Management's Report and

Audited Consolidated Financial Statements of

NAV CANADA

Years ended August 31, 2016 and 2015

MANAGEMENT'S REPORT TO THE MEMBERS OF NAV CANADA

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

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

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

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

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

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

(Signed) "Neil R. Wilson"
Neil R. Wilson
President and Chief Executive Officer

October 27, 2016

(Signed) "Brian K. Aitken"
Brian K. Aitken
Executive Vice President, Finance
and Chief Financial Officer

October 27, 2016

INDEPENDENT AUDITORS' REPORT

To the Members of NAV CANADA:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

(Signed) KPMG LLP
Chartered Professional Accountants, Licensed Public Accountants
Ottawa, Canada

October 27, 2016

NAV CANADA

Consolidated Statements of Operations

Years ended August 31

(millions of Canadian dollars)

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

See accompanying notes to consolidated financial statements.

NAV CANADA

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

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

See accompanying notes to consolidated financial statements.

NAV CANADA

Consolidated Statements of Financial Position

(millions of Canadian dollars)

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

See accompanying notes to consolidated financial statements.

NAV CANADA

Consolidated Statements of Financial Position

(millions of Canadian dollars)

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

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(Signed) "Marc Courtois"
Marc Courtois, Director

(Signed) "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 September 1, 2014	$ 28	$ -	$ 28
Net income (loss) and net movement in regulatory deferral accounts	-	-	-
Other comprehensive income (loss)	-	-	-
Balance August 31, 2015	$ 28	$ -	$ 28
Balance August 31, 2015	$ 28	$ -	$ 28
Net income (loss) and net movement in regulatory deferral accounts	-	-	-
Other comprehensive income (loss)	-	-	-
Balance August 31, 2016	$ 28	$ -	$ 28

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

1. Reporting entity:

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

The charges for civil air navigation services provided by the Company are subject to the economic regulatory framework set out in the ANS Act. The ANS Act provides that the Company may establish new charges and amend existing charges for its services. In establishing new charges or revising existing charges, the Company must follow the charging principles set out in the ANS Act. These principles prescribe that, among other things, charges must not be set at levels which, based on reasonable and prudent projections, would generate revenue exceeding the Company's current and future financial requirements in relation to the provision of civil air navigation services. Pursuant to these principles, the Board of Directors of the Company (the Board), acting as rate regulator, approves the amount and timing of changes to customer service charges. The impacts of rate regulation on the Company's consolidated financial statements are described in note 9.

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

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

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

2. Basis of presentation:

(a) Statement of compliance:

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

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

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

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

2. Basis of presentation (continued):

(b) Basis of measurement:

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

- financial instruments that are classified and designated as either fair value through profit or loss or available for sale, which are measured at fair value; and
- defined benefit liabilities that are recognized as the net of the present value of defined benefit obligations and plan assets measured at fair value.

(c) Functional and reporting currency:

These consolidated financial statements are presented in Canadian dollars (CDN), which is the Company's functional and reporting currency. All information presented has been rounded to the nearest million dollars unless otherwise indicated.

(d) Seasonality:

The Company's operations have historically varied throughout the fiscal year, with highest revenue from air traffic experienced in the fourth quarter (June to August). The increased air traffic is a result of more leisure travel in the summer months. The Company has a cost structure that is largely fixed, and accordingly costs do not vary significantly throughout the year.

(e) Critical accounting estimates and judgments:

The preparation of these consolidated financial statements requires management to make estimates and judgments about the future.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal actual results. The following discussion sets forth management's:

- most critical judgments in applying accounting policies; and
- most critical estimates and assumptions in determining the value of assets and liabilities.

(i) Critical judgments:

- Impairment of intangible and tangible assets

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

- Joint arrangements

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

2. Basis of presentation (continued):

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

(ii) Key sources of estimates and assumption uncertainties:

- Employee benefits

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

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

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

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

- Fair value of investment in preferred interests

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

2. Basis of presentation (continued):

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

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

IAS 1 – Presentation of Financial Statements

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

IFRS 9 – Financial Instruments

IFRS 9 will replace IAS 39 – *Financial Instruments: recognition and measurement*. This new standard introduces new requirements for the classification and measurement of financial assets and liabilities. It introduces a new general hedge accounting standard, which will align hedge accounting more closely with risk management. It also modifies the existing impairment model by introducing a new ‘expected credit loss’ model for calculating impairment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Earlier application is permitted.

IFRS 15 – Revenue from Contracts with Customers

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

IFRS 16 – Leases

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

IAS 7 – Statement of Cash Flows

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

(millions of dollars)

2. Basis of presentation (continued):

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

IAS 12 – Income Taxes

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

3. Significant accounting policies:

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

(a) Basis of consolidation:

(i) Subsidiaries

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

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

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

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

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

3. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

(ii) Investments in joint ventures

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

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

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

(b) Foreign currency:

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

(c) Financial instruments:

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

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

(i) Derivative financial instruments

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

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

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

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(ii) Non-derivative financial assets

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

- loans and receivables;
- fair value through profit or loss; and
- available for sale.

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

Loans and receivables (L&R)

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

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

Fair value through profit or loss (FVTPL)

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

Available for sale (AFS)

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

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(iii) Non-derivative financial liabilities

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

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

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

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

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

(iv) Hedging

The Company uses derivative financial instruments to manage risks from fluctuations in foreign exchange rates and interest rates. The Company's derivative assets and liabilities consist of forward dated interest rate swap agreements and foreign exchange agreements. Where permissible, the Company accounts for these financial instruments as cash flow hedges, which ensures that counterbalancing gains and losses are recognized in income in the same period. With hedge accounting, the effective portion of the change in fair value of the hedging instrument is recognized directly in OCI while any ineffective portion is recognized immediately in net income (loss). The amount accumulated in equity is retained in OCI and reclassified to net income (loss) in the same period or periods during which the hedged item affects net income (loss).

On initial designation of the hedge, the relationship between the hedged item and the hedging instrument is formally documented, in accordance with the Company's risk management objectives and strategies. The effectiveness of the hedging relationship is assessed at inception of the contract related to the hedging item and then again at each reporting date to ensure the relationship is and will remain effective. Where hedge accounting is not permissible and derivatives are not designated in a hedging relationship, the changes in fair value are immediately recognized in the statement of operations.

(v) Impairment of financial assets

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

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

3. Significant accounting policies (continued):

(d) Employee benefits:

(i) Defined benefit plans

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

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

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

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

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

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

(ii) Other long-term employee benefits

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

3. Significant accounting policies (continued):

(d) Employee benefits (continued):

(iii) Termination benefits

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

(iv) Short-term employee benefits

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

(e) Property, plant and equipment:

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

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

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

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

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

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

3. Significant accounting policies (continued):

(e) Property, plant and equipment (continued):

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

Other contributions to property, plant and equipment

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

(f) Intangible assets:

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

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

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

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

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

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

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

Intangible assets under development are not amortized.

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

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

3. Significant accounting policies (continued):

(g) Impairment of non-financial assets:

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

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

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

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

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

(h) Borrowing costs:

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

(i) Provisions:

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

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

3. Significant accounting policies (continued):

(i) Provisions (continued):

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

(j) Regulatory deferral accounts:

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

The Company's approach to determining the level of customer service charges is based upon the charging principles set out in the ANS Act which prescribe, among other things, that charges must not be set at levels which, based on reasonable and prudent projections, would generate revenues exceeding the Company's current and future financial requirements in relation to the provision of civil air navigation services. Pursuant to these principles, the Board, acting as rate regulator, approves the amount and timing of changes to customer service charges.

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

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

(k) Revenue:

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

(i) Customer service charges

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

3. Significant accounting policies (continued):

(k) Revenue (continued):

(ii) Service and development contracts

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

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

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

(iii) Aeronautical publications

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

(iv) Contributions

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

(l) Lease payments:

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

(m) Finance income and other finance costs:

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

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

3. Significant accounting policies (continued):

(n) Income taxes:

(i) Current taxes

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

(ii) Deferred taxes

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

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

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

(o) Segmented reporting:

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

(millions of dollars)

4. Revenue:

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

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

(1) Enroute charges related to air navigation services provided or made available to aircraft during the enroute phase of the flight, whether they overfly Canadian-controlled airspace or take-off and/or land in Canada;

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

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

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

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

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

5. Salaries and benefits:

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

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

(millions of dollars)

6. Other operating expenses:

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

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

7. Finance income and other finance costs:

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

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

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

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

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

8. Other gains and losses:

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

(millions of dollars)

9. Financial statement impact of regulatory deferral accounts:

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

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

(millions of dollars)

9. Financial statement impact of regulatory deferral accounts (continued):

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

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

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

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

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

9. Financial statement impact of regulatory deferral accounts (continued):

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

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

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

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

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

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

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

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

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

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

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

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

(millions of dollars)

9. Financial statement impact of regulatory deferral accounts (continued):

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

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

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

(millions of dollars)

9. Financial statement impact of regulatory deferral accounts (continued):

(a) Derivatives - Regulatory unrealized hedging transactions:

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

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

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

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

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

(b) Deferred income tax:

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

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

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

(millions of dollars)

9. Financial statement impact of regulatory deferral accounts (continued):

(d) Pension contributions:

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

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

The Company uses a regulatory approach to determine the net charge to net income (loss) for pension benefit costs. The objective of this approach is to reflect the cash cost of the funded pension plans in net income (loss) by recording an adjustment to the related regulatory deferral account. These regulatory adjustments are the difference between the pension benefit costs as determined by IAS 19, Employee Benefits, and the annual cash cost of the plan.

(e) Realized hedging transactions:

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

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

(millions of dollars)

9. Financial statement impact of regulatory deferral accounts (continued):

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

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

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

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

10. Cash and cash equivalents:

Cash and cash equivalents were comprised of the following:

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

(millions of dollars)

11. Accounts receivable and other:

Accounts receivable and other were comprised of the following:

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

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

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

12. Current investments:

Current investments were comprised of the following:

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

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

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

Debt service reserve fund

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

(millions of dollars)

12. Current investments (continued):

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

Debt service reserve fund (continued)

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

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

13. Other assets:

Other assets were comprised of the following:

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

14. Investment in preferred interests of Aireon:

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

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

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

14. Investment in preferred interests of Aireon (continued):

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

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

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

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

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

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

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

(millions of dollars)

14. Investment in preferred interests of Aireon (continued):

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

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

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

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

Aireon is in start-up phase without any operations, with minimal revenue and the majority of its expenditures being capitalized. As discussed above, the Company's preferred interest investment in Aireon is accounted for as a financial instrument as long as the conversion feature remains unexercised. The Company has joint control over the strategic financial and operating activities but holds nil% ownership interest and as such applying the equity method would result in a $nil share of profit (loss) of the equity-accounted investee.

(millions of dollars)

14. Investment in preferred interests of Aireon (continued):

Aireon's fiscal year end is December 31. IAS 28, *Investments in Associates and Joint Ventures*, limits the difference between the end of the reporting period of a joint venture and that of the investor to no more than three months and requires adjustment to the results for any significant transactions that occur during the intervening period. The following table presents certain financial position information for Aireon as of June 30, 2016 and 2015, translated from U.S. dollars. No significant transactions occurred during the intervening periods that were necessary to adjust for in the Company's consolidated financial statements for the years ended August 31, 2016 and 2015.

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

(millions of dollars)

15. Employee benefits:

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

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

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

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

(millions of dollars)

15. Employee benefits (continued):

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

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

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

(1) Includes $1 of LTD benefit liability.

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

The Company has determined that in accordance with:

- the terms and conditions of the funded defined benefit pension plans,
- statutory requirements (such as minimum funding requirements, the ability to take contribution holidays, and the ability to use letters of credit to secure solvency special payments revealed by funding actuarial valuations), and
- the assumptions and methodology adopted to calculate the economic benefit available,

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

15. Employee benefits (continued):

(a) Characteristics of defined benefit plans:

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

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

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

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

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

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

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

15. Employee benefits (continued):

(a) Characteristics of defined benefit plans (continued):

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

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

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

(b) Pension plan funding requirements:

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

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

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

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

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

(millions of dollars)

15. Employee benefits (continued):

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

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

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

(millions of dollars)

15. Employee benefits (continued):

(d) Fair value measurement of pension plan assets:

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

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

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

(e) Actuarial assumptions:

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

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

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

(millions of dollars)

15. 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:

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

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

(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%	$ (321)	$ 345	$ (21)	$ 22
Salary, indexation, government benefit increases	0.25%	$ 319	$ (298)	$ 24	$ (23)
Health care trend rate	1%	$ 25	$ (20)	$ 1	$ (1)
Longevity (in years) for those currently aged 65	1 year	$ 202	$ (206)	$ 12	$ (12)

15. 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, risk factors and geographies and adherence to established investment policies and guidelines.

(millions of dollars)

16. Cross border transaction:

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

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

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

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

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

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

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

(millions of dollars)

17. Property, plant and equipment:

Property, plant and equipment were comprised of the following:

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

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

(millions of dollars)

18. Intangible assets:

Intangible assets were comprised of the following:

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

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

(millions of dollars)

19. Trade, other payables and provisions:

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

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

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

20. Deferred revenue:

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

21. Long-term debt:

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

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

(a) Security:

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

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

(millions of dollars)

21. Long-term debt (continued):

(b) Debt:

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

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

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

(millions of dollars)

21. Long-term debt (continued):

(b) Debt (continued):

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

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

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

22. Financial instruments and financial risk management:

Summary of financial instruments:

The following table presents the carrying amount of the Company's financial instruments, by classification category and includes the fair value hierarchy classification for each financial instrument. Excluding long-term debt and the cross border transaction PUA reserve fund, the carrying amount is equal to the fair value for all of the Company's financial instruments.

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

(millions of dollars)

22. Financial instruments and financial risk management (continued):

Summary of financial instruments (continued):

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

(millions of dollars)

22. Financial instruments and financial risk management (continued):

Summary of financial instruments (continued):

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

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

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

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

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

22. Financial instruments and financial risk management (continued):

Summary of financial instruments (continued):

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

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

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

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

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

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

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

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

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

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

(9) These financial instruments are designated as FVTPL.

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

(millions of dollars)

22. Financial instruments and financial risk management (continued):

Summary of financial instruments (continued):

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

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

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

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

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

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

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

(millions of dollars)

22. Financial instruments and financial risk management (continued):

Summary of financial instruments (continued):

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

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

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

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

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

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

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

(millions of dollars)

22. Financial instruments and financial risk management (continued):

Summary of financial instruments (continued):

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

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

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

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

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

(3) Net increase in fair value is comprised mainly of accrued dividend income.

(millions of dollars)

22. Financial instruments and financial risk management (continued):

Financial risk management

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

(a) Market risk

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

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

(i) Interest rate risk:

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

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

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

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

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

22. Financial instruments and financial risk management (continued):

Financial risk management (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued):

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

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

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

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

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

(millions of dollars)

22. Financial instruments and financial risk management (continued):

Financial risk management (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk:

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

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

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

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

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

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

22. Financial instruments and financial risk management (continued):

Financial risk management (continued)

(a) Market risk (continued)

(iii) Other price risk:

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

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

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

(b) Credit risk

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

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

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

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

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

(millions of dollars)

22. Financial instruments and financial risk management (continued):

Financial risk management (continued)

(b) Credit risk (continued)

The aging of trade accounts receivable was as follows:

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

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

(c) Liquidity risk

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

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

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

(millions of dollars)

22. Financial instruments and financial risk management (continued):

Financial risk management (continued)

(c) Liquidity risk (continued)

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

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

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

23. Commitments:

(a) Maturity analysis

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

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

(millions of dollars)

23. Commitments (continued):

(a) Maturity analysis (continued)

(1) Payments represent principal of $1,725. The Company intends to refinance principal maturities at their maturity dates. The Company may choose to repay a portion of these maturities with available cash, and/or may increase the size of a re-financing to generate additional liquidity or for other purposes, and/or may choose to redeem in whole or in part an issue in advance of its scheduled maturity date.

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

(b) Capital commitments

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

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

(c) Operating leases

Leases as lessee

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

Future minimum lease payments for operating leases are as follows:

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

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

(millions of dollars)

23. Commitments (continued):

(d) Investment in preferred interests of Aireon

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

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

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

(e) Letters of credit

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

24. Contingencies:

(a) Legal contingencies

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

(b) Indemnification commitments

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

The Company has provided the following significant indemnification commitments:

<u>Cross border transaction</u>

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

24. Contingencies (continued):

(b) Indemnification commitments (continued)

Provision of service and system sales

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

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

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

Indemnity with respect to third party sponsored ABCP

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

Other agreements

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

(millions of dollars)

24. Contingencies (continued):

(b) Indemnification commitments (continued)

Other agreements (continued)

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

25. Transactions with the Government of Canada:

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

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

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

26. Related party transactions:

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

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

Compensation of key management personnel

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

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

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

(millions of dollars)

26. Related party transactions (continued):

Transactions with registered pension plans

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

Transactions with joint venture

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

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

27. Capital management:

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

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

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

The Company's main objectives when managing capital are:

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

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

27. Capital management (continued):

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

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

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

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

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

28. Transition to IFRS:

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

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

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

(a) IFRS 1 optional exemptions:

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

i) Business combinations

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

28. Transition to IFRS (continued):

(a) IFRS 1 optional exemptions (continued):

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

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

iii) Borrowing costs

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

iv) Leases

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

v) Decommissioning liabilities

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

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

28. Transition to IFRS (continued):

(a) IFRS 1 optional exemptions (continued):

vi) Contributions

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

vii) Financial instruments

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

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

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

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

(b) Reconciliations of Canadian GAAP to IFRS:

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

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

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

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

28. Transition to IFRS (continued):

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

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

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

28. Transition to IFRS (continued):

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

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

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

28. Transition to IFRS (continued):

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

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

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

28. Transition to IFRS (continued):

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

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

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

28. Transition to IFRS (continued):

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

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

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

28. Transition to IFRS (continued):

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

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

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

28. Transition to IFRS (continued):

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

Explanations of adjustments:

i) Changes in presentation

- Consolidated statement of financial position

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

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

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

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

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

- Consolidated statement of operations

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

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

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

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

28. Transition to IFRS (continued):

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

Explanations of adjustments (continued):

i) Changes in presentation (continued)

- Consolidated statement of comprehensive income

  Under Canadian GAAP the Company did not present amounts relating to other comprehensive (income) loss. Under IFRS, other comprehensive (income) loss and the related net movement in regulatory deferral account balances are presented as noted in the table above.

  The Company's other comprehensive (income) loss adjustments reflect non-cash re-measurements of hedging instruments and re-measurements of employee benefit plans which are not considered for rate setting; accordingly, regulatory deferrals have been established.

- Consolidated statement of cash flows

  Under Canadian GAAP, other post-employment benefit payments for vested sick leave and LTD benefits were presented with other post-employment contributions. Under IFRS, these benefits are classified as long-term benefits and the payments are presented with payments to employees and suppliers.

- Regulatory deferral accounts

  Under Canadian GAAP, regulatory adjustments were presented net on the same statements of operations line as the underlying transaction where applicable (i.e. movement in regulatory pension expense was recorded on the same line as pension expense). Under IFRS, regulatory adjustments are presented separately from the underlying transaction on the consolidated statements of operations and comprehensive income as net movement in regulatory deferral account balances.

ii) Rate-regulated accounting

As permitted under Canadian GAAP, the Company followed specific accounting policies unique to a rate-regulated business. Under IFRS the use of regulatory accounting is permitted, and the transition impacts are related primarily to presentation and disclosure. On transition to IFRS the Company offset the impacts to retained earnings with adjustments to regulatory deferral accounts, as these impacts will be considered for rate setting using the Company's regulatory approach.

The change to IFRS does not alter the Company's approach to determining the level of customer service charges. This approach is based upon the charging principles within the ANS Act which prescribe, among other things, that charges must not be set at levels which, based on reasonable and prudent projections, would generate revenue exceeding the Company's current and future financial requirements in relation to the provision of civil air navigation services.

28. Transition to IFRS (continued):

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

Explanations of adjustments (continued):

iii) Defined pension benefits, net of regulatory liability

At September 1, 2014 under Canadian GAAP, there is an accrued pension benefit asset of $268 as well as a regulatory liability of $221, leaving a net amount of $47 to be recovered over time through customer service charges. The impact of adopting IFRS on the accrued defined pension benefits described below results in eliminating the accrued pension benefit asset of $268 recognized under Canadian GAAP, increasing the accrued pension benefit liability of $56 to $1,174 (an increase of $1,118) and decreasing retained earnings (increasing the deficit) by $1,386 upon transition to IFRS. This amount is offset by the recognition of a regulatory debit of $1,386, resulting in elimination of the $221 regulatory liability recognized under Canadian GAAP and the recognition of a regulatory deferral account debit of $1,165. More detailed explanations on the various components of this adjustment are described below:

- Under Canadian GAAP, actuarial gains and losses were deferred off balance sheet and amortized to earnings before rate stabilization using a “corridor” approach. Under IFRS, the Company recognizes actuarial gains and losses in OCI in the period they are incurred, with no subsequent reclassification to net income (loss). The Company has made a policy choice to reclassify adjustments in OCI to retained earnings. In addition, under Canadian GAAP vested past service costs were deferred and amortized. Under IFRS, vested past service costs are recognized immediately as an expense in the period they are incurred. As a consequence, actuarial losses of $1,158 and vested past service costs of $15 that were deferred off balance sheet under Canadian GAAP have been recognized on the IFRS opening consolidated statement of financial position.
- Under Canadian GAAP, the annual measurement date for determining the funded status of the plan can be no earlier than three months prior to the reporting date, providing that the timing is consistent from year to year. Under IFRS, the funded status of the plan is measured actuarially with sufficient regularity that the amounts recognized in the consolidated financial statements would not differ materially from the amounts that would be determined at the end of the reporting period. The impact from the change in the Company’s measurement date for its pension plans from May 31, 2014 to August 31, 2014 is a loss of $213 that has been recognized on the IFRS opening consolidated statement of financial position. This loss is primarily due to a 30 basis point decline in the market-based discount rate used to determine pension obligations during the three month period ended August 31, 2014.

Under Canadian GAAP, pension expense included all pension expenses, including supplemental pension (unfunded), as well as the regulatory pension expense and was presented as salaries and benefits. Under IFRS, pension expense is broken down and presented in separate sections on the consolidated statements of operations and comprehensive income as described below:

- current service cost and related capitalized amounts are recorded as salaries and benefits;
- net interest arising on net benefit obligations is recognized in net income (loss) and is presented in net interest costs relating to employee benefits;
- regulatory adjustments related to pension benefits recognized in net income (loss) are presented separately in net movement in regulatory deferral accounts on the consolidated statement of operations; and
- actuarial gains and losses are recognized in other comprehensive income with the related offsetting regulatory adjustment on the consolidated statement of comprehensive income.

This accounting change to IFRS will not affect the determination of customer service charges, as the Company will continue to use the same regulatory approach to recovering pension expenses as under Canadian GAAP that is based on the recovery of current and prior years’ pension contributions.

28. Transition to IFRS (continued):

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

Explanations of adjustments (continued):

iv) Other post-employment benefits

The total adjustment on transition to IFRS for other post-employment benefits increases the accrued other post-employment benefits liability by $40 with a corresponding decrease to retained earnings (increasing the deficit). The Company has fully offset this impact by recording a corresponding regulatory debit with a corresponding decrease in the deficit of $40. More detailed explanations of the various components of this adjustment are described below:

- Under Canadian GAAP, actuarial gains and losses were deferred off balance sheet and amortized to net income (loss) before rate stabilization using a “corridor” approach. Under IFRS, the Company recognizes actuarial gains and losses in OCI in the period they are incurred, with no subsequent reclassification to net income (loss). The Company has made a policy choice to reclassify adjustments in OCI to retained earnings. As a consequence, actuarial losses of $24 that were deferred off balance sheet under Canadian GAAP have been recognized on the IFRS opening consolidated statement of financial position.
- Under Canadian GAAP, the annual measurement date for determining the funded status of other post-employment benefit plans can be no earlier than three months prior to the reporting date, providing that the timing is consistent from year to year. Under IFRS, the funded status of these plans is measured actuarially with sufficient regularity that the amounts recognized in the consolidated financial statements would not differ materially from the amounts that would be determined at the end of the reporting period. The impact from the change in the Company’s measurement date for its other post-employment plans from May 31, 2014 to August 31, 2014 is a loss of $11 that has been recognized on the IFRS opening consolidated statement of financial position. This loss is primarily due to a 30 basis point and 20 basis point decline in the market-based discount rate used to determine other post retirement life and health benefits and retiring allowance obligations respectively during the three month period ended August 31, 2014.
- Under Canadian GAAP, longer attribution periods were permitted when further salary increases are beyond the credited service period. Under IFRS the attribution period is restricted to the maximum credited service period. This change has resulted in an increase of the benefit obligation of $5 for the Company’s retiring allowance benefits which has been recognized on the IFRS opening consolidated statement of financial position.
- One of the other post-employment benefit plans related to vested sick leave benefits (with an obligation of $8 together with deferred past service of $9 and deferred actuarial losses of $4 resulting in a liability balance of $21 at August 31, 2014) is classified as an other post-employment benefit plan under Canadian GAAP. This has been re-measured and classified as a long-term benefit together with the liability for accumulating sick leave discussed below in adjustment note v.

The following other post-employment benefits were presented with salaries and benefits under Canadian GAAP: retiring allowances and other post-employment life and health. Under IFRS, other post-employment benefits expense is broken down and presented in separate sections on the consolidated statements of operations and comprehensive income as described below:

- current service cost and related capitalized amounts are recorded as salaries and benefits;
- net interest arising on net benefit obligations is recognized in net income (loss) and is presented in net interest costs relating to employee benefits;
- regulatory adjustments related to other post-employment benefits recognized in net income (loss) are presented separately in net movement in regulatory deferral accounts on the consolidated statement of operations; and

28. Transition to IFRS (continued):

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

Explanations of adjustments (continued):

iv) Other post-employment benefits (continued)

- actuarial gains and losses are recognized in other comprehensive income with the related offsetting regulatory adjustment on the consolidated statement of comprehensive income.

v) Long-term benefits, net of regulatory liability

Under Canadian GAAP the costs of providing LTD benefits are charged to operations as they occur, which is consistent with IFRS. Under IFRS long term employee benefits are presented separately as long-term benefits.

Under Canadian GAAP, LTD benefits were measured as of the Company's annual measurement date of May 31, 2014. Under IFRS, LTD benefits are measured as of the reporting date. The impact from the change in the Company's measurement date for its LTD plan from May 31, 2014 to August 31, 2014 is a decrease in the accrued LTD benefit asset of $4 and a corresponding decrease in retained earnings (increase in the deficit) of $4. This loss is primarily due to the plan experience during the three month period ended August 31, 2014. This impact on retained earnings was fully offset by recording a regulatory debit with a corresponding decrease in the deficit of $4.

Under Canadian GAAP, non-vesting accumulating sick leave benefits were not recognized as a liability until the leave was taken; only vested sick leave benefits were recorded and actuarial gains and losses and past service costs were deferred off balance sheet and amortized to earnings using a "corridor" approach. Under IFRS, a liability for both vested and non-vesting accumulating sick leave benefits are recorded and actuarial gains and losses on vested and non-vesting sick leave and past service costs are recognized in net income in the period they are incurred. As a consequence, actuarial losses of $4 and past service costs of $9 that have been deferred off balance sheet under Canadian GAAP have been recognized on the IFRS opening consolidated statement of financial position. In addition, a liability for accumulating non-vesting sick leave that was not recorded under Canadian GAAP has been recognized on the IFRS consolidated statement of financial position. These adjustments have resulted in an increase to vested and non-vesting sick leave liability of $34 and a corresponding decrease in retained earnings (increase in the deficit) of $34. This impact on retained earnings was fully offset by recording a regulatory debit and a corresponding decrease in the deficit of $34.

The following long-term benefits were presented with salaries and benefits expense under Canadian GAAP: LTD and accumulated sick leave (vested and non-vested). Under IFRS, long-term benefits expense is broken down and presented in separate sections on the consolidated statement of operations as described below:

- current service cost and related capitalized amounts are recorded as salaries and benefits;
- net interest arising on net benefit obligations and actuarial gains and losses is recognized in net income (loss) and is presented in net interest costs relating to employee benefits; and
- regulatory adjustments related to long-term benefits are presented separately in net movement in regulatory deferral accounts on the consolidated statement of operations.

28. Transition to IFRS (continued):

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

Explanations of adjustments (continued):

vi) Cross border transactions, net of regulatory liability

Under Canadian GAAP, although the Company is considered to have a variable economic interest in the Statutory Trust, the structured entity that was created by a U.S. entity at the inception of the transaction, the Company was not considered to be the primary beneficiary of the Statutory Trust, and therefore was not required to consolidate this entity. Accordingly, capital lease obligations – payment undertaking agreements, reserve funds and capital lease obligations were recognized on the Company's balance sheet upon entering into the transaction. Under IFRS, the Statutory Trust is fully consolidated in the Company's consolidated financial statements up to the termination of the capital lease transaction on August 6, 2015, as the Company is exposed to and has the power to control the returns of the Statutory Trust. The capital lease obligation has been eliminated in the consolidated financial statements, and the Company has recognized the long-term debt owed by the Statutory Trust on the cross border transaction. As a result of these adjustments upon transitioning to IFRS, the table below shows that there is no net impact on retained earnings.

	Transition adjustment debit (credit)	
De-recognition of:		
Property, plant and equipment	$	(10)
Current portion of capital lease obligations		56
Capital lease obligations		161
Other regulatory liabilities		2
Recognition of:		
Current portion of long-term debt		(56)
Long-term debt		(153)
Net impact on retained earnings	$	-

The interest expense on the long-term debt is offset by interest income on the payment undertaking agreements resulting in no net effect on the Company's net income (loss) in fiscal 2015.

vii) Decommissioning liability

Under Canadian GAAP, an asset retirement obligation is recognized when the Company has sufficient information to reasonably estimate the fair value of the asset retirement obligation. When the timing of the settlement of the obligation is unknown or cannot be estimated, the Company cannot reasonably estimate the fair value of the liability, and therefore no asset retirement obligation is recognized. Under IFRS, the uncertainty of the timing of the settlement of an asset retirement obligation is reflected in the measurement of the provision. As a result of the transition, the Company has recognized a liability for asset retirement obligations of $1 and a corresponding increase in the asset of $1.

viii) Borrowing costs

Under Canadian GAAP, the Company did not capitalize borrowing costs related to capital projects. Under IFRS, the Company is required to capitalize borrowing costs in certain situations; therefore interest expense recorded with other finance costs is lower by the capitalized amounts under IFRS. The IFRS recognition method for capitalized borrowing costs will also be used for rate setting purposes; therefore no regulatory deferrals have been set up to offset this impact.

28. Transition to IFRS (continued):

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

Explanations of adjustments (continued):

ix) Contributions related to property, plant and equipment

Under Canadian GAAP, contributions related to property, plant and equipment were recorded on the balance sheet as a reduction to the value of the asset to which it relates. Under IFRS, contributions of a revenue nature from third parties intended to offset the cost of property, plant and equipment are accounted for as revenue. The IFRS recognition method for these contributions will be used for rate setting purposes; therefore no regulatory deferrals have been set up to offset this impact.

x) Investment in preferred interests of Aireon, net of regulatory liability

Under Canadian GAAP, amounts presented on the statements of operations relating to the Company's investment in Aireon (effective interest income, dividend income, income taxes, foreign exchange impacts and fair value adjustments on the embedded derivative) were offset on the same line using a regulatory adjustment. Under IFRS, all regulatory adjustments are presented separately from the underlying transactions as net movement in regulatory deferral account balances.

xi) Rate stabilization account

The Company maintains a rate stabilization mechanism in order to mitigate the effect on its operation of unpredictable and uncontrollable factors. Amounts are added to or deducted from the rate stabilization account based upon variations from amounts used when establishing customer service charges. Under IFRS, the Company will continue to maintain a rate stabilization mechanism; however during the transition year, IFRS amounts were compared to Canadian GAAP amounts and additional amounts were added to and deducted from the rate stabilization account.