016.

The 21 winners of the 2016 Chairman's Awards are Jim Daher, Roger Morrell, André Bérubé, James Carr, Remington Danford, Bénédicte Latimer, Bob Miller, Cindy Westphal, Allen Mitchell, Matthew Collishaw, Brent Dowding, Kent Fulton, Pawel Kisielewski, Chris Stauble, Charles Daigle, Mark Libant, Kim Stolpmann, Jeff Barry, Matthew Nych, Garry Doering and Marc Lacroix.

You can view all of our National Awards winners on page 32 of this report.

BUSINESS AND FINANCE

Air traffic for fiscal year 2016 was 4.1 per cent higher than in 2015, and the Company achieved a strong financial performance, ending the year with a positive balance in its rate stabilization account.

Strong traffic growth, practiced cost control and targeted strategic investments in the ANS have combined to allow us to deliver savings to customers while increasing planned investments in people, technology and facilities.

With the notional balance of the rate stabilization account growing, the Company implemented rate reductions at the beginning of fiscal 2017 that lowered customer service charges by an average of 7.6 per cent. These reductions will save customers approximately $105 million in fiscal year 2017.

INVESTING IN THE FUTURE

At the same time, the Company announced an increased level of investment in people, technology, systems and facilities.

With this expanded capital program, NAV CANADA will be investing $500 million over the next three years in every facet of its business, from air traffic services training, to air traffic management and business systems, to new facilities, to its investment in space-based ADS-B surveillance through the Aireon joint venture.

The introduction of global air traffic services surveillance over the world's oceans and remote areas will be a game changer, improving safety and flight efficiency, and offering substantial fuel and greenhouse gas emissions savings. Aireon will truly take surveillance and ATM performance to the next level.

BOARD RENEWAL

In closing, I want to thank my colleagues on the Board of Directors for their contributions to the Company. NAV CANADA values your sound business judgment.

I would like to express my sincere appreciation to departing directors Gary Fane, James Gouk and Fred Peters for their excellent service on the Board, and I am pleased to welcome our new members, Michelle Savoy, Umar Sheikh and Louise Tardif.

Finally, on behalf of my Board colleagues, I would like to congratulate Neil Wilson in his first year as President and CEO. He is the right leader to take NAV CANADA to the next level. I would like to thank Neil, his management team and all NAV CANADA people for their hard work and dedication in moving the Company forward.

As we mark our progress and celebrate the highlights of the past 20 years, there can be no doubt that NAV CANADA remains focused on moving to the next level, striving to deliver excellence – in safety, service, technology and efficiency – for the benefit of all its stakeholders.

Marc Courtois
Chair of the Board

MESSAGE FROM THE PRESIDENT AND CEO

NEIL WILSON

"Take it to the next level" – it is the phrase we use when we've made the decision to improve our performance; to take aim at goals that promise us greater success or fulfilment.

For NAV CANADA, taking it to the next level means focusing on goals that improve the service we provide.

It means making the system safer for our customers, and their customers.

It means enhancing a work environment that allows our employees to do an even better job.

It means implementing technology that offers better air traffic management and improved data sharing for collaborative decision making.

It means evaluating and optimizing service delivery, selecting from a toolkit of procedures and airspace design options.

It means working with domestic and global partners to find solutions for common issues that will support a robust aviation industry.

Our Annual Report title and theme this year – The Next Level – was selected because it could well be NAV CANADA's informal motto, given its 20-year effort to improve the performance of the Canadian air navigation system.

MOVING TO THE NEXT LEVEL

NAV CANADA has been "levelling up" to improve its performance throughout its history. It began in 1996 with the audacious step of becoming the world's first fully privatized Air Navigation Service Provider (ANSP) with a Board of Directors consisting of Air Navigation System (ANS) stakeholders.

Over the years the Company has consistently demonstrated its desire to take it to the next level, taking aim at goals that would bring service, and safety, and added value to its customers.

We built innovative facilities like the world's first "glass tower" in Toronto in 1998, installing our own electronic flight strips in place of paper.

We reached milestones in collaboration, working with NATS in the UK to develop and deploy technology that improves service across the North Atlantic.

We introduced safety programs like Just Culture which encourages employees to openly communicate on safety issues.

We provided value to our customers with rates that, as of September 1, 2016, are lower than the level at which they were introduced in 1999, compared to a 40+ per cent increase in the Consumer Price Index over the same period.

And today, we are on the cusp of one of the greatest leaps in air navigation service, with Aireon's space-based air traffic surveillance.

To move to the next level once again —to be the ANSP the 21st century demands—will require a concerted effort by all of NAV CANADA, working closely with its stakeholders and partner organizations.

Those who know us well may notice a sharper focus and unreserved enthusiasm as we set our course for the next 20 years. Even our logo is getting a fresh look to reflect our resolve to be "best in class".

Looking ahead to 2020, you can expect us to continue taking the lead in safety, service and efficiency; delivering value to our customers.

Marking Milestones

This year I wish to mention two milestones—one for NAV CANADA, and one more personal.

On November 1, 2016, we celebrated our 20th anniversary as the owner and operator of Canada's civil ANS. Not long after that, I completed my first year as the Company's President and CEO.

The 20th anniversary is particularly meaningful for me, because I was fortunate to play a part in moving the ANS from government to the private sector in the 1990s. I joined the Company full time in 2002 and have been part of its remarkable story ever since.

During my first year as President and CEO, I travelled the country, meeting with employees from coast to coast to coast, and was inspired by what I saw and heard. NAV CANADA's people are uniquely skilled and committed to their work.

You only have to look at the outstanding performance of our people during the Fort McMurray wildfires last May to know they will never let you down.

From May 3, when Tower operations at Fort McMurray International Airport ceased, to June 10, when limited air traffic services were restored, the entire Company pulled together to provide services to customers and support to colleagues.

Two separate fundraising appeals, one by the Canadian Air Traffic Control Association and one by NAV CANADA, took in more than $90,000 from employees and were matched by the Company, to help staff affected by the tragedy, and the Fort McMurray community.

All the managers and employees who worked through the emergency demonstrated an incredible level of teamwork, and I was happy to have the opportunity to say thank you in person to our Fort McMurray staff when we met in Edmonton.

I also want to acknowledge everyone who took on extra shifts or worked longer hours, particularly those at the Peace River Flight Service Station who provided service; as well as the Engineering and Technical Operations staff who verified that the tower equipment and NAVAIDs were operational.

Maintaining Our Global Connections

NAV CANADA plays an important role in global aviation, and it was our pleasure to host the Civil Air Navigation Services Organisation (CANSO) World ATM Summit and 20th Annual General Meeting in Vancouver, BC in June 2016.

CANSO events like this one help ANSPs to maintain strong connections and exchange ideas that support the safety, sustainability and advancement of global ANS services. The 230 representatives from ANSPs and the air traffic management (ATM) industry discussed topics including safety management, collaborating with airports and airlines, and Remotely Piloted Aircraft Systems.

Levelling Up SAFETY

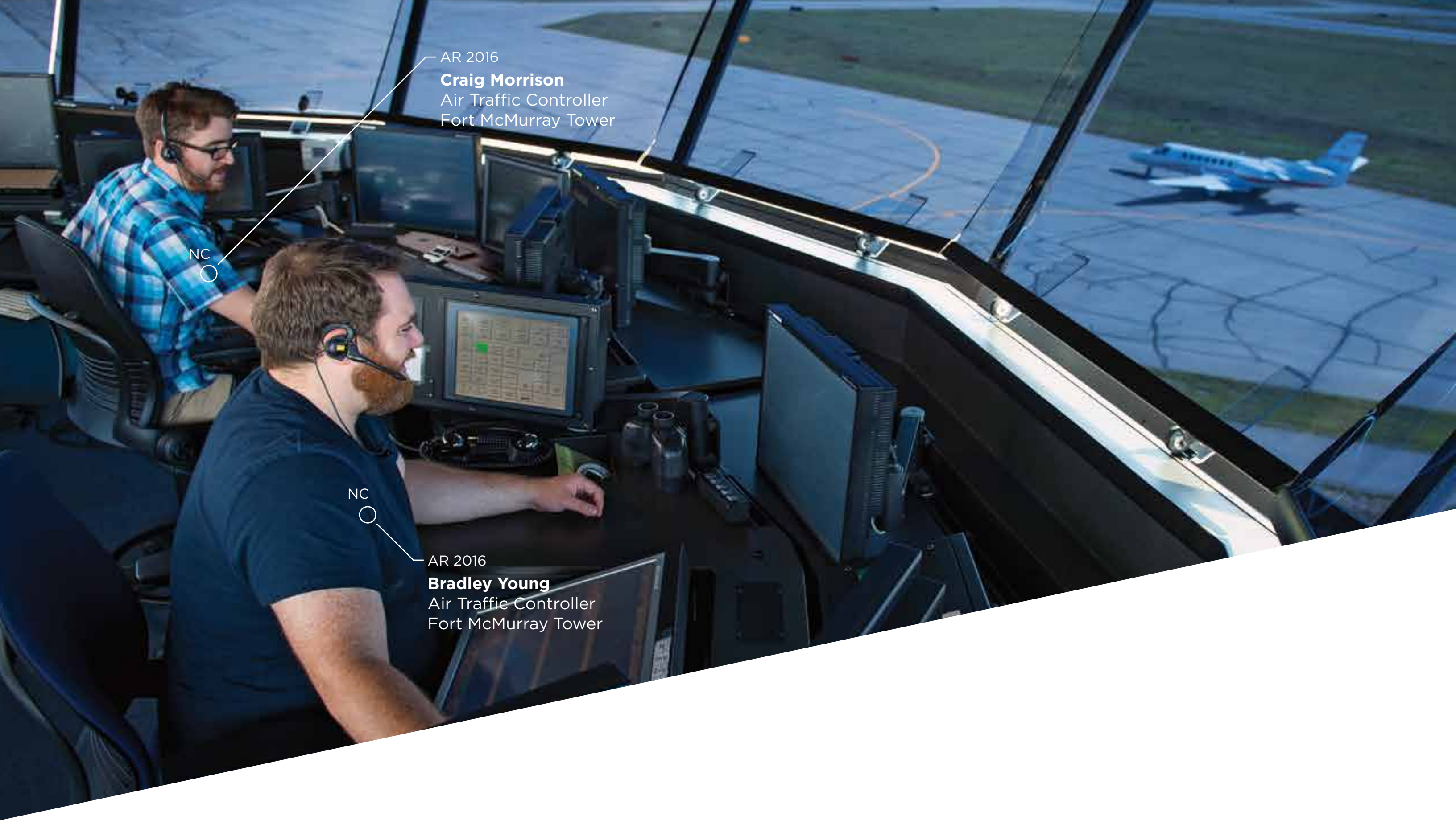
We often say that safety is our only product. When NAV CANADA was created 20 years ago, safety was built into its structure. Over the years, we have developed a strong safety culture, supported by an effective Safety Management System (SMS).

We have an exemplary safety record in the provision of air navigation services, and 2016 was no exception. However, as successful as we have been, hazards and safety risks still develop, and we must continuously improve our processes and procedures to identify and mitigate them.

New in fiscal 2016 was the introduction of the NAV CANADA Organizational Safety Event Analysis. Our Safety and Quality team use this tool to analyze operational incidents and determine whether organizational factors contributed to them.

Our SMS Integrated Working Group also developed techniques to supplement the established Hazard Identification Risk Assessment used to evaluate the safety risk of any change to our systems, equipment, procedures or products.

New processes were also added to our Quality Management System to collect, review and distribute best practices and lessons learned. This aligns with a CANSO initiative to share best practices among ANSPs.



We continue to contribute to international safety initiatives. We are taking a leading role in developing CANSO's Human Performance Standard of Excellence, and we are also members on the related Human Performance Task Force, which is focusing on important issues like fatigue.

Levelling Up PEOPLE

People are the foundation of our success, which is why we have made the creation of a "professional and fulfilling work environment for our employees" central to our mission statement.

We were pleased to be selected as one of Canada's Top 100 Employers for 2017, a national competition that recognizes employers for providing exceptional workplaces and "best in class" employee programs. We are proud of this award, but our goal is to be a top employer in the eyes of our employees.

To measure our progress on that front, we use the AON Hewitt engagement survey. Our 2016 engagement survey had a record 80.6 per cent participation rate, and the results showed an increase of the overall engagement rate for our employees to 62 per cent. This clearly indicates movement toward the next level in our corporate culture.

Labour Relations

Our employees help shape the future of NAV CANADA and that is achieved through productive labour relations.

Collective bargaining will be an important focus during the coming year, as we begin negotiations with all eight of our bargaining units.

Although collective bargaining can sometimes be challenging, we have developed strong and open lines of communication with all of our bargaining agents, and we look forward to working creatively to respond to complex issues.

Points of Pride

As I've mentioned, NAV CANADA employees are committed to doing their best every day. Our Points of Pride National Awards program is an opportunity for them to nominate colleagues who exceed even this high standard.

This year, I was pleased to present well-deserved President's Awards for Outstanding Achievement to the La Ronge Flight Service Station Team and to the MANOPS Re-Engineering Team, as well as to Jeff Cochrane, Director, Navigation and Airspace, and Simon Robert, Director, Portfolio Management and Solutions Delivery.

You can view all of our National Awards winners on page 32 of this report.

Levelling Up
SERVICE

Improving Service Delivery through Consultation

Consultation with stakeholders is critical to our efforts to improve service delivery and community relations. During fiscal 2016, we held community consultations in Calgary, Ottawa and Halifax on airspace changes to support the implementation of Required Navigation Performance (RNP) flight paths.

RNP uses satellite-based positioning and modern flight management systems to manage the aircraft's approach to the runway. RNP makes it possible to design more efficient arrival flight paths, reducing greenhouse gas emissions while maintaining safety. Its implementation, along with other performance-based navigation technologies, is recognized as a key strategy in meeting environmental objectives.

The new flight paths are in place in all three communities. We continue to work with our customers and airports on the design and implementation of flight paths that provide benefits for both airlines and the communities they serve.

Modernizing NAVAIDs

The improved accuracy, integrity and availability of satellite navigation provide us with the opportunity to reduce the requirement for ground-based NAVAIDs, although some will still be needed for aircraft recovery and to maintain flight efficiencies in terminal areas.

We continue to consult our customers and Transport Canada, our regulator, on the appropriate number of ground-based NAVAIDs to be retained. Consultations will continue through the aeronautical study process in 2017.

Reviewing Toronto Pearson Airspace

As part of our work with the Greater Toronto Airports Authority to reduce noise for the communities that surround Toronto Pearson International Airport, we commissioned an independent review of the airspace aimed at reducing noise from arriving and departing aircraft. The review team from the UK-based aviation consultancy, Helios, held community consultations in fiscal 2016.

Reducing Lateral Separation over the North Atlantic

Traditionally the tracks in North Atlantic airspace are separated by one degree of latitude – equivalent to 60 nautical miles – but advances in aircraft and air traffic management technologies mean that the separation standard can now be safely reduced to half a degree.

In December 2015, NAV CANADA and NATS began Phase 1 of a trial to implement reduced lateral separation minima (RLatSM) by adding a half-degree track within the current organized track structure, creating three tracks utilizing a half degree of separation.

Between December 2015 and September 2016, over 43,000 flights took advantage of the change, allowing them to take more efficient routes over the ocean, and reducing fuel burn and greenhouse gas emissions. The RLatSM area will be expanded in Phase 2 of the trial in fiscal 2017.

Upgrading Technology and Infrastructure

The need to modernize a system as dynamic as the ANS never stops. The Company has initiated a three-year, $500 million capital program to move us to the next level in technology and infrastructure.

From 2016 to 2019, we will focus on expanding, refurbishing and replacing facilities. We will also upgrade power systems, make important investments in technology, and improve key business systems and critical elements of our communications, navigation and surveillance infrastructure.

Projects underway include a new Tower at Waterloo Regional Airport, scheduled to open in 2017, and the replacement of Terminal Surveillance Radar at 12 sites to improve reliability and data exchange, lower maintenance costs, and mitigate potential service outages.

Aireon Advances

Aireon, our joint venture with Iridium Communications, Enav, Naviair and the Irish Aviation Authority, continues to progress. The Iridium NEXT satellites, with their Aireon Automatic Dependant Surveillance-Broadcast (ADS-B) payloads, will be launched by SpaceX from California. Meanwhile, our Engineering and Operations teams are updating our systems in preparation for full Aireon operations in 2018.

On September 21, 2016, Aireon announced it will partner with flight-tracking data company FlightAware to provide airlines with real-time global tracking of ADS-B equipped aircraft. The service, called GlobalBeacon[SM], will combine data from Aireon's space-based ADS-B network and FlightAware's flight-tracking data and web interface to help airlines comply with ICAO's Global Aeronautical Distress and Safety System requirements. Qatar Airways has been announced as the first airline that will adopt the new GlobalBeacon[SM] solution.

Financial Update

The Company's strong financial results in fiscal 2016 reflected a healthy 4.1 per cent growth in air traffic for the fiscal year, combined with continued fiscal discipline in all areas. As a result, revenues were $1,393 million, compared to $1,334 million in the previous fiscal year.

Operating expenses were $1,238 million, compared to $1,202 million in fiscal 2015. At year end, the notional balance of our rate stabilization account was $183 million which is above its target balance of $100 million. This strong performance has positioned us to be able to increase our capital investments as mentioned above, and make adjustments to our service charges.

You can view our Financial Statements on page 48 of this report.

AR 2016
Ivan Hajcman
Electronics Technologist Trainee
Thunder Bay
Maintenance Centre

FINDING THE OPTIMUM LEVEL

Reducing Service Charges

Sometimes finding the optimum flight level requires a descent. Our solid financial footing allowed us to reduce our base rates on average by 3.9 per cent and introduce a temporary one-year rate reduction of 3.7 per cent for savings of 7.6 per cent on average. Revisions to all charges except general aviation charges took effect September 1, 2016. Revised general aviation charges will come into effect March 1, 2017.

We expect these reductions will save customers $105 million in fiscal 2017 and $56 million in fiscal 2018.

Pension Discussions Continue

The Company's Pension Plan is financially sound. Growth continues with strong asset returns, although low interest rates and market volatility present a challenge. The size of the Pension Plan obligations continue to create a funding risk we are seeking to mitigate, particularly the statutory solvency deficiency. We continue to work with our bargaining agents and with OSFI to resolve this issue.

Executive Appointments

The following changes to the Company's senior management team were announced earlier this year:

> Raymond Bohn, formerly Vice President, Revenue and Pension Administration, was appointed to the new position of Senior Vice President, Human Resources, following Richard Dixon's retirement.

> Elizabeth Cameron, formerly Assistant Vice President, Labour and Employee Relations, was appointed Vice President, Labour Relations.

> Leigh Ann Kirby was appointed as the new Vice President, General Counsel and Corporate Secretary. Leigh Ann, formerly Associate Vice President, Legal at TD Bank, takes charge of the Legal and Corporate Services department.

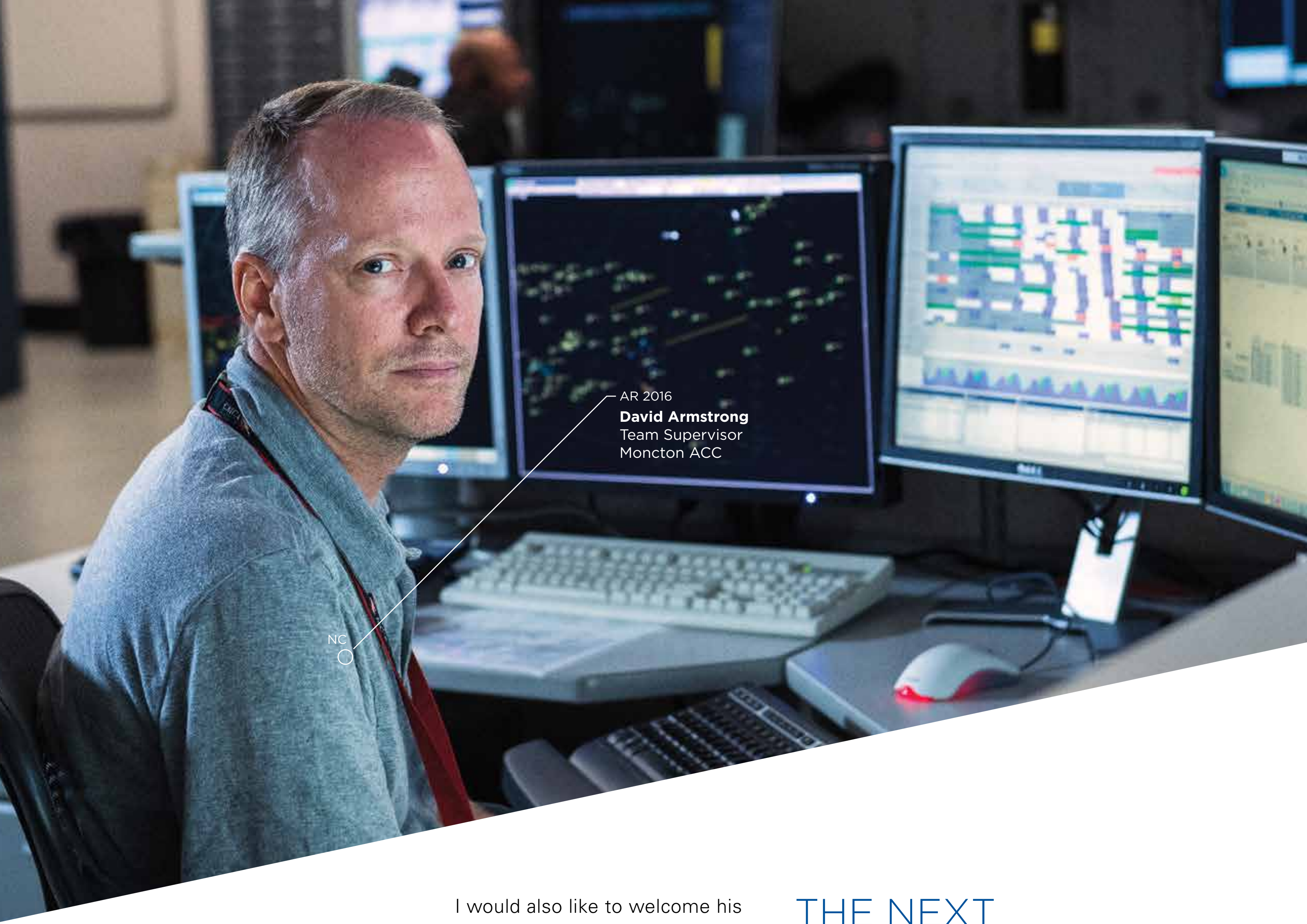
> Larry Lachance, formerly Vice President, Operations, was appointed to the position of Vice President, Safety and Quality, replacing John David, who retired.

> Donna Mathieu, previously Assistant Vice President, Pension Investments, was appointed to the position of Vice President, Pension Investments, replacing Paul Fahey, who retired.

> Rob Thurgur, who held the position of Assistant Vice President, Operational Support, was named Vice President, Operations.

Earlier this year, Andrew (Andy) Campbell, former Vice President, Customer and Commercial Services, retired following a long and successful career in aviation both at NAV CANADA and previously at First Air. Coincident with his retirement, the Customer and Commercial Services function transitioned to Service Delivery.

More recently, Brian Aitken, former Executive Vice President, Finance and Chief Financial Officer, retired at the beginning of December 2016. I'd like to express my appreciation to Brian for his business and financial leadership during his 14 years at NAV CANADA.



I would also like to welcome his successor, Alexander (Sandy) Struthers, formerly Chief Operating Officer and Executive Vice President, Strategic Planning and previously the Chief Financial Officer for Hydro One, to the NAV CANADA Executive Team. Sandy started his new position effective December 3, 2016.

I congratulate all members of the Executive Team and offer my sincere thanks and best wishes to those who retired in fiscal 2016.

THE NEXT TWENTY

In conclusion, I want to thank all of our employees, stakeholders, partners and ANSP colleagues for your support and cooperation over the past year and indeed the past 20 years. Together, we have worked to transform Canada's ANS, setting new standards of safety, service and sustainability here at home, and making meaningful contributions to support aviation around the world.

I look forward to working with all of you as we continue to take our industry to the next level.

Neil Wilson
President and CEO

NAV CANADA BY THE NUMBERS

18 million
km² of airspace

12 million
aircraft movements
annually

40,000
customers
Airlines, Air Cargo Operators, Air Charter Operators, Air Taxis, Business and General Aviation, Helicopter Operators

1,000
flights
in Gander oceanic airspace daily

14,000
flights
over polar routes in 2015

5.1 billion
litres of customer fuel savings (1997-2015)
in Collaborative Initiatives for Emissions Reductions (CIFER)

OUR VISION, MISSION AND OBJECTIVES

OUR VISION

NAV CANADA's vision is to be the world's most respected ANS:

> in the eyes of the flying public for our safety record;

> in the eyes of our customers for our fee levels, customer service, efficiency and modern technology; and

> in the eyes of our employees for establishing a motivating and satisfying workplace with competitive compensation and challenging career opportunities.

OUR MISSION

To be a world leader in the provision of safe, efficient and cost-effective air navigation services on a sustainable basis while providing a professional and fulfilling work environment for our employees.

OUR OVERARCHING OBJECTIVES

The Company will achieve its Mission by:

1. Maintaining a safety record in the top decile of major ANSPs worldwide;
2. Maintaining ANS customer service charges, on average, in the bottom quartile (lowest charges) of major ANSPs worldwide by ensuring that the growth in costs of providing air navigation services does not exceed the growth in revenues, thereby resulting in a decline in customer service charges over the long term;
3. Implementing and maintaining a modern, cost-efficient ANS technology platform in the top quartile of major ANSPs worldwide;
4. Providing value to our customers by assisting in improving operational efficiency through innovative uses of technology and delivery of service, domestically and internationally;
5. Continuously striving to create a work environment which places NAV CANADA amongst the best employers in Canada;
6. Identifying and, where feasible, introducing measurable benefits which contribute to the reduction of the environmental footprint of the aviation industry.

STRATEGIC PLAN UPDATE

Providing Value for Stakeholders

NC

AR 2016

Sadik Ahmad
AIM Geographic Information System (GIS) Assembly Specialist
Ottawa CANS

AR 2016
Andrew Cavanagh
Electronics Technologist
Vancouver Maintenance Centre

This section provides highlights of our performance against our Strategic Plan priorities during fiscal 2016, and a summary of our direction for fiscal 2017 and beyond.

SAFETY

Information about NAV CANADA's major safety goals and its progress towards its objectives can be found in the fiscal 2016 Corporate Safety Report and the Corporate Safety Plan for fiscal 2017. Below are some of the highlights.

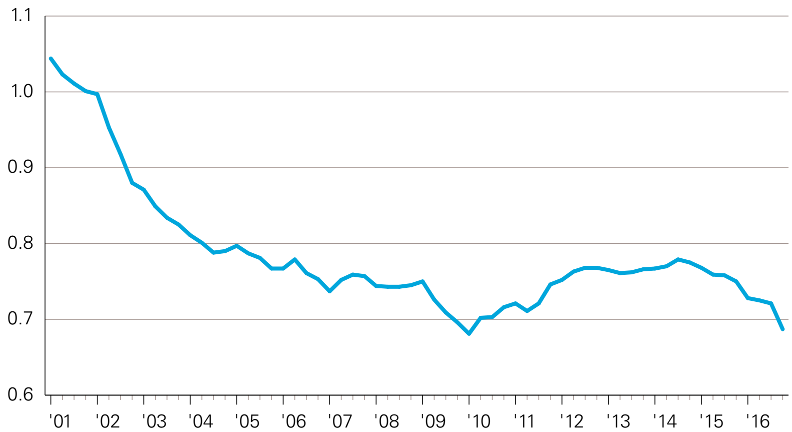
Progress

NAV CANADA took the lead as host of two Canadian Aviation Safety Officer Partnership (CASOP) forums in Vancouver, BC and Peterborough, ON in 2016. Each event attracted some 70 representatives from airlines, airports and government organizations. Discussions covered safety concerns such as laser strikes, runway incursions and unmanned aerial vehicles in our airspace, along with industry-wide initiatives involving trend analysis, just culture and change management.

Internationally, NAV CANADA is a member of the Civil Air Navigation Services Organisation (CANSO) and an active contributor to its efforts to advance global safety by participating in benchmarking activities and helping develop safety-related best practices. In September 2016, the Company hosted the first CANSO Human Performance Task Force meeting in Ottawa. This international group is developing a Standard of Excellence in Human Performance (HP) by identifying how to apply HP principles to maximize ATM safety and efficiency.

The first full Safety Management System (SMS) review of Flight Operations was completed, providing a solid platform for continuous improvement to Flight Operations Safety.

NAV CANADA Rate of IFR-IFR Losses of Separation per 100,000 Movements 5-Year Moving Average



Ongoing SMS assessments in each Flight Information Region (FIR) are now linked to a regional Safety Culture Survey that is providing timely and targeted results and enabling direct follow-up with employees in the region.

Consistency of terminology continues to be a priority. The Company recently moved to change the publication of IFR routes in major terminal and enroute phases to preferred routes, to align with standard terminology.

Direction

Several safety functions within the Company have recently been consolidated into the Safety and Quality function in order to better align strategies, and ensure collaboration on safety programs across the country.

In the upcoming year, the new organization will be communicating their expanded support function, in addition to seeking feedback from frontline employees to improve risk identification in the operational environment.

To jump start this collaboration, a sample of NAV CANADA safety policies were audited for conformance in the past year, in order to identify areas of improvement to the policies and structure. These changes will be implemented in 2017.

The Company will continue to support CASOP and the Runway Safety and Incursion Prevention Panel in order to share best practices and proactively manage safety risks in the industry.

The first phase of the multi-year NAV CANADA Safety Information System (NC-SIS) project has been completed and development of the new system—which will capture data currently reported in separate unit logs, Aviation Occurrence Reports and safety investigations—is now underway.

In the coming year, we will be benchmarking our Company's strengths and opportunities in the area of Human Performance management utilizing the new CANSO Human Performance Standard of Excellence (HP SoE).

NAV CANADA is a key partner in the development of the CANSO Standard of Excellence in Air Navigation Services-Safety, or SEANS-Safety Program. SEANS-Safety will provide CANSO members with an impartial, standardized means of assessing safety management for Air Navigation Service Providers (ANSPs).

PEOPLE

Progress

Engagement Survey

Our engagement survey lets us "check in" collectively with our employees every two years to see if the actions we initiated to respond to previous survey results and support the Company's reputation, are having a positive impact on employee engagement. In response to employee feedback, our 2016 survey was simplified to be more user-friendly, but retained key comparators so we could continue to track our progress. The survey ran during the month of February with a record high participation level and the highest engagement score since the survey was implemented in 2004.

Official Languages

NAV CANADA takes seriously its responsibility to ensure Canada's official languages, English and French, are used appropriately in its daily operations. Bilingual air traffic services are offered in accordance with the Canadian Aviation Regulations (CARs). We provide significant support for bilingual work environments in areas where this is required by the *Official Languages Act* and support organizations that promote minority language and culture in Canada.

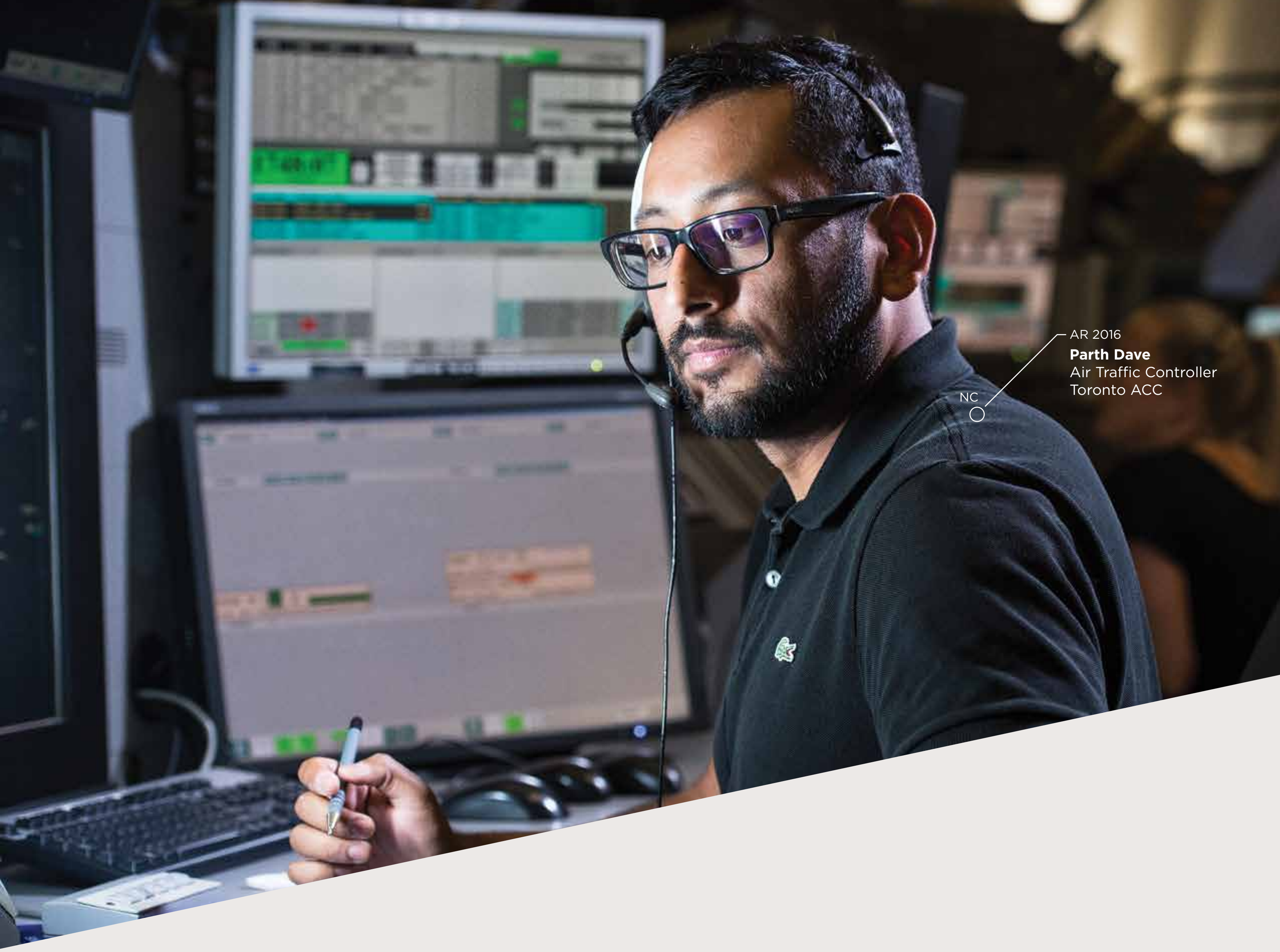
In 2016, the Commissioner of Official Languages issued an evaluation of our actions to support our obligations under the *Official Languages Act*. We received an overall grade of B, improving on our previous evaluation; with a score of A in both Official Languages Program Management and Language of Work, and a B in Service to the Public and Development of Official Language Minority Communities.

Recruitment

Earlier this year, a decision was made to eliminate tuition and provide an allowance for new employees undertaking Air Traffic Services (ATS) training. This change was met with a very positive response, as well as increased applicant numbers. In addition, the Company recently implemented a referral program for employees who wish to recommend someone they feel may have an aptitude for ATS training.

Labour Relations

Currently, collective agreements with all eight unions are in force. Since the beginning of fiscal 2016, one-year extensions to seven collective agreements representing approximately 89 per cent of our unionized workforce were ratified.



Direction

Engagement

In fiscal 2017, management will continue efforts towards improving employee engagement with a focus on leadership, performance and brand. Regular cross-country communication sessions by the CEO and other Executive Management Committee members to share the Company's accomplishments and future plans were well received in 2016 and will continue in fiscal 2017.

Official Languages

In fiscal 2017, the Company intends to generate awareness of Terminav©, its comprehensive bilingual terminology database, within the airport community and with other industry partners. Partnerships will also continue at the community level with organizations such as the Centre culturel de Cornwall and the Montreal Aviation Museum, along with support for local, regional and national events, such as the Festival Franco-Ontarien and Les Rendez-vous de la Francophonie.

Operational Staffing and Training

In fiscal 2017, the Company intends to continue its focus on advancing its recruitment, training and development strategies. Initiatives will include improvements to predictive tools and simulation tests to streamline the application process, enhancements to training materials and simulations, and additional professional development and support for instructors.

Labour Relations

NAV CANADA and its Unions will be commencing their eighth round of bargaining in fiscal 2017. Sessions began with the Air Traffic Specialists Association of Canada (ATSAC) Unifor Local 2245 and with the Canadian Air Traffic Control Association (CATCA) Unifor Local 5454 in early November 2016.

SERVICE DELIVERY

Progress

Performance-Based Navigation

Performance-Based Navigation (PBN) is becoming the worldwide standard for aircraft navigation. By using GPS technology and sophisticated avionics, PBN can offer enhanced efficiency, precision and reduced environmental impact.

Transport Canada, NAV CANADA and Canadian aviation industry representatives are continuing to work together to implement the State PBN Plan for Canada. This document, developed by the Canadian Performance-based Aviation Action Team, using the NAV CANADA PBN Operations Plan as a foundational document, outlines goals and activities in three phases to 2027.

NAV CANADA is developing required navigation performance (RNP) arrival procedures for airports across Canada.

> New RNP approaches to Kelowna Airport, Standard Terminal Arrival Routes (STARs) and sectorization in the Vancouver Area Control Centre (ACC) Airports Specialty were put in place in spring 2016. These new initiatives support Electronic Clearance Delivery for Towers and Flight Service Stations (FSS), Successive Arrivals and ongoing traffic growth.

> New RNP procedures were implemented at Calgary, Ottawa and Halifax airports following public consultation on flight path designs.

North Atlantic

The fourth North Atlantic (NAT) Operational Forum, focusing on Surveillance and Communication, met in Toronto in October 2016. Organized by NAV CANADA, with support from sponsors, NATS and Isavia, the two-day event drew 80 participants, representing airlines and cargo operators, ANSPs, industry associations and others. The purpose of the event was to help prepare stakeholders of the north and south Atlantic areas for space-based Automatic Dependent Surveillance-Broadcast (ADS-B) and support collaboration to improve the safety and efficiency of NAT operations by improving communication.

AR 2016
William Malouf
Electronics Technologist
Calgary Maintenance Centre

CIFER

In early October, NAV CANADA released its Collaborative Initiatives for Emissions Reductions (CIFER) report which summarizes the results of efforts by the Company, its customers and industry partners, to reduce the aviation industry's environmental footprint. In 2015, these efforts resulted in a reduction in emissions of 1.4 million tonnes and fuel savings of over 570 million litres. From 1997 to 2020, cumulative emissions reductions are estimated at 21 million tonnes.

Manual of Air Traffic Services

The new Manual of Air Traffic Services (MATS) was successfully launched on March 31, 2016, replacing two publications: the Air Traffic Control Manual of Operations (MANOPS) and the Flight Sevices MANOPS. Improvements include harmonized procedures, terminology and format which has been reorganized into easy-to-read tables, illustrations and flowcharts. MATS is available as four separate print and electronic (eMATS) publications, one each for Area Control Centres (ACC), Flight Information Centres (FIC), Towers and Flight Service Stations (FSS).

Direction

Airspace Initiatives

The International Civil Aviation Organization (ICAO) has developed harmonized phraseology for Standard Instrument Departures (SIDs) and Standard Terminal Arrivals (STARs) which is more explicit, eliminating possible misinterpretation by pilots. NAV CANADA will implement these changes in spring 2017.

Helios, a UK-based aviation consulting firm, has been retained to undertake a review of Toronto-Pearson airspace and to make recommendations on potential ways to reduce the noise impact on surrounding communities. The firm undertook community consultations in fall 2016. Additional consultations are planned as well as an examination of best practices in noise abatement at comparable international airports. A final report is expected in 2017.

North Atlantic Initiatives

In December 2015, NAV CANADA and NATS began a trial to implement reduced lateral separation minima (RLatSM) in the North Atlantic by introducing an additional half degree track within the standard organized track structure, thus creating three tracks utilizing half degree separation.

Between December 2015 and September 2016, over 43,000 flights took advantage of the change, allowing them to take more efficient routes over the ocean. Utilization has grown steadily throughout the trial period and future planning is underway to progress to Phase 2 of the trial by expanding the RLatSM area.

Aireon

The planned implementation of space-based ADS-B by Aireon will improve service delivery capabilities in the North Atlantic and Canadian northern airspace.

Aireon ADS-B technology will be hosted on the Iridium NEXT constellation of 66 satellites. The first 10 satellites are scheduled to be launched on a SpaceX Falcon 9 Rocket from Vandenberg Air Force Base in California. Subsequent launches of the constellation satellites carrying the Aireon ADS-B payloads are scheduled throughout 2017.

Aireon-based services in the Gander Oceanic Control Area (OCA) will be available in 2018. The first operational use of Aireon data is scheduled to occur concurrently in the Gander and Shanwick OCAs, enabling implementation of reduced longitudinal separation standards on North Atlantic tracks from 40 NM to 15 NM.

Remotely Piloted Aircraft Systems

Commercial and recreational use of Remotely Piloted Aircraft Systems (RPAS) – also known as Unmanned Air Vehicles (UAVs) – is growing worldwide.

NAV CANADA continues to actively participate in the development of domestic regulations, international standards and recommended practices for the regulation of RPAS. We have provided input to Transport Canada on the Notice of Proposed Amendment to the Canadian Aviation Regulations provisions for RPAS operations which are expected to be released in 2017, and continue to participate on the ICAO Air Navigation Commission RPAS Panel.

TECHNOLOGY

Progress

An important step in our ATM strategic plan was completed this past fiscal year with the transition to a Common Hardware Integrated Platform (CHIP) across all of our ACCs. CHIP will enable system growth utilizing the same infrastructure, while offering more fully realized system integration and information sharing, improved technology performance and reduced maintenance.

The multi-year Instrument Landing System replacement program entered its final phase with installations this past year at five additional sites in Vancouver, Abbotsford, Penticton, Toronto 33R and Toronto City Centre.

The Very High Frequency radio replacement project was a multi-year telecommunications project, started in 2010, to replace legacy analog radios with 2,000 pairs of digital radios. It was completed in August 2016 with equipment deployed at over 300 sites across the country. In addition, a multi-purpose interface capable of connecting these radios to various types of telecommunications circuits was also deployed, leaving NAV CANADA in a better position to adapt to new technology in the future.

Facility renovations and refurbishments continued in fiscal 2016. The Toronto ACC expansion is well underway, as is the tower replacement at the Region of Waterloo International Airport. Renovations were completed at the Montreal ACC, and console replacements/refurbishments were completed at 10 other facilities including Vancouver and Toronto Towers and Gander and Edmonton ACCs.

Other technology enhancements have included deployment of a new dual redundant power system for the Toronto ACC in April 2016, improving overall reliability of this critical system; installation of a new main lighting system to address glare issues in the Vancouver ACC Operations room; and completion of an eight-year, $66 million project to upgrade the Company's aviation weather systems.

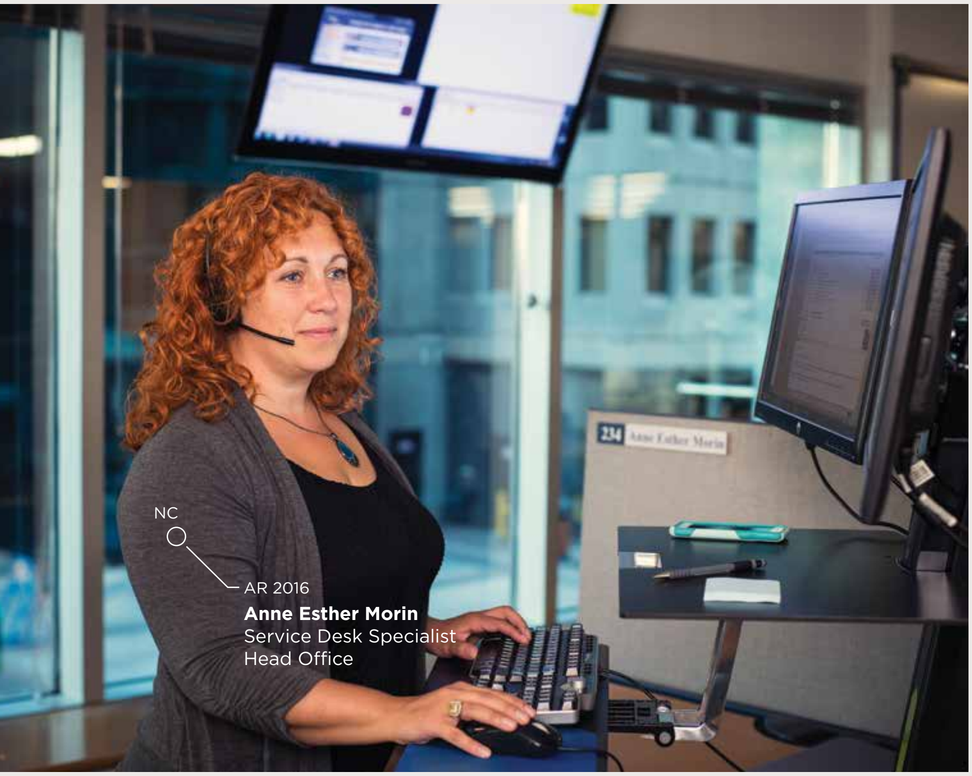
International Marketing and Development

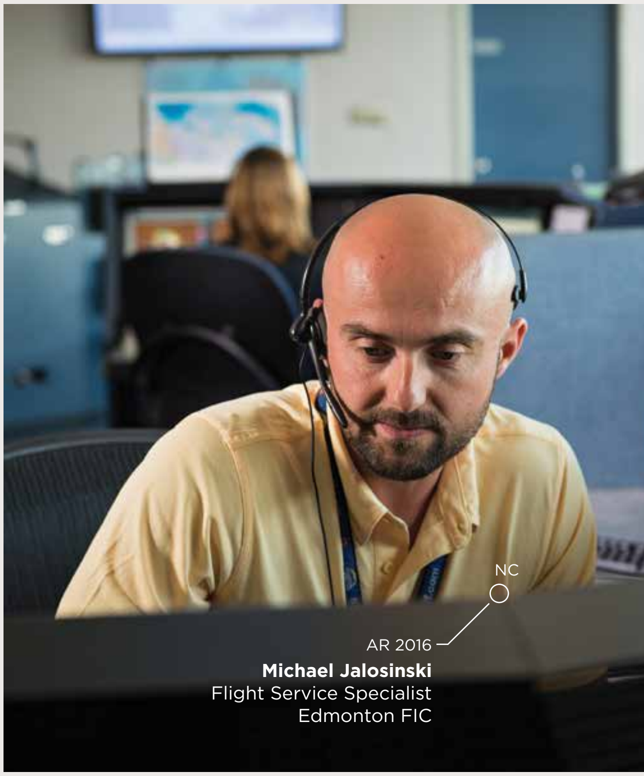
NAV CANADA was an active partner in the successful Remote Airport Concept Of OperatioN (RACOON) project led by Enav, funded by the SESAR Joint Undertaking. The project demonstrated the use of remote tower services combined with Required Navigation Performance approaches (RNP-APCH) at Malpensa and Linate airports, with live trials of more than 100 flights. NAV CANADA contributed its integrated tower technology (NAVCANsuite) – specifically its electronic strips/data manager (NAVCANstrips) and its Air and Ground Surveillance System (NAVCANsitu) – leading system integration with Searidge Technologies' video processor and other digital services.

NAV CANADA's Technical Operations and Business Development groups hosted a two-week ANS Maintenance Practices course for 25 representatives from China's Air Traffic Management Bureau (ATMB) at the NAV CENTRE in August-September 2016. This program was a follow-up to a successful course demonstration delivered the previous year in Chengdu, China.


NC

AR 2016
Tom Caines
Electronics Technologist
Gander ACC





Information Management and Productivity

The Company continues to improve its cyber security countermeasures. Employee awareness programs have been launched to reduce the security incidents caused by human error by focusing on password security and identification of phishing attempts.

Our innovative Mandatory Briefing Application continues its rollout to our Air Traffic Control Towers, as well as our Flight Information Centres. A successful pilot was also conducted with Technical Operations units and a full roll-out to work centres is in progress.

Direction

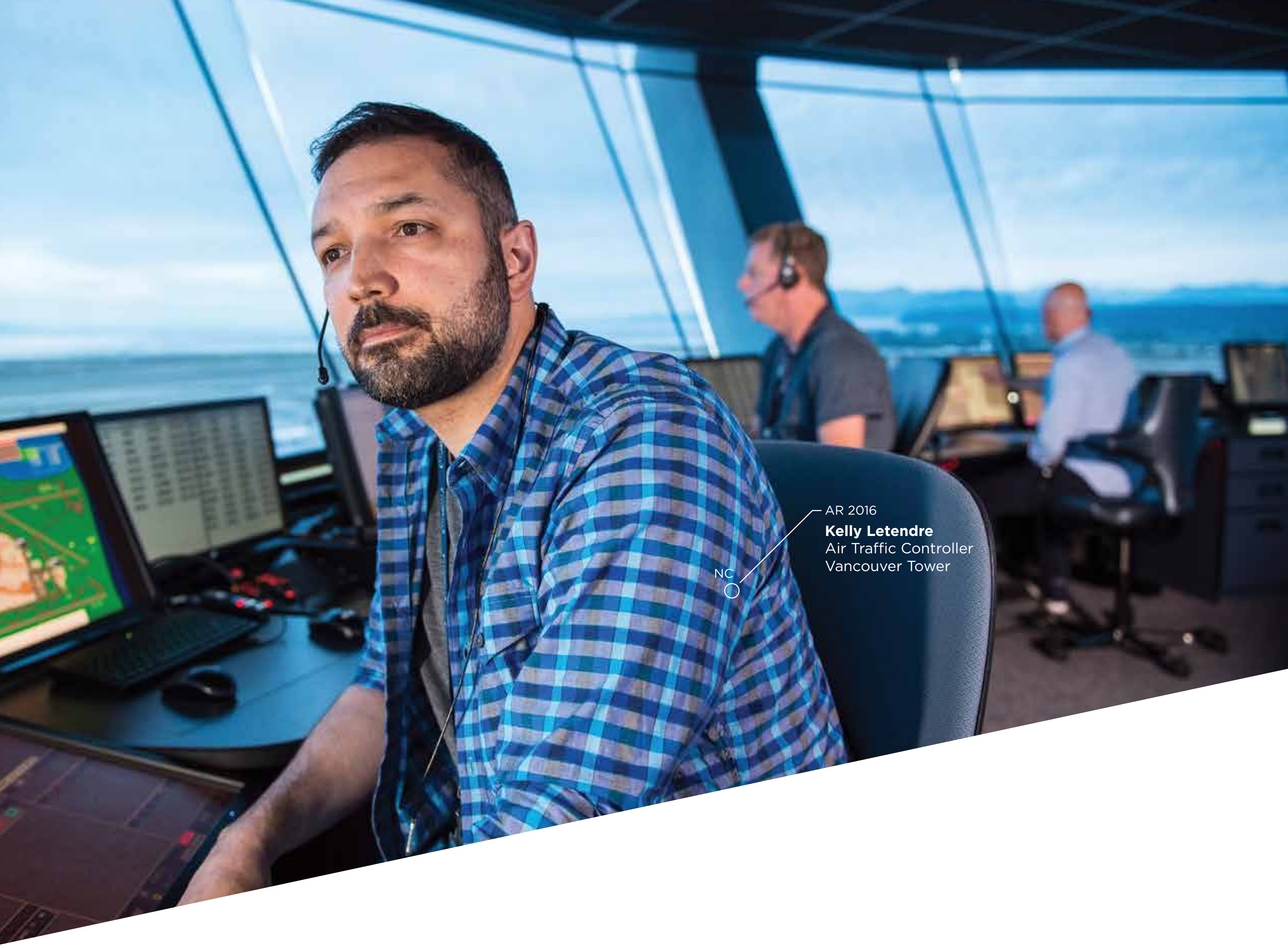
NAVAID Modernization

A multi-year project to reduce the network of ground-based NAVAIDs across the country has been initiated, taking advantage of the advances in satellite-based navigation and customer equipage to enhance safety and efficiency. Initial consultations with Transport Canada and stakeholders in all regions were held in 2016. Consultations with customers and stakeholders will continue in 2017 through the formal aeronautical study process.

Radar Renewal

NAV CANADA operates 42 radar units across the country, providing surveillance information for both primary and secondary target tracking. The radars are over 30 years old and in need of an upgrade.

The electronics components at 11 operational Terminal Surveillance Radar sites as well as the Ottawa Radar Test Facility will be replaced in a multi-year project. The operational sites include Hamilton, Toronto, Calgary, Vancouver, Victoria, Edmonton, Winnipeg, Ottawa, Montreal, Mirabel and Halifax.



International Marketing and Development

NAV CANADA is continuing its work on the Enav New Tower Architecture Project which will see the deployment of the Company's Integrated Tower Automation Suite (NAVCANsuite) in six air traffic control towers in Italy.

Aireon

In 2017, NAV CANADA will implement SATVOICE automation as a communications system to support Aireon by providing new Ground-to-Air and Air-to-Ground communications functions on the Gander and Edmonton ACCs' Voice Communications Systems. Air traffic controllers will have the ability to contact flights directly with SATVOICE, using an interface that gives them the capability to initiate a call by clicking on the aircraft tag on their surveillance display.

Enterprise Resource Planning and Office Productivity

The transition of NAV CANADA's current Enterprise Resource Planning (ERP) system to a new cloud-based platform will support the Human Resources Transformation Program, improving service delivery and productivity, reducing compliance activities and reducing technology support requirements and costs.

The planning phase (Phase 1) began early in fiscal 2017 and is focused on the development of requirements, system evaluation and project planning. Phase 2 – system implementation – will begin in the latter part of fiscal 2017.

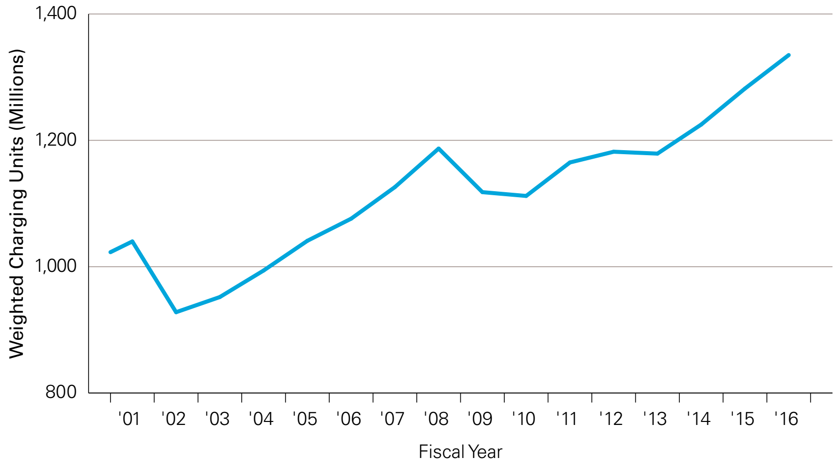
A series of foundational technologies and services were established in fiscal 2016 in preparation for the introduction of Microsoft Office 365 (O365) capabilities and cloud-based productivity solutions. The O365 platform will modernize the computing experience for employees, enable new forms of collaboration across the Company, provide new methods for mobile access to corporate productivity tools and information, as well as form the basis for future desktop computing capabilities and other cloud-based services.

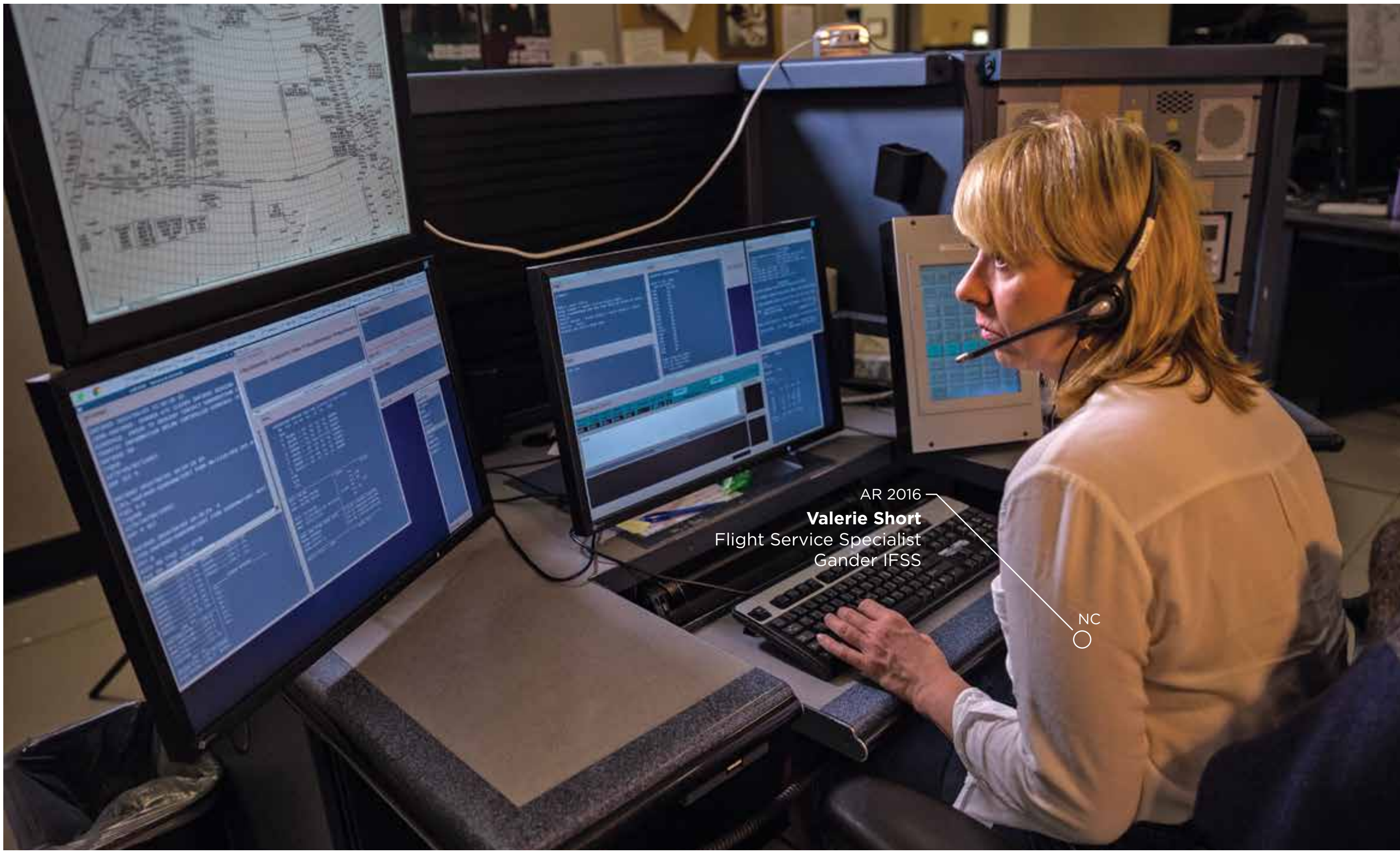
FINANCE

Progress

Financial results for the year ended August 31, 2016 reflect the growth in air traffic of 4.1 per cent as compared to fiscal 2015 and demonstrate the Company's continued commitment to controlling costs and its success in making strategic investments to support safe and efficient air navigation services.

NAV CANADA
Air Traffic Activity in Weighted Charging Units



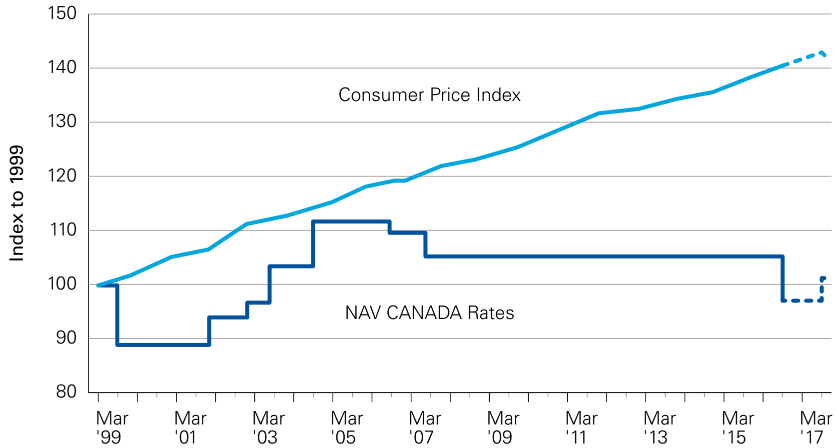


This strong performance allowed the Company to utilize its available cash in fiscal 2016 to reduce debt levels by $225 million, increase capital investments in fiscal 2017 and reduce service charges to customers.

On July 18, 2016, the Company announced the implementation of revised service charges, due to the strength of the rate stabilization account and the positive financial outlook for fiscal 2017. A temporary one-year rate reduction was introduced in addition to revisions to base rates, each effective September 1, 2016.

The temporary adjustment reduces charges for all services during fiscal 2017 – on average a 3.7 per cent reduction from fiscal 2016 base rates. Revisions were also made to its base rates to align them with costs, resulting in an average reduction of 3.9 per cent from fiscal 2016 base rates on an ongoing basis. With these revisions, customer savings are estimated at approximately $105 million for fiscal 2017 and approximately $56 million for fiscal 2018 when the temporary adjustment is due to expire.

History of NAV CANADA Rate Changes [1] Versus Consumer Price Index [2]

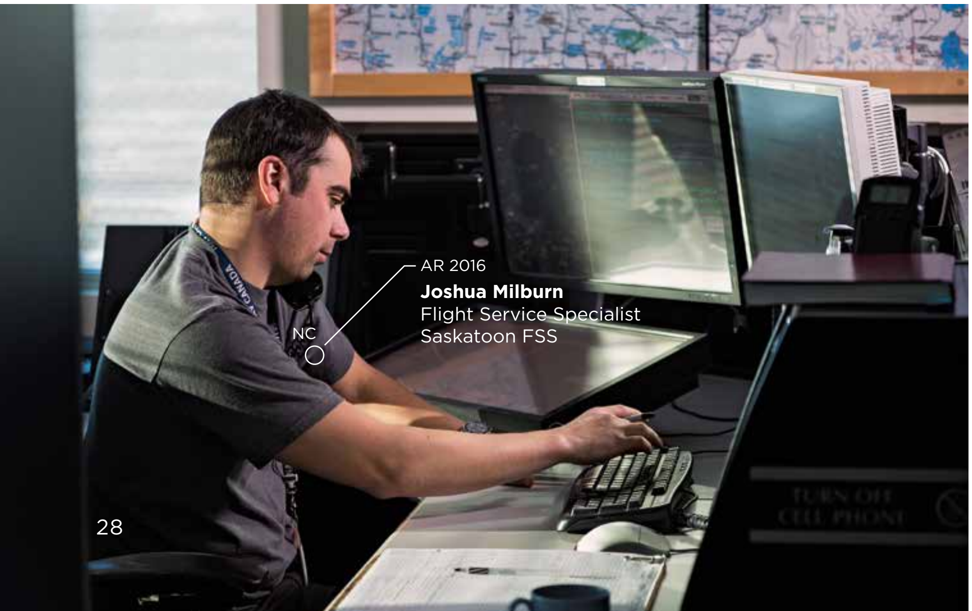


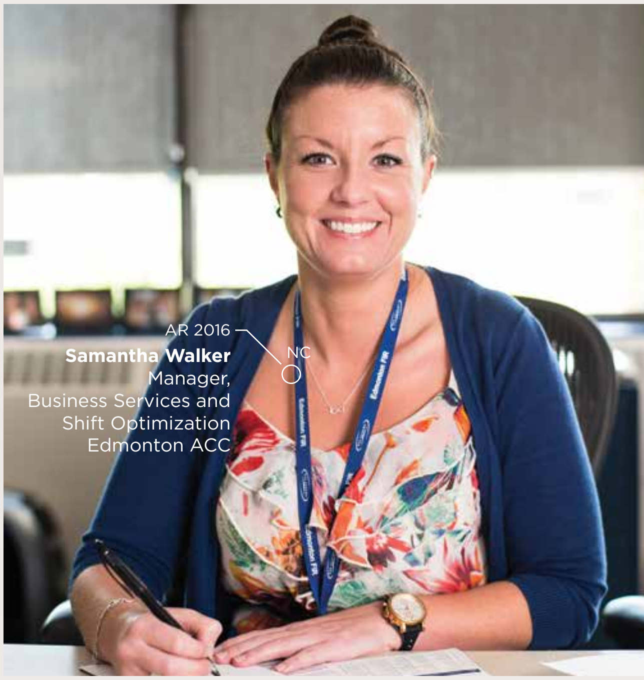
(1) Average changes since charges were fully implemented on March 1, 1999
(2) Consumer Price Index – Growth assumed to be 1.7 per cent for 2016 and beyond

Credit Ratings

The Company's debt obligations have been assigned the following ratings and outlooks:

Agency	Senior Debt	General Obligation	Outlook
DBRS Limited	AA	AA (low)	Stable
Moody's Investors Service	Aa2	Aa2	Stable
Standard & Poor's	AA	AA-	Stable





By the end of fiscal 2016, NAV CANADA had invested a total of US $120 million out of the US $150 million commitment it has made to the Aireon joint venture. The remaining two stages of investment are expected to be made by the end of calendar year 2017.

The investment performance of the NAV CANADA Pension Plan assets continued to be strong in fiscal 2016 although more volatile than in the previous year due to uncertainty in global markets about future prospects for economic growth.

The Company continued to meet its funding requirements in accordance with the regulations of the Office of the Superintendent of Financial Institutions (OSFI), based on the most recently filed actuarial valuations, as of January 1, 2016 which reported a statutory solvency deficiency of $306 million.

The Company's consolidated financial statements for the years ended August 31, 2016 and 2015 are the first annual financial statements to be prepared in accordance with International Financial Reporting Standards (IFRS). Previous annual consolidated financial statements were prepared in accordance with Canadian Generally Accepted Accounting Principles (Part V) standards. Comparative figures for fiscal 2015 have been restated to comply with IFRS.

Direction

NAV CANADA will continue to focus on initiatives that will control costs while maintaining safety and service levels. Recently announced investments in technology and facilities will be enablers to improve the safe delivery of our services and ensure optimal workspaces and equipment. However, given the uncertainty of global political and economic conditions, we will be monitoring our financial requirements on an ongoing basis to respond to changing conditions.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OUR PEOPLE

TAKING COMMUNITY COMMITMENT TO THE NEXT LEVEL

NAV CANADA employees live their values every day.

In the workplace, they are dedicated to keeping the skies safe and aircraft moving efficiently in collaboration with colleagues, customers, partners and counterparts from other Air Navigation Service Providers.

In our communities, they are committed to improving the welfare of others by supporting activities that help strengthen and enrich our community, cultural and environmental connections.

They volunteer their time and participate in a wide variety of activities ranging from coaching sports teams and running, walking or cycling for various causes, to promoting our rich cultural heritage, protecting the environment and providing for the less fortunate.

Once again this year, with the help of the Company's Contributions Program, our employees across the country raised the bar by working together to raise funds for numerous charitable organizations such as Hope Air, the MS Society and Habitat for Humanity; by supporting fundraising initiatives like Push for Change to end youth homelessness and Ride to Conquer Cancer for research and treatment; and by donating to local hospital foundations, and children and youth programming.

By remaining deeply connected to the people in their communities and understanding the challenges that they face, our employees show great compassion, unfailing kindness and an indomitable spirit in their commitment to helping others.

It is with pride that we recognize their outstanding contribution and fundraising initiatives. We wish to celebrate their extraordinary acts of giving and volunteering, and their leadership in setting new benchmarks for generosity and kindness each year.

PRESIDENT'S AWARD FOR OUTSTANDING ACHIEVEMENT

The President's Award for Outstanding Achievement recognizes those individuals or teams of employees who have made an exceptional contribution to NAV CANADA through their dedication to excellence.

Individual Winners

Jeff Cochrane
Director, Navigation and Airspace
Head Office

Simon Robert
Director, Portfolio Management and Solutions Delivery
Head Office

Team Winners – La Ronge Flight Service Station

Dan Boyer
Kevin Graves
John Guy Kunnumpuram
Michael Heyhurst
Bill Howe
Kayli Mayo
Murray Robinson
Graham Toering
Melissa Toering

Team Winners – MANOPS Re-Engineering

Communications, Public Affairs and Translation Services

Isabelle Guilbault
Tiffany Holland
France Pachebat

Operations

Jonathan Burgoyne
Tom Cooper
Melissa Coulter
Terry Cruse
Jeff Dawson
Claude Fortier
Sonia Gagné
Brad Hiscock
Derek Hudson
Scott Hunter
Neil Kirkwood
Elizabeth Kwong
Tracy Lager
Mark Leblanc
Sylvie Lemay
Alain Lemery
Todd Lewis
David Loubier
Gary Mac Adam
Sean McElroy
John Nickolchuk
Sophie Noël
Isabelle Richer
Michael Ross
Geneviève St-Pierre
Mike Strang
Dan Walker
Catherine Weaver

NATIONAL AWARD WINNERS 2016

CHAIRMAN'S AWARD FOR EMPLOYEE EXCELLENCE

The Chairman's Award for Employee Excellence recognizes those employees whose efforts have made a truly significant difference in their workplaces or in their communities.

Safety

Individual Winners

Jim Daher
Shift Manager
Winnipeg ACC

Roger Morrell
Air Traffic Controller
Toronto ACC

Team Winners – VFR Phraseology Guide

Communications, Public Affairs and Translation Services

André Bérubé
Manager, Translation and Terminology Services
Head Office

Bénédicte Latimer
Communications Specialist
Head Office

Office of Safety and Quality

James Carr
Manager, Human Performance
Head Office

Service Delivery

Remington Danford
Operational Information Analyst
Head Office

People

Bob Miller
Site Manager, Springbank Tower, Lethbridge FSS and Medicine Hat FSS
Springbank Tower

Cindy Westphal
Manager, Quality Assurance, Projects and Employee Development
Winnipeg ACC

Performance

Charles Daigle
Electronics Maintenance Specialist
Moncton ACC

Customer Service

Individual Winner

Allen Mitchell
Data Systems Coordinator (Retired)
Moncton ACC

Team Winners – Tofino Airspace Project

Matthew Collishaw
Engineering Project Leader
Vancouver ACC

Brent Dowding
Installation Technologist
Vancouver ACC

Kent Fulton
Team Supervisor, Regional Engineering
Vancouver ACC

Pawel Kisielewski
Engineering Project Leader
Vancouver ACC

Chris Stauble
Installation Technologist
Vancouver ACC

Technology

Individual Winners

Mark Libant
Manager, Flight Information Services Automation
Ottawa TSC

Kim Stolpmann
Operational Flight Service Support Specialist
Ottawa TSC

Team Winners – Dual Redundant Powerhouse

Jeff Barry
Project Manager, Electrical Services
Head Office

Matthew Nych
Manager, Electrical Power System Engineering
Head Office

Community Service

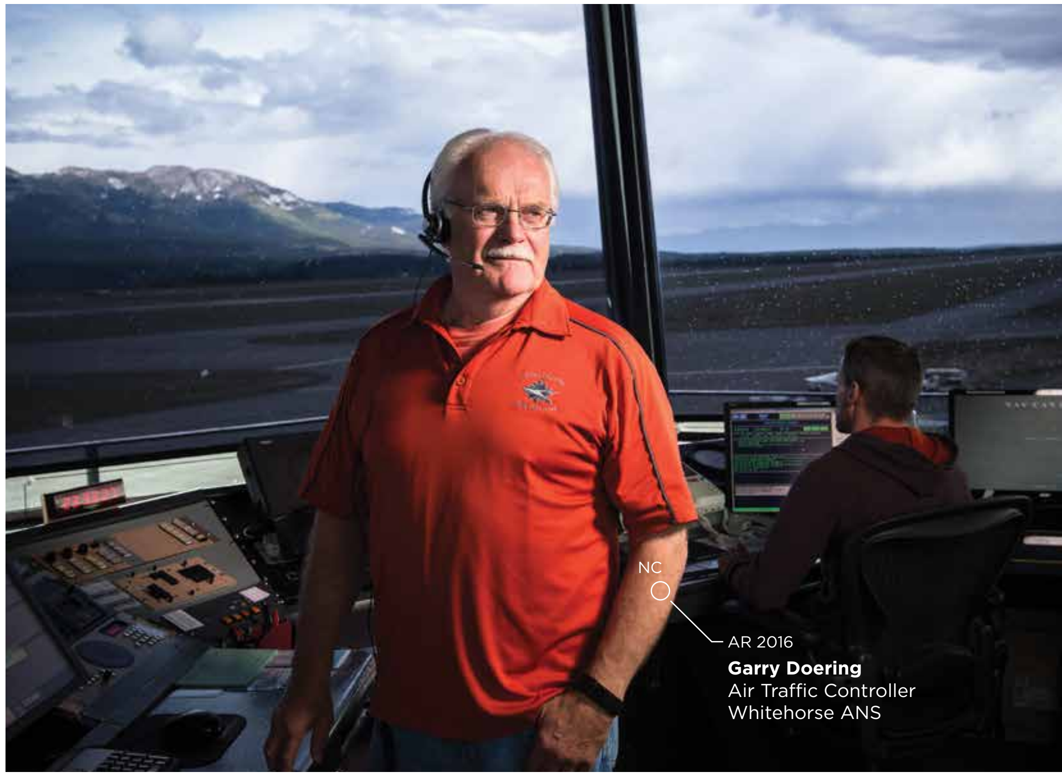
Garry Doering
Air Traffic Controller
Whitehorse ANS

Marc Lacroix
Manager, Technical Operations
Montreal FIR

CORPORATE GOVERNANCE

NC

AR 2016
Sally Hung
Air Traffic Controller
Vancouver ACC



BOARD OF DIRECTORS STRUCTURE AND COMPOSITION

The Company's overall approach to corporate governance follows best practices and keeps pace with evolving requirements, including those under applicable securities legislation.

The Board is comprised of 15 directors, all of whom are required to be Canadian citizens. One director (the President and CEO) is an employee of the Company. All other directors are "independent" directors as that term is defined in National Instrument 52-110 *Audit Committees* (NI 52-110).

NAV CANADA represents a unique consensus among the major stakeholders in the ANS – the Government of Canada, commercial air carriers, general aviation and our unionized employees. Our governance structure reflects this consensus. All four of these major stakeholders are Members of the Company. In addition, there is a Director Member.

The result is a board of directors where all stakeholder interests are represented but none dominates. The Board's committees are similarly constituted except for the Human Resources & Compensation Committee. The five Members elect the directors as follows:

Member	Number of Directors Elected
Government of Canada	3
Commercial Air Carriers	4
General Aviation	1
Labour Unions	2
Directors	4

The Board discharges its responsibilities directly and through committees. The Board holds five scheduled meetings each year and unscheduled meetings are held from time to time as required. Our By-laws disqualify from directorship any person elected to the Parliament of Canada or any provincial legislature or territorial legislative assembly; federal, provincial or territorial government employees; and directors or employees of an entity that has a material interest as a supplier, client or customer of the ANS. Every director and officer of the Company is required to sign and abide by our *Code of Conduct and Conflict of Interest Guidelines*.

DIRECTORS

Directors are elected for terms not exceeding three years, with terms expiring at the Company's Annual Meeting. No director, other than the President and CEO, may serve as a director for more than twelve years in total. Set out below is information on the current directors, including their Committee membership and meeting attendance records for the fiscal year ended August 31, 2016.

Marc Courtois

DIRECTOR;
CHAIR OF THE BOARD

Quebec, Canada
Elected by: Board of Directors
Director since: February 16, 2012
Current term expires: 2018

Meeting Attendance/Committee Membership	
Board	9/9
Audit & Finance Committee*	5/5
Corporate Governance Committee	3/3
Customer Service Charges Committee*	3/3
Human Resources & Compensation Committee*	10/10
Pension Committee*	4/5
Safety Committee	4/4

**ex officio member*

Principal Occupation in Last Five Years:
Corporate Director

Edward M. Barrett

DIRECTOR; CHAIR OF THE CUSTOMER SERVICE CHARGES COMMITTEE

New Brunswick, Canada
Elected by: Board of Directors
Director since: February 7, 2013
Current term expires: 2019

Meeting Attendance/Committee Membership	
Board	9/9
Corporate Governance Committee	3/3
Customer Service Charges Committee	3/3
Human Resources & Compensation Committee	10/10
Pension Committee	5/5

Principal Occupation in Last Five Years:
Co-CEO and Chair of Barrett Corporation since 1996

Mary-Ann Bell

DIRECTOR

Quebec, Canada
Elected by: Government
Director since: May 30, 2014
Current term expires: 2017

Meeting Attendance/Committee Membership	
Board	9/9
Customer Service Charges Committee	3/3
Human Resources & Compensation Committee	10/10
Safety Committee	4/4

Principal Occupation in Last Five Years:
Corporate Director. From 2009 to 2014, Senior Vice President, Quebec and Ontario, Bell Aliant Regional Communications.

Jean Coté

DIRECTOR

Quebec, Canada
Elected by: Commercial Air Carriers
Director since: January 14, 2015
Current term expires: 2018

Meeting Attendance/Committee Membership	
Board	9/9
Audit & Finance Committee	5/5
Pension Committee	5/5

Principal Occupation in Last Five Years:
Corporate Director. Prior to January 2015, Vice President, Commercial Operations, Air Transat.

Robert J. Davis

DIRECTOR; CHAIR OF THE SAFETY COMMITTEE

Ontario, Canada
Elected by: Commercial Air Carriers
Director since: April 8, 2009
Current term expires: 2018

Meeting Attendance/Committee Membership	
Board	9/9
Audit & Finance Committee	5/5
Safety Committee	4/4

Principal Occupation in Last Five Years:
Corporate Director

Michael DiLollo

DIRECTOR

Ontario, Canada
Elected by: Commercial Air Carriers
Director since: February 7, 2013
Current term expires: 2019

Meeting Attendance/Committee Membership	
Board	9/9
Audit & Finance Committee	5/5
Customer Service Charges Committee	3/3

Principal Occupation in Last Five Years:
Chief Executive Officer of Caribbean Airlines from May 21, 2014 until October 28, 2015. From January to October 2012, Vice President, Airline Operations, Medatlantica Group. President, Transat Tours Canada from 2009 to 2011.

Bonnie DuPont

DIRECTOR; CHAIR OF THE HUMAN RESOURCES & COMPENSATION COMMITTEE

Alberta, Canada
Elected by: Board of Directors
Director since: February 7, 2013
Current term expires: 2019

Meeting Attendance/Committee Membership	
Board	9/9
Corporate Governance Committee	3/3
Human Resources & Compensation Committee	10/10

Principal Occupation in Last Five Years:
Corporate Director

Linda Hohol

DIRECTOR; CHAIR OF THE AUDIT & FINANCE COMMITTEE

Alberta, Canada
Elected by: Board of Directors
Director since: February 16, 2012
Current term expires: 2018

Meeting Attendance/Committee Membership	
Board	9/9
Audit & Finance Committee	5/5
Customer Service Charges Committee	3/3
Pension Committee	5/5

Principal Occupation in Last Five Years:
Corporate Director

Arthur J. LaFlamme

DIRECTOR

Ontario, Canada
Elected by: General Aviation
Director since: February 16, 2012
Current term expires: 2018

Meeting Attendance/Committee Membership	
Board	9/9
Human Resources & Compensation Committee	10/10
Safety Committee	4/4

Principal Occupation in Last Five Years:
Corporate Director

Robert Reid

DIRECTOR; CHAIR OF THE CORPORATE GOVERNANCE COMMITTEE

Ontario, Canada
Elected by: Commercial Air Carriers
Director since: April 8, 2009
Current term expires: 2018

Meeting Attendance/Committee Membership	
Board	9/9
Corporate Governance Committee	3/3
Human Resources & Compensation Committee	10/10

Principal Occupation in Last Five Years:
Corporate Director

Michelle Savoy
DIRECTOR

Ontario, Canada
Elected by: Government
Director since: December 15, 2015
Current term expires: 2018

Meeting Attendance/Committee Membership	
Board	6/6
Corporate Governance Committee	1/1
Pension Committee	2/3

Principal Occupation in Last Five Years:
Corporate Director

Umar Sheikh
DIRECTOR

British Columbia, Canada
Elected by: Labour Unions
Director since: January 13, 2016
Current term expires: 2019

Meeting Attendance/Committee Membership	
Board	5/5
Audit & Finance Committee	2/2
Safety Committee	2/2

Principal Occupation in Last Five Years:
General Counsel and Director of Legal Services, British Columbia Nurses' Union

Scott Sweatman
DIRECTOR;
CHAIR OF THE PENSION COMMITTEE

British Columbia, Canada
Elected by: Labour Unions
Director since: April 8, 2010
Current term expires: 2019

Meeting Attendance/Committee Membership	
Board	9/9
Corporate Governance Committee	3/3
Customer Service Charges Committee*	3/3
Pension Committee	5/5

**Mr. Sweatman became a member of the Customer Service Charges Committee on January 13, 2016.*

Principal Occupation in Last Five Years:
Partner at Dentons Canada LLP. From February 2010 to March 2013, Partner at Spectrum HR Law LLP.

Louise Tardif
DIRECTOR

Ontario, Canada
Elected by: Government
Director since: April 29, 2016
Current term expires: 2019

Meeting Attendance/Committee Membership	
Board	2/2
Audit & Finance Committee	1/1
Pension Committee	1/1

Principal Occupation in Last Five Years:
Corporate Director

Neil R. Wilson
DIRECTOR

Ontario, Canada
Director since: January 1, 2016
Current term expires: N/A

Meeting Attendance/Committee Membership	
Board	6/6
Pension Committee	4/4
Safety Committee	3/3

Principal Occupation in Last Five Years:
President and CEO of the Company from January 1, 2016. From December 1, 2012 to December 31, 2015, Executive Vice President, Administration and General Counsel of the Company. From July 15, 2002 to November 30, 2012, Vice President, General Counsel and Corporate Secretary of the Company.

GENDER DIVERSITY

The Company and the Board recognize the importance of diversity, including gender, in the selection of directors and executive officers and believe that diversity enhances corporate and board discussion, viewpoints and, ultimately, performance.

While there are no targets in place regarding the representation of women on the Board or when hiring executive officers, the Company has an *Employment Equity and Diversity Policy* which applies when hiring and promoting executive officers. This policy sets out an objective that the Company's hiring practices are to be as much a reflection of the Canadian labour market as possible, while improving designated group representation within the workplace and supporting diversity in its business practices.

Two thirds of the Board's members are elected by the Company's stakeholder members and while the Board cannot dictate requirements to those stakeholders, the Corporate Governance Committee of the Board regularly examines the experience, skills and attributes, including gender, required for filling Board vacancies, and communicates these requirements to our stakeholder members for their consideration when electing directors. The Corporate Governance Committee similarly identifies desirable competencies and attributes, including gender, while ensuring an appropriate mix of skills and experience with respect to those directors elected by the Board.

Currently, one third (33%) of the Board members are women, with 100% of the Government-elected directors and 50% of the Board-elected directors being women. There are three women on the Executive Management Committee of the Company. Within the senior management group, which by definition includes individuals in policy-making functions, 27% are women.

BOARD COMMITTEES

Our Board has six committees, as described below, which do not take action or make decisions on behalf of the Board unless specifically mandated to do so.

Audit & Finance Committee		
Mandate	**Meetings held in fiscal year**	**Current Membership**
Assists the Board in fulfilling its oversight responsibilities relating to the Company's financial reporting and disclosure obligations, including review of annual and interim financial statements, the integrity of the Company's financial reporting and internal controls, the oversight of the Company's internal audit function, compliance with legal and regulatory requirements, and the qualifications, independence and performance of the Company's public accountants. The Committee also provides oversight on treasury matters and reviews and recommends to the Board any financing and/or financial risk management transactions proposed by management. In addition, the Committee provides oversight of the Company's cyber security strategies and implementation as they relate to the Company's business systems.	Five	Linda Hohol, Chair Jean Coté Robert Davis Michael DiLollo Umar Sheikh Louise Tardif

Corporate Governance Committee		
Mandate	**Meetings held in fiscal year**	**Current Membership**
Develops general policies relating to corporate governance to ensure that the Company has in force an effective corporate governance system that adds value and assists the Company in achieving its objectives.	Three	Robert Reid, Chair Edward Barrett Marc Courtois Bonnie DuPont Michelle Savoy Scott Sweatman

Customer Service Charges Committee		
Mandate	**Meetings held in fiscal year**	**Current Membership**
Assists the Board in fulfilling its responsibilities in establishing or revising the Company's customer service charges.	Three	Edward Barrett, Chair Mary-Ann Bell Michael DiLollo Linda Hohol Scott Sweatman

Human Resources & Compensation Committee		
Mandate	**Meetings held in fiscal year**	**Current Membership**
Provides oversight to ensure a high quality of leadership within NAV CANADA, an employee and labour relations strategy that provides for a productive and fulfilling work environment, and ongoing flexibility and productivity throughout the Company. As well, the Committee ensures that the human resources plans and programs reflect the Company's human resources values and principles.	Ten	Bonnie DuPont, Chair Edward Barrett Mary-Ann Bell Arthur LaFlamme Robert Reid

Pension Committee		
Mandate	**Meetings held in fiscal year**	**Current Membership**
Oversees the investment management of plan assets and the administration of the Company's retirement plans, which include two registered pension plans and supplementary retirement arrangements. At the invitation of the Chair, an observer member, nominated by the employees' unions, attends the meetings.	Five	Scott Sweatman, Chair Edward Barrett Jean Coté Linda Hohol Michelle Savoy Louise Tardif Neil Wilson Peter Duffey, Observer

Safety Committee		
Mandate	**Meetings held in fiscal year**	**Current Membership**
Oversees the safety of the Company's air navigation services and products, primarily by monitoring the integrity and effectiveness of our risk management safety policies. In addition, the Committee provides oversight of the Company's cyber security strategies and implementation as they relate to the Company's operational facilities and operational systems.	Four	Robert Davis, Chair Mary-Ann Bell Marc Courtois Arthur LaFlamme Umar Sheikh Neil Wilson

DIRECTOR COMPENSATION

The By-laws of the Company provide that reasonable remuneration be paid to directors (other than the President and CEO) for attendance and participation at meetings of the Board and committees as fixed by resolution of the Board. Board members receive annual retainers, meeting fees, travel fees, and have the option of participating in an executive medical health assessment program, which is a taxable benefit. Board members are also entitled to per diems when they are required to conduct business on behalf of the Board (other than attendance at seminars, trade association meetings, training, or for preparation for Board and/or committee meetings). Directors' compensation is reviewed every two years. Effective September 1, 2015, the annual retainer for Board members was increased to $56,000 and the Chair of the Board's annual fee was increased to $182,750. No other changes in directors' compensation had been made since October 21, 2010.

Board of Directors Fees		
		Effective September 1, 2015
Annual Retainer	$	56,000
Board Meeting Attendance Fee		1,500
Board Teleconference Meeting Fee		
> for meetings more than one hour		1,000
> for meetings less than one hour		500
Travel Fee (if required to travel across two provinces for the purpose of attending directors' or committee meetings)		1,500
Per Diem [(1)]		
> full day		1,250
> half day		750
Committee Fees		
Committee Member Annual Retainer per Committee	$	4,000
Audit & Finance Committee Member Annual Retainer		5,000
Audit & Finance Committee Chair Annual Retainer		15,000
Human Resources & Compensation Committee Chair Annual Retainer		10,000
Annual Retainer for other Committee Chairs		7,500
Committee Meeting Attendance Fee		1,500
Committee Teleconference Meeting Fee		
> for meetings more than one hour		1,000
> for meetings less than one hour		500
Other		
Chair of the Board Annual Fee [(2)]	$	182,750

(1) Per diems are paid to directors when they are required to conduct business on behalf of the Board other than attendance at seminars, trade association meetings, training, or for preparation for Board and/or committee meetings.

(2) The Chair of the Board receives no additional meeting fees or other retainers or fees, but is entitled to reimbursement for travel fees.

Directors' Compensation Fiscal 2016			
Name	Fees Earned	All Other Compensation (10)	Total
Edward Barrett	$ 115,250	$ 12,000	$ 127,250
Mary-Ann Bell	$ 104,500	$ 1,500	$ 106,000
Jean Coté	$ 91,500	$ 1,500	$ 93,000
Marc Courtois (1)	$ 182,750	$ 1,500	$ 184,250
John Crichton (2)	–	–	–
Robert Davis	$ 98,000	$ 1,500	$ 99,500
Michael DiLollo	$ 90,500	$ 4,500	$ 95,000
Bonnie DuPont	$ 103,500	$ 13,250	$ 116,750
Gary Fane (3)	$ 39,375	$ 3,000	$ 42,375
James Gouk (4)	$ 25,500	$ 3,000	$ 28,500
Linda Hohol	$ 116,000	$ 9,000	$ 125,000
Arthur LaFlamme	$ 95,000	$ 1,500	$ 96,500
Fred Peters (5)	$ 70,250	$ 1,500	$ 71,750
Robert Reid	$ 101,000	$ 2,750	$ 103,750
Michelle Savoy (6)	$ 55,538	$ 1,500	$ 57,038
Umar Sheikh (7)	$ 53,393	$ 3,000	$ 56,393
Scott Sweatman	$ 102,500	$ 7,500	$ 110,000
Louise Tardif (8)	$ 27,079	–	$ 27,079
Neil Wilson (9)	–	–	–

(1) Mr. Courtois receives an annual fee as Chair of the Board and no other additional fees for attendance at meetings. He is entitled to reimbursement for travel fees.

(2) As former President and CEO, Mr. Crichton did not receive directors' fees. Mr. Crichton retired effective December 31, 2015.

(3) Mr. Fane retired from the Board on January 13, 2016.

(4) Mr. Gouk stepped down from the Board on November 24, 2015.

(5) Mr. Peters retired from the Board on April 30, 2016.

(6) Ms. Savoy joined the Board on December 15, 2015.

(7) Mr. Sheikh joined the Board on January 14, 2016.

(8) Ms. Tardif joined the Board on April 29, 2016.

(9) As President and CEO, Mr. Wilson does not receive directors' fees. Mr. Wilson became President and CEO effective January 1, 2016.

(10) Includes travel fees paid to directors who are required to travel across two provinces for meetings, and per diems, which are paid when a director is required to conduct business on behalf of the Board other than attendance at seminars, trade association meetings, training, or for preparation for Board and/or committee meetings.

EXECUTIVE COMPENSATION

An executive compensation package at NAV CANADA consists of the following components (referred to as the total compensation package):

> base salary
> annual cash incentive
> long-term cash incentive
> pension plan
> benefits and perquisites

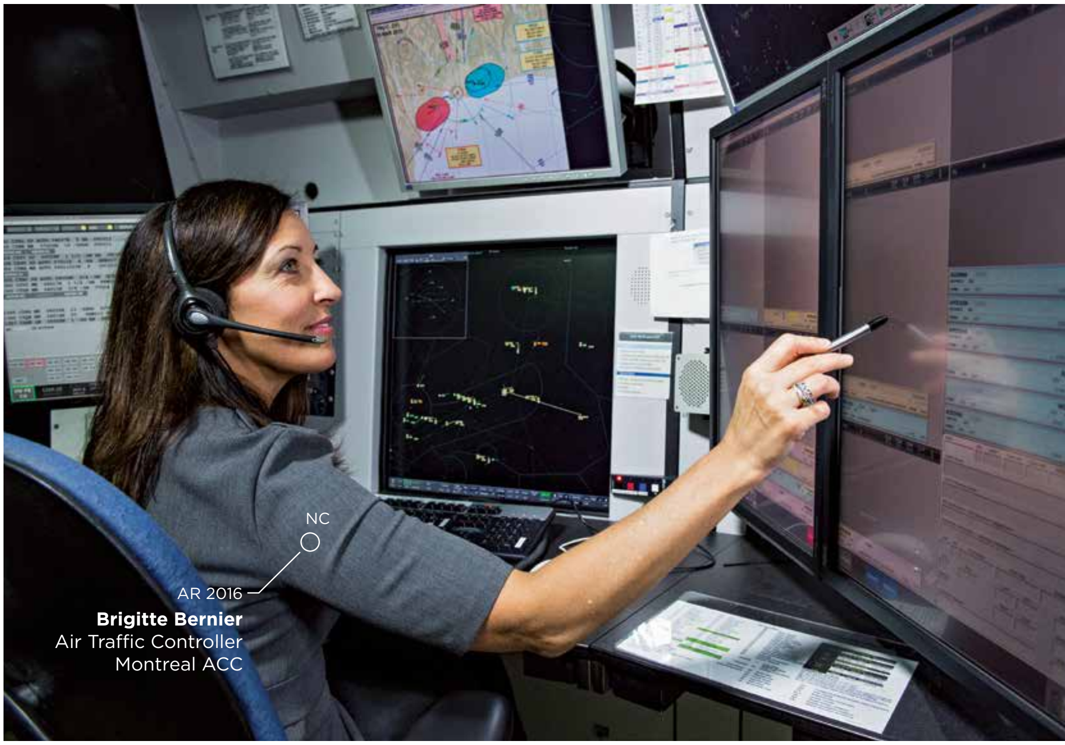
The compensation of executives, other than the President and CEO, is recommended by the President and CEO and reviewed and approved by the Human Resources & Compensation Committee. The compensation of the President and CEO is reviewed and approved by the Committee. Base salaries for all Executive Officers, including that of the President and CEO, are designed to be competitive and are determined on the basis of outside market data as well as individual performance and experience level. Actual individual salary levels are determined according to a number of factors, including the individual's performance, responsibilities and experience. All Executive Officers receive base salaries except the Vice President and Chief Technology Officer, who is paid a per diem for days worked. Base salaries are reviewed annually by the Committee.

Base salaries for fiscal 2016 for the five highest paid executives were as follows:

Name and Position	Annual Base Salary
Neil R. Wilson, President and CEO	$ 525,000 [1]
Sidney Koslow, Vice President and Chief Technology Officer	$ 416,209
Brian K. Aitken, Executive Vice President, Finance and Chief Financial Officer	$ 349,860
Rudy Kellar, Executive Vice President, Service Delivery	$ 319,362
Raymond Bohn, Senior Vice President, Human Resources	$ 300,000 [2]

(1) Mr. Wilson's annual salary as President and CEO, effective January 1, 2016. For the period September 1, 2015 to December 31, 2015, Mr. Wilson's annual salary was $322,524 as Executive Vice President, Administration and General Counsel.

(2) Mr. Bohn's annual salary as Senior Vice President, Human Resources, effective January 13, 2016. For the period September 1, 2015 to January 12, 2016, Mr. Bohn's annual salary was $254,800 as Vice President, Rates and Pension Administration.



Brigitte Bernier
Air Traffic Controller
Montreal ACC

ETHICAL BUSINESS CONDUCT

NAV CANADA has a *Code of Conduct and Conflict of Interest Guidelines* document for directors and officers which is designed to govern the conduct of all directors and officers, and the disclosure and avoidance of conflicts of interest. This disclosure is updated annually, or more frequently, as required. All of the Company's directors and officers have signed a Code of Conduct and Conflict of Interest declaration. During fiscal 2016, no proceedings were taken against any director or officer by the Board under the *Code of Conduct and Conflict of Interest Guidelines*.

In addition, NAV CANADA has a *Code of Business Conduct* which applies to all directors, officers and employees of the Company. Copies of both the *Code of Conduct and Conflict of Interest Guidelines* and the *Code of Business Conduct* are available on the Company's website and on SEDAR at www.sedar.com. The Corporate Governance Committee has responsibility for reviewing with the Board and management the results of an annual review of compliance with the *Code of Conduct and Conflict of Interest Guidelines* for directors and officers.

Directors and executive officers who hold office as a director, officer or elected official of another entity or who are an associate or employee of another entity that might be in conflict with their duty or interest towards the Company, must file a written declaration to this effect with the Company. No director or officer who is in such a position may participate in the consideration of any transaction or agreement in which such other entity has an interest.

The *Code of Business Conduct*, which applies to all employees, directors and officers of the Company is reviewed and approved by the Board and complies with the requirements of National Policy 58-201 *Corporate Governance Guidelines*. The Board is committed to bringing the highest degree of honesty, integrity and ethical conduct to the Company's operations and business relationships. This commitment is reflected in the NAV CANADA vision and values, as well as in all dealings with employees, customers, bargaining agents, suppliers and other stakeholders. The *Code of Business Conduct* describes how that commitment is put into everyday practice.

The *Code of Business Conduct* is not simply a list of rules. It is intended to help employees, directors and officers maintain the very high standard of ethical behaviour expected of a company entrusted with public safety. Throughout the *Code of Business Conduct*, employees, directors and officers are directed to appropriate internal review and redress mechanisms available within the Company to address specific situations and potential violations. Examples of internal review and redress mechanisms include the Alternate Dispute Resolution Process, the Workplace Accommodation Right of Review Process, the Official Languages Internal Complaints Procedure, grievance processes available to unionized employees, and the Internal Complaint Resolution Process.

The Company has in place policies and processes on whistleblowing. The whistleblowing system, called SENTINEL, has procedures for the receipt, retention and treatment of complaints received regarding accounting, internal accounting controls, auditing or pension plan matters, as well as reporting of other serious ethical or legal concerns. SENTINEL ensures that employees have an outlet for reporting concerns relating to the Company that are not being addressed through existing channels, and that concerns regarding accounting, internal controls or auditing matters are directed to the Chair of the Audit & Finance Committee and concerns relating to pension plan matters are directed to the Chair of the Pension Committee.

In addition, the Company has a confidential safety reporting program, called ARGUS, which provides employees with the opportunity to identify potential hazards while remaining anonymous. ARGUS ensures that employees who recognize a potential hazard can report their concerns confidentially. Every employee and manager is encouraged to use the ARGUS program, without fear of recrimination.

The Board, officers and management of the Company are committed to an active disclosure culture. The Company's Corporate Disclosure Policy (available on the Company's website) ensures communications to the investing public are timely, accurate, consistent, informative, compliant with legal and regulatory requirements and broadly disseminated.

ADVISORY COMMITTEE REPORT

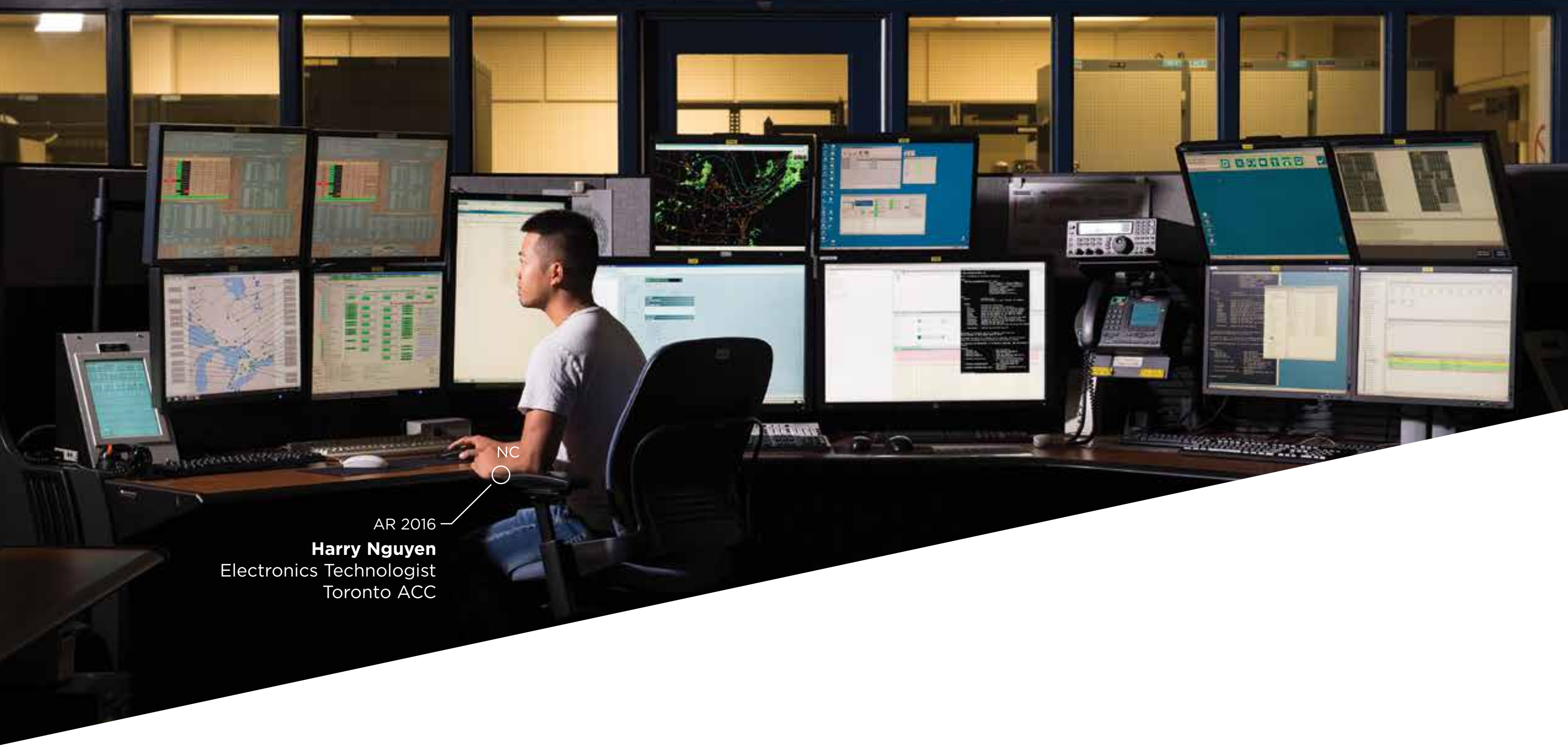
For 20 years, NAV CANADA, as a not-for-profit corporation, has demonstrated to its national and international users the success of a privatized governance model. Today, NAV CANADA is a world leader in providing state-of-the-art air navigation system (ANS) tools and services. The NAV CANADA Advisory Committee (NCAC) plays an important role for the Board of Directors and stakeholders as stipulated in the Corporation's By-laws.

The 20 key industry stakeholders take the responsibility of this Committee seriously, as do NAV CANADA senior leaders and the Board of Directors. Just as NAV CANADA has evolved over the years, so has the NCAC in its decision-making process.

The introduction and implementation of the NCAC Decision Process has already shown its value this year by making it possible to describe, evaluate, elevate and follow up on key stakeholder concerns. This process was introduced in an effort to support NAV CANADA in the successful delivery of services.

The NCAC meets three times each year. Two meetings are strategically aligned to coincide with a joint briefing with the Board's Safety Committee and the Annual General Meeting. The third provides an opportunity for the NCAC to visit NAV CANADA facilities within a specific location and to meet with users of the system in that same location.

This year, the NCAC stakeholders met in Winnipeg. This gave the Committee an opportunity to meet formally and informally with NAV CANADA employees as well as their customers in Winnipeg. At a casual BBQ in a hangar at the airport, NCAC members spoke with representatives of airport authorities, flight training schools, local aircraft operations and NAV CANADA. Opportunities to interact directly with users have resulted in the NCAC being better able to provide NAV CANADA with relevant data. This was the case in Winnipeg and we applaud NAV CANADA for its attention to the data presented.



AR 2016
Harry Nguyen
Electronics Technologist
Toronto ACC

SAFETY PRACTICES AND CULTURE

NAV CANADA has an industry-leading safety record that is reflected culturally across each level of the organization and with each staff member. On behalf of the NCAC, I would like to congratulate Larry Lachance on his appointment as Vice President, Safety and Quality. We also wish John David, retired Vice President, Safety and Quality, all the best as he enjoys a well-earned retirement.

TRAINING AND STAFFING

Training and staffing go hand in hand. For a number of years, the NCAC has paid particular attention to NAV CANADA training and staffing due to some service issues affecting stakeholders. Access to the very receptive executives at NAV CANADA has allowed us to share stakeholder concerns openly. I am pleased to report a dramatic improvement in both of these key areas.

Our role is to share concerns and if appropriate to provide ideas that enable solutions. A good example is the comprehensive tour of the Toronto Learning Centre operated by FlightSafety International provided to NAV CANADA training leaders, allowing them to experience best practices in action and share common methodologies.

LEVEL OF SERVICE / AIM PRODUCTION

The positive transformation going on at Aeronautical Information Management (AIM) Services will most certainly address a majority of the service issues that the NCAC has shared with NAV CANADA. On behalf of the NCAC, I would like to congratulate Rob Thurgur in his new position of Vice President, Operations, replacing Larry Lachance. I would also like to congratulate Ben Girard as the new Assistant Vice President, Operational Support.

NAVAID MODERNIZATION

As stakeholders and users of the services provided by NAV CANADA, we recognize that updating the infrastructure of the multiple NAVAIDs is a vital task. Looking ahead, it is a task that NAV CANADA is now addressing with an understanding of the importance of stakeholder consultation. The NCAC is confident that these consultations will result in the provision of a modern navigation network that will continue to provide a safe and efficient service to customers.

As part of the Statement of Purpose of the Corporation, NAV CANADA is "to manage and operate the ANS in such a manner as to make the service and facilities available to all aircraft, including without restriction, aircraft used for recreational or private purposes." NAV CANADA fulfills its responsibilities with a passion for excellence. The NCAC is proud to continue to play an important role in providing stakeholder reactions to the level of service they receive.

Respectfully submitted,

Rudy Toering
Chair, NCAC

ADVISORY COMMITTEE

Advisory Committee Member	Nominating Association
Rudy Toering, *Chair* Canadian Business Aviation Association (CBAA)	Non-Commercial User Association CBAA
Captain David Deere, *Vice Chair* WestJet	Commercial User National Airlines Council of Canada (NACC)
Ed Ratzlaff, *Secretary* Aerofoil Consulting Inc.	Regional Aviation Associations Manitoba Aviation Council (MAC)
Les Aalders Air Transport Association of Canada (ATAC)	Air Transport Association of Canada (ATAC)
John Baldwin Air Traffic Specialists Association of Canada (ATSAC) Unifor Local 2245	Unions ATSAC Unifor Local 2245
Daniel J. Boulet International Brotherhood of Electrical Workers (IBEW) Local 2228	Unions IBEW Local 2228
Peter Duffey Canadian Air Traffic Control Association (CATCA) Unifor Local 5454	Unions CATCA Unifor Local 5454
Bernard Gervais Canadian Owners and Pilots Association (COPA)	Recreational and Non-Commercial Aviation Association COPA
Fred L. Jones Helicopter Association of Canada (HAC)	National Helicopter Association HAC
Mike Karsseboom Greater Toronto Airports Authority (GTAA)	National Airports Association Canadian Airports Council (CAC)
Janet Keim Saskatchewan Aviation Council (SAC)	Regional Aviation Associations SAC
Devin Lyall Summit Air	Regional Aviation Associations Northern Air Transport Association (NATA)
Paul McGraw Airlines for America (A4A)	Foreign Air Operators Associations A4A
Howard McLennan Member-At-Large	Association of Canadian Airlines Pilots (ACAP)
David J. Nowzek British Columbia Aviation Council (BCAC)	Regional Aviation Associations BCAC
Brian Shury Air Line Pilots Association (ALPA), Canada	Professional Pilots Association ALPA
Bram Tilroe Alberta Aviation Council (AAC)	Regional Aviation Associations AAC
Stephen Wilcox Total Aviation & Airport Solutions	Regional Airports Associations Airport Management Council of Ontario (AMCO)
L. Grant Wilson International Air Transport Association (IATA)	Foreign Air Operators Associations IATA

MANAGEMENT'S REPORT TO THE MEMBERS OF NAV CANADA

These consolidated financial statements are the responsibility of management and have been approved by the Board of Directors of NAV CANADA (the Company). These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) and include amounts that are based on estimates of the expected effects of current events and transactions, with appropriate consideration to materiality, judgments and financial information determined by specialists. In addition, in preparing the financial information we must interpret the requirements described above, make determinations as to the relevance of information to be included, and make estimates and assumptions that affect reported information.

Management has also prepared a Management's Discussion and Analysis (MD&A), which is based on the Company's financial results prepared in accordance with IFRS. It provides information regarding the Company's financial condition and results of operations, and should be read in conjunction with these consolidated financial statements and accompanying notes. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because events and circumstances in the future may not occur as expected.

Management has developed and maintains a system of internal control over financial reporting and disclosure controls, including a program of internal audits. Management believes that these controls provide reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements, and we have signed certificates as required by National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* in this regard. The internal accounting control process includes management's communication to employees of policies that govern ethical business conduct.

The Board of Directors has appointed an Audit & Finance Committee that is composed of directors who are independent of the Company and to which the Board of Directors has delegated responsibility for oversight of the financial reporting process. The Audit & Finance Committee meets at least four times during the year with management and independently with each of the internal and external auditors and as a group to review any significant accounting, internal control and auditing matters. The Audit & Finance Committee reviews the consolidated financial statements, MD&A and Annual Information Form before these are submitted to the Board of Directors for approval. The internal and external auditors have free access to the Audit & Finance Committee.

With respect to the external auditors, the Audit & Finance Committee approves the terms of engagement and reviews the annual audit plan, the Independent Auditors' Report and the results of the audit. It also recommends to the Board of Directors the firm of external auditors to be appointed by the Members of the Company.

The independent external auditors, KPMG LLP, have been appointed by the Members to express an opinion as to whether the consolidated financial statements present fairly, in all material respects, the Company's financial position, results of operations and cash flows in accordance with IFRS. The report of KPMG LLP outlines the scope of their examination and their opinion on the consolidated financial statements.

Neil R. Wilson
President and Chief Executive Officer

October 27, 2016

Brian K. Aitken
Executive Vice President, Finance
and Chief Financial Officer

October 27, 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NAV CANADA

We have audited the accompanying consolidated financial statements of NAV CANADA, which comprise the consolidated statements of financial position as at August 31, 2016, August 31, 2015 and September 1, 2014 and the consolidated statements of operations, comprehensive income, changes in equity, and cash flows for the years ended August 31, 2016, and August 31, 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of NAV CANADA as at August 31, 2016, August 31, 2015 and September 1, 2014, and its consolidated financial performance and its consolidated cash flows for the years ended August 31, 2016 and August 31, 2015 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
Ottawa, Canada

October 27, 2016

NAV CANADA
Consolidated Statements of Operations
Years ended August 31 (millions of Canadian dollars)

	Notes	2016	2015
Revenue			
Customer service charges	4	$ 1,333	$ 1,280
Other revenue	4	60	54
		1,393	1,334
Operating expenses			
Salaries and benefits	5	858	829
Technical services		112	112
Facilities and maintenance		70	68
Depreciation and amortization	17, 18	141	136
Other	6	57	57
		1,238	1,202
Other (income) and expenses			
Finance income	7	(21)	(22)
Net interest costs relating to employee benefits	15	43	53
Other finance costs	7	93	113
Other (gains) and losses	8	1	(41)
		116	103
Net income (loss) before income tax and net movement in regulatory deferral accounts		39	29
Income tax expense		2	2
Net income (loss) before net movement in regulatory deferral accounts		37	27
Net movement in regulatory deferral accounts related to net income (loss), net of tax	9	(37)	(27)
Net income (loss) after net movement in regulatory deferral accounts		$ –	$ –

See accompanying notes to consolidated financial statements.

NAV CANADA
Consolidated Statements of Comprehensive Income
Years ended August 31 (millions of Canadian dollars)

	Notes	2016	2015
Net income (loss) after net movement in regulatory deferral accounts		$ –	$ –
Other comprehensive income (loss)			
Items that will not be reclassified to income or (loss):			
Re-measurements of employee defined benefit plans	15	(492)	387
Net movement in regulatory deferral accounts related to other comprehensive income	9	492	(387)
		–	–
Items that will be reclassified to income or (loss):			
Changes in fair value of cash flow hedges		(95)	(14)
Net movement in regulatory deferral accounts related to other comprehensive income	9	95	14
		–	–
Total other comprehensive income (loss)		–	–
Total comprehensive income (loss)		$ –	$ –

See accompanying notes to consolidated financial statements.

NAV CANADA
Consolidated Statements of Financial Position
(millions of Canadian dollars)

	Notes	August 31 2016	August 31 2015	September 1 2014
Assets				
Current assets				
Cash and cash equivalents	10	$ 119	$ 230	$ 193
Accounts receivable and other	11	107	135	114
Investments	12	373	113	168
Other	13	10	13	12
		609	491	487
Non-current assets				
Investment in preferred interests	14, 22	291	282	190
Investments	16, 22	–	274	442
Derivative assets	22	–	3	8
Employee benefits	15	–	3	4
Property, plant and equipment	17	664	649	642
Intangible assets	18	953	975	1,006
		1,908	2,186	2,292
Total assets		2,517	2,677	2,779
Regulatory deferral account debit balances	9	1,708	1,131	1,497
Total assets and regulatory deferral account debit balances		$ 4,225	$ 3,808	$ 4,276

See accompanying notes to consolidated financial statements.

NAV CANADA
Consolidated Statements of Financial Position
(millions of Canadian dollars)

	Notes	August 31 2016	August 31 2015	September 1 2014
Liabilities				
Current liabilities				
Trade and other payables	19	$ 202	$ 195	$ 183
Derivative liabilities	22	–	14	1
Deferred revenue	20	6	7	6
Current portion of long-term debt	21	25	225	81
		233	441	271
Non-current liabilities				
Long-term debt	21	1,694	1,719	2,096
Employee benefits	15	1,694	1,127	1,429
Deferred tax liability	14	45	44	35
Derivative liabilities	22	54	–	–
Provisions and other	19	1	1	3
		3,488	2,891	3,563
Total liabilities		3,721	3,332	3,834
Equity				
Retained earnings		28	28	28
Total equity		28	28	28
Total liabilities and equity		3,749	3,360	3,862
Regulatory deferral account credit balances	9	476	448	414
Commitments and contingencies	23, 24			
Total liabilities, equity and regulatory deferral account credit balances		$ 4,225	$ 3,808	$ 4,276

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Marc Courtois, Director

Linda Hohol, Director

NAV CANADA
Consolidated Statements of Changes in Equity
(millions of Canadian dollars)

	Retained earnings	Accumulated other comprehensive income	Total
Balance September 1, 2014	$ 28	$ –	$ 28
Net income (loss) and net movement in regulatory deferral accounts	–	–	–
Other comprehensive income (loss)	–	–	–
Balance August 31, 2015	$ 28	$ –	$ 28
Balance August 31, 2015	$ 28	$ –	$ 28
Net income (loss) and net movement in regulatory deferral accounts	–	–	–
Other comprehensive income (loss)	–	–	–
Balance August 31, 2016	$ 28	$ –	$ 28

See accompanying notes to consolidated financial statements.

NAV CANADA
Consolidated Statements of Cash Flows
Years ended August 31 (millions of Canadian dollars)

	Notes	2016	2015
Cash flows from:			
Operations			
Receipts from customer service charges		$ 1,339	$ 1,276
Other receipts		59	67
Payments to employees and suppliers		(944)	(903)
Pension contributions – current service	15	(90)	(88)
Pension contributions – special payments	15	(20)	(27)
Other post-employment payments	15	(7)	(6)
Interest payments		(94)	(103)
Interest receipts		3	6
		246	222
Investing			
Capital expenditures		(128)	(112)
Investment in preferred interests	14	–	(36)
Recoverable input tax payments on termination of cross border transaction		26	(26)
Cross border transaction reserve fund		–	1
Settlement of derivative assets		–	(1)
Proceeds from asset backed commercial paper trust	22	3	11
		(99)	(163)
Financing			
Issuance of medium term notes	21	248	–
Repayment of medium term notes	21	(475)	(25)
Disbursements from settlement of derivatives		(51)	–
Debt service reserve fund		19	(1)
		(259)	(26)
Cash flows from operating, investing and financing activities		(112)	33
Effect of foreign exchange on cash and cash equivalents		1	4
Increase (decrease) in cash and cash equivalents		(111)	37
Cash and cash equivalents at beginning of year		230	193
Cash and cash equivalents at end of year	10	$ 119	$ 230

See accompanying notes to 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 impacts of rate regulation on the Company's consolidated financial statements are described in note 9.

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.

The Company plans its operations to result in an annual financial breakeven position after recording adjustments to the rate stabilization account (note 9).

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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These are the Company's first annual consolidated financial statements prepared in accordance with IFRS and IFRS 1, *First-time Adoption of International Financial Reporting Standards* has been applied. The first date at which IFRS were applied was September 1, 2014. Prior to adopting IFRS, the Company's consolidated financial statements were in accordance with Canadian generally accepted accounting principles Part V – Pre-changeover accounting standards (Canadian GAAP).

An explanation of how the transition to IFRS has affected the previously reported financial position, financial performance and cash flows of the Company is provided in note 28.

These consolidated financial statements were authorized for issue by the Board on October 27, 2016.

(b) Basis of measurement:

These consolidated financial statements have been prepared on the historical cost basis except for the following material items:

> financial instruments that are classified and designated as either fair value through profit or loss or available for sale, 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 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) Critical accounting estimates and judgments:

The preparation of these 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. The following discussion sets forth management's:

> most critical judgments in applying accounting policies; and

> most critical estimates and assumptions in determining the value of assets and liabilities.

(i) Critical judgments:

> Impairment of intangible and tangible assets

In carrying out impairment reviews of intangible and tangible assets and/or cash-generating units, significant assumptions have to be made when assessing the recoverable amount. The most important assumptions relate to the continuing right to provide civil air navigation services and the exclusive ability to set and collect customer service charges for such services. If changes in such expectations arise, impairment charges may be required which would materially impact operating results.

> Joint arrangements

The Company has determined that the structure of its investment in Aireon LLC (Aireon), as described in note 3 (a), is a joint venture. Judgment is required in determining the existence of joint control and the classification of a joint arrangement. A party has joint control over an arrangement when unanimous consent is required of the parties sharing control for strategic financial and operating decisions. Joint arrangements that provide all parties with rights to the net assets of the entities under the arrangements are classified as joint ventures. The Company has used judgment in assessing the factors that determine joint control, including identifying Aireon's key strategic financial and operating decisions.

(ii) Key sources of estimates and assumption uncertainties:

> Employee benefits

Defined benefit plans, other long-term employee benefits, termination benefits, and short-term employee benefits require significant actuarial assumptions to estimate the future benefit obligations and performance of plan assets. Assumptions include compensation, the retirement ages and mortality assumptions related to employees and retirees, health-care costs, inflation, discount rate, expected investment performance and other relevant factors. The Company consults with an actuary regarding these assumptions at least on an annual basis. Due to the long-term nature of these benefit programs, these estimates are subject to significant uncertainty and actual results can differ significantly from the Company's recorded obligations.

The majority of the Company's employees are unionized with collective agreements in place. At times, one agreement expires before another is in place. Management is required to estimate the total employee cost for services rendered for the period, and as a result must estimate the retroactive impact of collective agreements when they are finalized. Management's estimate is based on, but not limited to, actual agreements expired, historical experience, number of employees affected and current salaries of those employees.

> Fair value of investments received upon restructuring of Asset Backed Commercial Paper (ABCP)

Investments in notes received upon the restructuring of ABCP by the Pan-Canadian Investors Committee are designated as fair value through profit or loss. The Company has determined the fair value using a discounted cash flow approach incorporating available information regarding current market conditions as at the measurement date. The majority of ABCP investments were converted into new financial instruments, the Master Asset Vehicle II (MAV II) notes, with maturities matching the underlying assets and bearing interest rates commensurate with the nature of the underlying assets and their associated cash flows. The measurement is subject to estimation uncertainty and is dependent on market conditions at the measurement date, as well as the expectation of future credit losses.

2. BASIS OF PRESENTATION (CONTINUED):

(e) Critical accounting estimates and judgments (continued):

(ii) Key sources of estimates and assumption uncertainties (continued):

> Fair value of investment in preferred interests

The Company's investment in preferred interests in Aireon is designated as fair value through profit or loss. In February 2014, three other air navigation service providers (ANSPs) (namely ENAV (Italy), the Irish Aviation Authority (IAA), and Naviair (Denmark)) (collectively, the Additional Investors) began to make scheduled investments in Aireon. The Company used the price paid by the Additional Investors (note 14) as a basis to estimate the fair value of Aireon and its investment in the entity through preferred interests in subsequent reporting periods. The measurement is subject to estimation uncertainty and is dependent on the successful achievement of operational, technical and financial objectives by Aireon and Iridium Communications Inc. (Iridium), as described in notes 3 (a) and 14.

(f) New standards and interpretations issued but not yet adopted:

The IASB has issued a number of standards and amendments that are not yet effective. The Company continues to analyze these standards and amendments to determine the extent of their impact on its consolidated financial statements. At this time, the Company does not expect to adopt any of these standards or amendments before their effective dates.

IAS 1 – Presentation of Financial Statements

In December 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1 *Presentation of Financial Statements*). These amendments improve the existing presentation and disclosure requirements and encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements. These amendments are effective for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The Company expects that these amendments will not have a material impact on its consolidated financial statements.

IFRS 9 – Financial Instruments

IFRS 9 will replace IAS 39 – *Financial Instruments: recognition and measurement*. This new standard introduces new requirements for the classification and measurement of financial assets and liabilities. It introduces a new general hedge accounting standard, which will align 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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Earlier application is permitted.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 introduces a new revenue recognition model for contracts with customers. The model contains two approaches for recognizing revenue, at a point in time or over time, and features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 16 – Leases

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

IAS 7 – Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows* as part of the IASB's Disclosure Initiative. These amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

IAS 12 – Income Taxes

In January 2016, the IASB issued amendments to IAS 12 *Income Taxes*. These amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

Years ended August 31, 2016 and 2015 (millions of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, including the IFRS opening statement of financial position as at September 1, 2014 for the purposes of the transition to IFRS.

(a) Basis of consolidation:

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an investee when it is exposed, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of the subsidiaries are aligned with the policies adopted by the Company. All intercompany balances and transactions are eliminated on consolidation.

The consolidated financial statements of the Company include the following subsidiaries:

Name of subsidiary	Principal place of business and country of incorporation	Percentage ownership
NAV CANADA Inventory Holding Company Inc.	Canada	100%
NAV CANADA ATM Inc.	Canada	100%
NAV CANADA Satellite, Inc.	United States	100%
NCPP Investment Holding Company Inc.	Canada	100%
Searidge Technologies Inc.	Canada	70%
NC ANS QTE 2003-1 Statutory Trust	United States	0%

The Company, through NAV CANADA ATM Inc., owns 70% of the issued and outstanding shares of Searidge Technologies Inc. (Searidge). Under certain circumstances the non-controlling shareholders of Searidge could compel a purchase of their shares. The Company accounts for these underlying interests as if already exercised, and therefore consolidates 100% of Searidge with no non-controlling interests in its consolidated financial statements.

The Company determined that the structure of the NC ANS QTE 2003-1 Statutory Trust (the Statutory Trust) was a structured entity that was required to be fully consolidated in the Company's consolidated financial statements under IFRS. The Statutory Trust was created by a U.S. entity at the inception of the cross border transaction discussed in note 16. Although the Company did not have an ownership interest in the Statutory Trust, the Company had the ability to direct the relevant activities by controlling the assets of the Statutory Trust and was exposed to the risks and returns resulting from its activities and as such had control over the Statutory Trust. Accordingly, the Statutory Trust was fully consolidated with no non-controlling interests in the Company's consolidated financial statements up to the date of termination of the cross border transaction on August 6, 2015.

(ii) Investments in joint ventures

A joint venture exists when there is a contractual arrangement that establishes joint control over its activities and requires unanimous consent of the parties sharing control for strategic financial and operating decisions, and where the parties have rights to the net assets of the arrangement.

Interests in joint ventures are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the participant's share of the net income (loss) and other comprehensive income (OCI) of equity-accounted investees, until the date on which joint control ceases.

As discussed in note 14, the Company is party to an arrangement with Iridium and the Additional Investors which allows the Company, together with Iridium, to jointly control the strategic financial and operating decisions of Aireon. This arrangement has been classified as a joint venture since the Company has joint control over Aireon's strategic financial and operating activities and has a right to the net assets of Aireon upon exercising its right to convert its preferred interests to common interests. As at August 31, 2016, the Company's share of Aireon's net assets is $nil and therefore the Company's share of Aireon's net income (loss) and OCI is $nil. Until the Company exercises its right to convert its preferred interests to common interests, it does not have access to Aireon's net assets and accordingly this investment is accounted for as a financial instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(b) Foreign currency:

Foreign currency transactions are translated into the functional currency using the exchange rates in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at that date. Non-monetary assets and liabilities denominated in a foreign currency accounted for at historical cost are translated using the rate in effect at the date of the initial transaction. Foreign currency gains and losses are reported on a net basis in net income (loss) within other income and expenses, except for differences arising on foreign operations whose functional currency is not the Canadian dollar and designated cash flow hedges that are recognized in OCI.

(c) Financial instruments:

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.

(i) Derivative financial instruments

Derivatives are classified as fair value through profit or loss and are initially recognized and subsequently re-measured at fair value at each reporting date. Changes in the fair value of derivative financial instruments that have not been designated as hedging instruments are recognized through net income (loss) as they arise.

Derivative financial instruments are entered into to manage risks from fluctuations in foreign exchange rates and interest rates and not for the purpose of generating profits. The fair values of these derivatives are calculated by discounting expected future cash flows based on current interest and forward exchange rates, respectively.

The Company considers whether a contract contains an embedded derivative when the Company becomes a party to the contract. Embedded derivatives are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and are carried at fair value through profit or loss.

(ii) Non-derivative financial assets

Upon initial recognition in the consolidated financial statements, non-derivative financial assets are classified based on their nature or purpose into one the following specified categories:

> loans and receivables;

> fair value through profit or loss; and

> available for sale.

The Company derecognizes a financial asset when the contractual rights to the cash flows from that asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. A purchase or sale of a financial asset is accounted for at settlement date.

<u>Loans and receivables (L&R)</u>

Cash and cash equivalents and accounts receivable and other are classified as L&R as well as the cross border transaction payment undertaking agreement (PUA) reserve funds presented under current investments in the opening IFRS financial statements as at September 1, 2014. They have fixed or determinable payments and are not quoted in an active market. L&R are recognized initially at fair value plus any attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method, less any impairment losses.

Cash and cash equivalents are composed of cash and highly liquid short-term investments with original terms to maturity of three months or less. Current investments are composed of investments with terms to maturity of less than 12 months that have been segregated for specific requirements of the reserve funds.

Fair value through profit or loss (FVTPL)

Financial assets are classified as FVTPL when the financial asset is either held for trading or is designated as FVTPL at initial recognition. The net gain or loss recognized in net income (loss) incorporates any interest or dividends earned on the financial assets and is included in finance income or other finance costs. The Company's investments in MAV II notes, restructured ABCP and other notes as well as the Company's investment in preferred interests in Aireon are designated as FVTPL as they form part of a contract containing embedded derivatives and the entire combined contract is permitted to be designated as FVTPL.

Available for sale (AFS)

AFS financial assets are non-derivative financial assets that are designated as AFS and that are not classified in any of the previous categories. These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in OCI. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to net income (loss). The Company's debt service reserve fund presented under current investments on the statement of financial position is classified as AFS.

(iii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and other liabilities on the date that they are originated. All other financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

The Company derecognizes financial liabilities when its contractual obligations are discharged, cancelled or have expired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Trade and other payables, bank loans and long-term debt are classified as other financial liabilities.

(iv) Hedging

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 foreign exchange agreements. 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. With hedge accounting, the effective portion of the change in fair value of the hedging instrument is recognized directly in OCI while any ineffective portion is recognized immediately in net income (loss). The amount accumulated in equity is retained in OCI and reclassified to net income (loss) in the same period or periods during which the hedged item affects net income (loss).

On initial designation of the hedge, the relationship between the hedged item and the hedging instrument is formally documented, in accordance with the Company's risk management objectives and strategies. 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. Where hedge accounting is not permissible and derivatives are not designated in a hedging relationship, the changes in fair value are immediately recognized in the statement of operations.

(v) Impairment of financial assets

A financial asset not classified as FVTPL is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and the loss event has had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The carrying amount for all financial assets is adjusted for impairment through net income (loss) as a finance cost, with the exception of accounts receivable and other, which uses an allowance account and is charged to operating expenses. Once considered uncollectible, the gross receivable is written off against the allowance.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(d) Employee benefits:

(i) Defined benefit plans

The defined benefit obligation and estimated costs of the Company's defined benefit pension plans and other post-employment benefits are calculated annually by a qualified actuary using the projected unit credit method. The actuarial calculations are performed using management's estimates of expected investment performance, compensation, the retirement ages of employees, mortality rates, health-care costs, inflation and other relevant factors. The discount rate is determined using the yield at the reporting date on high quality Canadian corporate bonds that have maturity dates approximating the terms of the Company's obligations. Net interest is determined using the discount rate discussed above. The funded status of the plan, or defined benefit asset or liability, corresponds to the future benefits employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. Defined benefit assets or liabilities are presented as non-current items in the statement of financial position.

The Company recognizes all actuarial gains and losses on the plan assets (excluding interest) in OCI in the period in which they are incurred, with no subsequent reclassification to net income (loss). The Company has made a policy choice to reclassify adjustments in OCI to retained earnings.

The service costs of employee benefits expense is recorded in salaries and benefits. The interest arising on net benefit obligations is recognized in net income (loss) and is presented in net interest costs relating to employee benefits. A portion of these employee benefit expenses is allocated to the cost of assets under development.

When benefits are amended, the portion of the changed benefit relating to past service by employees is recognized in net income (loss) immediately. Gains and losses on curtailments or settlements are recognized in net income (loss) in the period in which the curtailment or settlement occurs.

The Company's two registered pension plans are subject to minimum funding requirements. The liability in respect to minimum funding requirements is determined using the projected minimum funding requirements based on management's best estimates of the actuarially determined funded status of the plan, market discount rates, salary escalation estimates, the Company's ability to take contribution holidays and its ability to use letters of credit to secure solvency special payments revealed by funding actuarial valuations.

When the funded status of a plan results in an asset (a plan surplus), the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. The Company recognizes any adjustments to this limit in OCI in the period incurred, with no subsequent reclassification to net income (loss).

(ii) Other long-term employee benefits

The Company provides other long-term benefits to its employees, including long-term disability (LTD) benefits, accumulating sick leave benefits (vesting and non-vesting) and long-term executive incentive plan benefits. The LTD benefits plan is funded. The same methodology and management estimates are used to value other long-term benefits as in the defined benefit plans; however the actuarial gains and losses are included in net income (loss) in the period when they occur. The long-term executive incentive plan is earned and recognized in net income (loss) over a three year period. The net amount of long-term employee benefit expense is presented in salaries and benefits expense net of any costs allocated to assets under development.

(iii) Termination benefits

Termination benefits are recognized as an expense in net income (loss) when the Company has committed to either terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits for voluntary departures are recognized as an expense when it is probable that a voluntary departure offer will be accepted and the number of acceptances can be estimated. When benefits are payable more than 12 months after the reporting date, they are discounted.

(iv) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis, taking into account the additional amount the Company expects to pay as a result of the unused entitlement at the reporting date. Expenses are recognized in net income (loss) as the services are provided. Short-term employee benefits include vacation and other leave.

(e) Property, plant and equipment:

Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment at September 1, 2014, the Company's date of transition to IFRS, was determined with reference to the deemed cost that resulted in the reported net book value of the capital assets under Canadian GAAP becoming the new cost as of the IFRS transition date.

The cost of property, plant and equipment includes expenditures that are directly attributable to the acquisition of the asset. The cost of assets under development includes the cost of materials, direct labour and employee benefits, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located when a legal commitment or constructive obligation exists for them. Borrowing costs for qualifying assets are capitalized in accordance with the Company's accounting policy as described in note 3 (h).

Costs subsequent to initial recognition are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Company and its cost can be measured reliably. Repairs and maintenance costs are recorded in the statement of operations during the period in which they are incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as components of property, plant and equipment and are depreciated separately. Depreciation begins when construction is complete and the asset is available for use. Land and assets under development are not depreciated. Depreciation on other assets is recognized in the statement of operations on a straight-line basis over the following estimated useful lives:

Assets	Estimated useful life (years)
Buildings	15 to 40
Systems and equipment	3 to 25

Estimated useful lives, residual values and depreciation methods are reviewed, and adjusted prospectively if appropriate, at each reporting date.

An item of property, plant and equipment is derecognized upon disposal, replacement or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is determined by comparing the proceeds from disposal to the carrying amount of the asset. Such gains and losses are recognized in the statement of operations in the period the asset is derecognized.

Other contributions to property, plant and equipment

Contributions of a revenue nature from third parties intended to offset the cost of property, plant and equipment are credited to income in the period to which they relate.

(f) Intangible assets:

Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. The cost of intangible assets at September 1, 2014, the Company's date of transition to IFRS, was determined with reference to the deemed cost that resulted in the reported net book value of the capital assets under Canadian GAAP becoming the new cost as of the IFRS transition date.

The expenditures capitalized include the cost of materials, direct labour and any other costs that are directly attributable to preparing the asset for its intended use. Borrowing costs for qualifying assets are capitalized in accordance with the Company's accounting policy as described in note 3 (h).

An internally-developed intangible asset arising from development is recognized if all of the following criteria for recognition have been met: technical feasibility of completing the asset, intent and ability to complete the asset, intent and ability to use or sell the asset, determination on how the intangible asset will generate future benefits, availability of technical, financial and other resources to complete the development and to use or sell the asset, and ability to reliably measure attributable expenditures. Research costs are expensed in the statement of operations as incurred.

Costs subsequent to initial recognition are capitalized only when they increase the future economic benefits embodied in the specific assets to which they relate and the expenditures can be measured reliably; otherwise they are recorded within operating expenses in the statement of operations.

The air navigation right is amortized over a period of 46 years, which is the recovery period established by the Board, acting as the rate regulator.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(f) Intangible assets (continued):

Amortization of other intangible assets begins when development is complete and/or the asset is available for use. It is amortized over the period of expected future benefit. Amortization of intangible assets is recognized in the statement of operations on a straight-line basis over the following estimated useful lives:

Assets	Estimated useful life (years)
Air navigation right	46
Purchased software	5 to 20
Internally-developed software	5 to 20

Intangible assets under development are not amortized.

Estimated useful lives, residual values and amortization methods are reviewed, and adjusted prospectively if appropriate, at each annual reporting date.

An intangible asset is derecognized upon disposal, replacement or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition is determined by comparing the proceeds from disposal to the carrying amount of the asset. Such gains and losses are recognized in the statement of operations as other income or expense in the period the asset is derecognized.

(g) Impairment of non-financial assets:

At each reporting date, the Company reviews its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If so, the assets' recoverable amount is estimated. Goodwill and assets under development are tested annually for impairment.

The recoverable amount of an asset or cash generating unit (CGU) is the greater of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately in net income (loss).

Where an asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the CGU to which the asset belongs. Because the ANS is operated as a system, it is not possible in a meaningful way to isolate the cash flow that is attributable to individual assets within the system. Thus the air navigation system is considered to be a single CGU. When there are assets within the system that are no longer required, a separate valuation of these specific assets occurs.

Previously recognized impairment losses on an intangible or tangible asset, other than impairment loss in respect of goodwill, are reviewed on an annual basis for possible reversals. A reversal of an impairment loss is recognized in net income (loss) immediately.

Regulatory deferral account balances are anticipated to either be returned or recovered through the Company's customer service charges as approved by the rate regulator per the charging principles set out in the ANS Act. To determine whether there is any indication that regulatory deferral account assets are impaired, the Company reviews its ability to recover regulatory deferral account balances through future customer service charges for the provision of civil air navigation services as defined by the ANS Act.

(h) Borrowing costs:

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are ready for their intended use or sale. Qualifying assets are those that necessarily take greater than one year to prepare for their intended use. All other borrowing costs are recognized in the statement of operations using the effective interest method.

(i) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting estimated future cash flows, adjusted for risks specific to the liability, using a risk-free rate that reflects current market assessments of the time value of money. Increases in the provision due to the passage of time (the unwinding of the discount) are recognized as a finance cost.

Provisions are reviewed at each reporting date and adjusted to reflect current estimates.

Decommissioning liabilities are recognized when the Company incurs a legal or constructive obligation to dismantle and remove an asset and restore the site on which the asset is located. When the liability is initially recorded, an equivalent amount is capitalized as an inherent cost of the associated buildings, systems or equipment. All changes in the decommissioning provision resulting from changes in the estimated future costs or significant changes in the discount rate are added to or deducted from the cost of the related asset in the current period. The capitalized cost is depreciated over the useful life of the capital asset.

(j) Regulatory deferral accounts:

The timing of recognition of certain revenue and expenses differs from what would otherwise be expected for companies that are not subject to regulatory statutes governing the level of their charges, the effect of which is described in note 9.

The Company's approach to determining the level of customer service charges is based upon the charging principles set out in the ANS Act which prescribe, among other things, that charges must not be set at levels which, based on reasonable and prudent projections, would generate revenues 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, acting as rate regulator, approves the amount and timing of changes to customer service charges.

IFRS 14, *Regulatory Deferral Accounts* permits first time adopters that recognized regulatory deferral account balances in their financial statements in accordance with their previous generally accepted accounting principles to continue to account for regulatory deferral account balances in their first IFRS financial statements. IFRS 14 became effective on January 1, 2016, but earlier application was permitted. The Company recognized regulatory deferral account balances in its Canadian GAAP consolidated financial statements prior to adopting IFRS and elected to adopt this standard as of September 1, 2014.

In order to mitigate the effect on its operations of unpredictable and uncontrollable factors, principally unanticipated fluctuations in air traffic levels, the Company maintains a rate stabilization mechanism. Amounts are added to or deducted from the rate stabilization account based upon variations from amounts used when establishing customer service charges. In addition, for certain transactions where the timing of the cash flows differs significantly from the accounting recognition, the Company recognizes other regulatory deferral amounts in order to defer the accounting recognition to the period in which they will be considered for rate setting. These certain transactions are generally considered for rate setting when the amounts are expected to be realized in cash, with the exception of the cash flows related to hedging instruments, which are considered for rate setting in the same period as the underlying hedged transaction.

(k) Revenue:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding sales taxes.

(i) Customer service charges

Revenue is recognized as air navigation services are rendered. Rates for customer service charges are those approved by the Board, acting as rate regulator.

(ii) Service and development contracts

Revenue is recognized as services are rendered. Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract. When the outcome of a transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of incurred expenses that are considered recoverable.

Where the outcome of a development contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting date, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When management determines that it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(k) Revenue (continued):

(iii) Aeronautical publications

Revenue is recognized for the sale of aeronautical publications when the significant risks and rewards of ownership have been transferred to the customer and the costs relating to the transaction can be measured reliably.

(iv) Contributions

Contributions related to capital assets are recorded in revenue as services are performed. Generally, the only performance obligation is to build the asset. Therefore, revenue is recognized as the asset is constructed, using the percentage of completion method.

(l) Lease payments:

Payments made under operating leases are recognized in the statement of operations as operating expenses on a straight-line basis over the term of the respective lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(m) Finance income and other finance costs:

Finance income comprises interest income on investments and changes in the fair value of financial assets at FVTPL. Interest income is recognized as it accrues in net income (loss), using the effective interest method.

Other finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at FVTPL, and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in net income (loss) using the effective interest method.

(n) Income taxes:

(i) Current taxes

NAV CANADA is exempt from income taxes as it meets the definition of a not-for-profit organization under the *Income Tax Act (Canada)* (ITA); however its subsidiaries operating in Canada and other jurisdictions are subject to Canadian and foreign taxes.

(ii) Deferred taxes

Deferred tax assets and deferred tax liabilities are recognized for the tax effect of the difference between carrying values and the tax bases of assets and liabilities. Deferred tax assets are recognized for deductible temporary differences, for unused tax losses and income tax reductions to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realized.

Deferred tax assets and deferred tax liabilities are measured using enacted or substantively enacted tax rates and tax laws at the reporting date that are expected to apply to their respective period of realization. These amounts are reassessed each period in the event of changes in income tax rates.

Deferred tax assets and liabilities are offset, when there is the legal right and intention to set off current tax assets and liabilities from the same taxation authority.

(o) Segmented reporting:

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of operations, has been identified as the Company's Chief Executive Officer. The Company's core business is to provide air navigation services, for which it collects customer service charges. The core business is the Company's only reportable segment. The Company's air navigation services are provided primarily within Canada. The majority of the Company's capital expenditures and assets are located in Canada.

Years ended August 31, 2016 and 2015 (millions of dollars)

4. REVENUE:

Customer service charges by type of air navigation service provided for the years ended August 31 were as follows:

		2016		2015
Enroute [1]	$	715	$	679
Terminal [2]		485		476
Daily / annual / quarterly [3]		84		78
North Atlantic and international communication [4]		49		47
	$	1,333	$	1,280

[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;

[2] Terminal charges related to air navigation services provided or made available to aircraft at or in the vicinity of an airport;

[3] Daily / annual / quarterly charges related to enroute and terminal air navigation services. These charges generally apply to propeller aircraft; and

[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.

The Company has two customers each of which represents more than 10% of total revenue. For the year ended August 31, 2016, revenue from the largest customer was $249 (year ended August 31, 2015 – $236) and revenue from the second largest customer was $162 (year ended August 31, 2015 – $152), together representing 30% (year ended August 31, 2015 – 29%) of the total revenue of the Company. The revenue from these two major customers arose from air navigation services.

Other revenue for the year ended August 31, 2016 consists primarily of service and development contracts revenue of $46 (year ended August 31, 2015 – $38).

5. SALARIES AND BENEFITS:

Salaries and benefits expenses for the years ended August 31 were comprised of the following:

		2016		2015
Salaries and other	$	680	$	651
Fringe benefits		70		60
Pension current service cost		145		149
Less: capitalized salaries and benefits		(37)		(31)
	$	858	$	829

6. OTHER OPERATING EXPENSES:

Other operating expenses for the years ended August 31 were comprised of the following:

		2016		2015
Travel	$	33	$	29
Insurance, claims and other		12		19
Other		12		9
	$	57	$	57

Years ended August 31, 2016 and 2015 (millions of dollars)

7. FINANCE INCOME AND OTHER FINANCE COSTS:

Finance income for the years ended August 31 was comprised of the following:

	2016	2015
Interest income on other financial assets classified as L&R	$ (1)	$ (14)
Interest income on financial assets classified as AFS	(1)	(1)
Net change in fair value of financial assets classified as FVTPL	(19)	(7)
	$ (21)	$ (22)

The net change in fair value of financial assets classified as FVTPL includes interest and dividend income related to those financial assets.

Other finance costs for the years ended August 31 were comprised of the following:

	2016	2015
Interest expense on financial liabilities at amortized cost	$ 95	$ 114
Less: capitalized borrowing costs	(2)	(1)
	$ 93	$ 113

8. OTHER GAINS AND LOSSES:

Other gains and losses for the year ended August 31, 2016 was comprised of net foreign exchange losses of $1 (year ended August 31, 2015 – net foreign exchange gains of $41).

9. 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 2015	Regulatory deferral	Recovery/ reversal	August 31 2016	Recovery period
Regulatory deferral account debit balances					
Derivatives (a)	$ 13	$ 41	$ –	$ 54	(1), (8)
Deferred income tax (b)	44	1	–	45	(2)
Employee benefits:					
Accumulating sick leave (c)	33	–	(3)	30	(3)
Other post-employment benefits re-measurements	35	7	(4)	38	(4), (9)
Pension re-measurements (d)	1,005	477	–	1,482	(5), (9)
Supplemental pension re-measurements	–	8	(1)	7	(4), (9)
Other:					
Realized hedging transaction (e)	1	51	–	52	(1), (8)
	$ 1,131	$ 585	$ (8)	$ 1,708	

Years ended August 31, 2016 and 2015 (millions of dollars)

	August 31 2015	Regulatory deferral	Recovery/ reversal	August 31 2016	Recovery period
Regulatory deferral account (credit) balances					
Rate stabilization account (f)	$ (81)	$ (88)	$ –	$ (169)	(6)
Derivatives (a)	(6)	3	–	(3)	(1), (8)
Employee benefits:					
Pension contributions (d)	(197)	61	–	(136)	(5)
Supplemental pension re-measurements	(1)	–	1	–	(4)
LTD contributions	(3)	3	–	–	(7)
Other:					
Change in the fair value of the investment in preferred interests	(153)	(9)	–	(162)	(2)
Realized hedging transaction (e)	(7)	–	1	(6)	(1)
	$ (448)	$ (30)	$ 2	$ (476)	

	September 1 2014	Regulatory deferral	Recovery/ reversal	August 31 2015	Recovery period
Regulatory deferral account debit balances					
Derivatives (a)	$ 1	$ 12	$ –	$ 13	(1)
Deferred income tax (b)	35	9	–	44	(2)
Employee benefits:					
Accumulating sick leave (c)	34	(1)	–	33	(3)
Other post-employment benefits re-measurements	40	(5)	–	35	(4)
Pension re-measurements (d)	1,386	(381)	–	1,005	(5)
Other:					
Realized hedging transaction (e)	1	–	–	1	(1)
	$ 1,497	$ (366)	$ –	$ 1,131	
Regulatory deferral account (credit) balances					
Rate stabilization account (f)	$ (76)	$ (5)	$ –	$ (81)	(6)
Derivatives (a)	(8)	2	–	(6)	(1)
Employee benefits:					
Pension contributions (d)	(221)	61	(37)	(197)	(5)
Supplemental pension re-measurements	–	(1)	–	(1)	(4)
LTD contributions	(4)	1	–	(3)	(7)
Other:					
Change in fair value of the investment in preferred interests	(97)	(56)	–	(153)	(2)
Realized hedging transaction (e)	(8)	–	1	(7)	(1)
	$ (414)	$ 2	$ (36)	$ (448)	

9. FINANCIAL STATEMENT IMPACT OF REGULATORY DEFERRAL ACCOUNTS (CONTINUED):

(1) Cash flow hedges are considered for rate setting in the same period as the underlying hedged transaction.

Fair value losses (gains) on foreign exchange forward contracts are considered for rate setting in the period that they are realized. Fair value losses (gains) on forward-dated interest rate swaps are deferred and considered for rate setting over the term of the debt instrument.

(2) The regulatory deferrals related to the Company's investment in Aireon are considered for rate setting when they are realized in cash through the receipt of dividends net of tax.

(3) Non-vesting accumulating sick leave is considered for rate setting when the sick leave benefits are used and paid in cash. Vested accumulating sick leave is considered for rate setting over the period in which the employees render service.

(4) These re-measurement amounts will be recovered by amortizing the prior years' annual re-measurements over the expected average service period of the plan members.

(5) The Company's cost of pension benefits for its funded plans are considered for rate setting based on the Company's cash contributions to the pension funds as described in note 9 (d) below. Pension adjustments related to the adoption of IFRS and subsequent re-measurements are deferred and are considered for rate setting purposes as cash contributions to the pension funds are made.

(6) In order to mitigate the effect on its operations of unpredictable and uncontrollable factors, principally unanticipated fluctuations in air traffic levels, the Company maintains a rate stabilization mechanism. Amounts are added to or deducted from the rate stabilization account based upon variations from amounts used when establishing customer service charges.

In addition, for certain transactions where the timing of the cash flows differs significantly from the accounting recognition, the Company recognizes other regulatory deferral accounts in order to defer the accounting recognition to the period in which they will be considered for rate setting.

(7) The Company recovers the annual cost of the LTD contributions to the funded plan.

(8) The net movement in regulatory deferral accounts related to other comprehensive income due to changes in fair value of cash flow hedges for the year ended August 31, 2016 of $95 is comprised of $51 related to the realized hedging transaction and $44 to defer fair value adjustments related to derivatives designated as cash flow hedges.

(9) The net movement in regulatory deferral accounts related to other comprehensive income due to re-measurements of employee defined benefit plans for the year ended August 31, 2016 is $492 which consists of pension re-measurements of $477, other post-employment benefits re-measurements of $7, and supplemental pension re-measurements of $8.

The cumulative difference between total regulatory debit balances and total regulatory credit balances is reflected in equity at each reporting date.

When establishing customer service charges, the Board considers the balance in the rate stabilization account, adjusted notionally for the non-credit related portion of the fair value variance from face value on investments.

The long-term target credit balance of the rate stabilization account is 7.5% of total planned annual expenses net of other (income) expenses, excluding non-recurring items, on an ongoing basis. For the year ended August 31, 2016 (fiscal 2016), the target balance was $100 (year ended August 31, 2015 (fiscal 2015) – $98). As at August 31, 2016, the balance in the rate stabilization account adjusted notionally for the $14 net non-credit related fair value variance from face value on investments (note 22), was a credit balance of $183 (August 31, 2015 – $102).

On July 18, 2016, the Company issued an announcement detailing the implementation of revised service charges. The revised charges were effective September 1, 2016, and consist of a temporary one-year rate reduction in addition to revisions to base rates. The impact of the temporary adjustment will be recorded as a decrease to the rate stabilization account during the fiscal year ending August 31, 2017 (fiscal 2017). The Company has also implemented revisions to its base rates effective September 1, 2016 in order to ensure they are aligned with costs.

The Company does not use a rate of return to reflect the time value of money for any of its regulatory deferral account balances.

Years ended August 31, 2016 and 2015 (millions of dollars)

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 statement of operations:

	2016	2015
Before net movement in regulatory deferral accounts:		
Revenue	$ 1,393	$ 1,334
Operating expenses	1,238	1,202
Other (income) and expenses	116	103
Income tax expense	2	2
	37	27
Net movement in regulatory deferral account balances:		
Rate stabilization adjustments:		
Favourable variances from planned results	(57)	(34)
Initial approved adjustment [(1)]	(31)	(8)
Additional drawdown related to pension	–	37
	(88)	(5)
Other regulatory deferral account adjustments:		
Employee benefit pension contributions	61	24
Other employee benefits	(3)	–
Investment in preferred interests, net of tax	(8)	(47)
Realized hedging transactions	1	1
	51	(22)
	(37)	(27)
Net income (loss), after rate stabilization and regulatory deferral account adjustments	$ –	$ –

[(1)] The Board approved a $31 transfer to the rate stabilization account to be recorded in fiscal 2016 (fiscal 2015 – $8), in order to achieve planned breakeven results of operations. Accordingly, this amount was transferred to the rate stabilization account evenly throughout the fiscal year.

(a) Derivatives – Regulatory unrealized hedging transactions:

Regulatory unrealized hedging transaction debit (credit) balances, consisting of unrealized losses and gains on derivative financial instruments designated as cash flow hedges, are as follows:

	August 31 2016	August 31 2015	September 1 2014
Unrealized fair value losses (gains) on foreign exchange forward contracts [(1)]	$ (3)	$ (3)	$ 1
Unrealized fair value losses (gains) on forward dated interest rate swap agreements matured in February 2016 [(2)]	–	13	(8)
Unrealized fair value losses (gains) on forward dated interest rate swap agreements maturing in April 2019 [(3)]	54	(3)	–
	$ 51	$ 7	$ (7)

[(1)] The Company entered into a foreign exchange forward contract to hedge its fourth stage investment in preferred interests in Aireon. The forward contract matured and the Company took delivery of the U.S. dollars which are now being held as the hedging instrument. The fourth stage investment is expected to be made in the fiscal year ending August 31, 2017.

[(2)] The Company cash settled these forward-dated interest rate swap agreements in February 2016, when the hedged series MTN 2016-1 general obligation notes were issued (see note 21 (b)). The realized losses were reclassified to a regulatory realized hedging transaction debit (see note 9 (e)).

[(3)] The Company intends to cash settle these forward-dated interest rate swap agreements in April 2019, when the hedged refinancing is expected to occur. When the anticipated transaction occurs, the realized gains or losses will be reclassified to a regulatory realized hedging transaction debit or credit.

Years ended August 31, 2016 and 2015 (millions of dollars)

9. FINANCIAL STATEMENT IMPACT OF REGULATORY DEFERRAL ACCOUNTS (CONTINUED):

(b) Deferred income tax:

The deferred income tax account debit balance at August 31, 2016 of $45 (August 31, 2015 – $44) defers the accounting recognition of the deferred tax balances related to the Company's investment in Aireon. As a result, there is no net impact on the Company's consolidated statement of operations for the year ended August 31, 2016 related to the Company's investment in Aireon.

(c) Employee benefits – accumulating sick leave debit balances:

	August 31 2016	August 31 2015	September 1 2014
Non-vesting accumulating sick leave	$ 20	$ 21	$ 21
Vested accumulating sick leave	10	12	13
Total accumulating sick leave	$ 30	$ 33	$ 34

(d) Pension contributions:

Included in regulatory deferral account credit balances at August 31, 2016 is $136 (August 31, 2015 – $197, September 1, 2014 – $221) relating to the recovery through customer service charges of pension contributions. The accrued pension benefit liability, net of regulatory deferrals is as follows:

	August 31 2016	August 31 2015	September 1 2014
Employee benefit liability (note 15)	$ (1,346)	$ (808)	$ (1,118)
Less:			
Regulatory deferrals of non-cash adjustments	1,482	1,005	1,386
Benefit contributions in excess of benefit expense	$ 136	$ 197	$ 268
Regulatory credit balances – recovery of contributions	$ (136)	$ (197)	$ (221)
Regulatory expense (greater) less than contributions	$ –	$ –	$ 47

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 cash cost of the plan.

(e) Realized hedging transactions:

The regulatory realized hedging transaction credit balance at August 31, 2016 consists of the remaining $6 (August 31, 2015 – $7) deferred gain on the bond forward settled in February 2011, which is being amortized to net income (loss) over the term of the hedged series MTN 2011-1 general obligation notes, using the effective interest rate method.

The regulatory realized hedging transaction debit balance at August 31, 2016 of $52 (August 31, 2015 – $1) consists of the remaining $1 deferred loss on the bond forward that was settled in April 2013, which is being applied to the series MTN 2013-1 general obligation notes and $51 deferred loss recorded in OCI on the interest rate swaps that were settled in February 2016, which is being reclassified to net income (loss) over the term of the hedged series MTN 2016-1 general obligation notes, using the effective interest rate method.

Years ended August 31, 2016 and 2015 (millions of dollars)

(f) The rate stabilization account credit balance was comprised of the following amounts:

	August 31 2016	August 31 2015	September 1 2014
Rate stabilization account			
Operating deferrals [(1)]	$ 180	$ 100	$ 91
Fair value variances on investments [(2)]	(11)	(19)	(15)
	$ 169	$ 81	$ 76

[(1)] 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 future customer service charges.

[(2)] As at August 31, 2016, the total of fair value variances from face value on investments recorded on the Company's statement of financial position was a credit of $14 (August 31, 2015 – $22), which includes fair value adjustments of $11 and $3 realized fair value variance on MAV Class A-2 notes when purchased in fiscal 2011. During the year ended August 31, 2016 this amount decreased due to positive fair value adjustments of $8 (August 31, 2015 – negative fair value adjustments of $4) on its investments.

10. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents were comprised of the following:

	August 31 2016	August 31 2015	September 1 2014
Cash	$ 119	$ 149	$ 95
Short-term investments	–	81	98
	$ 119	$ 230	$ 193

11. ACCOUNTS RECEIVABLE AND OTHER:

Accounts receivable and other were comprised of the following:

	August 31 2016	August 31 2015	September 1 2014
Trade receivables	$ 85	$ 91	$ 89
Accrued receivables and unbilled work in progress	20	19	27
Commodity taxes receivable	3	26	–
Allowance for doubtful accounts	(1)	(1)	(2)
	$ 107	$ 135	$ 114

In August 2015, the Company terminated its cross border transaction resulting in a recoverable input tax credit of $26 as at August 31, 2015. This amount was received in the first quarter of fiscal 2016.

The Company's exposure to credit and foreign exchange risks and to impairment losses related to accounts receivable is described in note 22.

Years ended August 31, 2016 and 2015 (millions of dollars)

12. CURRENT INVESTMENTS:

Current investments were comprised of the following:

		August 31 2016		August 31 2015		September 1 2014
MAV II, ABCP and other (note 22)	$	279	$	–	$	–
Debt service reserve fund (a)		94		113		112
Cross border transaction reserve fund (note 16)		–		–		56
	$	373	$	113	$	168

(a) Reserve funds for Master Trust Indenture and Liquidity Covenants of the General Obligation Indenture:

Pursuant to the Master Trust Indenture (note 21), the Company is required to establish and maintain certain reserve funds, as follows:

Debt service reserve fund

At the end of each fiscal year, the amount in the debt service reserve fund must be equal to or greater than the annual projected debt service requirement (principal amortization, interest and fees) on outstanding Master Trust Indenture obligations determined in the manner required by the Master Trust Indenture. Any additional contributions required to be made to the debt service reserve fund must, at a minimum, be made in equal instalments over the following four fiscal quarters. Funds deposited into the debt service reserve fund are held by a Trustee in high-quality short-term money market instruments and are released only to pay principal, interest and fees owing in respect of outstanding borrowings under the Master Trust Indenture except that, provided no event of default has occurred and is continuing, surplus funds may be released from time to time at the request of the Company. During the second quarter of fiscal 2016 the Company withdrew $20 of surplus funds.

Pursuant to the General Obligation Indenture (note 21), the Company is required to maintain certain liquidity levels similar to the reserve fund requirements of the Master Trust Indenture. Specifically, the Company must maintain a minimum liquidity level equal to 12 months net interest expense plus 25% of the annual operating and maintenance expenses. Liquidity is defined to include all cash and qualified investments, amounts held in the operations and maintenance and debt service reserve funds and any undrawn amounts available under a committed credit facility. In addition, the Company must maintain cash liquidity equal to 12 months net interest expense. Cash liquidity includes cash and qualified investments held in the reserve funds maintained under the Master Trust Indenture.

The Company met all reserve fund requirements and liquidity covenants for the year ended August 31, 2016.

13. OTHER ASSETS:

Other assets were comprised of the following:

		August 31 2016		August 31 2015		September 1 2014
Prepayments	$	8	$	9	$	9
Inventory		2		3		3
Derivatives		–		1		–
	$	10	$	13	$	12

14. INVESTMENT IN PREFERRED INTERESTS OF AIREON:

In November 2012, the Company entered into agreements (the November 2012 agreements) setting out the terms of its participation in Aireon, a joint venture with Iridium. Aireon's mandate is to provide global satellite-based surveillance capability for ANSPs around the world through Automatic Dependent Surveillance-Broadcast (ADS-B) receivers built as an additional payload on the Iridium NEXT satellite constellation. It is expected that Iridium's launch schedule will enable Aireon to commence commercial operations by calendar year 2018.

The Company's overall investment in Aireon is expected to be implemented in five stages for up to a total of $150 U.S. ($197 CDN) by calendar year 2017. As at August 31, 2016, the Company has invested $120 U.S. ($157 CDN) (August 31, 2015 – $120 U.S. ($158 CDN), September 1, 2014 – $88 U.S. ($95 CDN)), completing three out of the five stages of its investment in Aireon, and is represented by four out of the eleven directors on Aireon's board of directors. Each stage is subject to the successful achievement by Aireon and Iridium of certain specific milestones with respect to, among other things, development of the ADS-B payload, deployment of the Iridium NEXT satellite constellation, marketing Aireon's ADS-B service to potential ANSP customers, and regulatory approvals of the technology's use.

In December 2013, the November 2012 agreements were amended to provide for the making of an aggregate investment of $120 U.S. ($157 CDN) in Aireon by three additional major ANSPs, namely ENAV (Italy), the Irish Aviation Authority (IAA), and Naviair (Denmark) (the Additional Investors). The first stage investment in Aireon by the Additional Investors was made in February 2014; their second stage investment was completed in January 2015 and the remaining two stages are expected to be made by the Additional Investors over the 2016-2017 calendar year time period.

In accordance with the amended agreements, a portion of Iridium's existing common equity interest in Aireon will be redeemed for a payment from Aireon of $120 U.S. ($157 CDN) to finalize the ownership interests of all of Aireon's investors. Upon this redemption and the related conversion of all preferred interests into common equity interests, NAV CANADA will hold 51% of the fully diluted common equity interests of Aireon, ENAV will hold 12.5%, and each of IAA and Naviair will hold 6%, with the remaining 24.5% being retained by Iridium. This redemption is expected to occur by the end of the fiscal year ending August 31, 2021.

The Company's investment in preferred interests of Aireon provides for a 5% annual cumulative dividend (except for the $40 U.S. ($52 CDN) second stage investment that provides for a 10% annual cumulative dividend), calculated from the date of issuance. The preferred interests are redeemable for cash in three annual instalments beginning in November 2020 in the event the preferred interests have not been converted to common equity or redeemed by that time. The cash payments for these mandatory redemptions will include any unpaid dividends.

The Company may at any time and from time to time elect to convert all or a portion of its preferred interests in Aireon into common equity interests.

As long as the conversion feature remains unexercised, the Company's investment in preferred interests does not give the Company any rights to the residual net assets of Aireon and accordingly the investment is accounted for as a financial instrument. The Company elected to designate the entire contract containing embedded derivatives as a financial asset at FVTPL.

Upon the initial investment by the Additional Investors in February 2014, the price paid by the Additional Investors for preferred interests in Aireon with substantially the same characteristics was considered to be a reliable estimate of the fair value of Aireon. The Company has also used this valuation to measure the fair value of its investment in Aireon as at August 31, 2016, August 31, 2015 and September 1, 2014 as it was determined that this represents the best estimate of fair value (note 22).

As at August 31, 2016, the Company's total fully diluted common equity interest on a post conversion basis is 36.5% (August 31, 2015 – 36.5%, September 1, 2014 – 26.9%).

The Company's deferred tax assets and liabilities at August 31, 2016 relate to its investment in Aireon held in one of the Company's wholly owned subsidiaries. Aireon is a limited liability company that is headquartered in the United States and is treated as a partnership for U.S. federal income tax purposes, and therefore is generally not subject to income taxes directly. Rather, the Company, Iridium and the Additional Investors are each allocated a portion of Aireon`s taxable income (loss) based on their respective tax basis interests in Aireon's income or loss under U.S. tax regulations. The Company has recognized deferred tax liabilities amounting to $43 U.S. ($56 CDN) (August 31, 2015 – $52 CDN, September 1, 2014 – $42 CDN) primarily due to the increase in the fair value of the Company's investment in Aireon. The Company has recognized deferred tax assets amounting to $9 U.S. ($11 CDN) (August 31, 2015 – $8 CDN, September 1, 2014 – $7 CDN) for operating losses and research and development expenses carried forward that have been allocated to the Company's subsidiary. The recognition of deferred tax assets is based on management's assessment that their realization is probable. The operating losses carried forward will begin to expire in calendar year 2033. The deferred tax assets and liabilities are presented net on the consolidated statement of financial position as a deferred tax liability as noted in the table below.

Years ended August 31, 2016 and 2015 (millions of dollars)

14. INVESTMENT IN PREFERRED INTERESTS OF AIREON (CONTINUED):

The table below shows the impact of the Company's investment in preferred interests of Aireon and the impact of the use of regulatory accounting on the Company's statement of financial position:

		August 31 2016		August 31 2015		September 1 2014
Current assets						
Derivative assets and other	$	3	$	3	$	–
Investment in preferred interests		291		282		190
Derivative liabilities		–		–		(1)
Deferred tax liability		(45)		(44)		(35)
Financial position impact of the investment in preferred interests of Aireon before regulatory accounting	$	249	$	241	$	154
Regulatory deferral account debit balances						
Derivative liabilities	$	–	$	–	$	1
Deferred regulatory income tax liability		45		44		35
	$	45	$	44	$	36
Regulatory deferral account credit balances						
Cumulative change in fair value of the investment in preferred interests	$	(162)	$	(153)	$	(97)
Unrealized fair value gain on foreign exchange hedging transaction		(3)		(3)		–
	$	(165)	$	(156)	$	(97)
Net financial position impact of the investment in preferred interests of Aireon after regulatory accounting	$	129	$	129	$	93

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

The use of regulatory deferral accounts defers the accounting recognition of transactions related to the Company's investment in Aireon on the Company's consolidated statement of operations. As a result, there is no impact on the Company's consolidated statement of operations for the year ended August 31, 2016 related to the Company's investment in Aireon. These amounts are not considered for rate setting purposes until realized in cash through the receipt of dividends net of tax.

Aireon is in start-up phase without any operations, with minimal revenue and the majority of its expenditures being capitalized. As discussed above, the Company's preferred interest investment in Aireon is accounted for as a financial instrument as long as the conversion feature remains unexercised. The Company has 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 following table presents certain financial position information for Aireon as of June 30, 2016 and 2015, translated from U.S. dollars. No significant transactions occurred during the intervening periods that were necessary to adjust for in the Company's consolidated financial statements for the years ended August 31, 2016 and 2015.

Years ended August 31, 2016 and 2015 (millions of dollars)

	August 31 2016	August 31 2015
Current assets		
Cash and cash equivalents	$ 39	$ 79
Non-current assets		
Property, plant and equipment	383	266
	$ 422	$ 345
Current liabilities		
Trade and other payables	$ (8)	$ (4)
Non-current liabilities		
Financial liabilities	(465)	(373)
	$ (473)	$ (377)
Net assets	$ (51)	$ (32)

15. EMPLOYEE BENEFITS:

The Company maintains defined benefit plans that provide pension and other post-employment benefits to employees. Long-term employee benefit plans provide accumulating sick leave benefits (vested and non-vesting), LTD benefits and long-term executive incentive plan benefits. Pension (other than the supplemental pension plan) and LTD benefits are funded. Other post-employment benefits and other long-term employee benefits are not funded. The Company has recorded net defined pension and other post-employment benefits expenses as follows for the years ended August 31:

	Pension benefit plans		Other benefit plans	
	2016	2015	2016	2015
Statement of operations				
Current service costs	$ 145	$ 149	$ 6	$ 6
Interest cost	234	225	9	8
Interest income on plan assets	(202)	(181)	–	–
Total expense	$ 177	$ 193	$ 15	$ 14
Statement of OCI				
Re-measurements:				
Return on plan assets, excluding interest income on plan assets	$ (265)	$ (249)	$ –	$ –
Actuarial losses (gains)	750	(133)	7	(5)
Total loss (gain) recognized in OCI	$ 485	$ (382)	$ 7	$ (5)

Net interest costs relating to employee benefits of $43 for the year ended August 31, 2016 (year ended August 31, 2015 – $53) are comprised of interest costs and interest income on plan assets as noted above for pension benefit plans and other benefits plans, including an additional $2 (year ended August 31, 2015 – $1) of interest costs related to long-term sick leave benefits.

The weighted average discount rate used to determine the re-measurements for the year ended August 31, 2016 was 3.4% for funded plans (year ended August 31, 2015 – 4.10%) and 3.32% for unfunded plans (year ended August 31, 2015 – 3.99%).

Years ended August 31, 2016 and 2015 (millions of dollars)

15. EMPLOYEE BENEFITS (CONTINUED):

The balances of employee benefits recorded on the statement of financial position are as follows:

	August 31 2016	August 31 2015	September 1 2014
Recognized asset for LTD benefits	$ –	$ 3	$ 4

	August 31 2016	August 31 2015	September 1 2014
Present value of funded defined benefit obligations	$ (6,720)	$ (5,744)	$ (5,643)
Fair value of plan assets	5,374	4,936	4,525
Liability for funded defined benefit obligations	(1,346)	(808)	(1,118)
Liability for unfunded pension defined benefit obligations	(69)	(58)	(56)
Liability for unfunded other defined benefit obligations	(233)	(218)	(215)
Recognized liability for defined benefit plans	(1,648)	(1,084)	(1,389)
Long-term employee benefit liabilities [1]	(46)	(43)	(40)
Total long-term employee benefit liabilities	$ (1,694)	$ (1,127)	$ (1,429)

[1] Includes $1 of LTD benefit liability.

The most recent actuarial funding valuations were carried out as at January 1, 2016.

The Company has determined that in accordance with:

> the terms and conditions of the funded defined benefit pension plans,

> statutory requirements (such as minimum funding requirements, the ability to take contribution holidays, and the ability to use letters of credit to secure solvency special payments revealed by funding actuarial valuations), and

> the assumptions and methodology adopted to calculate the economic benefit available,

the present value of reductions in future contributions is not lower than the balance of the total fair value of the plan assets plus any minimum funding requirement in respect of past service less the total present value of obligations. As such, no increase in the defined benefit liability is necessary as at August 31, 2016, August 31, 2015 and September 1, 2014.

(a) Characteristics of defined benefit plans:

The Company has established and maintains defined benefit pension plans for its employees. The plans provide benefits based on age, length of service and best average earnings. Employee contribution rates vary by position and by plan. The Company is the administrator and sponsoring employer for two registered defined benefit pension plans that are funded. In addition, the Company maintains a Supplemental Retirement Plan (the Supplemental Plan) that is not funded. The Company's net obligation in respect of the defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

(i) The NAV CANADA Pension Plan (the Plan) was established on November 1, 1996 to provide pension benefits to the employees of the Company. The Plan was established pursuant to an agreement with the Federal Government to provide continuity of pension and other benefits to the employees who transferred to the Company from the public service.

The Plan is a defined benefit plan covering substantially all salaried employees of the Company. The Plan is registered under the federal *Pension Benefits Standards Act, 1985 (PBSA)*. Effective January 1, 2009, the Plan consists of two parts: Part A is the contributory part that provides benefits under the original plan, and Part B is the non-contributory part provided to (a) all new management hires on a mandatory basis after January 1, 2009, (b) effective January 1, 2014, to new hires represented by six of eight unions, (c) effective October 1, 2014 and effective December 1, 2014, respectively, to all new represented hires of the remaining two unions. Prior to these effective dates, participation in Part B was voluntary for employees represented by these unions.

Under the Plan, contributions are made by the Plan members (Part A only) and the Company, which is the Plan sponsor. Part A Plan members contribute at prescribed rates. The Company is required to contribute the balance of the funding necessary for Part A and Part B to ensure that benefits will be fully provided. The determination of the value of these benefits is made on the basis of an annual actuarial valuation for funding purposes performed as at January 1.

The Plan provides, under both Part A and Part B, a benefit based on pensionable service and the average of the best six years' pensionable earnings (five years for members represented by CATCA/Unifor) prior to retirement or termination. Pensionable benefits are reduced at age 65 due to CPP/QPP integration. A separate Supplemental Plan has been implemented by the Company to provide for benefits that exceed the maximum amount allowable under the ITA for registered pension plans. The two plan parts have different calculation formulas that include benefit entitlement, CPP/QPP integration and early retirement reductions.

Pensions are fully indexed during retirement to increases in the Consumer Price Index for Part A members and on an ad-hoc basis for Part B members.

The investment objective of the Plan is to provide for the security of the promised benefits under the Plan at a reasonable cost to the members and the Company. In order to achieve this objective, the Plan has adopted a Liability-Driven Investment (LDI) strategy. The strategy aims to reduce and manage the interest rate and inflation risk mismatch between the Plan's assets and liabilities and to balance the risk/reward trade-offs in the selection of a long-term asset mix.

(ii) The Company also maintains the NAV CANADA Executive Pension Plan which is a non-contributory defined benefit plan covering senior executive employees of the Company. This plan is also registered under the PBSA. Members are neither required nor permitted to make contributions to the Plan, other than direct rollover contributions on admission to the Plan or remittances by members to purchase remaining eligible pensionable service under the members' former registered pension plan (prior service buy back). Contributions are made by the Company, the Plan sponsor. The Company is required to contribute the funding necessary to ensure that benefits will be fully provided. The determination of the contribution level is made on the basis of an annual actuarial valuation for funding purposes.

(iii) The Company also provides other post-employment benefits for its employees including certain health care, life insurance and retiring allowance benefits to eligible retirees and their eligible dependents. Other post-employment benefits are not funded.

Benefit payments for the two defined benefit pension plans are made from trustee administered funds, and benefit payments for the unfunded Supplemental Plan and other post-employment benefit plans are met by the Company as the benefit payment obligations come due. The defined benefit plans' assets are held in trust and are governed by PBSA regulations. The Pension Committee, a committee of the Board, oversees the investment management of the plans' assets and administration of the Company's retirement plans, which include the Company's two registered pension plans and the Supplemental Plan.

(b) Pension plan funding requirements:

Actuarial valuations for pension funding purposes are performed annually as at January 1 and are required to be filed with the Office of the Superintendent of Financial Institutions Canada (OSFI) by June of the same year. Accordingly, contributions for the annual period beginning July 1, 2016 are based on the January 1, 2016 actuarial valuations. The regulations governing the funding of federally regulated pension plans require actuarial valuations to be performed on both a going concern and a solvency basis. The actuarial valuations performed as at January 1, 2016 reported a going concern deficit of $76 (2015 – $268) and a statutory solvency deficiency of $306 (2015 – $556).

Going concern pension contributions for the fiscal year ended August 31, 2016 were $112 (August 31, 2015 – $118) including $20 (August 31, 2015 – $27) of special payments. On a preliminary basis, going concern pension contributions for fiscal 2017 are estimated to be $98 with no requirement for special payments expected.

The funding period for solvency deficiencies is five years and past deficits are consolidated on a permanent basis for establishing solvency special payments, resulting in a fresh start every year. Funding of solvency deficits is based on an average of solvency ratios over the three most recent consecutive years (statutory solvency deficiency).

The Company is currently meeting its pension solvency funding requirements with letters of credit. Pension funding regulations came into effect in April 2011 permitting solvency special payments to be replaced by letters of credit provided the total value of the letters of credit does not exceed 15% of the pension plan's assets. As at August 31, 2016, the Company has put in place letters of credit totaling $463 (representing 9% of registered pension plan assets as at August 31, 2016) to meet its cumulative pension solvency funding requirements to the end of calendar 2016. For the annual period beginning July 1, 2016, letters of credit will be based on the January 1, 2016 actuarial valuations.

The amount of required Company contributions and additional letters of credit in future years will be dependent on the investment experience of plan assets, the discount rates and other assumptions that will be used in future actuarial valuations to determine plan liabilities, as well as any changes in pension plan design or funding requirements that may be enacted.

Years ended August 31, 2016 and 2015 (millions of dollars)

15. EMPLOYEE BENEFITS (CONTINUED):

(c) Movements in defined pension benefit plans and other post-employment employee benefits plans:

The movement in the defined benefit pension plans and other post-employment employee benefits plans as at August 31 was as follows:

	Pension benefit plans		Other benefit plans	
	2016	2015	2016	2015
Change in benefit obligations				
Defined benefit obligations at September 1, prior year	$ 5,802	$ 5,699	$ 218	$ 215
Benefits paid	(175)	(171)	(7)	(6)
Plan participants' contributions	32	34	–	–
Current service cost	145	149	6	6
Interest cost	234	225	9	8
Actuarial loss (gain) from change in demographic assumptions	(61)	(31)	(2)	–
Actuarial loss (gain) from change in financial assumptions	836	(101)	22	(5)
Actuarial loss (gain) arising from experience adjustments	(24)	(2)	(13)	–
Defined benefit obligations at August 31	$ 6,789	$ 5,802	$ 233	$ 218
Change in plan assets				
Fair value of plan assets at September 1, prior year	$ 4,936	$ 4,525	$ –	$ –
Return on plan assets, excluding interest income	265	249	–	–
Interest income	202	181	–	–
Employer contributions	114	118	7	6
Plan participants' contributions	32	34	–	–
Benefits paid	(175)	(171)	(7)	(6)
Fair value of plan assets at August 31	5,374	4,936	–	–
Net defined benefit liability	$ (1,415)	$ (866)	$ (233)	$ (218)
Liability for unfunded defined benefit obligations at August 31	$ (69)	$ (58)	$ (233)	$ (218)
Liability for funded defined benefit obligations at August 31	$ (1,346)	$ (808)	$ –	$ –

Years ended August 31, 2016 and 2015 (millions of dollars)

(d) Fair value measurement of pension plan assets:

The composition of the plan assets by major category of the Company's two funded pension plans is as follows:

	August 31, 2016		August 31, 2015	
	Quoted market price in an active market	No quoted market price in an active market	Quoted market price in an active market	No quoted market price in an active market
Equities	43%	0%	44%	0%
Public debt	22%	0%	24%	0%
Private debt	0%	4%	0%	3%
Canadian real return bonds	16%	0%	15%	0%
Absolute return strategies	2%	0%	2%	0%
Real assets	0%	13%	0%	12%
	83%	17%	85%	15%

The LDI strategy (discussed in (g) below) includes allocations to Canadian fixed income securities and a leveraged Canadian real return bond overlay strategy which provided an additional 18% (fiscal 2015 – 18%) exposure to Canadian real return bonds.

(e) Actuarial assumptions:

Principal actuarial assumptions (expressed as weighted averages) are as follows:

	Funded plans			Unfunded plans		
	August 31 2016	August 31 2015	September 1 2014	August 31 2016	August 31 2015	September 1 2014
Discount rate	3.40%	4.10%	4.00%	3.32%	3.99%	3.87%
Future salary increases	3.10%	3.00%	3.00%	3.10%	3.00%	3.00%
Medical cost trend rate	N/A	N/A	N/A	5.00%	5.00%	5.00%
Inflation	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%

The average rate of salary increases is expected to be equal to the rate of inflation with an adjustment for merit and productivity gains. An increase of 5.0% in drug and other health benefit cost was assumed for 2016 and all years thereafter.

Assumptions regarding future mortality are based on published statistics and mortality tables. As at August 31, longevities (in years) underlying the values of the liabilities in the defined benefit plans are as follows:

	2016	2015
Longevity at age 65 for current pensioners		
Males	22.7	22.6
Females	24.6	24.5
Longevity at age 65 for current members age 45		
Males	23.8	23.7
Females	25.6	25.5

As at the annual measurement date of August 31, 2016, the weighted-average duration of the defined benefit obligation was 19.1 years (August 31, 2015 – 17.9 years, September 1, 2014 – 18.6 years).

Years ended August 31, 2016 and 2015 (millions of dollars)

15. EMPLOYEE BENEFITS (CONTINUED):

(f) Sensitivity analysis

In the sensitivity analysis shown below, the defined benefit obligation is determined using the same method used to calculate the defined benefit obligation recognized in the statement of financial position. The assumptions used are the weighted average rates. The method used is consistent between all periods presented. The sensitivity is calculated by changing one assumption (or set of assumptions, in relation to the assumptions for salary, indexation and government benefit increases) while holding the others constant. The actual change in defined benefit obligation will likely be different from that shown in the table, since it is likely that more than one assumption considered independently will change, and that some assumptions are correlated.

		Defined benefit obligation		Benefit cost	
	Change in assumption + or -	Assumption increase	Assumption decrease	Assumption increase	Assumption decrease
Discount rate	0.25%	$ (321)	$ 345	$ (21)	$ 22
Salary, indexation, government benefit increases	0.25%	$ 319	$ (298)	$ 24	$ (23)
Health care trend rate	1%	$ 25	$ (20)	$ 1	$ (1)
Longevity (in years) for those currently aged 65	1 year	$ 202	$ (206)	$ 12	$ (12)

(g) Risks associated with the defined benefit plans:

The nature of these benefit obligations exposes the Company to a number of risks, the most significant of which is funding risk. Funding risk can be expressed as the probability of an unusually high level of required pension contributions or significant fluctuation in required pension contributions.

Adverse changes in the value of plan assets of funded plans, long-term return and inflation expectations, interest rates and life expectancy could have a significant impact on pension funding requirements. The funded plan invests in assets that expose it to a range of investment risks. It has strategies, policies and processes in place to manage these risks. More specifically, funding risk is managed as follows:

(i) interest rate and inflation risks are managed via implementation of a LDI strategy that focuses on reducing the interest rate and inflation risk mismatch between the plan assets and its pension benefit obligations; and

(ii) market risk, credit risk and liquidity risk related to the plan assets are managed through diversification amongst different asset classes, risk factors and geographies and adherence to established investment policies and guidelines.

16. CROSS BORDER TRANSACTION:

During the fiscal year ended August 31, 2004, the Company entered into a long-term cross border transaction with a U.S. entity. This transaction involved the lease/leaseback of certain of the Company's air navigation equipment and software for a period of 24 years, with a purchase option after 20 years.

At the inception of this transaction, the U.S. entity created a structured entity, the Statutory Trust. The activities of the Statutory Trust were limited to receiving and making certain payments to third parties and the U.S. entity. The Company obtained the majority of the economic benefits of this structured entity and therefore was exposed to the risks resulting from its activities. Accordingly, the Statutory Trust was fully consolidated in the Company's consolidated financial statements.

As a result of this transaction, the Company had long-term cross border transaction debt that was reflected on the consolidated statement of financial position. This debt was collateralized through a cross border transaction reserve fund which was set up from the proceeds of the head lease transaction. The Company's assets included cross border transaction PUAs in amounts equivalent to the remaining proceeds from the lease of the equipment, and the Company's liabilities included the remaining future payments under the cross border transaction debt.

There was no foreign exchange risk that arose from the transaction, since the U.S. dollar cash flows from the cross border transaction PUA reserve fund were structured to fully meet the payments required under the U.S. dollar cross border transaction debt. The amounts at which the cross border transaction reserve fund and long-term cross border transaction debt were reflected in the consolidated financial statements varied with the prevailing exchange rate at the reporting dates.

Years ended August 31, 2016 and 2015 (millions of dollars)

On August 6, 2015, the Company terminated this cross border transaction by negotiating the acceleration of the purchase option.

The cross border transaction was included on the consolidated statement of financial position as follows:

	September 1 2014
Current investments	
Current portion of PUA reserve fund	$ 56
Investments	
PUA reserve fund	153
Current portion of long-term debt	(56)
Long-term debt	(153)
	$ –

17. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment were comprised of the following:

	Land and buildings	Systems and equipment	Assets under development	Total
Cost				
Balance at September 1, 2014	$ 163	$ 425	$ 54	$ 642
Additions	–	–	88	88
Transfers	9	59	(68)	–
Balance at August 31, 2015	$ 172	$ 484	$ 74	$ 730
Balance at August 31, 2015	$ 172	$ 484	$ 74	$ 730
Additions	–	–	99	99
Transfers	29	71	(100)	–
Balance at August 31, 2016	$ 201	$ 555	$ 73	$ 829
Accumulated depreciation				
Balance at September 1, 2014	$ –	$ –	$ –	$ –
Depreciation	13	68	–	81
Balance at August 31, 2015	$ 13	$ 68	$ –	$ 81
Balance at August 31, 2015	$ 13	$ 68	$ –	$ 81
Depreciation	13	71	–	84
Balance at August 31, 2016	$ 26	$ 139	$ –	$ 165
Carrying amounts				
At September 1, 2014	$ 163	$ 425	$ 54	$ 642
At August 31, 2015	$ 159	$ 416	$ 74	$ 649
At August 31, 2016	$ 175	$ 416	$ 73	$ 664

The amount of borrowing costs related to qualifying property, plant and equipment capitalized in fiscal 2016 was $2 (August 31, 2015 – $1). The weighted average interest rate used to determine the amount of borrowing costs eligible for capitalization in fiscal 2016 was 5.10% (fiscal 2015 – 5.11%).

Years ended August 31, 2016 and 2015 (millions of dollars)

18. INTANGIBLE ASSETS:

Intangible assets were comprised of the following:

	Air navigation right	Purchased software	Internally developed software	Assets under development	Goodwill	Total
Cost						
Balance at September 1, 2014	$ 702	$ 144	$ 139	$ 17	$ 4	$ 1,006
Additions	–	–	–	24	–	24
Transfers	–	6	12	(18)	–	–
Balance at August 31, 2015	$ 702	$ 150	$ 151	$ 23	$ 4	$ 1,030
Balance at August 31, 2015	$ 702	$ 150	$ 151	$ 23	$ 4	$ 1,030
Additions	–	–	–	35	–	35
Transfers	–	8	17	(25)	–	–
Balance at August 31, 2016	$ 702	$ 158	$ 168	$ 33	$ 4	$ 1,065
Accumulated amortization						
Balance at September 1, 2014	$ –	$ –	$ –	$ –	$ –	$ –
Amortization	25	17	13	–	–	55
Balance at August 31, 2015	$ 25	$ 17	$ 13	$ –	$ –	$ 55
Balance at August 31, 2015	$ 25	$ 17	$ 13	$ –	$ –	$ 55
Amortization	25	17	15	–	–	57
Balance at August 31, 2016	$ 50	$ 34	$ 28	$ –	$ –	$ 112
Carrying amounts						
At September 1, 2014	$ 702	$ 144	$ 139	$ 17	$ 4	$ 1,006
At August 31, 2015	$ 677	$ 133	$ 138	$ 23	$ 4	$ 975
At August 31, 2016	$ 652	$ 124	$ 140	$ 33	$ 4	$ 953

The Company has the right under the ANS Act to provide civil air navigation services and the exclusive ability to set and collect customer service charges for such services. While the ANS Act does not limit the duration of these rights, for accounting purposes the Company's air navigation right will be fully amortized by 2046.

19. TRADE, OTHER PAYABLES AND PROVISIONS:

Trade, other payables and provisions were comprised of the following:

	August 31 2016	August 31 2015	September 1 2014
Trade and other payables			
Trade payables	$ 16	$ 21	$ 9
Accrued liabilities	182	167	172
Provisions	2	4	2
Non-derivative financial liability (note 22)	2	3	–
	$ 202	$ 195	$ 183
Provisions and other			
Provisions	$ 1	$ 1	$ 1
Non-derivative financial liability (note 22)	–	–	2
	$ 1	$ 1	$ 3

Short-term provisions include provisions for legal claims and warranties. Long-term provisions include provisions for environmental restoration. There was no significant change to the Company's provisions during the year ended August 31, 2016.

20. DEFERRED REVENUE:

Deferred revenue of $6 as at August 31, 2016 (August 31, 2015 – $7, September 1, 2014 – $6) consisted of amounts received in advance for aeronautical publication services, development contracts in progress, other services contracts and annual customer service charges.

21. LONG-TERM DEBT:

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Company's exposure to interest rate and liquidity risk, see note 22.

Because NAV CANADA is a non-share capital corporation, the Company's initial acquisition of the ANS and its ongoing requirements are financed with debt. Until February 21, 2006, all indebtedness was incurred and secured under a Master Trust Indenture that provided the Company with a maximum borrowing capacity, which declines each year. On February 21, 2006, the Company entered into a new indenture (the General Obligation Indenture) that established an unsecured borrowing program that qualifies as subordinated debt under the Master Trust Indenture. The borrowing capacity under the General Obligation Indenture does not decline each year. In addition, there is no limit on the issuance of notes under the General Obligation Indenture so long as the Company is able to meet an additional indebtedness test.

(a) Security:

The Master Trust Indenture established a borrowing platform secured by an assignment of revenue and the debt service reserve fund. The General Obligation Indenture is unsecured, but provides a set of positive and negative covenants similar to those of the Master Trust Indenture. In addition, under the terms of the General Obligation Indenture, no further indebtedness may be incurred under the Master Trust Indenture; furthermore, the amount of the Company's $675 syndicated bank credit facility (note 22 (c)) that is secured under the Master Trust Indenture is limited to the declining amount of outstanding bonds issued under the Master Trust Indenture. At August 31, 2016, this amount is $525 and will decline by $25 on March 1 of every year in conjunction with the annual principal repayment of the series 97-2 amortizing bonds. The remaining $150 of the $675 credit facility ranks pari passu to the borrowings under the General Obligation Indenture and will increase by $25 on March 1 of each year to offset the decline in the amount secured under the Master Trust Indenture. The $525 portion of the credit facility along with the $250 series 96-3 bonds and $275 series 97-2 bonds gives a total of $1,050 of indebtedness secured under the Master Trust Indenture and ranking ahead of General Obligation Indenture debt.

As bonds mature or are redeemed under the Master Trust Indenture, they may be replaced with notes issued under the General Obligation Indenture. Borrowings under the General Obligation Indenture are unsecured and repayment is subordinated and postponed to prior payment of Master Trust Indenture obligations unless the Company can meet an additional indebtedness test.

Years ended August 31, 2016 and 2015 (millions of dollars)

21. LONG-TERM DEBT (CONTINUED):

(b) Debt:

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

	August 31 2016	August 31 2015	September 1 2014
Bonds and notes payable			
Issued under the Master Trust Indenture:			
$250 face value 7.40% revenue bonds, series 96-3, maturing June 1, 2027	$ 250	$ 250	$ 250
$500 initial face value 7.56% amortizing revenue bonds, series 97-2, maturing March 1, 2027	275	300	325
	525	550	575
Issued under the General Obligation Indenture:			
$250 face value 3.534% general obligation notes, series MTN 2016-1, maturing February, 23, 2046	250	–	–
$250 face value 4.397% general obligation notes, series MTN 2011-1, maturing February 18, 2021	250	250	250
$350 face value 5.304% general obligation notes, series MTN 2009-1, maturing April 17, 2019	350	350	350
$350 face value 1.949% general obligation notes, series MTN 2013-1, maturing April 19, 2018	350	350	350
$450 face value 4.713% general obligation notes, series MTN 2006-1, matured February 24, 2016	–	450	450
	1,200	1,400	1,400
Total bonds and notes payable	1,725	1,950	1,975
Adjusted for deferred financing costs and discounts	(6)	(6)	(7)
Carrying value of total bonds and notes payable	1,719	1,944	1,968
Less: current portion	(25)	(225)	(25)
Total non-current loans and borrowings	$ 1,694	$ 1,719	$ 1,943
Total cross border transaction debt [1]	–	–	209
Less: current portion	–	–	(56)
Total non-current cross border transaction debt	–	–	153
Total current debt	$ 25	$ 225	$ 81
Total non-current debt	$ 1,694	$ 1,719	$ 2,096

[1] The Company had recognized debt on its consolidated statement of financial position as a result of a long-term cross border transaction with a U.S. entity (note 16) up to the date of termination of the transaction on August 6, 2015.

On February 24, 2016, the Company issued $250 series MTN 2016-1 general obligation notes due February 23, 2046. The proceeds of these notes along with surplus cash were used to repay the Company's $450 series MTN 2006-1 general obligation notes that matured on February 24, 2016.

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

The Company is in compliance with all covenants of the Master Trust Indenture and General Obligation Indenture as at August 31, 2016.

Years ended August 31, 2016 and 2015 (millions of dollars)

22. 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. Excluding long-term debt and the cross border transaction PUA reserve fund, the carrying amount is equal to the fair value for all of the Company's financial instruments.

	August 31, 2016				
	L&R	AFS	FVTPL	Other financial liabilities	Fair value hierarchy
Financial assets					
Cash and cash equivalents	$ 119	$ –	$ –	$ –	Level 1
Accounts receivable and other	107	–	–	–	Level 1
Current investments					
Debt service reserve fund [(1)]	–	94	–	–	Level 1
MAV II, ABCP and other [(2), (9)]	–	–	279	–	Level 3
Investment in preferred interests [(4), (9)]	–	–	291	–	Level 3
	$ 226	$ 94	$ 570	$ –	
Financial liabilities					
Trade and other payables					
Trade payables and accrued liabilities	$ –	$ –	$ –	$ 198	Level 1
Non-derivative financial liability [(5)]	–	–	–	2	Level 3
Long-term debt					
Bonds and notes payable [(6)]	–	–	–	1,719	Level 2
Long-term derivative liabilities [(3), (7)]	–	–	54	–	Level 2
	$ –	$ –	$ 54	$ 1,919	

Years ended August 31, 2016 and 2015 (millions of dollars)

22. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED):

Summary of financial instruments (continued):

	August 31, 2015				
	L&R	AFS	FVTPL	Other financial liabilities	Fair value hierarchy
Financial assets					
Cash and cash equivalents	$ 230	$ –	$ –	$ –	Level 1
Accounts receivable and other	135	–	–	–	Level 1
Current investments					
Debt service reserve fund (1)	–	113	–	–	Level 1
Other current assets					
Derivative assets (3), (7)	–	–	1	–	Level 2
Investments					
MAV II, ABCP and other (2), (9)	–	–	274	–	Level 3
Investment in preferred interests (4), (9)	–	–	282	–	Level 3
Non-current derivative asset (3), (7)	–	–	3	–	Level 2
	$ 365	$ 113	$ 560	$ –	
Financial liabilities					
Trade and other payables					
Trade payables and accrued liabilities	$ –	$ –	$ –	$ 188	Level 1
Non-derivative financial liability (5)	–	–	–	3	Level 3
Derivative liabilities (3), (7)	–	–	14	–	Level 2
Long-term debt					
Bonds and notes payable (6)	–	–	–	1,944	Level 2
	$ –	$ –	$ 14	$ 2,135	

Years ended August 31, 2016 and 2015 (millions of dollars)

	September 1, 2014				
	L&R	AFS	FVTPL	Other financial liabilities	Fair value hierarchy
Financial assets					
Cash and cash equivalents	$ 193	$ –	$ –	$ –	Level 1
Accounts receivable and other	114	–	–	–	Level 1
Current investments					
Debt service reserve fund [(1)]	–	112	–	–	Level 1
Cross border transaction PUA reserve fund [(8)]	56	–	–	–	Level 3
Investments					
MAV II, ABCP and other [(2), (9)]	–	–	289	–	Level 3
Cross border transaction PUA reserve fund [(8)]	153	–	–	–	Level 3
Investment in preferred interests [(4), (9)]	–	–	190	–	Level 3
Non-current derivative assets [(3), (7)]	–	–	8	–	Level 2
	$ 516	$ 112	$ 487	$ –	
Financial liabilities					
Trade and other payables					
Trade payables and accrued liabilities	$ –	$ –	$ –	$ 181	Level 1
Derivative liabilities [(3), (7)]	–	–	1	–	Level 2
Long-term debt					
Bonds and notes payable [(6)]	–	–	–	1,968	Level 2
Cross border transaction long-term debt [(8)]	–	–	–	209	Level 3
Provisions and other					
Non-derivative financial liability [(5)]	–	–	–	2	Level 3
	$ –	$ –	$ 1	$ 2,360	

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the observability of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The Company recognizes transfers between levels of the fair value measurement hierarchy at the beginning of the fiscal year in which the change occurs.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is an exit price, regardless of whether that price is directly observable or estimated using another valuation technique. The calculation of estimated fair value is based on market conditions at a specific point in time and therefore may not be reflective of future fair values.

(1) Due to the short term maturity of these financial assets, the carrying amount is a reasonable approximation of fair value.

(2) These financial assets are comprised of investments in MAV II, ABCP and other notes. The fair value of these financial assets is determined using a discounted cash flow approach that is discussed later in this note.

(3) Current and non-current derivative assets and liabilities are recorded at fair value determined using prevailing forward foreign exchange market rates and interest rates at the reporting date. The Company uses derivative financial instruments to manage risks from fluctuations in foreign exchange rates and interest rates.

Years ended August 31, 2016 and 2015 (millions of dollars)

22. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED):

Summary of financial instruments (continued):

(4) This instrument is recorded at fair value based on valuation techniques described in note 14.

(5) In accordance with the amended shareholders' agreement for one of the Company's subsidiaries, under certain circumstances a non-controlling shareholder could compel a purchase of their shares at a price equal to their fair value at that time, subject to certain adjustments. The liability was recorded at inception based on the present value of the redemption amount. Changes in the liability due to changes in fair value of the underlying shares are treated as a change in estimate in the period in which they occur.

(6) Bonds and notes payable are initially recognized at fair value, net of financing fees, premiums, discounts, regulatory deferral account debit balances and regulatory deferral account credit balances that arise from cash settlements on hedging transactions that qualify as effective hedges for accounting purposes. They are subsequently measured at amortized cost. Any difference between the carrying amount and the maturity amount is recognized in the consolidated statement of operations over the life of the bond or note payable using the effective interest rate method. The fair value of the Company's bonds and notes payable is determined using secondary market ask prices at the reporting date. As at August 31, 2016, the fair value was $2,058 (August 31, 2015 – $2,284, September 1, 2014 – $2,313) inclusive of accrued interest of $25 (August 31, 2015 – $26, September 1, 2014 – $26).

(7) These financial instruments are classified as held for trading.

(8) The fair value is calculated as the present value of the expected future cash flows discounted using the prevailing market interest rates adjusted for risks specific to the instrument for a similar term. As at September 1, 2014, the fair value of the cross border transaction PUA reserve fund was $236, with $56 classified as current investments and $180 classified as non-current, and the fair value of the cross border transaction long-term debt was $236.

(9) These financial instruments are designated as FVTPL.

There has been no change in classification of financial instruments since August 31, 2015.

MAV II notes, restructured ABCP and other investments are measured at fair value using Level 3 inputs. The following table presents the fair value variances on these financial instruments used for rate setting purposes as at August 31:

	2016			2015		
	Face value	Fair value variances	Fair value	Face value	Fair value variances	Fair value
MAV II Notes						
Class A-1	$ 191	$ (8)	$ 183	$ 191	$ (12)	$ 179
Class A-2	94	(6)	88	94	(8)	86
	285	(14)	271	285	(20)	265
ABCP	7	–	7	9	(1)	8
Other notes	1	–	1	2	(1)	1
Total	$ 293	$ (14)	$ 279	$ 296	$ (22)	$ 274

The MAV II notes, received as a result of the restructuring of third party sponsored ABCP by the Pan-Canadian Investors Committee in January 2009, include a pooling of leveraged investments as well as traditional assets and cash. The leveraged investments are subject to a potential requirement to post additional collateral based on certain triggers being met (a margin call). Traditional assets are un-levered investments and include residential and commercial mortgage backed securities, corporate credit and cash equivalents. The Class A-1 and A-2 notes provide for the payment of interest on a quarterly basis provided that the three month Canadian Dollar Offered Rate (CDOR) rate is above 50 basis points. The MAV II notes benefit from a margin funding facility to meet potential margin calls. This margin funding facility is being provided by certain international and Canadian banks.

The Company holds $7 of bank sponsored ABCP (Superior Trust) for which a restructuring has been completed. This trust is rated AA (high) (sf) by DBRS Limited (DBRS).

The other notes comprised of Ineligible Asset Tracking notes, also received as a result of the restructuring of third party sponsored ABCP, track the performance and repayment of the related underlying assets that have significant exposure to the U.S. residential mortgage market.

Years ended August 31, 2016 and 2015 (millions of dollars)

The MAV II, ABCP and other notes are expected to mature in fiscal 2017 and therefore have been classified as current on the statement of financial position as at August 31, 2016. As described below, the Company has used a discounted cash flow approach to determine the fair value of these investments, incorporating available information regarding market conditions as at the measurement date, August 31, 2016. The estimates arrived at by the Company are subject to measurement uncertainty and are dependent on market conditions as at the measurement date.

The Company's total provision for expected credit losses on these investments as at August 31, 2016 is $nil (August 31, 2015 – $1). The expected credit losses related to Ineligible Asset Tracking notes was arrived at based on estimates of the expected realization of the underlying assets. As of August 31, 2016, the Class A-1 and A-2 notes are rated AA (low) (sf) and A (low) (sf) respectively by DBRS. As these are investment grade ratings, the Company has not provided for any credit losses with respect to the Class A-1 and A-2 notes.

The Company has used a discounted cash flow approach to determine the fair value of these investments, taking into account the expected risk and return profile of the notes in comparison to market returns. The Company used a discount factor appropriate for a high yield instrument for the Ineligible Asset Tracking notes.

The Company has used the following expected rates and discount factors:

	August 31, 2016	
Restructured Notes	**Return**	**Market Discount Factor**
MAV II Class A-1	BAs minus 50 basis points	BAs plus 5.8%
MAV II Class A-2	BAs minus 50 basis points	BAs plus 8.1%
ABCP – Superior Trust	BAs plus 33 basis points	BAs plus 5.8%
Other notes	BAs plus 30 basis points	BAs plus 27.1%

	August 31, 2015	
Restructured Notes	**Return**	**Market Discount Factor**
MAV II Class A-1	BAs minus 50 basis points	BAs plus 3.9%
MAV II Class A-2	BAs minus 50 basis points	BAs plus 6.0%
ABCP – Superior Trust	BAs plus 33 basis points	BAs plus 3.9%
Other notes	BAs plus 30 basis points	BAs plus 27.1%

	September 1, 2014	
Restructured Notes	**Return**	**Market Discount Factor**
MAV II Class A-1	BAs minus 50 basis points	BAs plus 1.6%
MAV II Class A-2	BAs minus 50 basis points	BAs plus 2.9%
ABCP – Superior Trust	BAs plus 33 basis points	BAs plus 2.3% and BAs plus 4.4%
Other notes	BAs plus 30 basis points	BAs plus 27.1%

The Company believes that the market discount factors shown above are reflective of functioning market returns for products with maturities and risk profiles similar to the respective notes.

A change of 50 basis points in the market discount factors would impact the fair value variance by approximately $1. There is no assurance that the fair value of the Company's investments in MAV II, ABCP and other notes will not decline, or that significant deterioration in financial markets will not cause margin calls in excess of MAV II's ability to meet them, resulting in a significant credit loss. The estimated fair value of the Company's investments, including the estimate of expected credit losses, may change in subsequent periods. Any such changes could be material and would be reflected in the statement of operations as they occur.

Years ended August 31, 2016 and 2015 (millions of dollars)

22. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED):

Summary of financial instruments (continued):

The following table summarizes the changes in the fair value of financial instruments classified in Level 3:

	August 31, 2016			
	MAV II and Ineligible Asset Tracking notes	ABCP	Investment in preferred interests	Total
Fair value as at August 31, 2015	$ 266	$ 8	$ 282	$ 556
Proceeds [1]	–	(2)	–	(2)
Net increase in fair value [3]	–	–	10	10
Write off	(1)	–	–	(1)
Net decrease in fair value provision	6	1	–	7
Net decrease in credit provision	1	–	–	1
Effect of foreign exchange	–	–	(1)	(1)
Fair value as at August 31, 2016	$ 272	$ 7	$ 291	$ 570

	August 31, 2015			
	MAV II and Ineligible Asset Tracking notes	ABCP	Investment in preferred interests	Total
Fair value as at September 1, 2014	$ 270	$ 19	$ 190	$ 479
Additional investment	–	–	36	36
Proceeds [2]	–	(11)	–	(11)
Net increase in fair value [3]	–	–	8	8
Net decrease (increase) in fair value provision	(4)	–	–	(4)
Effect of foreign exchange	–	–	48	48
Fair value as at August 31, 2015	$ 266	$ 8	$ 282	$ 556

[1] In fiscal 2016 the Company received $2 of principal primarily relating to the Superior Trust note. Subsequent to August 31, 2016, the Company received $73 of principal relating to the MAV II notes as well as the remaining $7 of principal balance of the Superior Trust note.

[2] As at September 1, 2014, $10 of the Company's other ABCP was held in a trust that was not covered by the January 2009 restructuring of third party sponsored ABCP. This trust was subject to a *Companies' Creditors Arrangement Act* plan of arrangement that was sanctioned by the Ontario Superior Court. As part of the arrangement, the Company received proceeds of $10 from the court appointed monitor for the trust in September 2014.

[3] Net increase in fair value is comprised mainly of accrued dividend income.

Years ended August 31, 2016 and 2015 (millions of dollars)

Financial risk management

The Company is exposed to several risks as a result of holding financial instruments. The following is a description of these risks and how they are managed.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign exchange risk and other price risk. The objective of market risk management is to contain market risk exposures within acceptable parameters, as set out in the Company's treasury policy that is approved by the Board.

The price risks associated with investments in MAV II and restructured ABCP are discussed earlier in this note. The use of the discounted cash flow approach described above resulted in a carrying value for these investments of $279 on notes with a face value of $293. The difference of $14 is composed of fair value variances due to the discounting of cash flows at market rates.

(i) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The following table summarizes financial assets and liabilities exposed to interest risk:

	August 31 2016	August 31 2015	September 1 2014
Floating rate financial assets			
Cash and cash equivalents	$ 119	$ 230	$ 193
Debt service reserve fund investments	94	113	112
Investments in MAV II, ABCP, and other notes	279	274	289
Total floating rate financial assets	$ 492	$ 617	$ 594
Fixed rate financial liabilities			
Bonds and notes payable	$ 1,719	$ 1,944	$ 1,968

Investments included in the Company's cash and cash equivalents and debt service reserve fund earn interest at prevailing and fluctuating market rates. The investments in MAV II notes also earn interest at variable rates. If interest rates decline, earnings on these instruments would fall. A 100 basis point change in variable interest rates would result in an annual difference of approximately $5 in the Company's earnings before rate stabilization adjustments.

The Company does not account for any fixed rate financial assets or liabilities as FVTPL or as AFS. Therefore the impact of a change in interest rates at the reporting date on fixed rate assets or liabilities would not affect the Company's earnings, nor its equity.

Interest rate risk related to the Company's fixed-interest long-term debt relates to the re-setting of interest rates upon maturity and refinancing of the debt. The Company mitigates this source of interest rate risk by spreading maturities of borrowings over periods currently up to and including 2046 so that only a portion of outstanding debt will mature in any given fiscal year. In addition, the Company has International Swaps and Derivatives Association Agreements in place and, in November 2010, entered into a bond forward transaction in order to mitigate the impact of fluctuating interest rates on interest costs relating to the Company's MTN 2011-1 issue, which settled on February 18, 2011. A gain of $11 on the bond forward was deferred and included in long-term debt. This gain has been applied to the series MTN 2011-1 obligation and is being amortized using the effective interest rate method.

In June 2012, the Company entered into forward dated interest rate swap agreements totaling $200 under which the Company notionally was to pay a fixed rate of interest in exchange for receiving a floating rate of interest based on the three month CDOR rate with the purpose of mitigating the potential impact of rising interest rates on the cost of refinancing a portion of the Company's $450 series MTN 2006-1 notes that matured on February 24, 2016. The forward dated interest rate swaps were cash settled at a loss of $51 which was deferred in OCI and is being reclassified to net income (loss) using the effective interest rate method over the term of the hedged series MTN 2016-1 general obligation notes.

In July 2012, the Company entered into a bond forward transaction in the amount of $250 with the purpose of mitigating the potential impact of rising interest rates on the cost of refinancing the Company's $250 series MTN 2010-1 notes that matured on April 29, 2013. A loss of $2 on the bond forward was deferred and included in long-term debt. The loss has been applied to the series MTN 2013-1 obligation and is being amortized to income using the effective interest rate method.

Years ended August 31, 2016 and 2015 (millions of dollars)

22. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED):

Financial risk management (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued):

In January 2015, the Company entered into forward-dated interest rate swap agreements totaling $200 under which the Company will notionally pay a fixed rate of interest in exchange for receiving a floating rate of interest based on the three month CDOR rate with the purpose of mitigating the potential impact of rising interest rates on the cost of refinancing a portion of the Company's $350 series MTN 2009-1 notes that will mature on April 17, 2019. The Company intends to cash settle these agreements in April 2019 and offset any gain or loss at that time against a portion of the cost of refinancing the above mentioned notes.

The Company has not entered into any other derivative contracts to manage interest rate risk.

(ii) Foreign exchange risk:

The Company is exposed to foreign exchange risk on sales and purchases that are denominated in currencies other than in the functional currency of the Company. However, the Company invoices and receives the vast majority of its revenue in Canadian dollars and also incurs operating expenses and capital expenditures primarily in Canadian dollars. In some cases, the Company uses forward foreign exchange contracts to mitigate its risk on contractual agreements in foreign currencies. The majority of the Company's exposure to foreign exchange risk relates to the U.S. dollar (USD). The Company does not have a significant exposure arising from other currencies.

The Company's exposure to foreign exchange risk related to the U.S. dollar is as follows:

	August 31, 2016		August 31, 2015	
	CAD	USD	CAD	USD
Financial assets				
Current				
Cash and cash equivalents	$ 18	$ 14	$ 22	$ 17
Accounts receivable and other	8	6	4	3
Other				
Derivative assets	–	–	1	1
Non-current				
Investment in preferred interests	291	222	282	214
	$ 317	$ 242	$ 309	$ 235
Financial liabilities				
Current				
Trade and other payables	$ 1	$ 1	$ 2	$ 2
Derivative liabilities	–	–	1	–
Non-current				
Deferred tax liability	45	34	44	33
	$ 46	$ 35	$ 47	$ 35
Net exposure	$ 271	$ 207	$ 262	$ 200

The Company designates certain of its forward contracts as cash flow hedging instruments to hedge the Company's exposure to the impact of exchange rate fluctuations. As at August 31, 2016, the Company has purchased $15 U.S. ($16 CDN) to hedge the Canadian dollar cost related to a portion of its outstanding commitment to acquire additional preferred interests in Aireon.

The foreign exchange rate sensitivity is the net amount of foreign exchange rate exposure of the items at the reporting date, less foreign currency hedges.

As at August 31, 2016, if the Canadian dollar strengthened or weakened by 10% against the U.S. dollar, all other variables remaining constant, net income (loss) before net movement in regulatory deferral accounts would have been impacted by $25 (August 31, 2015 – $25).

(iii) Other price risk:

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

In order to mitigate the risk of losses arising from investment activities, the Company only invests in highly-rated (see credit risk discussion below) and short-term instruments, excluding investments in MAV II, ABCP and other notes and Aireon. The price risks associated with investments in MAV II, ABCP and other notes are discussed earlier in this note.

The investment in preferred interests of Aireon (note 14) is subject to price risk. The fair value of this investment may fluctuate over time due to, among other things, economic conditions and the cash flows of Aireon. Aireon is a start-up company and any such changes in the fair value could be material. A change of 5% in the fair value of the investment in preferred interests would impact finance income (other finance costs) by approximately $10 U.S. ($13 CDN) as at August 31, 2016 (August 31, 2015 – $10 U.S. ($13 CDN)).

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The maximum credit risk to which the Company is exposed as at August 31, 2016 represents the carrying amount of cash, accounts receivable, reserve funds, investments and forward contracts to purchase or sell foreign currencies.

The debt service reserve fund and cash equivalents, when applicable, are invested in accordance with the Company's restrictive investment policy to manage credit risk. The Company invests only in short-term obligations – usually for periods of 90 days or less. Excluding investments in MAV II, ABCP and other notes, the Company limits investments to obligations of the federal government, certain provincial governments, entities guaranteed by a federal or provincial government or other obligations of entities rated by at least two rating agencies in the top two categories for long-term debt or the highest category for short-term debt. The Company does not invest in instruments with exposure to underlying synthetic assets. The Company's portfolio is diversified, with dollar and percentage limits on investment counterparties. None of the Company's holdings in cash and cash equivalents or in the debt service reserve fund are past due or impaired, and all have long-term ratings of either AAA or AA or short-term ratings in the highest category (DBRS – R1 (high)).

Credit risk with respect to investments in MAV II, ABCP and other notes is discussed earlier in this note.

Accounts receivable are primarily short-term receivables from customers that arise in the normal course of business. The Company provides air navigation services to various aircraft operators, including Canadian and foreign commercial air carriers as well as small general aviation aircraft. Credit limits and compliance with payment terms are monitored by the Company to manage its exposure to credit loss. The Company has established a maximum credit limit of $4 for its largest air navigation services customers, and it has other credit control measures that reduce its credit exposure. The Company's general payment terms provide for payment periods of thirty days for air navigation services and payment periods of up to forty-five days for some other types of services. Shorter payment terms are imposed where customer circumstances warrant. The Company's credit policies also require payments in advance or satisfactory security to be posted under certain circumstances.

The Company establishes an allowance for doubtful accounts that represents its estimate of losses expected to be incurred in respect to accounts receivable.

Years ended August 31, 2016 and 2015 (millions of dollars)

22. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED):

Financial risk management (continued)

(b) Credit risk (continued)

The aging of trade accounts receivable was as follows:

	August 31, 2016			August 31, 2015
	Gross balance	Allowance	Net balance	Net balance
0-30 days	$ 81	$ –	$ 81	$ 89
31-60 days	–	–	–	–
61-90 days	1	–	1	1
Over 91 days	3	(1)	2	–
Total	$ 85	$ (1)	$ 84	$ 90

There was no significant change in the Company's allowance for doubtful accounts during the year ended August 31, 2016.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to evaluate current and expected liquidity requirements under both normal and stressed conditions to ensure that it maintains sufficient reserves of cash and cash equivalents or an available undrawn committed credit facility to meet its liquidity requirements in the short and longer term. Under the Company's Master Trust Indenture and General Obligation Indenture, the Company is required to maintain certain reserve funds and liquidity levels, as described in note 21.

The Company has a revolving credit facility with a syndicate of Canadian financial institutions, and separate letter of credit facilities for pension funding purposes. The credit facilities are utilized as follows:

	August 31, 2016
Credit facilities	
Credit facility with a syndicate of Canadian financial institutions (1)	$ 675
Letter of credit facilities for pension funding purposes (2)	515
Total available credit facilities	1,190
Less: Outstanding letters of credit (2)	474
Undrawn committed borrowing capacity	716
Less: Operations and maintenance reserve fund allocation (3)	270
Credit facilities available for unrestricted use	$ 446

(1) The Company's credit facility with a syndicate of Canadian financial institutions in the amount of $675 is comprised of two equal tranches maturing on September 12, 2018 and September 12, 2020. Subsequent to August 31, 2016, these maturity dates were extended to September 12, 2019 and September 12, 2021. The credit facility agreement provides for loans at varying rates of interest based on certain benchmark interest rates, specifically the Canadian prime rate and the Canadian bankers' acceptance rate, and on the Company's credit rating at the time of drawdown. A utilization fee is also payable on borrowings in excess of 25% of the available facility. The Company is required to pay commitment fees, which are dependent on the Company's credit rating. The Company is in compliance with the credit facility covenants as at August 31, 2016.

(2) The letter of credit facilities for pension funding purposes are comprised of four facilities with Canadian financial institutions totaling $515 (note 15), of which $350 will mature on December 31, 2016 and $165 will mature on December 31, 2017, unless extended. Subsequent to August 31, 2016, $125 of the amount that will mature on December 31, 2016 has been extended to December 31, 2017. Of the $474 in letters of credit shown above as outstanding as at August 31, 2016, $463 was drawn for pension solvency funding purposes.

Years ended August 31, 2016 and 2015 (millions of dollars)

(3) The Company is required to maintain a reserve fund of at least 25% of its prior year's annual operating and maintenance expenses, as defined in the Master Trust Indenture. At August 31, 2016, the Company met this requirement with an allocation of $270 in undrawn availability under its committed credit facility. If at any fiscal year end the amount in the operations and maintenance reserve fund is less than 25% of the Company's operating and maintenance expense for the year (before other regulatory deferral account adjustments, depreciation, amortization, finance costs, other comprehensive income and unusual expenses), the Company must, at a minimum, increase the balance in the fund to the required level over the following four fiscal quarters through additional contributions or an allocation of its committed credit facility. The operations and maintenance reserve fund may be used to pay operating and maintenance expenses, if required.

23. COMMITMENTS:

(a) Maturity analysis

The following table presents a maturity analysis of the Company's undiscounted contractual cash flows for its financial liabilities as at August 31, 2016:

	Remaining payments – for years ending August 31						
	Total	2017	2018	2019	2020	2021	Thereafter
Trade payables and accrued liabilities	$ 198	$ 198	$ –	$ –	$ –	$ –	$ –
Non-derivative financial liability	2	2	–	–	–	–	–
Derivative liabilities	54	–	–	54	–	–	–
Long-term debt (including current portion) (1), (2)	1,725	25	375	375	25	275	650
Interest payments (2)	708	85	83	74	53	46	367
	$ 2,687	$ 310	$ 458	$ 503	$ 78	$ 321	$ 1,017

(1) Payments represent principal of $1,725. 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 date.

(2) Further details on interest rates and maturity dates on long-term debt are provided in note 21 to these consolidated financial statements.

(b) Capital commitments

The Company has firm commitments for the acquisition of property, plant and equipment and intangible assets amounting to $118 as at August 31, 2016 (August 31, 2015 – $130, September 1, 2014 – $24). The following table presents a maturity analysis of these capital commitments:

	Remaining payments – for years ending August 31						
	Total	2017	2018	2019	2020	2021	Thereafter
Capital commitments	$ 118	$ 42	$ 22	$ 10	$ 12	$ 6	$ 26

(c) Operating leases

Leases as lessee

The Company's operating lease agreements primarily convey to the Company the right to use land, office space and technical sites and have lease terms ranging from 1 to 60 years. Many of these lease agreements, particularly with government entities, municipalities and airport authorities are at nominal cost to the Company. Many of the leases have options to renew for as long as the Company requires the asset in order to provide air navigation services. Where the Company's leases include escalation clauses, they are generally based on a fixed rate or percentage increase.

Years ended August 31, 2016 and 2015 (millions of dollars)

23. COMMITMENTS (CONTINUED):

(c) Operating leases (continued)

Future minimum lease payments for operating leases are as follows:

	Remaining payments – for years ending August 31						
	Total	2017	2018	2019	2020	2021	Thereafter
Operating leases	$ 44	$ 8	$ 7	$ 7	$ 6	$ 7	$ 9

The Company recorded operating lease expense during the year ended August 31, 2016 of $10 (year ended August 31, 2015 – $10) within facilities and maintenance expense on the statement of operations.

(d) Investment in preferred interests of Aireon

The Company has contractual obligations to invest in preferred interests of Aireon, subject to conditions pursuant to the November 2012 agreements, as amended, described in note 14. Amounts are presented in CDN translated using the U.S. foreign exchange rate at the current reporting date with the exception of the $15 U.S. ($16 CDN) investment anticipated to be made in fiscal 2017 that is translated using the hedged rate. Contractual obligations for investments in preferred interests of Aireon as at August 31, 2016 are as follows:

	Remaining payments – for years ending August 31						
	Total	2017	2018	2019	2020	2021	Thereafter
Investment in preferred interests	$ 36	$ 16	$ 20	$ –	$ –	$ –	$ –

In March 2016, the November 2012 agreements were amended to reflect the extension of the fourth tranche investment milestone deadline to fiscal 2017.

(e) Letters of credit

As at August 31, 2016, the outstanding amount of letters of credit of $474 (note 22 (c)) is comprised of $463 drawn for pension solvency funding purposes (note 15) and $11 for other purposes.

24. CONTINGENCIES:

(a) Legal contingencies

The Company is party to legal proceedings in the ordinary course of its business. Management does not expect the outcome of any of these proceedings to have a material adverse effect on the consolidated financial position or results of operations of the Company.

(b) Indemnification commitments

The Company has not provided any material guarantees other than indemnification commitments typically provided in the ordinary course of business as described below. These indemnification commitments require the Company to compensate the counterparties for costs and losses incurred as a result of various events and are similar to the type of indemnifications required by the Company from suppliers of services and products, or by other companies in the aviation industry.

The Company has provided the following significant indemnification commitments:

Cross border transaction

In September 2003 and February 2004 respectively, the Company entered into two cross border transactions with respect to a portion of its air navigation equipment and software. On June 7, 2012 and August 6, 2015, the Company terminated the two capital lease transactions by negotiating an acceleration of the purchase options. The Company agreed to indemnify the other parties to the transaction for certain costs or liabilities, including with respect to certain taxes that may be imposed on such party with respect to the leased equipment, or as a result of such party's participation in the cross border transactions. These indemnification commitments survive the termination of the cross border transactions, but only with respect to events that occur prior to the termination of the transactions. These indemnification commitments do not provide for any limit on the maximum amount of the potential indemnification.

Provision of service and system sales

(i) The Company has entered into five agreements for the sale and maintenance of technology that would indemnify the counterparties up to a maximum of $1,000 for each occurrence and in the aggregate for losses sustained as a result of the negligence of the Company. In addition, the Company has entered into one agreement for the sale and maintenance of technology that would indemnify the counterparty up to a maximum of the Company's ANS liability insurance coverage of $5,034 U.S. ($6,602 CDN). The Company's ANS liability insurance provides coverage for these indemnification commitments. These indemnities survive termination of the agreements.

(ii) The Company entered into an agreement, which has now ended, with Natural Resources Canada for the production of civil aeronautical information products, which would indemnify the counterparty up to a maximum of $100 for each occurrence and in the aggregate, for losses sustained by the counterparty arising out of or in any way connected with the agreement. The Company's liability insurance provides coverage for this indemnification commitment. This indemnity survives termination of the agreement.

(iii) The Company entered into a sales agreement for the supply of an air traffic services data management system and provision of related services, which would indemnify the counterparty up to a maximum of $35 U.S. ($46 CDN) for the cumulative liability of the Company in relation to any claim in any manner howsoever arising out of or in connection with the agreement. The Company's liability insurance provides coverage for this indemnification commitment. This indemnity survives termination of the agreement.

Indemnity with respect to third party sponsored ABCP

In connection with the restructuring of third party sponsored ABCP (note 22), the Company (as a member of the Pan-Canadian Investors Committee) agreed to indemnify the indenture trustees of the ABCP trusts should the trustees suffer certain losses only as a result of acting in accordance with extraordinary resolutions passed by the requisite number of note holders of the trusts. As part of the indemnity agreement, the Company acknowledged that the trustees have the benefit of existing contractual indemnities under the trust indenture and agreed to subordinate its recoveries to any entitlement of the trustees. Further, all members of the Pan-Canadian Investors Committee committed to provide additional protection beyond the contractual indemnification afforded by the trust indentures. The protection provided by members of the Committee is on a several basis and pro rata among the Committee members based upon their respective and aggregate investments in third party sponsored ABCP. While the indemnity survives the closing of the ABCP restructuring, the terms of the court-sanctioned restructuring plan have effectively eliminated the Company's exposure.

Other agreements

In the ordinary course of business the Company provides indemnification commitments to counterparties in transactions such as service arrangements, provision of maintenance services, system sales, sales of assets, licensing agreements, leasing and site usage transactions, contribution agreements, and director and officer indemnification commitments. These indemnification commitments require the Company to compensate the counterparties for costs and losses as a result of various events such as results of litigation claims, environmental contamination or statutory sanctions that may be suffered by a counterparty or third party as a consequence of the transaction or in limited cases, for liabilities arising from acts performed by or the negligence of the indemnified parties. The terms of these indemnification commitments vary based on the contract. Certain indemnification agreements extend for an unlimited period and generally do not provide for any limit on the maximum potential amount. The nature of these indemnification commitments does not permit a reasonable estimate of the aggregate potential amount that could be required to be paid. The Company has acquired liability insurance that provides coverage for most of the indemnification commitments described in this paragraph.

Historically, the Company has not made any significant payments under any indemnification commitments and no material amount has been accrued in the consolidated financial statements with respect to these indemnification commitments.

Years ended August 31, 2016 and 2015 (millions of dollars)

25. TRANSACTIONS WITH THE GOVERNMENT OF CANADA:

The Company has arrangements with a number of federal government departments and agencies for the provision of various services, such as enhanced security services, weather forecasting and observation, and facilities. These arrangements are based on commercially negotiated terms and conditions.

The Company also has an agreement with the Department of National Defence (DND) relating to the exchange of a variety of services with DND such as airspace controls, facilities, information and protocols and systems, for mutual benefit without significant cost or expense to either party.

The Government of Canada maintained an indemnification program at no cost to the Company, which protected the Company from a terrorist-related loss in excess of the Company's insurance coverage. This program was put in place shortly after September 11, 2001 and ended on June 30, 2016. The Company has purchased war liability coverage that runs until November 15, 2017. The Company is contractually obligated to indemnify the Government of Canada for any loss suffered by or claimed against it which is covered by the Company's aviation operations liability insurance.

26. RELATED PARTY TRANSACTIONS:

The Company's related parties include its key management personnel, subsidiaries, joint venture and registered pension plans for its employees.

Balances and transactions between NAV CANADA and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

Compensation of key management personnel

Key management personnel of the Company include members of the Board and Executive Management. Executive Management includes executives reporting directly to the Chief Executive Officer and Executive Vice Presidents. Key management personnel compensation included in the Company's net income (loss) for the years ended August 31 was comprised of the following:

	2016	2015
Salaries and other benefits	$ 9	$ 6
Defined benefits, including pension benefits	2	2
Management incentive plan	2	3
Other long-term benefits	2	2
Total compensation	$ 15	$ 13

There were no loans provided to key management personnel during fiscal 2016.

Transactions with registered pension plans

The Company's transactions with its two registered pension plans include contributions paid to the plans and letters of credit for pension solvency funding purposes, which are disclosed in note 15, and a reimbursement from the Plan for certain costs in the amount of $15 for the year ended August 31, 2016 (year ended August 31, 2015 – $12).

Transactions with joint venture

As discussed in note 14, the Company has a participation in Aireon. This participation has been classified as a joint venture since the Company has joint control over Aireon's key strategic financial and operating decisions. The Company's transactions with Aireon for the year ended August 31, 2016 were comprised of dividend income of $10 (year ended August 31, 2015 – $8) and cost recoveries of $3 (year ended August 31, 2015 – $3).

As at August 31, 2016, the Company has accounts receivable of $3 (August 31, 2015 – $1, September 1, 2014 – $nil) and an accrued dividend receivable of $25 (August 31, 2015 – $15, September 1, 2014 – $7).

Years ended August 31, 2016 and 2015 (millions of dollars)

27. CAPITAL MANAGEMENT:

The Company is a non-share capital corporation and, as discussed in note 1, must not set customer service charges higher than what is required to meet its current and future financial requirements for the provision of civil air navigation services. The Company views capital as the sum of its issued long-term debt, retained earnings and accumulated other comprehensive income, regulatory deferral accounts and certain employee benefits. This definition of capital is used by management and may not be comparable to measures presented by other companies. The Company's capital is as follows:

	August 31 2016	August 31 2015	September 1 2014
Bonds and notes payable (note 21)	$ 1,719	$ 1,944	$ 1,968
Equity:			
Retained earnings	28	28	28
Regulatory deferral accounts:			
Debit balances (note 9)	(1,708)	(1,131)	(1,497)
Credit balances (note 9)	476	448	414
Employee benefits (note 15):			
LTD liability (asset)	1	(3)	(4)
Liability for funded pension benefits	1,346	808	1,118
Liability for accumulating sick leave	21	21	21
Total capital	$ 1,883	$ 2,115	$ 2,048

In addition to tracking its capital as defined above for purposes of managing capital adequacy, the Company also takes into consideration known contingent exposures and obligations such as funding obligations of its defined benefit pension plans and other rate setting decisions made by the Board.

The Company's main objectives when managing capital are:

(a) to safeguard the Company's ability to continue as a going concern;

(b) to provide funds for the ongoing acquisition of systems and equipment necessary to implement and maintain a modern, cost-efficient ANS technology platform;

(c) to ensure the funding of reserve funds as well as working capital and liquidity requirements;

(d) to maintain the Company's credit ratings to facilitate access to capital markets at competitive interest rates; and

(e) to minimize interest costs incurred by the Company subject to appropriate risk mitigation actions.

Given that the Company has no share capital, these objectives are achieved through a process that determines an appropriate period and level of cost recoveries through customer service charge rate setting, as well as the appropriate amount of debt and committed credit facilities. This process includes the Company's operational and capital budgeting process and considers the overall economic and capital market environments. The level of debt and committed credit facilities are approved by the Board. The Company is not subject to any externally imposed capital requirements.

There were no changes in the Company's approach to capital management during the year ended August 31, 2016.

28. TRANSITION TO IFRS:

On February 13, 2008 the Canadian Accounting Standards Board (AcSB) announced the adoption of IFRS for publicly accountable enterprises in Canada, effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. This would have required the Company to adopt IFRS commencing for the year ended August 31, 2012.

Subsequent to 2011, AcSB issued several amendments to the Introduction to Part 1 of the CPA Canada Handbook allowing qualifying entities with rate-regulated activities to adopt IFRS for the first time no later than interim and annual financial statements relating to annual periods beginning on or after January 1, 2015. The Company is a qualifying entity and decided to avail itself of the deferral. In January 2014, the IASB published the interim standard, IFRS 14 *Regulatory Deferral Accounts*, which essentially allows the Company to continue to account for regulatory deferral account balances under IFRS in accordance with existing Canadian GAAP. The Company has elected to early adopt this standard upon its transition to IFRS.

IFRS 1 requires that comparative financial information be provided. The first date at which the Company has applied IFRS is September 1, 2014. Comparative financial information is also provided for the year ended August 31, 2015. IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as at the reporting date. However, it also provides for certain optional and mandatory exemptions for first time IFRS adopters.

(a) IFRS 1 optional exemptions:

Set forth below are the exemptions applicable to the Company that were applied in the transition from Canadian GAAP to IFRS.

i) Business combinations

IFRS 1 allows a first-time adopter of IFRS to choose a date from which to prospectively apply IFRS 3, *Business Combinations*, as long as that date is on or before the Company's date of transition to IFRS. The Company has elected to prospectively apply IFRS 3 from its date of transition, September 1, 2014.

ii) Property, plant and equipment and intangible assets – Deemed cost

IFRS 1 allows a first-time adopter of IFRS to elect to use, as deemed cost under IFRS, the Canadian GAAP carrying amount of property, plant and equipment and intangible assets used in operations subject to rate regulation. Since all of the Company's property, plant and equipment and intangible assets are used in operations subject to rate regulation, the Company has chosen to use this election for all of its capital assets. The use of the deemed cost election has resulted in the reported net book value of the capital assets under Canadian GAAP becoming the new cost as of the IFRS transition date, with accumulated depreciation and accumulated amortization reset to $nil.

iii) Borrowing costs

IAS 23, *Borrowing Costs*, requires an entity to capitalize the borrowing costs related to all qualifying assets for which the commencement date for capitalization is on or after the transition date to IFRS. The Company has elected to prospectively capitalize borrowing costs as of the transition date to IFRS.

iv) Leases

IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, requires an entity to assess whether any arrangement contains a lease based on the facts and circumstances existing on the date that the entity entered into the arrangement. The Company has elected to apply an optional exemption in IFRS 1, permitting the Company to assess arrangements existing at the date of transition to IFRS based on the facts and circumstances existing at that date. The Company has also elected to apply another optional exemption in IFRS 1 that, if the Company made the same determination of whether an arrangement contains a lease under previous GAAP as that required by IFRIC 4 but at a date other than that required by IFRIC 4, then the Company need not reassess that determination for such arrangements on transition to IFRS.

v) Decommissioning liabilities

IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to IFRS. The Company has elected to prospectively apply this requirement. As a result, the Company has:

- measured the liability as at the date of transition to IFRS in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*;
- to the extent that the liability is within the scope of IFRIC 1, estimated the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate that would have applied for that liability over the intervening period; and
- calculated the accumulated depreciation on that amount, as at the date of transition to IFRS, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the Company in accordance with IFRS.

vi) Contributions

IFRIC 18, *Transfers of Assets from Customers*, requires an entity to account for contributions from customers as revenue as opposed to a reduction in the value of an asset. A first-time adopter may designate any date before the date of transition to IFRS and apply IFRIC 18 to all transfers of assets from customers received on or after that date. The Company has elected to apply this requirement on a prospective basis as of the transition date to IFRS.

vii) Financial instruments

IAS 39, *Financial Instruments: Recognition and Measurement*, requires an entity to designate a financial asset on initial recognition as AFS or a financial instrument (provided it meets certain criteria) to be designated as a financial asset or financial liability at FVTPL. A first-time adopter is allowed to designate, at the date of transition, any financial asset or liability at FVTPL provided that the relevant criteria to qualify for such classification are met at that date. A first-time adopter may also designate, at the date of transition, any financial asset, other than those classified as held-for-trading, as AFS. On transition to IFRS, the Company has designated certain of its financial instruments as FVTPL or AFS.

The Company has elected to re-designate cash and cash equivalents from the held-for-trading category to L&R. As the historical cost carrying amount under IFRS equals the fair value of those instruments under Canadian GAAP at the date of transition, there is no adjustment resulting from this election.

The Company has elected to re-designate its debt service reserve fund from the held-for-trading category to AFS. As the historical cost carrying amount under IFRS equals the fair value of those instruments under Canadian GAAP at the date of transition, there is no adjustment resulting from this election.

The Company has elected to designate its investment in preferred interests in Aireon as at FVTPL. Under Canadian GAAP, the embedded derivative was separated from the host contract and the instruments were classified as held-for-trading and L&R respectively. As the aggregate book value of the instruments under Canadian GAAP corresponds to the combined instrument fair value at the date of transition, there is no adjustment resulting from this election.

(b) Reconciliations of Canadian GAAP to IFRS:

In order to explain how the transition from Canadian GAAP to IFRS has affected the reported financial position and results of the Company, reconciliations of: (a) equity as at August 31, 2015 (included in the tables listed in (b)), (b) the consolidated statement of financial position at September 1, 2014 and August 31, 2015 and (c) the consolidated statement of operations for the year ended August 31, 2015 are included below.

The Company's transition to IFRS did not have a material impact on operating, investing or financing cash flows.

Certain presentation differences between Canadian GAAP and IFRS have no impact on reported earnings or total equity. Some assets and liabilities have been reclassified into another line item under IFRS at the date of transition and there are new line items presented separately on the face of the consolidated financial statements.

The adjustments as at the date of transition to IFRS are further explained in the notes accompanying the tables below.

28. TRANSITION TO IFRS (CONTINUED):

(b) Reconciliations of Canadian GAAP to IFRS (continued):

Reconciliation of consolidated statement of financial position as at September 1, 2014:

		Transition Adjustments (millions)						
	Canadian GAAP	Reclass	Defined pension benefits	Other post-employment benefits	Long-term benefits	Cross border transaction	Decommissioning liability	IFRS
	Notes	i), ii)	ii), iii)	ii), iv)	ii), v)	vi)	vii)	
Assets								
Current assets								
Cash and cash equivalents	$ 193							$ 193
Accounts receivable and other	114							114
Investments	–	168						168
Current portion of capital lease obligations reserve fund	56	(56)						–
Other	12							12
	375	112	–	–	–	–	–	487
Regulatory assets	36	(36)						–
Reserve funds								
Debt service	112	(112)						–
Capital lease obligations	190	(190)						–
Non-current assets								
Investments	252	190						442
Investment in preferred interests	96	94						190
Embedded derivatives on investment in preferred interests	87	(87)						–
Long-term dividend receivable	7	(7)						–
Long-term derivative asset	8							8
Employee benefits	276		(268)		(4)			4
Property, plant and equipment	651					(10)	1	642
Intangible assets	1,006							1,006
Assets before regulatory deferral account debit balances	3,096	(36)	(268)	–	(4)	(10)	1	2,779
Regulatory deferral account debit balances	–	37	1,386	40	34	–	–	1,497
Total assets and regulatory deferral account debit balances	$ 3,096	1	1,118	40	30	(10)	1	$ 4,276

		Transition Adjustments (millions)						
	Canadian GAAP	Reclass	Defined pension benefits	Other post-employment benefits	Long-term benefits	Cross border transaction	Decommissioning liability	IFRS
	Notes	i), ii)	ii), iii)	ii), iv)	ii), v)	vi)	vii)	
Liabilities								
Current liabilities								
Trade and other payables	$ 187	(6)			2			$ 183
Derivative liabilities	1							1
Deferred revenue	–	6						6
Current portion of long-term debt	25					56		81
Current portion of capital lease obligations	56					(56)		–
	269	–	–	–	2	–	–	271
Rate stabilization account	76	(76)						–
Non-current liabilities								
Long-term debt	1,950	(7)				153		2,096
Capital lease obligations	161					(161)		–
Regulatory liabilities	336	(336)						–
Employee benefits	–	239	1,118	40	32			1,429
Deferred tax liability	35							35
Other	241	(239)					1	3
	2,723	(343)	1,118	40	32	(8)	1	3,563
Equity								
IFRS adjustments to retained earnings (deficit) on transition			(1,386)	(40)	(38)			(1,464)
Regulatory adjustments to retained earnings (deficit) on transition			1,386	40	38			1,464
	–	–	–	–	–	–	–	–
Retained earnings	28							28
Accumulated other comprehensive income	–							–
Total equity	28	–	–	–	–	–	–	28
Liabilities and equity before regulatory deferral account balances	3,096	(419)	1,118	40	34	(8)	1	3,862
Regulatory deferral account credit balances	–	420	–	–	(4)	(2)	–	414
Total liabilities, equity and regulatory deferral credit balances	$ 3,096	1	1,118	40	30	(10)	1	$ 4,276

28. TRANSITION TO IFRS (CONTINUED):

(b) Reconciliations of Canadian GAAP to IFRS (continued):

Reconciliation of consolidated statement of financial position as at August 31, 2015:

		Transition Adjustments (millions)									
	Canadian GAAP	Reclass	Defined pension benefits	Other post-employment benefits	Long-term benefits	Cross border transaction	Decommissioning liability	Borrowing costs	Contribution revenue	Rate stabilization account	IFRS
	Notes	i), ii)	ii), iii)	ii), iv)	ii), v)	vi)	vii)	viii)	ix)	xi)	
Assets											
Current assets											
Cash and cash equivalents	$ 230										$ 230
Accounts receivable and other	135										135
Investments	–	113									113
Other	13										13
	378	113	–	–	–	–	–	–	–	–	491
Regulatory assets	57	(57)									–
Reserve funds											
Debt service	113	(113)									–
Non-current assets											
Investments	274										274
Investment in preferred interests	159	123									282
Embedded derivatives on investment in preferred interests	108	(108)									–
Long-term dividend receivable	15	(15)									–
Long-term derivative asset	3										3
Employee benefits	189		(181)		(5)						3
Property, plant and equipment	645						1	1	2		649
Intangible assets	975										975
Assets before regulatory deferral account debit balances	2,916	(57)	(181)	–	(5)	–	1	1	2	–	2,677
Regulatory deferral account debit balances	–	58	1,005	35	33						1,131
Total assets and regulatory deferral account debit balances	$ 2,916	1	824	35	28	–	1	1	2	–	$ 3,808

	Transition Adjustments (millions)										
	Canadian GAAP	Reclass	Defined pension benefits	Other post-employment benefits	Long-term benefits	Cross border transaction	Decommissioning liability	Borrowing costs	Contribution revenue	Rate stabilization account	IFRS
	Notes	i), ii)	ii), iii)	ii), iv)	ii), v)	vi)	vii)	viii)	ix)	xi)	
Liabilities											
Current liabilities											
Trade and other payables	$ 202	(9)			2						$ 195
Derivative liabilities	14										14
Deferred revenue	–	7									7
Current portion of long-term debt	225										225
	441	(2)	–	–	2	–	–	–	–	–	441
Rate stabilization account	77	(77)									–
Non-current liabilities											
Long-term debt	1,725	(6)									1,719
Regulatory liabilities	348	(348)									–
Employee benefits		255	807	34	31						1,127
Deferred tax liability	44										44
Other	253	(253)					1				1
	2,370	(352)	807	34	31	–	1	–	–	–	2,891
Equity											
IFRS adjustments to retained earnings (deficit) on and after transition	–		(988)	(34)	(38)			1	2		(1,057)
Regulatory adjustments to retained earnings (deficit) on and after transition	–		988	35	38					(4)	1,057
	–	–	–	1	–	–	–	1	2	(4)	–
Retained earnings	28										28
IFRS adjustments to accumulated other comprehensive income (loss)	–	(14)									(14)
Regulatory adjustments to accumulated other comprehensive income (loss)	–	14									14
	–	–	–	–	–	–	–	–	–	–	–
Accumulated other comprehensive income	–										–
Total equity	28	–	–	1	–	–	–	1	2	(4)	28
Liabilities and equity before regulatory deferral account balances	2,916	(431)	807	35	33	–	1	1	2	(4)	3,360
Regulatory deferral account credit balances	–	432	17		(5)					4	448
Total liabilities, equity and regulatory deferral credit balances	$ 2,916	1	824	35	28	–	1	1	2	–	$ 3,808

28. TRANSITION TO IFRS (CONTINUED):

(b) Reconciliations of Canadian GAAP to IFRS (continued):

Reconciliation of consolidated statement of operations for the year ended August 31, 2015:

		Transition Adjustments (millions)									
	Canadian GAAP	Reclass	Defined pension benefits	Other post-employment benefits	Long-term benefits	Cross border transaction	Borrowing costs	Contribution revenue	Investment in Aireon	Rate stabilization account	IFRS
	Notes	i), ii)	ii), iii)	ii), iv)	ii), v)	vi)	viii)	ix)	x)	xi)	
Revenue											
Customer service charges	$ 1,280										$ 1,280
Other revenue	52							2			54
Rate stabilization	(40)	40									–
	1,292	40	–	–	–	–	–	2	–	–	1,334
Operating expenses											
Salaries and benefits	858	1	(20)	(9)	(1)						829
Technical services	112										112
Facilities and maintenance	68										68
Depreciation, amortization and impairment	–	136									136
Other	58	(1)									57
Rate stabilization	(27)	27									–
	1,069	163	(20)	(9)	(1)	–	–	–	–	–	1,202
Other expenses											
Interest	102	(102)									–
Depreciation and amortization	136	(136)									–
Rate stabilization	(1)	1									–
	237	(237)	–	–	–	–	–	–	–	–	–
Other (income) and expenses											
Finance income	–	(2)				(11)			(9)		(22)
Net interest costs relating to employee benefits	–		44	8	1						53
Other finance costs	–	103				11	(1)				113
Other (gains) and losses	–	(1)							(40)		(41)
Fair value adjustments and other (gains) and losses	(3)	3									–
Rate stabilization	(11)	11									–
	(14)	114	44	8	1	–	(1)	–	(49)	–	103
Net income (loss) before income tax and net movement in regulatory deferral accounts	–	–	(24)	1	–	–	1	2	49	–	29
Income tax expense	–								2		2
Net income (loss) before net movement in regulatory deferral accounts	–	–	(24)	1	–	–	1	2	47	–	27
Net movement in regulatory deferral account balances related to net income (loss), net of tax	–	–	24						(47)	(4)	(27)
Net income (loss) after net movement in regulatory deferral accounts	$ –	–	–	1	–	–	1	2	–	(4)	$ –

Reconciliation of consolidated statement of comprehensive income for the year ended August 31, 2015:

		Transition Adjustments (millions)									
	Canadian GAAP	Reclass	Defined pension benefits	Other post-employment benefits	Long-term benefits	Cross border transaction	Borrowing costs	Contribution revenue	Investment in Aireon	Rate stabilization account	IFRS
	Notes	i), ii)	ii), iii)	ii), iv)	ii), v)	vi)	viii)	ix)	x)	xi)	
Net income (loss) after net movement in regulatory deferral accounts	$ –	–	–	1	–	–	1	2	–	(4)	$ –
Other comprehensive income (loss)											
Items that will not be reclassified to income or loss											
Re-measurements of employee defined benefit plans	–		382	5							387
Net movement in regulatory deferral account balances related to other comprehensive income	–		(382)	(5)							(387)
	–	–	–	–	–	–	–	–	–	–	–
Items that will be reclassified to income or loss											
Changes in fair value of cash flow hedges	–	(14)									(14)
Net movement in regulatory deferral account balances related to other comprehensive income	–	14									14
	–	–	–	–	–	–	–	–	–	–	–
Total other comprehensive income (loss)	–	–	–	–	–	–	–	–	–	–	–
Total comprehensive income (loss)	$ –	–	–	1	–	–	1	2	–	(4)	$ –

28. TRANSITION TO IFRS (CONTINUED):

(b) Reconciliations of Canadian GAAP to IFRS (continued):

Explanations of adjustments:

i) Changes in presentation

> Consolidated statement of financial position

Under Canadian GAAP, reserve funds were shown separately on the Company's balance sheet. Under IFRS, they are shown on the consolidated statement of financial position within current investments or non-current investments based on the nature of the underlying assets.

Under Canadian GAAP, the Company presented regulatory deferral amounts and rate stabilization amounts separately except for regulatory deferral accounts for realized hedging transactions related to long-term debt that were presented with long-term debt. Under IFRS, the Company presents these items as one asset line item "regulatory deferral account debit balances" and one liability line item "regulatory deferral account credit balances" on the face of the consolidated statement of financial position.

Under Canadian GAAP, the Company presented the following separately: investment in preferred interests, embedded derivatives on investment in preferred interests and non-current dividend receivable. Under IFRS, the Company designated the combined instrument as a financial asset at FVTPL and as such the components of the instrument are presented within investment in preferred interests on the face of the consolidated statement of financial position.

Under Canadian GAAP, the Company presented the following under accounts payable and accrued liabilities: trade payables, accrued liabilities and deferred revenue. Under IFRS, the Company presents the following items separately on the face of the consolidated statement of financial position: trade and other payables and deferred revenue.

Under Canadian GAAP, employee defined benefit liabilities were presented under other liabilities on the Company's balance sheet. Under IFRS, employee defined benefit liabilities and other long-term employee benefit liabilities are presented on the consolidated statement of financial position within non-current liabilities as employee benefits.

> Consolidated statement of operations

Under Canadian GAAP, interest and depreciation and amortization expenses were presented under other expenses. Under IFRS, interest expenses are presented under other (income) and expenses as other finance costs. Depreciation and amortization are presented under operating expenses.

Under Canadian GAAP, the Company presented the following under fair value adjustments and other: interest income, changes in fair value of foreign exchange contracts, changes in fair value of investments, and foreign exchange gains and losses. Under IFRS, the Company presents the following items separately on the face of the consolidated statement of operations: finance income and other (gains) and losses. Other (gains) and losses are comprised of changes in fair value of foreign exchange contracts and foreign exchange gains and losses. Finance income is comprised of interest income and changes in fair value of investments.

Under Canadian GAAP, directors' fees were presented under other operating expenses. Under IFRS, directors' fees are presented within salaries and benefits.

Under Canadian GAAP, deferred gains and losses on bond forwards were presented within regulatory deferral accounts and amortization of the deferred gains and losses over the life of the refinancing instrument were presented in interest expense. Under IFRS, amortization of the deferred gains and losses is presented as movements in regulatory deferral accounts on the consolidated statement of operations.

> Consolidated statement of comprehensive income

Under Canadian GAAP the Company did not present amounts relating to other comprehensive (income) loss. Under IFRS, other comprehensive (income) loss and the related net movement in regulatory deferral account balances are presented as noted in the table above.

The Company's other comprehensive (income) loss adjustments reflect non-cash re-measurements of hedging instruments and re-measurements of employee benefit plans which are not considered for rate setting; accordingly, regulatory deferrals have been established.

> Consolidated statement of cash flows

Under Canadian GAAP, other post-employment benefit payments for vested sick leave and LTD benefits were presented with other post-employment contributions. Under IFRS, these benefits are classified as long-term benefits and the payments are presented with payments to employees and suppliers.

> Regulatory deferral accounts

Under Canadian GAAP, regulatory adjustments were presented net on the same statements of operations line as the underlying transaction where applicable (i.e. movement in regulatory pension expense was recorded on the same line as pension expense). Under IFRS, regulatory adjustments are presented separately from the underlying transaction on the consolidated statements of operations and comprehensive income as net movement in regulatory deferral account balances.

ii) Rate-regulated accounting

As permitted under Canadian GAAP, the Company followed specific accounting policies unique to a rate-regulated business. Under IFRS the use of regulatory accounting is permitted, and the transition impacts are related primarily to presentation and disclosure. On transition to IFRS the Company offset the impacts to retained earnings with adjustments to regulatory deferral accounts, as these impacts will be considered for rate setting using the Company's regulatory approach.

The change to IFRS does not alter the Company's approach to determining the level of customer service charges. This approach is based upon the charging principles within the ANS Act which prescribe, among other things, that 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.

iii) Defined pension benefits, net of regulatory liability

At September 1, 2014 under Canadian GAAP, there is an accrued pension benefit asset of $268 as well as a regulatory liability of $221, leaving a net amount of $47 to be recovered over time through customer service charges. The impact of adopting IFRS on the accrued defined pension benefits described below results in eliminating the accrued pension benefit asset of $268 recognized under Canadian GAAP, increasing the accrued pension benefit liability of $56 to $1,174 (an increase of $1,118) and decreasing retained earnings (increasing the deficit) by $1,386 upon transition to IFRS. This amount is offset by the recognition of a regulatory debit of $1,386, resulting in elimination of the $221 regulatory liability recognized under Canadian GAAP and the recognition of a regulatory deferral account debit of $1,165. More detailed explanations on the various components of this adjustment are described below:

> Under Canadian GAAP, actuarial gains and losses were deferred off balance sheet and amortized to earnings before rate stabilization using a "corridor" approach. Under IFRS, the Company recognizes actuarial gains and losses in OCI in the period they are incurred, with no subsequent reclassification to net income (loss). The Company has made a policy choice to reclassify adjustments in OCI to retained earnings. In addition, under Canadian GAAP vested past service costs were deferred and amortized. Under IFRS, vested past service costs are recognized immediately as an expense in the period they are incurred. As a consequence, actuarial losses of $1,158 and vested past service costs of $15 that were deferred off balance sheet under Canadian GAAP have been recognized on the IFRS opening consolidated statement of financial position.

> Under Canadian GAAP, the annual measurement date for determining the funded status of the plan can be no earlier than three months prior to the reporting date, providing that the timing is consistent from year to year. Under IFRS, the funded status of the plan is measured actuarially with sufficient regularity that the amounts recognized in the consolidated financial statements would not differ materially from the amounts that would be determined at the end of the reporting period. The impact from the change in the Company's measurement date for its pension plans from May 31, 2014 to August 31, 2014 is a loss of $213 that has been recognized on the IFRS opening consolidated statement of financial position. This loss is primarily due to a 30 basis point decline in the market-based discount rate used to determine pension obligations during the three month period ended August 31, 2014.

Under Canadian GAAP, pension expense included all pension expenses, including supplemental pension (unfunded), as well as the regulatory pension expense and was presented as salaries and benefits. Under IFRS, pension expense is broken down and presented in separate sections on the consolidated statements of operations and comprehensive income as described below:

> current service cost and related capitalized amounts are recorded as salaries and benefits;

> net interest arising on net benefit obligations is recognized in net income (loss) and is presented in net interest costs relating to employee benefits;

> regulatory adjustments related to pension benefits recognized in net income (loss) are presented separately in net movement in regulatory deferral accounts on the consolidated statement of operations; and

> actuarial gains and losses are recognized in other comprehensive income with the related offsetting regulatory adjustment on the consolidated statement of comprehensive income.

28. TRANSITION TO IFRS (CONTINUED):

(b) Reconciliations of Canadian GAAP to IFRS (continued):

Explanations of adjustments (continued):

iii) Defined pension benefits, net of regulatory liability (continued)

This accounting change to IFRS will not affect the determination of customer service charges, as the Company will continue to use the same regulatory approach to recovering pension expenses as under Canadian GAAP that is based on the recovery of current and prior years' pension contributions.

iv) Other post-employment benefits

The total adjustment on transition to IFRS for other post-employment benefits increases the accrued other post-employment benefits liability by $40 with a corresponding decrease to retained earnings (increasing the deficit). The Company has fully offset this impact by recording a corresponding regulatory debit with a corresponding decrease in the deficit of $40. More detailed explanations of the various components of this adjustment are described below:

> Under Canadian GAAP, actuarial gains and losses were deferred off balance sheet and amortized to net income (loss) before rate stabilization using a "corridor" approach. Under IFRS, the Company recognizes actuarial gains and losses in OCI in the period they are incurred, with no subsequent reclassification to net income (loss). The Company has made a policy choice to reclassify adjustments in OCI to retained earnings. As a consequence, actuarial losses of $24 that were deferred off balance sheet under Canadian GAAP have been recognized on the IFRS opening consolidated statement of financial position.

> Under Canadian GAAP, the annual measurement date for determining the funded status of other post-employment benefit plans can be no earlier than three months prior to the reporting date, providing that the timing is consistent from year to year. Under IFRS, the funded status of these plans is measured actuarially with sufficient regularity that the amounts recognized in the consolidated financial statements would not differ materially from the amounts that would be determined at the end of the reporting period. The impact from the change in the Company's measurement date for its other post-employment plans from May 31, 2014 to August 31, 2014 is a loss of $11 that has been recognized on the IFRS opening consolidated statement of financial position. This loss is primarily due to a 30 basis point and 20 basis point decline in the market-based discount rate used to determine other post retirement life and health benefits and retiring allowance obligations respectively during the three month period ended August 31, 2014.

> Under Canadian GAAP, longer attribution periods were permitted when further salary increases are beyond the credited service period. Under IFRS the attribution period is restricted to the maximum credited service period. This change has resulted in an increase of the benefit obligation of $5 for the Company's retiring allowance benefits which has been recognized on the IFRS opening consolidated statement of financial position.

> One of the other post-employment benefit plans related to vested sick leave benefits (with an obligation of $8 together with deferred past service of $9 and deferred actuarial losses of $4 resulting in a liability balance of $21 at August 31, 2014) is classified as an other post-employment benefit plan under Canadian GAAP. This has been re-measured and classified as a long-term benefit together with the liability for accumulating sick leave discussed below in adjustment note v.

The following other post-employment benefits were presented with salaries and benefits under Canadian GAAP: retiring allowances and other post-employment life and health. Under IFRS, other post-employment benefits expense is broken down and presented in separate sections on the consolidated statements of operations and comprehensive income as described below:

> current service cost and related capitalized amounts are recorded as salaries and benefits;

> net interest arising on net benefit obligations is recognized in net income (loss) and is presented in net interest costs relating to employee benefits;

> regulatory adjustments related to other post-employment benefits recognized in net income (loss) are presented separately in net movement in regulatory deferral accounts on the consolidated statement of operations; and

> actuarial gains and losses are recognized in other comprehensive income with the related offsetting regulatory adjustment on the consolidated statement of comprehensive income.

v) Long-term benefits, net of regulatory liability

Under Canadian GAAP the costs of providing LTD benefits are charged to operations as they occur, which is consistent with IFRS. Under IFRS long term employee benefits are presented separately as long-term benefits.

Years ended August 31, 2016 and 2015 (millions of dollars)

Under Canadian GAAP, LTD benefits were measured as of the Company's annual measurement date of May 31, 2014. Under IFRS, LTD benefits are measured as of the reporting date. The impact from the change in the Company's measurement date for its LTD plan from May 31, 2014 to August 31, 2014 is a decrease in the accrued LTD benefit asset of $4 and a corresponding decrease in retained earnings (increase in the deficit) of $4. This loss is primarily due to the plan experience during the three month period ended August 31, 2014. This impact on retained earnings was fully offset by recording a regulatory debit with a corresponding decrease in the deficit of $4.

Under Canadian GAAP, non-vesting accumulating sick leave benefits were not recognized as a liability until the leave was taken; only vested sick leave benefits were recorded and actuarial gains and losses and past service costs were deferred off balance sheet and amortized to earnings using a "corridor" approach. Under IFRS, a liability for both vested and non-vesting accumulating sick leave benefits are recorded and actuarial gains and losses on vested and non-vesting sick leave and past service costs are recognized in net income in the period they are incurred. As a consequence, actuarial losses of $4 and past service costs of $9 that have been deferred off balance sheet under Canadian GAAP have been recognized on the IFRS opening consolidated statement of financial position. In addition, a liability for accumulating non-vesting sick leave that was not recorded under Canadian GAAP has been recognized on the IFRS consolidated statement of financial position. These adjustments have resulted in an increase to vested and non-vesting sick leave liability of $34 and a corresponding decrease in retained earnings (increase in the deficit) of $34. This impact on retained earnings was fully offset by recording a regulatory debit and a corresponding decrease in the deficit of $34.

The following long-term benefits were presented with salaries and benefits expense under Canadian GAAP: LTD and accumulated sick leave (vested and non-vested). Under IFRS, long-term benefits expense is broken down and presented in separate sections on the consolidated statement of operations as described below:

> current service cost and related capitalized amounts are recorded as salaries and benefits;

> net interest arising on net benefit obligations and actuarial gains and losses is recognized in net income (loss) and is presented in net interest costs relating to employee benefits; and

> regulatory adjustments related to long-term benefits are presented separately in net movement in regulatory deferral accounts on the consolidated statement of operations.

vi) Cross border transactions, net of regulatory liability

Under Canadian GAAP, although the Company is considered to have a variable economic interest in the Statutory Trust, the structured entity that was created by a U.S. entity at the inception of the transaction, the Company was not considered to be the primary beneficiary of the Statutory Trust, and therefore was not required to consolidate this entity. Accordingly, capital lease obligations – payment undertaking agreements, reserve funds and capital lease obligations were recognized on the Company's balance sheet upon entering into the transaction. Under IFRS, the Statutory Trust is fully consolidated in the Company's consolidated financial statements up to the termination of the capital lease transaction on August 6, 2015, as the Company is exposed to and has the power to control the returns of the Statutory Trust. The capital lease obligation has been eliminated in the consolidated financial statements, and the Company has recognized the long-term debt owed by the Statutory Trust on the cross border transaction. As a result of these adjustments upon transitioning to IFRS, the table below shows that there is no net impact on retained earnings.

		Transition adjustment debit (credit)
De-recognition of:		
Property, plant and equipment	$	(10)
Current portion of capital lease obligations		56
Capital lease obligations		161
Other regulatory liabilities		2
Recognition of:		
Current portion of long-term debt		(56)
Long-term debt		(153)
Net impact on retained earnings	$	–

The interest expense on the long-term debt is offset by interest income on the payment undertaking agreements resulting in no net effect on the Company's net income (loss) in fiscal 2015.

28. TRANSITION TO IFRS (CONTINUED):

(b) Reconciliations of Canadian GAAP to IFRS (continued):

Explanations of adjustments (continued):

vii) Decommissioning liability

Under Canadian GAAP, an asset retirement obligation is recognized when the Company has sufficient information to reasonably estimate the fair value of the asset retirement obligation. When the timing of the settlement of the obligation is unknown or cannot be estimated, the Company cannot reasonably estimate the fair value of the liability, and therefore no asset retirement obligation is recognized. Under IFRS, the uncertainty of the timing of the settlement of an asset retirement obligation is reflected in the measurement of the provision. As a result of the transition, the Company has recognized a liability for asset retirement obligations of $1 and a corresponding increase in the asset of $1.

viii) Borrowing costs

Under Canadian GAAP, the Company did not capitalize borrowing costs related to capital projects. Under IFRS, the Company is required to capitalize borrowing costs in certain situations; therefore interest expense recorded with other finance costs is lower by the capitalized amounts under IFRS. The IFRS recognition method for capitalized borrowing costs will also be used for rate setting purposes; therefore no regulatory deferrals have been set up to offset this impact.

ix) Contributions related to property, plant and equipment

Under Canadian GAAP, contributions related to property, plant and equipment were recorded on the balance sheet as a reduction to the value of the asset to which it relates. Under IFRS, contributions of a revenue nature from third parties intended to offset the cost of property, plant and equipment are accounted for as revenue. The IFRS recognition method for these contributions will be used for rate setting purposes; therefore no regulatory deferrals have been set up to offset this impact.

x) Investment in preferred interests of Aireon, net of regulatory liability

Under Canadian GAAP, amounts presented on the statements of operations relating to the Company's investment in Aireon (effective interest income, dividend income, income taxes, foreign exchange impacts and fair value adjustments on the embedded derivative) were offset on the same line using a regulatory adjustment. Under IFRS, all regulatory adjustments are presented separately from the underlying transactions as net movement in regulatory deferral account balances.

xi) Rate stabilization account

The Company maintains a rate stabilization mechanism in order to mitigate the effect on its operation of unpredictable and uncontrollable factors. Amounts are added to or deducted from the rate stabilization account based upon variations from amounts used when establishing customer service charges. Under IFRS, the Company will continue to maintain a rate stabilization mechanism; however during the transition year, IFRS amounts were compared to Canadian GAAP amounts and additional amounts were added to and deducted from the rate stabilization account.

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Sidney Koslow
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General inquiries can also be made by calling 1-800-876-4693,
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Copies of the Company's Financial Statements, Management's Discussion and Analysis, and Annual Information Form are available on the System for Electronic Document Analysis and Retrieval (SEDAR) at **www.sedar.com**.

Notice of Annual Meeting

The Annual Meeting of the Members of NAV CANADA will be held on Wednesday, January 11, 2017, at 4:00 p.m. at the Shaw Centre, 55 Colonel By Drive, Ottawa, Ontario.

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