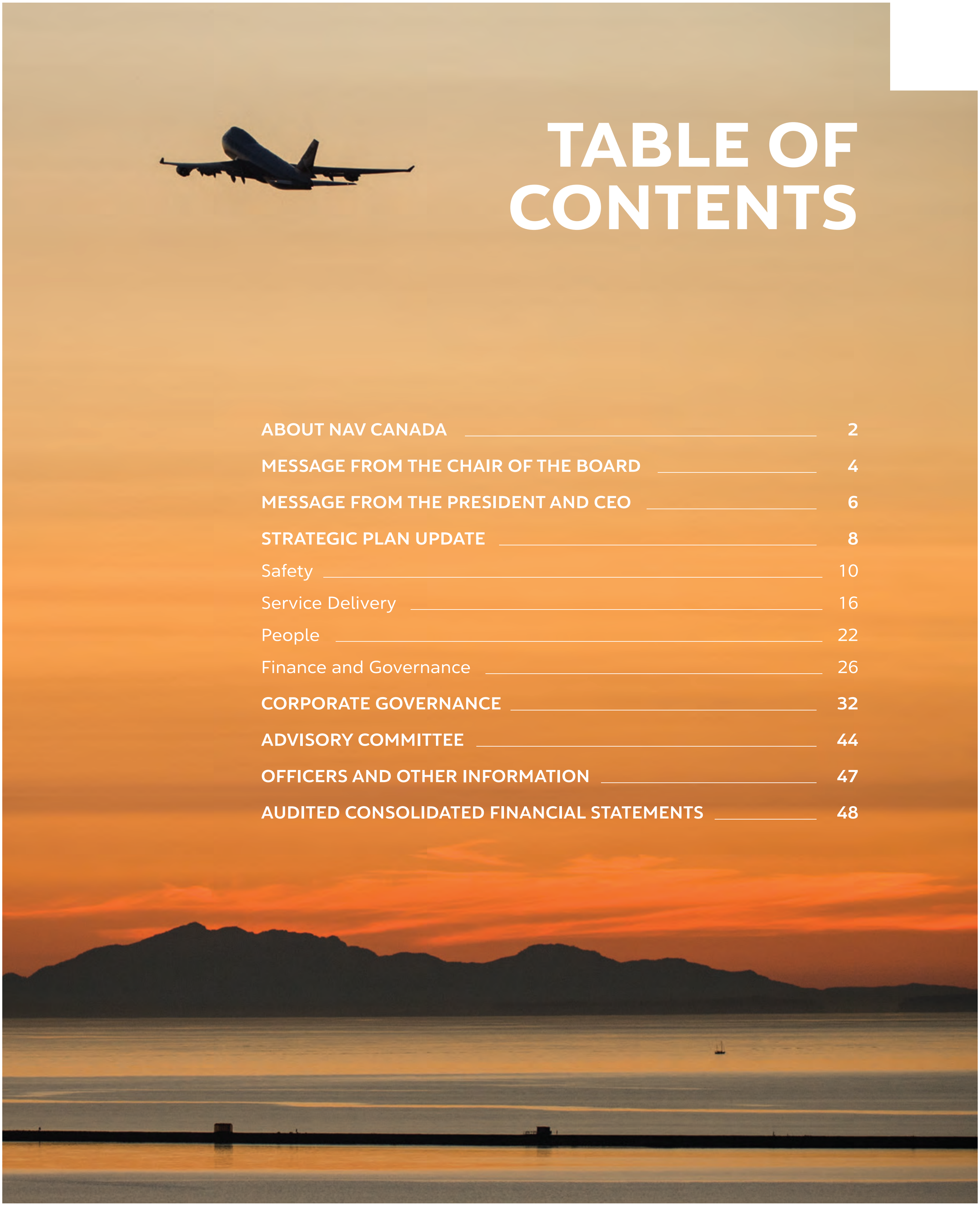
NAV CANADA

Serving a world in motion
navcanada.ca

ANNUAL REPORT

2020



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ABOUT NAV CANADA

Our Vision

To be the world's most respected ANS:

- in the eyes of the public for our safety record;
- in the eyes of our customers for our fee levels, customer service, efficiency and modern technology; and
- in the eyes of our employees for establishing a motivating and satisfying workplace with competitive compensation and challenging career opportunities.

Our Mission

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

Our Overarching Objectives

The Company will achieve its Mission by:

1. Being among the safest ANSPs worldwide and driving continuous improvement in the reduction of operational safety risks;
2. Maintaining ANS customer service charges among the lowest of major ANSPs worldwide, and ensuring over the long term that the growth in operating costs does not exceed the growth in traffic;
3. Providing value to our customers by contributing to improving their operational efficiency through the use of innovative technology and effective delivery of service, domestically and internationally;
4. Having a work environment which places NAV CANADA among the best employers in Canada;
5. Introducing measurable projects and initiatives which support a reduction of the environmental footprint of the aviation industry wherever feasible.

Photography: **Jeff Burke**
Flight Service Specialist
Grande Prairie FSS
jmburkephoto.com

MESSAGE FROM

THE CHAIR OF THE BOARD

MARC COURTOIS

It is my pleasure to introduce the NAV CANADA 2020 Annual Report as we begin a milestone year in the Company's history: its 25th anniversary. In 1996, NAV CANADA forged a new path to be the world's first fully privatized civil air navigation service provider. Our non-share capital corporation worked side by side with stakeholders to ensure the Company remained service oriented, customer focused, and cost effective. Over the last quarter century, the Company set the standard for service excellence while keeping Canada's air navigation system as safe, efficient and innovative as possible.

With the arrival of the novel coronavirus in 2020 and the resulting global economic downturn, our Company's founding principles of safety, service and innovation shined through this past fiscal year. When COVID-19 was declared a pandemic in early March 2020, the Company was ready to swiftly respond to preserve the integrity of Canada's air navigation system and maintain the delivery of essential air traffic services. While some parts of the organization continued the safe delivery of our services and ensured the safety of our employees, other parts were implementing immediate cost-containment measures, and preparing future changes to ensure the Company's sustainability and suitability to respond to the new realities in demand for air traffic services.

As always, safety has remained our top priority during our response. Throughout the pandemic, we maintained all safety and quality regulatory compliance and assurance activities, including reviews, audits and investigations.

NAV CANADA is not immune to the economic downturn and severe financial impacts the aviation industry is experiencing. Without question, the COVID-19 pandemic has proven to be a profound and enduring challenge.

Although measures were taken over the years to enhance the sustainability of NAV CANADA to absorb revenue shocks, including the maintenance of a positive balance in our Rate Stabilization Account, enhanced credit worthiness, alternate sources of revenue, and strict control of both operating and capital costs, additional right sizing measures were and are required to meet the new market realities of demand for our services. The Company obtained some government support through the Canada Emergency Wage Subsidy program, and significantly reduced operating costs and capital spending while continuing to ensure that safe essential air navigation services remained available to support our customers and their critical operations.

In closing and on behalf of my colleagues on the Board of Directors, I would like to express my sincere thanks to all employees and managers of NAV CANADA. I am grateful for the steps each of them have taken to show incredible resiliency in the face of economic uncertainty, declining air traffic and fundamental shifts in our operating environment.

In particular, I would like to recognize Neil Wilson for his outstanding leadership in these extraordinary times and throughout his tenure as President and CEO. As Neil embarks on his retirement, I would like to recognize his role in establishing NAV CANADA as a world leading air navigation service provider and ensuring the Company is well positioned to navigate today's unprecedented challenges.

As the aviation industry looks to recover, we too must make fundamental changes in the way we operate. Our services must evolve to reflect the new realities facing our industry: emphasizing value, sustainability and our continued focus on safety.

Together, we will chart a path to a full recovery with the same forward-looking vision NAV CANADA had 25 years ago – delivering excellence and value for all stakeholders.

Marc Courtois
Chair of the Board

MESSAGE FROM

THE PRESIDENT AND CEO

NEIL R. WILSON

Fiscal 2020 was a very challenging year for NAV CANADA. As I look back, I am incredibly proud of the accomplishments we were able to achieve in the midst of the worst downturn in our industry's history. Our employees exhibited extraordinary resilience and an unwavering commitment to preserving the integrity of Canada's air navigation system in the face of such adversity.

In Canada, air traffic growth in fiscal year 2020, as measured by weighted charging units, was down 34.1 percent compared to the year prior, in large part due to the COVID-19 pandemic. The disruptive force of the pandemic on the aviation industry has had a significant negative impact on the Company's operations and revenues.

Throughout the fiscal year, NAV CANADA took unprecedented measures to ensure the sustainability of the Company. We adopted a phased approach to drive operating expenses down, including management salary reductions, ending terms of temporary employees, agreements with unions to suspend programs, early retirement incentives, changes to part of the pension plan applicable to management, and an across-the-board reduction of all non-essential, non-critical activities. We also had to make the very difficult decision of reducing our workforce across all departments and released most of the cohort of operational students.

Despite these efforts, as most of the Company's costs are fixed, NAV CANADA was not able to fully offset the significantly lower revenues and cash inflows due to the decrease in air traffic volume. After actively pursuing all available alternatives, the Company made the difficult decision to change its service charges in order to seek debt financing. As we are acutely aware of the challenges faced by our customers, the rate change was structured so that the payment increase would be deferred for a year and be collected over time when the aviation industry is expectantly on a stronger financial footing.

This year also marked the culmination of NAV CANADA's five-year strategic plan, designed to deliver greater value to all stakeholders. Among the highlights was the scope of our Corporate Safety Plan which was expanded to enhance our Safety Management System and mitigate key operational safety risks. Following a robust risk assessment, we addressed a range of safety-related issues, including miscommunications between air traffic services and students/general aviation pilots, and aircraft accidents with drones topping the list.

We also made improvements in on-time operations and declines in delays and restrictions. This was achieved through the excellent work of our employees, who stepped up repeatedly to deliver when needed. Additionally, we focused on upgrades to our training efforts; increased collaboration and consultation with customers, stakeholders and communities; and made investments in the right tools for those on our operational frontlines to work more efficiently.

While multiple teams across the Company were involved in preparing and testing our systems for space-based ADS-B, others were spearheading innovations aimed at improving performance at Canada's four major airports, starting with Toronto Pearson. We also launched a multiyear initiative to shift our internal business systems to next-generation cloud-based solutions. In the years to come, these projects, along with many others, will help us take safety, efficiency and sustainability to the next level.

Shining through

In fiscal 2021 and beyond, NAV CANADA will continue to build on its past successes by focusing on safety, value and sustainability. This will take the form of an optimized workforce, productivity enhancements, utilizing the capabilities of space-based aircraft surveillance, continuing to modernize our air navigation service technology, and delivering excellence for our customers and new entrants.

The Company's fiscal 2021 plan focuses on priorities that address short-medium term requirements for efficiency and productivity to support our sustainability into the future and position us to weather the uncertainty of the aviation industry's recovery.

While the impacts of COVID-19 have brought uncertainty to our industry, it also reaffirmed the importance of the essential services we provide to serve industry and society. From charities like Hope Air, who are continuing to offer free medical flights for Canadians who must travel far from home to access healthcare, to the cargo carriers flying around the world to deliver essential goods, this past year put a spotlight on the vital role our Company plays to support people in times of need. When faced with new challenges, our employees' resilience, determination and professionalism shines through.

On a personal note, serving as NAV CANADA's President and CEO has been the highlight of my career, and I am very proud of having taken part in the creation of the world's first privately owned air navigation service provider. Since its inception in 1996, I have seen the Company overcome challenges time and time again without ever compromising the integrity of Canada's air navigation system. I want to thank all our employees, board members, union leaders, customers, and industry colleagues for their support and collaboration over the years. I believe now is the appropriate time for me to retire, and I remain confident in the Company's ability to continue to navigate through the impacts of COVID-19, and to set the standard for excellence in the provision of safe, efficient and cost-effective air navigation services.

Neil R. Wilson
President and CEO

STRATEGIC PLAN UPDATE

STRATEGIC PLAN UPDATE

SAFETY

Safety is core to everything we do. It's our everlasting commitment, our hallmark on the world stage and a fundamental reason we exist. By cultivating a workforce that embraces a culture of safety, and investing in ongoing learning and enhancements, NAV CANADA plays an essential role in making air travel in Canada the safest it can be.

Brian Cox
FIC Flight Service Specialist
Kamloops FIC

Record-setting year for safety performance

In fiscal 2020, NAV CANADA achieved a new record low rate of IFR-to-IFR losses of separation, with 0.46 per 100,000 aircraft movements in the past 12 months. This international benchmark measures aircraft flying under instrument flight rules where less than the authorized separation existed or in which the minimum was not assured. This continues an overall downward trajectory, as we have successfully reduced the five-year average rate of 1.0 IFR-to-IFR losses of separation per 100,000 aircraft movements as of September 2002 to 0.61 as of August 31, 2020. This is well below the Company's benchmark rate of 1.0 losses per 100,000 aircraft movements and supports the Company's achievement of its overarching safety objective.

Andre Lenarcik
CNS Technical Services Team Supervisor
Toronto ACC

Enhancing safety at NAV CANADA through world-leading programs

Two of NAV CANADA's Safety Management System processes were recognized as best in class for an air navigation service provider by the annual CANSO Standard of Excellence in Safety Management Systems (SMS) Maturity Assessment Best Practices Workgroup. Safety experts from around the world review dozens of submissions each year to identify SMS practices that are innovative, unique and demonstrate clear added value to the safety management system within the organization. The Company's modernized Safety Plan and Fatigue Risk Dashboard were recognized as industry leading.

We also reviewed and commenced updating our Safety Culture Program to better support business units in enriching their safety cultures and enhancing company-wide awareness.

Ensuring the integrity of our Safety Management System

Fiscal 2020 saw the completed implementation of our Integrated Quality Assurance Program, a robust, repeatable, measurable and adaptable process network. It provides the foundation for a safe organization and ensures that the service we provide meets the expectations of all stakeholders. Implementation in all flight information regions was completed, and in collaboration with ATS Learning, a comprehensive training program was developed to ensure employees whose work is related to the IQA program can gain knowledge or awareness of it. In support of this program, we developed a new multi-level audit framework including national and regional approaches and schedules. This major milestone will enable us to drive continuous improvement and uniform application of standards and procedures, supporting world-class safety in the provision of air traffic services.

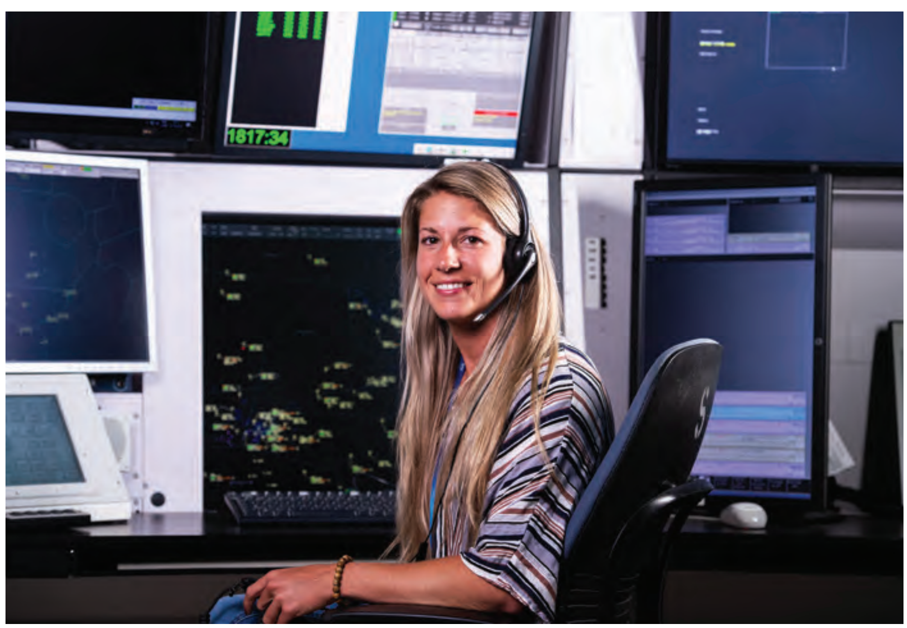
Addressing the top operational safety risks

We continued to make progress with enhancements that reduce operational risks internal and external to NAV CANADA, as identified in the 2020 edition of *Navigating Safety.* This internal publication highlights the top eight risks to operational safety identified by a risk assessment using information from a variety of sources, including frontline employees. Despite the significant impacts of COVID-19, our efforts resulted in 70% of the planned initiatives being fully completed with a recognized 94% weighted completion status of activities in our complementary document, the 2020 NAV CANADA Safety Plan.

Looking ahead, NAV CANADA has completed a new comprehensive Safety Risk Assessment to guide continued progress in our efforts to address risks. More than 300 managers and employees across the Company participated in the initial risk assessment, which was then validated and updated by senior leaders and the executive team.

Strengthening our approach to fatigue management

This year, we successfully initiated a fatigue management approach that will help reduce the risk of fatigue causing human error in the delivery of air traffic services. In addition to developing company-wide education campaigns and communication initiatives to improve fatigue awareness, the Fatigue Safety Action Group continues to address fatigue through collaborative investigation of adverse trends in reports, the evaluation of potential mitigation strategies and by making recommendations based on science to senior management which are intended to reduce fatigue in operations. All new schedule rotations or modifications are now reviewed against the science of fatigue and various changes have been made in shift and break scheduling. This has been made possible through our newly implemented Fatigue Risk Dashboard which showcases key metrics to help the Company recognize and manage its exposure to this risk. The dashboard includes monitoring of scheduling practices that led an individual to experience fatigue, identifies facilities where a higher level of awareness may be required, and provides an impetus for further mitigation of fatigue risk drivers.



Catherine Boucher
Air Traffic Controller
Montreal ACC

Building processes and tools for data-driven identification of risks and mitigations

Unit Risk Registers have been established across multiple departments, providing key inputs into our other safety tools and processes. These risk registers provide management with direct insight to proactively manage key safety risks at our frontline units based on employees' input. They are instrumental to implementing the necessary mitigations to ensure that the top safety risks clearly reflect the safety issues faced and are proactively managed. Demonstrating this linkage further strengthens NAV CANADA's safety culture as staff see how their input and reporting become actions to improve the safety of the services they deliver.

Responding to unprecedented challenges

NAV CANADA moved rapidly to contain the impacts of the pandemic in order to preserve the integrity of the air navigation system and ensure the safety and well-being of employees. We were proactive in our response to COVID-19, first introducing preventive measures in early February 2020. As the situation continued to evolve globally and across Canada, we continued to adjust and escalate measures appropriately. Indeed, our robust safety measures mitigated the spread of COVID-19 among employees – only 8 positive tests were recorded during fiscal 2020 – none of which spread between employees. Early workplace adjustments, extensive cleaning protocols and crew scheduling allowed for continuity of service with minimal disruptions.

The pandemic shined a spotlight on the value of our earlier investments in emergency planning and response processes, governance and training. Our plans were key to ensuring business continuity during a time when cargo aircraft, medical flights and repatriation efforts continued to rely on us. The preventive and proactive measures we took in collaboration with key stakeholders, and the phased approach we adopted to recovery, enabled us to preserve the integrity of Canada's air navigation system throughout the continuing COVID-19 crisis.

Photography: **D. Cody Goudy**
Life Cycle Management Specialist
Ottawa Technical Systems Centre

Innovating for enhanced technical training

For the past twenty years, our Technical Training team has utilized a blend of remote and on-site training at the NAV CENTRE in Cornwall to support the Company's technologist training needs. In response to the restrictions brought on by COVID-19, they quickly innovated through the increased use of remote training, which leverages technology to provide high quality training from alternate work locations. Several courses have been made available for remote delivery, including a new one in support of our project to replace 56 very high frequency omnidirectional ranges (VOR) that will be retained following the completion of the NAVAID Modernization Program. The rapid and creative adaptation of our training approach will facilitate the on-track deployment of this important project despite current travel restrictions.

Demonstrating recovery strength through Safety Risk Management

As of August 31, 2020, work was ongoing to ensure that risks related to the impacts of COVID-19 were being identified and managed. Focus was placed on the completion of Hazard Identification and Risk Assessments (HIRA) and follow-up activities. In particular, Post Implementation Monitoring activities with respect to the Return to Normal Operations HIRA for each flight information region were undertaken, with a second round of activities scheduled for November 2020. Our thorough and systematic approach to managing risk throughout the COVID-19 global pandemic has placed the Company in a strong position to continue its global leadership status as one of the safest air navigation service providers in the world.

SERVICE DELIVERY

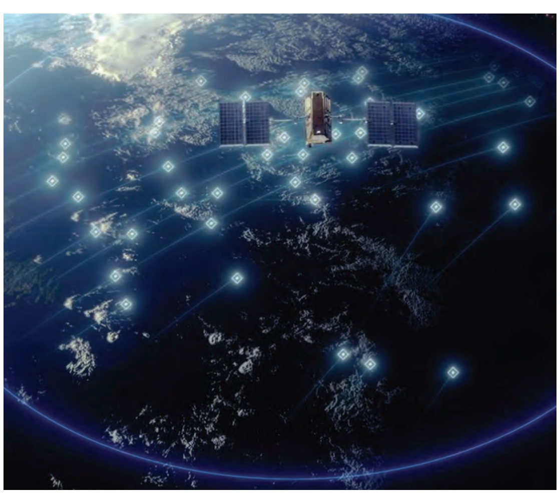
Continuously improving the way we operate to enhance our services is a top priority for NAV CANADA. From the introduction of space-based air traffic surveillance technology, to enhanced safety measures, our Company is committed to improving the way our customers navigate Canada's skies.

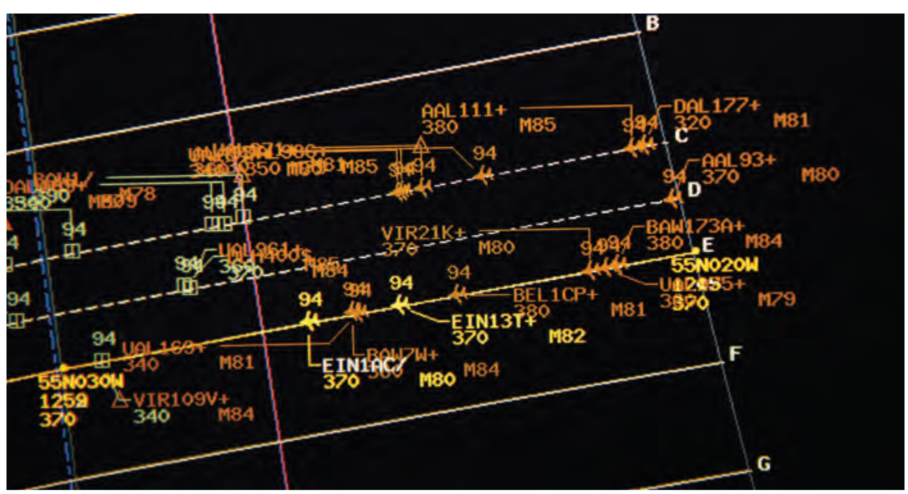
Amber Doiron
Air Traffic Controller
Halifax Control Tower

Leveraging advances in technology to support stakeholders' needs

Following the successful launch of space-based automatic dependent surveillance – broadcast (ADS-B) last fiscal year, NAV CANADA worked closely with customers to improve the efficiency and safety of our operations.

Flights in high level airspace are now being surveilled by space-based ADS-B in five flight information regions, with the remaining regions expected to transition in fiscal 2021. This change allows air traffic service personnel to access full and accurate real-time views of every space-based ADS-B equipped aircraft, providing a significant leap in safety and situational awareness compared to the surveillance tools used in the past. Work is now underway to bring these advances to other parts of the country over the coming years.





Increased efficiency and throughput

Up until the sudden changes to our industry caused by COVID-19, air traffic in Canada had seen steady year-over-year growth for the past decade. And while the duration and full impact of the pandemic are unknown, air traffic is expected to rise over time, increasing the demand for capacity at Canada's four major airports: Toronto Pearson International Airport, Vancouver International Airport, Montréal–Trudeau International Airport and Calgary International Airport.

In anticipation of this growth, NAV CANADA was leading several initiatives aimed at increasing the number of aircraft that can land and depart from these airports each hour, as well as safely reducing the separation standards between arriving aircraft to optimize runway use at capacity constrained airports.

Laying the foundation for this growth, in fiscal 2019 NAV CANADA became one of the first International Civil Aviation Organization (ICAO) members to implement new wake turbulence separation standards on arrival. This was accomplished by introducing additional weight categories and new separation standards based on aircraft wake characteristics and resistance to wake by subsequent aircraft. In fiscal 2020, our post-implementation analysis found that using the new wake turbulence standards in Toronto provided the airport with the opportunity to increase its available arrival capacity.

Given the recent reduction in air traffic as a result of the COVID-19 pandemic, several initiatives aimed at increasing efficiency and throughput have been temporarily paused.

Modernizing Vancouver's airspace

In Vancouver, whose airspace is one of the country's busiest and most complex, NAV CANADA designed a new, safer conceptual airspace to meet current and future demands. Our team has been meeting with key stakeholders to explore ways to make the airspace safer for everyone who wants to take to the skies.

The airspace in and around the Greater Vancouver Region and southern Vancouver Island is utilized by a large mix of operators, including major domestic and international airlines, regional and commuter passenger transport, general aviation and flight training, floatplanes, para-drop, sightseeing/photography and helicopter operations. In addition to this complex mix of operations, the airspace has experienced significant growth in traffic over the last five years.

In fiscal 2020, concept development advanced, including considerations for terminal airspace concepts and low-level VFR operations. Additionally, two rounds of forums were held with commercial and air carriers, recreational and flight training operators, airport authorities and municipal officials.

Phraseology changes to enhance safety

In November 2019, NAV CANADA's flight service specialists began using new phraseology when providing pilots with aerodrome advisories at sites that have direct wind reading instruments. This change was the result of extensive consultations and discussions with customers.

Flight service specialists now propose a runway for pilots to use when they meet the runway determination criteria, including traffic patterns and runway usage. As per Canadian Aviation Regulations, the pilot remains ultimately responsible for selecting a runway to use.

The new phraseology mirrors the language currently used at air traffic control towers, streamlining the advisory as well as providing other required information, such as aerodrome conditions and traffic. This change assisted a variety of pilots during operations, creating a safer and more efficient work environment for all operating at the affected sites.

Laying the groundwork for growth with trajectory-based operations

Every day, teams at NAV CANADA work hard to improve global aviation safety and efficiency. To that end, one of the potential industry-changing initiatives being developed and tested by our Company is trajectory-based operations.

From the moment our customers begin planning a flight, to its execution, and post-flight activities, thousands of data points are generated that can be used to help NAV CANADA and its customers optimize their flights. Sharing this data also helps to reduce the risk of a loss of separation or incursion event.

With the help of new collaborative decision-making tools, these new operations improve air traffic management processes by making trajectory information available to all parties using specific airspace.

In fiscal 2020, NAV CANADA completed a successful trajectory-based operation demonstration with the Federal Aviation Administration (FAA) Office of NextGen, showcasing cross-boundary Flight and Flow Information for a Collaborative Environment (FF-ICE) concepts.

NAV CANADA and Searidge gear up to test video technology for air traffic services

Transport Canada approved the trial of remote aerodrome advisory service at Fredericton International Airport. Provided from Saint John, New Brunswick, using Searidge Technologies' Enhanced Airport Vision Display (EAVD), the trial integrates the EAVD platform into NAV CANADA's operational display suite.

This remote services trial, which will run in fiscal 2021, builds upon past successes with Searidge Technologies, where installations in Red Deer, Kingston, Lethbridge, London, Vancouver and Winnipeg have leveraged camera technologies to enhance operations by providing air traffic services employees with the ability to see beyond line-of-sight obstacles.

With this latest trial, NAV CANADA and Searidge Technologies aim to demonstrate how certified video technology can increase levels of safety, efficiency and flexibility in air traffic services and aircraft operations.

Clearing drone operators and pilots for flight in Canada

In February 2020, NAV CANADA announced a strategic agreement with Unifly, the leading supplier of Unmanned Traffic Management solutions, to develop a national system that provides digital services for safely operating and managing drones in Canadian airspace. Scheduled to be released in fiscal 2021, drone pilots and operators will be able to use an intuitive web and mobile interface to identify safe and legal airspace to fly their drones, plan flights, and manage operations, pilots and drone fleets.

This fully digitized system makes the process of requesting authorization to fly in controlled airspace easier and faster for qualified drone pilots. The app will also benefit airlines and general aviation pilots, as it reduces the risk of accidental drone incursions.

Air traffic control service at YMX International Aerocity of Mirabel

Following an aeronautical study to assess the growing needs of YMX International Aerocity of Mirabel, NAV CANADA expanded its services in fiscal 2020 to include airport control services during peak periods throughout the day. Airport control services are now being offered for 16 hours a day from 06:00h to 22:00h, airport advisory services are available for the remaining 8 hours from 22:00h to 06:00h, and weather observation services are continuing to be offered 24 hours a day.

The expanded services at YMX International Aerocity of Mirabel help NAV CANADA meet the needs of aviation customers, while maintaining the highest level of safety in our skies.

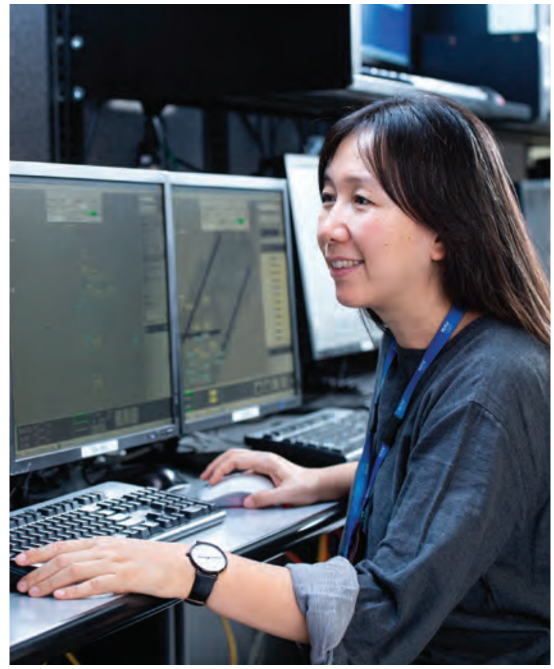
NAVCANATM wins contract with Hong Kong International Airport

NAVCANATM, a commercial subsidiary of NAV CANADA that delivers mission critical enterprise-wide integrated air traffic management solutions, secured its biggest project to date in fiscal 2020 – outfitting the Hong Kong International Airport's control towers with an electronic flight data strip system and integrated working positions. The contract involves the design, procurement, manufacture, supply, installation, testing and commissioning of the Integrated Tower System.

Taking AIM to the future

In fiscal 2020, NAV CANADA modernized the technology and processes used to manage Aeronautical Information Management (AIM) data. Aeronautical data of the highest quality remains the backbone of a safe, efficient and reliable air navigation service. As our deeply interconnected global services prepare for future growth, NAV CANADA is evolving its aeronautical data exchange process in lockstep with the international community.

From September 2019 to August 2020, the Company made progress on the design of a new Aeronautical Data Processing System and data management workflows in support of a digital data chain in AIM. A digital data chain will allow for the integration and transmission of data between different systems, from data originator to data user, while minimizing manual interactions. Additionally, a baseline of the required data elements, as part of the development of the AIM data catalogue, was developed. This information will be used to migrate AIM data to the new technology platform and establish data governance practices in the next phases of the AIM modernization program. These advancements will enable NAV CANADA to improve process efficiencies, deliver consistent and high-quality AIM data, and increase alignment with global best practices for publishing aeronautical information.



Photography: **Jason Berryman**
Unit Operations Specialist
Pitt Meadows Control Tower

Vivian Liang
Systems Analyst
Ottawa Technical Systems Centre

Building for tomorrow

Some of the key construction projects completed this past fiscal year include dual redundant power projects in Gander, NL, and Moncton, NB. This involved replacing obsolete back-up power systems with state-of-the-art dual-redundant power systems.

In Pitt Meadows, BC, NAV CANADA's air traffic control facility was 48 years old and had reached the end of its serviceable life. A new tower was completed in fiscal 2020 that provides improved lines of sight and visibility to all critical maneuvering areas. This project was undertaken in coordination with the Pitt Meadows Airport Authority to allow for future expansions at the airport.

Maintaining NAV CANADA's safety frequency

While global positioning systems (GPS) now meet most pilots' navigational needs, very high frequency omnidirectional Range (VOR) aids act as a back-up navigational network in the event of a GPS service outage. With a network of 112 VORs across Canada, the radio aids provide navigation guidance along selected compass radials to and from VOR locations.

Ranging from 20 to 40 years in age, many of the VORs are in need of servicing to ensure they continue to meet NAV CANADA's high safety standards. Since 2018, a VOR replacement project has been underway to service and replace the radio aids. In fiscal 2020, NAV CANADA completed the development and installation of a permanent test site for VORs at the Ottawa International Airport. Additionally, new operational facilities went into service in Whitecourt and Lethbridge, AB, improving the Company's national support infrastructure for new VOR equipment.

STRATEGIC PLAN UPDATE

PEOPLE

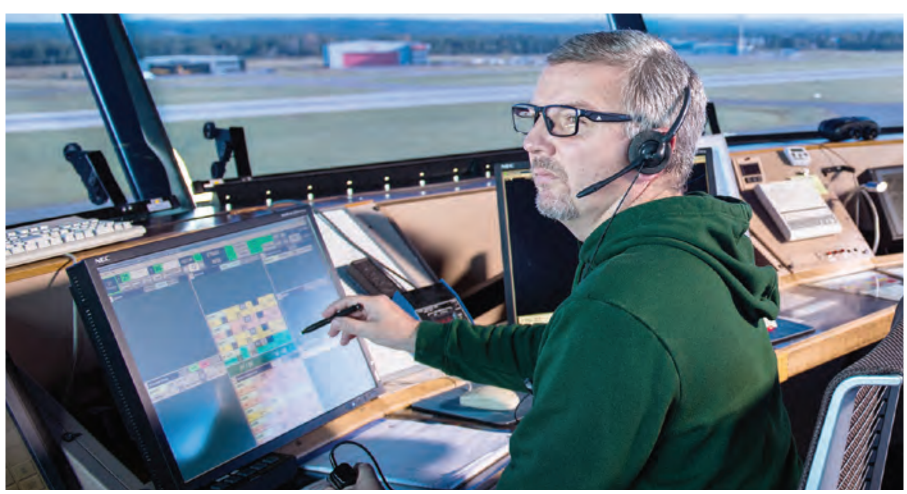
Ryan Villanueva
Technical Services Technologist Trainee
Tanja Milicevic
CNS Technical Services Manager
Vancouver ACC

Helping aircraft move safely and efficiently through our airspace is a critical responsibility that drives us, and we provide a professional and fulfilling work environment for our employees to help them excel in their roles. Our employees take pride in the work they do, and NAV CANADA shines through them.

Maintaining a healthy workplace culture built on the values of respect, excellence, customer service, and diversity and inclusion

NAV CANADA is honoured to be among Canada's Top 100 Employers for 2020, a national accolade which recognizes employers leading their industries in offering exceptional workplaces for their employees. The Company is also proud to have once again been recognized as one of Canada's Best Employers by Forbes, an accolade driven by an independent survey of over 8,000 employees working for Canadian companies with more than 500 employees from all industry sectors. Also this fiscal, two of our employees were presented with awards at the Air Traffic Control Association's annual conference for their commitment to excellence and significant contributions to the aviation industry.

David Coy
Air Traffic Controller
Thunder Bay Control Tower



Our ongoing commitment to diversity and inclusion included engagement with employees to celebrate important events including Linguistic Duality Day, International Day of Persons with Disabilities, Black History Month, Pride Month, and others. On International Women's Day, we showcased women in aviation by working with Air Canada to plan an all-women group of air traffic controllers directing an all-women flight crew from Toronto to Edmonton.

Focusing on performance management

In February 2020, we launched Excellence Every Day, a performance management program for management employees. This program helps leaders in the Company make tangible connections between corporate and strategic goals, and their teams' work. This empowers them to translate business strategy into meaningful functional or individual goals. It is designed to enable stronger performance relationships through continuous conversations, coaching, feedback and development.

Wei Wang
Technical Services Technologist
Edmonton Engineering Workcentre

Achieving collective agreements within approved mandates and without disruption

A collective agreement applied last fiscal remained closed this fiscal, and six of the other seven bargaining units – representing 98% of all represented employees at NAV CANADA – renewed their collective agreements without the need for third-party assistance. These settlements were resolved without work disruption, ensuring our continued ability to provide our critical services.

Fostering employee pride in the Company and responding to challenging times

Supporting a work environment built on excellence, NAV CANADA continues to develop and leverage internal communication channels to keep employees apprised of important developments and facilitate collaboration.

This fiscal year the newly launched internal weekly email newsletter, *NAV CANADA Now*, has been instrumental in connecting employees across the country. The newsletter achieves an average 78% open rate, well above industry standard, and has helped shine a light on operational updates, key business accomplishments, program initiatives and important events throughout the year. Our internal collaboration and social networking platform, Yammer, also saw continued growth and high employee engagement, with 650 new employees accessing the tool in fiscal 2020.

The strength of our internal communications approach was showcased through our response to the COVID-19 global pandemic. Providing timely, relevant and accurate information to employees on the state of our response has been paramount.

In fiscal 2020, thanks to the rapid development and execution of a COVID-19 communications strategy, over 100 emails were sent to all employees, dedicated pandemic update websites were launched, and 13 articles were produced that focused on the response of employees to the extraordinary circumstances. Six video messages to employees were produced by the CEO, and senior leaders hosted teleconference town halls.

Supporting employee health and wellness

With ongoing concern for employee physical and mental health and recognizing the additional stressors that a global pandemic can bring, NAV CANADA built upon its existing health and wellness programs in fiscal 2020.

Starting in March 2020, the Company provided employees with four months of additional access to virtual healthcare through Maple, a service that offers connection to online doctors, virtual consultation and prescription provision in Canada. A new video series, Wellness in Motion, was launched in April to provide employees with weekly health and wellness tips. The series topics have included routines, resilience, grieving, stress and staycations.

NAV CANADA celebrated National Mental Health week from May 4-8, by encouraging and supporting open discussions to remove the stigma surrounding mental health. And this year's Annual Health and Wellness challenge enabled employees and their families to encourage activities related to sleep, fitness, nutrition and stress management, as well as personal goals.

Enabling a remote workforce and modernizing policies

Early in the COVID-19 pandemic, NAV CANADA orchestrated the transition of over 2,000 employees to work remotely. The Company moved swiftly to facilitate remote connectivity by activating a second Virtual Private Network (VPN) access point in Cornwall and boosting the maximum number of allowable VPN connections from 1,000 to 4,000. Key online collaboration tools already in place were promoted and a remote working guide for employees was published to help ensure effective work from home. Employees were also supported with hardware including headsets, speakers, monitors and chairs to work efficiently and comfortably at home.

Work from home arrangements were viewed as a positive shift for some employees, leading to a re-examination of our approach to workplace policies. Following surveys and discussions with employees whose responsibilities allow them to work remotely, NAV CANADA launched a new Flexible Work Policy which will take effect when employees have formally transitioned back to the workplace once COVID-19 work-from-home restrictions are lifted. Flexible work arrangements can include modified hours of work, including reduced hours and compressed or variable hours of work and telework. The implementation of this policy sets the stage for an enhanced work environment following the return to normal operations and into the future.

Enhancing safety through security

Since NAV CANADA's inception, safety has been and continues to be the Company's first priority. To maintain the safety of our air navigation system, the Company must first maintain the safety of the professionals who work at our Company. For this reason, in fiscal 2020, our Emergency Management team successfully transitioned 53 of our staffed sites on to the Company's national security system. Managed by our National Security Monitoring Centre, the new system helps to ensure that only authorized personnel have access to our sites and allows our employees to stay focused on their core responsibilities.

STRATEGIC PLAN UPDATE

FINANCE AND GOVERNANCE

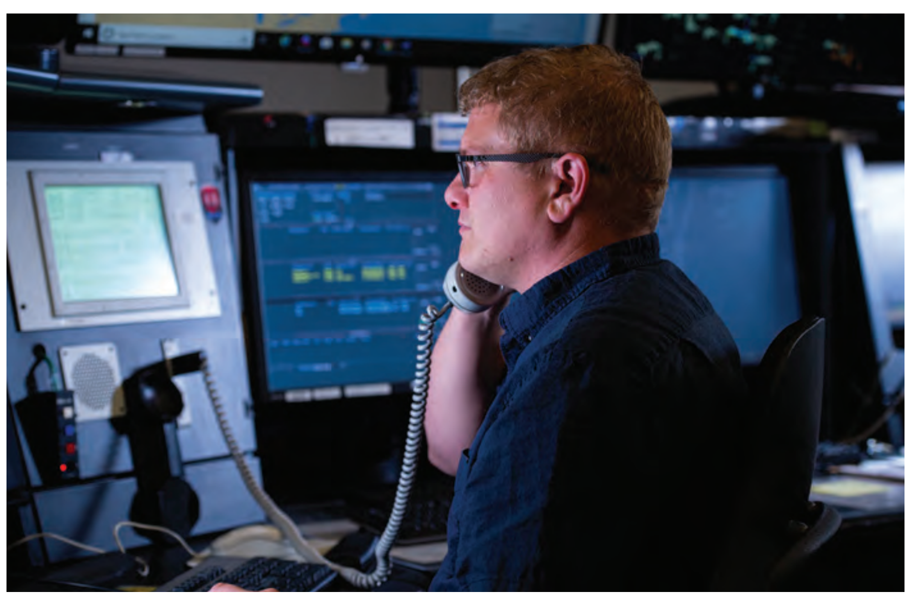
As Canada's air navigation service provider, NAV CANADA is primarily funded by fees charged for its services earned through the management of over 18 million square kilometres of airspace. Additional revenue is generated by technology sales and other related commercial activities. Operating as a private, non-share capital corporation, NAV CANADA follows a break-even business model by aligning costs with revenues and by using debt as needed to address its cash requirements. It strives to keep customer charges stable, while continuously improving safety and flight efficiency.

Photography: **Youssef Chabhar**
Flight Service Specialist
St. Catharines FSS

Financial Highlights

For the fiscal year ending August 31, 2020, the Company reported total revenue of $1,000 million, compared to $1,437 million in the previous year.

Steven Snow
Air Traffic Operations Specialist
Gander ACC



Revenue from customer service charges was $930 million, a decrease from $1,384 million in fiscal 2019. This decline in revenue reflects a 34.1 percent annual decrease in air traffic over fiscal 2019 as measured by weighted charging units. Since March 2020 the number of air traffic movements has declined substantially as a result of a decline in passenger demand given COVID-19 concerns, travel restrictions and quarantines imposed by governments, the closing of international borders and the economic impact of the pandemic. As a result, the Company's customer service charges revenue declined significantly in the third and fourth quarters of fiscal 2020 as compared to the same periods in fiscal 2019.

Operating expenses were $1,371 million, down from $1,449 million in fiscal 2019, mainly due to Canada Emergency Wage Subsidy receipts partially offsetting compensation costs and costs associated with staff reductions and through cost saving measures initiated in the second half of the year.

Net other income and expenses was an expense of $241 million as compared to an expense of $91 million in the previous year, and was caused by the accounting recognition of a reduction in the fair value of the Company's investment in preferred interests of Aireon LLC reflecting the potential impact of the COVID-19 pandemic on the aviation industry as well as increased net interest expense relating to employee benefits.

The Company had a net loss (before net movement in regulatory deferral accounts including rate stabilization) of $584 million in fiscal 2020 as compared to a net loss of $100 million in fiscal 2019.

As a result of the decline in air traffic, the rate stabilization account moved from a credit balance of $93 million at the end of fiscal 2019 to a debit balance of $255 million at the end of fiscal 2020.

Demonstrating financial prudence in challenging times

Following the World Health Organization's declaration of the COVID-19 pandemic in March 2020, government restrictions implemented to address the pandemic and the economic contraction which resulted, there has been a significant negative impact on global air traffic and on the aviation industry.

Although measures had been taken over the years to enhance the sustainability of NAV CANADA to absorb revenue shocks, including the maintenance of a positive balance in our Rate Stabilization Account, enhanced credit worthiness, alternate sources of revenue, and a strict control of operating costs, additional cost-containment measures were required to offset the revenue decreases.

In response to the impact of the pandemic, the Company reviewed, monitored and took actions to reduce capital and operating spending and cash outflows, while at the same time ensuring the continued fulfillment of the Company's mandate to safely operate and maintain the Canadian air navigation system as an essential service.

To address the significant revenue shortfall, some of the steps taken by the Company included:

- drawing $225 million from its syndicated credit facility to address near-term liquidity needs and the subsequent issuance of $850 million of general obligation notes;
- accessing the Canada Emergency Wage Subsidy government relief program to reduce our cash labour cost by a total of $86M at the end of the fiscal year 2020; and
- increasing customer service charges, effective September 1, 2020, by an average of 29.5% on overall rate levels.

Numerous cost-cutting measures were implemented where possible, including the reduction of the fiscal 2020 capital spending program by nearly $60 million and reductions in staff in temporary and permanent positions, along with early retirement incentives.

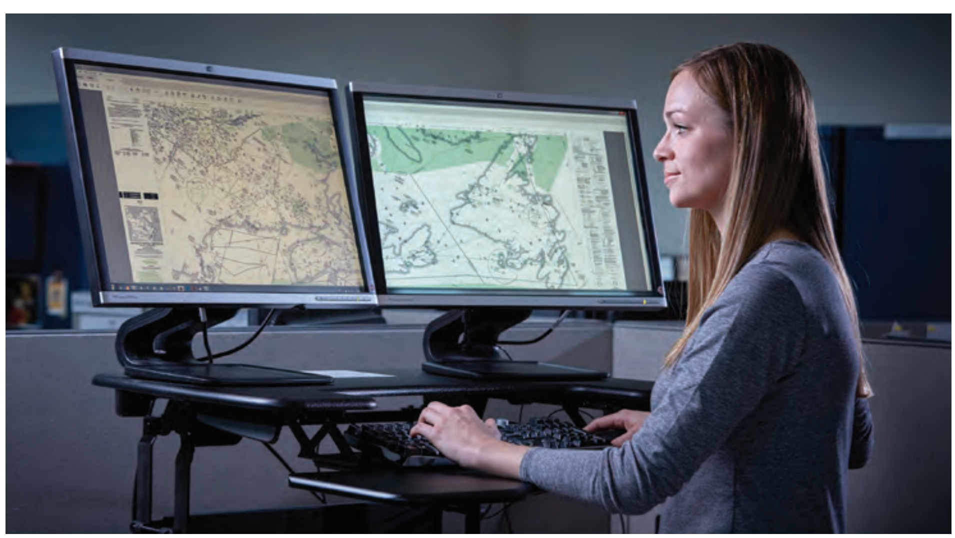
Compensation cost reductions began in March with the Executive Management Committee salary cuts and reductions to Board of Directors fees. A hiring freeze was implemented and base salary for all managers was reduced.

The Executive team was also reduced from thirteen to nine members. In addition to the annual cost savings due to the reconfiguration of the Executive Management Committee, the new streamlined structure will support the Company's ability to effectively meet its core safety and service mandate while implementing strategic initiatives that will deliver value to our stakeholders and enhance the Company's long-term financial sustainability.

Debt financing

As most of NAV CANADA's costs are fixed, the Company does not have sufficient cost flexibility to fully offset significantly lower revenues and to address the resulting reduction in cash inflows it has seen due to significant decreases in air traffic volume since the beginning of the COVID-19 pandemic. The consequent reduction of available liquidity prompted NAV CANADA to seek additional debt financing to bolster its liquidity position which it did in May 2020, through the issuance of $850 million of general obligation notes.

Elizabeth Tremblay
AIM Data Management Specialist
Ottawa Logistics Centre



Pension performance and adjustments

While the value of pension plan assets did decline in the first quarter of calendar 2020, NAV CANADA's pension plan investment strategy was designed with a long-term focus and for resiliency during market downturns. As a result, the plan remained in a surplus position on a going concern basis.

The plan's solvency deficit, however, increased in 2020, but remains above the level which would require the Company to make special cash payments to the plan. The federal government provided immediate, temporary solvency funding relief to sponsors of federally regulated defined benefit plans, which included NAV CANADA's plan.

The Office of the Superintendent of Financial Institutions also implemented certain COVID-19 measures during fiscal 2020, including a freeze on commuted value transfers. NAV CANADA, however, obtained approval for most commuted value transfers to continue. Total cash payments into the plan and the payment of pensions to retirees and other beneficiaries were not impacted by these measures.

Following a review of our total compensation costs, changes to certain parts of the NAV CANADA pension plan for executive and management employees were also implemented. Prior to these changes there have been very few changes to the plan since it was transferred from Transport Canada to NAV CANADA in 1996. The pension benefit changes would reduce the Company's pension contributions going forward to better position NAV CANADA to manage the ongoing funding of the plan.

Supporting Canadians at the NAV CENTRE

The NAV CENTRE, the largest hotel and conference centre in Eastern Ontario, played a critical role in supporting the federal government and other businesses impacted by COVID-19. Beginning in February 2020, the NAV CENTRE provided quarantine support and accommodations for 129 Canadian evacuees from the Diamond Princess cruise ship as part of the federal COVID-19 repatriation effort.

Additionally, hundreds of support personnel from various agencies were at the NAV CENTRE to assist with the government's response to COVID-19. The request from the government to quarantine the Canadian passengers was urgent and on-site issues that the Company supported included logistics, media relations, liaison with Cornwall's mayor and coordination of communications with the Public Health Agency of Canada, the Department of National Defence and the Canadian Red Cross.

Sébastien Bourgon
Team Supervisor
Montreal Control Tower

Cyber security

According to Microsoft's Digital Defense Report, cyber threats rapidly increased in sophistication over the past year, using techniques that make them harder to spot and that threaten even the savviest targets. To counteract these threats, NAV CANADA matured its cyber security measures and readiness, as measured by a third party, to its highest level to date.

In total, NAV CANADA successfully quarantined 4,337 viruses, identified 350,000 unique attackers and blocked 5 million malicious emails and 15 million intrusion attempts. This was accomplished by running 30 Company-wide phishing simulations and rebuilding the NAV CANADA security information and event management system. The Company also maintained active participation and leadership in global air navigation service provider cyber forums and completed several forensic investigations to maintain the integrity and resiliency of NAV CANADA's operations.

Strengthening resiliency

While our Company faced many unprecedented challenges due to COVID-19 in fiscal 2020, great strides were made in our long-term strategic plan to strengthen NAV CANADA's organizational resiliency. Taking steps to build the Company's capacity to withstand, plan for, respond to and recover from emergencies, employees from coast-to-coast-to-coast were involved in readiness planning, training and testing.

New business continuity plans were developed for groups within NAV CANADA and business critical service providers. Additionally, new business continuity systems were populated with emergency management data, including plans from all our flight information regions.

Reflecting the importance of these plans, some of the new resiliency measures were activated in fiscal 2020 as a result of COVID-19. Thanks to the extensive planning, dedication and professionalism of NAV CANADA's employees, the Company was able to maintain its high level of service and safety with minimal interruptions during the pandemic.

CORPORATE GOVERNANCE

Board of Directors Structure and Composition

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

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

NAV CANADA represents a unique consensus among the major stakeholders in the ANS – the Government of Canada, the commercial air carriers, general aviation, and our unionized employees. Our governance structure reflects this consensus. All four of these major stakeholders are members of the Company together with a Director member (collectively, the Members).

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

MEMBER	NUMBER OF DIRECTORS
Government of Canada	3
Commercial Air Carriers	4
General Aviation	1
Labour Unions	2
Directors	4

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

Our By-laws disqualify from directorship any person elected to the Parliament of Canada or any provincial legislature or territorial legislative assembly; federal, provincial or territorial government employees; and directors or employees of an entity that has a material interest as a supplier, client or customer of the ANS. Every director and officer of the Company is required to sign and abide by our *Code of Conduct and Conflict of Interest Guidelines for Directors and Officers* (Code of Conduct).

Directors

Directors are elected for terms not exceeding three years, with terms expiring at the Company's annual meeting. No director, other than the President and CEO, may serve as a director for more than twelve years in total. Set out below is information on the current directors, including their Committee membership and meeting attendance records for fiscal 2020.

In order to streamline and reconstitute its Committees, the Board decided, on the recommendation of the Corporate Governance Committee, to dissolve its Customer Service Charges Committee (CSCC) and establish a new Committee, the Transformation Committee, in January 2020. The CSCC's responsibilities reverted to the Board. No meeting of the CSCC was held in fiscal 2020. The Transformation Committee is comprised of the former members of the CSCC. See "Board Committees" below for the mandate and other information related to the Transformation Committee.

Marc Courtois

Director; Chair of the Board

Québec, Canada

Elected by: **Board of Directors**
Director since: **February 16, 2012**
Current Term Expires: **2021**

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	10/10
Audit & Finance Committee*	6/6
Corporate Governance Committee	4/4
Transformation Committee*	1/1
Human Resources & Compensation Committee*	13/13
Pension Committee*	4/4
Safety Committee	4/4

**ex officio member.*

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Corporate Director.

Edward M. Barrett

Director; Chair of the Transformation Committee

New Brunswick, Canada

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

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	10/10
Audit & Finance Committee*	3/3
Corporate Governance Committee	4/4
Transformation Committee	1/1
Human Resources & Compensation Committee	12/13
Pension Committee*	2/2

**Mr. Barrett was a member of the Pension Committee until January 9, 2020 at which time he joined the Audit & Finance Committee.*

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Co-CEO and Chair of Barrett Corporation.

Mary-Ann Bell

Director; Chair of the Safety Committee

Québec, Canada

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

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	10/10
Transformation Committee	1/1
Human Resources & Compensation Committee	13/13
Safety Committee	4/4

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Corporate Director.

Jean Coté

Director

Québec, Canada

Elected by: **Commercial Air Carriers**
Director since: **January 14, 2015**
Current Term Expires: **2021**

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	10/10
Human Resources & Compensation Committee	3/3
Pension Committee	4/4
Safety Committee	4/4

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Corporate Director.

Robert J. Davis

Director

Ontario, Canada

Elected by: **Commercial Air Carriers**
Director since: **April 8, 2009**
Current Term Expires: **2021***

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	10/10
Audit & Finance Committee	6/6
Human Resources & Compensation Committee	13/13

**As of January 13, 2021, Mr. Davis will have served his 12-year maximum term on the Board.*

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Corporate Director.

Michael DiLollo

Director

Ontario, Canada

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

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	10/10
Audit & Finance Committee	6/6
Safety Committee	4/4

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Managing Director, Specialty Finance, Fixed Income at Caisse de dépôt et placement du Québec (CDPQ). From June 2017 to April 2019, Senior Director, Investment, Specialty Finance, Fixed Income at CDPQ. Chief Executive Officer of Caribbean Airlines from May 21, 2014 until October 28, 2015.

Bonnie DuPont

Director; Chair of the Human Resources & Compensation Committee

Alberta, Canada

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

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	10/10
Corporate Governance Committee	4/4
Human Resources & Compensation Committee	13/13

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Corporate Director.

Marc Grégoire

Director

Québec, Canada

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

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	10/10
Audit & Finance Committee	6/6
Transformation Committee	1/1

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Corporate Director.

Linda Hohol

Director; Chair of the Audit & Finance Committee

Alberta, Canada

Elected by: **Board of Directors**
Director since: **February 16, 2012**
Current Term Expires: **2021**

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	10/10
Audit & Finance Committee	6/6
Transformation Committee	1/1
Pension Committee	4/4

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Corporate Director.

Robert Reid

Director; Chair of the Corporate Governance Committee

Ontario, Canada

Elected by: **Commercial Air Carriers**
Director since: **April 8, 2009**
Current Term Expires: **2021***

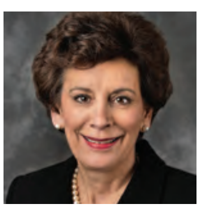
MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	9/10
Corporate Governance Committee	3/4
Human Resources & Compensation Committee	12/13

**As of January 13, 2021, Mr. Reid will have served his 12-year maximum term on the Board.*

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Corporate Director.



Michelle Savoy

Director; Chair of the Pension Committee

Ontario, Canada

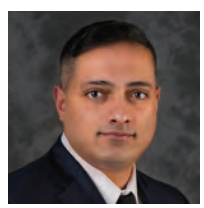
Elected by: **Government of Canada**
Director since: **December 15, 2015**
Current Term Expires: **2021**

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	10/10
Corporate Governance Committee	4/4
Pension Committee	4/4

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Corporate Director.



Umar Sheikh

Director

British Columbia, Canada

Elected by: **Labour Unions**
Director since: **January 13, 2016**
Current Term Expires: **2022**

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	10/10
Audit & Finance Committee	5/6
Safety Committee	3/4

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Former Chief Executive Officer of the British Columbia Nurses' Union.

Scott Sweatman

Director

British Columbia, Canada

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

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	10/10
Corporate Governance Committee	4/4
Transformation Committee	1/1
Pension Committee	4/4

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

Partner at Dentons Canada LLP.

David Weger

Director

Saskatchewan, Canada

Elected by: **General Aviation**
Director since: **January 10, 2018**
Current Term Expires: **2021**

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	10/10
Audit & Finance Committee*	3/3
Pension Committee*	2/2
Transformation Committee	1/1

**Mr. Weger was a member of the Audit & Finance Committee until January 9, 2020 at which time he joined the Pension Committee.*

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

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

Neil R. Wilson

Director

Ontario, Canada

Director since: **January 1, 2016**
Current Term Expires: N/A

MEETING ATTENDANCE/COMMITTEE MEMBERSHIP

Board	10/10
Pension Committee	4/4
Safety Committee	4/4

PRINCIPAL OCCUPATION HELD IN LAST FIVE YEARS

President and CEO of the Company from January 1, 2016. From December 1, 2012 to December 31, 2015, Executive Vice President, Administration and General Counsel of the Company.

Photography: **James Rail**
Technical Services Technologist
Val-d'Or Maintenance Centre

Gender Diversity

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

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

Two-thirds of the Board's members are elected by the Company's stakeholder members and while the Board cannot dictate requirements to those stakeholders, the Corporate Governance Committee of the Board regularly examines the experience, skills and attributes, including gender, required for filling Board vacancies, and communicates these requirements to our stakeholder members for their consideration when electing directors.

The Corporate Governance Committee similarly identifies desirable competencies and attributes, including gender, while ensuring an appropriate mix of skills and experience with respect to those directors elected by the Board.

Currently, one quarter (26%) of the Board members are women, with 67% of the directors elected by the Government of Canada, and 50% of the Board-elected directors, being women. There are also four women (44%) on the Executive Management Committee (EMC) of the Company. Within the senior management group, which by definition includes individuals in policy-making functions, 32% are women.

Board Committees

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

AUDIT & FINANCE COMMITTEE

MANDATE	MEETINGS HELD IN FISCAL YEAR	CURRENT MEMBERSHIP
Responsible for assisting the Board in fulfilling its oversight responsibilities relating to the Company's financial reporting and disclosure obligations, including review of annual and interim financial statements, the integrity of the Company's financial reporting and internal controls, the oversight of the Company's internal audit function, compliance with legal and regulatory requirements, and the qualifications, independence and performance of the Company's public accountants. The Committee also provides oversight on treasury matters and reviews and recommends to the Board any financing and/or financial risk management transactions proposed by management. In addition, the Committee provides oversight of the Company's cyber security strategies and implementation as they relate to the Company's business systems.	Six	Linda Hohol, Chair Edward Barrett Robert Davis Michael DiLollo Marc Grégoire Umar Sheikh

CORPORATE GOVERNANCE COMMITTEE

MANDATE	MEETINGS HELD IN FISCAL YEAR	CURRENT MEMBERSHIP
Develops general policies relating to corporate governance to ensure that the Company has in force an effective corporate governance system that adds value and assists the Company in achieving its objectives.	Four	Robert Reid, Chair Edward Barrett Marc Courtois Bonnie DuPont Michelle Savoy Scott Sweatman

HUMAN RESOURCES & COMPENSATION COMMITTEE

MANDATE	MEETINGS HELD IN FISCAL YEAR	CURRENT MEMBERSHIP
Provides oversight to ensure a high quality of leadership within NAV CANADA, an employee and labour relations strategy that provides for a productive and fulfilling work environment, and ongoing flexibility and productivity throughout the Company. As well, the Committee ensures that the human resources plans and programs reflect the Company's human resources values and principles.	Thirteen	Bonnie DuPont, Chair Edward Barrett Mary-Ann Bell Robert Davis Robert Reid

PENSION COMMITTEE

MANDATE	MEETINGS HELD IN FISCAL YEAR	CURRENT MEMBERSHIP
Oversees the investment management of plan assets and the administration of the Company's retirement plans, which include two registered pension plans and supplementary retirement arrangements. At the invitation of the Chair, an observer member, nominated by the employees' unions, attends the meetings.	Four	Michelle Savoy, Chair Jean Coté Linda Hohol Scott Sweatman David Weger Neil Wilson Doug Best, Observer

SAFETY COMMITTEE

MANDATE	MEETINGS HELD IN FISCAL YEAR	CURRENT MEMBERSHIP
Oversees the safety of the Company's air navigation services and products, primarily by monitoring the integrity and effectiveness of our risk management safety policies. In addition, the Committee provides oversight of the Company's cyber security strategies and implementation as they relate to the Company's operational facilities and operational systems.	Four	Mary-Ann Bell, Chair Jean Coté Marc Courtois Michael DiLollo Umar Sheikh Neil Wilson

TRANSFORMATION COMMITTEE

MANDATE	MEETINGS HELD IN FISCAL YEAR	CURRENT MEMBERSHIP
Responsible for the oversight of the implementation and progress of the technology and other business transformation initiatives outlined in the Company's Strategic Plan (collectively, the "Transformation Program") and for reviewing and recommending refinements to the Transformation Program from time to time to the extent necessary.	One	Edward Barrett, Chair Mary-Ann Bell Marc Grégoire Linda Hohol Scott Sweatman David Weger

Director Compensation

DIRECTORS' COMPENSATION FISCAL 2020

NAME	FEES EARNED ($)	ALL OTHER COMPENSATION [3] ($)	TOTAL ($)
Edward Barrett	125,900	7,500	133,400
Mary-Ann Bell	115,250	750	116,000
Jean Coté	93,725	–	93,725
Marc Courtois [1]	182,021	–	182,021
Robert Davis	106,775	750	107,525
Michael DiLollo	97,375	–	97,375
Bonnie DuPont	112,925	7,500	120,425
Marc Grégoire	93,175	–	93,175
Linda Hohol	115,125	6,000	121,125
Robert Reid	106,050	–	106,050
Michelle Savoy	101,150	–	101,150
Umar Sheikh	93,475	6,000	99,475
Scott Sweatman	99,025	4,500	103,525
David Weger	91,525	7,200	98,725
Neil Wilson [2]	–	–	–

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

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

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

Executive Compensation

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

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

The compensation of executive officers, other than the President and CEO, is recommended by the President and CEO and reviewed and approved by the Human Resources & Compensation Committee. The compensation of the President and CEO is recommended by the Committee and reviewed and approved by the Board. Base salaries for all executive officers, including that of the President and CEO, are designed to be competitive and are determined on the basis of outside market data as well as individual performance, responsibilities and experience level. Base salaries are reviewed annually by the Human Resources & Compensation Committee.

Base salaries for fiscal 2020 for the five highest paid executive officers were as follows:

NAME AND POSITION	ANNUAL BASE SALARY
Neil R. Wilson, President and CEO	$608,628
Rudy Kellar, Executive Vice President, Service Delivery	$353,602
Alexander N. Struthers, Executive Vice President, Finance and Chief Financial Officer	$351,447
Raymond Bohn, Executive Vice President, Human Resources, Communications and Public Affairs	$338,130
Mark Cooper, Senior Vice President, ANS Technology	$308,459

Ethical Business Conduct

The Code of Conduct is designed to govern the conduct of all directors and officers, and the disclosure and avoidance of conflicts of interest. This disclosure is updated annually, or more frequently, as required. All of the Company's directors and officers have signed a Code of Conduct and Conflict of Interest declaration. During fiscal 2020, no proceedings were taken against any director or officer by the Board under the Code of Conduct.

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

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

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

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

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

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

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

Photography: **Tim Sikkema**
Flight Service Specialist
Timmins FSS

ADVISORY COMMITTEE

After celebrating a multitude of impressive accomplishments by so many employees at the Points of Pride celebration in October 2019, NAV CANADA's 2019–20 fiscal year began well with ambitious plans to continue improving safety, efficiencies and capabilities of a rapidly expanding aviation industry and exciting traffic forecast. Then, around the time of the AGM in January, informal dialogues began to include news about the novel coronavirus later named COVID-19. No one then could have anticipated the devastating impact this would have in the months that followed.

The NAV CANADA Advisory Committee (the Committee) observed closely as NAV CANADA entered into crisis management mode to make timely and difficult decisions to safeguard the integrity of the air navigation system, protect its employees and ensure the ongoing viability of the Company. Through great efforts at all levels, NAV CANADA has been able to protect the air navigation system and provide the products and services needed by customers despite the challenges presented by the pandemic.

In addition, the Company put into place stringent health and safety measures to protect its employees from the fast spreading pathogen.

Since NAV CANADA was established under a privatized governance model in 1996 in accordance with the Civil Air Navigation Service Commercialization Act (CANSCA), the Committee has performed an important role reviewing and advising on matters of importance to both industry and the organization.

The Committee works with NAV CANADA's senior leadership team and reports directly to the Board of Directors (the Board). It is comprised of twenty experts representing aviation industry bodies, NAV CANADA's labour groups, Canadian, US and international airlines. Each representative group nominates a member for a 3-year term. Successful members are appointed after careful scrutiny to ensure the highest standard of professionalism and expertise, thereby providing a high degree of value to the Committee and ultimately to NAV CANADA and the Board.

The Committee typically meets three times a year to review, report and make recommendations to the Board on matters related to the delivery of services by NAV CANADA to its customers. Normally, two meetings are strategically aligned with major NAV CANADA events in Ottawa to permit efficient and productive interactions with NAV CANADA's senior leadership team and the Board. An October meeting is scheduled along with the Board's Joint Safety Briefing and a January meeting is held in conjunction with the NAV CANADA Annual General Meeting. The third meeting is held offsite in key regions across the country to allow the members of the Committee to observe and understand NAV CANADA's operations in the regions and meet with stakeholders in their local area. Over the past six years the Committee has visited the Okanagan (Kelowna), Winnipeg, Vancouver, Whitehorse, St John's and Toronto.

In early June 2020, the Committee had planned to travel to Edmonton to gain valuable insights into NAV CANADA's operations in the Calgary, Edmonton and northern regions. However, due to the pandemic, the Committee conducted a virtual online meeting in its place with members of the senior leadership team. Presentations and updates were provided with opportunity for the valuable exchange of ideas and concerns. Given the unparalleled reduction of global and domestic air traffic the Committee respected and empathized with NAV CANADA's senior leadership team and the difficult decisions that had to be taken.

The Committee would like to thank Rudy Kellar for his support and forthright approach to working with us over the years. Along with Rudy, we would like to wish Neil Wilson and the other NAV CANADA senior executives all the very best in retirement and on their new adventures ahead.

At the time of writing this report, service fee increases, workforce reductions and level of service changes are the principal issues of the day. These are indeed remarkably challenging times during which the Committee is committed to providing valuable collaboration, insights and constructive support to senior leadership and the Board in preparation for the recovery of our industry in the months and years ahead.

On behalf of the Committee, I wish to thank the entire NAV CANADA team for keeping our air navigation system operating safely and working to ensure we have a solid foundation from which to build our industry's recovery.

Onward through the curves,

David Deere
Chairman, NAV CANADA Advisory Committee

Advisory Committee 2020

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

OFFICERS AND OTHER INFORMATION

Neil R. Wilson
President and Chief Executive Officer

Rudy Kellar
Executive Vice President, Service Delivery

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

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

Elizabeth Cameron
Vice President, Labour Relations

Mark Cooper
Senior Vice President, Air Navigation Systems Technology

Ben Girard
Vice President, Operational Support

Trevor Johnson
Vice President, ATS Service Delivery

Leigh Ann Kirby
Vice President, General Counsel and Corporate Secretary

Larry Lachance
Vice President, Safety and Quality

Donna Mathieu
Vice President, Pension Investments and Treasurer

Andrew Norgaard
Vice President, Communications and Public Affairs

Claudio Silvestri
Vice President and Chief Information Officer

As of August 31, 2020.

LEGAL COUNSEL

Gowling WLG (Canada) LLP

AUDITORS

KPMG LLP

BANKERS

Royal Bank of Canada

CORPORATE AND FINANCIAL INFORMATION

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

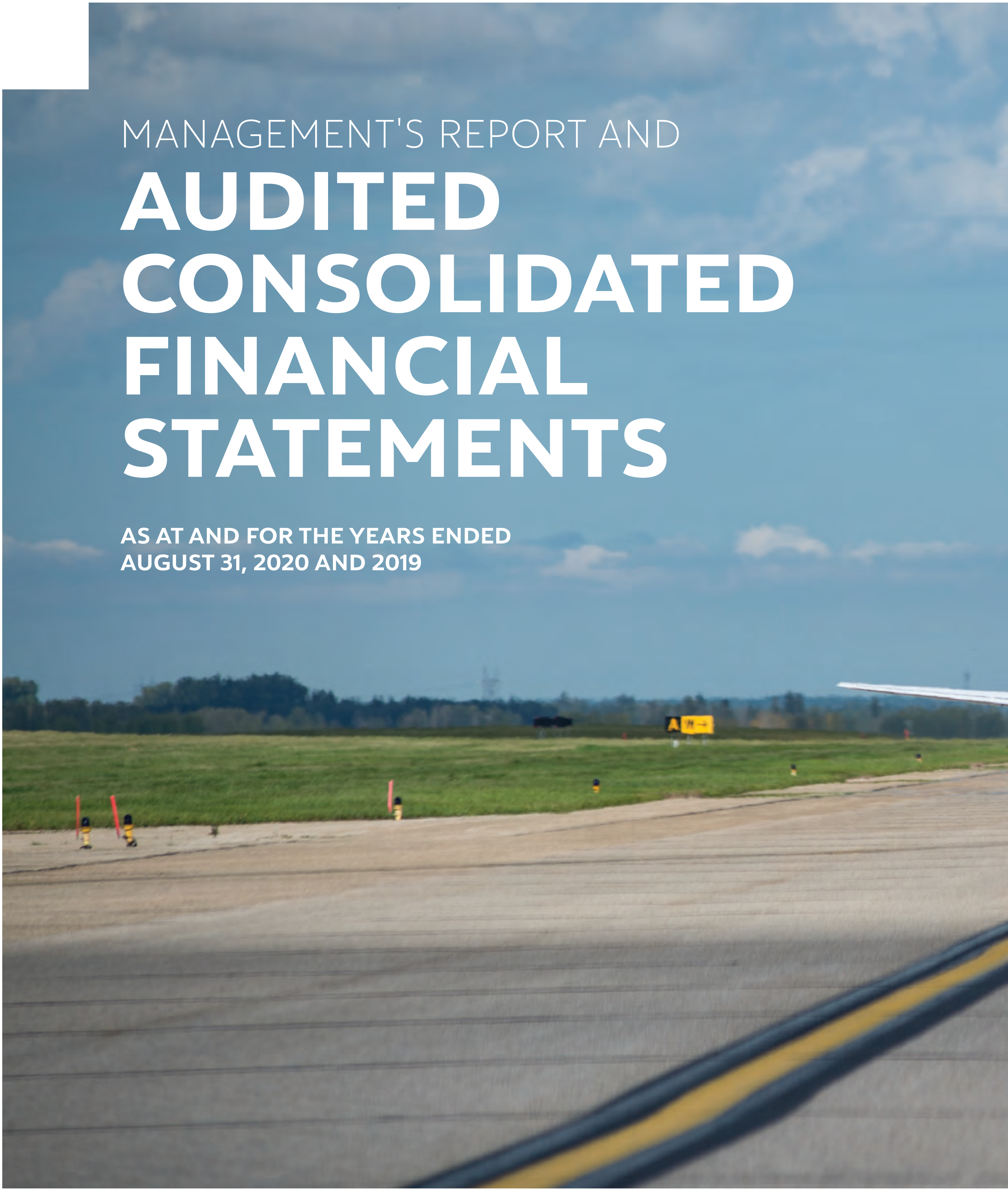
NAV CANADA
Communications
77 Metcalfe Street, Ottawa, Ontario, Canada K1P 5L6

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

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

NOTICE OF ANNUAL MEETING

The Annual Meeting of the Members of NAV CANADA will be held on Wednesday, January 13, 2021, at 2 p.m. (ET) in Ottawa, Ontario.



MANAGEMENT'S REPORT AND

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED AUGUST 31, 2020 AND 2019

MANAGEMENT'S REPORT TO THE MEMBERS OF NAV CANADA

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

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

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

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

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

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

Neil R. Wilson
President and Chief Executive Officer

October 22, 2020

Alexander N. Struthers
Vice President
and Chief Financial Officer

October 22, 2020

INDEPENDENT AUDITORS' REPORT

To the Members of NAV CANADA:

Opinion

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

- the consolidated statements of financial position as at August 31, 2020 and August 31, 2019
- the consolidated statements of operations for the years then ended
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at August 31, 2020 and August 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Other Information

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada
October 22, 2020

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

	Notes	2020	2019
Revenue			
Customer service charges	4	$ 930	$ 1,384
Other revenue	4	70	53
		1,000	1,437
Operating expenses			
Salaries and benefits	5	942	1,027
Technical services		139	114
Facilities and maintenance		66	73
Depreciation and amortization	10, 11	157	154
Other		67	81
		1,371	1,449
Other (income) and expenses			
Finance income	6	(3)	(14)
Net interest expense relating to employee benefits	13	62	38
Other finance costs	6	179	74
Other (gains) and losses		3	(7)
		241	91
Net loss before income tax and net movement in regulatory deferral accounts		(612)	(103)
Income tax recovery		(28)	(3)
Net loss before net movement in regulatory deferral accounts		(584)	(100)
Net movement in regulatory deferral accounts related to net loss, net of tax	7	584	100
Net income (loss) after net movement in regulatory deferral accounts	1	$ -	$ -

See accompanying notes to consolidated financial statements.

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

	Notes	2020	2019
Net income (loss) after net movement in regulatory deferral accounts		$ -	$ -
Other comprehensive income (loss)			
Items that will not be reclassified to income or (loss):			
Re-measurements of employee defined benefit plans	13	367	(1,040)
Net movement in regulatory deferral accounts related to other comprehensive income	7	(367)	1,040
		-	-
Items that will be reclassified to income or (loss):			
Amortization of loss on cash flow hedge		1	1
Changes in fair value of cash flow hedges		(4)	(11)
Net movement in regulatory deferral accounts related to other comprehensive income	7	3	10
		-	-
Total other comprehensive income (loss)		-	-
Total comprehensive income (loss)	1	$ -	$ -

See accompanying notes to consolidated financial statements.

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

	Notes	2020	2019
Assets			
Current assets			
Cash and cash equivalents		$ 689	$ 30
Accounts receivable and other	8	77	98
Investments	9	218	72
Other		9	13
		993	213
Non-current assets			
Property, plant and equipment	10	740	750
Intangible assets	11	874	906
Investment in preferred interests	12, 15	336	439
Investment in equity-accounted investee		7	6
Employee benefits	13	4	-
Other non-current assets		4	4
		1,965	2,105
Total assets		2,958	2,318
Regulatory deferral account debit balances	7	2,112	2,087
Total assets and regulatory deferral account debit balances		$ 5,070	$ 4,405

See accompanying notes to consolidated financial statements.

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

	Notes	2020	2019
Liabilities			
Current liabilities			
Bank loan		$ 223	$ 8
Trade and other payables		262	242
Current portion of long-term debt	14	275	25
Deferred revenue		11	7
Other current liabilities		6	1
		777	283
Non-current liabilities			
Employee benefits	13	2,042	2,226
Long-term debt	14	2,013	1,443
Deferred tax liabilities	12	21	48
Lease liability		3	-
Other non-current liabilities		2	1
		4,081	3,718
Total liabilities		4,858	4,001
Equity			
Retained earnings		28	28
Total equity		28	28
Total liabilities and equity		4,886	4,029
Regulatory deferral account credit balances	7	184	376
Commitments and contingencies	16, 17		
Total liabilities, equity and regulatory deferral account credit balances		$ 5,070	$ 4,405

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Marc Courtois, Director

Linda Hohol, Director

NAV CANADA

Consolidated Statements of Changes in Equity

(millions of Canadian dollars)

	Retained earnings	Accumulated other comprehensive income	Total
Balance August 31, 2018	$ 28	$ -	$ 28
Net income (loss) and net movement in regulatory deferral accounts	-	-	-
Other comprehensive income (loss)	-	-	-
Balance August 31, 2019	$ 28	$ -	$ 28
Balance August 31, 2019	$ 28	$ -	$ 28
Net income (loss) and net movement in regulatory deferral accounts	-	-	-
Other comprehensive income (loss)	-	-	-
Balance August 31, 2020	$ 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	2020	2019
Cash flows from (used in):			
Operating			
Receipts from customer service charges		$ 956	$ 1,386
Other receipts		66	64
Government grants received	5	86	-
Payments to employees and suppliers		(1,035)	(1,131)
Pension contributions - current service	13	(89)	(92)
Other post-employment payments		(9)	(6)
Interest payments		(73)	(80)
Interest receipts		2	2
		(96)	143
Investing			
Capital expenditures		(132)	(133)
Short-term loan		-	11
Purchase of short-term investments		(145)	-
		(277)	(122)
Financing			
Issuance of long-term debt	14	845	248
Repayment of long-term debt	14	(25)	(275)
Net proceeds from bank loans		215	8
Payment of lease liabilities		(3)	-
Disbursements from settlement of derivatives		-	(9)
Debt service reserve fund		(1)	(1)
		1,031	(29)
Cash flows from (used in) operating, investing and financing activities		658	(8)
Effect of foreign exchange on cash and cash equivalents		1	-
Increase (decrease) in cash and cash equivalents		659	(8)
Cash and cash equivalents at beginning of year		30	38
Cash and cash equivalents at end of year		$ 689	$ 30

See accompanying notes to consolidated financial statements.

1. General information

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

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

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

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

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

The COVID-19 pandemic and the resulting economic contraction has had, and is expected to continue to have, a significant negative impact on global air traffic and on the aviation industry. NAV CANADA has seen the number of air traffic movements decline since March 2020 as a result of a decline in passenger demand given COVID-19 concerns, travel restrictions imposed by governments, the closing of international borders and the economic impact of the pandemic. As a result, the Company's customer service charges revenue declined significantly in the third and fourth quarters of the fiscal year ended August 31, 2020 (fiscal 2020) as compared to the same periods in the fiscal year ended August 31, 2019 (fiscal 2019). This is due to air carriers reducing their operations, grounding fleets and cancelling flights and routes. The pandemic is expected to continue to have a negative impact on air travel globally and this will likely continue until such time as travel restrictions are eased, airline passenger concerns about air travel due to COVID-19 subside, and consumer demand for air travel returns. Industry participants are indicating it may be some time before they fully return to pre-COVID-19 operating levels. The Company expects until this occurs that reduced air traffic activity will have a material negative impact on the Company's operations and revenues.

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

2. Basis of presentation

(a) Statement of compliance

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

These consolidated financial statements were authorized for issue by the Board on October 22, 2020.

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

(c) Functional and reporting currency

These 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) 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) Key sources of estimates and assumption uncertainties

- Fair value of investment in preferred interests

  The Company's investment in preferred interests in Aireon LLC (Aireon) is accounted for as a financial instrument and designated as FVTPL. In May 2018, NATS, the United Kingdom's air navigation service provider (ANSP) made an investment in Aireon. The Company used the price paid by that investor (note 12) as a basis to estimate the fair value of Aireon and its investment in the entity through preferred interests. In August 2019, an independent assessment of the valuation of Aireon was received, confirming the value of the Company's investment in preferred interests determined based on the price paid by NATS.

  In May 2020, the Company remeasured the fair value of its investment in preferred interests of Aireon to reflect the impact of the COVID-19 pandemic as it relates to the number and frequency of air traffic movements in the aviation sector in general and the resulting impact on Aireon's operations and revenues. The fair value as at August 31, 2020 was determined using a discounted cash flow model as described in note 12.

2. Basis of presentation (continued)

(d) Critical accounting estimates and judgments (continued)

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

- Employee benefits

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

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

(e) New standards, amendments and interpretations adopted

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that had mandatory effective dates for annual periods beginning on or after January 1, 2019.

The following standard and interpretation were adopted by the Company effective September 1, 2019:

<u>IFRS 16 – Leases</u>

In January 2016, the IASB issued IFRS 16 *Leases* (IFRS 16), which replaces IAS 17 *Leases* (IAS 17) and related interpretations. IFRS 16 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 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 effective for annual periods beginning on or after January 1, 2019.

The Company adopted IFRS 16 effective September 1, 2019, using the modified retrospective approach, in accordance with the transitional provisions of the standard. As a result, the comparative information provided continues to be in accordance with the Company's previous accounting policy as disclosed in our 2019 annual consolidated financial statements.

The effect of applying IFRS 16 on September 1, 2019 had no impact on opening retained earnings as the right-of-use assets were initially measured at an amount equal to the lease liabilities. As at September 1, 2019 the Company recorded $9 as a right-of-use asset within Property, plant and equipment and a total of $9 within Other current liabilities ($3) and Lease liability ($6) on the consolidated statement of financial position (see table below). Depreciation charges for the right-of-use asset are recorded in Depreciation and amortization. Interest expense on the lease liability is recorded in Other finance costs in the consolidated statement of operations.

(millions of dollars)

2. Basis of presentation (continued)

(e) New standards, amendments and interpretations adopted (continued)

As permitted by IFRS 16, the Company elected not to recognize lease liabilities and right-of-use assets for short-term leases and leases of low value assets, which will continue to be expensed on a straight-line basis over the lease term. The Company has also applied the practical expedient to use hindsight when determining the lease term when the lease contract contains options to extend or terminate the lease.

The Company's significant accounting policy for leases is described further in note 3(l).

Impact on Financial Statements

The following table summarizes the impact of adopting IFRS 16 on our September 1, 2019 consolidated statement of financial position:

	As previously reported August 31, 2019	IFRS 16 impacts	Restated September 1, 2019
Property, plant and equipment	$ 750	$ 9	$ 759
Total assets and regulatory deferral account debit balances	$ 4,405	$ 9	$ 4,414
Other current liabilities	$ -	$ 3	$ 3
Lease liability	-	6	6
Total liabilities	$ 4,001	$ 9	$ 4,010
Total liabilities, equity and regulatory deferral account credit balances	$ 4,405	$ 9	$ 4,414

The table below presents a reconciliation of commitments under operating leases as at August 31, 2019 to the lease liability recorded as at September 1, 2019:

	September 1, 2019
Operating lease commitments as at August 31, 2019	$ 84
Discounted using the incremental borrowing rate as at September 1, 2019	$ 66
Less: Contracts outside the scope of IFRS 16, including short-term leases and leases of low-value items	$ (16)
Lease commitments that have not yet commenced	(41)
Lease liability as at September 1, 2019	$ 9

The weighted average incremental borrowing rate applied to the lease liability was 1.84%.

2. Basis of presentation (continued)

(f) Future accounting pronouncements

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.

Interest Rate Benchmark Reform – Phase 2

On August 27, 2020, the IASB issued amendments that focus on the effects of the interest rate benchmark reform on an entity's financial statements that arise when, for example, an interest rate benchmark used to calculate interest on a financial asset is replaced with an alternative benchmark rate. The Phase 2 amendments address issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues). The amendments are applicable for reporting periods beginning on or after January 1, 2021. The extent of the impact of these amendments on the Company has not yet been determined.

The amendments described below are applicable for reporting periods beginning on or after January 1, 2022. The extent of the impact of these amendments on the Company has not yet been determined.

Annual Improvements – 2018-2020 Cycle

On May 14, 2020, the IASB issued Annual Improvements to IFRS Standards 2018–2020 containing the following amendment of relevance to the Company:

IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies which fees an entity includes when it applies the '10 per cent' test of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

IAS 37 – Onerous Contracts – Costs of Fulfilling a Contract

On May 14, 2020, the IASB issued amendments to specify that the "cost of fulfilling" a contract comprises the "costs that relate directly to the contract". Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling the contract.

IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use

On May 14, 2020, the IASB issued amendments to prohibit an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity will recognise such sales proceeds and related cost in profit or loss.

IAS 1 – Classification of Liabilities as Current or Non-Current

On July 15 2020, the IASB issued amendments to IAS 1 to clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months. The classification should be unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Subsidiaries

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

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

Name of subsidiary	Principal place of business and country of incorporation	Percentage ownership
NAV CANADA Inventory Holding Company Inc.	Canada	100%
NAV CANADA ATM Inc.	Canada	100%
NAV CANADA Satellite, Inc.	United States	100%
NCPP Investment Holding Company Inc.	Canada	100%

(ii) Investments in joint ventures and associates

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

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

Interests in joint ventures are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the 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 or significant influence ceases. The Company's investment in an equity-accounted investee is reduced for distributions received during the fiscal year.

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

The Company owns 50% (August 31, 2019 - 50%) of the issued and outstanding shares of Searidge Technologies Inc. (Searidge) which is owned through NAV CANADA ATM Inc. The Company has classified its investment in Searidge as an investment in a joint venture.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

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

As discussed in note 12, the Company is party to an arrangement with Iridium and the additional investors which allows the Company to exert significant influence over the strategic financial and operating activities of Aireon. The Company's investment in Aireon is held through NAV CANADA Satellite, Inc. This arrangement is an investment in an associate and the Company will have a right to the net assets of Aireon upon exercising its right to convert its preferred interests to common interests. As at August 31, 2020, the Company's share of Aireon's net assets is $nil and therefore the Company's share of Aireon's net income (loss) and OCI is $nil. Until the Company exercises its right to convert its preferred interests to common interests, it does not have access to Aireon's net assets and accordingly this investment is accounted for as a financial instrument.

(b) Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at that date. Non-monetary assets and liabilities denominated in a foreign currency, which are accounted for at historical cost are translated using the rate in effect at the date of the initial transaction. Foreign currency gains and losses are reported on a net basis in net income (loss) within other income and expenses, except for designated cash flow hedges that are recognized in OCI.

(c) Financial instruments

(i) Recognition

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

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

(ii) Classification

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

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

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

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Measurement

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

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

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

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

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

(iv) Impairment

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

(v) Derivatives and hedge accounting

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

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

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(v) Derivatives and hedge accounting (continued)

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

Cash flow hedges

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

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

(d) Employee benefits

(i) Defined benefit plans

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

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

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

3. Significant accounting policies (continued)

(d) Employee benefits (continued)

(i) Defined benefit plans (continued)

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

The Company's 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 net amount of long-term employee benefit expense is presented in salaries and benefits expense net of any costs allocated to assets under development.

(iii) Termination benefits

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

(iv) Short-term employee benefits

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

(e) Property, plant and equipment

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

3. Significant accounting policies (continued)

(e) Property, plant and equipment (continued)

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

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

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

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

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

Other contributions to property, plant and equipment

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

(f) Intangible assets

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

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

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

The Company has the right under the ANS Act to provide civil air navigation services and the exclusive ability to set and collect customer service charges for such services. While the ANS Act does not limit the duration of these rights, for accounting purposes the Company’s air navigation right will be fully amortized by 2042, which is the recovery period established by the Board, acting as the rate regulator.

3. Significant accounting policies (continued)

(f) Intangible assets (continued)

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

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

Intangible assets under development are not amortized.

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

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

(g) Impairment of non-financial assets

At each reporting date, the Company reviews its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If so, the assets' recoverable amount is estimated. Assumptions in assessing the recoverable amount relate to the continuing right to provide civil air navigation services and the exclusive ability to set and collect customer service charges for such services. If changes in any such expectations arise, impairment charges may be required which could materially impact operating results. Assets under development are tested annually for impairment.

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

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

3. Significant accounting policies (continued)

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

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

(h) Borrowing costs

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

(i) Provisions

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

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

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

(j) Regulatory deferral accounts

The timing of recognition of certain revenue and expenses differs from what would otherwise be expected for companies that are not subject to regulatory statutes governing the level of their charges, the effect of which is described in note 7.

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

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

3. Significant accounting policies (continued)

(j) Regulatory deferral accounts (continued)

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

(k) Revenue

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

(i) Customer service charges

The majority of the Company's revenues are from customer service charges for air navigation services. Revenue is recognized as air navigation services are rendered. Rates for customer service charges are those approved by the Board, acting as rate regulator.

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

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

(ii) Service and development contracts

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

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

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

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

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

3. Significant accounting policies (continued)

(k) Revenue (continued)

Contract balances

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

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

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

(l) Leases

The following accounting policy applies as at September 1, 2019 following adoption of IFRS 16:

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

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

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

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

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

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

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

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

3. Significant accounting policies (continued)

(l) Leases (continued)

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

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

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

The following accounting policy applies to the accounting for leases prior to September 1, 2019, in accordance with IAS 17:

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, interest expense on leases and impairment losses recognized on financial assets. Interest expense on borrowings is recognized in net income (loss) as it accrues, using the effective interest method.

(n) Income taxes

(i) Current taxes

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

(ii) Deferred taxes

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

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

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

(millions of dollars)

3. Significant accounting policies (continued)

(o) Segmented reporting

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

4. Revenue

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

	2020	2019
Enroute [1]	$ 476	$ 706
Terminal [2]	364	537
Daily / annual / quarterly [3]	53	93
North Atlantic and international communication [4]	37	48
	$ 930	$ 1,384

Air traffic volumes, as measured by weighted charging units (a measure of the number of flights, aircraft size and distance flown), decreased 34.1% over the course of fiscal 2020 as compared to the fiscal 2019. The significant decrease in air traffic volumes and associated customer service charges is mainly due to the impact of the COVID-19 pandemic.

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

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

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

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

The Company has one customer representing more than 10% of revenue. For fiscal 2020, revenue from the largest customer was $178 (fiscal 2019 - $275), representing 18% (fiscal 2019 – 19%) of the revenue of the Company. The revenue from the major customer arose from air navigation services.

Other revenue for fiscal 2020 consists primarily of service and development contracts revenue of $50 (fiscal 2019 - $30).

(millions of dollars)

4. Revenue (continued)

The Company revised its customer service charges effective September 1, 2020, increasing charges by an average of 29.5% on overall rate levels. This revision was required to allow the Company to achieve a minimum level of revenue in its fiscal year ending August 31, 2021 (fiscal 2021), thereby facilitating the additional borrowings needed to provide NAV CANADA with sufficient liquidity to weather the COVID-19 pandemic.

The service charge increase includes provisions to ease the cash flow burden of the increase on customers through payment deferral mechanisms. The portion of monthly invoices related to the service charge increase can be deferred throughout NAV CANADA's fiscal 2021 and will become payable in equal installments over the following five years.

Subsequent to August 31, 2020, the Canadian Transportation Agency received an appeal by WestJet dated September 11, 2020 of the revised customer service charges set out in the Company's Announcement of Revised Service Charges dated August 12, 2020. Refer to note 21 for further details.

5. Salaries and benefits

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

	2020	2019
Salaries and other	$ 776	$ 808
Government grant [1]	(86)	-
Fringe benefits (excluding pension)	69	84
Pension current service cost	223	169
Less: capitalized salaries and benefits	(40)	(34)
	$ 942	$ 1,027

(1) In April 2020, the Company applied for the Canadian Emergency Wage Subsidy (CEWS) offered by the Government of Canada to help businesses keep workers on their payroll through the challenges posed by the COVID-19 pandemic. Under the original program of the CEWS the Company was eligible to receive up to 75% on wages of up to 1,129 dollars per week per employee (equal to a maximum of 847 dollars) for up to 24 weeks, retroactive to March 15, 2020. The CEWS was subsequently amended with redesigned subsidy details for periods between July 5, 2020 and November 21, 2020. The amendments provide for an 85% maximum combined subsidy percentage on wages of up to 1,129 dollars per week per employee (equal to a maximum of 960 dollars) that is proportional to the percentage of revenue decline. The maximum subsidy percentage is achieved with revenue declines of 70%. The maximum subsidy percentage will be gradually reduced over the amended subsidy period to November 21, 2020. Based on the September 23, 2020 Speech from the Throne, the CEWS is expected to be continued into the summer of 2021, however details of the extension are not yet known.

Receipts under the CEWS have been recorded as a reduction to Salaries and benefits expenses.

(millions of dollars)

6. Finance income and other finance costs

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

	2020	2019
Finance income		
Interest income on financial assets at amortized cost	$ (2)	$ (3)
Net change in fair value of financial assets at FVTPL	(1)	(11)
	$ (3)	$ (14)
Other finance costs		
Net change in fair value of financial assets at FVTPL [(1)]	$ 100	$ -
Interest expense on financial liabilities at amortized cost	81	79
Less: Capitalized borrowing costs	(2)	(5)
	$ 179	$ 74

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

(millions of dollars)

7. Financial statement impact of regulatory accounting

(a) Regulatory Deferral Accounts

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

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

(millions of dollars)

7. Financial statement impact of regulatory accounting (continued)

(a) Regulatory Deferral Accounts (continued)

	August 31 2018	Regulatory deferral	Recovery/ reversal	August 31 2019	Recovery Period
Regulatory deferral account debit balances					
Deferred income tax	$ 50	$ (2)	$	$ 48	3)
Employee benefits:					
Accumulating sick leave (c)	25	-	2	27	4)
Other post-employment benefits re-measurements	20	17	(6)	31	5), 9)
Pension contributions (d)	98	96	-	194	6)
Pension re-measurements (d)	643	1,010	-	1,653	6), 9)
Supplemental pension re-measurements	55	13	(4)	64	5), 9)
Realized hedging transaction	63	9	(2)	70	2), 8)
	$ 954	$ 1,143	$ (10)	$ 2,087	
Regulatory deferral account (credit) balances					
Rate stabilization account (b)	$ (124)	$ 13	$ 18	$ (93)	1)
Derivatives	(3)	11	(9)	(1)	2), 8)
Employee benefits:					
Long-term disability contributions	(5)	-	4	(1)	7)
Change in the fair value of the investment in preferred interests	(253)	(21)	-	(274)	3)
Investment in equity-accounted investee	(3)	-	-	(3)	10)
Realized hedging transaction	(6)	-	2	(4)	2), 8)
	$ (394)	$ 3	$ 15	$ (376)	

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

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

As at August 31, 2020, the balance of the rate stabilization account is in a debit position. Included in the regulatory deferral of $255 is the transfer of the credit position of $93 at August 31, 2019, which is fully offset by the deferral of unfavourable variances to budget, including the planned shortfall, of $348.

7. Financial statement impact of regulatory accounting (continued)

(a) Regulatory Deferral Accounts (continued)

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

Fair value losses (gains) on foreign exchange forward contracts are considered for rate setting in the period that they are realized.

3) The regulatory deferrals related to the Company's investment in Aireon are considered for rate setting when they are realized in cash through the receipt of dividends net of tax. As discussed in note 12, the decrease in fiscal 2020 is as a result of the decrease in the fair value of the Company's investment in preferred interests of Aireon.

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

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

6) The Company's cost of pension benefits for its funded plans are considered for rate setting based on the Company's cash contributions to the pension funds as described in note 7 (d) below. Pension adjustments related to the adoption of IFRS and subsequent re-measurements are deferred and considered for rate setting purposes as cash contributions to the pension funds are made.

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

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 OCI due to changes in fair value of cash flow hedges for fiscal 2020 of $3 is comprised of $1 related to the amortization of losses on realized hedging transactions to net income (loss) and $4 to defer positive fair value adjustments related to derivatives designated as cash flow hedges.

9) The net movement in regulatory deferral accounts related to OCI due to re-measurements of employee defined benefit plans for fiscal 2020 is $367 which consists of pension re-measurement gains of $347, supplemental pension re-measurement gains of $22, partially offset by other post-employment benefits re-measurement losses of $2.

10) The unrealized gain on the Company's remaining 50% interest in Searidge, as well as its share of Searidge's net assets, are considered for rate setting when realized in cash net of tax (e.g. through a sale of all or a portion of the Company's interest or the receipt of dividends).

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

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

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

(millions of dollars)

7. Financial statement impact of regulatory accounting (continued)

(a) 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 consolidated statement of operations:

	2020	2019
Before net movement in regulatory deferral accounts:		
Revenue	$ 1,000	$ 1,437
Operating expenses	1,371	1,449
Other (income) and expenses	241	91
Income tax recovery	(28)	(3)
	(584)	(100)
Net movement in regulatory deferral accounts:		
Rate stabilization adjustments (b)	348	31
Other regulatory deferral account adjustments:		
Employee benefit pension contributions	177	96
Other employee benefits	(18)	(5)
Investment in preferred interests, before tax	103	(21)
Investment in equity-accounted investee	(1)	-
Income tax	(27)	(2)
Realized hedging transactions	1	1
Other	1	-
	236	69
	584	100
Net income (loss), after rate stabilization and regulatory deferral account adjustments	$ -	$ -

(b) Rate Stabilization Account

The rate stabilization account balance is comprised of operating deferrals. Should actual revenue exceed the Company's actual expenses, such excess is reflected as a credit to the rate stabilization account. Conversely, should actual revenue be less than actual expenses, such shortfall is reflected as a debit to the rate stabilization account. A debit balance in the rate stabilization account represents amounts recoverable through future customer service charges, while a credit balance represents amounts returnable through reductions in future customer service charges. As at August 31, 2020, the rate stabilization account had a debit balance of $255 (refer to table below).

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

(millions of dollars)

7. Financial statement impact of regulatory accounting (continued)

(b) Rate Stabilization Account (continued)

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

	Year ended August 31 2020	2019
Rate stabilization account credit balance, beginning of period	$ 93	$ 124
Variances from planned results:		
Revenue lower than planned	(518)	(10)
Operating expenses lower (higher) than planned	194	(3)
Other (income) and expenses (higher) lower than planned	(112)	27
Net movement in other regulatory deferral accounts	123	(27)
Total variances from planned results	(313)	(13)
Initial approved adjustment (1)	(35)	(18)
Net movement in rate stabilization account recorded in net loss	(348)	(31)
Rate stabilization account credit (debit) balance, end of period	$ (255)	$ 93

(1) In order to achieve breakeven results of operations in fiscal 2020, the Board approved the fiscal 2020 budget with a reduction of the rate stabilization account as a result of a planned shortfall. As a result, $35 has been transferred out of the rate stabilization account evenly throughout the fiscal year (fiscal 2019 - $18).

(c) Employee benefits – accumulating sick leave debit balances

	August 31 2020	August 31 2019
Non-vesting accumulating sick leave	$ 17	$ 17
Vested accumulating sick leave	6	10
Total accumulating sick leave	$ 23	$ 27

(millions of dollars)

7. Financial statement impact of regulatory accounting (continued)

(d) Pension Contributions

Included in regulatory deferral account debit balances at August 31, 2020 is $371 relating to the recovery through customer service charges of pension contributions (August 31, 2019 - $194). The accrued pension benefit liability, net of regulatory deferrals is as follows:

	August 31 2020	August 31 2019
Employee benefit liability	$ (1,643)	$ (1,813)
Less:		
Regulatory deferrals of non-cash adjustments	1,306	1,653
Benefit contributions less than benefit expense	$ (337)	$ (160)
Regulatory debit balances - recovery of contributions	$ 371	$ 194
Regulatory expense cumulatively less than contributions	$ 34	$ 34

The Company uses a regulatory approach to determine the net charge to net income (loss) for pension benefit costs for its funded plans. The objective of this approach is to reflect the cash cost of the funded pension plans in net income (loss) by recording an adjustment to the related regulatory deferral account. These regulatory adjustments are the difference between the pension benefit costs as determined by IAS 19 *Employee Benefits* and the annual going concern cash cost of the plan. Included in the regulatory deferral related to pension contributions of $371, is the recovery of $10 of solvency deficiency contributions of $44 paid in fiscal 2017. The remaining balance of $34 is expected to be recovered through future customer service charges. The funding of employee pension benefits as compared to the expense, net of regulatory adjustments, recorded in the consolidated statement of operations is summarized below.

	Years ended August 31 2020	2019
Consolidated statement of operations		
Pension current service expense [1]	$ 218	$ 164
Net interest expense [1]	50	24
Less: Regulatory deferrals	(177)	(96)
	91	92
Company cash pension contributions		
Going concern current service	91	92
Regulatory recovery of fiscal 2017 solvency contributions	$ -	$ -

(1) For fiscal 2020, pension current service expense does not include $5 related to the Company's unfunded pension plan (fiscal 2019 - $5) and net interest expense does not include $4 related to the Company's unfunded pension plan (fiscal 2019 - $5).

(millions of dollars)

8. Accounts receivable and other

Accounts receivable and other were comprised of the following:

	August 31 2020	August 31 2019
Trade receivables	$ 51	$ 75
Accrued receivables and unbilled work in progress	22	20
Commodity taxes receivable	4	4
Allowance for doubtful accounts	-	(1)
	$ 77	$ 98

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

9. Current investments

Current investments were comprised of the following:

	August 31 2020	August 31 2019
Short-term investments (a)	$ 145	$ -
Debt service reserve fund (b)	73	72
	$ 218	$ 72

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

(b) Pursuant to the Master Trust Indenture (note 14), the Company is required to establish and maintain certain reserve funds, as follows:

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

Pursuant to the General Obligation Indenture (note 14), 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.

(millions of dollars)

10. Property, plant and equipment

Property, plant and equipment are comprised of the following:

	Land and buildings[1]	Systems and equipment	Assets under development	Total
Cost				
Balance at August 31, 2018	$ 266	$ 628	$ 146	$ 1,040
Additions	-	-	103	103
Disposals	-	(1)	-	(1)
Transfers	14	118	(132)	-
Balance at August 31, 2019	$ 280	$ 745	$ 117	$ 1,142
Balance at August 31, 2019	$ 280	$ 745	$ 117	$ 1,142
IFRS 16 transitional amount	9	-	-	9
Additions	-	-	67	67
Transfers	5	118	(123)	-
Balance at August 31, 2020	$ 294	$ 863	$ 61	$ 1,218
Accumulated depreciation				
Balance at August 31, 2018	$ 51	$ 254	$ -	$ 305
Depreciation	18	70	-	88
Disposals	-	(1)	-	(1)
Balance at August 31, 2019	$ 69	$ 323	$ -	$ 392
Balance at August 31, 2019	$ 69	$ 323	$ -	$ 392
Depreciation	21	65	-	86
Balance at August 31, 2020	$ 90	$ 388	$ -	$ 478
Carrying amounts				
At August 31, 2019	$ 211	$ 422	$ 117	$ 750
At August 31, 2020	$ 204	$ 475	$ 61	$ 740

(1) Included in Land and buildings is the right-of-use asset related to the Company's head office lease (refer to note 2 (e)). Depreciation of $3 was recognized during fiscal 2020 resulting in a carrying amount of $6 as at August 31, 2020.

(millions of dollars)

11. Intangible assets

Intangible assets are comprised of the following:

	Air navigation right	Purchased software	Internally developed software	Assets under development	Total
Cost					
Balance at August 31, 2018	$ 702	$ 170	$ 229	$ 60	$ 1,161
Additions	-	-	-	41	41
Disposals	-	-	(1)	-	(1)
Transfers	-	25	37	(62)	-
Balance at August 31, 2019	$ 702	$ 195	$ 265	$ 39	$ 1,201
Balance at August 31, 2019	$ 702	$ 195	$ 265	$ 39	$ 1,201
Additions	-	-	-	39	39
Transfers	-	3	28	(31)	-
Balance at August 31, 2020	$ 702	$ 198	$ 293	$ 47	$ 1,240
Accumulated amortization					
Balance at August 31, 2018	$ 100	$ 64	$ 65	$ -	$ 229
Amortization	25	19	22	-	66
Balance at August 31, 2019	$ 125	$ 83	$ 87	$ -	$ 295
Balance at August 31, 2019	$ 125	$ 83	$ 87	$ -	$ 295
Amortization	25	19	27	-	71
Balance at August 31, 2020	$ 150	$ 102	$ 114	$ -	$ 366
Carrying amounts					
At August 31, 2019	$ 577	$ 112	$ 178	$ 39	$ 906
At August 31, 2020	$ 552	$ 96	$ 179	$ 47	$ 874

12. Investment in preferred interests of Aireon

In November 2012, the Company entered into agreements (the November 2012 agreements) setting out the terms of its participation in Aireon, a joint venture with Iridium. Aireon's mandate is to provide global satellite-based surveillance capability for ANSPs around the world through Automatic Dependent Surveillance-Broadcast (ADS-B) receivers built as an additional payload on the Iridium NEXT satellite constellation. Aireon commenced operations on March 27, 2019.

In December 2013, the November 2012 agreements were amended (the December 2013 agreements) to provide for the making of an aggregate investment of $120 U.S. ($157 CDN) in Aireon by three additional major ANSPs, namely ENAV (Italy), the Irish Aviation Authority (IAA), and Naviair (Denmark).

In May 2018, the December 2013 agreements were amended to provide for the making of an investment of $69 U.S. ($90 CDN) in Aireon by NATS.

12. Investment in preferred interests of Aireon (continued)

In accordance with the governing agreements, a portion of Iridium's existing common equity interest in Aireon will be redeemed for a payment from Aireon of $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 45.3% of the fully diluted common equity interests of Aireon, ENAV and NATS will hold 11.1%, and each of IAA and Naviair will hold 5.3%, with the remaining 21.8% being retained by Iridium. This redemption is expected to occur by January 2, 2022.

As at August 31, 2020, the Company's cash investment in Aireon is $150 U.S. ($196 CDN) (August 31, 2019 - $150 U.S. ($200 CDN)). The Company is represented by five out of the eleven directors on Aireon's board of directors. As at August 31, 2020, the Company's total fully diluted common equity interest on a post conversion basis and prior to the redemption by Iridium is 37.2% (August 31, 2019 - 37.2%).

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 January 2022 in the event the preferred interests have not been converted to common equity or redeemed by that time. The cash payments for these mandatory redemptions will include any unpaid dividends.

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

As long as the conversion feature remains unexercised, the Company's investment in preferred interests does not give the Company any rights to the residual net assets of Aireon and accordingly the investment is accounted for as a financial instrument classified and measured at FVTPL.

Following the investment by NATS in May 2018, the Company used the price paid by NATS for an investment in preferred interests in Aireon to determine the fair value of its investment in Aireon from that date up to and as at August 31, 2018. In August 2019, an independent assessment of the valuation of Aireon was received, confirming the value of the Company's investment in preferred interests determined based on the price paid by NATS.

As at August 31, 2020, the Company measured the fair value of its investment in preferred interests of Aireon at $258 U.S. ($336 CDN) (August 31, 2019 - $330 U.S. ($439 CDN)), which reflects the impact of the COVID-19 pandemic as it relates to the number and frequency of air traffic movements in the aviation sector in general, the resulting impact on Aireon's operations and revenues and the expected timing of when future dividends from Aireon may be received. While not all of Aireon's revenue will be impacted, overall revenue levels are expected to decline and the reduction in air traffic is expected to delay Aireon in signing new customers for space-based air traffic surveillance data services. Included in the fair value presented in the statement of financial position as at August 31, 2020 are dividends receivable of $58 U.S ($76 CDN) (August 31, 2019 - $47 U.S. ($63 CDN)).

The fair value as at August 31, 2020 was determined using a discounted cash flow model, where the valuation model considers the present value of expected future amounts, discounted using a risk-adjusted discount rate. The critical assumptions and estimates used when determining the fair value are:

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

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

(millions of dollars)

12. Investment in preferred interests of Aireon (continued)

The Company's deferred tax assets and liabilities at August 31, 2020 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 $67 CDN (August 31, 2019 - $83 CDN) primarily due to the decrease in the fair value of the Company's investment in Aireon. The Company has recognized deferred tax assets amounting to $46 CDN (August 31, 2019 - $35 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.

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 2020	August 31 2019
Investment in preferred interests	$ 336	$ 439
Deferred tax liability	(21)	(48)
Financial position impact before regulatory accounting	$ 315	$ 391
Regulatory deferral account debit balances		
Deferred regulatory income tax liability	$ 21	$ 48
Regulatory deferral account credit balances		
Cumulative change in fair value of the investment in preferred interests	$ (171)	$ (274)
Net financial position impact after regulatory accounting	$ 165	$ 165

After regulatory accounting, the Company's investment in preferred interests of Aireon on the statement of financial position reflects the actual amounts paid by the Company (at the exchange rates prevailing on the dates of the transactions). The use of regulatory deferral accounts defers the accounting recognition of transactions related to the Company's investment in Aireon on the Company's consolidated statement of operations. As a result, there is no net impact on the Company's consolidated statement of operations for the year ended August 31, 2020 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.

During fiscal 2019, Aireon entered into a long-term financing agreement with a major international bank and used a portion of the funds drawn under that agreement to settle the bridge financing made available by the Company of $29 U.S. ($38 CDN) and other long-term liabilities. Aireon repaid $8 U.S. ($11 CDN), representing the total drawn under the bridge financing agreement along with accrued interest.

(millions of dollars)

12. Investment in preferred interests of Aireon (continued)

Aireon's fiscal year end is December 31. IAS 28 limits the difference between the end of the reporting period of an associate or joint venture and that of the investor to no more than three months and requires adjustment to the results for any significant transactions that occur during the intervening period. The Company has chosen a two-month lag period and therefore the August 31, 2020 and August 31, 2019 information presented below is based on Aireon's financial position and financial performance as at June 30, 2020 and June 30, 2019, respectively. All amounts are translated from U.S. dollars.

No significant transactions occurred during the intervening periods that were necessary to adjust for in Aireon's financial information presented as at and for the year ended August 31, 2020.

	August 31 2020	August 31 2019
Current assets		
Cash and cash equivalents	$ 40	$ 45
Prepaid expenses and other current assets	53	21
Non-current assets		
Property, plant and equipment	521	574
Other non-current assets	3	4
	$ 617	$ 644
Current liabilities		
Trade and other payables	$ (10)	$ (9)
Deferred revenue	(2)	(2)
Non-current liabilities		
Financial liabilities	(1,137)	(1,027)
	$ (1,149)	$ (1,038)
Net assets	$ (532)	$ (394)

	Years ended August 31	
	2020	2019
Revenue	$ 82	$ 18
Interest expense	$ 97	$ 74
Depreciation	$ 54	$ 14
Net loss	$ (151)	$ (183)
Other comprehensive income (loss)	13	(7)
Total comprehensive loss	$ (138)	$ (190)

(millions of dollars)

13. Employee benefits

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

	Pension benefit plans		Other benefit plans	
	2020	2019	2020	2019
Statement of operations				
Current service costs	$ 223	$ 169	$ 7	$ 5
Interest cost	240	257	6	7
Interest income on plan assets	(186)	(228)	-	-
Total expense	$ 277	$ 198	$ 13	$ 12
Statement of other comprehensive income				
Re-measurements:				
Return on plan assets, excluding interest income on plan assets	$ (276)	$ (269)	$ -	$ -
Actuarial (gains) losses	(93)	1,292	2	17
Total (income) cost recognized in other comprehensive income (loss)	$ (369)	$ 1,023	$ 2	$ 17

Net interest costs relating to employee benefits of $62 for fiscal 2020 (fiscal 2019 - $38) are comprised of interest costs and interest income on plan assets as noted above for pension benefit plans and other benefit plans, including an additional $2 (fiscal 2019 - $2) of interest costs related to long-term sick leave benefits.

(millions of dollars)

13. Employee benefits (continued)

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

	August 31 2020	August 31 2019
Recognized asset for long-term disability benefits	$ 4	$ -

	August 31 2020	August 31 2019
Present value of funded defined benefit obligations	$ (8,441)	$ (8,256)
Fair value of plan assets	6,798	6,443
Liability for funded defined benefit obligations	$ (1,643)	$ (1,813)
Liability for unfunded pension defined benefit obligations	(128)	(144)
Liability for unfunded other defined benefit obligations	(224)	(218)
Recognized liability for defined benefit plans	(1,995)	(2,175)
Long-term employee benefit liabilities	(47)	(51)
Total long-term employee benefit liabilities (1)	$ (2,042)	$ (2,226)

(1) Includes long-term disability liability of $3 as at August 31, 2019.

The most recent actuarial funding valuations were carried out as at January 1, 2020.

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, 2020 and August 31, 2019.

13. 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 predetermined rates. The Company is required to contribute the balance of the funding necessary for Part A and Part B to ensure that benefits will be fully provided. The determination of the value of these benefits is made on the basis of an annual actuarial valuation for funding purposes performed as at January 1.

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

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

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

13. 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 certain senior executive employees of the Company. This plan is also registered under the PBSA. Members are neither required nor permitted to make contributions to the 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.

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

(b) Pension plan funding requirements

Actuarial valuations for pension funding purposes are performed annually as at January 1 and are required to be filed with the Office of the Superintendent of Financial Institutions Canada (OSFI) by June of the same year. The January 1, 2020 funding valuation was filed with OSFI in September 2020, in line with a filing extension provided by OSFI in response to the COVID-19 pandemic.

Once the valuations are filed, going concern pension contributions are based on the January 1, 2020 actuarial valuations, with a retroactive adjustment to the beginning of the calendar year. The regulations governing the funding of federally regulated pension plans require actuarial valuations to be performed on both a going concern and a solvency basis. The actuarial valuations performed as at January 1, 2020 reported a going concern surplus of $933 (January 1, 2019 - $738) and a statutory solvency deficiency of $192 (January 1, 2019 - $164).

(millions of dollars)

13. Employee benefits (continued)

(b) Pension plan funding requirements (continued)

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

	Years ended August 31	
	2020	2019
Funded pension plan		
Going concern current service costs	$ 91	$ 93
Unfunded pension plan	3	2
Unfunded other defined benefit plans	9	6
Less: capitalized amounts	(5)	(3)
	$ 98	$ 98

On a preliminary basis, going concern pension contributions for fiscal 2021 are estimated to be $105 with no requirement for cash special payments expected.

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

On April 15, 2020, the Minister of Finance announced a moratorium on solvency special payments which came into force on May 27, 2020, whereby defined benefit plan sponsors are not required to make solvency special payments due for the months of March to November 2020.

The Company has the option of meeting its pension solvency funding requirements with letters of credit or cash contributions, with the maximum letters of credit based on 15% of solvency liabilities. As at August 31, 2020, the Company has put in place letters of credit totaling $533 to meet its cumulative pension solvency funding requirements, including $19 in fiscal year 2020. Outstanding letters of credit represent 7% of solvency liabilities.

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

(millions of dollars)

13. Employee benefits (continued)

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

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

	Pension benefit plans		Other benefit plans	
	2020	2019	2020	2019
Change in benefit obligations				
Defined benefit obligations at August 31, prior year	$ 8,400	$ 6,864	$ 218	$ 195
Benefits paid	(232)	(215)	(9)	(6)
Plan participants' contributions	31	33	-	-
Current service cost	223	169	7	5
Interest cost	240	257	6	7
Actuarial loss (gain) from change in demographic assumptions	(25)	13	1	1
Actuarial loss (gain) from change in financial assumptions	(157)	1,267	1	26
Actuarial loss (gain) arising from experience adjustments	89	12		(10)
Defined benefit obligations at August 31	$ 8,569	$ 8,400	$ 224	$ 218
Change in plan assets				
Fair value of plan assets at August 31, prior year	$ 6,443	$ 6,033	$ -	$ -
Return on plan assets, excluding interest income	276	269	-	-
Interest income	186	228	-	-
Employer contributions	94	95	9	6
Plan participants' contributions	31	33	-	-
Benefits paid	(232)	(215)	(9)	(6)
Fair value of plan assets at August 31	6,798	6,443	-	-
Net defined benefit liability	$ (1,771)	$ (1,957)	$ (224)	$ (218)
Liability for unfunded defined benefit obligations at August 31	$ (128)	$ (144)	$ (224)	$ (218)
Liability for funded defined benefit obligations at August 31	$ (1,643)	$ (1,813)	$ -	$ -

(millions of dollars)

13. Employee benefits (continued)

(d) Fair value measurement of pension plan assets

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

	August 31, 2020		August 31, 2019	
	Quoted market price in an active market	No quoted market price in an active market	Quoted market price in an active market	No quoted market price in an active market
Equities	19%	16%	20%	12%
Fixed income[1]	0%	38%	0%	39%
Real assets	0%	16%	0%	15%
Absolute return strategies	0%	5%	0%	7%
Private debt	0%	5%	0%	6%
Cash	1%	0%	1%	0%
	20%	80%	21%	79%

(1) The LDI strategy (discussed in (g) below) is comprised of a 1.9:1 leveraged portfolio of long Canadian nominal and real return bonds. Leverage is achieved largely through the use of sale and repurchase agreements. As of August 31, 2020, the strategy represented 29% of net plan assets with leverage providing an additional 26% exposure (fiscal 2019 - 21%).

(e) Actuarial assumptions

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

	Funded plans		Unfunded plans	
	August 31 2020	August 31 2019	August 31 2020	August 31 2019
Discount rate, defined benefit obligations	2.80%	2.90%	2.69%	2.86%
Discount rate, defined benefit expense	2.90%	3.80%	2.86%	3.78%
Future salary increases	2.40%	3.10%	2.40%	3.10%
Medical cost trend rate	N/A	N/A	5.00%	5.00%
Inflation	2.00%	2.00%	2.00%	2.00%

The average rate of salary increases is expected to be equal to the rate of inflation with an adjustment for merit and productivity gains. An increase of 5.0% in drug and other health benefit costs were assumed for fiscal 2020 and all years thereafter.

(millions of dollars)

13. 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:

	2020	2019
Longevity at age 65 for current pensioners		
Males	23.0	22.9
Females	24.8	24.8
Longevity at age 65 for current members age 45		
Males	24.0	23.9
Females	25.7	25.7

As at the annual measurement date of August 31, 2020, the weighted-average duration of the defined benefit obligation was 19.1 years (August 31, 2019 – 19.2 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%	$ (405)	$ 434	$ (23)	$ 23
Salary, indexation, government benefit increases	0.25%	$ 402	$ (374)	$ 25	$ (23)
Health care trend rate	1%	$ 25	$ (20)	$ 1	$ (1)
Longevity (in years) for those currently aged 65	1 year	$ 290	$ (290)	$ 14	$ (14)

13. Employee benefits (continued)

(g) Risks associated with the defined benefit plans

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

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

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

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

14. Long-term debt

As NAV CANADA is a non-share capital corporation, the Company's initial acquisition of the ANS and its ongoing requirements are financed with debt. Until February 21, 2006, all indebtedness was incurred and secured under a 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 (note 9). 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 $850 syndicated bank credit facility (note 15 (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, 2020, this amount is $425 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 $425 of the $850 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 $425 portion of the credit facility along with the $250 series 96-3 bonds and $175 series 97-2 bonds gives a total of $850 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)

14. Long-term debt (continued)

(b) Debt

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

	August 31 2020	August 31 2019
Bonds and notes payable		
Issued under the Master Trust Indenture:		
$250 face value 7.40% revenue bonds, series 96-3, maturing June 1, 2027	$ 250	$ 250
$500 initial face value 7.56% amortizing revenue bonds, series 97-2, maturing March 1, 2027	175	200
	425	450
Issued under the General Obligation Indenture:		
$550 face value 2.924% general obligation notes, series MTN 2020-1, maturing September 29, 2051 (1)	550	-
$300 face value 2.063% general obligation notes, series MTN 2020-2, maturing May 29, 2030 (1)	300	-
$250 face value 3.209% general obligation notes, series MTN 2019-1, maturing September 29, 2050	250	250
$275 face value 3.293% general obligation notes, series MTN 2018-1, maturing March 30, 2048	275	275
$250 face value 3.534% general obligation notes, series MTN 2016-1, maturing February 23, 2046	250	250
$250 face value 4.397% general obligation notes, series MTN 2011-1, maturing February 18, 2021	250	250
	1,875	1,025
Total bonds and notes payable	2,300	1,475
Adjusted for deferred financing costs and discounts	(12)	(7)
Carrying value of total bonds and notes payable	2,288	1,468
Less: current portion of long-term debt (2)	(275)	(25)
Total long-term debt	$ 2,013	$ 1,443

(1) On May 29, 2020, the Company issued $850 of General Obligation Notes in two series: $550 Series MTN 2020-1 General Obligation Notes with an annual interest rate of 2.924%, maturing on September 29, 2051 and $300 Series MTN 2020-2 General Obligation Notes with an annual interest rate of 2.063%, maturing on May 29, 2030.

(2) The current portion of long-term debt relates to the $250 Series MTN 2011-1 General Obligation Notes that matures on February 18, 2021 and the annual amortization payment of $25 for the Series 97-2 amortizing revenue bonds.

14. Long-term debt (continued)

(b) Debt (continued)

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

The Company is in compliance with all covenants of the Master Trust Indenture and General Obligation Indenture as at August 31, 2020.

As at August 31, 2020, the Company has drawn $223 from its syndicated credit facility in addition to the issue of $850 of General Obligation Notes. The net proceeds of these notes are being used for general corporate purposes, including the repayment of borrowings under the syndicated credit facility which will enhance the Company's liquidity reserves.

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

15. Financial instruments and financial risk management

Summary of financial instruments

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

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 — Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

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

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

(millions of dollars)

15. Financial instruments and financial risk management (continued)

Summary of financial instruments (continued)

The following table presents the carrying amount of the Company's financial instruments, by classification category and includes the fair value hierarchy classification for each financial instrument. Excluding long-term debt, the carrying amount approximates the fair value for all of the Company's financial instruments.

	August 31, 2020		
	Amortized Cost	FVTPL	Fair value hierarchy
Financial assets			
Cash and cash equivalents [1]	$ 689	$ -	
Accounts receivable and other	73	-	
Current investments			
Short-term investments [2]	145		
Debt service reserve fund	73	-	
Investment in preferred interests [3]	-	336	Level 3
Related party loan receivable	3	-	
Other non-current assets			
Long-term receivables	1	-	
	$ 984	$ 336	
Financial liabilities			
Bank loan [4]	$ 223	$ -	
Trade and other payables			
Trade payables and accrued liabilities	255	-	
Derivative liabilities [5]	-	3	
Long-term debt (including current portion)			
Bonds and notes payable [6]	2,288	-	Level 2
Long-term derivative liabilities [5]	-	1	
Lease liability (including current portion) [7]	6	-	
	$ 2,772	$ 4	

(millions of dollars)

15. Financial instruments and financial risk management (continued)

Summary of financial instruments (continued)

	August 31, 2019		
	Amortized Cost	FVTPL	Fair value hierarchy
Financial assets			
Cash and cash equivalents [2]	$ 30	$ -	
Accounts receivable and other	94	-	
Current investments			
Debt service reserve fund	72	-	
Other current assets			
Derivative assets [5]	-	1	Level 2
Investment in preferred interests [3]	-	439	Level 3
Related party loan receivable	3	-	
Other non-current assets			
Long-term receivables	1	-	
	$ 200	$ 440	
Financial liabilities			
Bank loan [4]	$ 8	$ -	
Trade and other payables			
Trade payables and accrued liabilities	233	-	
Derivative liabilities [5]	-	1	Level 2
Long-term debt (including current portion)			
Bonds and notes payable [6]	1,468	-	Level 2
	$ 1,709	$ 1	

(1) As at August 31, 2020, cash and cash equivalents include $430 of highly liquid instruments with original terms to maturity of less than three months (August 31, 2019 - $5).

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

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

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

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

(6) The fair value of the Company's bonds and notes payable is classified as Level 2 in the fair value hierarchy as it is determined using secondary market ask prices at the reporting date. As at August 31, 2020, the fair value was $2,659 (August 31, 2019 - $1,771) inclusive of accrued interest of $27 (August 31, 2019 - $20).

(7) The lease liability is measured on a discounted cash flow basis using the Company's incremental borrowing rate.

There have been no transfers between levels of the fair value hierarchy since August 31, 2019.

(millions of dollars)

15. Financial instruments and financial risk management (continued)

Level 3 financial instruments

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

	2020	2019
Fair value as at August 31	$ 439	$ 418
Net decrease in fair value [(1)]	(100)	12
Effect of foreign exchange [(2)]	(3)	9
Fair value as at August 31	$ 336	$ 439

(1) Net decrease in fair value includes accrued dividend income and is included in Other finance costs on the consolidated statement of operations. The decrease in the fair value of the Company's investment in preferred interests of Aireon is discussed in note 12.

(2) Included in Other net gains on the consolidated statement of operations.

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

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

Derivative financial instruments

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

(1) The Company holds thirteen foreign exchange forward agreements with a total notional value of $43 U.S. ($59 CDN) to hedge monthly payments to Aireon related to satellite surveillance costs for fiscal 2021. The average contract rate is 1.37151. The carrying amount of these contracts is $3 as at August 31, 2020 and is included in current liabilities.

As at August 31, 2019, the Company held thirteen forward agreements to purchase a total of $30 U.S. ($39 CDN) with an average rate of 1.30202. The carrying amount of these contracts was $1 as at August 31, 2019 and is included in other current assets.

(millions of dollars)

15. Financial instruments and financial risk management (continued)

Derivative financial instruments (continued)

(2) The Company holds four foreign exchange forward agreements with a notional value of approximately $2 each to purchase a total of $6 U.S. ($9 CDN) to hedge payments related to the Company's insurance premiums in fiscal 2021. The average contract rate is 1.37716. The carrying amount of these contracts is $nil as at August 31, 2020.

As at August 31, 2019, the Company held four forward contracts to purchase a total of $6 U.S. ($8 CDN) with an average rate of 1.31142. The carrying amount of these contracts was $nil as at August 31, 2019.

The Company's hedging relationships are subject to ineffectiveness should the timing of the forecasted transaction not occur as intended or as a result of changes in counterparty risk. For the years ended August 31, 2020 and 2019, the derivatives designated as cash flow hedges were considered to be fully effective and no ineffectiveness has been recognized in net income (loss).

	August 31 2020	August 31 2019
Net gain (loss) on derivatives designated as cash flow hedges		
Foreign currency forwards	$ (4)	$ 1
Bond forward	-	(12)
	$ (4)	$ (11)

Financial risk management

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

(a) Market risk

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

(i) Interest rate risk

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

(millions of dollars)

15. Financial instruments and financial risk management (continued)

Financial risk management (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued)

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

	August 31 2020	August 31 2019
Floating rate financial assets		
Cash and cash equivalents	$ 259	$ 25
Debt service reserve fund investments	73	72
Total floating rate financial assets	$ 332	$ 97
Fixed rate financial assets		
Cash and cash equivalents	$ 430	$ 5
Short-term investments	145	-
Total fixed rate financial assets	$ 575	$ 5
Floating rate financial liabilities		
Bank loan	$ 223	$ 8
Fixed rate financial liabilities		
Bonds and notes payable [(1)]	$ 2,288	$ 1,468

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

Instruments included in the Company's cash and cash equivalents and debt service reserve fund earn interest at prevailing and fluctuating market rates. If interest rates decline, earnings on these instruments would fall. A 100 basis point change in variable interest rates would result in an annual difference of approximately $1 in the Company's earnings before rate stabilization adjustments (August 31, 2019 - $1).

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

Interest rate risk related to the Company's fixed-interest long-term debt relates to the re-setting of interest rates upon maturity and refinancing of the debt. The Company mitigates this source of interest rate risk by spreading maturities of borrowings over periods currently up to and including 2051 so that only a portion of outstanding debt will mature in any given fiscal year. In addition, the Company has International Swaps and Derivatives Association Agreements in place. The Company has not entered into any derivative contracts to manage interest rate risk as at August 31, 2020.

(millions of dollars)

15. 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 2020		August 31 2019	
	CAD	USD	CAD	USD
Financial assets				
Current				
Cash and cash equivalents	$ 6	$ 5	$ 4	$ 3
Accounts receivable and other	-	-	3	2
Non-current				
Investment in preferred interests	336	258	439	330
Other non-current assets	1	1	1	1
	$ 343	$ 264	$ 447	$ 336
Financial liabilities				
Current				
Trade and other payables	$ 10	$ 7	$ 2	$ 1
Net exposure	$ 333	$ 257	$ 445	$ 335

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, 2020, the Company has designated $3 (fair value) of its forward contracts as cash flow hedging instruments. Refer to the *Derivative financial instruments* section for further details. These instruments are not included in the table above.

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

As at August 31, 2020, 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 $31 (August 31, 2019 - $40).

15. Financial instruments and financial risk management (continued)

Financial risk management (continued)

(a) Market risk (continued)

(iii) Other price risk

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

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

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

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The maximum credit risk to which the Company is exposed as at August 31, 2020 represents the carrying amount of cash, accounts receivable, reserve funds, investments and forward contracts to purchase or sell foreign currencies.

The debt service reserve fund and cash equivalents, when applicable, are invested in accordance with the Company's restrictive investment policy to manage credit risk. The Company invests only in short-term obligations – usually for periods of 90 days or less. The Company limits investments to obligations of the federal government, certain provincial governments, entities guaranteed by a federal or provincial government or other obligations of entities rated by at least two rating agencies in the top two categories for long-term debt or the highest category for short-term debt. The Company does not invest in instruments with exposure to underlying synthetic assets. The Company's portfolio is diversified, with dollar and percentage limits on investment counterparties. None of the Company's holdings in cash and cash equivalents or in the debt service reserve fund are past due and all have long-term ratings of either AAA or AA or short-term ratings in the highest category. Based on default rates and loss ratios for investment-grade bonds with similar maturities, any loss allowance is not significant and therefore none has been recognized.

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.

(millions of dollars)

15. Financial instruments and financial risk management (continued)

Financial risk management (continued)

(b) Credit risk (continued)

The Company establishes an allowance for doubtful accounts that represents its estimate of lifetime expected credit losses to be incurred in respect to accounts receivable. The Company's loss allowance is not significant and largely relates to air navigation services provided to small general aviation aircraft. As at August 31, 2020, there were no significant balances past due but not impaired and the allowance for doubtful accounts was not significant.

	August 31, 2020			August 31 2019
	Gross balance	Loss Allowance	Net balance	Net balance
0-30 days	$ 38	$ -	$ 38	$ 72
31-60 days	7	-	7	2
61-90 days	1	-	1	1
Over 91 days	5	-	5	(1)
Total	$ 51	$ -	$ 51	$ 74

There was no significant change in the Company's allowance for doubtful accounts during the year ended August 31, 2020.

(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 14.

(millions of dollars)

15. Financial instruments and financial risk management (continued)

Financial risk management (continued)

(c) Liquidity risk (continued)

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

		August 31 2020
Credit facilities		
Credit facility with a syndicate of Canadian financial institutions [1] [2]	$	850
Letter of credit facilities for pension funding purposes [3]		540
Total available credit facilities		1,390
Less: Outstanding letters of credit for pension funding purposes [3]		533
Less: Outstanding letters of credit for other purposes [2]		2
Less: Bank loan		223
Undrawn committed borrowing capacity		632
Less: Operations and maintenance reserve fund allocation [4]		275
Credit facilities available for unrestricted use	$	357

(1) The Company's credit facility with a syndicate of Canadian financial institutions in the amount of $850 is comprised of two equal tranches maturing on September 12, 2022 and September 12, 2024, respectively. The credit facility agreement provides for loans at varying rates of interest based on certain benchmark interest rates, specifically the Canadian prime rate and the Canadian bankers' acceptance rate, and on the Company's credit rating at the time of drawdown. 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, 2020.

(2) At August 31, 2020, $2 was drawn from an uncommitted revolving credit facility. In connection with this facility, an allocation of $25 with a Canadian financial institution has been made under its $850 committed credit facility.

(3) The letter of credit facilities for pension funding purposes are comprised of four facilities with Canadian financial institutions totaling $540. Two of the credit facilities, representing $250, will mature on December 31, 2020 and the remaining facilities will mature on December 31, 2021, unless extended.

On April 15, 2020, the Minister of Finance announced a moratorium on solvency special payments for the remainder of calendar 2020 which came into force on May 27, 2020. Under this moratorium, defined benefit plan sponsors are not required to make solvency special payments due for the months of March to November 2020. As at August 31, 2020, $533 was drawn for pension solvency funding purposes.

(millions of dollars)

15. Financial instruments and financial risk management (continued)

Financial risk management (continued)

(c) Liquidity risk (continued)

(4) The Company is required to maintain a reserve fund of at least 25% of its prior year's annual operating and maintenance expenses, as defined in the Master Trust Indenture. At August 31, 2020, the Company met this requirement with an allocation of $275 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, OCI 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.

On May 29, 2020, the Company completed an issue of $850 of General Obligation Notes. The net proceeds of these notes are being used for general corporate purposes, including the repayment of borrowings under the Company's syndicated credit facility which will enhance the Company's liquidity reserves.

16. Commitments

(a) Future payments under commitments and financial liabilities

The following table presents a maturity analysis of the Company's undiscounted contractual cash flows for its financial liabilities as at August 31, 2020:

	Remaining payments – for years ending August 31						
	Total	2021	2022	2023	2024	2025	Thereafter
Bank loan	$ 223	$ 223	$ -	$ -	$ -	$ -	$ -
Trade payables and accrued liabilities [1]	231	231	-	-	-	-	-
Derivative liabilities	4	4	-	-	-	-	-
Long-term debt (including current portion) [2], [3]	2,300	275	25	25	25	25	1,925
Interest payments [3]	1,478	83	78	76	74	73	1,094
Related party loan [4]	14	14	-	-	-	-	-
	$ 4,250	$ 830	$ 103	$ 101	$ 99	$ 98	$ 3,019

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

(2) Payments represent principal of $2,300. The Company intends to refinance principal maturities at their maturity dates. The Company may choose to repay a portion of these maturities with available cash and/or may increase the size of a re-financing to generate additional liquidity or for other purposes, and/or may choose to redeem in whole or in part an issue in advance of its scheduled maturity.

(3) Further details on interest rates and maturity dates on long-term debt are provided in note 14 to these consolidated financial statements.

(millions of dollars)

16. Commitments (continued)

(a) Future payments under commitments and financial liabilities (continued)

(4) During fiscal 2020, the Company entered into an agreement with Aireon to provide a subordinated loan up to a total of $11 U.S. ($14 CDN).

(b) Capital commitments

The Company has firm commitments for the acquisition of property, plant and equipment and intangible assets amounting to $108 as at August 31, 2020 (August 31, 2019 - $77). The following table presents a maturity analysis of these contractual commitments:

	Remaining payments – for years ending August 31						
	Total	2021	2022	2023	2024	2025	Thereafter
Capital commitments	$ 108	$ 82	$ 10	$ 3	$ 3	$ 3	$ 7

(c) Leases

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

Lease liabilities and future lease liabilities are as follows:

	Remaining payments – for years ending August 31						
	Total	2021	2022	2023	2024	2025	Thereafter
Lease liability	$ 6	$ 3	$ 3	$ -	$ -	$ -	$ -
Future lease liability	59	-	-	2	3	3	51
	$ 65	$ 3	$ 3	$ 2	$ 3	$ 3	$ 51

(d) Letters of credit

As at August 31, 2020, the outstanding amount of letters of credit of $535 (note 15 (c)) is comprised of $533 drawn for pension solvency funding purposes (note 13) and $2 for other purposes.

17. Contingencies

(a) Legal contingencies

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

(b) Indemnification commitments

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

17. Contingencies (continued)

(b) Indemnification commitments (continued)

The Company has provided the following significant indemnification commitments:

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

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

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

<u>Other agreements</u>

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

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

18. Transactions with the Government of Canada

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

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

The Company is contractually obligated to indemnify the Government of Canada for any loss suffered by or claimed against it which is covered by the Company's aviation operations liability insurance.

(millions of dollars)

18. Transactions with the Government of Canada (continued)

As discussed in note 5, in April 2020, the Company applied for, and received subsidies under, the CEWS offered by the Government of Canada to help businesses keep workers on their payroll through the challenges posed by the COVID-19 pandemic.

19. Related party transactions

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

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

<u>Compensation of key management personnel</u>

Key management personnel of the Company include members of the Board and Executive Management Committee. Key management personnel compensation included in the Company's net income (loss) for the years ended August 31 was comprised of the following:

	2020	2019
Salaries and other benefits	$ 7	$ 6
Defined benefits, including pension benefits	3	3
Termination benefits [1]	4	-
Management incentive plan	1	2
Other long-term benefits	1	2
Total compensation	$ 16	$ 13

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

There were no loans provided to key management personnel during fiscal 2020.

<u>Transactions with registered pension plans</u>

The Company's transactions with its two registered pension plans include contributions paid to the plans and letters of credit for pension solvency funding purposes, which are disclosed in note 13, and reimbursements from the Plan for certain costs in the amount of $14 for fiscal 2020 (fiscal 2019 - $10).

<u>Transactions with joint ventures and associates</u>

As discussed in note 12, the Company has a participation in Aireon. This participation has been classified as an investment in associate since the Company is able to exert significant influence over Aireon's strategic financial and operating activities. The Company's transactions with Aireon for fiscal 2020 were comprised of accrued dividend income of $13 (fiscal 2019 - $12), costs for data services of $38 (fiscal 2019 - $5) and cost recoveries of $1 (fiscal 2019 - $2).

As at August 31, 2020, the Company has an accrued dividend receivable of $76 (August 31, 2019 - $63) from Aireon.

The Company has a 12-year commitment with Aireon to purchase data services, which commenced in March 2019. The estimated total remaining commitment is $625 ($481 U.S.). In addition, the Company entered into an agreement to provide a subordinated loan as discussed in note 16 (a).

(millions of dollars)

19. Related party transactions (continued)

The Company has a 50% interest in Searidge. This interest has been classified as a joint venture. As at August 31, 2020, the Company has a long-term loan receivable of $3 outstanding from Searidge (August 31, 2019 - $3). During fiscal 2020, the Company paid $1 to Searidge for hardware and software purchases and consulting fees (2019 - $3).

20. Capital management

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

	August 31 2020	August 31 2019
Bonds and notes payable (note 14)	$ 2,288	$ 1,468
Equity:		
Retained earnings	28	28
Regulatory deferral accounts:		
Debit balances (note 7)	(2,112)	(2,087)
Credit balances (note 7)	184	376
Employee benefits (note 13):		
LTD (asset) liability	(4)	3
Liability for funded pension benefits	1,643	1,813
Liability for accumulating sick leave	16	17
Total capital	$ 2,043	$ 1,618

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

The Company's main objectives when managing capital are:

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

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

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

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

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

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

20. Capital management (continued)

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, 2020.

21. Subsequent events

The Canadian Transportation Agency (the Agency) received an appeal by WestJet dated September 11, 2020 of the revised customer service charges set out in the Company's Announcement of Revised Service Charges dated August 12, 2020 requesting, among other things, the cancellation of the revised charges. The appeal alleges that the Company did not comply with two of the charging principles in the ANS Act. The Company denies the allegations advanced by WestJet. The Company and WestJet are in the process of considering mediation. The Company will vigorously defend the appeal if mediation is not undertaken or if after mediation the Company and WestJet are unable to resolve the matter. The outcome of the appeal is not determinable at this time.

The Agency is the designated appeal body for the Company's charges pursuant to the provisions of the ANS Act. Appeals can be made only on the basis that the Company did not observe one or more of the charging principles in establishing the charges or the statutory notice and announcement requirements set out in the ANS Act. After considering the submissions of both WestJet and the Company, the Agency must decide the appeal within 60 days, unless it is of the opinion that there are special circumstances involved in the determination of the appeal, in which case it has a further 30 days to decide the appeal.

On September 22, 2020, the Company announced workforce reductions through the elimination of permanent jobs. The job cuts are across all departments of the Company and include most of the current cohort of operational students. The Company is in the process of finalizing the financial impact of these reductions.

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