We Are
NAV CANADA

ANNUAL REPORT 2017

NAV CANADA

"I perform corrective and preventive maintenance or field modifications on electronic navigational aids used by NAV CANADA, helping to ensure the safety of the air navigation system."

Marc Alivio *Electronics Technologist*
St. John's Control Tower

For definitions of the abbreviations and acronyms that appear in this report, please refer to our glossary on page 48.

Corporate Profile

NAV CANADA is a private, not-for-profit company, established in 1996, providing air traffic control, airport advisory and aeronautical information services, and weather briefings for more than 18 million square kilometres of Canadian domestic and international airspace. The Company is internationally recognized for its safety record, and innovative technology used by ANSPs worldwide.

OUR VISION, MISSION AND OBJECTIVES

Our Vision

NAV CANADA's Vision is to be the world's most respected ANSP:

- in the eyes of the 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.

ON THE COVER:

Isabelle Pouliot *Tower Supervisor,*
François Guiral (right) and **Jeremie Yelle**
Air Traffic Controllers
Montreal Control Tower

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; and
6. Identifying and, where feasible, introducing measurable benefits which contribute to the reduction of the environmental footprint of the aviation industry.

NAV CANADA
BY THE NUMBERS

18 million km²
of airspace

4,800 employees
across the country

12 million
aircraft movements annually

1,000 flights
in Gander oceanic airspace daily

40,000
customers
(airlines, air cargo operators, air charter operators, air taxis, business and general aviation, helicopter operators)

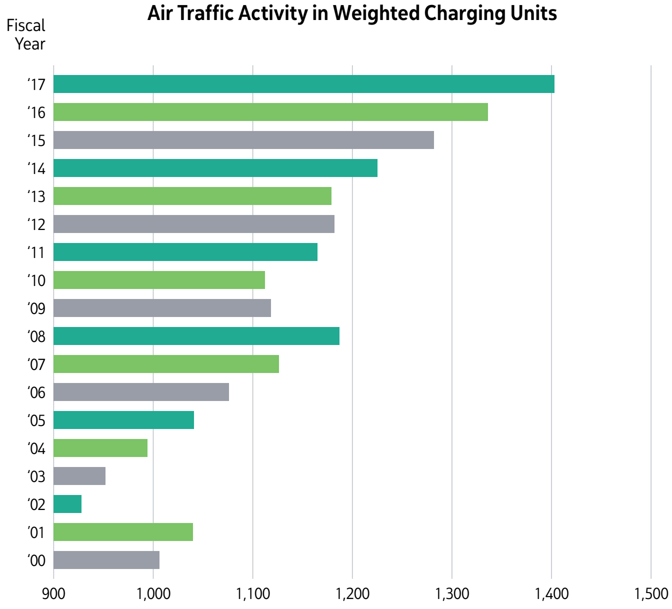
9 countries
using NAVCANatm technology
in some of the world's busiest airports

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

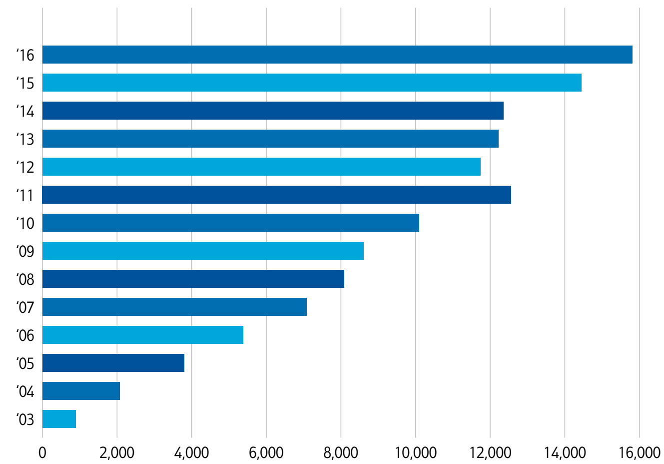
$170 million
investment
in NAV CANADA infrastructure in fiscal 2017

47 employee-led
environmental initiatives
submitted to the NAV CANADA Grassroots Initiatives Sustainability Funding Program

Air Traffic Activity in Weighted Charging Units

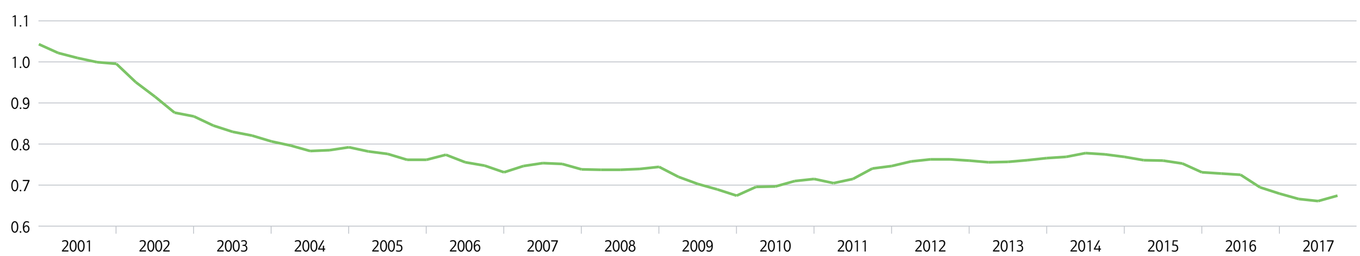


Polar Flights by Calendar Year

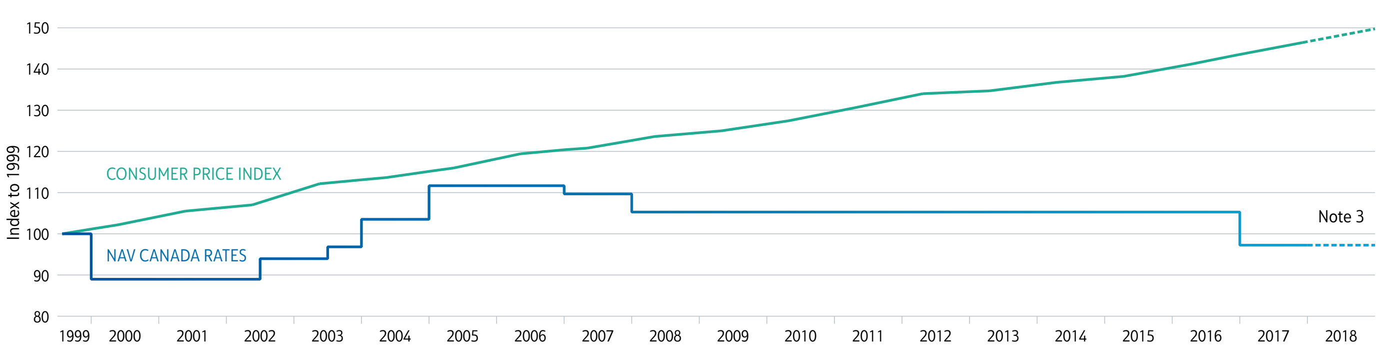


Source: NAV CANADA polar statistics,
number of flights through designated Russian polar fixes
and Canadian Domestic Controlled Airspace.

Rate of IFR-IFR Losses of Separation per 100,000 Movements (5-Year Moving Average)



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 2% for 2017 and beyond.
3. NAV CANADA announced a further refund of $60M, equivalent to a reduction of 4.6% in rates. This is in addition to the 3.9% rate reduction effective September 1, 2017 which effectively continues the 3.9% temporary one-year rate reduction that expired on August 31, 2017.

"I provide airport advisory services to assist pilots in arriving and departing safely and efficiently at an airport that can quickly become busy and complex."

Chris Morrison *Flight Service Specialist*
Kamloops Flight Service Station

NAV CANADA ANNUAL REPORT 2017

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MARC COURTOIS

MESSAGE FROM THE **CHAIR OF THE BOARD**

It is a great pleasure to once again be able to introduce NAV CANADA's Annual Report for 2017.

In my five years as Chair, I have had the honour of watching the Company progress; working collaboratively with our customers and stakeholders to move the bar on safety and efficiency.

The title of this year's report, "We Are NAV CANADA," was chosen to reflect the importance of each and every member of the NAV CANADA workforce in moving that bar higher. It is inspiring to watch our talented employees, each in different roles, come together to make this Company a success year after year.

It is through their exceptional work that NAV CANADA has become well known in the aviation industry for its record in safety, innovation, collaboration and performance. These attributes are reflected in the achievements related throughout this report.

Safety Record

NAV CANADA is responsible for facilitating the safe movement of thousands of aircraft and their passengers as they travel through Canadian-controlled airspace each and every day.

As such, safety has always been at the forefront of the Company's vision, mission and overarching objectives, and over the past decade we have achieved a safety record among the best in the world through our shared commitment to continuous improvement.

In evaluating NAV CANADA's safety performance, we benchmark our safety data against other ANSPs and our past performance. In 2017, NAV CANADA improved its safety record from the previous year, as measured by the rate of IFR-to-IFR losses of separation, a key safety benchmark. Our five-year moving average was 0.68 per 100,000 aircraft movements, improving from 0.69 in 2016, and maintaining our position in the top decile of major ANSPs for safety performance.

Canada's aviation environment is constantly changing as new technology is introduced, customer operations change, and domestic and international standards are drafted and amended. In order to provide the safest aviation environment possible, NAV CANADA continues to identify risks, and address them in collaboration with our stakeholders.

Business and Finance

Air traffic for fiscal 2017 was 5.1 per cent higher than in fiscal 2016, helping NAV CANADA achieve another strong financial performance.

The Company implemented rate reductions at the beginning of fiscal 2017 that saved customers approximately $105 million.

Due to its continuing strong financial performance, the Company announced in August that it would decrease existing base rates charged to its customers by an average of 3.5 per cent and also implement a temporary one-year rate reduction of 0.4 per cent for fiscal 2018. With the temporary rate reduction that was set to expire at the beginning of fiscal 2018, the rate reductions will keep, on average, overall rates unchanged from the previous year.

The Company will also reimburse its customers approximately $60 million in a one-time 4.6 per cent rebate in fiscal 2018.

Investing in the ANS

As part of our program to get to the next level, we increased capital expenditures to $171 million in fiscal 2017, up from $136 million in fiscal 2016. We will be maintaining this level of capital expenditures in 2018 and 2019.

This investment directly impacts our employees' work environments by providing more modern workspaces and increasingly advanced technology.

Much of the capital expenditure through fiscal 2019 will focus on the expansion, refurbishment or replacement of ACCs, control towers and FSS facilities, upgrades to power systems, investments in air traffic management technology and new business systems, and modernization of critical elements of the communications, navigation and surveillance infrastructure, including continued investment in space-based ADS-B.

Aireon, our joint venture, will use satellite-based ADS-B to deliver real-time aircraft position updates anywhere ADS-B equipped aircraft fly, including over oceans and remote regions, significantly improving safety and efficiency.

In fiscal 2017, there were two successful launches delivering another 20 Iridium NEXT satellites into orbit, each carrying its Aireon space-based ADS-B payload. This brings the total number of satellites in orbit to 30. The remaining Iridium NEXT satellites will be deployed in six separate launches scheduled late in 2017 and in 2018. The satellite network is scheduled for completion in 2018.

We Are NAV CANADA

This year's theme, "We Are NAV CANADA," is all about our people. The Company is only able to achieve its goals through the dedication of its employees. As part of our commitment to recognizing employee excellence, each year we celebrate the achievements of our employees through our annual awards program, Points of Pride. It was my privilege and pleasure to present Chairman's Awards for Employee Excellence to some of our outstanding employees at our National Awards Night 2017.

The 27 winners of the 2017 Chairman's Awards for Employee Excellence are Derrick Winsor, Joshua Armstrong, Larry Arnold, John AuCoin, Ian Hanrahan, Ian Selin, Mark Smith, Kevin Gooden, Aldo Stefanon, Aaron Dibben, Lee Robinson, Simon Dennis, Darlene George, Amanda Devine, Colleen Allaby, Kirsten Dawson, Ian Giesbrecht, Clark Piercey, Paul Pothier, Éric Beauchamp, Vanessa Behrens-Nicholls, Edward Janes, Leszek Kropop, Dan Potvin, Jeremy Brine, Daniel Toll and Kendra Kincade.

You can view all of our 2017 Points of Pride Award recipients on page 30 of this report.

A Successful Year

It has been a busy and successful year. We celebrated the 20th anniversary of NAV CANADA on November 1, 2016, launched a significant capital spending program, saw the implementation of space-based ADS-B come closer to reality with successful launches, and ended the year with strong financial results.

I want to thank my colleagues on the Board of Directors for their contributions to the Company. All of your valued and informed counsel helps to keep NAV CANADA moving in the right direction in these times of constant change. I would also like to thank Arthur LaFlamme for his dedicated service to NAV CANADA. Arthur is stepping down after serving six years on the Board.

In turn, on behalf of my Board colleagues, I would like to thank Neil Wilson, his management team and all NAV CANADA employees for your dedication and competence, and all that you do to contribute to a safe and efficient air navigation system.

Congratulations to you all on another successful year and I look forward to all we are able to accomplish together in 2018.

Marc Courtois
Chair of the Board

NEIL WILSON

MESSAGE FROM THE **PRESIDENT AND CEO**

When I travel from country to country, city to city, representing NAV CANADA, I often start out by explaining what NAV CANADA is: that we are Canada's Air Navigation Service Provider, managing 12 million aircraft movements a year for 40,000 customers in over 18 million square kilometres of airspace.

But that's just a small part of the answer.

More accurately, NAV CANADA is the 4,800 employees who make up this Company. It is the flight service specialist providing airport advisory services in Kuujjuaq, Quebec, or in-depth weather briefings from the Kamloops FIC in British Columbia. It is the air traffic controller managing oceanic traffic in Gander, Newfoundland, or working at our tallest free-standing tower in Calgary, Alberta. It is the electronics technologists who provide in-service support of our air navigation infrastructure as far north as Resolute Bay, Nunavut, and our engineers who develop the innovative technology we use to manage air traffic, and who work in the field to deploy those systems and equipment. It is our financial and safety analysts, our leadership development and IT security specialists, and all of our managers, and so many more who work across the country.

We Are NAV CANADA

The theme of our Annual Report, "We Are NAV CANADA," gives us an opportunity to showcase our employees from coast to coast to coast. They have earned our Company its well-deserved global reputation for safety, technology innovation, and service delivery. It is through their efforts and passion for this industry, and their willingness to step forward when and where they are needed, often in extraordinary circumstances, that we fulfil our strategic objectives and achieve our mission.

We only have to look at how our employees took action when wildfires swept through British Columbia this past summer, forcing the evacuation of Williams Lake and our FSS.

Last summer's wildfire season in B.C. was the most destructive on record for the area. At our Williams Lake FSS, traffic volumes increased nearly five times greater than normal, with most of the traffic involving helicopters fighting nearby fires. The 11,000 people of Williams Lake were evacuated in July, including our employees, but our staff pulled together to help the surrounding communities in this dangerous situation. To keep air traffic moving after the evacuation order, members of our Technical Operations, Engineering and Data Systems Coordinator teams quickly built remote flight service working positions in Vancouver over two days. This ensured we could provide services to the fire-affected towns of Quesnel and Williams Lake during that crucial time with no disruption to service.

Then, in a summer that saw more than its share of unforeseen weather events, a severe August thunderstorm in Ottawa flooded one of our facilities, affecting the AFTN which handles flight plans, as well as our NOTAM Office. Once again, our employees demonstrated their professionalism and expertise under difficult circumstances.

The team onsite was evacuated and quickly moved to a nearby facility where back-up systems were located. Additional team members were brought in to help process flight plans manually, and to work closely with the FAA and NATS, our counterparts in the U.S. and the U.K., to adjust traffic flows.

Although some delays occurred while reinstating system connectivity with neighbouring ANSPs, our air traffic control surveillance and communications systems were fully operational, and safety was not compromised. A full review of the emergency processes in place and business resumption plans with our employees and stakeholders following the outage has led us to further refine our responses and advance system redundancy.

In these two instances, ensuring the safety of the air navigation system was each employee's utmost priority. Safety is the linchpin of this Company, connecting each function of the air navigation system, and our employees incorporate it into every activity they undertake.

In 2018, they will be working together to broaden the scope of our safety planning and measurement with corporate safety planning that will look more deeply at both our Safety Management System and additional operational safety improvements. The corporate safety planning process has a vital role in ensuring that we continue to lead the way in safety performance.

Daniel Labonté *(left) IT Client Support Specialist, and*
David Bales *Manager, Safety Planning and SMS Advancement*
Head Office

Providing the Right Tools

Our employees in action and working as a coordinated team, illustrate the diversity of roles that are required to operate a world-class air navigation system. Our employees are the face and voice of NAV CANADA to our customers and stakeholders, providing direction, offering expertise and collaborating for success.

In turn, it is vital that we provide our employees with the right tools and resources, and to work together to foster a healthy and value-driven working environment.

In early fiscal 2018, NAV CANADA launched its first national Diversity and Inclusion Strategy. This strategy was developed in consultation with leaders and employees across the organization to ensure it reflects the insights and ideas of our workforce. It is through an inclusive work environment in which all employees with diverse backgrounds and experiences are encouraged to share their thoughts and opinions that NAV CANADA can strengthen and advance its business.

Creating a Fulfilling Workplace

In mid-2017, we took the "pulse" of our employees using an abbreviated Engagement Pulse Survey to get an interim view of our progress following our 2016 Engagement Survey. Results were very positive, indicating that 68 per cent of our employees are engaged, up from 62 per cent in 2016. The input gathered from these Company-wide surveys guides us all in our continued efforts to develop a professional, productive and fulfilling work environment.

It seems that the programs we do have in place for our employees were noticed this past year. I am proud to say that NAV CANADA was selected for the second consecutive year as one of Canada's Top 100 Employers for 2018 – a national competition that evaluated our employee programs in comparison with other industry leaders.

Also, in an independent Forbes Magazine anonymous survey of employees from across the country, NAV CANADA was ranked the second overall, and first in our industry, on its 2017 list of Canada's Best Employers.

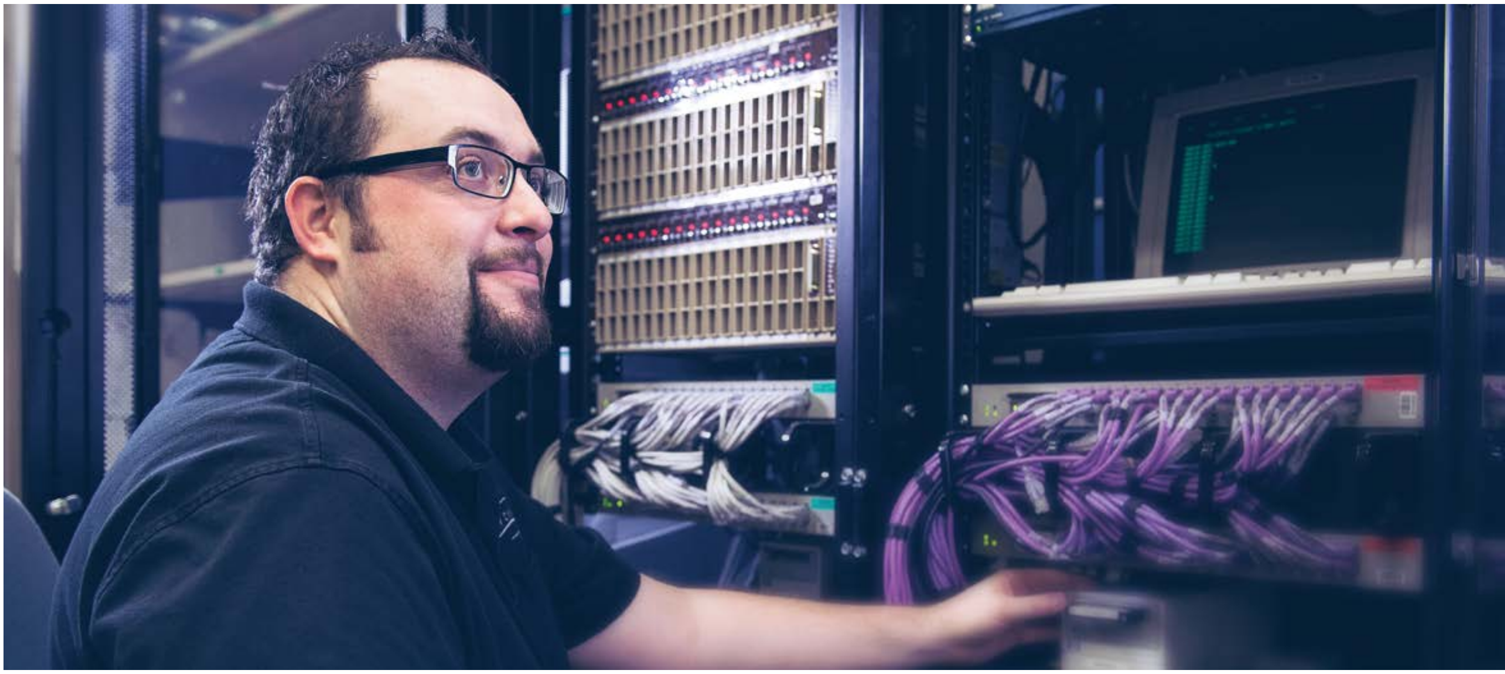
While external recognition is important and an opportunity to benchmark our progress, our first goal is to be regarded as a top employer by our employees. That's why we're maintaining our focus on creating a motivating and satisfying workplace.

Recognizing Our Achievements

Within the Company, we take time each year to recognize and celebrate the accomplishments of those individual employees or teams who have made an exceptional contribution.

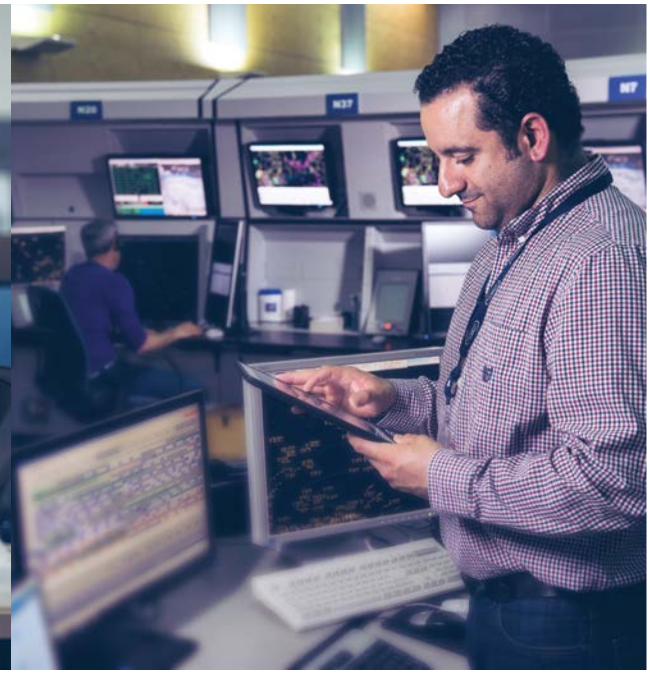
This year I was pleased to present President's Awards for Outstanding Achievement to three teams: the CHIP Infrastructure Team, who introduced a Common Hardware Integrated Platform, important to our ATM strategic plan, in all seven ACCs within 24 months; the Fort McMurray Fire Team composed of employees from various groups across the country, who made remarkable contributions both during and after the crisis; and the THRIVE Team, who developed a peer training support program which has been implemented across all FIRs.

You can view all of our 2017 Points of Pride Award recipients on page 30 of this report.



Sherwin Harvey *Electronics Technologist*
Gander Area Control Centre

Katie Leung *Administrative Clerk*
Toronto Area Control Centre



Ali Ghazian *Team Supervisor*
Montreal Area Control Centre

Renewing Our Brand Identity

In May, we launched our new corporate branding, including a revitalized logo, the first change to the NAV CANADA look in our 20-year history. Our new brand identity is representative of the exceptional team behind our achievements in safety, innovation and service delivery as well as reflective of our Company's growth and vision for the future.

Additionally, our new NAV CANADA blog was launched, replacing the Company's customer newsletter. The blog covers topics about safety, ATM innovation, environmental initiatives and the people of NAV CANADA (#WeAreNAVCANADA). I encourage you to read the blog using the link on our website or by visiting **blog.navcanada.ca**.

Consulting on Airspace Changes

Being a responsible member of the aviation community also means understanding how airspace changes impact all of our stakeholders. While our primary responsibility is to ensure the safety of aircraft in our airspace, we strive to achieve this while balancing efficiency for airlines and airports, noise to the surrounding communities and reductions in aircraft emissions. Our people do this by working with airlines and airports, and engaging with communities through public consultations.

In July 2016, we launched an independent review of the Toronto Pearson airspace by the U.K.-based aviation consultancy firm Helios to identify options for reducing the exposure to aircraft noise experienced by the community residing around the airport. The final report was delivered in September 2017 and the Company has provided an official response to the review and each of the recommendations it contains. Our thanks go to all the residents and stakeholders who provided input to this process.

We will continue to engage with communities and to work with airports and stakeholders across Canada on items such as flight path changes, improvements to descents and arrivals, and noise mitigation.

Investing in Our Infrastructure

A big part of providing our customers with the best service possible is making sure that our employees have modern and up-to-date equipment and facilities so they can do their jobs in the most efficient way possible. On the Company's 20th anniversary, I announced a $40 million increase in the Company's typical annual average spending for capital expenditures, which will continue over the next two years subject to economic/business conditions.

In August 2017, we held an official opening for a new control tower in Kitchener-Waterloo, one of the first of several towers to be completed. New towers are currently under construction in Langley and Pitt Meadows, British Columbia, and Oshawa, Ontario. We also have projects underway for the expansion and refurbishment of the Toronto ACC, the refurbishment of the Boundary Bay, British Columbia Control Tower and the replacement of the Grande Prairie, Alberta FSS. These new facilities provide our employees with enhanced technology and more ergonomic workspaces.

Additional capital expenditures through fiscal 2019 will also be devoted to power system upgrades, ATM technology and modernizing critical elements of the communications, navigation and surveillance infrastructure including the Radar Replacement Project and NAVAID Modernization Program – all supporting the service our team of professionals delivers.

Revolutionizing Surveillance Coverage

Speaking of modernization, Aireon, our joint venture with Iridium Communications, ENAV, the Irish Aviation Authority and Naviair, had an extremely eventful and successful year in 2017. Aireon is readying itself to provide 100 per cent global surveillance coverage of ADS-B equipped aircraft in real time.

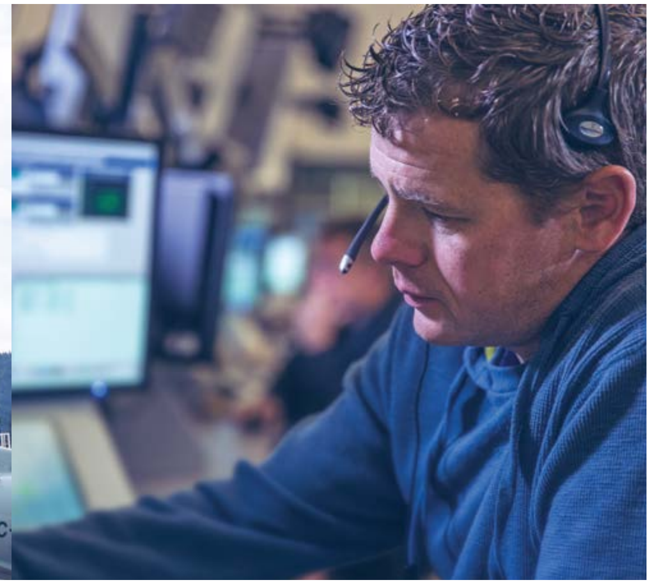
In May 2017, our flight inspection team completed a successful flight test of space-based ADS-B technology to validate Aireon's satellite aircraft surveillance and tracking service using our Company's flight inspection aircraft. During the flight test, almost 7,000 ADS-B messages were received and decoded by a single Aireon payload, and were found to exhibit comparable results to that of terrestrial ADS-B stations. Our aircraft is scheduled to conduct a second test late in 2017 as our people continue to play an important role in helping to validate the capabilities of the system.

Reducing Customer Service Charges

We have been able to make these additional investments in the air navigation system and in our people, because of another year of steady and sustained traffic growth of 5.1 per cent in fiscal 2017. This traffic growth has been largely fueled by trans-Atlantic air traffic volumes. This strong performance allowed the Company to implement base rate reductions and a customer refund in August 2017.

You can read more details about our financial performance in our Strategic Plan Update on page 19 and view our complete Financial Statements in the booklet insert included in this report.

Whitehorse Control Tower and Flight Information Centre



Shaun Reid *Air Traffic Controller*
Gander Area Control Centre

Looking Ahead

As you read through the pages of this report, keep in mind that these achievements were made possible through the exceptional work of our employees. It's clear that our people are the cornerstone of NAV CANADA's success.

But we are not a company that simply rests on our reputation. Our people keep reaching for that next level, focusing on our strategic priorities and working together, with you and for you, to achieve our common goals of safety, efficiency and sustainability for aviation in Canada and around the world.

And so, I would like to close by first extending my sincere thanks to all NAV CANADA employees. Congratulations on all you have achieved in the past year. You are an inspiring team who lives the values of this Company each and every day. You truly 'are' NAV CANADA.

I would also like to thank our Chair, Marc Courtois, and the members of our Board for their continued support. To the members of my Executive Team, thank you for your professionalism and dedication, and my best wishes and thanks go to all who retired in 2017 for their years of service to NAV CANADA.

Finally, I would like to thank all of our stakeholders, partners and ANSP colleagues for their important input on the common issues that are an inherent part of the aviation industry. It's with communication and collaboration that shared problems can be solved and success can be achieved.

I look forward to working with you all in 2018.

Neil R. Wilson
President and CEO

CORPORATE **HIGHLIGHTS**

We Have Liftoff!

In 2017, we saw an exciting leap forward in the revolutionizing of air traffic management through Aireon's three successful launches of Iridium NEXT satellites into orbit. The company, which is a joint venture between NAV CANADA and leading ANSPs from around the world, will complete the deployment of its global satellite-based system in 2018, providing 100 per cent surveillance coverage of ADS-B equipped aircraft around the globe in real time.

British Columbia Wildfires

Last summer saw the most intense wildfire season on record in British Columbia. Tens of thousands of people were evacuated from affected areas, including NAV CANADA Williams Lake FSS employees who were working extended hours to support firefighting efforts and other emergency aircraft. To keep air traffic moving after the evacuation, NAV CANADA teams quickly built remote work positions in Vancouver, ensuring services to fire-affected towns remained uninterrupted.

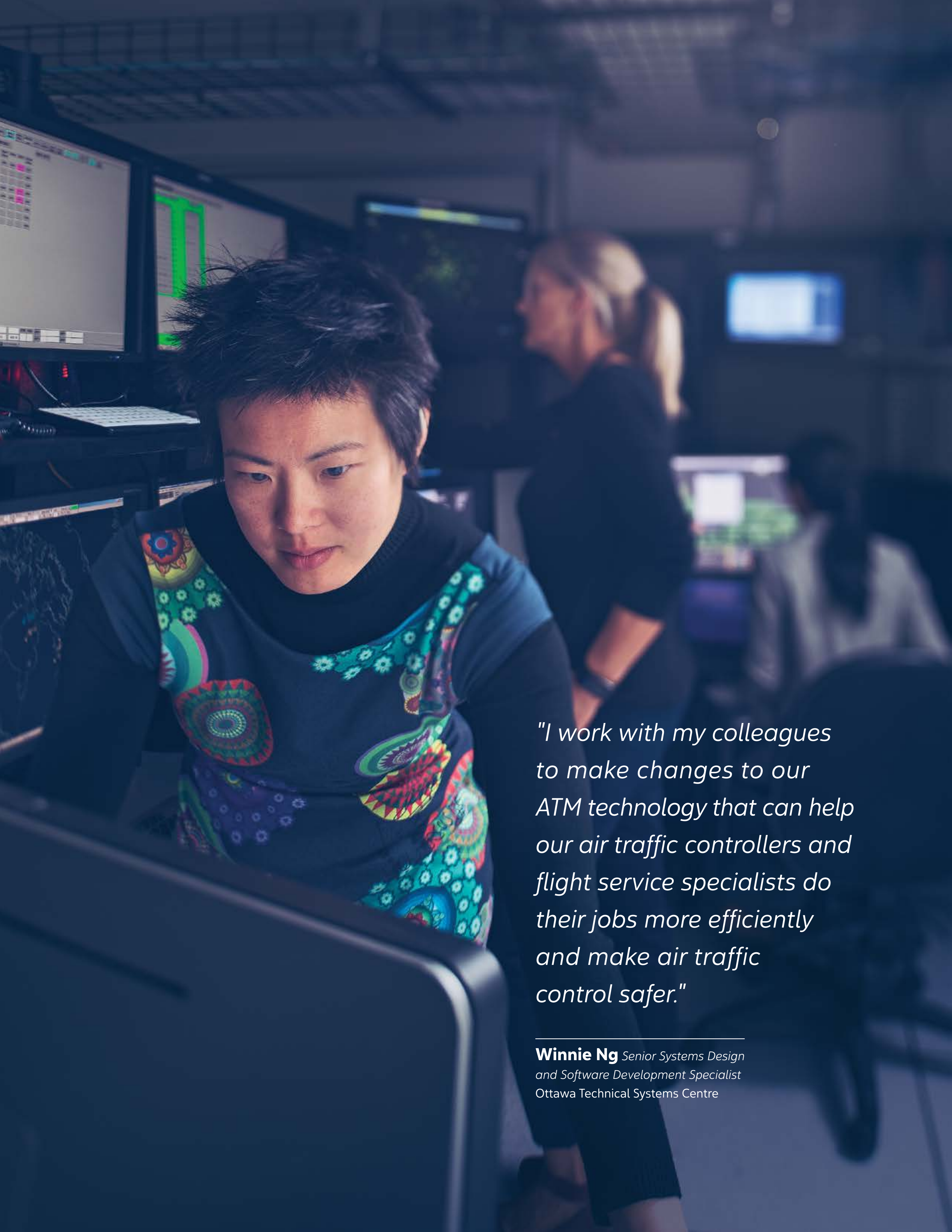
Branding Launch

NAV CANADA launched a new look and branding last year – the first significant change to its look in its 20-year history. The rollout of the new logo, corporate colours and other branding elements will continue in 2018 at facilities across the country.

NAV CANADA

New Kitchener-Waterloo Control Tower

NAV CANADA opened a new control tower at the Region of Waterloo International Airport in September 2017. Since the previous tower's construction in 1969, the airport's main runway has been extended by just over one kilometre. The new placement, increased height and 360-degree windows make it easier for controllers to see the runways, taxiways and aprons.



"I work with my colleagues to make changes to our ATM technology that can help our air traffic controllers and flight service specialists do their jobs more efficiently and make air traffic control safer."

Winnie Ng *Senior Systems Design and Software Development Specialist*
Ottawa Technical Systems Centre

PROVIDING VALUE FOR STAKEHOLDERS

STRATEGIC PLAN UPDATE

As part of our goal of providing value for all stakeholders, our Company-wide Strategic Plan identifies our key priorities for 2017–2018. These focus areas include: being a world leader in **safety**; being the best employer for our **people**; providing value-focused **service** to our customers; adopting modern platforms via leading **technology**; and ensuring stable and sustainable **financial** performance. This section provides highlights of our performance against our Strategic Plan priorities during fiscal 2017, and a summary of our direction for fiscal 2018 and beyond.

Safety

Information about NAV CANADA's major safety goals and its progress toward these objectives can be found in the 2017 Corporate Safety Report and the Corporate Safety Plan for fiscal 2018. Below are some of the highlights.

NAV CANADA Safety Information System

One of NAV CANADA's safety goals is to support data integration in our SMS to identify and address safety issues. NC-SIS provides users with an integrated tool for entering safety-related data, improves data collection and analysis, and offers integrated workflows and collaborative capabilities.

This project is being delivered in three phases. In May 2017, Phase 1 was implemented in all operational units, incorporating non-routine events, aviation occurrence reports, oceanic events, SMS follow-ups and preliminary investigations. Subsequent phases through to 2019 will address flight operations events, the confidential safety reporting program, ARGUS, the Operational Condition Report, the Hazard Identification and Risk Assessment, audits and advanced analytics.

Safety Maps

In 2017, NAV CANADA completed its first round of safety mapping for each specialty, control tower, FSS and FIC to identify each of their top three safety issues and to develop a mitigation plan. The information was then

Peter Bryant *Air Traffic Controller*
Moncton Control Tower

used to identify the Company's top safety issues for its hazard register. This program allows employees to focus on their own safety priorities and be proactive in safety identification and mitigation. This process will be repeated annually.

Alarm and Alert Standards

Advances in ATM and CNS equipment make it increasingly important that Technical Operations Coordinators (TOCs) have integrated tools with standardized features, alarms and alerts. This project aims to improve safety, response times, tracking and cost-effectiveness.

In 2017, working groups created alarm and alert standards and a concept of operations for a replacement monitoring solution. The objective is to implement a system that integrates monitoring and control tools by 2019 which will mitigate potential safety risks and improve efficiency for the TOCs.

Human Performance Management Program

In 2017, the Company took a leading role in developing the CANSO Human Performance Management Standard of Excellence Framework which will allow ANSPs to assess how well frontline personnel perform using a standardized approach.

In fiscal 2018, using the CANSO framework, NAV CANADA will conduct an assessment of 12 business areas, report the results against the standard, and identify areas for improvement. Implementation of a Human Performance Management Program based on this assessment is anticipated in 2020.

People

Diversity and Inclusion

In early fiscal 2018, NAV CANADA launched its first national Diversity and Inclusion Strategy. The aim of the program is to build upon the existing diversity within NAV CANADA's workforce and strengthen our culture of inclusion, increase employee engagement, improve business performance and attract and retain top talent.

Key initiatives will include the introduction of a CEO Advisory Council on Diversity and Inclusion, the integration of diversity and inclusion education throughout our learning programs, and the launch of a platform to encourage employee dialogue about this important topic.

Official Languages

NAV CANADA continues to strongly support the use of Canada's official languages, English and French, in its daily operations. In fiscal 2017, the Company promoted awareness of Terminav©, its comprehensive bilingual terminology database, within the aviation community. Partnerships were also reinforced at the community level with organizations such as the Centre culturel de Cornwall and the Quebec Community Groups Network. In fiscal 2018, the Company will extend its support of these organizations and of local, regional and national events, such as the Festival Franco-Ontarien and Les Rendez-vous de la Francophonie, in addition to supporting the aviation community with terminology expertise.

Engagement Pulse Survey

Our biennial Engagement Survey allows us to check in with our employees to gauge whether Company actions are having a positive impact on employee engagement. In 2017, NAV CANADA conducted an interim Engagement Pulse Survey. The Pulse Survey results indicated that 68 per cent of employees are engaged, up from 62 per cent in 2016. In other key indicator areas, 79 per cent of employees would recommend the organization as a place of employment and 78 per cent have a strong commitment to staying with the Company – up from 72 per cent and 75 per cent, respectively, in 2016.

In 2018, management will conduct a full engagement survey to determine if the actions initiated since the 2016 survey focusing on leadership, performance management, and workplace and reputation have had a positive impact on employee engagement.

Employee Communications Audit

Using the services of an external research firm, Abacus Data, an Employee Communications audit was conducted in fiscal 2017. The audit evaluated the effectiveness of our current internal communications and allowed us to better understand the types of information employees want to receive and in what format. The audit results and recommendations were delivered late in fiscal 2017, and will be incorporated into the Communications department three-year strategic plan.

Competency Retention

The Technical Operations Competency Retention Program was established in January 2017 to train and maintain highly skilled technologists to work on our equipment and systems. This program was developed in partnership with IBEW Local 2228, the bargaining agent of NAV CANADA's electronics technologists. This ongoing program offers up-to-date training and resources for NAV CANADA equipment and systems. The Competency Retention Policy and Competency Retention Activities for CHIP will be published in 2018.

ATS Recruitment and Training

Improvements to the ATS recruitment and training program continue. In 2017, student intake more than doubled, and the success rate of students going through IFR training has shown a 17 per cent improvement since 2015. The implementation of student support programs like THRIVE is expected to improve results further.

In 2018, the focus will remain on improving training capacity and student success. In the past 24 months, progress has also been made to bring operational staffing to optimum levels with staffing levels now at 95 per cent.

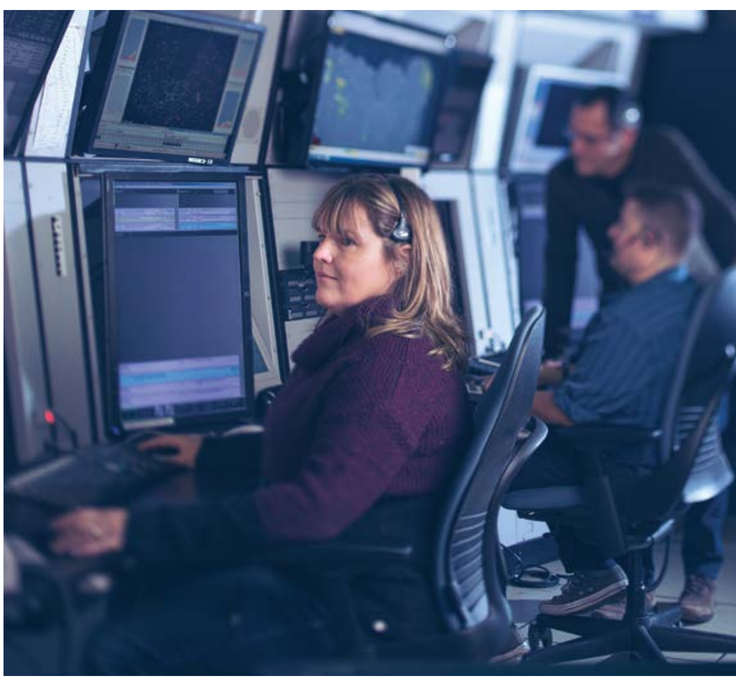
Employment Branding

In fiscal 2017, a project to develop an integrated employer brand strategy was launched, with the objective of attracting top candidates from targeted segments across Canada. The new strategy, integrating social media and outreach campaigns, will launch in 2018.

Labour Relations

Collective bargaining with our unions has been an important focus in fiscal 2017. Three of our largest unions, representing 70 per cent of unionized employees, negotiated the renewal of their agreements through direct negotiations with highly successful ratification results. These included CATCA Unifor Local 5454, ATSAC Unifor Local 2245 and PIPSC. Most recently, ACFO ratified a new agreement in October 2017.

Two agreements have expired without renewal and the affected parties are making efforts to bring them to conclusion. Two other agreements have recently opened and collective bargaining has commenced.



Connie Nadeau *Air Traffic Controller*
Montreal Area Control Centre

Victoria Harbour Flight Service Station

Service

Performance-Based Navigation

Air navigation is swiftly moving from traditional ground-based navigation to performance-based navigation using GPS technology and sophisticated avionics. PBN offers enhanced efficiency, precision and reduced environmental impact.

Following consultation with customers, NAV CANADA published the second edition of the Company's PBN Operations Plan in June 2017. Transport Canada, NAV CANADA and Canadian aviation industry representatives continue to work together to implement the State PBN Plan for Canada. This plan, developed by the Canadian Performance-based Aviation Action Team, outlines goals and activities in three phases through to 2027. The first review and update will be conducted in fiscal 2018.

NAV CANADA continues to develop and implement RNP arrival procedures across Canada, working with airports and airlines and engaging with communities on issues such as flight path changes, improvements to descent profiles and noise mitigation.

RNP procedures were implemented in the following locations: Ottawa (September 2016), Halifax (November 2016), Edmonton (March 2017) and Winnipeg (October 2017). Public consultation events were held in each of these locations.

Communications regarding proposed airspace changes for Regina, Saskatoon and Brandon, Manitoba are currently underway, in cooperation with their respective airport authorities. A public notice was released regarding changes to St. John's airspace with expected implementation of RNP in December 2017.

Preparations for Thunder Bay, Ontario and requirements gathering for projects in Quebec City and Deer Lake, Newfoundland are expected to commence in 2018.

In addition, the Calgary Airport Authority, in coordination with NAV CANADA, is launching a six-month trial in fiscal 2018 that aims to better balance runway utilization on weekends.

Helios Report

As part of NAV CANADA's work with the Greater Toronto Airports Authority to reduce noise in the airspace surrounding the Toronto Pearson International Airport, in 2017, NAV CANADA launched an independent review by the U.K.-based aviation consultancy firm, Helios, and consultants Bo Redeborn and Graham Lake.

The review also included consultation with a range of stakeholders – including residents – from across the Greater Toronto Area. The final report, which was released in September 2017, assessed air traffic management practices, flight path design and aircraft operating practices, and made a number of recommendations. In early fiscal 2018, NAV CANADA provided an official response to the review and each of the recommendations it contained.

Airport Collaborative Decision-Making

NAV CANADA is participating with other airport partners in the Greater Toronto Airports Authority's implementation of A-CDM at Toronto Pearson International Airport. A-CDM is an overall operational process to enhance information sharing between partners to improve predictability and encourage collaborative decision-making based on shared information to support optimized aircraft turnaround. Implementation will run through 2018.

NAVAID Modernization Program

A multi-year project to define a reduced network of ground-based NAVAIDs across the country has been initiated, leveraging the advances in satellite-based navigation and customer equipment to enhance safety and efficiency.

Consultations with customers and stakeholders continued in fiscal 2017 through the aeronautical study process. In fiscal 2018, the aeronautical study will be delivered to Transport Canada.

Facility Upgrades

In fiscal 2017, new capital expenditures totaled close to $171 million, a $40 million increase over the Company's typical annual average spending. The increase in capital spending reflects the Company's desire to invest in areas that have not been a focus in prior years.

In fiscal 2017, major projects in progress included the replacement of the Oshawa, Ontario and the Langley, British Columbia Towers (completion expected in fiscal 2018), as well as the Toronto and Edmonton ACC expansions.

Major facilities projects planned in 2018 include tower replacements at Pitt Meadows, British Columbia, and Grande Prairie, Alberta, the FSS replacement at Red Deer, Alberta, and numerous other upgrades and refurbishments across the country.

Aireon

Aireon, a joint venture between NAV CANADA, Iridium Communications, ENAV, the Irish Aviation Authority and Naviair, will offer space-based ADS-B technology that will provide 100 per cent surveillance coverage of ADS-B equipped aircraft in real time.

In 2017, NAV CANADA continued preparations for the implementation of Aireon-based services, ensuring that the Aireon ADS-B data can be utilized. Modifications have been made to the surveillance data network and the Radar Analysis Tool, and new visual inspection software has been created for system performance analysis.

Software enhancements to our surveillance automation system are nearing completion, fusing Aireon ADS-B aircraft information with other ground-based surveillance sources, and making it available to controllers on our CAATS displays. Preparations and testing will continue into fiscal 2018.

Unmanned Air Vehicles

Commercial and recreational use of UAVs is growing worldwide. NAV CANADA continues to coordinate operations with commercial UAV operators that are using Special Flight Operations Certificates approved by Transport Canada and to participate in the regulatory process as new regulations are developed. NAV CANADA is also contributing subject matter expertise to the development of airspace and situational awareness applications by the Canadian UAV industry for the benefit of its operators, as well as investigating developments in international Unmanned Aircraft System Traffic Management initiatives.

North Atlantic Operational Forum

The fifth NAT Operational Forum, focusing on surveillance and communication, met in Ottawa in November 2017. Organized by NAV CANADA, with support from sponsors, NATS (U.K. ANSP) and Isavia (Iceland ANSP), the two-day event focused on NAT operational matters and Performance-Based Communications and Surveillance implementation, approvals and monitoring for NAT operations.

Corporate Social Responsibility Report

In past years, NAV CANADA produced a Collaborative Initiatives for Emissions Reductions Report detailing programs employed by our customers that support improved efficiency and reductions in greenhouse gas emissions.

Following industry best practices, in 2017 the Company began producing a CSR Report, which will be released in fiscal 2018. It will communicate NAV CANADA's impact on critical sustainability issues such as climate change, social well-being and environmental impacts of the business.

Technology

Dual Redundant Power Systems

One of NAV CANADA's major infrastructure projects is the replacement of outdated uninterruptible power systems at its seven ACCs with new, state-of-the-art dual redundant power systems. The new systems ensure there are no single points of failure, providing enhanced reliability. This is an important upgrade that will help avoid unanticipated downtime and ensure NAV CANADA is always able to safely maintain uninterrupted air navigation service.

Construction and Facilities Services successfully performance-tested the new dual redundant power system for the Toronto ACC in fiscal 2017. Replacement projects began at Edmonton, Moncton, New Brunswick and Gander, Newfoundland ACCs, with a projected completion date of 2019.

Radar Renewal Project

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. Improvements will include the ability to filter out interference from objects like wind turbines.

The first of 11 new radars is set to be operational in Hamilton by August 2019 with new sites receiving replacement radars at the rate of one per year, ending in Halifax in 2028.

Enterprise Resource Planning

In 2018, the Company will launch a multi-year initiative whose primary objective is to replace NAV CANADA's current enterprise resource planning tool with a new cloud solution from Workday. This program will help modernize human resources and financial management services with new, streamlined processes.

Peter Mungai *CNS Team Supervisor, and*
Angela Atkins *Electronics Technologist*
Edmonton Area Control Centre

Cyber Security

The Company continues to invest in the area of cyber security to help ensure threats and risks are appropriately addressed and key assets remain protected. Mandatory cyber training and awareness initiatives remain core to the program to assist all employees in keeping the Company cyber safe.

Common Hardware Integrated Platform

An important step in our ATM Strategic Plan was completed with the 2017 transition to CHIP across all of our ACCs. This technology will provide the backbone to shift much of our air traffic management technology (NAVCANatm) to the cloud. In fiscal 2018 and 2019, CHIP will be used to support a new NAVCANatm platform designed to enable SWIM. SWIM standards for aeronautical, flight and meteorological information will also be completed by fiscal 2019.

Brett Oram *Shift Manager*
Edmonton Area Control Centre

National Systems Control Centre

A multi-year Service Delivery project is being led by Technical Operations to adapt our IP technology to meet the advances in telecommunications infrastructure and create a national 24/7 monitoring centre to proactively monitor equipment and systems.

In 2018, the Company will complete the staffing of the National Systems Control Centre and install new technology to allow enhanced monitoring of operational networks.

International Marketing and Development

In fiscal 2017, the Company announced that the Civil Aviation Department of the Hong Kong Special Administrative Region Government is now using technology developed and installed by NAV CANADA for its ATS Data Management System.

NAVCANatm integrated ATM technology is now operating at seven air traffic control towers in Australia, most recently at Gold Coast, Perth and Cairns, as part of the Airservices Australia National Tower Program. An additional tower in Brisbane is scheduled to go operational in early fiscal 2018.

In August 2017, NAV CANADA hosted a two-week Transition to Efficiency and New Technology course for 25 representatives from The People's Republic of China's Air Traffic Management Bureau at the NAV CENTRE in Cornwall, Ontario. This training is part of an ongoing program that was first delivered in Chengdu, China in 2015.

The Company continues to work with NATS, the U.K.-based ANSP, on various collaborative technology projects for tower, terminal and oceanic control. Electronic flight strips will be deployed at an additional six U.K. air traffic control towers, with installations complete at Belfast City and International airports, and in progress at Farnborough. The remaining three towers are scheduled to be operational in 2018. At London Terminal Control, electronic flight strips with stack management features are scheduled to be operational in 2018. NAV CANADA and NATS also continue to work in partnership to develop oceanic functions in preparation for support of Aireon space-based ADS-B services.

In May 2017, NATS announced a partnership with NAV CANADA with both parties taking an equal shareholding in Searidge Technologies. Searidge will continue to operate as an independent company.

Finance

Information about NAV CANADA's financial status can be found in the Company's Financial Statements included with this Annual Report. Below are some of the highlights.

Results

Financial results for the year ended August 31, 2017 reflect the growth in air traffic of 5.1 per cent as compared to fiscal 2016 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.

Revenues were $1,291 million, compared to $1,393 million in the previous fiscal year reflecting both an in-year temporary rate reduction and a base rate reduction totalling 7.6 per cent and a one-time refund of $60 million. Operating expenses were $1,330 million, compared to $1,238 million in fiscal 2016. At year end our rate stabilization account was $131 million which is above its target balance of $101 million.

On August 11, 2017 the Company announced the implementation of revised service charges, due to the strength in air traffic growth and the positive financial outlook for fiscal 2018. A temporary one-year rate reduction was introduced in addition to a revision to base rates, effective September 1, 2017. The effect of the service charges revisions was to keep the new service charges essentially unchanged from the previous fiscal year. Additionally, the Company returned approximately $60 million to customers from the higher than anticipated revenues in fiscal 2017 by declaring a one-time refund.

By the end of fiscal 2017, NAV CANADA had completed its investment of US $150 million in the Aireon joint venture.

Asset-Backed Commercial Paper

In November 2016, NAV CANADA received $292 million in proceeds from the maturity of Asset-Backed Commercial Paper investments resulting from the investment market restructuring of 2009. These proceeds are being reinvested through the reduction of the Company's outstanding debt ($100 million) in fiscal 2017, the additional investment in capital projects ($40 million additional capital spending in each of fiscal 2017, 2018 and 2019) and a $44 million pension solvency payment made in fiscal 2017.

Pension Plan Investment Strategy

In fiscal 2017, the Pension Committee of the Board of Directors approved an updated Pension Plan Investment Strategy. The new strategy focuses on plan asset preservation in the event of an economic downturn affecting both customers and the Company. The Pension Plan investment mix is currently being changed to evolve to this more resilient structure.

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

IN OUR **COMMUNITIES**

Volunteering and investing in our communities have always been intrinsic values at NAV CANADA and that effort continued to grow in 2017.

We believe in supporting our employees in their charitable work: volunteering not only helps the communities being served, but also improves the lives of the volunteers, enriching social networks and enhancing well-being.

Our employees volunteer in a wide variety of activities ranging from coaching sports teams and participating in running, walking or cycling fundraisers, to promoting our cultural heritage, protecting the environment and providing for the less fortunate both in Canada and abroad.

In December 2016, CEO Neil Wilson joined 20 Montreal ACC employees in Tremblant's 24h – a 24-hour relay race held in Mont-Tremblant, Quebec to raise funds for local charities. Always ready to lend his legs for a good cause, Mr. Wilson also joined 26 employees and seven of their family members for the Canmore Rocky Mountain Half Marathon, 10k and 5k in September 2017 to raise money for maternal, newborn and child health in Guatemala and Honduras.

Our employees also organized a number of their own fundraisers. Hope Air, a registered Canadian charity that arranges flights for low-income Canadians to receive healthcare, was one recipient of these efforts. In 2017, employees in Vancouver, Toronto, Montreal and Gander organized golf tournaments in support of Hope Air, raising tens of thousands of dollars for the charity.

NAV CANADA was the title sponsor of the Special Olympics New Brunswick Summer Games in Moncton in July. More than 400 participants from New Brunswick and Prince Edward Island gathered at the University of Moncton campus to compete in eight different sports. NAV CANADA employees made up one-quarter of the volunteers.

Moncton ACC also played host to the 44th International ATC Hockey Tournament in March, with 300 air traffic controllers from all over the world coming together to keep active and build comradery while raising money for local charities.

In early 2017, NAV CANADA put the call out to employees in the National Capital Region for donations of new or gently used hockey equipment for youth in Iqaluit, Nunavut, Whitehorse, Yukon and Churchill, Manitoba.

NAV CANADA employees, five hockey associations, the Canadian Tire Jumpstart program and the Ottawa Senators contributed a total of 3,200 pounds of hockey equipment and other sporting gear which was then delivered in NAV CANADA's aircraft during scheduled northern flight tests.

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

Grassroots Initiatives Sustainability Funding Program

In 2017, NAV CANADA launched its Grassroots Initiatives Sustainability Funding Program, in which employees apply for grant funding for employee-led environmental initiatives.

Out of the nearly 50 applications that came in from across the country, 14 winners were selected by an impartial, national NAV CANADA panel using the criteria: impact on community; number of NAV CANADA employees involved; likelihood of positive impact in terms of sustainability; originality, audience appeal; chance of success; and level of background research, knowledge and experience.

Winners received grant funding to make their ideas become reality. Projects included a K-Cup coffee grind recycling program in Grande Prairie, Alberta, a vegetable garden in Charlottetown, Prince Edward Island, a vermicomposting bin in Williams Lake, British Columbia, a beehive in Oshawa, Ontario, and a worm farm in Moncton, New Brunswick, just to name a few.

Applications for fiscal 2018 Grassroots Initiatives were received until September 2017, and those winners will be announced in spring 2018.

POINTS OF PRIDE
AWARD RECIPIENTS

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 winner

Derrick Winsor
Pilot-in-Command, Ottawa ANS

Team winners

Joshua Armstrong
Air Traffic Controller, Fredericton Tower

Larry Arnold
Air Traffic Controller, Fredericton Tower

John AuCoin
Air Traffic Controller, Fredericton Tower

Ian Hanrahan
Unit Operations Specialist, Fredericton Tower

Team winners

Ian Selin
Team Supervisor, Edmonton ACC

Mark Smith
Air Traffic Controller, Edmonton ACC

People

Team winners

Kevin Gooden
Manager, CNS Systems, Vancouver ACC

Aldo Stefanon
Manager, Contracts and Radar Systems, Vancouver Tower

Customer Service

Individual winners

Aaron Dibben
Manager, Computerized Maintenance Management System Requirements, Head Office

Lee Robinson
Manager, Pension Administration, Head Office

Team winners

Simon Dennis
Air Traffic Controller, Victoria Tower

Darlene George
Site Manager, Victoria Tower and Victoria Harbour FSS

Performance

Individual winner

Amanda Devine
Manager, Level of Service and Aeronautical Studies, Head Office

Team winners

Colleen Allaby
National Manager, ATS Curriculum Standards, Head Office

Kirsten Dawson
Manager, Strategy Consulting and Analysis, Head Office

Ian Giesbrecht
Regional Learning Quality Specialist, Head Office

Clark Piercey
Team Supervisor, Edmonton ACC

Paul Pothier
National Manager, Operational Training Projects, Head Office

Resource Management

Team winners

Éric Beauchamp
Module Maintenance Specialist, Ottawa ANS

Vanessa Behrens-Nicholls
Radar Systems Engineer, Ottawa TSC

Edward Janes
NCL/CRF Maintenance Support Specialist, Logistics Centre

Leszek Kropop
Metrologist Test Instrument Specialist, Ottawa ANS

Dan Potvin
Module Maintenance Specialist, Ottawa ANS

Technology

Individual winners

Jeremy Brine
Team Supervisor, Vancouver ACC

Daniel Toll
Team Lead, Client Computing, Head Office

Community Service

Individual winner

Kendra Kincade
Air Traffic Controller, Edmonton ACC

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.

CHIP Infrastructure Team

MEMBERS INCLUDE:

Engineering

Umer Ahmed, Engineering Systems Specialist, Ottawa ANS

Patrick Bureau, ATC Surveillance Systems Engineering Specialist, Ottawa TSC

Philippe Charest-Neault, Life Cycle Management Specialist, Montreal ACC

Michel Daigle, Hardware Engineering Specialist, Ottawa TSC

Ginette DesLauriers, Director, Systems Engineering, Ottawa TSC

James Elliott, Senior Systems Support Technologist, Ottawa TSC

Steven Fatine, ATC Surveillance Systems Engineering Specialist, Ottawa TSC

Andy Groenenberg, Senior Systems Analyst, Ottawa TSC

Lily Li, Hardware Engineering Specialist, Ottawa TSC

Alison Murphy, Systems Analyst, Ottawa TSC

Chuong Nguyen, Senior Systems Analyst, Ottawa TSC

Alexey Ponomarev, Manager, In-Service ATC Logistical Support, Ottawa TSC

Mark Richardson, Senior Systems Support Technologist, Ottawa TSC

François St-Amand, Senior Systems Support Technologist, Ottawa TSC

Kyle Tilson, Engineering Project Leader, Winnipeg ACC

Jeff Wendt, Team Supervisor, Regional Engineering, Logistics Centre

Operations

Nathalie Chabot, Data Systems Coordinator, Montreal ACC

Luc Désilets, Data Systems Coordinator, Montreal ACC

Technical Operations

Brendon Buhler, Electronics Technologist, Winnipeg ACC

Bob Cornett, Technical Instructor (Retired), NAV CENTRE

Neil Kornberger, ATM Coordinator, Winnipeg ACC

Cameron MacIsaac, Manager, ATM Systems, Winnipeg ACC

Tanja Milicevic, Manager, ATM Systems, Vancouver ACC

Blaine Thomas, Electronics Maintenance Specialist, Winnipeg ACC

Jason Wood, ATM Team Supervisor, Winnipeg ACC

Sepehr Yazdani, Technical Requirements Specialist, Ottawa TSC

Fort McMurray Fire Team

MEMBERS INCLUDE:

Human Resources

Sharlene Alcock, Labour and Employee Relations Manager, Edmonton ACC

Jennifer Savard, Manager, Travel and Relocation, Head Office

Legal and Corporate Services

André Charron, National Manager, Corporate Security and Emergency Planning, Head Office

Operations

Sarah Berube, Team Supervisor, Edmonton ACC

Tyler Bjornerud, Air Traffic Controller, Edmonton ACC

Lindsay Deverdenne, Air Traffic Controller, Fort McMurray Tower

Gavin Fenton, Site Manager, Edmonton FIC, Grande Prairie FSS and Peace River FSS

Robert Fiege, Manager, ACC Operations, Edmonton ACC

Steve Fitchie, Flight Service Specialist, Peace River FSS

Dana Flohr, Flight Service Specialist, Brandon FSS

Neil Fulton, Team Supervisor, Edmonton ACC

Shannon Girouard, Shift Scheduling Specialist, Edmonton ACC

Scott Greenwood, Flight Service Specialist, Kamloops FSS

Dale Hann, Air Traffic Controller, Edmonton ACC

Todd Hickey, Site Manager, Red Deer and Whitecourt FSS

Lisa Irving, Air Traffic Controller, Edmonton ACC

Abby Kahlon, Manager, Training Planning and Quality Assurance, Edmonton ACC

Jordan Klooster, Air Traffic Controller, Edmonton ACC

Tatiana Koszarycz, Air Traffic Controller, Springbank Tower

Rhonda Kotelko, FIC Flight Service Specialist, Whitehorse ANS

Mike Krahn, Manager, ATC Operational Requirements, Edmonton ACC

Vern Kyler, Air Traffic Controller, Edmonton ACC

Eric Lackey, Flight Service Specialist Team Supervisor, Timmins FSS

Brian LeBlanc, Air Traffic Controller, Edmonton ACC

Michael Lemoine, Air Traffic Controller, Fort McMurray Tower

Dave Mastel, General Manager, FIR (Retired), Edmonton ACC

Gregory McAteer, Air Traffic Controller, Toronto ACC

Erin McLaren, IFR Program Specialist (Regional Training Instructor), Edmonton ACC

Toliver McLaren, Air Traffic Controller, Edmonton ACC

Kyle Milne, Team Supervisor, Edmonton ACC

Craig Morrison, Air Traffic Controller, Fort McMurray Tower

Christina Omoyayi, Air Traffic Controller, Edmonton ACC

Brett Oram, Shift Manager, Edmonton ACC

Jonathan Payn, Flight Service Specialist, Peace River FSS

Andy Pearson, Design Quality Supervisor, Toronto ACC

Kurt Pearson, Air Traffic Controller, Edmonton ACC

Stephanie Penney, Unit Operations Specialist, Fort McMurray Tower

Natalie Putney, Flight Service Specialist, Peace River FSS

Nitts Rai, Flight Service Specialist Team Supervisor, Williams Lake FSS

David Rife, Shift Scheduling Specialist, Edmonton ACC

Dean Robertson, Air Traffic Controller, Edmonton ACC

Shane Ross, Team Supervisor, Edmonton ACC

Chad Skolseg, Flight Service Specialist Team Supervisor, Peace River FSS

Chad Sletten, Air Traffic Controller, Edmonton ACC

Cheryl-Lynn Straub, Air Traffic Controller, Fort McMurray Tower

Brent Stremel, Air Traffic Controller, Fort McMurray Tower

Janice Stremel, Air Traffic Controller, Fort McMurray Tower

Michelle Timmerman, Supervisor, Shift Scheduling, Edmonton ACC

Jamie Turriff, Air Traffic Controller, Edmonton ACC

Heather Tweedy, Flight Service Specialist, Grande Prairie FSS

Jeff Van Herk, Shift and Site Manager, Fort McMurray Tower

Samantha Walker, Manager, Business Services and Shift Optimization, Edmonton ACC

Brad Young, Air Traffic Controller, Fort McMurray Tower

Technical Operations

Jule Amarantes, Electronics Technologist, Edmonton ACC

Brad Charrois, Electronics Technologist, Edmonton ACC

Kair Haidar, Electronics Technologist, Edmonton ACC

Pat Hudson, Manager, Facilities Maintenance, Edmonton ACC

Greg Jones, Electronics Technologist, Edmonton ACC

Adrian MacKay, CNS Team Supervisor, Edmonton ACC

Scott Palmier, Manager, CNS Systems, Edmonton ACC

Edwin Patino, Electronics Technologist, Calgary Tower

Jonathan Stanbridge, Electronics Technologist, Edmonton ACC

Pavao Vrcic, Manager, Technical Operations, Edmonton ACC

Mike Wagner, CNS Coordinator, Edmonton ACC

THRIVE Team

MEMBERS INCLUDE:

Human Resources

Lyne Wilson, Director, Talent Acquisition and Organizational Health, Head Office

Operations

Sarah Allaby, Regional Learning Quality Specialist, Head Office

Leslie Calhoun, Shift Manager, Toronto ACC

Terry Cruse, National Manager, On-Job Training, Head Office

Peter Hazelton, Regional VFR Training Specialist, Toronto ACC

Brian Simcoe, Manager, Operational Training, Toronto ACC

Vanessa Trask, Site Manager, Kenora FSS, Sioux Lookout FSS, Thunder Bay Tower and FSS

"I am responsible for managing four air traffic sites while keeping communication open between NAV CANADA and our customers and local airport authorities."

Heather Bonnell *Site Manager*
Saskatoon Control Tower and La Ronge, Prince Albert and Saskatoon Flight Service Stations

CORPORATE **GOVERNANCE**

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*.

NAV CANADA represents a unique consensus among the major stakeholders in the air navigation system – 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 together with a Director member (collectively, the Members).

Saint John Flight Service Station

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
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 air navigation system. 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 General Meeting. No director, other than the President and CEO, may serve as a director for more than 12 years in total. Set out below is information on the current directors, including their Committee membership and meeting attendance records for fiscal 2017.

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	11/11
Audit & Finance Committee*	5/5
Corporate Governance Committee	3/3
Customer Service Charges Committee*	3/3
Human Resources & Compensation Committee*	6/6
Pension Committee*	4/4
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	10/11
Corporate Governance Committee	3/3
Customer Service Charges Committee	3/3
Human Resources & Compensation Committee	6/6
Pension Committee	3/4

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

Mary-Ann Bell

DIRECTOR

Quebec, Canada
Elected by: Government of Canada
Director since: May 30, 2014
Current term expires: 2020

Meeting Attendance/Committee Membership	
Board	11/11
Customer Service Charges Committee	3/3
Human Resources & Compensation Committee	6/6
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	11/11
Audit & Finance Committee	5/5
Pension Committee	4/4

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	11/11
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	11/11
Audit & Finance Committee	5/5
Customer Service Charges Committee	3/3
Safety Committee*	2/2

**Mr. DiLollo was a member of the Customer Service Charges Committee until January 11, 2017 at which time he joined the Safety Committee.*

Principal Occupation in Last Five Years:
Senior Director, Investment, Specialty Finance, Fixed Income, Caisse de dépôt et placement du Québec. Chief Executive Officer, Caribbean Airlines, from May 21, 2014 to October 28, 2015. From January to October 2012, Vice President, Airline Operations, Medatlantica Group.

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	11/11
Corporate Governance Committee	3/3
Human Resources & Compensation Committee	6/6

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	11/11
Audit & Finance Committee	5/5
Customer Service Charges Committee	3/3
Pension Committee	4/4

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	11/11
Customer Service Charges Committee*	3/3
Human Resources & Compensation Committee	6/6
Safety Committee	2/2

**Mr. LaFlamme was a member of the Safety Committee until January 11, 2017 at which time he joined the Customer Service Charges Committee.*

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	11/11
Corporate Governance Committee	3/3
Human Resources & Compensation Committee	6/6

Principal Occupation in Last Five Years:
Corporate Director.

Michelle Savoy

DIRECTOR; CHAIR OF THE PENSION COMMITTEE*

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

Meeting Attendance/Committee Membership	
Board	10/11
Corporate Governance Committee	3/3
Pension Committee	4/4

**Ms. Savoy became the Chair of the Pension Committee on January 11, 2017.*

Principal Occupation in Last Five Years:
Corporate Director.

Scott Sweatman

DIRECTOR

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

Meeting Attendance/Committee Membership	
Board	11/11
Corporate Governance Committee	3/3
Customer Service Charges Committee	3/3
Pension Committee*	4/4

**Mr. Sweatman was the Chair of the Pension Committee until January 11, 2017.*

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

Neil R. Wilson

DIRECTOR

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

Meeting Attendance/Committee Membership	
Board	11/11
Pension Committee	4/4
Safety Committee	4/4

Principal Occupation in Last Five Years:
President and CEO of the Company since 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.

Umar Sheikh

DIRECTOR

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

Meeting Attendance/Committee Membership	
Board	11/11
Audit & Finance Committee	5/5
Safety Committee	4/4

Principal Occupation in Last Five Years:
Chief Executive Officer, British Columbia Nurses' Union.

Louise Tardif

DIRECTOR

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

Meeting Attendance/Committee Membership	
Board	11/11
Audit & Finance Committee	5/5
Pension Committee	4/4

Principal Occupation in Last Five Years:
Corporate Director.

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 (66%) 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 directors elected by the Government of Canada, and half of the Board-elected directors, being women. There are also three women (23%) on the Executive Management Committee of the Company. Within the senior management group, which by definition includes individuals in policy-making functions, 29% 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 Linda Hohol Arthur LaFlamme 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.	Six	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.	Four	Michelle Savoy, Chair Edward Barrett Jean Coté Linda Hohol Scott Sweatman 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 Michael DiLollo Umar Sheikh Neil Wilson

Director Compensation

DIRECTORS' COMPENSATION FISCAL 2017			
Name	**Fees Earned**	**All Other Compensation [3]**	**Total**
Edward Barrett	$ 112,000	$ 9,000	$ 121,000
Mary-Ann Bell	$ 96,500	$ 1,500	$ 98,000
Jean Coté	$ 92,000	$ 1,500	$ 93,500
Marc Courtois [1]	$ 182,750	$ 1,500	$ 184,250
Robert Davis	$ 99,000	$ 1,500	$ 100,500
Michael DiLollo	$ 89,000	$ 1,500	$ 90,500
Bonnie DuPont	$ 98,500	$ 7,500	$ 106,000
Linda Hohol	$ 112,000	$ 8,750	$ 120,750
Arthur LaFlamme	$ 89,500	$ 1,500	$ 91,000
Robert Reid	$ 97,500	$ 1,500	$ 99,000
Michelle Savoy	$ 91,771	$ 1,500	$ 93,271
Umar Sheikh	$ 92,000	$ 7,500	$ 99,500
Scott Sweatman	$ 98,250	$ 7,500	$ 105,750
Louise Tardif	$ 92,000	$ 1,500	$ 93,500
Neil Wilson [2]	–	–	–

(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 President and CEO, Mr. Wilson does not receive directors' fees.

(3) 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 of Directors 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. Base salaries are reviewed annually by the Committee.

Base salaries for fiscal 2017 for the five highest paid executives were as follows:

Name and Position	Annual Base Salary
Neil R. Wilson, President and CEO	$ 538,100
Rudy Kellar, Executive Vice President, Service Delivery	$ 330,500
Alexander N. Struthers, Executive Vice President, Finance and Chief Financial Officer	$ 325,000
Raymond G. Bohn, Senior Vice President, Human Resources, Communications and Public Affairs	$ 307,500
Donna Mathieu, Vice President, Pension Investments and Treasurer	$ 285,000

Ethical Business Conduct

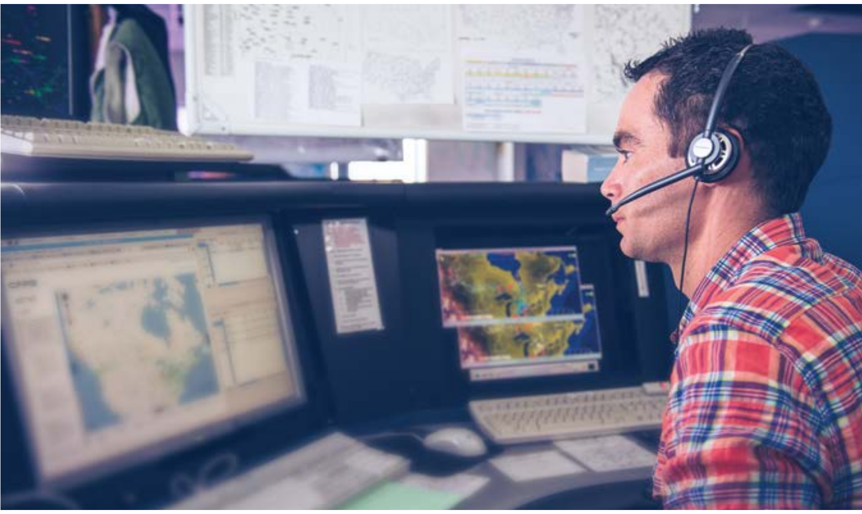
NAV CANADA has a *Code of Conduct and Conflict of Interest Guidelines* for directors and officers which is designed to govern the conduct of all directors and officers, and the disclosure and avoidance of conflicts of interest. This disclosure is updated annually, or more frequently, as required. All of the Company's directors and officers have signed a Code of Conduct and Conflict of Interest declaration. During fiscal 2017, 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 **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 of the Company 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 toward 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



Joel Favreau *Flight Service Specialist*
Winnipeg Flight Information Centre

Naji Zayed *Engineering Project Leader*
Edmonton Engineering Workcentre

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 Complaints Resolution Process.

The Company has in place policies and processes on whistleblowing. The NAV CANADA whistleblowing system, called Sentinel, is confidential and independently managed, and 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 serious ethical, legal, fraudulent or other concerns that could harm the reputation and/or financial standing of the Company. 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, concerns relating to pension plan matters are directed to the Chair of the Pension Committee and serious ethical, legal, fraudulent or other concerns are directed to the Chair of the Board.

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

Advisory Committee Report

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

The 20 key industry stakeholders take the responsibility of this committee seriously, as do NAV CANADA's senior leaders and the Board of Directors. Just as NAV CANADA has evolved over the years, so has the NCAC. Through the measured and periodic turnover of industry experts, the committee ensures its members are reflective of the broad spectrum of NAV CANADA stakeholders: from those in remote locations to large cities, from flight schools to major commercial operators.

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 with the Annual General Meeting. The third meeting provides an opportunity for the NCAC to visit NAV CANADA facilities and to meet with users of the system in that location.

In 2017, the NCAC stakeholders met in Kelowna, British Columbia. This gave committee members an opportunity to meet formally and informally with NAV CANADA employees and their customers in Kelowna and the surrounding area. Representatives from NAV CANADA, locally based air operators, airport authorities and flight training units were given the opportunity to meet and make presentations to the committee. Committee members also visited several NAV CANADA facilities in the area. Opportunities to interact directly with users such as in Kelowna have

Carole Stewart-Green *Manager, ATS Regulatory Coordination*
Head Office

Ron Rose *Team Supervisor*
Halifax Flight Information Centre

better equipped the NCAC to provide NAV CANADA with relevant feedback.

This year, there has been a continuation of reporting and following up on key stakeholder concerns, as well as the introduction of new issues. The committee is pleased to see senior management's commitment to provide first-class services to all of NAV CANADA's customers. A particular highlight is the launch and deployment of the first space-based ADS-B payloads through NAV CANADA's partnership with Aireon. The NCAC congratulates NAV CANADA on achieving this important milestone.

This year, the continued international recognition of NAV CANADA as a very successful not-for-profit corporation has attracted much attention as the U.S. considered the Canadian model and other similar ANS models. Many NCAC stakeholders had the opportunity to participate in the U.S. delegations to Canada as they sought to better understand and appreciate the Canadian air navigation system success story.

This interest is understandable: 20 years of growth and success of an independent and privatized ANSP that is embedded – even mandated – within the Canadian governmental structure, is somewhat unusual. When asked by one of the delegates, "Do you attribute the success of NAV CANADA to good leadership or good governance?" my response was not an "either/or" answer. Instead, I responded that it takes both to create this kind of success. We have been very impressed with the exceptional leadership and vision at all levels of NAV CANADA. It is clearly evident that the more than 20-year-old governance model truly works.

The NCAC members are a key element of that structure and proudly contribute their time and expertise with much dedication. On behalf of the NCAC, I congratulate NAV CANADA President and CEO Neil Wilson and the Board of Directors for another successful year.

Respectfully submitted,

Rudy Toering
Chair, NCAC

Advisory Committee

Advisory Committee Member	Nominating Association
Rudy Toering, Chair Canadian Business Aviation Association (CBAA)	Non-Commercial User Associations 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)	ATAC
John Baldwin Air Traffic Specialists Association of Canada (ATSAC) Unifor Local 2245	Unions ATSAC Unifor Local 2245
Peter Black Air Line Pilots Association, International (ALPA)	Professional Pilots Associations ALPA
Daniel J. Boulet International Brotherhood of Electrical Workers (IBEW) Local 2228	Unions IBEW Local 2228
Captain Daniel Cadieux Air Canada Pilots Association (ACPA)	Professional Pilots Associations ACPA
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 Associations COPA
Fred L. Jones Helicopter Association of Canada (HAC)	National Helicopter Association HAC
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
Jeff Miller International Air Transport Association (IATA)	Foreign Air Operators Associations IATA
David Nowzek British Columbia Aviation Council (BCAC)	BCAC
Brett Patterson Canadian Airports Council (CAC)	National Airports Association CAC
Bram Tilroe Alberta Aviation Council (AAC)	Regional Aviation Associations AAC
Todd Tripp Regional Community Airports Coalition of Canada (RCACC)	Member-at-Large
Stephen Wilcox Total Aviation and Airport Solutions	Regional Airports Associations Airport Management Council of Ontario (AMCO)

As of August 31, 2017.

OFFICERS AND OTHER INFORMATION

Neil R. Wilson
President and Chief Executive Officer

Rudy Kellar
Executive Vice President, Service Delivery

Alexander N. Struthers
Executive Vice President,
Finance and Chief Financial Officer

Raymond G. Bohn
Senior Vice President, Human Resources,
Communications and Public Affairs

Elizabeth Cameron
Vice President, Labour Relations

Leigh Ann Kirby
Vice President, General Counsel
and Corporate Secretary

Larry Lachance
Vice President, Safety and Quality

Charles Lapointe
Vice President, Technical Operations

Donna Mathieu
Vice President, Pension Investments and Treasurer

Andrew Norgaard
Vice President, Communications and Public Affairs

Claudio Silvestri
Vice President and Chief Information Officer

Robert Thurgur
Vice President, Operations

Kim Troutman
Vice President, Engineering

As of August 31, 2017.

Legal Counsel

Gowling WLG (Canada) LLP

Auditors

KPMG LLP

Bankers

Royal Bank of Canada

Corporate and Financial Information

Inquiries for additional information relating to the Company should be directed to:

NAV CANADA
Communications
77 Metcalfe Street, Ottawa, Ontario, Canada K1P 5L6

General inquiries can also be made by calling 1-800-876-4693, or by visiting **navcanada.ca**.

Copies of the Company's Financial Statements, Management Discussion and Analysis, and Annual Information Form are available on the System for Electronic Document Analysis and Retrieval (SEDAR) at **sedar.com**.

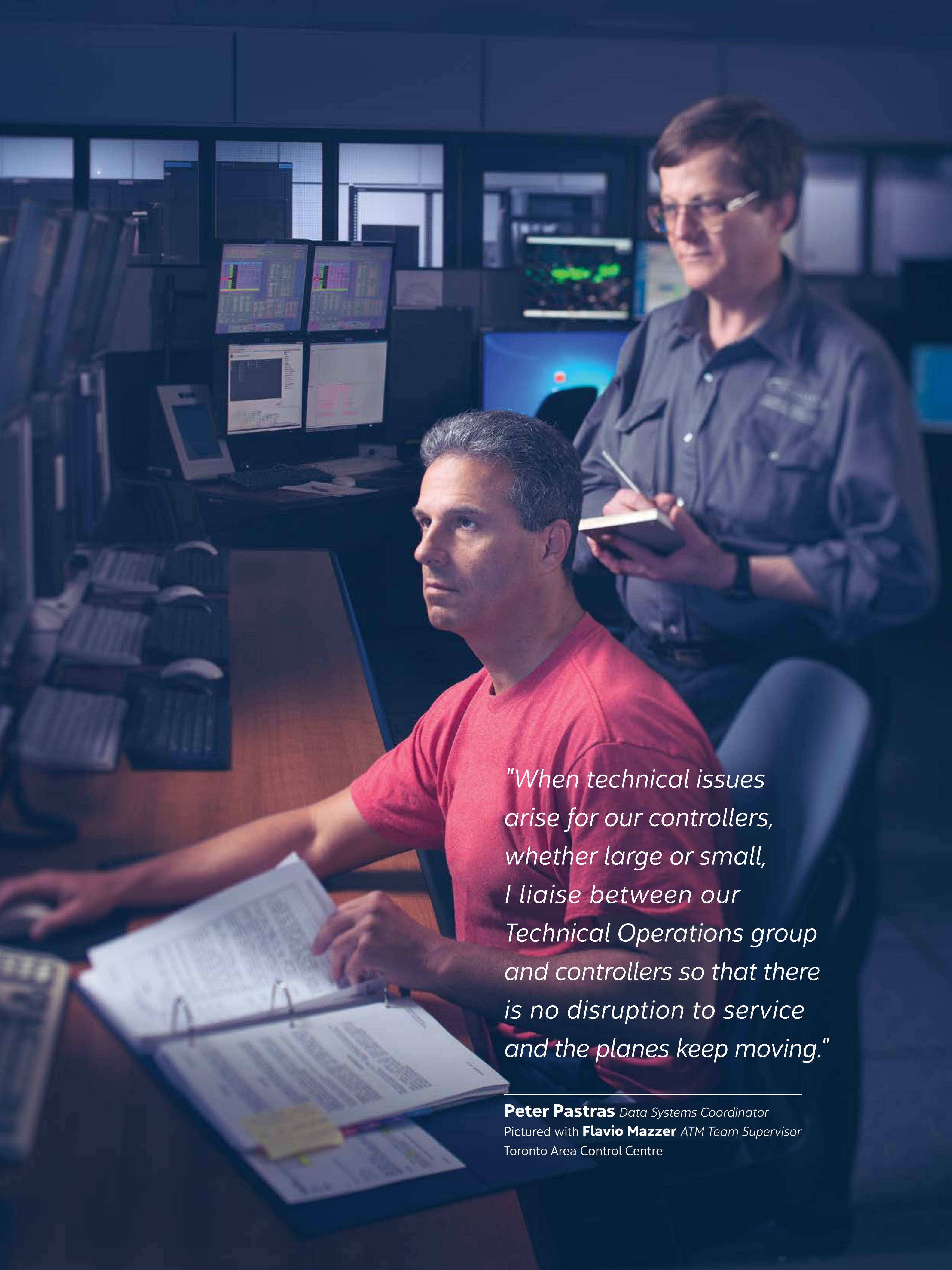
Notice of Annual Meeting

The Annual Meeting of the Members of NAV CANADA will be held on Wednesday, January 10, 2018, at 2 p.m. (ET) at the Shaw Centre, 55 Colonel By Drive, Ottawa, Ontario.

GLOSSARY

For full definitions of many of the terms in this section, please consult Terminav©, NAV CANADA's bilingual terminology database, available online at navcanada.ca under "Related Sites."

ACC	Area Control Centre
A-CDM	Airport Collaborative Decision-Making
ACFO	Association of Canadian Financial Officers
ADS-B	Automatic Dependent Surveillance–Broadcast
AFTN	Aeronautical Fixed Telecommunications Network
AIM	Aeronautical Information Management
ANS	Air Navigation Services
ANSP	Air Navigation Service Provider
ARGUS	Confidential Safety Reporting Program
ATC	Air Traffic Control
ATM	Air Traffic Management
ATS	Air Traffic Services
ATSAC	Air Traffic Specialists Association of Canada
CAATS	Canadian Automated Air Traffic System
CANSO	Civil Air Navigation Services Organisation
CARS	Community Aerodrome Radio Station
CASOP	Canadian Aviation Safety Officer Partnership
CATCA	Canadian Air Traffic Control Association
CHIP	Common Hardware Integrated Platform
CNS	Communications/Navigation/Surveillance
CSR	Corporate Social Responsibility
FAA	Federal Aviation Administration
FIC	Flight Information Centre
FIR	Flight Information Region
FSS	Flight Service Station
IBEW	International Brotherhood of Electrical Workers
ICAO	International Civil Aviation Organization
IFR	Instrument Flight Rules
NAT	North Atlantic
NATS	National Air Traffic Services
NAVAID	Navigation Aid
NCL/CRF	National Calibration Laboratory/Centralized Repair Facility
NC-SIS	NAV CANADA Safety Information System
NOTAM	Notice to Airmen
PBN	Performance-Based Navigation
PIPSC	Professional Institute of the Public Service of Canada
RNP	Required Navigation Performance
SMS	Safety Management System
SWIM	System-Wide Information Management
TOC	Technical Operations Coordinator
TSC	Technical Systems Centre
UAV	Unmanned Air Vehicle
VFR	Visual Flight Rules



"When technical issues arise for our controllers, whether large or small, I liaise between our Technical Operations group and controllers so that there is no disruption to service and the planes keep moving."

Peter Pastras *Data Systems Coordinator*
Pictured with **Flavio Mazzer** *ATM Team Supervisor*
Toronto Area Control Centre

CONSOLIDATED
FINANCIAL STATEMENTS

NAV CANADA ANNUAL REPORT 2017

NAV CANADA

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 26, 2017

Alexander N. Struthers
Executive Vice President, Finance
and Chief Financial Officer

October 26, 2017

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, 2017 and 2016 and the consolidated statements of operations, comprehensive income, changes in equity, and cash flows for the years then ended, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
Ottawa, Canada

October 26, 2017

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

	Notes	2017	2016
Revenue			
Customer service charges	4	$ 1,294	$ 1,333
Customer service charges refund	4	(60)	–
Other revenue	4	57	60
		1,291	1,393
Operating expenses			
Salaries and benefits	5	925	858
Technical services		112	112
Facilities and maintenance		72	70
Depreciation and amortization	14, 15	147	141
Other		74	57
		1,330	1,238
Other (income) and expenses			
Finance income	6	(55)	(21)
Net interest costs relating to employee benefits	13	55	43
Other finance costs	6	90	93
Other (gains) and losses	7	7	1
		97	116
Net income (loss) before income tax and net movement in regulatory deferral accounts		(136)	39
Income tax expense		14	2
Net income (loss) before net movement in regulatory deferral accounts		(150)	37
Net movement in regulatory deferral accounts related to net income (loss), net of tax	8	150	(37)
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	2017	2016
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	13	209	(492)
Net movement in regulatory deferral accounts related to other comprehensive income	8	(209)	492
		–	–
Items that will be reclassified to income or (loss):			
Amortization of loss on cash flow hedge to net income (loss)		1	–
Changes in fair value of cash flow hedges		38	(95)
Net movement in regulatory deferral accounts related to other comprehensive income	8	(39)	95
		–	–
Total other comprehensive income (loss)		–	–
Total comprehensive income (loss)		$ –	$ –

See accompanying notes to consolidated financial statements.

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

	Notes	2017	2016
Assets			
Current assets			
Cash and cash equivalents		$ 222	$ 119
Accounts receivable and other	9	107	107
Investments	10	95	373
Other		11	10
		435	609
Non-current assets			
Investment in preferred interests	11, 17	350	291
Employee benefits	13	11	–
Investment in equity-accounted investee	12	7	–
Property, plant and equipment	14	705	664
Intangible assets	15	930	953
Other non-current assets		3	–
		2,006	1,908
Total assets		2,441	2,517
Regulatory deferral account debit balances	8	1,475	1,708
Total assets and regulatory deferral account debit balances		$ 3,916	$ 4,225

See accompanying notes to consolidated financial statements.

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

	Notes	2017	2016
Liabilities			
Current liabilities			
Trade and other payables		$ 230	$ 202
Deferred revenue		6	6
Customer service charges refund payable	4	60	–
Current portion of long-term debt	16	375	25
		671	233
Non-current liabilities			
Long-term debt	16	1,220	1,694
Employee benefits	13	1,586	1,694
Deferred tax liability	11	55	45
Derivative liabilities	17	12	54
Other non-current liabilities		2	1
		2,875	3,488
Total liabilities		3,546	3,721
Equity			
Retained earnings		28	28
Total equity		28	28
Total liabilities and equity		3,574	3,749
Regulatory deferral account credit balances	8	342	476
Commitments and contingencies	18, 19		
Total liabilities, equity and regulatory deferral account credit balances		$ 3,916	$ 4,225

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 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
Balance August 31, 2016	$ 28	$ –	$ 28
Net income (loss) and net movement in regulatory deferral accounts	–	–	–
Other comprehensive income (loss)	–	–	–
Balance August 31, 2017	$ 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	2017	2016
Cash flows from:			
Operating			
Receipts from customer service charges		$ 1,289	$ 1,339
Other receipts		62	55
Commodity tax refund		3	4
Payments to employees and suppliers		(989)	(944)
Pension contributions – current service	13	(89)	(90)
Pension contributions – solvency deficiency	13	(44)	–
Pension contributions – special payments	13	–	(20)
Other post-employment payments		(7)	(7)
Interest payments		(85)	(94)
Interest receipts		3	3
		143	246
Investing			
Capital expenditures		(157)	(128)
Investment in preferred interests	11	(36)	–
Proceeds from sale of investment in subsidiary	12	4	–
Long-term investments		(1)	–
Income tax payment on investment in preferred interests		(5)	–
Recoverable input tax payments on termination of cross border transaction		–	26
Proceeds from asset-backed commercial paper trusts	17	293	3
		98	(99)
Financing			
Issuance of medium term notes	16	–	248
Repayment of medium term notes	16	(25)	(475)
Redemption of medium term notes	16	(110)	–
Disbursements from settlement of derivatives		–	(51)
Debt service reserve fund		–	19
		(135)	(259)
Cash flows from operating, investing and financing activities		106	(112)
Effect of foreign exchange on cash and cash equivalents		(3)	1
Increase (decrease) in cash and cash equivalents		103	(111)
Cash and cash equivalents at beginning of year		119	230
Cash and cash equivalents at end of year		$ 222	$ 119

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 Company plans its operations to result in an annual financial breakeven position on the consolidated statement of operations after recording adjustments to the rate stabilization account. The impacts of rate regulation on the Company's consolidated financial statements are described in note 8.

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

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

2. BASIS OF PRESENTATION:

(a) Statement of compliance:

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

These consolidated financial statements were authorized for issue by the Board on October 26, 2017.

(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 (FVTPL) or available for sale (AFS), 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.

2. BASIS OF PRESENTATION (CONTINUED):

(d) 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:

- 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:

- Fair value of investment in preferred interests

  The Company's investment in preferred interests in Aireon is designated as FVTPL. 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 11) 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 11.

- 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.

(e) New standards, amendments and interpretations adopted:

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that had mandatory effective dates for annual periods beginning on or after January 1, 2016.

The following amendment was adopted by the Company effective September 1, 2016:

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. The adoption of these amendments resulted in the removal of certain immaterial disclosures in the Company's consolidated financial statements.

(f) New standards, amendments 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 thereto 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, with the exception of IFRS 9.

IFRS 9 – Financial Instruments

The Company plans to early adopt the requirements of IFRS 9 with a date of initial application of September 1, 2017, applying all of the requirements of IFRS 9 retrospectively (prospectively for hedging requirements) without restatement of comparatives. IFRS 9 replaces IAS 39 – *Financial Instruments: recognition and measurement* and also amends some of the requirements of IFRS 7 – *Financial Instruments: Disclosures*. The adoption of this standard has no impact on the Company's consolidated financial statements on the date of adoption or for comparative periods however it does require new disclosures.

This standard introduces a new classification and measurement approach for financial assets that reflects the business model in which the assets are managed and their cash flow characteristics. The principal classification categories for financial assets under IFRS 9 are: measured at amortized cost, FVTPL and fair value through other comprehensive income (FVOCI). The existing IAS 39 categories, loans and receivables and AFS, are eliminated. IFRS 9 largely retains the IAS 39 requirements for the classification of financial liabilities.

IFRS 9 replaces the "incurred loss" impairment model in IAS 39 with a new "expected credit loss" model. The new model applies to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and contract assets.

While the adoption of IFRS 9 will change the classification of several of the Company's financial instruments, the changes in classification do not result in any changes in measurement. As well, the new impairment guidelines do not result in a change in the carrying value of the Company's financial assets at amortized cost.

IFRS 9 also introduces a new general hedge accounting standard which aligns hedge accounting more closely with risk management. The new standard does not result in any changes to the Company's hedging relationships at the transition date but will increase disclosures related to them.

2. BASIS OF PRESENTATION (CONTINUED):

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

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.

The Company is in the process of assessing the anticipated impact of IFRS 15 on its consolidated financial statements. The Company has formed a project team to evaluate and implement the standard and is conducting a detailed review of its current contracts under the standard's five-step model.

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. The Company has not yet determined the impact of adopting this new standard.

IAS 7 – Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 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. These amendments do not result in any changes to the Company's consolidated financial statements.

IAS 12 – Income Taxes

In January 2016, the IASB issued amendments to IAS 12. 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. These amendments do not impact the Company's consolidated financial statements.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

This interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company does not expect the interpretation to have a material impact on its consolidated financial statements.

IFRIC 23 – Uncertainty over Income Tax Treatments

This interpretation clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Company has not yet determined the impact of adopting this interpretation.

Years ended August 31, 2017 and 2016 (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.

(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%

(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. The Company's investment in an equity-accounted investee is reduced for distributions received during the fiscal year.

If the Company's share of losses of an equity-accounted investee equals or exceeds its interest in the equity-accounted investee, the Company discontinues recognizing its share of further losses. Additional losses are provided for, and a liability is recognized only to the extent the Company has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investee.

As discussed in note 11, 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 is a joint venture since the Company has joint control over Aireon's strategic financial and operating activities and will have a right to the net assets of Aireon upon exercising its right to convert its preferred interests to common interests. As at August 31, 2017, 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.

As discussed in note 12, in April 2017, the Company sold a portion of its investment in Searidge Technologies Inc. (Searidge) which is owned through NAV CANADA ATM Inc. As a result of the sale, the Company now owns 50% (August 31, 2016 – 70%) of the issued and outstanding shares of Searidge. The Company has classified its investment in Searidge as an investment in a joint venture.

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 FVTPL 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 using forward exchange rates and by discounting expected future cash flows based on current interest 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 FVTPL.

(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;
- FVTPL; and
- AFS.

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.

Loans and receivables (L&R)

Cash and cash equivalents and accounts receivable and other are classified as L&R. 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

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 Master Asset Vehicle II (MAV II) notes, restructured asset-backed commercial paper (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 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.

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, bond and foreign exchange forward 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 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 salaries, vacation and other leave.

(e) Property, plant and equipment:

Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses, if applicable. 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 in which 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, if applicable. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(f) Intangible assets (continued):

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.

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 in which 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. Assumptions in assessing the recoverable amount 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 any such expectations arise, impairment charges may be required which could materially impact operating results. 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 has 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 8.

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.

In January 2014, the IASB issued IFRS 14 *Regulatory Deferral Accounts* as an interim standard, permitting entities conducting rate-regulated activities to continue to recognize regulatory deferral account balances according to their previous generally accepted accounting principles. IFRS 14 is restricted to first-time adopters of IFRS and remains in force until either repealed or replaced by permanent guidance on rate-regulated accounting. The Company recognized regulatory deferral account balances in its Canadian GAAP consolidated financial statements prior to adopting IFRS and elected to early adopt this standard as of September 1, 2014 when it adopted IFRS.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(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.

Refunds of customer service charges are recognized when approved by the Board, acting as rate regulator or when a constructive obligation exists.

(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.

(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.

Years ended August 31, 2017 and 2016 (millions of dollars)

(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. Substantially all of the Company's capital expenditures and assets are located in Canada.

4. REVENUE:

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

	2017	2016
Enroute (1)	$ 676	$ 715
Terminal (2)	488	485
Daily / annual / quarterly (3)	84	84
North Atlantic and international communication (4)	46	49
	1,294	1,333
Customer service charges refund (5)	(60)	–
	$ 1,234	$ 1,333

(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.

(5) On August 11, 2017, the Company announced its decision to return to its customers approximately $60 in a one-time refund representing 4.6% of billings of air navigation service charges for the year ended August 31, 2017 (fiscal 2017). The refund is expected to be returned in the fiscal year ending August 31, 2018 (fiscal 2018).

Years ended August 31, 2017 and 2016 (millions of dollars)

4. REVENUE (CONTINUED):

The Company has two customers each of which represents more than 10% of revenue. For fiscal 2017, revenue from the largest customer was $250 (year ended August 31, 2016 (fiscal 2016) – $249) and revenue from the second largest customer was $162 (fiscal 2016 – $162), together representing 32% (fiscal 2016 – 30%) of the revenue of the Company. The revenue from these two major customers arose from air navigation services.

Other revenue for fiscal 2017 consists primarily of service and development contracts revenue of $37 (year ended August 31, 2016 – $46).

5. SALARIES AND BENEFITS:

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

	2017	2016
Salaries and other (excluding curtailment expense)	$ 719	$ 680
Curtailment expense (note 13)	11	–
Fringe benefits (excluding pension)	59	70
Pension current service cost	176	145
Less: capitalized salaries and benefits	(40)	(37)
	$ 925	$ 858

6. FINANCE INCOME AND OTHER FINANCE COSTS:

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

	2017	2016
Interest income on other financial assets classified as L&R	$ (2)	$ (1)
Interest income on financial assets classified as AFS	(1)	(1)
Net change in fair value of financial assets classified as FVTPL	(52)	(19)
	$ (55)	$ (21)

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:

	2017	2016
Interest expense on financial liabilities at amortized cost	$ 83	$ 95
Less: capitalized borrowing costs	(3)	(2)
Redemption premium (note 16)	10	–
	$ 90	$ 93

Years ended August 31, 2017 and 2016 (millions of dollars)

7. OTHER GAINS AND LOSSES:

Other gains and losses for the years ended August 31 were comprised of the following:

	2017	2016
Foreign exchange losses	$ 12	$ 1
Realized gain on sale of investment in subsidiary	(2)	–
Unrealized gain on sale of investment in subsidiary	(5)	–
Share of net loss of equity-accounted investee (note 12)	1	–
Other losses	1	–
	$ 7	$ 1

8. 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 2016	Regulatory deferral	Recovery/ reversal	August 31 2017	Recovery Period
Regulatory deferral account debit balances					
Derivatives (a)	$ 54	$ (41)	$ –	$ 13	(1), (9)
Deferred income tax	45	11	–	56	(2), (3)
Employee benefits:					
Accumulating sick leave (b)	30	–	–	30	(4)
Other post-employment benefits re-measurements	38	7	(4)	41	(5), (10)
Pension re-measurements (c)	1,482	(231)	–	1,251	(6), (10)
Supplemental pension re-measurements	7	26	–	33	(5), (10)
Realized hedging transaction	52	(1)	–	51	(1), (9)
	$ 1,708	$ (229)	$ (4)	$ 1,475	
Regulatory deferral account (credit) balances					
Rate stabilization account (d)	$ (169)	$ –	$ 38	$ (131)	(7)
Derivatives (a)	(3)	3	–	–	(1), (9)
Employee benefits:					
Pension contributions (c)	(136)	127	–	(9)	(6)
Long-term disability contributions	–	–	(8)	(8)	(8)
Change in the fair value of the investment in preferred interests	(162)	(23)	–	(185)	(2)
Investment in equity-accounted investee	–	(4)	–	(4)	(3)
Realized hedging transaction	(6)	–	1	(5)	(1)
	$ (476)	$ 103	$ 31	$ (342)	

Years ended August 31, 2017 and 2016 (millions of dollars)

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

	August 31 2015	Regulatory deferral	Recovery/ reversal	August 31 2016	Recovery Period
Regulatory deferral account debit balances					
Derivatives (a)	$ 13	$ 41	$ –	$ 54	(1), (9)
Deferred income tax	44	1	–	45	(2)
Employee benefits:					
Accumulating sick leave (b)	33	–	(3)	30	(4)
Other post-employment benefits re-measurements	35	7	(4)	38	(5), (10)
Pension re-measurements (c)	1,005	477	–	1,482	(6), (10)
Supplemental pension re-measurements	–	8	(1)	7	(5), (10)
Realized hedging transaction	1	51	–	52	(1), (9)
	$ 1,131	$ 585	$ (8)	$ 1,708	
Regulatory deferral account (credit) balances					
Rate stabilization account (d)	$ (81)	$ (88)	$ –	$ (169)	(7)
Derivatives (a)	(6)	3	–	(3)	(1), (9)
Employee benefits:					
Pension contributions (c)	(197)	61	–	(136)	(6)
Supplemental pension re-measurements	(1)	–	1	–	(5)
Long-term disability contributions	(3)	3	–	–	(8)
Change in the fair value of the investment in preferred interests	(153)	(9)	–	(162)	(2)
Realized hedging transaction	(7)	–	1	(6)	(1)
	$ (448)	$ (30)	$ 2	$ (476)	

(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 and bond forward derivative instruments are deferred and considered for rate setting over the term of the related 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. The total regulatory deferral of income tax related to the Company's investment in Aireon is $55 as at August 31, 2017 (August 31, 2016 – $45).

(3) The unrealized gain on the Company's remaining 50% interest in Searidge, as well as its share of Searidge's net assets, are considered for rate setting when realized in cash net of tax (e.g. through a sale of all or a portion of the Company's interest or the receipt of dividends). The total regulatory deferral of income tax related to the Company's share of the net assets of Searidge is $1 as at August 31, 2017 (August 31, 2016 – $nil).

(4) 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.

(5) 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.

(6) 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 8 (c) 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.

Included in the regulatory deferral related to pension contributions of $127 for the year ended August 31, 2017, is $44 of solvency deficiency contributions that are expected to be recovered by the fiscal year ending August 31, 2020.

(7) 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.

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

(9) 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, 2017 of $39 is comprised of $1 related to the amortization of the loss on the realized hedging transaction to net income (loss) and $38 to defer fair value adjustments related to derivatives designated as cash flow hedges.

(10) 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, 2017 is $209 which consists of pension re-measurements of $231, other post-employment benefits re-measurements of $4, partially offset by supplemental pension re-measurements of $26.

Included in the other post-retirement benefits regulatory deferral of $7 on page 25 is the deferral of curtailment expense of $11 (see note 13), which is included in the net movement in regulatory deferral accounts related to net income (loss).

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. 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 fiscal 2017, the target balance was $101 (fiscal 2016 – $100).

On August 11, 2017, the Company issued an announcement detailing the implementation of revised service charges, effective September 1, 2017. The revised charges decrease rates on average by 3.5% and also implement a temporary one-year rate reduction of 0.4%. This effectively continues the 3.9% temporary rate reduction that was implemented last year.

The Company will also return to its customers approximately $60 in a one-time refund representing 4.6% of billings for fiscal 2017 air navigation service charges. The impact of this refund was included in the decrease to the rate stabilization account during fiscal 2017 (see table below). It is expected to be returned in fiscal 2018.

Years ended August 31, 2017 and 2016 (millions of dollars)

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

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

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 consolidated statement of operations:

	2017	2016
Before net movement in regulatory deferral accounts:		
Revenue	$ 1,291	$ 1,393
Operating expenses	1,330	1,238
Other (income) and expenses	97	116
Income tax expense	14	2
	(150)	37
Net movement in regulatory deferral accounts:		
Rate stabilization adjustments:		
Favourable variances from planned results	(60)	(57)
Customer service charges refund	60	–
Initial approved adjustment (1)	38	(31)
	38	(88)
Other regulatory deferral account adjustments:		
Employee benefit pension contributions	127	61
Other employee benefits	(1)	(3)
Investment in preferred interests, before tax	(25)	(9)
Investment in equity-accounted investee	(4)	–
Income tax	14	1
Realized hedging transactions	1	1
	112	51
	150	(37)
Net income (loss), after rate stabilization and regulatory deferral account adjustments	$ –	$ –

(1) In order to achieve breakeven results of operations, in fiscal 2017, the Board approved a reduction of the rate stabilization account as a result of a planned shortfall. As a result, $38 has been transferred out of the rate stabilization account evenly throughout the fiscal year. In fiscal 2016, the Board approved an increase of the rate stabilization account as a result of a planned excess. Accordingly, $31 was transferred to the rate stabilization account evenly throughout the fiscal year.

Years ended August 31, 2017 and 2016 (millions of dollars)

(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 2017	August 31 2016
Unrealized fair value loss (gain) on bond forward derivative instrument [(1)]	$ 1	$ –
Unrealized fair value losses (gains) on foreign exchange forward contracts [(2)]	–	(3)
Unrealized fair value losses (gains) on forward dated interest rate swap agreements [(3)]	12	54
	$ 13	$ 51

(1) The Company entered into a bond forward derivative instrument that will mature in April 2018, when the hedged refinancing is expected to occur. When the anticipated transaction occurs, the realized gain or loss will be reclassified to a regulatory realized hedging transaction debit or credit balance.

(2) 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 were held as the hedging instrument as at August 31, 2016. The fourth stage investment was made in December 2016 and the hedge was settled simultaneously.

(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 balance.

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

	August 31 2017	August 31 2016
Non-vesting accumulating sick leave	$ 21	$ 20
Vested accumulating sick leave	9	10
Total accumulating sick leave	$ 30	$ 30

(c) Pension contributions:

Included in regulatory deferral account credit balances at August 31, 2017 is $9 (August 31, 2016 – $136) 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 2017	August 31 2016
Employee benefit liability (note 13)	$ (1,198)	$ (1,346)
Less:		
Regulatory deferrals of non-cash adjustments	1,251	1,482
Benefit contributions in excess of benefit expense	$ 53	$ 136
Regulatory credit balances – recovery of contributions	$ (9)	$ (136)
Regulatory expense (greater) less than contributions	$ 44	$ –

Years ended August 31, 2017 and 2016 (millions of dollars)

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

(c) Pension contributions (continued):

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

	August 31 2017	August 31 2016
Consolidated statement of operations		
Pension current service costs [1]	$ 174	$ 143
Net finance costs [1]	44	30
Less: Regulatory deferrals	(127)	(61)
	91	112
Company cash contributions		
Going concern current service payments	91	92
Going concern special payments	–	20
Solvency deficiency payments	44	–
	135	112
	$ (44)	$ –

(1) Pension current service costs do not include $2 related to the Company's unfunded pension plan (fiscal 2016 – $2) and net finance costs do not include $2 related to the Company's unfunded pension plan (fiscal 2016 – $2).

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

	August 31 2017	August 31 2016
Rate stabilization account		
Operating deferrals [1]	$ 131	$ 180
Fair value variances on investments [2]	–	(11)
	$ 131	$ 169

(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) During fiscal 2017, the Company received the remaining principal relating to the MAV II notes, investment in other notes, as well as the restructured ABCP. 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, which included fair value adjustments of $11 and $3 realized fair value variance on MAV Class A-2 notes when purchased in the year ended August 31, 2011.

Years ended August 31, 2017 and 2016 (millions of dollars)

9. ACCOUNTS RECEIVABLE AND OTHER:

Accounts receivable and other were comprised of the following:

	August 31 2017	August 31 2016
Trade receivables	$ 90	$ 85
Accrued receivables and unbilled work in progress	18	20
Commodity taxes receivable	–	3
Allowance for doubtful accounts	(1)	(1)
	$ 107	$ 107

The Company's exposure to credit and foreign exchange risks and to impairment losses related to accounts receivable is described in note 17.

10. CURRENT INVESTMENTS:

Current investments were comprised of the following:

	August 31 2017	August 31 2016
MAV II, ABCP and other (note 17)	$ –	$ 279
Debt service reserve fund (a)	95	94
	$ 95	$ 373

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

Pursuant to the Master Trust Indenture (note 16), 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.

Pursuant to the General Obligation Indenture (note 16), 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, 2017.

11. 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 operations in calendar year 2018.

The Company's overall investment in Aireon was implemented in five stages. As at August 31, 2017, the Company has completed all stages investing a total of $150 U.S. ($187 CDN) (August 31, 2016 – $120 U.S. ($157 CDN)). The Company is represented by six out of the eleven directors on Aireon's board of directors. Each stage was subject to the successful achievement by Aireon and Iridium of certain specific milestones (or the waiver thereof) 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. ($150 CDN) in Aireon by three additional major ANSPs, namely ENAV (Italy), the Irish Aviation Authority (IAA), and Naviair (Denmark).

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. ($150 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 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. ($50 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 January 2021 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, 2017 and August 31, 2016 as it was determined that this represents the best estimate of fair value (note 17).

As at August 31, 2017, the Company's total fully diluted common equity interest on a post conversion basis is 40.9% (August 31, 2016 – 36.5%).

The Company's deferred tax assets and liabilities at August 31, 2017 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 $55 U.S. ($68 CDN) (August 31, 2016 – $56 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 $10 U.S. ($13 CDN) (August 31, 2016 – $11 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, 2017 and 2016 (millions of dollars)

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 2017	August 31 2016
Current assets		
Accounts receivable	$ 5	$ –
Derivative assets and other	–	3
Investment in preferred interests	350	291
Deferred tax liability	(55)	(45)
Financial position impact of the investment in preferred interests of Aireon before regulatory accounting	$ 300	$ 249
Regulatory deferral account debit balances		
Deferred regulatory income tax liability	55	45
	$ 55	$ 45
Regulatory deferral account credit balances		
Cumulative change in fair value of the investment in preferred interests	$ (185)	$ (162)
Unrealized fair value gain on foreign exchange hedging transaction	–	(3)
	$ (185)	$ (165)
Net financial position impact of the investment in preferred interest of Aireon after regulatory accounting	$ 170	$ 129

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).

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, 2017 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 Company has chosen a two month lag period and therefore the August 31, 2017 and August 31, 2016 information presented below is based on Aireon's financial position and financial performance as at June 30, 2017 and June 30, 2016, respectively. All amounts are translated from U.S. dollars. Between June 30, 2017 and August 31, 2017, Aireon received additional tranche investments from several of its investors. These investments have been reflected in the financial information presented as at August 31, 2017.

Years ended August 31, 2017 and 2016 (millions of dollars)

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

	August 31 2017	August 31 2016
Current assets		
Cash and cash equivalents	$ 65	$ 39
Prepaid expenses and other current assets	14	–
Non-current assets		
Property, plant and equipment	488	368
	$ 567	$ 407
Current liabilities		
Trade and other payables	$ (8)	$ (8)
Non-current liabilities		
Financial liabilities	(670)	(465)
	$ (678)	$ (473)
Net assets	$ (111)	$ (66)

	Years ended August 31	
	2017	2016
Interest expense	$ 10	$ 8
Net loss	$ (23)	$ (29)
Other comprehensive income (loss)	–	2
Total comprehensive income (loss)	$ (23)	$ (27)

12. INVESTMENT IN EQUITY-ACCOUNTED INVESTEE:

Searidge is a privately-held corporation that provides software development and technology solutions in support of the air traffic control and airport operations market.

On April 28, 2017, the Company sold a portion of its investment in Searidge for proceeds of $4. As a result of the sale, the Company now owns 50% of the issued and outstanding shares of Searidge (August 31, 2016 – 70%).

The Company has determined that its 50% interest in Searidge gives rise to joint control based on the contractual terms of the arrangement that requires unanimous consent of all parties involved in key decisions over relevant activities. The Company has classified its investment as a joint venture as the Company has an interest in the net assets of Searidge based on the legal form and substance of the arrangement.

Years ended August 31, 2017 and 2016 (millions of dollars)

A summary of the accounts of Searidge that were deconsolidated as of April 28, 2017 is as follows:

Receivables and prepayments	$	5
Property, plant and equipment and intangible assets		5
Accounts payable and accrued liabilities		(5)
Carrying value of interest in Searidge		5
Cash received		4
Fair value of investment in Searidge retained		8
		12
Gain on sale and loss of control	$	7

As at August 31, 2017, the carrying value of the Company's investment in Searidge was determined as follows:

Balance, April 28, 2017 (initial recognition)	$	8
Share of net loss of equity-accounted investee		(1)
Carrying value of interest in Searidge	$	7

13. 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	
	2017	2016	2017	2016
Statement of operations				
Current service costs	$ 176	$ 145	$ 6	$ 6
Curtailment expense	–	–	11	–
Interest cost	228	234	8	9
Interest income on plan assets	(182)	(202)	–	–
Total expense	$ 222	$ 177	$ 25	$ 15
Statement of other comprehensive income				
Re-measurements:				
Return on plan assets, excluding interest income on plan assets	$ (64)	$ (265)	$ –	$ –
Actuarial (gains) losses	(141)	750	(4)	7
Total (income) cost recognized in other comprehensive income	$ (205)	$ 485	$ (4)	$ 7

Years ended August 31, 2017 and 2016 (millions of dollars)

13. EMPLOYEE BENEFITS (CONTINUED):

Net interest costs relating to employee benefits of $55 for the year ended August 31, 2017 (fiscal 2016 – $43) 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 $1 (fiscal 2016 – $2) of interest costs related to long-term sick leave benefits.

During fiscal 2017, the Company recorded a curtailment expense on its severance benefits of $11 which is included in salaries and benefits expense. The estimated $44 cash settlement to curtail the severance benefits is to occur in fiscal 2018. The curtailment expense results from collective agreement amendments for three of the Company's unions. For two of the unions, future eligibility to the Company's severance plan is eliminated for represented employees who so elect cash settlement on a voluntary basis. For one union, future eligibility to the Company's severance plan is eliminated for all represented employees.

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

	August 31 2017	August 31 2016
Recognized asset for long-term disability benefits	$ 11	$ –

	August 31 2017	August 31 2016
Present value of funded defined benefit obligations	$ (6,794)	$ (6,720)
Fair value of plan assets	5,596	5,374
Liability for funded defined benefit obligations	(1,198)	(1,346)
Liability for unfunded pension defined benefit obligations	(97)	(69)
Liability for unfunded other defined benefit obligations	(246)	(233)
Recognized liability for defined benefit plans	(1,541)	(1,648)
Long-term employee benefit liabilities	(45)	(46)
Total long-term employee benefit liabilities	$ (1,586)	$ (1,694)

The most recent actuarial funding valuations were carried out as at January 1, 2017.

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, 2017 and August 31, 2016.

(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 predetermined 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. The two plan parts have different calculation formulas that include benefit entitlement, CPP/QPP integration and early retirement reductions. 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.

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.

Years ended August 31, 2017 and 2016 (millions of dollars)

13. EMPLOYEE BENEFITS (CONTINUED):

(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, going concern pension contributions for the annual period beginning July 1, 2017 are based on the January 1, 2017 actuarial valuations, with a retroactive adjustment to the beginning of the calendar year. 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, 2017 reported a going concern surplus of $242 (2016 – deficiency of $76). A statutory solvency surplus of $334 was reported as at January 1, 2017 based on the assumption that the September 1, 2016 plan text restatement, which included the plan termination amendment that is currently subject to OSFI's review, was in effect on the valuation date. Had the amendment not been included, there would have been a statutory solvency deficiency of $289 as of January 1, 2017 (2016 – deficiency of $306).

During fiscal 2017, the Company has funded its calendar 2017 solvency funding requirements of $58 with $14 of letters of credit and cash contributions of $44 which satisfies cumulative pension solvency funding requirements on a pre-amendment basis. Beginning July 1, 2017, solvency contributions will be determined on a pre-amendment basis while discussions with OSFI are ongoing.

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

	Years ended August 31	
	2017	**2016**
Funded pension plan		
Going concern current service costs	$ 91	$ 92
Going concern special payments	–	20
Solvency deficiency payments	44	–
	135	112
Unfunded pension plan	2	2
Unfunded other defined benefit plans	7	7
Less: capitalized amounts	(4)	(4)
	$ 140	$ 117

On a preliminary basis, going concern pension contributions for fiscal 2018 are estimated to be $91 with no requirement for cash 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 has the option of meeting its pension solvency funding requirements with letters of credit or cash contributions. 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. These regulations were amended in June 2017 permitting the letters of credit maximum to be based on 15% of solvency liabilities instead of assets. As at August 31, 2017, the Company has put in place letters of credit totaling $477 to meet its cumulative pension solvency funding requirements on a pre-amendment basis. Outstanding letters of credit represent 9% of solvency liabilities on a post-amendment basis and 8% on a pre-amendment basis.

Years ended August 31, 2017 and 2016 (millions of dollars)

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.

(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	
	2017	2016	2017	2016
Change in benefit obligations				
Defined benefit obligations at August 31, prior year	$ 6,789	$ 5,802	$ 233	$ 218
Benefits paid	(193)	(175)	(8)	(7)
Plan participants' contributions	32	32	–	–
Current service cost	176	145	6	6
Interest cost	228	234	8	9
Curtailment expense	–	–	11	–
Actuarial loss (gain) from change in demographic assumptions	–	(61)	–	(2)
Actuarial loss (gain) from change in financial assumptions	(117)	836	(4)	22
Actuarial loss (gain) arising from experience adjustments	(24)	(24)	–	(13)
Defined benefit obligations at August 31	$ 6,891	$ 6,789	$ 246	$ 233
Change in plan assets				
Fair value of plan assets at August 31, prior year	$ 5,374	$ 4,936	$ –	$ –
Return on plan assets, excluding interest income	64	265	–	–
Interest income	182	202	–	–
Employer contributions	137	114	7	7
Plan participants' contributions	32	32	–	–
Benefits paid	(193)	(175)	(7)	(7)
Fair value of plan assets at August 31	5,596	5,374	–	–
Net defined benefit liability	$ (1,295)	$ (1,415)	$ (246)	$ (233)
Liability for unfunded defined benefit obligations at August 31	$ (97)	$ (69)	$ (246)	$ (233)
Liability for funded defined benefit obligations at August 31	$ (1,198)	$ (1,346)	$ –	$ –

Years ended August 31, 2017 and 2016 (millions of dollars)

13. EMPLOYEE BENEFITS (CONTINUED):

(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, 2017		August 31, 2016	
	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	30%	9%	32%	10%
Fixed income [1]	2%	33%	0%	38%
Real assets	0%	14%	0%	12%
Absolute return strategies	1%	6%	1%	1%
Private debt	0%	5%	0%	4%
Cash and cash equivalents	0%	0%	2%	0%
	33%	67%	35%	65%

[1] The LDI strategy (discussed in (g) below) is comprised of a 2:1 leveraged portfolio of long Canadian nominal and real return bonds. Leverage is achieved largely through the use of sale and repurchase agreements. As of August 31, 2017, the strategy represented 26% of net plan assets with leverage providing an additional 26% exposure (fiscal 2016 – 18%).

(e) Actuarial assumptions:

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

	Funded plans		Unfunded plans	
	August 31 2017	August 31 2016	August 31 2017	August 31 2016
Discount rate, defined benefit obligations	3.60%	3.40%	3.52%	3.32%
Discount rate, defined benefit expense	3.40%	4.10%	3.32%	3.99%
Future salary increases	3.40%	3.10%	3.40%	3.10%
Medical cost trend rate	N/A	N/A	5.00%	5.00%
Inflation	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 fiscal 2017 and all years thereafter.

Years ended August 31, 2017 and 2016 (millions of dollars)

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:

	2017	2016
Longevity at age 65 for current pensioners		
Males	22.8	22.7
Females	24.7	24.6
Longevity at age 65 for current members age 45		
Males	23.8	23.8
Females	25.6	25.6

As at the annual measurement date of August 31, 2017, the weighted-average duration of the defined benefit obligation was 18.7 years (August 31, 2016 – 19.1 years).

(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%	$ (319)	$ 342	$ (22)	$ 22
Salary, indexation, government benefit increases	0.25%	$ 316	$ (297)	$ 25	$ (23)
Health care trend rate	1%	$ 25	$ (20)	$ 1	$ (1)
Longevity (in years) for those currently aged 65	1 year	$ 202	$ (206)	$ 12	$ (13)

(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, securities, risk factors and geographies while adhering to established investment policies and guidelines.

Years ended August 31, 2017 and 2016 (millions of dollars)

14. 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 August 31, 2015	$ 172	$ 484	$ 74	$ 730
Additions	–	–	99	99
Transfers	29	71	(100)	–
Balance at August 31, 2016	$ 201	$ 555	$ 73	$ 829
Balance at August 31, 2016	$ 201	$ 555	$ 73	$ 829
Additions	–	–	129	129
Derecognition [1]	–	(1)	–	(1)
Disposal	–	(2)	–	(2)
Transfers	26	74	(100)	–
Balance at August 31, 2017	$ 227	$ 626	$ 102	$ 955
Accumulated depreciation				
Balance at August 31, 2015	$ 13	$ 68	$ –	$ 81
Depreciation	13	71	–	84
Balance at August 31, 2016	$ 26	$ 139	$ –	$ 165
Balance at August 31, 2016	$ 26	$ 139	$ –	$ 165
Depreciation	13	73	–	86
Derecognition [1]	–	(1)	–	(1)
Balance at August 31, 2017	$ 39	$ 211	$ –	$ 250
Carrying amounts				
At August 31, 2016	$ 175	$ 416	$ 73	$ 664
At August 31, 2017	$ 188	$ 415	$ 102	$ 705

[1] Derecognition is a result of the deconsolidation of the Company's investment in Searidge. See note 12.

Years ended August 31, 2017 and 2016 (millions of dollars)

15. 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 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
Balance at August 31, 2016	$ 702	$ 158	$ 168	$ 33	$ 4	$ 1,065
Additions	–	–	–	42	–	42
Derecognition [(1)]	–	–	–	–	(4)	(4)
Transfers	–	7	25	(32)	–	–
Balance at August 31, 2017	$ 702	$ 165	$ 193	$ 43	$ –	$ 1,103
Accumulated amortization						
Balance at August 31, 2015	$ 25	$ 17	$ 13	$ –	$ –	$ 55
Amortization	25	17	15	–	–	57
Balance at August 31, 2016	$ 50	$ 34	$ 28	$ –	$ –	$ 112
Balance at August 31, 2016	$ 50	$ 34	$ 28	$ –	$ –	$ 112
Amortization	25	19	17	–	–	61
Balance at August 31, 2017	$ 75	$ 53	$ 45	$ –	$ –	$ 173
Carrying amounts						
At August 31, 2016	$ 652	$ 124	$ 140	$ 33	$ 4	$ 953
At August 31, 2017	$ 627	$ 112	$ 148	$ 43	$ –	$ 930

(1) Derecognition is a result of the deconsolidation of the Company's investment in Searidge. See note 12.

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.

16. 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 17.

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 17 (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, 2017, this amount is $500 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 $175 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 $500 portion of the credit facility along with the $250 series 96-3 bonds and $250 series 97-2 bonds gives a total of $1,000 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, 2017 and 2016 (millions of dollars)

(b) Debt:

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

	August 31 2017	August 31 2016
Bonds and notes payable		
Issued under the Master Trust Indenture:		
$250 face value 7.40% revenue bonds, series 96-3, maturing June 1, 2027	$ 250	$ 250
$500 initial face value 7.56% amortizing revenue bonds, series 97-2, maturing March 1, 2027	250	275
	500	525
Issued under the General Obligation Indenture:		
$250 face value 3.534% general obligation notes, series MTN 2016-1, maturing February, 23, 2046	250	250
$250 face value 4.397% general obligation notes, series MTN 2011-1, maturing February 18, 2021	250	250
$350 face value 5.304% general obligation notes, series MTN 2009-1, maturing April 17, 2019 [1]	250	350
$350 face value 1.949% general obligation notes, series MTN 2013-1, maturing April 19, 2018	350	350
	1,100	1,200
Total bonds and notes payable	1,600	1,725
Adjusted for deferred financing costs and discounts	(5)	(6)
Carrying value of total bonds and notes payable	1,595	1,719
Less: current portion of long-term debt [2]	(375)	(25)
Total long-term debt	$ 1,220	$ 1,694

(1) On December 16, 2016, the Company redeemed $100 of its outstanding $350 Series MTN 2009-1 General Obligation Notes. The Company paid a redemption premium related to the early partial-redemption. This premium of $10 has been expensed in other finance costs (note 6) for the year ended August 31, 2017 in the consolidated statement of operations.

(2) The amount in current debt relates to the $350 Series MTN 2013-1 General Obligation Notes that mature in April 2018 and the annual amortization payment of $25 for the Series 97-2 amortizing revenue bonds.

The bonds and notes payable are redeemable in whole or in part at the option of the Company at any time at the higher of par and the Canada yield price plus a redemption premium. The Series 97-2 bonds are amortizing bonds repayable in 20 consecutive equal annual instalments of $25 principal 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, 2017.

Years ended August 31, 2017 and 2016 (millions of dollars)

17. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT:

Summary of financial instruments:

Financial instruments recorded at fair value on the consolidated 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.

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, the carrying amount is equal to the fair value for all of the Company's financial instruments.

	August 31, 2017				
	L&R	AFS	FVTPL	Other financial liabilities	Fair value hierarchy
Financial assets					
Cash and cash equivalents (1), (2)	$ 222	$ –	$ –	$ –	
Accounts receivable and other (2)	102	–	–	–	
Current investments					
Debt service reserve fund	–	95	–	–	Level 1
Investment in preferred interests (3), (4)	–	–	350	–	Level 3
Other non-current assets					
Long-term receivables (2)	3	–	–	–	
	$ 327	$ 95	$ 350	$ –	
Financial liabilities					
Trade and other payables					
Trade payables and accrued liabilities (2)	$ –	$ –	$ –	$ 227	
Derivative liabilities (5)	–	–	1	–	Level 2
Long-term debt					
Bonds and notes payable (6)	–	–	–	1,595	Level 2
Long-term derivative liabilities (5)	–	–	12	–	Level 2
	$ –	$ –	$ 13	$ 1,822	

Years ended August 31, 2017 and 2016 (millions of dollars)

	August 31, 2016				
	L&R	AFS	FVTPL	Other financial liabilities	Fair value hierarchy
Financial assets					
Cash and cash equivalents [1, 2]	$ 119	$ –	$ –	$ –	
Accounts receivable and other [2]	107	–	–	–	
Current investments					
Debt service reserve fund	–	94	–	–	Level 1
MAV II, ABCP and other [4, 7]	–	–	279	–	Level 3
Investment in preferred interests [3, 4]	–	–	291	–	Level 3
	$ 226	$ 94	$ 570	$ –	
Financial liabilities					
Trade and other payables					
Trade payables and accrued liabilities [2]	$ –	$ –	$ –	$ 198	
Non-derivative financial liability [8]	–	–	–	2	Level 3
Long-term debt					
Bonds and notes payable [6]	–	–	–	1,719	Level 2
Long-term derivative liabilities [5]	–	–	54	–	Level 2
	$ –	$ –	$ 54	$ 1,919	

(1) Cash and cash equivalents includes $79 of short-term investments as at August 31, 2017 (August 31, 2016 – $nil).

(2) The Company has not disclosed the fair values for financial instruments within these categories because their carrying amounts are a reasonable approximation of fair value.

(3) This instrument is recorded at fair value based on valuation techniques described in note 11.

(4) This financial instrument is designated as FVTPL.

(5) 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.

(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, 2017, the fair value was $1,835 (August 31, 2016 – $2,058) inclusive of accrued interest of $22 (August 31, 2016 – $25).

(7) The fair value of these financial assets was determined using a discounted cash flow approach.

(8) Prior to the change in ownership in April 2017, 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 were treated as a change in estimate in the period in which they occurred.

There has been no change in classification of financial instruments since August 31, 2016.

Years ended August 31, 2017 and 2016 (millions of dollars)

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

Summary of financial instruments (continued):

In fiscal 2017, the Company received $285 of principal relating to the MAV II notes and $1 related to its investment in other notes, as well as the remaining $7 of principal balance of the restructured ABCP.

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, included a pooling of leveraged investments as well as traditional assets and cash. Traditional assets were un-levered investments and included residential and commercial mortgage backed securities, corporate credit and cash equivalents. The Class A-1 and A-2 notes provided for the payment of interest on a quarterly basis provided that the three month Canadian Dollar Offered Rate (CDOR) rate was above 50 basis points.

The Company used a discounted cash flow approach to determine the fair value of these investments as at August 31, 2016, taking into account the expected risk and return profile of the notes in comparison to market returns.

The Company 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%

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

	MAV II and Ineligible Asset Tracking notes	ABCP	Investment in preferred interests	Total
Fair value as at August 31, 2016	$ 272	$ 7	$ 291	$ 570
Additional investment (1)	–	–	36	36
Proceeds (2)	(286)	(7)	–	(293)
Net increase in fair value (3)	–	–	37	37
Net decrease in fair value provision	14	–	–	14
Effect of foreign exchange	–	–	(14)	(14)
Fair value as at August 31, 2017	$ –	$ –	$ 350	$ 350

Years ended August 31, 2017 and 2016 (millions of dollars)

	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 [(2)]	–	(2)	–	(2)
Net increase in fair value [(3)]	–	–	10	10
Write off	(1)	–	–	(1)
Net increase 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

(1) In fiscal 2017, the Company invested an additional $30 U.S. ($36 CDN) in preferred interests of Aireon (see note 11).

(2) In fiscal 2017, the Company received $285 of principal relating to the MAV II notes and $1 related to its investment in other notes, as well as the remaining $7 of principal balance of the restructured ABCP.

In fiscal 2016, the Company received $2 of principal primarily related to the Superior Trust note.

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

Financial risk management:

The Company is exposed to several risks as a result of holding financial instruments. 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.

(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 2017	August 31 2016
Floating rate financial assets		
Cash and cash equivalents	$ 222	$ 119
Debt service reserve fund investments	95	94
Investments in MAV II, ABCP, and other notes	–	279
Total floating rate financial assets	$ 317	$ 492
Fixed rate financial liabilities		
Bonds and notes payable	$ 1,595	$ 1,719

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

Financial risk management (continued):

(a) Market risk (continued)

(i) Interest rate risk (continued):

Investments included in the Company's cash and cash equivalents and debt service reserve fund earn interest at prevailing and fluctuating market rates. If interest rates decline, earnings on these instruments would fall. A 100 basis point change in variable interest rates would result in an annual difference of approximately $3 in the Company's earnings before rate stabilization adjustments.

The investments in MAV II notes earned interest at variable rates. The receipt of these notes reduced the Company's financial assets exposed to interest rate risk as well as the Company's exposure to price and credit risk.

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. As discussed in note 16, during fiscal 2017, the Company redeemed $100 of the $350 Series MTN 2009-1 General Obligation Notes, reducing the Company's financial liabilities exposed to interest rate risk.

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 has entered into the following hedging transactions to mitigate the impact of fluctuating interest rates on interest costs relating to the Company's long-term debt.

- Forward-dated interest rate swaps totaling $200 to hedge the cost of refinancing the Company's $450 Series MTN 2006-1 General Obligation Notes were entered into in June 2012 and were cash settled at a loss of $51 in February 2016. The loss 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 January 2015, the Company entered into forward-dated interest rate swap agreements totaling $200 to hedge the cost of refinancing a portion of the Company's $350 Series MTN 2009-1 General Obligation Notes that will mature on April 17, 2019. 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.
- In August 2017, the Company entered into a bond forward transaction in the amount of $137 in order to mitigate the potential impact of rising interest rates on the cost of refinancing the Series MTN 2013-1 General Obligation Notes that will mature on April 19, 2018. The Company intends to cash settle this transaction in April 2018 and offset any gain or loss at that time against a portion of the cost of refinancing the above mentioned notes.

The Company has applied hedge accounting and is accounting for these financial instruments as cash flow hedges. 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.

Years ended August 31, 2017 and 2016 (millions of dollars)

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

	August 31, 2017		August 31, 2016	
	CAD	USD	CAD	USD
Financial assets				
Current				
Cash and cash equivalents	$ –	$ –	$ 18	$ 14
Accounts receivable and other	7	6	8	6
Non-current				
Investment in preferred interests	350	281	291	222
Long-term receivable	1	1		
	$ 358	$ 288	$ 317	$ 242
Financial liabilities				
Current				
Trade and other payables	$ 4	$ 3	$ 1	$ 1
Derivative liabilities	1	–	–	–
	$ 5	$ 3	$ 1	$ 1
Net exposure	$ 353	$ 285	$ 316	$ 241

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, 2017, the Company has not designated any of its forward contracts as cash flow hedging instruments.

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, 2017, 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 $30 (August 31, 2016 – $29).

(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 Aireon.

The investment in preferred interests of Aireon (note 11) 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. During fiscal 2017, the Company made its fourth and fifth tranche investments in preferred interests of Aireon. As a result of the additional investments, the fair value of the investment in preferred interests increased to $350 as at August 31, 2017 (August 31, 2016 – $291). A change of 5% in the fair value of the investment in preferred interests would impact finance income (other finance costs) by approximately $12 U.S. ($15 CDN) as at August 31, 2017 (August 31, 2016 – $10 U.S. ($13 CDN)).

Years ended August 31, 2017 and 2016 (millions of dollars)

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

Financial risk management (continued):

(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, 2017 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. 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)).

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.

The aging of trade accounts receivable was as follows:

	August 31, 2017			August 31, 2016
	Gross balance	Allowance	Net balance	Net balance
0-30 days	$ 87	$ –	$ 87	$ 81
31-60 days	–	–	–	–
61-90 days	2	–	2	1
Over 91 days	1	(1)	–	2
Total	$ 90	$ (1)	$ 89	$ 84

There was no significant change in the Company's allowance for doubtful accounts during the year ended August 31, 2017.

Years ended August 31, 2017 and 2016 (millions of dollars)

(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 16.

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 have been utilized as follows:

		August 31, 2017
Credit facilities		
Credit facility with a syndicate of Canadian financial institutions [(1), (2)]	$	675
Letter of credit facilities for pension funding purposes [(3)]		515
Total available credit facilities		1,190
Less: Outstanding letters of credit for pension funding purposes [(3)]		477
Less: Outstanding letters of credit for other purposes [(2)]		12
Undrawn committed borrowing capacity		701
Less: Operations and maintenance reserve fund allocation [(4)]		290
Credit facilities available for unrestricted use	$	411

(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, 2019 and September 12, 2021. Subsequent to August 31, 2017, these maturity dates were extended to September 12, 2020 and September 12, 2022. 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, 2017.

(2) At August 31, 2017, $12 was drawn from an uncommitted revolving credit facility (including letters of credit with a value of $3 issued on behalf of Searidge). In connection with this facility, an allocation of $25 with a Canadian financial institution has been made under its $675 committed credit facility.

(3) The letter of credit facilities for pension funding purposes are comprised of four facilities with Canadian financial institutions totaling $515 (note 13), which will mature on December 31, 2017, unless extended. At August 31, 2017, $477 was drawn for pension solvency funding purposes.

(4) 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, 2017, the Company met this requirement with an allocation of $290 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.

Years ended August 31, 2017 and 2016 (millions of dollars)

18. 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, 2017:

	Remaining payments – for years ending August 31						
	Total	**2018**	**2019**	**2020**	**2021**	**2022**	**Thereafter**
Trade payables and accrued liabilities	$ 205	$ 205	$ -	$ -	$ -	$ -	$ -
Derivative liabilities	13	1	12	-	-	-	-
Long-term debt (including current portion) [(1), (2)]	1,600	375	275	25	275	25	625
Interest payments [(2)]	612	77	69	53	46	39	328
	$ 2,430	$ 658	$ 356	$ 78	$ 321	$ 64	$ 953

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

(2) Further details on interest rates and maturity dates on long-term debt are provided in note 16 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 $141 as at August 31, 2017 (August 31, 2016 – $118). The following table presents a maturity analysis of these capital commitments:

	Remaining payments – for years ending August 31						
	Total	**2018**	**2019**	**2020**	**2021**	**2022**	**Thereafter**
Capital commitments	$ 141	$ 82	$ 12	$ 15	$ 6	$ 4	$ 22

(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.

Future minimum lease payments for operating leases are as follows:

	Remaining payments – for years ending August 31						
	Total	**2018**	**2019**	**2020**	**2021**	**2022**	**Thereafter**
Operating leases	$ 38	$ 8	$ 8	$ 7	$ 7	$ 6	$ 2

The Company recorded operating lease expense during the year ended August 31, 2017 of $10 (year ended August 31, 2016 – $10) within facilities and maintenance expense on the statement of operations.

(d) Letters of credit

As at August 31, 2017, the outstanding amount of letters of credit of $489 (note 17 (c)) is comprised of $477 drawn for pension solvency funding purposes (note 13) and $12 for other purposes; $3 of which was issued on behalf of Searidge.

19. 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:

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. ($6,283 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 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. ($44 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.

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, 2017 and 2016 (millions of dollars)

20. 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, at which time the Company intends to renew it. 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.

21. RELATED PARTY TRANSACTIONS:

The Company's related parties include its key management personnel, subsidiaries, joint ventures 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:

	2017	2016
Salaries and other benefits	$ 6	$ 9
Defined benefits, including pension benefits	2	2
Management incentive plan	2	2
Other long-term benefits	4	2
Total compensation	$ 14	$ 15

There were no loans provided to key management personnel during fiscal 2017.

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 13, and a reimbursement from the Plan for certain costs in the amount of $12 for the year ended August 31, 2017 (year ended August 31, 2016 – $15).

Transactions with joint ventures

As discussed in note 11, 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, 2017 were comprised of dividend income of $11 (year ended August 31, 2016 – $10) and cost recoveries of $3 (year ended August 31, 2016 – $3).

Years ended August 31, 2017 and 2016 (millions of dollars)

As at August 31, 2017, the Company has accounts receivable of $1 (August 31, 2016 – $3) and an accrued dividend receivable of $32 (August 31, 2016 – $25) from Aireon.

As discussed in note 12, the Company has a 50% interest in Searidge. This interest has been classified as a joint venture. As at August 31, 2017, the Company has a long-term loan receivable of $2 outstanding from Searidge.

22. 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 2017	August 31 2016
Bonds and notes payable (note 16)	$ 1,595	$ 1,719
Equity:		
Retained earnings	28	28
Regulatory deferral accounts:		
Debit balances (note 8)	(1,475)	(1,708)
Credit balances (note 8)	342	476
Employee benefits (note 13):		
LTD (asset) liability	(11)	1
Liability for funded pension benefits	1,198	1,346
Liability for accumulating sick leave	22	21
Total capital	$ 1,699	$ 1,883

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 rate setting decisions made by the Board.

The Company's main objectives when managing capital are:

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

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

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

(iv) to ensure the funding of regulatory requirements such as funding defined benefit pension plan contributions;

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

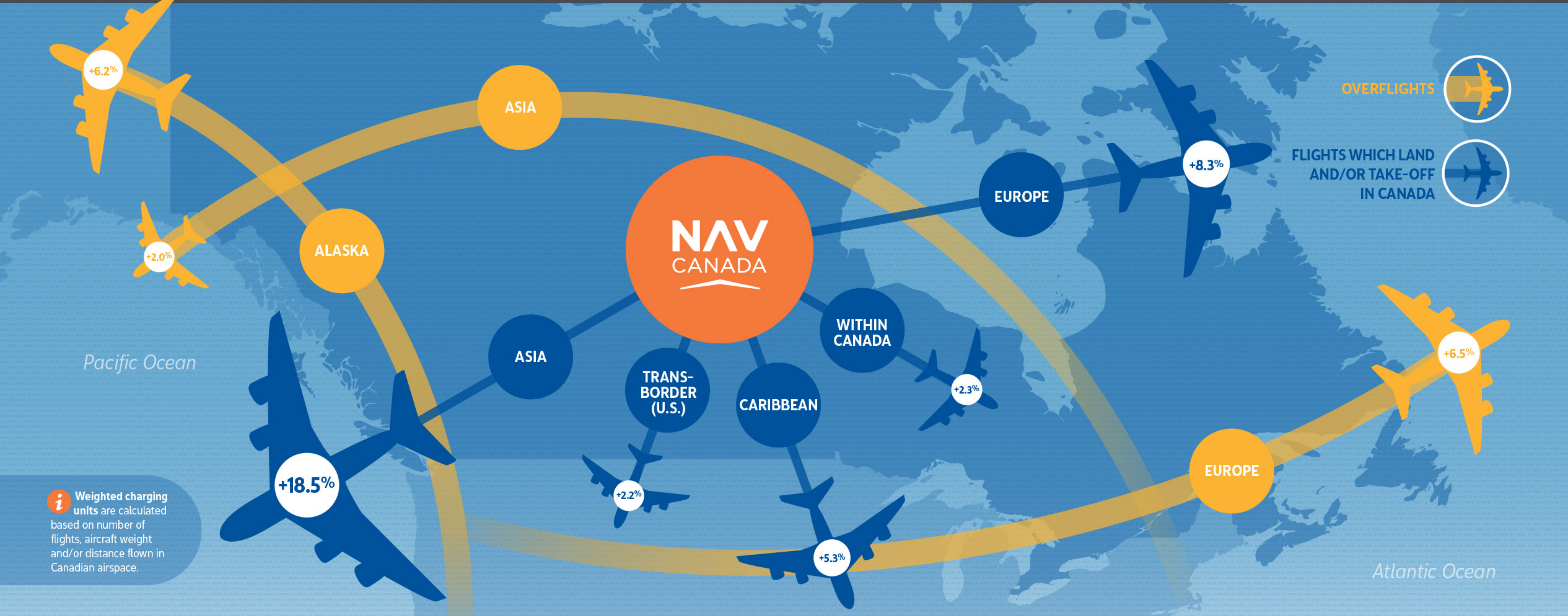
(vi) to minimize interest costs incurred by the Company subject to appropriate risk mitigation actions.

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.

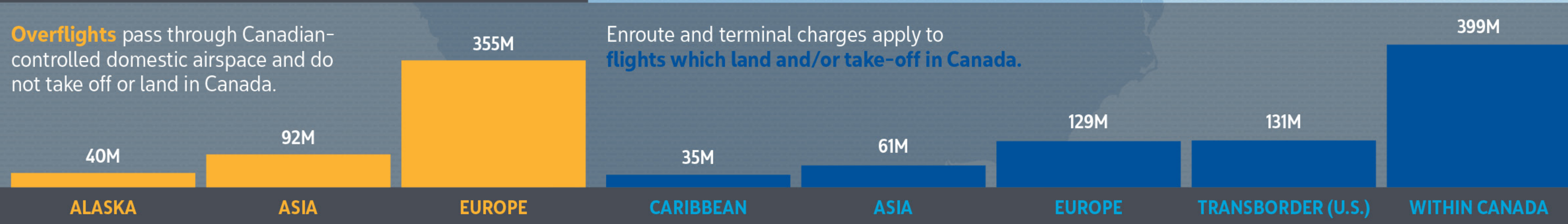
There were no changes in the Company's approach to capital management during the year ended August 31, 2017.

TRAFFIC GROWTH

NAV CANADA measures traffic in weighted charging units. Traffic through NAV CANADA-controlled airspace grew **5.1%** year-over-year in fiscal 2017. The graphic below shows 2017 traffic growth by weighted charging units, accounting for **90%** of traffic.



WEIGHTED CHARGING UNITS BY ROUTE, *Fiscal 2017*



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