ANNUAL REPORT 2021

Serving a world in motion

navcanada.ca

NAV CANADA

ABOUT NAV CANADA

SHARED PURPOSE

Keeping Canada's skies safe:

Shaping the future of air navigation services

PILLARS

Our shared purpose is supported by four Pillars

Safety is at the core

It is integral to everything we do and continues to mature as the industry evolves.

Innovation is key

We are passionate about modernizing Canada's air navigation system to deliver value to our customers.

Expertise is the cornerstone

The skill, agility, leadership, and collaboration of our people make the difference.

Partnerships are essential

Our partnerships help the aviation industry improve efficiency and support an environmentally sustainable future.

To learn more about NAV CANADA, visit our website at **www.navcanada.ca**

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MESSAGE FROM

THE CHAIR OF THE BOARD

MARC COURTOIS

As the global aviation industry continues to navigate through the COVID-19 pandemic, our Company has remained steadfast in our purpose to keep Canada's skies safe.

Fiscal 2021 was an inflection point in our Company's decorated history. Following record low air traffic volumes in fiscal 2020, we are now beginning to see the aviation industry's gradual recovery as airlines restore service to keep up with demand from their customers.

This past fiscal year also provided us with the opportunity to set new strategic goals and plan for a more sustainable, resilient, and greener path forward.

Helping NAV CANADA set and reach these important waypoints towards the future is our Company's new President and CEO, Raymond Bohn. Effective February 1, 2021, Raymond Bohn succeeded Neil Wilson who announced his retirement in October 2020.

> Throughout the past 25 years, NAV CANADA and its employees have overcome challenges with resiliency, innovation, and an unwavering commitment to safety.

With Mr. Bohn at the Company's helm, NAV CANADA has exercised great financial prudence as we continue to weather the impacts of COVID-19. Supported by the Company's executive team, Mr. Bohn has successfully established and executed many short- and long-term goals to ensure the sustainability of our Company's operations.

At the heart of NAV CANADA's success in fiscal 2021 are our employees. While some team members' roles and places of work look different than they did before the pandemic, NAV Canadians from coast-to-coast-to-coast continue to respond to the pandemic with professionalism, ingenuity, and a willingness to adapt to a rapidly changing environment. Over NAV CANADA's quarter century of serving a world in motion, our employees have never lost sight of their responsibility to keep Canada's skies safe.

Without a doubt, NAV CANADA plays an essential role in keeping our country safe. From assisting with air navigation services to bring the first COVID-19 vaccines to Canada to keeping our skies clear for first responders to fight record-setting wildfires, key world events in fiscal 2021 served as a reminder of our importance on the national and global stage.

I am privileged to present NAV CANADA's 2021 Annual Report, detailing the accomplishments of a dedicated workforce. As highlighted in this report, we have risen to meet the demands presented to us and continue to stand ready to support the aviation industry during its recovery from the impacts of COVID-19, and on the journey to a safe, green and sustainable future for all.

Marc Courtois
Chair of the Board

MESSAGE FROM THE PRESIDENT AND CEO

RAYMOND G. BOHN

> This year marked NAV CANADA's silver anniversary – 25 years of serving a world in motion. Since our Company's inception, we have been defined by our employees' ingenuity, resiliency, and ability to meet and overcome challenges with professionalism and determination.

As the world's first fully privatized civil air navigation system, our commitment to keeping Canada's skies safe has been our guiding principle for more than a quarter century.

During fiscal 2021, our unwavering focus on safety was the driving force behind the key decisions and investments our Company made in response to the COVID-19 pandemic's continued impact on our industry. As Canadian air traffic levels have been gradually increasing our Company has been evolving to enhance the safety and efficiency of our services, while also helping our customers build back better. One of the key technological advancements helping us make these goals a reality is the use of space-based automatic dependent surveillance-broadcast (ADS-B). Guided by NAV CANADA, aircraft equipped with space-based ADS-B reported their position and speed with greater accuracy and frequency than ever before, helping to make this past fiscal year one of the safest years on record for aircraft flying over the North Atlantic Ocean. In the coming years, we plan to work closely with our customers and other key stakeholders to bring this revolutionary technology to more aircraft travelling in Canada's skies.

At lower altitudes, we cleared a path for new entrants, including drones and other remotely piloted aircraft in our airspace. With the introduction of NAV Drone,

a new mobile and web application designed to help drone pilots and operators safely and legally fly their remotely piloted aircraft in Canadian airspace, users can review important guidelines, discover where they can fly, schedule flights, and request permission to fly in airspace controlled by NAV CANADA.

We also made huge strides in leveraging intelligent technology to improve the safety, efficiency, and resiliency of our services. In fiscal 2021, Transport Canada approved the trial of a digital facility, which allowed us to use video cameras to capture live views of an airfield and its surrounding airspace, and integrate video information with air traffic management and airport systems to provide airport advisory services from a remote location. This initial trial was a great success, which opens the door for improved safety and enhanced air navigation service across Canada.

As we continue to chart our path beyond the COVID-19 pandemic, we're taking steps to emerge stronger and better positioned to withstand the headwinds world events can have on our industry. With safety being the most important service we deliver, we have incorporated it into our recently-launched Shared Purpose, *Keeping Canada's skies safe: Shaping the future of air navigation services.* This new Shared Purpose captures the fundamental reason we exist, and shifting to this single statement has helped us highlight and recognize the value we bring in a concise and memorable way. It recognizes the evolving landscape of the aviation industry, the needs of our customers, and the journey to create a more resilient organization for the future. We have also launched a new strategic direction which is driven by our Shared Purpose. It outlines the long-term initiatives that will transform how we deliver services, and sets the priorities for the next five years that will help get us there.

In closing, I would like to share my gratitude for our employees. Since the beginning of the pandemic we have faced new and complex challenges, but together we have brought out the very best in each other to navigate a difficult period in our history. Thank you for your continued support and for your enduring commitment to serving a world in motion.

Raymond G. Bohn
President and Chief Executive Officer

BUSINESS UPDATES

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Northern lights (aurora borealis)
Photography: **Kyle Baigent**
Flight Service Specialist
Fort Nelson FSS


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BUSINESS UPDATES

SAFETY

Our 25 years of innovation and achievement are underpinned by a world-leading safety record. Through initiatives that foster a culture of safety, continuous enhancements to our service delivery and programs to manage risk, NAV CANADA plays a critical role in keeping Canada's skies safe.

ANOTHER RECORD-SETTING YEAR FOR SAFETY PERFORMANCE

In fiscal 2021, NAV CANADA surpassed previous record low rates of IFR-to-IFR losses of separation, with 0.17 per 100,000 aircraft movements in the past 12 months. This continues an overall downward trajectory and is well below the Company's benchmark rate of 1.0 losses per 100,000 aircraft movements.

VIGILANCE AGAINST OPERATIONAL SAFETY RISKS

The 2021 edition of Navigating Safety, an internal publication that aims to enhance transparency and build awareness across the Company, highlighted our top operational safety risks and the work being done to manage them. It is supported by our complementary document, the 2021 NAV CANADA Safety Plan, which identifies the safety goals and initiatives that help mitigate these risks and advance the Company's Safety Management System. Despite the continued impacts of COVID-19, NAV CANADA achieved a year-end weighted completion rate of 93% against activities in the Safety Plan.

IDENTIFYING AND MANAGING PANDEMIC IMPACTS

The impacts of COVID-19 continue to be felt across the industry and within NAV CANADA. In fiscal 2021 we continued work to ensure that risks related to the impacts of the pandemic were identified and managed, including the finalization of hazard identification and risk assessments (HIRA) and follow-up activities.

Derek Holbrow
Flight Service Specialist
Kenora FSS

Post implementation monitoring (PIM) activities were undertaken with respect to the Return to Normal Operations HIRA for each flight information region (FIR), with 829 of 951 risk controls being implemented.

DASHBOARDS FOR ENHANCED INSIGHTS

To support safety analysis, monitoring and communications activities, we launched new FIR level dashboards and enhanced our national safety dashboard; all dashboards were built in PowerBI. Training was then provided for the new "Safety and Quality Summary" dashboards, which are tailored for each FIR. The national dashboard is tailored for each type of service (High, Low, Oceanic, Terminal, etc.)

Our safety dashboards allow managers to retrieve daily data on various safety topics. Insights pertaining to aviation occurrence reports, air traffic services (ATS) operating irregularities, unit risk registry (URR) metrics and more can be accessed, and customized filters applied for deeper analysis.

DISSEMINATING IMPORTANT INFORMATION

A Safety Directive process was created in order to send out internal urgent safety communications from the Vice President and Chief Safety and Quality Officer. Reading the directives is mandatory for identified groups, and recipients must acknowledge that they have read the directives and performed the actions required of them. The first such directive was released in July 2021.

PROVIDING THE FOUNDATIONS FOR A SAFE ORGANIZATION

Following the completed implementation of our Integrated Quality Assurance (IQA) Program – a robust, repeatable, measurable and adaptable process network – further work was conducted in fiscal 2021 to bring consistency in standards, processes and compliance with regulations across our ATS operations. Implementation audits for the FIRs and specific Head Office groups continued remotely, and ongoing efforts focussed on continued awareness of the IQA Program, continuous improvement of IQA processes, IQA training, and supporting the organization in the common adoption of the IQA Program.

Pershant Saini (left) and Ajay Chettiar (right)
CNS Technical Services Technologists
Vancouver ACC

PUTTING FATIGUE MANAGEMENT INTO ACTION

Stemming from work conducted in fiscal 2020, including the initiation of a fatigue management approach and the launch of a fatigue risk dashboard, we continued to take action in fiscal 2021 to help reduce the risk of fatigue causing human error in the delivery of air traffic services. Our Fatigue Management Program reached a significant milestone through the introduction of updated fatigue limits, which include maximum hours in a duty period, maximum number of consecutive workdays and more. Updated Fatigue Policy and Standard documents were also finalized.

FOSTERING A STRONG REPORTING CULTURE

The ARGUS+ Program – NAV CANADA's confidential way to report operational safety concerns – was refreshed in fiscal 2021. The original program was moved from the NAV CANADA Aviation Safety Tracking System to the NAV CANADA Safety Information System, at which time an opportunity was taken to renew the whole program. The transition resulted in a new Event Review Committee, made up of select individuals from our Safety and Quality department who have a service delivery background.


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BUSINESS UPDATES

SERVICE DELIVERY

Operating an air navigation system that delivers value to our customers while keeping Canada's skies safe is an ongoing commitment for NAV CANADA. Expanding the use of revolutionary surveillance technology and supporting the integration of drones in our airspace are just some of the ways we are shaping the future of air navigation services.

INCREASING SAFETY, EFFICIENCY AND FLEXIBILITY THROUGH DIGITAL FACILITIES

Following a successful trial that began in fiscal 2020, in June 2021 NAV CANADA obtained approval from Transport Canada to continue using digital air traffic service (ATS) technology at the Saint John Flight Service Station (FSS) for the provision of services to Fredericton International Airport (CYFC). The system leverages enhanced remote camera technology that integrates into NAV CANADA's operational display suite.

This enhancement allows for the provision of aerodrome advisory services (AAS) for Fredericton International Airport from the Saint John FSS during the hours in which remote aerodrome advisory services (RAAS) were previously provided. Formally taking effect on October 7, 2021, this is the first time that an airport in Canada will be served by digital aerodrome air traffic services (DAATS) beyond a trial basis and is a significant milestone in our future strategy for digital facilities.

AIR TRAFFIC CONTROL SERVICES AT RED DEER

Based on the results of an aeronautical study and continued measurement of air traffic following earlier measures taken at Red Deer Regional Airport (CYQF), NAV CANADA expanded its services in November 2020 to include air traffic control (ATC) during peak periods. An ATC tower is now in operation for 16 hours per day from 07:00 to 23:00 local. The expanded services at Red Deer Regional Airport help NAV CANADA meet the needs of aviation customers, while maintaining the highest level of safety in our skies.

EXPANDING THE BENEFITS OF SPACE-BASED SURVEILLANCE

We continued to expand the use of space-based automatic dependent surveillance – broadcast (ADS-B) within Canada, with all high-level airspace in Canada now leveraging this transformative technology. This change allows ATS personnel to access full and accurate real-time views of every suitably equipped aircraft, providing significant benefits to safety and situational awareness. The Canada-wide use of space-based ADS-B brings new areas into surveillance coverage and, where surveillance already exists, provides significant improvements over the capabilities of other technology (e.g. radar), which means substantial safety enhancements and the provision of more customer-preferred routes, speeds and flight levels. In fiscal 2021, this expansion also allowed us to begin work on decommissioning some of our ground-based ADS-B sites.

MAINTAINING A ROBUST NAVIGATION INFRASTRUCTURE

In fiscal 2021, the first three operational Thales Doppler very high frequency omnidirectional ranges (VOR) in Canada were successfully installed in Whitecourt, Lethbridge and Fort McMurray, Alberta, with installation commencing at additional sites. These are NAV CANADA's first new VORs in almost a quarter century and mark an important step in replacing the 55+ VORs that will be retained following the completion of the NAVAID Modernization Program.

LEVERAGING ADVANCEMENTS IN TECHNOLOGY

In February 2021, NAV CANADA assumed data quality assurance and other monitoring duties associated with weather observations, which were previously contracted by the Meteorological Service of Canada (MSC). These tasks are supported by the Weather Data Manager (WXDM), a system that provides quality assurance monitoring of the weather observations input by the Human Weather Observation System and the Automated Weather Observation System. This transition brings the full scope of the aviation weather observation program into NAV CANADA's purvey and represents a major milestone in the evolution of how we deliver our services.

INCREASING COMMONALITY ACROSS ATS UNITS

While ATS units will always require certain differences in equipment, procedures and training, depending on the local realities of the airport, traffic and airspace, enhancing commonality can help NAV CANADA effectively deploy innovation across units, reduce duplication of effort, and redirect energy to improvements as services evolve. NAV CANADA's Commonality Program aims to create a more common base of technologies, procedures and airspace structures among ATS units; it comprises the High-Level Airspace Commonality (HILAC), Manual of Operational Systems and Equipment (MANEQ) and Terminal Airspace Commonality (TERMAC) projects.

The HILAC project aims to capitalize on the opportunity to identify natural similarities in various high-level airspace operations; the project is ongoing.

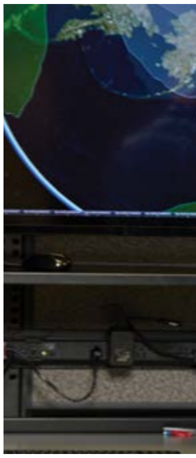
MANEQ is NAV CANADA's new direction manual for operational equipment and systems. It provides baseline configuration information for all operational systems, describing how changes and innovations will be processed and reviewed across the organization. An initiative was launched in fiscal 2021 to support implementation of MANEQ across the entire organization, which includes formally publishing the manual and identifying representatives to implement the direction in their regions.

The TERMAC project focuses on unifying standards and procedures, technology, training, and customer service within various terminal airspace operations. The TERMAC Recommendations Report was finalized in fiscal 2021, with follow-up information sessions to share details of the project, the resulting recommendations, and the associated implementation plans.

ENGAGING WITH STAKEHOLDERS

Fiscal 2021 saw continued efforts to work with industry stakeholders to help shape an air navigation system that meets customer needs and keeps Canada's skies safe.

While planning potential strategic initiatives, we engaged with key stakeholders to guide our approach, prioritize projects, and help plan for effective implementation. Meetings were held with the airport authorities with whom we have collaboration memoranda of understanding (MOU),



including Vancouver, Calgary, Toronto and Montréal's airports, with work underway to expand collaboration MOUs to other airports.

Following significant industry consultations regarding a cohort of aeronautical studies launched in September and November of 2020, NAV CANADA announced on April 15 that it was reducing the scope of its Aeronautical Study Workplan. This included a commitment to suspend studies related to designated remote or northern locations, avoid the full closure of staffed facilities and limit recommendations to adjust the hours of operation at staffed sites. Subsequently, NAV CANADA announced that it was postponing the remaining aeronautical studies that were a part of the cohort until 2022, to focus its resources on recovery-based initiatives that reflect stakeholder input.

To further support awareness and effective input from stakeholders in regard to aeronautical studies, NAV CANADA developed an enhanced Notice of Proposal process this year. Before submitting any studies to Transport Canada for concurrence, we intend to share our findings with stakeholders, providing them with an opportunity to provide further input on specific recommendations when a material change to a level of service is anticipated.

We also introduced a new opt-in email newsletter to help customers and stakeholders stay in-the-know on operational updates from NAV CANADA. The Aeronautical and Service Updates newsletter provides pilots, flight dispatchers, employees, and other stakeholders a convenient way to learn about new Aeronautical Information Circulars (AIC), Aeronautical Information Publication (AIP) Supplements, Service Notices, publication updates and more.

CORPORATE WEBSITE RENEWAL

NAV CANADA's new corporate website launched in February 2021. With the goal of improving the user experience, visitors to navcanada.ca can now explore the site's new user-friendly design and content. Last updated in 2013, the previous website was built on a platform that is now obsolete, which required NAV CANADA to transition to a new system to ensure the site's reliability and security against online threats.

Fully bilingual and rebuilt from the ground up, the new website puts user needs front and centre. The site also has a new responsive design, making it easier for visitors to explore on the device of their choice. Navcanada.ca continues to be the main gateway for our customers and the public to access and stay informed about our products and services.

INNOVATING TO MEET THE NEEDS OF NEW ENTRANTS

NAV CANADA launched NAV Drone in June 2021, enabling users to submit drone flight authorization requests from a mobile device and providing information to help operators fly drones quickly, safely and legally in Canada's controlled airspace. In addition to being the only app that can provide drone pilots and operators with permission to fly in NAV CANADA controlled airspace, NAV Drone helps users better understand Canada's airspace and visualize where basic and advanced drone operations can take place. The application was developed with direct input from users, and future releases will bring additional capabilities in support of this emerging class of airspace user.

From left:
Michael Mammone
Senior Radar Systems Engineer
Olivia Orwin
Manager, New Surveillance Systems Engineering
Afiya Kassim
Software Developer
Ottawa Technical Systems Centre

Dominic Viau
Team Supervisor, ACC
Montreal ACC

BUSINESS UPDATES

PEOPLE

At NAV CANADA, our employees are at the core of our business and our success. Thanks to the dedication, professionalism and relentless pursuit of safety, our Company's employees are shaping the future of air navigation services.

SAFE WORKPLACES

In March of 2021, many of our employees marked the one-year anniversary of the shift to working from home and the introduction of a series of measures that fundamentally changed the way we live and work. To help employees follow the latest and evolving COVID-19 safety protocols, an online screening tool was developed to help people working at our facilities determine if they can enter our sites, or if additional screening or COVID-19 testing is required.

Additionally, to better understand how the pandemic impacted the overall work and well-being of our Company's employees, they were invited to complete a survey about their experience working at NAV CANADA during the pandemic.

Close to 1,200 people completed the survey, with representation across all departments and regions. The results are now being used to help shape action plans that will address common themes and meet the new realities of our employees' lives at home and at work.

EMPLOYEE WELLNESS

In fiscal 2021, NAV CANADA took steps to ensure the safety and well-being of employees and prevent the spread of COVID-19. As a company that is committed to promoting and supporting a safe and healthy workplace, we focused on both the physical and mental well-being of our employees. New and existing policies, programs and services were developed and reintroduced to employees to help them navigate the realities of living and working during a global pandemic.

Brad Parsons
Air Traffic Controller
Gander Control Tower

Tara Amsen
Operational Training Specialist
Toronto ACC

Our Company developed health and safety resources, including information on the measures put in place to protect the health and well-being of our employees in the workplace, at home and in the community. In fiscal 2021, NAV CANADA offered a roster of wellness programs to support employees' physical and mental well-being.

Helping NAV CANADA employees navigate the impacts of the pandemic at home and at work, the Company's wellness team developed a series of videos focused on addressing anxiety, planning and making adjustments to daily routines, implementing wellness strategies, and building energy reserves. The videos were shared with employees through the Company's internal newsletter and sparked supportive online discussions between people from different departments and parts of the country.

MY NAV CANADA WEBSITE LAUNCH

NAV CANADA employees, retirees and their families now have a new online one-stop shop to access information on health and wellness, benefits, and the retiree Advantage Program. Building on the success of the new NAV CANADA corporate website in February 2021, My NAV CANADA (**my-ma.navcanada.ca**) now offers an improved user experience and responsive design.

This move supports the Company's strategy to consolidate digital properties and bring them up to par with current best practices. The publicly-accessible website provides easy-to-access links to the self-serve password reset service, Promo Shop and updates on scholarships.

WORKPLACE HARASSMENT AND VIOLENCE PREVENTION POLICY

On January 1, 2021, new harassment and violence prevention legislation (Bill C-65 and associated regulations) came into effect, introducing a change to how all federally-regulated employers, including NAV CANADA, prevent and respond to workplace harassment and violence.

As a company that is committed to providing employees with a safe, respectful, and harassment and violence-free workplace, we created a new policy, a process and tools to align with the new legislation so that every employee knows where to

Shelley White
FIC Flight Service Specialist Team Supervisor
Edmonton FIC

go for help regarding harassment and violence-related issues and feels safe to do so. The policy and related resources were developed in consultation with NAV CANADA's Workplace Harassment and Violence Prevention Steering Committee, which includes employee and union representation from across the business.

OPTIMAL STAFFING STRATEGY

Following a detailed and collaborative development process, in the summer of 2020 NAV CANADA launched an Optimal Staffing Strategy focused on our air traffic services units. The strategy, in alignment with our traffic forecasts, helps to ensure we have determined and planned for the correct number of operational employees at all units across the country so that we can provide safe and efficient services to our customers. By standardizing the amount of time an employee spends "in position" during their shift, we can create efficiencies in the number of shifts required per day.

In fiscal 2021, we introduced national guidelines to support regional discussions around more effective leave practices. Additionally, we provided a national process to optimize schedules and balance the number of employees available each day.

The Optimal Staffing Strategy is the methodology that will be used to determine staffing requirements in the future. An annual review is part of the governance in place to ensure we evolve with our industry, including changes to air traffic, technology, procedures, or airspace design.

BUSINESS UPDATES

FINANCE AND GOVERNANCE

Managing more than 18 million square kilometres of airspace, as Canada's air navigation service provider, NAV CANADA is primarily funded by fees charged for its services. Additional revenue is generated by technology sales and other related commercial activities. Operating as a private, non-share capital corporation, NAV CANADA follows a break-even business model by aligning costs with revenues and by using debt as needed to address its cash requirements.

WEIGHTED CHARGING UNITS

Weighted charging units are a traffic measure that reflects the number of billable flights, aircraft size and distance flown in Canadian airspace and are the basis for movement-based service charges. NAV CANADA also provides services for a number of non-billable flights each year, including support for emergency services and medical transfers.

FINANCIAL HIGHLIGHTS

For the fiscal year ending August 31, 2021, the Company reported total revenue of $870 million, compared to $1,000 million in the previous year.

The COVID-19 pandemic and the resulting economic contraction continue to have a significant negative impact on global air traffic and the aviation industry. The COVID-19 pandemic began impacting air traffic levels in mid-fiscal 2020 and since then, air traffic levels, as measured in weighted charging units (WCUs), have continued to trend well below levels seen in fiscal 2019. It is expected that the COVID-19 pandemic and resulting economic contraction will continue to have a significant negative impact on global air traffic and the aviation industry in the near-term, and the post-pandemic economic recovery may be gradual and uneven.

NAV CANADA continues to review, monitor and manage spending, while ensuring the continued fulfillment of the Company's mandate to safely operate and maintain the Canadian air navigation system as an essential service. The Company is also focused on protecting the safety and well-being of its employees, while positioning itself to support a post-pandemic recovery in air travel.

Revenue from customer service charges was $815 million, a decrease from $930 million in fiscal 2020 and $1,384 million in fiscal 2019. Over the course of fiscal 2021, air traffic levels, as measured in WCUs, decreased 32.7% as compared to fiscal 2020. In comparison to pre-pandemic levels experienced over fiscal 2019, air traffic levels have decreased 55.7%. However, air traffic levels increased in the fourth quarter of fiscal 2021, as compared to levels seen in the same period of fiscal 2020. The change was the result of an increase in passenger demand as travel restrictions imposed by governments began to ease and international borders gradually reopened.

Operating expenses were $1,278 million, down from $1,371 million in fiscal 2020, mainly due to Canada Emergency Wage Subsidy receipts and continued cost savings measures, partially offset by a full year of oceanic space-based surveillance data service costs, which came into effect in January 2020.

Other income and expenses include a net expense of $176 million in fiscal 2021 compared to $241 million in the previous year. During fiscal 2021, the Company recorded an additional reduction in the fair value of its investment in preferred interests of Aireon LLC, for accounting purposes, which was less than the reduction recorded in fiscal 2020. The reduced fair value reflects the continued impact of the COVID-19 pandemic on the global aviation industry.

The Company had a net loss (before net movement in regulatory deferral accounts, including rate stabilization) of $577 million in fiscal 2021 as compared to a net loss of $584 million in fiscal 2020.

As a result of the decline in revenue from customer service charges, the rate stabilization account increased from a debit balance of $255 million at the end of fiscal 2020 to a debit balance of $656 million at the end of fiscal 2021.

The Company successfully raised $500 million under its General Obligation Indenture program, bringing its total net borrowings since the pandemic started to $1,100 million. Proceeds from the $500 million issuance were used to repay maturing debt, as well as to fund general liquidity requirements.

During the year, the Company sought and received temporary relief from compliance with the rate covenants and certain provisions of additional indebtedness covenants under the Master Trust and General Obligation Indentures.

PENSION PERFORMANCE AND ADJUSTMENTS

In fiscal 2021, our Company focused on reducing risks related to NAV CANADA's Pension Plan and increasing its resilience in response to the pandemic environment and the financial challenges faced by the Company. As the situation evolved, the Pension Committee approved and monitored actions taken to ensure the long-term sustainability of the Plan. In the face of interest rate volatility, the Plan's liability driven investment approach contributed to the successful management of the Plan's funding risk. Workforce adjustments over the course of the year resulted in a decline in active members and an increase in pensioners.

NAV CANADA also announced in September 2020 that effective April 1, 2022, all future pensionable service for executive and management employees will accrue under the non-contributory, defined benefit terms currently applicable to new hires. As we navigate these difficult times, NAV CANADA continues to be committed to providing retirement benefits that are affordable, meaningful and predictable.

AIR TRAFFIC VOLUME

As the COVID-19 pandemic continued to impact air traffic levels across Canada's controlled airspace, NAV CANADA's Corporate Performance team used all available information from passenger data, epidemiological data, travel stringency data, economic data, travel insight data, and collaborative data sharing with airlines and airports, to track the pandemic's significant and continued influence on traffic within all air traffic service specialties and at all sites.

WCUs decreased 32.7% in fiscal 2021, compared to fiscal 2020. While WCU's in fiscal 2021 were 55.7% lower than in fiscal 2019, air traffic in the fourth quarter of fiscal 2021 showed modest positive signs of a recovery for the Canadian aviation industry.

WORKFORCE REDUCTION

As the COVID-19 pandemic continued to have a significant negative impact on global air traffic and the aviation industry, in September and December of 2020, NAV CANADA announced workforce reductions through the elimination of permanent jobs, impacting approximately 350 people. In total, the Company's restructuring efforts since the onset of the COVID-19 pandemic have resulted in a reduction of its workforce by approximately 650 people across the country. The restructuring of some of our business units and the adjustments of our workforce were critical to aligning operations and services with air traffic and strengthening the sustainability of NAV CANADA.

In June 2021, with a view towards recovery, NAV CANADA cancelled surplus notices for air traffic controllers at the Gander, Moncton, Montreal and Edmonton area control centres. This will help ensure appropriate staffing to support the aviation industry's recovery as demand for air navigation services grows.

Michael Strang
Unit Operations Specialist
Halifax Control Tower

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

NAV CANADA represents a unique consensus among the major stakeholders in the air navigation system – the Government of Canada, the 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).

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

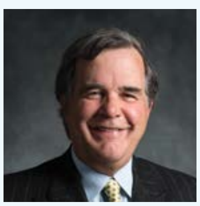
The Board discharges its responsibilities directly and through committees. The Board holds five scheduled meetings each year and unscheduled meetings are held from time to time as required.

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 ANS. Every director and officer of the Company is required to sign and abide by our *Code of Conduct and Conflict of Interest Guidelines for Directors and Officers* (Code of Conduct).

DIRECTORS

Directors are elected for terms not exceeding three years, with terms expiring at the Company's annual meeting. No director, other than the President and CEO, may serve as a director for more than twelve years in total. Set out below is information on the current directors, including their Committee membership and meeting attendance records for fiscal 2021.

A sub-committee (Sub-Committee) was established by the Board and was in place from October 22, 2020 to December 29, 2020 to oversee, with the assistance of an executive search firm, the evaluation of candidates and the hiring of the new President and CEO. Bonnie DuPont (Chair of the Sub-Committee), Marc Courtois, Michael DiLollo, Michelle Savoy, Scott Sweatman and former director Robert Reid served on the Sub-Committee. The Sub-Committee held a total of seven formal meetings and also held several meetings with the various candidates.



Marc Courtois

Director; Chair of the Board

Québec, Canada

Elected by: **Board of Directors**
Director since: **February 16, 2012**
Current Term Expires: **2024**

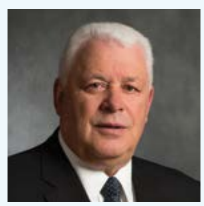
MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	11/11
Audit & Finance Committee*	5/5
Corporate Governance Committee	2/3
Transformation Committee*	4/4
Human Resources & Compensation Committee*	12/12
Pension Committee*	4/4
Safety Committee	4/4
Sub-Committee	7/7

**ex officio member.*

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Corporate Director.



Edward M. Barrett

Director; Chair of the Transformation Committee

New Brunswick, Canada

Elected by: **Board of Directors**
Director since: **February 7, 2013**
Current Term Expires: **2022**

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	11/11
Audit & Finance Committee	5/5
Corporate Governance Committee	3/3
Transformation Committee	4/4
Human Resources & Compensation Committee	12/12

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Co-CEO and Chair of Barrett Corporation.

Mary-Ann Bell

Director; Chair of the Safety Committee

Québec, Canada

Elected by: **Government of Canada**
Director since: **May 30, 2014**
Current Term Expires: **2023**

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	11/11
Transformation Committee	4/4
Human Resources & Compensation Committee	12/12
Safety Committee	4/4

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Corporate Director.

Raymond G. Bohn

Director

Ontario, Canada

Director since: **February 1, 2021**
Current Term Expires: **N/A**

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	2/2
Pension Committee	2/2
Safety Committee	2/2

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

President and CEO of the Company from February 1, 2021. From September 1, 2020 to January 31, 2021, Mr. Bohn was Vice President and Chief Human Resources Officer. Mr. Bohn was Executive Vice President, Human Resources, Communications & Public Affairs from September 1, 2017 to August 31, 2020 and Senior Vice President, Human Resources, Communications & Public Affairs from November 1, 2016 to August 31, 2017.

Paul Brotto

Director; Chair of Pension Committee

Ontario, Canada

Elected by: **Commercial Air Carriers**
Director since: **January 13, 2021***
Current Term Expires: **2024**

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	2/2
Pension Committee	2/2
Transformation Committee	2/2

**Mr. Brotto previously served on the Board from April 12, 2006 to January 14, 2015.*

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Corporate Director.

Michael DiLollo

Director

Ontario, Canada

Elected by: **Commercial Air Carriers**
Director since: **February 7, 2013**
Current Term Expires: **2022**

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	11/11
Audit & Finance Committee*	3/3
Corporate Governance Committee*	1/1
Safety Committee	4/4
Sub-Committee	7/7

**Mr. DiLollo was a member of the Audit & Finance Committee until January 13, 2021 at which time he joined the Corporate Governance Committee.*

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Managing Director, Capital Solutions at Caisse de dépôt et placement du Québec (CDPQ). From May 2019 to May 2020, Managing Director, Specialty Finance, Fixed Income and from June 2017 to April 2019, Senior Director, Investment, Specialty Finance, Fixed Income at CDPQ.

Peter Duffey

Director

Ontario, Canada

Elected by: **Labour Unions**
Director since: **January 7, 2021**
Current Term Expires: **2022**

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	3/3
Audit & Finance Committee	3/3
Safety Committee	3/3

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

From May 2014 to June 2020, President and Chief Executive Officer of CATCA.

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: **2022**

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	11/11
Corporate Governance Committee	3/3
Human Resources & Compensation Committee	12/12
Sub-Committee	7/7

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Corporate Director.

Marc Grégoire

Director

Québec, Canada

Elected by: **Government of Canada**
Director since: **May 13, 2019**
Current Term Expires: **2022**

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	11/11
Audit & Finance Committee	5/5
Human Resources & Compensation Committee*	3/3
Transformation Committee*	1/1

**Mr. Grégoire was a member of the Transformation Committee until January 13, 2021 at which time he joined the Human Resources & Compensation Committee.*

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Corporate Director.

Linda Hohol

Director; Chair of the Audit & Finance Committee

Alberta, Canada

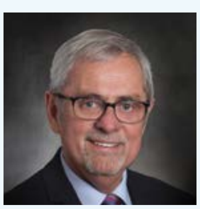
Elected by: **Board of Directors**
Director since: **February 16, 2012**
Current Term Expires: **2024**

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	11/11
Audit & Finance Committee	5/5
Transformation Committee	4/4
Pension Committee	4/4

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Corporate Director.



Kevin Howlett

Director

British Columbia, Canada

Elected by: **Commercial Air Carriers**
Director since: **January 13, 2021**
Current Term Expires: **2024**

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	2/2
Human Resources & Compensation Committee	4/4
Transformation Committee	2/2

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Corporate Director. From May 2016 to November 1, 2018, Senior Vice President, Regional Markets and Government Relations at Air Canada.

Candice Li

Director

Alberta, Canada

Elected by: **Commercial Air Carriers**
Director since: **January 13, 2021**
Current Term Expires: **2024**

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	2/2
Audit & Finance Committee	2/2
Pension Committee	2/2

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Chief Financial Officer at Benevity Inc. from February 1, 2021 and Executive Vice President, Finance from July 27, 2020 to January 31, 2021. Vice President, Finance at Attabotics Inc. from March 2020 to July 2020 and Vice President, Finance & Fleet Management at WestJet Airlines Ltd. (WestJet) from October 2015 to March 2020.

Michelle Savoy

Director; Chair of the Corporate Governance Committee

Ontario, Canada

Elected by: **Government of Canada**
Director since: **December 15, 2015**
Current Term Expires: **2024**

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	11/11
Corporate Governance Committee	3/3
Human Resources & Compensation Committee*	4/4
Pension Committee	4/4
Sub-Committee	7/7

**Ms. Savoy joined the Human Resources & Compensation Committee on January 13, 2021.*

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Corporate Director.

Scott Sweatman

Director

British Columbia, Canada

Elected by: **Labour Unions**
Director since: **April 8, 2010**
Current Term Expires: **2022***

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	11/11
Corporate Governance Committee	3/3
Transformation Committee	4/4
Pension Committee	4/4
Sub-Committee	7/7

**As of January 12, 2022, Mr. Sweatman will have served his 12-year maximum term on the Board.*

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Partner at Dentons Canada LLP.

David Weger

Director

Saskatchewan, Canada

Elected by: **General Aviation**
Director since: **January 10, 2018**
Current Term Expires: **2024**

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	11/11
Audit & Finance Committee*	2/2
Pension Committee*	2/2
Safety Committee*	2/2
Transformation Committee*	1/1

**Mr. Weger was a member of each of the Pension Committee and the Transformation Committee until January 13, 2021 at which time he joined each of the Audit & Finance Committee and the Safety Committee.*

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Corporate Director. From January 2011 to May 1, 2018, Senior Director, Administration Services at Nutrien Ltd. (formerly Potash Corporation of Saskatchewan Inc.)

GENDER DIVERSITY AND BOARD COMMITTEES

For information on gender diversity within the Company and the Board, and for descriptions of the Board's six committees, please refer to the **2021 Annual Information Form (AIF)**.

DIRECTOR COMPENSATION

DIRECTORS' COMPENSATION FISCAL 2021

NAME	FEES EARNED ($)	ALL OTHER COMPENSATION [10] ($)	TOTAL ($)
Edward Barrett [1]	103,300	–	103,300
Mary-Ann Bell	100,800	–	100,800
Raymond G. Bohn [2]	–	–	–
Paul Brotto [3]	48,280	–	48,280
Jean Coté [4]	43,000	–	43,000
Marc Courtois [5]	162,200	–	162,000
Robert Davis [4]	48,600	–	48,600
Michael DiLollo [6]	86,000	–	86,000
Peter Duffey [7]	50,974	–	50,974
Bonnie DuPont [6]	99,200	–	99,200
Marc Grégoire	83,600	–	83,600
Linda Hohol	100,800	–	100,800
Kevin Howlett [3]	46,113	–	46,113
Candice Li [3]	45,016	–	45,016
Robert Reid [4] [6]	56,800	–	56,800
Michelle Savoy [6]	96,000	–	96,000
Umar Sheikh [8]	38,600	–	38,600
Scott Sweatman [6]	92,400	–	92,400
David Weger	80,400	–	80,400
Neil Wilson [9]	–	–	–

(1) Mr. Barrett voluntarily waived all fees he would be entitled to receive as a member of the Transformation Committee for the first half of fiscal 2021. During the second half of fiscal 2021, he replaced this waiver with a waiver of all fees he would be entitled to receive as a member of the Corporate Governance Committee.

(2) As President and CEO, Mr. Bohn does not receive directors' fees. Mr. Bohn became President and CEO effective February 1, 2021.

(3) Messrs. Brotto and Howlett and Ms. Li joined the Board on January 13, 2021.

(4) Messrs. Coté, Davis and Reid retired from the Board effective January 13, 2021.

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

(6) Includes fees for attending meetings of the Sub-Committee.

(7) Mr. Duffey joined the Board on January 7, 2021.

(8) Mr. Sheikh retired from the Board effective January 6, 2021.

(9) As the former President and CEO, Mr. Wilson did not receive any directors' fees. Mr. Wilson retired effective January 31, 2021.

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

EXECUTIVE COMPENSATION

The executive compensation program at NAV CANADA consists of the following elements (referred to as the total compensation program):

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

The compensation of executive officers, 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 recommended by the Human Resources & Compensation Committee and reviewed and approved by the Board. 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, responsibilities and experience level. Base salaries are reviewed annually by the Human Resources & Compensation Committee.

Base salaries for fiscal 2021 for the five highest paid executive officers were as follows:

NAME AND POSITION	ANNUAL BASE SALARY
Raymond G. Bohn, President and CEO	$414,348
Alexander N. Struthers, Vice President and Chief Financial Officer	$340,955
Mark Cooper, Vice President, Chief Technology and Information Officer	$318,250
Donna Mathieu, Vice President, Chief Investment Officer and Treasurer	$297,540
Leigh Ann Kirby, Vice President, Chief Legal Officer and Corporate Secretary	$270,655

ETHICAL BUSINESS CONDUCT

The Code of Conduct 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 2021, no proceedings were taken against any director or officer by the Board under the Code of Conduct.

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 the Code of Business Conduct are available on the Company's website and on SEDAR at **www.sedar.com**. The Corporate Governance Committee has responsibility for reviewing with the Board and management the results of an annual review of compliance with the Code of Conduct.

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 towards the Company, must file a written declaration to this effect with the Company. No director or officer who is in such a position may participate in the consideration of any transaction or agreement in which such other entity has an interest.

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

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

ADVISORY COMMITTEE

The Advisory Committee is engaged year-round and typically meets three times annually to review NAV CANADA activities and initiatives and make recommendations to the Company’s Board of Directors. Two meetings are strategically aligned with major NAV CANADA events in Ottawa to enable efficient and productive interactions with the senior leadership team and the Board. An October meeting is scheduled with the Board of Director's Safety Committee and a January meeting is held in conjunction with the NAV CANADA Annual General Meeting (AGM). The third meeting is normally held in various regions across the country to allow the members of the Advisory Committee to observe and understand NAV CANADA’s operations in the regions and meet with stakeholders in their local area. Over the past six years, the Advisory Committee has visited the Okanagan (Kelowna), Winnipeg, Vancouver, Whitehorse, St. John’s and Toronto. However, as with most routines since January 2020, the pandemic has forced the NCAC meetings to be conducted virtually with members participating remotely.

"The NAV CANADA Advisory Committee (NCAC) has played a vital role within the privatized governance model of NAV CANADA and continues to add considerable value and credibility to the Company. The Committee consists of twenty selected industry stakeholders who are nominated for a 3-year term to represent key aviation councils, associations and unions across the country.

Despite the challenge of not meeting in person, much progress has been made within the Committee. This is especially relevant in the areas of stakeholder relations and customer collaboration.

Under the proactive leadership of Heather McGonigal, Assistant Vice President, Stakeholder Relations & Communications, numerous exchanges have been transparent and productive, providing advances in this area. One area of particular interest to the NCAC is improving the aeronautical study process as it relates to levels of service. The process and template were developed when NAV CANADA was privatized in 1996, and given that the aviation industry has evolved considerably since then, the Advisory Committee sees opportunities for further innovation and refined applicability in the aeronautical study process.

This year, the NCAC established a Safety Sub-Committee (SSC) to assist in providing further inputs into the air navigation service provider's (ANSP) Safety Management System through the Vice-President & Chief Safety and Quality Officer, Diana Kelly. Aligning stakeholder and ANSP hazard identification and prioritizing risks are included in the terms of reference for the NCAC SSC.

The NCAC will also continue its engagement with the NAV CANADA executive team on important topics such as the COVID recovery plan, level of service, service delivery, staffing and its impact on performance, fatigue management, capacity definition, new projects and initiatives, technological advances and much more.

An area of particular interest to the NCAC is remotely-piloted aircraft systems (RPAS) and RPAS traffic management (RTM). When the NCAC was formed after the privatization of air navigation services, it did not include drone subject matter experts, as drone technology was in its infancy at that time. Therefore, the NCAC is proactively filling the gap by expanding its meeting guest list to include industry drone experts. NAV CANADA has been doing brilliant work with this rapidly expanding industry in conjunction with the federal regulator. The recently developed NAV CANADA Drone application is an exceptionally impressive tool that has clearly taken significant time, expertise and resources to develop. With the rapid development of the drone industry, the NCAC will be focusing on four areas:

- RPAS and RTM safety and security;
- Integration of RTM systems and traditional air traffic in NAV CANADA's airspace;
- Safe surveillance using existing radar, transponders, and automatic dependent surveillance–broadcast (ADS-B) – especially beyond the visual line of sight;
- NAV CANADA drone user and service fees.

Overall, the NCAC is pleased with its increased collaboration with the senior executive team and enhanced engagement with the Board. NAV CANADA has once again done an outstanding job managing the many challenges it has faced over the past year. As we look forward to increased air traffic, the NCAC will continue its engagement with NAV CANADA, adding value to the Company and the aviation industry. Congratulations to NAV CANADA on another successful year of delivering world class, safe and effective air navigation services in these difficult times.

Given that this will be my final report as Chairman of the Advisory Committee, I would like to close by extending a sincere thank you to Marc Courtois and the Board of Directors for being so open and supportive of advancing communications and direct contact between the NCAC and the Board. This appreciation also extends to Ray Bohn, Ben Girard, Heather McGonigal, Jeff Dawson and the entire executive team, as the improved stakeholder relations and collaboration is clear and value-added for "both ends of the mic."

Onward through the curves,

David Deere
Chairman 2017-2021
NAV CANADA Advisory Committee

ADVISORY COMMITTEE 2021

ADVISORY COMMITTEE MEMBER	NOMINATING ASSOCIATION
David Deere, *Chair* WestJet	Commercial User National Airlines Council of Canada NACC
Brett Patterson, *Vice Chair* Canadian Airports Council (CAC)	National Airports Association
David J. Nowzek, *Secretary* British Columbia Aviation Council (BCAC)	Regional Aviation Associations
Les Aalders Air Transport Association of Canada (ATAC)	Air Transport Association of Canada
Robert Astwood Manitoba Aviation Council (MAC)	Regional Aviation Associations
Doug Best Canadian Air Traffic Control Association (CATCA) Unifor Local 5454	Unions
Peter Black Air Line Pilots Association (ALPA), International	Professional Pilots Association
Daniel Cadieux Air Canada Pilots Association (ACPA)	Professional Pilots Association
Paul Cameron International Brotherhood of Electrical Workers (IBEW) Local 2228	Unions
Chris Drossos Northern Air Transport Association (NATA)	Regional Aviation Associations
Christine Gervais Canadian Owners and Pilots Association (COPA)	Recreational and Non-Commercial Aviation Association
Fred L. Jones Helicopter Association of Canada (HAC)	National Helicopter Association
Janet Keim Saskatchewan Aviation Council (SAC)	Regional Aviation Associations
Paul McGraw Airlines for America (A4A)	Foreign Air Operators Associations
Jeff Miller International Air Transport Association (IATA)	Foreign Air Operators Associations
Anthony Norejko Canadian Business Aviation Association (CBAA)	Non-Commercial User Association
Elizabeth O'Hurley Air Traffic Specialists Association of Canada (ATSAC) Unifor Local 2245	Unions
Duane Riddell Airport Management Council of Ontario (AMCO)	Regional Airports Associations
Bram Tilroe Alberta Aviation Council (AAC)	Regional Aviation Associations
Todd Tripp Regional Community Airports of Canada (RCAC)	Member-at-Large

OFFICERS AND OTHER INFORMATION

Raymond G. Bohn
President and Chief Executive Officer

Mark Cooper
Vice President, Chief Technology and Information Officer

Ben Girard
Vice President and Chief of Operations

Diana Kelly
Vice President, Chief Safety and Quality Officer

Leigh Ann Kirby
Vice President, Chief Legal Officer and Corporate Secretary

Donna Mathieu
Vice President, Chief Investment Officer and Treasurer

Maura McKinnon
Vice President and Chief Human Resources Officer

Alexander N. Struthers
Vice President and Chief Financial Officer

As of August 31, 2021.

To learn more about NAV CANADA's Executive Team and Corporate Governance, visit our website at **www.navcanada.ca**

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:
communicationsnav@navcanada.ca

General inquiries can also be made by calling 1-800-876-4693, or by visiting our website at **www.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 **www.sedar.com**.

NOTICE OF ANNUAL MEETING

The Annual Meeting of the Members of NAV CANADA will be held on Wednesday, January 12, 2022, at 2 p.m. (ET) in Ottawa, Ontario.

MANAGEMENT'S REPORT AND

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED AUGUST 31, 2021 AND 2020

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 the 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.

Raymond G. Bohn
President and Chief Executive Officer

October 21, 2021

Alexander N. Struthers
Vice President
and Chief Financial Officer

October 21, 2021

INDEPENDENT AUDITORS' REPORT

To the Members of NAV CANADA:

Opinion

We have audited consolidated financial statements of NAV CANADA (the Entity), which comprise:

- the consolidated statements of financial position as at August 31, 2021 and August 31, 2020
- the consolidated statements of operations for the years then ended
- the consolidated statements of comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at August 31, 2021 and August 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management’s Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors’ report thereon, included in a document likely to be entitled “Annual Report”.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada
October 21, 2021

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

	Notes	2021	2020
Revenue			
Customer service charges	4	$ 815	$ 930
Other revenue	4	55	70
		870	1,000
Operating expenses			
Salaries and benefits	5	837	942
Technical services		161	139
Facilities and maintenance		59	66
Depreciation and amortization	10, 11	156	157
Other		65	67
		1,278	1,371
Other (income) and expenses			
Finance income	6	(2)	(3)
Net interest expense relating to employee benefits	14	55	62
Other finance costs	6	113	179
Other		10	3
		176	241
Net loss, before income tax and net movement in regulatory deferral accounts		(584)	(612)
Income tax recovery		(7)	(28)
Net loss, before net movement in regulatory deferral accounts		(577)	(584)
Net movement in regulatory deferral accounts related to net loss, net of tax	7	577	584
Net income (loss), after net movement in regulatory deferral accounts	1	$ -	$ -

See accompanying notes to consolidated financial statements.

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

	Notes	2021	2020
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	14	933	367
Net movement in regulatory deferral accounts related to other comprehensive income	7	(933)	(367)
		-	-
Items that will be reclassified to income or (loss)			
Amortization of loss on cash flow hedges		1	1
Changes in fair value of cash flow hedges		3	(4)
Net movement in regulatory deferral accounts related to other comprehensive income	7	(4)	3
		-	-
Total other comprehensive income (loss)		-	-
Total comprehensive income (loss)	1	$ -	$ -

See accompanying notes to consolidated financial statements.

NAV CANADA
Consolidated Statements of Financial Position
As at August 31
(millions of Canadian dollars)

	Notes	2021	2020
Assets			
Current assets			
Cash and cash equivalents		$ 319	$ 689
Accounts receivable and other	8	106	70
Investments	9	73	218
Other		10	9
		508	986
Non-current assets			
Property, plant and equipment	10	717	740
Intangible assets	11	819	874
Investment in preferred interests	12, 15	299	336
Long-term receivables		116	4
Investment in equity-accounted investee		7	7
Employee benefits		-	4
		1,958	1,965
Total assets		2,466	2,951
Regulatory deferral account debit balances	7	1,714	2,112
Total assets and regulatory deferral account debit balances		$ 4,180	$ 5,063

See accompanying notes to consolidated financial statements.

NAV CANADA
Consolidated Statements of Financial Position
As at August 31
(millions of Canadian dollars)

	Notes	2021	2020
Liabilities			
Current liabilities			
Bank loan		$ -	$ 223
Trade and other payables		204	262
Current portion of long-term debt	13	25	275
Deferred revenue		8	4
Other current liabilities		3	6
		240	770
Non-current liabilities			
Long-term debt	13	2,487	2,013
Employee benefits	14	1,266	2,042
Deferred tax liabilities	12	12	21
Lease liability		-	3
Other non-current liabilities		1	2
		3,766	4,081
Total liabilities		4,006	4,851
Equity			
Retained earnings		28	28
Total equity		28	28
Total liabilities and equity		4,034	4,879
Regulatory deferral account credit balances	7	146	184
Commitments and contingencies	16, 17		
Total liabilities, equity and regulatory deferral account credit balances		$ 4,180	$ 5,063

See accompanying notes to consolidated financial statements.

On behalf of the Board:

M. A. Courtois

Marc Courtois, Director

Linda Hohol

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, 2019	$ 28	$ -	$ 28
Net income (loss), after net movement in regulatory deferral accounts	-	-	-
Other comprehensive income (loss)	-	-	-
Balance August 31, 2020	$ 28	$ -	$ 28
Balance August 31, 2020	$ 28	$ -	$ 28
Net income (loss), after net movement in regulatory deferral accounts	-	-	-
Other comprehensive income (loss)	-	-	-
Balance August 31, 2021	$ 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	2021	2020
Cash flows from (used in)			
Operating			
Receipts from customer service charges		$ 652	$ 956
Other receipts		47	66
Government grants received	18	115	86
Payments to employees and suppliers		(1,038)	(1,035)
Pension contributions - current service	14	(107)	(89)
Other post-employment payments		(8)	(9)
Interest payments		(89)	(73)
Interest receipts		3	2
		(425)	(96)
Investing			
Capital expenditures		(85)	(132)
Proceeds from sale of property, plant and equipment		4	-
Proceeds from maturity (purchase) of short-term investments		145	(145)
		64	(277)
Financing			
Net proceeds from issuance of long-term debt	13	498	845
Repayment of long-term debt	13	(275)	(25)
Net proceeds from (repayment of) bank loans	13	(223)	215
Payment of lease liabilities		(3)	(3)
Debt service reserve fund		-	(1)
		(3)	1,031
Cash flows from (used in) operating, investing and financing activities		(364)	658
Effect of foreign exchange on cash and cash equivalents		(6)	1
Increase (decrease) in cash and cash equivalents		(370)	659
Cash and cash equivalents at beginning of year		689	30
Cash and cash equivalents at end of year		$ 319	$ 689

See accompanying notes to consolidated financial statements.

1. General information

NAV CANADA was incorporated as a non-share capital corporation pursuant to Part II of the *Canada Corporations Act* to acquire, own, manage, operate, maintain and develop the Canadian civil air navigation system (the ANS), as defined in the *Civil Air Navigation Services Commercialization Act* (the ANS Act). NAV CANADA has been continued under the *Canada Not-for-profit Corporations Act*. The fundamental principles governing the mandate conferred on NAV CANADA by the ANS Act include the right to provide civil air navigation services and the exclusive ability to set and collect customer service charges for such services. NAV CANADA and its subsidiaries' (collectively, the Company) core business is to provide air navigation services, which is the Company's only reportable segment. The Company's air navigation services are provided primarily within Canada.

The charges for civil air navigation services provided by the Company are subject to the economic regulatory framework set out in the ANS Act. The ANS Act provides that the Company may establish new charges and amend existing charges for its services. In establishing new charges or revising existing charges, the Company must follow the charging principles set out in the ANS Act. These principles prescribe that, among other things, charges must not be set at levels which, based on reasonable and prudent projections, would generate revenue exceeding the Company's current and future financial requirements in relation to the provision of civil air navigation services. Pursuant to these principles, the Board of Directors of the Company (the Board), acting as rate regulator, approves the amount and timing of changes to customer service charges.

The Company plans its operations to result in an annual financial breakeven position on the consolidated statements of operations after recording adjustments to the rate stabilization account. As a result, the Company expects no net change in retained earnings on an annual basis. The impacts of rate regulation on the Company's audited consolidated financial statements (the financial statements) are described in note 7.

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.

(a) Impact of COVID-19

Air traffic levels, as measured by weighted charging units (a measure of the number of billable flights, aircraft size and distance flown in Canadian airspace and the basis for movement-based service charges), increased in the fourth quarter of the fiscal year ended August 31, 2021 (fiscal 2021), as compared to the fiscal year ended August 31, 2020 (fiscal 2020). The increase in air traffic levels is as a result of an increase in passenger demand as travel restrictions imposed by governments are beginning to ease and as international borders gradually re-open. It is expected that the COVID-19 pandemic and resulting economic contraction will continue to have a significant negative impact on global air traffic and the aviation industry in the near-term and the post-pandemic economic recovery is likely to be gradual and may be uneven.

The Company continues to review, monitor and manage spending, while at the same time ensuring the continued fulfillment of the Company's mandate to safely operate and maintain the Canadian air navigation system as an essential service and to protect the safety and well-being of its employees, while positioning itself to support a post-pandemic recovery in air travel.

2. Basis of presentation

(a) Statement of compliance

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

These financial statements include the accounts of all NAV CANADA subsidiaries and were authorized for issue by the Board on October 21, 2021.

(b) Basis of measurement

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

- financial instruments that are classified as fair value through profit or loss (FVTPL), which are measured at fair value; and
- defined benefit liabilities that are recognized as the net of the present value of defined benefit obligations and plan assets measured at fair value.

(c) Functional and reporting currency

These 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 dollar unless otherwise indicated.

(d) Critical accounting estimates and judgments

The preparation of these 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) Key sources of estimates and assumption uncertainties

- Fair value of investment in preferred interests

  The Company's investment in preferred interests in Aireon LLC (Aireon) is accounted for as a financial instrument and designated as FVTPL. Fair value is determined using a discounted cash flow model, which considers the present value of expected future payments, discounted using a risk-adjusted discount rate. The cash flow projections reflect the continued impact of the COVID-19 pandemic on international air traffic and the resulting impact on Aireon's operations and revenue. The critical assumptions and estimates used when determining the fair value are:

  (a) discount rates – the discount rate range used is 15% - 17%, which is generally consistent with discount rates used by other investors in preferred and common equity interests of Aireon; and

  (b) expected timing and amount of future dividend payments – the timing and amount of the payments based on Aireon's forecasted after-tax dividend payment schedule has been adjusted to reflect the impact of COVID-19.

2. Basis of presentation (continued)

(d) Critical accounting estimates and judgments (continued)

(i) Key sources of estimates and assumption uncertainties (continued)

- 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

There have been no new standards, amendments or interpretations adopted by the Company effective September 1, 2020.

(f) Future accounting pronouncements

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

The amendments described below are applicable for reporting periods beginning on or after January 1, 2023. The extent of the impact of these amendments on the Company has not yet been determined.

IAS 8 Definition of Accounting Estimates

In February 2021, the IASB published Definition of Accounting Estimates (Amendments to IAS 8) to introduce a definition of accounting estimates and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.

IAS 1 Disclosure of Accounting Policies

In February 2021, the IASB issued Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements.

(g) Comparative information

Certain prior year disclosures have been updated for consistency with the current year presentation. These changes or reclassifications had no effect on the reported results.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these 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 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 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 and associates

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.

Associates are entities over which the Company is able to exert significant influence but which are not subsidiaries.

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 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 or significant influence 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.

The Company owns 50% (August 31, 2020 - 50%) of the issued and outstanding shares of Searidge Technologies Inc. (Searidge) which is owned through NAV CANADA ATM Inc. The Company has classified its investment in Searidge as an investment in a joint venture.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Investments in joint ventures and associates (continued)

As discussed in note 12, the Company is party to an arrangement with Iridium and the additional investors which allows the Company to exert significant influence over the strategic financial and operating activities of Aireon. The Company's investment in Aireon is held through NAV CANADA Satellite, Inc. This arrangement is an investment in an associate and the Company 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, 2021, 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.

(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, which are 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 designated cash flow hedges that are recognized in OCI.

(c) Financial instruments

(i) Recognition

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

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

(ii) Classification

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

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

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

(iii) Measurement

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

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

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Measurement (continued)

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

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

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

(iv) Impairment

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

(v) Derivatives and hedge accounting

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

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

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(v) Derivatives and hedge accounting (continued)

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

Cash flow hedges

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

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

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

3. Significant accounting policies (continued)

(d) Employee benefits (continued)

(i) Defined benefit plans (continued)

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 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 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 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).

3. Significant accounting policies (continued)

(e) Property, plant and equipment (continued)

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

Amounts received from third parties, with whom the Company does not have a customer relationship, related to the installation, development or construction of property, plant and equipment, are deducted from the carrying amount of the asset.

(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.

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 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 2042, which is the recovery period established by the Board, acting as the rate regulator.

3. Significant accounting policies (continued)

(f) Intangible assets (continued)

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

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

Intangible assets under development are not amortized.

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

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

3. Significant accounting policies (continued)

(g) Impairment of non-financial assets (continued)

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 statements 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 7.

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* (IFRS 14) 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 financial statements prior to adopting IFRS and elected to early adopt this standard as of September 1, 2014 when it adopted IFRS.

3. Significant accounting policies (continued)

(j) Regulatory deferral accounts (continued)

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

(k) Revenue

Revenue is measured based on the consideration specified in a contract with a customer and is recognized as the Company satisfies the performance obligations in the contract and transfers control over a product or service to a customer.

(i) Customer service charges

The majority of the Company's revenues are from customer service charges for air navigation services. 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.

The Company's general payment terms provide for payment periods of thirty days for air navigation services, but shorter payment terms are imposed where customer circumstances warrant. Our credit policies also require payments in advance or satisfactory security to be posted under certain circumstances.

(ii) Service and development contracts

Revenue is recognized as services are rendered. Revenue from a contract to provide services is generally recognized on a straight line basis over the period of service.

In general, revenue for development contracts is recognized as performance obligations are satisfied over time. Revenue is recognized by reference to the stage of completion of the contract activity at the end of the reporting date, measured using the cost-to-cost measure of progress. Under the cost-to-cost measure of progress, the extent of progress toward completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenue is recorded proportionally as costs are incurred.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increase or decrease in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In some cases, revenue is recognized at a point in time, when performance obligations are satisfied; typically upon completion of the contract.

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

3. Significant accounting policies (continued)

(k) Revenue (continued)

Contract balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable or unbilled receivables (accounts receivable and other), and customer advances and deposits (deferred revenue) on the consolidated statements of financial position.

Customer service charges are billed on a monthly basis in line with revenue recognition, resulting in accounts receivable. The exception to this are annual / quarterly charges, which generally apply to propeller aircraft and are billed annually or quarterly and deferred and recognized over the period in which services are rendered, resulting in deferred revenue.

For service and development contracts, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Depending on the timing of revenue recognition in relation to billing, it may result in accrued or deferred revenue.

(l) Leases

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

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

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

(l) Leases (continued)

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

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

(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, interest expense on leases and impairment losses recognized on financial assets. Interest expense on borrowings is recognized in net income (loss) as it accrues, 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)*; however its subsidiaries operating in Canada and other jurisdictions are subject to Canadian and foreign taxes.

(ii) Deferred taxes

Deferred tax assets and 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 liabilities are recognized for the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets and liabilities are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit or liability 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 President and 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.

(millions of dollars)

4. Revenue

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

		2021		2020
Enroute (1)	$	455	$	476
Terminal (2)		284		364
Daily / annual / quarterly (3)		22		53
North Atlantic and international communication (4)		54		37
	$	815	$	930

Air traffic levels, as measured by weighted charging units, decreased 32.7% year over year. The significant decrease in air traffic levels and associated customer service charges is due to the impact of the COVID-19 pandemic, which impacted revenue commencing in the third quarter of fiscal 2020.

(1) Charges related to air navigation services provided or made available to aircraft during the enroute phase of the flight, whether they overfly Canadian-controlled airspace or take-off and/or land in Canada. This performance obligation is satisfied at a point in time.

(2) Charges related to air navigation services provided or made available to aircraft at or in the vicinity of an airport. This performance obligation is satisfied at a point in time.

(3) Charges related to enroute and terminal air navigation services. These charges generally apply to propeller aircraft and the performance obligations are satisfied over the period in which air navigation services are made available.

(4) Charges related to certain air navigation and communication services provided or made available to aircraft while in airspace over the North Atlantic Ocean. These services are provided outside of Canadian sovereign airspace but for which Canada has air traffic control responsibility pursuant to international agreements. The international communication charges also include services provided or made available while in Canadian airspace in the north. These performance obligations are satisfied at a point in time.

The Company has one customer representing more than 10% of revenue for fiscal 2021. Revenue from that customer was $155, representing 18% of the Company's fiscal 2021 revenue. In fiscal 2020, revenue from the same customer was $233, representing 23% of the Company's fiscal 2020 revenue, and revenue from the second largest customer was $104, representing 10% of the Company's fiscal 2020 revenue. The revenue from these major customers arose from air navigation services.

Other revenue for fiscal 2021 consists primarily of service and development contracts revenue of $41 (fiscal 2020 - $50).

(millions of dollars)

5. Salaries and benefits

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

	2021	2020
Salaries and other	$ 673	$ 776
Government grant [1]	(114)	(86)
Severance and termination costs [2]	27	-
Curtailment expense (note 14)	12	-
Fringe benefits (excluding pension)	71	69
Pension current service cost	201	223
Less: capitalized salaries and benefits	(33)	(40)
	$ 837	$ 942

(1) Receipts under the Canada Emergency Wage Subsidy (CEWS) program, which the Company started to receive beginning in May 2020, have been recorded as a reduction to Salaries and benefits expenses. Refer to note 18 for more details on the CEWS program.

(2) On September 22, 2020 and December 9, 2020, the Company announced workforce reductions through the elimination of permanent jobs. The job cuts were across all departments and included operational students. These reductions were undertaken to address the significant impact of the COVID-19 pandemic on air traffic levels and associated revenues. As of August 31, 2021, severance and termination costs of $17 have been paid.

6. Finance income and other finance costs

Finance income and other finance costs for the years ended August 31 were comprised of the following:

	2021	2020
Finance income		
Interest income on financial assets at amortized cost	$ (3)	$ (2)
Net change in fair value of financial assets at FVTPL	1	(1)
	$ (2)	$ (3)
Other finance costs		
Net change in fair value of financial assets at FVTPL [1]	$ 24	$ 100
Interest expense on financial liabilities at amortized cost	91	81
Less: Capitalized borrowing costs	(2)	(2)
	$ 113	$ 179

(1) Net change in fair value of financial assets at FVTPL recognized in Other finance costs is largely related to the reduction in the fair value of the Company's investment in preferred interests of Aireon as discussed in note 12.

(millions of dollars)

7. Financial statement impact of regulatory accounting

(a) Regulatory Deferral Accounts

In accordance with disclosures required for entities subject to rate regulation, the Company's regulatory deferral account balances are as follows:

	August 31 2020	Regulatory deferral	Recovery/ reversal	August 31 2021	Recovery Period
Regulatory deferral account debit balances					
Rate stabilization account (b)	$ 255	$ 401	$ -	$ 656	1)
Derivatives	4	(3)	(1)	-	2), 8)
Deferred income tax	21	(9)	-	12	3)
Employee benefits:					
Accumulating sick leave (c)	23	2	(2)	23	4)
Other post-employment benefits re-measurements	26	(5)	(7)	14	5), 9)
Pension contributions (d)	371	147	-	518	6)
Pension re-measurements (d)	1,306	(914)	-	392	6), 9)
Supplemental pension re-measurements	38	(14)	(5)	19	5), 9)
Realized hedging transaction	68	-	(1)	67	2), 8)
Decommissioning liability	-	1	-	1	12)
Allowance for expected credit losses	-	12	-	12	13)
	$ 2,112	$ (382)	$ (16)	$ 1,714	
Regulatory deferral account (credit) balances					
Derivatives	$ (1)	$ -	$ 1	$ -	2), 8)
Employee benefits:					
Long-term disability contributions	(5)	-	(1)	(6)	7)
Change in the fair value of the investment in preferred interests	(171)	37	-	(134)	3)
Investment in equity-accounted investee	(4)	-	-	(4)	10)
Realized hedging transaction	(2)	-	1	(1)	2), 8)
Lease offset	(1)	-	-	(1)	11)
	$ (184)	$ 37	$ 1	$ (146)	

(millions of dollars)

7. Financial statement impact of regulatory accounting (continued)

(a) Regulatory Deferral Accounts (continued)

	August 31 2019	Regulatory deferral	Recovery/ reversal	August 31 2020	Recovery Period
Regulatory deferral account debit balances					
Rate stabilization account (b)	$ -	$ 255	$ -	$ 255	1)
Derivatives	-	4	-	4	2), 8)
Deferred income tax	48	(27)	-	21	3)
Employee benefits:					
Accumulating sick leave (c)	27	-	(4)	23	4)
Other post-employment benefits re-measurements	31	2	(7)	26	5), 9)
Pension contributions (d)	194	177	-	371	6)
Pension re-measurements (d)	1,653	(347)	-	1,306	6), 9)
Supplemental pension re-measurements	64	(22)	(4)	38	5), 9)
Realized hedging transaction	70	-	(2)	68	2), 8)
	$ 2,087	$ 42	$ (17)	$ 2,112	
Regulatory deferral account (credit) balances					
Rate stabilization account (b)	$ (93)	$ -	$ 93	$ -	1)
Derivatives	(1)	-	-	(1)	2), 8)
Employee benefits:					
Long-term disability contributions	(1)	-	(4)	(5)	7)
Change in the fair value of the investment in preferred interests	(274)	103	-	(171)	3)
Investment in equity-accounted investee	(3)	(1)	-	(4)	10)
Realized hedging transaction	(4)	-	2	(2)	2), 8)
Lease offset	-	(1)	-	(1)	11)
	$ (376)	$ 101	$ 91	$ (184)	

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

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

7. Financial statement impact of regulatory accounting (continued)

(a) Regulatory Deferral Accounts (continued)

2) 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.

3) 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. As discussed in note 12, the reduction in fiscal 2021 and fiscal 2020 is as a result of the change in the fair value of the Company's investment in preferred interests of Aireon.

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 7 (d) below. Pension adjustments related to the adoption of IFRS and subsequent re-measurements are deferred and considered for rate setting purposes as cash contributions to the pension funds are made.

The Company made solvency deficiency contributions of $44 for the year ended August 31, 2017 (fiscal 2017) that were deferred. During the year ended August 31, 2018, $10 was recovered and the remaining $34 is expected to be recovered through future customer service charges.

Included in the pension contribution regulatory deferral of $147 is the deferral of curtailment expense of $12 (see note 14), which is included in the net movement in regulatory deferral accounts related to net income (loss).

7) The Company recovers the annual cost of the LTD contributions to the funded plan as they are paid in cash.

8) The net movement in regulatory deferral accounts related to OCI due to changes in fair value of cash flow hedges for fiscal 2021 of $4 is comprised of $1 related to the amortization of losses on realized hedging transactions to net income (loss) and $3 to defer negative fair value adjustments related to derivatives designated as cash flow hedges.

9) The net movement in regulatory deferral accounts related to OCI due to re-measurements of employee defined benefit plans for fiscal 2021 consists of pension re-measurement gains of $914, supplemental pension re-measurement gains of $14 and other post-employment benefits re-measurement gains of $5.

10) 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).

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

12) The Company is deferring the non-cash impact of accounting for its decommissioning liability. Only actual cash payments will be included for rate setting purposes.

(millions of dollars)

7. Financial statement impact of regulatory accounting (continued)

(a) Regulatory Deferral Accounts (continued)

13) The Company is deferring the non-cash impact of accounting for lifetime expected credit losses in accordance with IFRS 9 using regulatory accounting. See note 15 for discussion of the impact on the Company's credit risk. Only write-offs of receivables, should they occur, will be included for rate setting purposes.

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

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 statements of operations:

	Years ended August 31 2021	2020
Revenue	$ 870	$ 1,000
Operating expenses	1,278	1,371
Other (income) and expenses	176	241
Income tax recovery	(7)	(28)
Net loss, before net movement in regulatory deferral accounts	(577)	(584)
Rate stabilization adjustments (b)	401	348
Other regulatory deferral account adjustments:		
Employee benefit pension contributions	147	177
Other employee benefits	(13)	(18)
Investment in preferred interests, before tax	37	103
Income tax	(9)	(27)
Allowance for expected credit losses	12	-
Other	2	1
	176	236
Net movement in regulatory deferral accounts	577	584
Net income (loss), after net movement in regulatory deferral accounts	$ -	$ -

(b) Rate Stabilization Account

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

(millions of dollars)

7. Financial statement impact of regulatory accounting (continued)

(b) Rate Stabilization Account (continued)

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

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

	Years ended August 31	
	2021	2020
Rate stabilization account (debit) credit balance, beginning of period	$ (255)	$ 93
Variances from planned results:		
Revenue lower than planned	(228)	(518)
Operating expenses lower than planned	95	194
Other (income) and expenses higher than planned	(35)	(112)
Net movement in other regulatory deferral accounts	62	123
Total variances from planned results	(106)	(313)
Initial approved adjustment [1]	(295)	(35)
Net movement in rate stabilization account recorded in net income (loss)	(401)	(348)
Rate stabilization account debit balance, end of period	$ (656)	$ (255)

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

(c) Employee benefits – accumulating sick leave debit balances

	August 31 2021	August 31 2020
Non-vesting accumulating sick leave	$ 17	$ 17
Vested accumulating sick leave	6	6
Total accumulating sick leave	$ 23	$ 23

(millions of dollars)

7. Financial statement impact of regulatory accounting (continued)

(d) Pension Contributions

Included in regulatory deferral account debit balances as at August 31, 2021 is $518 relating to the recovery through customer service charges of pension contributions (August 31, 2020 - $371). The accrued pension benefit liability, net of regulatory deferrals is as follows:

	August 31 2021	August 31 2020
Employee benefit liability	$ (876)	$ (1,643)
Less:		
Regulatory deferrals of non-cash adjustments	392	1,306
Benefit contributions less than benefit expense	$ (484)	$ (337)
Regulatory debit balances - recovery of contributions	$ 518	$ 371
Regulatory expense cumulatively less than contributions	$ 34	$ 34

The Company uses a regulatory approach to determine the net charge to net income (loss) for pension benefit costs for its funded plans. The objective of this approach is to reflect the cash cost of the funded pension plans in net income (loss) by recording an adjustment to the related regulatory deferral account. These regulatory adjustments are the difference between the pension benefit costs as determined by IAS 19 Employee Benefits and the annual going concern cash cost of the plan. Included in the regulatory deferral related to pension contributions of $518, is the recovery of $10 of solvency deficiency contributions of $44 paid in fiscal 2017. The remaining balance of $34 is expected to be recovered through future customer service charges. The funding of employee pension benefits as compared to the expense, net of regulatory adjustments, recorded in the consolidated statements of operations is summarized below.

	Years ended August 31 2021	2020
Consolidated statements of operations		
Pension current service expense [(1)]	$ 198	$ 218
Curtailment expense [(2)]	12	-
Net interest expense [(1)]	45	50
Less: Regulatory deferrals	(147)	(177)
	108	91
Company cash pension contributions		
Going concern current service	108	91
Regulatory recovery of fiscal 2017 solvency contributions	$ -	$ -

(1) For fiscal 2021, pension current service expense does not include $3 related to the Company's unfunded pension plan (fiscal 2020 - $5) and net interest expense does not include $4 related to the Company's unfunded pension plan (fiscal 2020 - $4).

(2) The Company recorded a curtailment expense on its pension benefit plans which is included in salaries and benefits expense. The curtailment expense results from workforce reductions in the first half of fiscal 2021 which resulted in a significant reduction of active employees covered by the plan.

(millions of dollars)

8. Accounts receivable and other

Accounts receivable and other were comprised of the following:

	August 31 2021	August 31 2020
Trade receivables	$ 85	$ 51
Accrued receivables and unbilled work in progress	33	15
Commodity taxes receivable	1	4
Allowance for expected credit losses [(1)]	(13)	-
	$ 106	$ 70

[(1)] The Company's exposure to credit and foreign exchange risks and to impairment losses related to accounts receivable is described in note 15.

9. Current investments

Current investments were comprised of the following:

	August 31 2021	August 31 2020
Short-term investments (a)	$ -	$ 145
Debt service reserve fund (b)	73	73
	$ 73	$ 218

(a) Short-term investments have maturities greater than three months but less than one year and are generally held to maturity.

(b) Pursuant to the Master Trust Indenture (MTI) (note 13), the Company is required to establish and maintain certain reserve funds.

(millions of dollars)

10. Property, plant and equipment

Property, plant and equipment are comprised of the following:

	Land and buildings[1]	Systems and equipment	Assets under development	Total
Cost				
Balance at August 31, 2019	$ 280	$ 714 [2]	$ 148 [2]	$ 1,142
IFRS 16 transitional amount	9	-	-	9
Additions	-	-	67	67
Transfers	5	86 [2]	(91)[2]	-
Balance at August 31, 2020	$ 294	$ 800	$ 124	$ 1,218
Balance at August 31, 2020	$ 294	$ 800	$ 124	$ 1,218
Additions	-	-	66	66
Derecognition	(1)	-	-	(1)
Disposals	-	(4)	(1)	(5)
Transfers	48	19	(67)	-
Balance at August 31, 2021	$ 341	$ 815	$ 122	$ 1,278
Accumulated depreciation				
Balance at August 31, 2019	$ 69	$ 323	$ -	$ 392
Depreciation	21	65	-	86
Balance at August 31, 2020	$ 90	$ 388	$ -	$ 478
Balance at August 31, 2020	$ 90	$ 388	$ -	$ 478
Depreciation	23	64	-	87
Disposals	-	(4)	-	(4)
Balance at August 31, 2021	$ 113	$ 448	$ -	$ 561
Carrying amounts				
At August 31, 2020	$ 204	$ 412 [2]	$ 124 [2]	$ 740
At August 31, 2021	$ 228	$ 367	$ 122	$ 717

(1) Included in Land and buildings is the right-of-use asset related to the Company's head office lease. Depreciation of $3 was recognized during fiscal 2021 (fiscal 2020 - $3). The carrying amount as at August 31, 2021 is $3 (August 31, 2020 - $6).

(2) Includes reclassification of amounts previously reported.

(millions of dollars)

11. Intangible assets

Intangible assets are comprised of the following:

	Air navigation right	Purchased software	Internally developed software	Assets under development	Total
Cost					
Balance at August 31, 2019	$ 702	$ 195	$ 258 [1]	$ 46 [1]	$ 1,201
Additions	-	-	-	39	39
Transfers	-	3	25 [1]	(28) [1]	-
Balance at August 31, 2020	$ 702	$ 198	$ 283	$ 57	$ 1,240
Balance at August 31, 2020	$ 702	$ 198	$ 283	$ 57	$ 1,240
Additions	-	-	-	25	25
Disposals	-	(5)	(4)	(9)	(18)
Transfers	-	6	23	(29)	-
Balance at August 31, 2021	$ 702	$ 199	$ 302	$ 44	$ 1,247
Accumulated amortization					
Balance at August 31, 2019	$ 125	$ 83	$ 87	$ -	$ 295
Amortization	25	19	27	-	71
Balance at August 31, 2020	$ 150	$ 102	$ 114	$ -	$ 366
Balance at August 31, 2020	$ 150	$ 102	$ 114	$ -	$ 366
Amortization	25	17	27	-	69
Disposals	-	(4)	(3)	-	(7)
Balance at August 31, 2021	$ 175	$ 115	$ 138	$ -	$ 428
Carrying amounts					
At August 31, 2020	$ 552	$ 96	$ 169 [1]	$ 57 [1]	$ 874
At August 31, 2021	$ 527	$ 84	$ 164	$ 44	$ 819

[1] Includes reclassification of amounts previously reported.

12. 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. Aireon commenced operations on March 27, 2019.

In December 2013, the November 2012 agreements were amended (the December 2013 agreements) to provide for the making of an aggregate investment of $151 CDN ($120 U.S.) in Aireon by three additional major ANSPs, namely ENAV (Italy), the Irish Aviation Authority (IAA), and Naviair (Denmark).

In May 2018, the December 2013 agreements were amended to provide for the making of an investment of $87 CDN ($69 U.S.) in Aireon by NATS.

In accordance with the governing agreements, a portion of Iridium's existing common equity interest in Aireon will be redeemed for a payment from Aireon of $151 CDN ($120 U.S.) 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 45.3% of the fully diluted common equity interests of Aireon, ENAV and NATS will each hold 11.1%, and each of IAA and Naviair will hold 5.3%, with the remaining 21.8% being retained by Iridium. This redemption is expected to occur by January 2, 2024.

As at August 31, 2021, the Company's cash investment in Aireon is $189 CDN ($150 U.S.) (August 31, 2020 - $196 CDN ($150 U.S.)). The Company is represented by five out of the eleven directors on Aireon's board of directors. As at August 31, 2021, the Company's total fully diluted common equity interest on a post conversion basis and prior to the redemption by Iridium is 37.2% (August 31, 2020 - 37.2%).

The Company's investment in preferred interests of Aireon provides for a 5% annual cumulative dividend (except for the $50 CDN ($40 U.S.) 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 2024 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 classified and measured at FVTPL as discussed in note 2(d)(i).

As at August 31, 2021, the Company measured the fair value of its investment in preferred interests of Aireon at $299 CDN ($237 U.S.) (August 31, 2020 - $336 CDN ($258 U.S.)). Included in the fair value presented in the statement of financial position are dividends receivable of $80 CDN ($64 U.S) (August 31, 2020 - $76 CDN ($58 U.S.)).

(millions of dollars)

12. Investment in preferred interests of Aireon (continued)

The Company's deferred tax assets and liabilities as at August 31, 2021 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 $70 CDN (August 31, 2020 - $67 CDN) primarily related to the fair value of the Company's investment in Aireon. The Company has recognized deferred tax assets amounting to $58 CDN (August 31, 2020 - $46 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 deferred tax assets and liabilities are presented net on the consolidated statements of financial position as a deferred tax liability as noted in the table below.

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 consolidated statements of financial position:

	August 31 2021	August 31 2020
Investment in preferred interests	$ 299	$ 336
Deferred tax liability	(12)	(21)
Financial position impact before regulatory accounting	$ 287	$ 315
Regulatory deferral account debit balances		
Deferred regulatory income tax liability	$ 12	$ 21
Regulatory deferral account credit balances		
Cumulative change in fair value of the investment in preferred interests	$ (134)	$ (171)
Net financial position impact after regulatory accounting	$ 165	$ 165

After regulatory accounting, the Company's investment in preferred interests of Aireon on the statement of financial position reflects the actual amounts paid by the Company (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 statements of operations. As a result, there is no net impact on the Company's consolidated statements of operations for the year ended August 31, 2021 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.

(millions of dollars)

12. Investment in preferred interests of Aireon (continued)

Aireon's fiscal year end is December 31. IAS 28 limits the difference between the end of the reporting period of an associate or 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, 2021 and August 31, 2020 information presented below is based on Aireon's financial position and financial performance as at June 30, 2021 and June 30, 2020, respectively. All amounts are translated from U.S. dollars.

No significant transactions occurred during the intervening periods that were necessary to adjust for in Aireon's financial information presented as at and for the year ended August 31, 2021.

	August 31 2021	August 31 2020
Current assets		
Cash and cash equivalents	$ 38	$ 40
Other current assets	22	53
Non-current assets		
Property, plant and equipment	450	521
Other non-current assets	65	3
	$ 575	$ 617
Current liabilities		
Trade and other payables	$ (7)	$ (10)
Deferred revenue	(2)	(2)
Non-current liabilities		
Financial liabilities	(1,154)	(1,137)
	$ (1,163)	$ (1,149)
Net assets	$ (588)	$ (532)

	Years ended August 31 2021	2020
Revenue	$ 109	$ 82
Interest expense	$ 90	$ 97
Depreciation	$ 51	$ 54
Net loss	$ (89)	$ (151)
Other comprehensive income	33	13
Total comprehensive loss	$ (56)	$ (138)

13. Long-term debt

As 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 MTI 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 (GOI)) that established an unsecured borrowing program that qualifies as subordinated debt under the MTI. The borrowing capacity under the GOI does not decline each year. In addition, there is no limit on the issuance of notes under the GOI so long as the Company is able to meet an additional indebtedness test.

(a) Security

The MTI established a borrowing platform secured by an assignment of revenue and the debt service reserve fund (note 9). 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 MTI obligations determined in the manner required by the MTI. 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 MTI 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 MTI, the Company is required to maintain an operations and maintenance reserve. The operations and maintenance reserve may be used to pay operating and maintenance expenses, if required. If at any fiscal year end the amount in the operations and maintenance reserve 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, OCI and unusual expenses), the Company must, at a minimum, increase the balance in the reserve to the required level over the following four fiscal quarters through additional contributions or an allocation of its committed credit facility.

The GOI is unsecured but provides a set of positive and negative covenants similar to those of the MTI. In addition, under the terms of the GOI, no further indebtedness may be incurred under the MTI; furthermore, the amount of the Company's $850 syndicated bank credit facility (note 15 (c)) that is secured under the MTI is limited to the declining amount of outstanding bonds issued under the MTI. At August 31, 2021, this amount is $400 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 $450 of the $850 credit facility ranks pari passu to the borrowings under the GOI and will increase by $25 on March 1 of each year to offset the decline in the amount secured under the MTI.

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

Pursuant to the GOI, the Company is required to maintain certain liquidity levels similar to the reserve fund requirements of the MTI. Specifically, the Company must maintain a minimum liquidity level equal to 12 months net interest expense on all debt plus 25% of the annual operating and maintenance expenses of the previous fiscal year. 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 on all debt. Cash liquidity includes cash and qualified investments held in the reserve funds maintained under the MTI.

(millions of dollars)

13. Long-term debt (continued)

(b) Debt

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

	August 31 2021	August 31 2020
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	150	175
	400	425
Issued under the General Obligation Indenture:		
$300 face value 0.937% general obligation notes, series 2021-1, maturing February 9, 2026 (1)	300	-
$200 face value 0.555% general obligation notes, series 2021-2, maturing February 9, 2024 (1)	200	-
$550 face value 2.924% general obligation notes, series 2020-1, maturing September 29, 2051	550	550
$300 face value 2.063% general obligation notes, series 2020-2, maturing May 29, 2030	300	300
$250 face value 3.209% general obligation notes, series MTN 2019-1, maturing September 29, 2050	250	250
$275 face value 3.293% general obligation notes, series MTN 2018-1, maturing March 30, 2048	275	275
$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, matured February 18, 2021 (1)	-	250
	2,125	1,875
Total bonds and notes payable	2,525	2,300
Adjusted for deferred financing costs and discounts	(13)	(12)
Carrying value of total bonds and notes payable	2,512	2,288
Less: current portion of long-term debt (2)	(25)	(275)
Total long-term debt	$ 2,487	$ 2,013

(millions of dollars)

13. Long-term debt (continued)

(b) Debt (continued)

(1) The Company issued these General Obligation Notes on February 9, 2021. The net proceeds were used to repay the $250 Series MTN 2011-1 General Obligation Notes, and the remaining proceeds are being used for general corporate purposes.

(2) The current portion of long-term debt relates to 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 on March 1 of each year until maturity on March 1, 2027.

The Company is in compliance with all covenants of the MTI and GOI as at August 31, 2021.

For information about the Company's exposure to interest rate and liquidity risk, see note 15.

14. 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	
	2021	2020	2021	2020
Statement of operations				
Current service costs	$ 201	$ 223	$ 7	$ 7
Curtailment expense	12	-	-	-
Interest cost	237	240	6	6
Interest income on plan assets	(189)	(186)	-	-
Total expense	$ 261	$ 277	$ 13	$ 13
Statement of other comprehensive income				
Re-measurements:				
Return on plan assets, excluding interest income on plan assets	$ (446)	$ (276)	$ -	$ -
Actuarial (gains) losses	(482)	(93)	(5)	2
Total (income) cost recognized in other comprehensive income (loss)	$ (928)	$ (369)	$ (5)	$ 2

Net interest costs relating to employee benefits of $55 for fiscal 2021 (fiscal 2020 - $62) are comprised of interest costs and interest income on plan assets as noted above for pension benefit plans and other benefit plans, including an additional $1 (fiscal 2020 - $2) of interest costs related to long-term sick leave benefits.

(millions of dollars)

14. Employee benefits (continued)

During fiscal 2021, the Company recorded a curtailment expense on its pension benefit plans of $12 which is included in salaries and benefits expense. The curtailment expense results from workforce reductions in the first half of fiscal 2021 which resulted in a significant reduction of active employees covered by the plan.

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

	August 31 2021	August 31 2020
Present value of funded defined benefit obligations	$ (8,192)	$ (8,441)
Fair value of plan assets	7,316	6,798
Liability for funded defined benefit obligations	$ (876)	$ (1,643)
Liability for unfunded pension defined benefit obligations	(116)	(128)
Liability for unfunded other defined benefit obligations	(224)	(224)
Recognized liability for defined benefit plans	(1,216)	(1,995)
Long-term employee benefit liabilities	(50)	(47)
Total long-term employee benefit liabilities	$ (1,266)	$ (2,042)

The most recent actuarial funding valuations were carried out as at January 1, 2021.

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, 2021 and August 31, 2020.

(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 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.

14. Employee benefits (continued)

(a) Characteristics of defined benefit plans (continued)

(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. 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.

14. Employee benefits (continued)

(a) Characteristics of defined benefit plans (continued)

(ii) The Company also maintains the NAV CANADA Executive Pension Plan (the Executive Plan) which is a non-contributory defined benefit plan covering certain 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 Executive Plan, other than direct rollover contributions on admission to the Executive 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 Executive 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.

Effective January 1, 2021 and subject to the Office of the Superintendent of Financial Institutions Canada's (OSFI) approval, the Executive Plan will be merged into the Plan, with executive pensionable service accruing before April 1, 2022 continuing to be defined by the current Executive Plan provisions, but within the Plan. With the relative sizes of the plans, the merger has minimal impact on the Plan and no impact on the Company's aggregate obligations. However, until OSFI grants its approval, the plans will continue to operate independently.

(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 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 registered pension plans and the Supplemental Plan.

On September 22, 2020, the Company announced changes to Part A of the Plan. Effective April 1, 2022, all future pensionable service for management employees currently under Part A, will be recognized under Part B. The Part B terms will also apply to executive employees currently participating in the Executive Pension Plan from the same date.

(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 OSFI by June of the same year. The January 1, 2021 funding valuation was filed with OSFI in June 2021.

Once the valuations are filed, going concern pension contributions are based on the January 1, 2021 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, 2021, including the impact of the merger, reported a going concern surplus of $1,297 (January 1, 2020 - $933) and a statutory solvency deficiency of $501 (January 1, 2020 - $192).

(millions of dollars)

14. Employee benefits (continued)

(b) Pension plan funding requirements (continued)

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

	Years ended August 31	
	2021	2020
Funded pension plan		
Going concern current service costs	$ 108	$ 91
Unfunded pension plan	4	3
Unfunded other defined benefit plans	8	9
Less: capitalized amounts	(5)	(5)
	$ 115	$ 98

On a preliminary basis, going concern pension contributions for fiscal 2022 are estimated to be $98 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, with the maximum letters of credit based on 15% of solvency liabilities. As at August 31, 2021, the Company has put in place letters of credit totaling $594 to meet its cumulative pension solvency funding requirements, including $61 in fiscal year 2021. Outstanding letters of credit represent 7% of solvency liabilities.

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.

(millions of dollars)

14. Employee benefits (continued)

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

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

	Pension benefit plans		Other benefit plans	
	2021	2020	2021	2020
Change in benefit obligations				
Defined benefit obligations at August 31, prior year	$ 8,569	$ 8,400	$ 224	$ 218
Benefits paid	(260)	(232)	(8)	(9)
Plan participants' contributions	31	31	-	-
Current service cost	201	223	7	7
Interest cost	237	240	6	6
Curtailment expense	12	-	-	-
Actuarial loss (gain) from change in demographic assumptions	-	(25)	-	1
Actuarial loss (gain) from change in financial assumptions	(461)	(157)	(9)	1
Actuarial loss (gain) arising from experience adjustments	(21)	89	4	-
Defined benefit obligations at August 31	$ 8,308	$ 8,569	$ 224	$ 224
Change in plan assets				
Fair value of plan assets at August 31, prior year	$ 6,798	$ 6,443	$ -	$ -
Return on plan assets, excluding interest income	446	276	-	-
Interest income	189	186	-	-
Employer contributions	112	94	8	9
Plan participants' contributions	31	31	-	-
Benefits paid	(260)	(232)	(8)	(9)
Fair value of plan assets at August 31	$ 7,316	$ 6,798	$ -	$ -
Net defined benefit liability	$ (992)	$ (1,771)	$ (224)	$ (224)
Liability for unfunded defined benefit obligations at August 31	$ (116)	(128)	(224)	(224)
Liability for funded defined benefit obligations at August 31	$ (876)	$ (1,643)	$ -	$ -

(millions of dollars)

14. Employee benefits (continued)

(d) Fair value measurement of pension plan assets

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

	August 31, 2021		August 31, 2020	
	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	19%	22%	19%	16%
Fixed income[1]	0%	33%	0%	38%
Real assets	0%	15%	0%	16%
Absolute return strategies	0%	6%	0%	5%
Private debt	0%	5%	0%	5%
Cash	0%	0%	1%	0%
	19%	81%	20%	80%

[1] The LDI strategy (discussed in (g) below) is comprised of a 1.9:1 leveraged portfolio of long Canadian nominal and real return bonds. Leverage is achieved largely through the use of sale and repurchase agreements. As at August 31, 2021, the strategy represented 28% of net plan assets with leverage providing an additional 25% exposure (fiscal 2020 - 26%).

(e) Actuarial assumptions

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

	Funded plans		Unfunded plans	
	August 31 2021	August 31 2020	August 31 2021	August 31 2020
Discount rate, defined benefit obligations	3.10%	2.80%	2.99%	2.69%
Discount rate, defined benefit expense	2.80%	2.90%	2.69%	2.86%
Future salary increases	2.40%	2.40%	2.40%	2.40%
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 costs were assumed for fiscal 2021 and all years thereafter.

(millions of dollars)

14. Employee benefits (continued)

(e) Actuarial assumptions (continued)

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:

	2021	2020
Longevity at age 65 for current pensioners		
Males	23.1	23.0
Females	24.9	24.8
Longevity at age 65 for current members age 45		
Males	24.0	24.0
Females	25.8	25.7

As at the annual measurement date of August 31, 2021, the weighted-average duration of the defined benefit obligation was 18.1 years (August 31, 2020 – 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.

	Change in assumption + or -	Defined benefit obligation		Benefit cost	
		Assumption increase	Assumption decrease	Assumption increase	Assumption decrease
Discount rate	0.25%	$ (371)	$ 397	$ (23)	$ 23
Salary, indexation, government benefit increases	0.25%	$ 370	$ (347)	$ 23	$ (21)
Health care trend rate	1%	$ 24	$ (20)	$ 1	$ (1)
Longevity (in years) for those currently aged 65	1 year	$ 270	$ (274)	$ 14	$ (14)

14. Employee benefits (continued)

(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, guidelines and collateral requirements.

15. Financial instruments and financial risk management

Summary of financial instruments

Financial instruments recorded at fair value on the consolidated statements 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 any transfers between levels of the fair value measurement hierarchy at the beginning of the fiscal year in which the change occurs. There have been no transfers between levels of the fair value hierarchy since August 31, 2020.

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.

(millions of dollars)

15. Financial instruments and financial risk management (continued)

Summary of financial instruments (continued)

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 approximates the fair value for all of the Company's financial instruments.

	August 31, 2021		
	Amortized Cost	FVTPL	Fair value hierarchy
Financial assets			
Cash and cash equivalents (1)	$ 319	$ -	
Accounts receivable and other	105	-	
Current investments			
Debt service reserve fund	73	-	
Investment in preferred interests (2)	-	299	Level 3
Long-term receivables (3)	116	-	
	$ 613	$ 299	
Financial liabilities			
Trade and other payables			
Trade payables and accrued liabilities	$ 201	$ -	
Other current liabilities			
Derivative liabilities (4)	-	1	Level 2
Long-term debt (including current portion)			
Bonds and notes payable (5)	2,512	-	Level 2
	$ 2,713	$ 1	

(millions of dollars)

15. Financial instruments and financial risk management (continued)

Summary of financial instruments (continued)

	August 31, 2020				
		Amortized Cost		FVTPL	Fair value hierarchy
Financial assets					
Cash and cash equivalents (1)	$	689	$	-	
Accounts receivable and other		66		-	
Current investments					
Short-term investments (6)		145		-	
Debt service reserve fund		73		-	
Investment in preferred interests (2)		-		336	Level 3
Long-term receivables		4		-	
	$	977	$	336	
Financial liabilities					
Bank loan (7)	$	223	$	-	
Trade and other payables					
Trade payables and accrued liabilities		255		-	
Other current liabilities					
Derivative liabilities (4)		-		3	Level 2
Long-term debt (including current portion)					
Bonds and notes payable (5)		2,288		-	Level 2
Other non-current liabilities					
Long-term derivative liabilities (4)		-		1	Level 2
	$	2,766	$	4	

(1) As at August 31, 2021, cash and cash equivalents include $nil of highly liquid instruments with original terms to maturity of less than three months (August 31, 2020 - $430).

(2) This instrument is recorded at fair value based on the valuation technique described in note 12.

(3) Long-term receivables include $112 of deferred payments related to the September 1, 2020 customer service charge increase as described in note 15 (b) (August 31, 2020 - $nil) and $3 loan receivable from Searidge (August 31, 2020 - $3).

(4) Current and non-current derivative assets and liabilities are recorded at fair value determined using prevailing foreign exchange market rates and interest rates at the reporting date.

(5) The fair value of the Company's bonds and notes payable is classified as Level 2 in the fair value hierarchy as it is determined using secondary market ask prices at the reporting date. As at August 31, 2021, the fair value was $2,722 (August 31, 2020 - $2,659) inclusive of accrued interest of $26 (August 31, 2020 - $27).

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

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

(millions of dollars)

15. Financial instruments and financial risk management (continued)

Level 3 financial instruments

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

	2021	2020
Fair value as at August 31	$ 336	$ 439
Net decrease in fair value (1)	(24)	(100)
Effect of foreign exchange (2)	(13)	(3)
Fair value as at August 31	$ 299	$ 336

(1) Net decrease in fair value includes accrued dividend income and is included in Other finance costs on the consolidated statements of operations.

(2) Included in Other (within Other (income) and expenses) on the consolidated statements of operations.

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

	Increase	Decrease
Number of years over which cash flow is expected (change of 1 year)	$ (38)	$ 50
Risk-adjusted discount rate (1% movement (100 basis points))	$ (25)	$ 38

Derivative financial instruments

From time to time, the Company holds forward dated interest rate swap agreements and bond and foreign exchange forward agreements to hedge risks from fluctuations in foreign exchange rates and interest rates. The time frame and manner in which the Company manages these risks varies for each item based upon the Company's assessment of the risk and available alternatives for mitigating the risk. Details of the derivative financial instruments for which the Company has applied hedge accounting are as follows:

(1) The Company holds foreign exchange forward agreements with a total notional value of $58 CDN ($45 U.S.) to hedge monthly payments to Aireon related to satellite surveillance costs for the fiscal year ending August 31, 2022 (fiscal 2022). The average contract rate is 1.274837. The carrying amount of these contracts is $1 as at August 31, 2021, which is included in current liabilities.

As at August 31, 2020, the Company held foreign exchange forward agreements to purchase a total of $59 CDN ($43 U.S.) with an average rate of 1.37151. The carrying amount of these contracts was $3 as at August 31, 2020 and is included in current liabilities.

(2) The Company holds foreign exchange forward agreements with a notional value of approximately $2 each to purchase a total of $9 CDN ($7 U.S.) to hedge payments related to the Company's insurance premiums in fiscal 2022. The average contract rate is 1.265784. The carrying amount of these contracts is $nil as at August 31, 2021.

As at August 31, 2020, the Company held foreign exchange forward agreements to purchase a total of $9 CDN ($6 U.S.) with an average rate of 1.37716. The carrying amount of these contracts was $nil as at August 31, 2020.

(millions of dollars)

15. Financial instruments and financial risk management (continued)

Derivative financial instruments (continued)

The Company's hedging relationships are subject to ineffectiveness should the timing of the forecasted transaction not occur as intended, when actual amounts significantly differ to the estimates, or as a result of changes in counterparty risk. For the years ended August 31, 2021 and 2020, the derivatives designated as cash flow hedges were considered to be fully effective and no ineffectiveness has been recognized in net income (loss).

For the year ended August 31, 2021, a gain of $3 was recorded in OCI (August 31, 2020 - loss of $4).

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 2021	August 31 2020
Floating rate financial assets		
Cash and cash equivalents	$ 319	$ 259
Debt service reserve fund investments	73	73
Total floating rate financial assets	$ 392	$ 332
Fixed rate financial assets		
Cash and cash equivalents	$ -	$ 430
Short-term investments	-	145
Total fixed rate financial assets	$ -	$ 575
Floating rate financial liabilities		
Bank loan	$ -	$ 223
Fixed rate financial liabilities		
Bonds and notes payable [(1)]	$ 2,512	$ 2,288

[(1)] Bonds and notes payable includes both short-term and long-term portion.

(millions of dollars)

15. Financial instruments and financial risk management (continued)

Financial risk management (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued)

Instruments 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 $4 in the Company's earnings before rate stabilization adjustments (August 31, 2020 - $1).

The Company does not account for any fixed rate financial assets or liabilities as FVTPL. 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.

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 2051 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. The Company has not entered into any derivative contracts to manage interest rate risk as at August 31, 2021.

(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. The Company does not have a significant exposure arising from other currencies.

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

	August 31 2021		August 31 2020	
	CDN	U.S.	CDN	U.S.
Financial assets				
Current				
Cash and cash equivalents	$ 2	$ 1	$ 6	$ 5
Non-current				
Investment in preferred interests	299	237	336	258
Other non-current assets	1	1	1	1
	$ 302	$ 239	$ 343	$ 264
Financial liabilities				
Current				
Trade and other payables	$ 5	$ 4	$ 10	$ 7
Net exposure	$ 297	$ 235	$ 333	$ 257

15. Financial instruments and financial risk management (continued)

Financial risk management (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk (continued)

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, 2021, the Company has designated $1 (fair value) of its forward contracts as cash flow hedging instruments. Refer to the *Derivative financial instruments* section for further details. These instruments are not included in the table above.

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, 2021, 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 $29 (August 31, 2020 - $31).

(iii) Other price risk

The fair value of the Company's investment in preferred interests of Aireon was determined using a discounted cash flow model. The estimated fair value of the investment may change in subsequent periods. Any such changes could be material and would be reflected in the statement of operations as they occur. A sensitivity analysis with respect to changes in the unobservable inputs to the valuations is discussed in the *Level 3 financial instruments* section above.

Aireon provides global satellite-based surveillance capability for air navigation service providers around the world. The following risks have been identified with respect to the Company's investment in preferred interests of Aireon:

- the global reduction in air traffic as a result of the COVID-19 pandemic and travel restrictions put in place;
- the expectation that air traffic may not return to pre COVID-19 levels for some time, which will impact Aireon's revenue where billings are volumetric and reflect air traffic movements; and
- the Company's receipt of dividends will therefore be delayed.

(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, 2021 represents the carrying amount of cash, accounts receivable, reserve funds, investments and forward contracts to purchase or sell foreign currencies.

15. Financial instruments and financial risk management (continued)

Financial risk management (continued)

(b) Credit risk (continued)

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 and all have long-term ratings of either AAA or AA or short-term ratings in the highest category. Based on default rates and loss ratios for investment-grade bonds with similar maturities, any loss allowance is not significant and therefore none has been recognized.

Historically, 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 revised its customer service charges effective September 1, 2020, increasing customer service charges by an average of 29.5% on base rate levels. The customer service charge increase included provisions to ease the cash flow burden of the increase on customers through payment deferral mechanisms. For the Company's fiscal 2021, the portion of monthly invoices related to the customer service charge increase could be deferred and will become payable by customers in equal installments over the next five fiscal years, beginning in fiscal 2022. These provisions increase the Company's exposure to credit risk as payments required in advance and security deposits under the Company's credit policies may not be sufficient to cover potential losses.

The Company establishes an allowance for expected credit losses that represents its estimate of lifetime expected credit losses to be incurred in respect of accounts receivable. Given the high degree of uncertainty caused by the COVID-19 pandemic, the estimates and judgments made by management in the preparation of the expected credit loss allowance are subject to estimation uncertainty. Based on the Company's current estimates and assumptions, including but not limited to current and forecasted economic and credit conditions as well as recent trends for customer collections, the Company recorded an expected credit loss allowance of $13 during the year ended August 31, 2021. There were no significant balances past due.

(millions of dollars)

15. Financial instruments and financial risk management (continued)

Financial risk management (continued)

(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 MTI and GOI, the Company is required to maintain certain reserve funds and liquidity levels, as described in note 13.

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 2021
Credit facilities for general purposes:		
Credit facility with a syndicate of Canadian financial institutions (1) (2)	$	850
Less: Outstanding letters of credit for other purposes (2)		2
Undrawn committed borrowing capacity		848
Less: Operations and maintenance reserve allocation (3)		275
Available for unrestricted use	$	573
Credit facilities for pension funding purposes:		
Letter of credit facilities for pension funding purposes (4)	$	621
Less: Outstanding letters of credit for pension funding purposes (4)		594
Undrawn committed borrowing capacity	$	27

(1) The Company's credit facility with a syndicate of Canadian financial institutions in the amount of $850 was comprised of two equal tranches maturing on March 26, 2024 and March 26, 2026, respectively. 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. 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, 2021.

(2) At August 31, 2021, $2 was drawn from an uncommitted revolving credit facility. In connection with this facility, an allocation of $25 with a Canadian financial institution has been made under its $850 committed credit facility.

(3) The Company is required to maintain a reserve of at least 25% of its prior year's annual operating and maintenance expenses, as defined in the MTI. At August 31, 2021, the Company met this requirement with an allocation of $275 in undrawn availability under its committed credit facility. Subsequent to August 31, 2021, the allocation amount was reduced to $257 based on actual fiscal 2021 operating and maintenance expenses.

(4) The letter of credit facilities for pension funding purposes are comprised of four facilities with Canadian financial institutions, which will mature on December 31, 2021, unless extended.

(millions of dollars)

16. Commitments

(a) Future payments under commitments and financial liabilities

The following table presents a maturity analysis of the Company's undiscounted contractual cash flows for its financial liabilities as at August 31, 2021:

	Remaining payments – for years ending August 31						
	Total	2022	2023	2024	2025	2026	Thereafter
Trade payables and accrued liabilities [1]	$ 177	$ 177	$ -	$ -	$ -	$ -	$ -
Derivative liabilities	1	1	-	-	-	-	-
Long-term debt (including current portion) [2], [3]	2,525	25	25	225	25	325	1,900
Interest payments [3]	1,410	82	80	78	75	72	1,023
Related party loan [4]	14	14	-	-	-	-	-
	$ 4,127	$ 299	$ 105	$ 303	$ 100	$ 397	$ 2,923

(1) To address the significant impacts of the COVID-19 pandemic, the Company has negotiated concessions, largely payment deferrals, with several vendors.

(2) Payments represent principal of $2,525. 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.

(3) Further details on interest rates and maturity dates on long-term debt are provided in note 13 to these financial statements.

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

(b) Capital commitments

The Company has firm commitments for the acquisition of property, plant and equipment and intangible assets amounting to $124 as at August 31, 2021 (August 31, 2020 - $108). The following table presents a maturity analysis of these contractual commitments:

	Remaining payments – for years ending August 31						
	Total	2022	2023	2024	2025	2026	Thereafter
Capital commitments	$ 124	$ 65	$ 11	$ 12	$ 8	$ 5	$ 23

(millions of dollars)

16. Commitments (continued)

(c) Leases

The Company's lease agreements primarily convey to the Company the right to use office space and have lease terms ranging from 2 to 20 years. The Company has entered into a commitment for the lease of head office space commencing in the fiscal year ending August 31, 2023. The annual commitment is approximately $3 with a term of 20 years. The current head office lease is set to expire on October 31, 2022.

Lease liabilities and future lease liabilities are as follows:

	Remaining payments – for years ending August 31						
	Total	2022	2023	2024	2025	2026	Thereafter
Lease liability	$ 3	$ 3	$ -	$ -	$ -	$ -	$ -
Future lease liability	59	-	2	3	3	3	48
	$ 62	$ 3	$ 2	$ 3	$ 3	$ 3	$ 48

(d) Letters of credit

As at August 31, 2021, the outstanding letters of credit of $596 (note 15 (c)) is comprised of $594 drawn for pension solvency funding purposes (note 14) and $2 for other purposes.

17. 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:

<u>Provision of service and system sales</u>

(i) The Company has entered into four 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. The Company's ANS liability insurance provides coverage for these indemnification commitments. These indemnities survive termination of the agreements.

17. Contingencies (continued)

(b) Indemnification commitments (continued)

Provision of service and system sales (continued)

(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 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, up to a maximum. 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 financial statements with respect to these indemnification commitments.

18. 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 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.

In fiscal 2020, the Company applied for the CEWS offered by the Government of Canada to help businesses keep workers on their payroll through the challenges posed by the COVID-19 pandemic. In November 2020, the Government of Canada extended the subsidy to June 2021. In June and July 2021, the Government of Canada announced further extensions of the program, now set to end October 23, 2021. As discussed in note 5, the Company received $114 in subsidies under the CEWS (August 31, 2020 - $86) and intends to continue its participation in the CEWS program, subject to meeting the eligibility requirements.

(millions of dollars)

18. Transactions with the Government of Canada (continued)

In April 2021, the Company applied for the Canada Emergency Rent Subsidy (CERS) offered by the Government of Canada to help businesses experiencing a drop in revenue to cover part of their commercial rent or property tax expenses during the COVID-19 pandemic. Under CERS, the Company is eligible to claim eligible expenses up to a maximum of 75,000 dollars per business location or 300,000 dollars in total for all locations, until October 23, 2021. During the year ended August 31, 2021, the Company received and recognized $1 from the CERS program as a reduction to Facilities and maintenance in the consolidated statements of operations.

19. Related party transactions

The Company's related parties include its key management personnel, subsidiaries, joint ventures and associates 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 Committee. Key management personnel compensation included in the Company's net income (loss) for the years ended August 31 was comprised of the following:

	2021	2020
Salaries and other benefits	$ 4	$ 7
Defined benefits, including pension benefits	2	3
Termination benefits [1]	-	4
Management incentive plan	1	1
Other long-term benefits	2	1
Total compensation	$ 9	$ 16

(1) The Company announced changes to its executive team on August 24, 2020, reducing the Executive Management Committee from thirteen to nine members effective September 1, 2020.

There were no loans provided to key management personnel during fiscal 2021.

Transactions with joint ventures and associates

As discussed in note 12, the Company has a participation in Aireon. This participation has been classified as an investment in associate since the Company is able to exert significant influence over Aireon's strategic financial and operating activities. The Company also has a 50% interest in Searidge. This interest has been classified as a joint venture.

(millions of dollars)

19. Related party transactions (continued)

Transactions with joint ventures and associates (continued)

The Company's transactions for the years ended August 31 with both parties were comprised of:

	2021	2020
Dividend income	$ (12)	$ (13)
Cost recoveries	-	1
Purchase of data services [1]	55	38
Hardware and software purchases	-	1
Total	$ 43	$ 27

[1] The Company has a 12-year commitment with Aireon to purchase data services, which commenced in March 2019. The estimated total remaining commitment is $567 CDN ($440 U.S.).

Outstanding balances as at August 31 were:

	2021	2020
Dividends receivable	$ 80	$ 76
Long-term loan receivable	3	3
Total	$ 83	$ 79

The Company also entered into an agreement with Aireon in January 2020 to provide a subordinated loan up to a total of $14 CDN ($11 U.S.).

Transactions with registered pension plans

The Company's transactions with its registered pension plans include contributions paid to the plans and letters of credit for pension solvency funding purposes, which are disclosed in note 14, reimbursements from the Plan for certain costs in the amount of $10 for fiscal 2021 (fiscal 2020 - $14) and receivables from the Plan in the amount of $9 for fiscal 2021 (fiscal 2020 - $6).

(millions of dollars)

20. 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 balances under certain employee benefit plans. 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 2021	August 31 2020
Bonds and notes payable (note 13)	$ 2,512	$ 2,288
Equity:		
Retained earnings	28	28
Regulatory deferral accounts:		
Debit balances (note 7)	(1,714)	(2,112)
Credit balances (note 7)	146	184
Employee benefits (note 14):		
LTD asset	-	(4)
Liability for funded pension benefits	876	1,643
Liability for accumulating sick leave	17	16
Total capital	$ 1,865	$ 2,043

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, 2021.

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