Annual Report

2022

Serving a world in motion

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NAV CANADA

Message from the Chair of the Board

Last year at this time, I was guardedly optimistic that our industry — one of the hardest hit by the pandemic — had turned a corner. Today, I continue to be encouraged by what we are seeing: strong growth in air traffic and a reopening of international markets, along with high demand for domestic air travel across our country as well as in Canadian-controlled North Atlantic oceanic airspace. Air traffic meanwhile has increased by 76 per cent compared to fiscal 2021.

Air cargo traffic continues to be a significant area of our customer base: cargo-based air carriers have been an essential component in battling the pandemic, providing critical supplies and equipment in a timely fashion. NAV CANADA is proud of the role it has played in supporting and maintaining the global supply chain.

However, there remain economic and geopolitical uncertainties that could impact our recovery. In August 2022, air traffic levels were still 12 per cent lower than pre-pandemic levels.

Facing such an uncertain environment, I cannot say enough about the resilience and professionalism of NAV CANADA employees at all our sites across the country. The last few years have been the most difficult in our history, requiring unprecedented changes to our Company and many hard decisions: substantially increasing our debt load; reducing our employee base by nearly 15 per cent; and divesting ourselves of assets that were not aligned to our core business.

We responded to the global pandemic with a focus on maintaining our services and protecting the health and safety of our employees. With no site closures due to COVID to date, a safety record that has remained one of the best in the world and the successful protection of an essential service vital to all Canadians, we certainly met our goals.

NAV CANADA is looking toward the future. We need to improve our Company's resiliency, which we will achieve by implementing several strategic goals. We are on a path to take our business to an entirely new level. We will be leveraging today's exciting new technologies to generate increased value for our customers, stakeholders, and everyone in Canada and around the world who relies on a safe and efficient air-transportation network.

Our new Strategic Direction is focused on modernizing our airspace and our air traffic management systems in ways that will improve safety and efficiency while reducing greenhouse gas emissions.

We remain committed to a sustainable future. On Earth Day 2022, NAV CANADA reaffirmed this commitment by announcing we are joining the UN Global Compact: the world's largest corporate sustainability initiative.

This was the first milestone in our new Environmental, Social, and Governance (ESG) Strategy that will help us manage our environmental impact, ensure social responsibility, and maintain strong governance.

In fiscal 2022, NAV CANADA advised the Government of Canada that we will be supporting Canada's Aviation Climate Action Plan, with the vision for net-zero greenhouse gas emissions by 2050. In collaboration with our industry partners around the world, NAV CANADA will be part of the solution.

The pandemic illustrated just how much we can achieve if all of us — countries, industry partners, colleagues — work together. We are now set on a new direction, and I know NAV CANADA's people are up to the challenge.

I want to express my heartfelt thanks to all our employees for all you have done to bring us to a new dawn and an exciting new chapter in our Company's history. Never in our history have we faced such a crisis, and in response you have shone through.

(Signed) "Marc Courtois"

Marc Courtois
Chair of the Board

Message from the President and CEO

It has been a remarkable year, one that I'm confident is a turning point for NAV CANADA and our industry. We are moving in the right direction: closer to a return to normalcy — a new normal that we believe will continue over the current year.

Air traffic has rebounded and is getting closer to pre-pandemic levels. And, as of the end of fiscal 2022, we are taking a gradual and cautious approach to workplace reintegration at our sites across the country.

These are all positive signs that we may be coming to the end of the most difficult and challenging period in our 25-year history as the world's first fully privatized air navigation service provider.

It is a time for new beginnings and a focus on the future. And that is exactly what we are doing at NAV CANADA. A major shift is underway at our Company, with our Shared Purpose and Strategic Direction as a blueprint.

Our Strategic Direction paints a picture of how we are reimagining the way we do business. It is purpose-built to take us into the future, with the focus on: modernizing and leveraging new technologies to transform air-traffic management; improving customer service; reducing our industry's environmental impact; and, above all, increasing safety and efficiency.

At the core of our Strategic Direction are three interconnected initiatives: *Airspace Modernization, Trajectory-Based Operations* (TBO)*, and Digital Facilities.*

Both Airspace Modernization and TBO will help to move us from a tactical approach to an increased level of strategic air traffic management.

Airspace Modernization will result in the biggest change in our airspace structure in half a century. It will harness revolutionary technologies, such as space-based surveillance and navigation, to provide a unified approach that will optimize air-traffic flow across the country.

TBO provides a full, four-dimensional picture of a flight from take-off to landing, incorporating latitude, longitude, altitude, and time. It offers another quantum leap in our efforts to leverage technology in ways that are transformative and produce major benefits for our customers and to the flying public.

Digital Facilities use advanced camera technology to enable remote provision of air traffic services, allowing us to move beyond traditional line-of-sight. It provides an opportunity to rethink how we deliver service and where we deliver it from, in ways that can provide additional value to customers.

All three of these initiatives were a focus for NAV CANADA in fiscal 2022. Strong initial progress was made on all fronts, and we look forward to advancing further in these areas in the next fiscal year.

The pandemic's impact on our Company and the launch of our new Strategic Direction were pivotal in our decision to strengthen the focus on our core business: providing safe and efficient air traffic services across Canada and over the North Atlantic.

This decision has led to three significant changes at NAV CANADA in fiscal 2022. First, we decided to sell our 50% shareholding in Searidge Technologies Inc. to NATS, our counterpart in the U.K. In our partnership over the years, Searidge has grown to become a global player in digital tower technology, and we know it will continue to be an industry leader.

Also, after providing maintenance services to airport screening systems across the country for more than 20 years, we decided not to bid on the latest Request for Proposals from the Canadian Air Transport Security Authority. This decision was based on the need to focus our technologists' time and expertise on essential work supporting our core business.

And third, the Company sold its Cornwall-based training and conference centre, the NAV CENTRE. Over the years, the NAV CENTRE has evolved into a successful and truly multifaceted facility, although one that did not fully align with our mandate.

In fiscal 2022, I had the opportunity to travel with a number of my Executive Management Committee colleagues to NAV CANADA sites across the country — the first tour in my role as CEO. I heard many remarkable stories, and was impressed by the resilience of our employees. But it was also clear that the pandemic has taken its toll both professionally and personally.

As CEO, one of my key priorities is to strengthen our culture and build a One Company mindset. This endeavour is all-encompassing. Through values, communication, and enhanced employee experience, we are committed to finding ways to enhance our employee culture and ensure we continue to attract and retain the very best talent.

It is with utmost appreciation and gratitude that I extend my thanks to all NAV CANADA employees for all they have done to maintain our essential services throughout one of the most trying times in our industry's history. Throughout it all, they have shown nothing less than 100% commitment and dedication. I feel truly honoured to be counted among them.

(Signed) "Raymond G. Bohn"

Raymond Bohn
President and CEO

Business Updates

Safety

Our top priority

NAV CANADA is proud of its record for operational safety, which has consistently placed us among the very best in the global air navigation system.

At the core of our safety management system is our NAV CANADA Safety Plan, updated annually. The latest plan outlines our safety goals and the Company's action plan to address what we have identified as our top operational safety risks.

At the same time, NAV CANADA releases a companion document titled Navigating Safety, which aims to enhance transparency and build awareness about safety issues and goals across our air navigation system (ANS) as well as outlining our priorities for strengthening our Safety Management System (SMS).

Maintaining our safety performance as traffic returns

In fiscal 2022, NAV CANADA maintained a strong safety performance as traffic increased significantly over the course of the year. The rate of IFR-to-IFR losses of separation was 0.56 per 100,000 movements, which remains below the Company benchmark rate of 1.0 losses per 100,000.

Streamlining our safety policies

This fiscal year, NAV CANADA streamlined its suite of safety policies. Existing policies were replaced by four new safety policies and 14 new safety standards, all of which are reflected in a new SMS Manual and SMS Framework. Transport Canada, our safety regulator, has reviewed our new suite of policies and approved the SMS Manual, which was released early in 2022. With the release, all employees reviewed and acknowledged their SMS responsibilities as defined by the safety policies and standards.

New SMS Framework

NAV CANADA's new SMS Framework came into effect on February 16, 2022. The new modernized framework is the foundation of our SMS and is comprised of four elements: Safety Policy and Objectives; Safety Risk Management; Safety and Quality Assurance; and Safety Promotion. The new Framework coincides with the release of our safety policies and standards, the new SMS Manual and mandatory computer-based training (CBT) for all employees.

Enhancing operational safety

Our safety investigators have now been equipped with a new web-based tool called TOKAI. This risk assessment tool was developed by EUROCONTROL and is now in use at more than 70 air navigation service providers (ANSP) around the world. With this tool, we will be able to improve our understanding of the risk level of safety events and help us to better gauge when safety system mitigations are needed.

Tracking safety trends

Each year, the Company releases a National Safety Trends Analysis Report, which supports our ongoing efforts in the areas of safety risk assessment, safety planning, operational training, standards and procedures, and operational oversight. The report contains data from a range of sources, and will help guide our approach to managing safety at the national, regional and site level.

A strategy for more effective NOTAMs

NOTAMs are special messages for pilots alerting them to airspace changes that may impact their flights. They have also been identified as a top operational safety risk due to the sheer volume of NOTAMs — on any given day, there are some 35,000 active NOTAMs circulating globally.

In response to this, NAV CANADA has developed a NOTAM Strategy focused on reducing the volume of NOTAMs and the risk of safety-critical information being missed.

As part of this strategy, the Company will focus on streamlining our use of NOTAMs, making sure they are clear and concise, and improving the commonality of practices and output in each of our flight information regions (FIR).

Service Delivery

Strengthening customer relations

At NAV CANADA, we are focused on building strong relationships with our customers. One of the ways we can assess how we are doing in the eyes of our stakeholders is through regular surveys. They provide our customers an opportunity to rate our performance and they can deepen our understanding of issues affecting customers and give us a better idea of what we must do to improve service.

Our most recent survey focused on seven priority areas: safety performance; service charge deferral mechanism; technology; service; environmental impact; collaboration; and preparedness for industry recovery.

We are proud of the survey results: an overall stakeholder satisfaction rate of 8.2 out of 10. Beyond that positive result, the survey is rich in information providing a pathway on how to continue to harmonize our efforts with the goals of our customers, as we collectively rebuild our industry after several of the most challenging years in our history.

Seven years of improving approaches

In May 2022, Required Navigation Performance Authorization Required (RNP AR) approach procedures were published for Fort McMurray International Airport, marking the completion of our National RNP AR Deployment Project after 94 successful deployments across the country. Since the program began in 2015, RNP AR procedures have been developed at 32 airports, in every FIR. Our customers have benefited from safe and stable approach options that provide significant track mile and fuel savings when compared to conventional approach procedures. At certain airports, they also help aircraft avoid noise-sensitive areas during their approach.

Toronto Pearson advancing on RNP AR

While the formal deployment project has wrapped up, there is continued opportunity to develop RNP AR procedures on a per-site basis. One such initiative is underway at Toronto Pearson International Airport. In collaboration with Greater Toronto Airports Authority, NAV CANADA will be deploying RNP AR approaches at the country's busiest airport in November 2022, with the potential to increase efficiency and fuel savings, and to mitigate aircraft noise, all while reducing greenhouse gas emissions by an estimated 178M metric tonnes over 10 years. By the end of fiscal 2022, public consultations on its implementation were recently completed and preparations for implementation were underway.

Optimizing operations in Calgary

Public consultation regarding alternate departure headings for Calgary International Airport was undertaken in Q2 following a trial period. The initiative represents an important collaboration with the Calgary Airport Authority to implement procedures that will enhance safety, reduce taxi times, and increase efficiency and fuel savings for customers.

Launching a new Strategic Direction

In fiscal 2022, NAV CANADA announced its new Strategic Direction focused on responding to the impacts of the pandemic and modernizing our air navigation services (ANS) to respond effectively to shifting customer requirements. The goal is to better serve our customers, meet future demand, prepare for new airspace users, and minimize our environmental impact. It is a future-focused plan dedicated to meeting the challenges of renewed growth across our global industry.

As Raymond Bohn, NAV CANADA President and CEO, has stated, "We need to look at the world around us to ensure we evolve and remain relevant to meet our customers' and stakeholders' needs. It's our responsibility to look far into the future, beyond just the next year. We have an opportunity to continue to play a global leadership role."

For our customers, the priorities central to our Strategic Direction include Trajectory-Based Operations, Airspace Modernization, and Digital Facilities.

Evolving air traffic management with TBO

Nothing defines the future of air traffic management like trajectory-based operations (TBO), which offers a major advancement over long-existing capabilities.

This is truly a game-changer. The concept will produce an entirely new paradigm, leveraging advances in technology that will enable an aircraft to fly to its destination with minimal intervention from air traffic services (ATS), based on a pre-determined, pre-agreed, four-dimensional trajectory (latitude, longitude, altitude, and time) — while being actively monitored by our Air Traffic Management system for compliance.

The resulting benefits are significant: fuel savings and less greenhouse gas emissions; fewer delays enroute; and increased predictability of arrival and departure times.

Our Company is now assessing a new Air Traffic Management system and Flight Data Processing (FDP) system that will accelerate our implementation of Trajectory-Based Operations.

Recently, we also announced an exciting new partnership with the Massachusetts Institute of Technology (MIT) Lincoln Laboratory. Delivering increased airspace capacity and predictability, this partnership is a building-block for TBO.

By combining our expertise, NAV CANADA and MIT will find new ways to manage air traffic at airports, terminals and enroute, no matter what the weather conditions. The result: safer, more predictable, and more efficient air travel.

Modernizing our airspace

NAV CANADA's current airspace structure was designed more than 50 years ago and was largely built around ground-based navigational aids and surveillance technology. Our airspace is structured across seven flight information regions (FIR), and this highly segmented approach can require several handoffs and multiple frequency changes over a single flight.

The shift to space-based technology allows us to re-imagine our airspace structure, and we are seizing this opportunity. Underway is a country-wide review and assessment, and customers, stakeholders and employees will be a key part of this journey.

Expanding the benefits of space-based ADS-B

As part of our airspace modernization initiative, NAV CANADA is expanding its use of revolutionary space-based automated dependent surveillance-broadcast (ADS-B). NAV CANADA has commenced incremental provision of ATS surveillance services using space-based ADS-B within specific airspace below FL290 (flight level 290).

Beginning with Montreal FIR in December 2021, this initiative has now expanded to most FIRs, and represents the first time ADS-B data is being used below FL290 in the respective regions.

Throughout this expansion, we are evaluating performance, gathering air operator, air traffic controller and flight service specialist feedback, and addressing any potential technical issues prior to the first phase of Canada's mandate going into effect for class A and B airspace. We are also working closely with Transport Canada and conducting outreach with stakeholders to support an effective implementation.

Implementing ADS-B across domestic airspace will pay significant dividends in safety and efficiency. Early in 2022, it was announced that Canada would be implementing an ADS-B Out Performance Requirements Mandate within Canadian domestic airspace in a phased approach. This will enable customer-preferred routes, speeds and flight levels — in addition to improved emergency response through better tracking and locating of aircraft in distress — all made possible with space-based surveillance.

However, getting to that stage also requires our customers to equip their fleets with the appropriate technology. Equipage rates are increasing and edging closer to 100 percent. But getting to that level has been a significant challenge given supply-chain issues related to the pandemic.

For that reason, the equipage deadlines have been extended to August 10, 2023 for Class A airspace, and May 16, 2024 for Class B airspace.

Digital facilities

The concept of digital facilities takes the provision of ATS at an airport (e.g. aerodrome advisory and airport control service) to new heights by leveraging advanced technology that avoids the limitations of traditional on-site personnel visual capabilities.

Following a successful trial, NAV CANADA obtained concurrence from Transport Canada to continue using digital facility technology at Saint John FSS for the provision of services to Fredericton International Airport, officially taking effect in October 2021.

Digital facilities offer an opportunity for a hub approach, whereby multiple airports or aerodromes are provided air traffic services from a centralized facility, leveraging the very best in augmented, high-resolution camera technology.

Digital facilities also enable greater flexibility in how NAV CANADA can deliver its ATS services. It's a technology that is being embraced around the world, and Canada is certainly a perfect fit for such a technology, and that is why it's a key component in our Strategic Direction.

A first for North America

For an illustration of how NAV CANADA has set its sights on airspace modernization, look no further than Toronto Pearson International Airport.

Pearson is the country's busiest airport, and that is why we selected it for the first-ever implementation in North America of time-based separation.

Called Time-Based Separation (TBS) — Intelligent Approach, the technology is one of the most innovative tools now available to ANS providers. First launched globally at Heathrow airport in London, TBS is a new approach to air traffic management, and the benefits include reduced delays and lower greenhouse gas emissions.

We knew of TBS's success at Heathrow, and that is why we decided to partner with NATS, our counterpart in the UK, to make it happen here in Canada.

TBS was successfully deployed at Pearson on May 28, 2022, after several years of development involving teams from both NAV CANADA and NATS.

It is an arrival-spacing application, configured with highly innovative software, that crunches wind data, and aircraft-type and other essential information, to produce a tactical tool on controllers' displays. It's now in use on all five of Pearson's runways.

TBS is a technology that can optimize runway capacity, deliver better on-time performance, and reduce greenhouse-gas emissions. We look forward to reporting on TBS's success in the very near future.

TBS has significantly improved arrival rates at Heathrow during times of strong headwinds, and NAV CANADA is expecting similar results at Pearson.

A common approach

Another way NAV CANADA is improving service and efficiency is through its efforts to create a commonality of ATS systems across all its sites. Such commonality makes training our front-line employees much easier by ensuring the systems they work with are the same across our air navigation system.

In fiscal 2022, we made progress on this common approach on two fronts. Electronic Flight Strips (EFS) are now live across all specialties in Canada following their implementation at North Bay specialty in the Toronto Area Control Centre, and the Gander High specialty at the Gander Area Control Centre.

As well, our integrated working position (IWP) involves the rollout of a common platform for our tower environment, encompassing consistent alerts and alarms and processing rules that enhance safety and efficiency. It has now been rolled out at nine towers, with deployments to continue until all towers have implemented IWP by fiscal 2024.

People

25 years of innovation

In November 2021, NAV CANADA was proud to celebrate its 25th anniversary as a company, recognizing our beginnings as the first fully privatized air navigation service provider in the world. A quarter century into our journey that began on November 1,1996, we recognized those most responsible for what we have achieved: our employees.

To celebrate, we posted a special edition of NAV CANADA Now, our digital newsletter, which featured our employee-focused podcast and stories from our archives, as well as stories shared on Yammer, our internal social-media site, and a special feature on our NAV CANADA Blog.

Supporting our biggest strengths

When we launched our Enhanced Culture Initiative (ECI), we knew it would be a key component in achieving our goals in all areas of our business. It is driven internally, focused on generating a shared purpose across the Company.

Building a strong employee culture is the foundation of our future success at NAV CANADA. It encompasses our values, behaviours, purpose, vision, working habits and routines. With ECI, our focus is on strengthening the entire employee experience — from hire to retire. The initiatives listed below will be critical in our efforts to reshape and enhance our workplace culture.

New courses were launched in 2022 to enhance culture within our teams, and an “Emerging Leaders” program was introduced to help empower the next generation.

CEO and Executive tours took place across the Company during fiscal 2022 and have reached nearly half of our employee base. NAV CANADA also began work on a People Strategy and a new Employee Value Proposition (EVP). An Employee Experience Survey will be released early in 2023 to obtain feedback from our employees and provide a baseline for measuring progress in the future.

Building for the Future

NAV CANADA recently launched its Building for the Future initiative, with the goal of addressing key challenges faced by management employees in certain functional groups across the Company. It is a crucial post-pandemic program with a targeted approach to rebuilding and engaging our employee population as we move forward. A series of virtual interview-based sessions and site visits have taken place with various management employee groups, including all those outside of Head Office. The findings from the sessions can be grouped into three themes: capacity management; role clarity; and decision making. An action plan based on these findings is currently being developed.

Telling our story

The Company was honoured to have the opportunity to tell our story on a national stage, partnering with the Canada Aviation and Space Museum on an exhibit titled “Eyes on the Skies: Managing Air Traffic in Canada.” The exhibit was officially launched in November 2021 and will be on permanent display at the museum. There is also a companion travelling exhibit of the same name currently touring across the country.

The exhibit offers an inside look into the role of air navigation services, with the goal of creating public awareness and helping to foster the next generation of aviation leaders and innovators. Many of the artifacts and stories on display were made possible thanks to the contributions of both retired and current employees across Canada. The exhibit is one of the winners of the 2021 Awards of Excellence by Interpretation Canada.

Workplace Reintegration

As part of our recovery from the pandemic, the Company has established a workplace reintegration strategy that will align projects and employee groups in support of a gradual return to workplace or a combination of remote work/onsite work. As part of this strategy, NAV CANADA has rolled out flexible work arrangements for employees and all sites have started their reintegration. Information sessions, resources and helpful tips were provided to ensure a smooth transition for employees.

Finance and Governance

Financial highlights

In fiscal 2022, the Company continued to carefully manage spending while collaborating with customers and stakeholders to support the increase in air traffic.

For the fiscal year ended August 31, 2022, the Company reported total revenue of $1,507 million, compared to $870 million in the previous year.

The pandemic and the resulting economic contraction continues to have a negative impact on global air traffic and on the aviation industry. The pandemic began impacting air traffic levels in mid-fiscal 2020 and since then, air traffic levels, as measured in weighted charging units (WCUs) — a measure of the number of billable flights, aircraft size and distance flown in Canadian airspace, which serves as the basis for movement-based service charges — have continued to trend below levels seen in the fiscal year ending August 31, 2019 (fiscal 2019).

While WCUs are not yet back to pre-pandemic levels in fiscal 2019, they are showing positive signs of recovery. Air traffic levels in fiscal 2022 increased in comparison to fiscal 2021 by 76.8% but remained 21.5% lower than in fiscal 2019.

As compared to fiscal 2019, customer service charges revenue was 5.0% higher. This reflects the increase in customer service charges of 29.5% as of September 1, 2020, which was largely offset by lower air traffic levels.

As a result of the growth in revenue from customer service charges, the rate stabilization account decreased from a debit balance (due from customers) of $656 million at the end of fiscal 2021 to a debit balance of $574 million at the end of fiscal 2022.

The Company had positive free cash flow of $175 million in fiscal 2022 as compared to negative free cash flow of $509 million in fiscal 2021. The positive free cash flow in fiscal 2022 is largely attributable to higher-than-expected receipts from customer service charges and proceeds from strategic divestments during the year.

Operating expenses for fiscal 2022 were $1,416 million as compared to $1,278 million in fiscal 2021. The increase is largely due to the Canada Emergency Wage Subsidy program ending in fiscal 2022, as well as an increase in overtime costs as air traffic levels recover.

Net other income and expenses for fiscal 2022 were a net expense of $183 million as compared to a net expense of $176 million in fiscal 2021. During fiscal 2022, the Company recorded an $82 million (U.S. $63 million) non-cash reduction to the fair value of its investment in preferred interests of Aireon LLC as compared to a non-cash reduction of $24 million (U.S. $21 million) recorded in fiscal 2021. Foreign exchange gains in fiscal 2022, as compared to foreign exchange losses in fiscal 2021, primarily related to the Company's investment in Aireon LLC, along with lower interest costs related to employee benefits and long-term debt partially offset the negative change in fair value.

The Company had a net loss (before net movement in regulatory deferral accounts including rate stabilization) of $79 million in fiscal 2022 as compared to a net loss of $577 million in fiscal 2021.

Pension performance and adjustments

In fiscal 2022, our Company focused on reducing risks related to NAV CANADA's Pension Plan and increasing its resilience to volatile financial markets. Rising interest rates and the recent global equity market sell-off resulted in a large decline in pension assets. However, pension liabilities were positively impacted by rising interest rates, which partly mitigated the impact on the financial position of the Pension Plan as a whole.

Rising interest rates will also reduce the Company's contribution requirements for accruing benefits.

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

Improving project performance

On May 31, 2022, NAV CANADA rolled out its new Program & Project Methodology with the goal of transforming how programs and projects are planned and delivered, particularly in the areas of technology, operations, and strategic initiatives. The new methodology will help us to ensure the desired business outcomes are delivered efficiently. Employees affected by the change have undergone the applicable training.

Strategic divestments

As part of NAV CANADA's decision to focus on its core business, the Company has divested itself of two significant assets. The first was the sale of its long-standing investment in Searidge Technologies Inc. to NATS, the UK's air navigation service provider. The value of the Company's 50% shareholding in Searidge was $7 million at the time of sale. Also in fiscal 2022, NAV CANADA sold the NAV CENTRE, our Cornwall-based training and conference centre, to DEVCORE Group for $30 million.

Our commitment to sustainability

NAV CANADA's Environmental, Social and Governance (ESG) Strategy will drive activities to manage our environmental impact, ensure social responsibility and maintain strong governance. The ESG Strategy demonstrates our commitment to reducing aviation's environmental footprint and improving social equality. This fiscal year, we announced our commitment to the UN Global Compact. The UN Global Compact and Sustainable Development Goals will be used by NAV CANADA as the framework for guiding our ESG strategy and communicating our progress.

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.

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 & 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 2022.

Marc Courtois

Director; Chair of the Board
Québec, Canada
Elected by: Board of Directors
Director since: February 16, 2012
Current Term Expires: 2024

Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
Board	6/6	Corporate Director.
Audit & Finance Committee*	5/5	
Corporate Governance Committee	3/3	
Transformation Committee*	4/4	
Human Resources & Compensation Committee*	8/8	
Pension Committee*	4/4	
Safety Committee	4/4	
**ex officio member*.		

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: 2025

Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
Board	6/6	Co-CEO and Chair of Barrett Corporation.
Audit & Finance Committee	5/5	
Corporate Governance Committee	3/3	
Transformation Committee	4/4	
Human Resources & Compensation Committee	8/8	

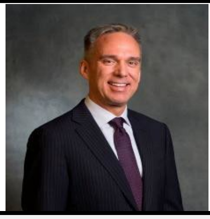
Mary-Ann Bell

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		Principal Occupation Held in Last Five Years
Board	6/6	Corporate Director.
Transformation Committee	3/4	
Human Resources & Compensation Committee	8/8	
Safety Committee	4/4	

Raymond G. Bohn

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



Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
Board	6/6	President and CEO of the Company from February 1, 2021. From September 1, 2020 to January 31, 2021, Mr. Bohn was Vice President and Chief Human Resources Officer. Mr. Bohn was Executive Vice President, Human Resources, Communications and Public Affairs from September 1, 2017 to August 31, 2020.
Pension Committee	4/4	
Safety Committee	3/4	

Paul Brotto

Director; Chair of Pension Committee
Ontario, Canada
Elected by: Commercial Air Carriers
Director since: January 13, 2021*
Current Term Expires: 2024

Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
Board	6/6	Corporate Director.
Pension Committee	4/4	
Transformation Committee	4/4	

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

Michael DiLollo

Director
Ontario, Canada
Elected by: Commercial Air Carriers
Director since: February 7, 2013
Current Term Expires: 2025

Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
Board Corporate Governance Committee Safety Committee	6/6 3/3 4/4	Managing Director, Capital Solutions at Caisse de dépôt et placement du Québec (CDPQ). From May 2019 to May 2020, Managing Director, Specialty Finance, Fixed Income and from June 2017 to April 2019, Senior Director, Investment, Specialty Finance, Fixed Income at CDPQ.

Peter Duffey

Director
Ontario, Canada
Elected by: Labour Unions
Director since: January 7, 2021
Current Term Expires: 2025

Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
Board Audit & Finance Committee* Pension Committee* Safety Committee Transformation Committee*	6/6 3/3 2/2 3/3 2/2	From May 2014 to June 2020, President & Chief Executive Officer of CATCA.
**Mr. Duffey was a member of the Audit & Finance Committee until January 12, 2022 at which time he joined each of the Pension Committee and the Transformation Committee.*		

Bonnie DuPont

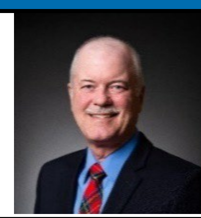
Director; Chair of the Human Resources & Compensation Committee
Alberta, Canada
Elected by: Board of Directors
Director since: February 7, 2013
Current Term Expires: 2025

Meeting Attendance/Committee Membership		Principal Occupation Held in Last FiveYears
Board	6/6	Corporate Director.
Corporate Governance Committee	3/3	
Human Resources & Compensation Committee	8/8	
Transformation Committee*	2/2	

**Ms. DuPont joined the Transformation Committee on January 12, 2022.*

Marc Grégoire

Director
Québec, Canada
Elected by: Government of Canada
Director since May 13, 2019
Current Term Expires: 2025



Meeting Attendance/Committee Membership		Principal Occupation Held in Last FiveYears
Board	6/6	Corporate Director.
Audit & Finance Committee	5/5	
Human Resources & Compensation Committee	8/8	

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Linda Hohol

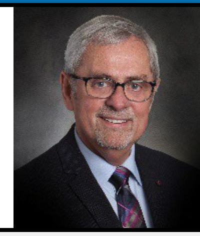
Director; Chair of the Audit & Finance Committee
Alberta, Canada
Elected by: Board of Directors
Director since: February 16, 2012
Current Term Expires: 2024*

**Ms. Hohol will retire as a member of the Board following the completion of the Company's annual meeting in January 2023, which is one year before the end of her final three-year term.*

Meeting Attendance/Committee Membership		Principal Occupation Held in Last FiveYears
Board	6/6	Corporate Director.
Audit & Finance Committee	5/5	
Transformation Committee	4/4	
Pension Committee	4/4	

Kevin Howlett

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



Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
Board	6/6	Corporate Director. From May 2016 to November 1, 2018, Senior Vice President, Regional Markets and Government Relations at Air Canada.
Human Resources & Compensation Committee	8/8	
Pension Committee*	2/2	
Transformation Committee*	2/2	

**Mr. Howlett was a member of the Transformation Committee until January 12, 2022 at which time he joined the Pension Committee.*

Davey Lewis

Director
British Columbia, Canada
Elected by: Labour Unions
Director since: January 12, 2022
Current Term Expires: 2025

Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
Board	3/3	Corporate Director.
Audit & Finance Committee	2/2	
Corporate Governance Committee	1/1	

Candice Li

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

Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
Board Audit & Finance Committee Pension Committee	6/6 5/5 4/4	Corporate Director. From February 1, 2021 to August 26, 2022, Chief Financial Officer and from July 27, 2020 to January 31, 2021 Executive Vice President, Finance at Benevity, Inc. (Benevity). Vice President, Finance at Attabotics Inc. from March 2020 to July 2020 and Vice President, Finance & Fleet Management at WestJet Airlines Ltd. (WestJet) from October 2015 to March 2020.

Michelle Savoy

Director; Chair of the Corporate Governance Committee
Ontario, Canada
Elected by: Government of Canada
Director since: December 15, 2015
Current Term Expires: 2024

Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
Board Corporate Governance Committee Human Resources & Compensation Committee Pension Committee	6/6 3/3 8/8 4/4	Corporate Director.

<table>
<tr><th colspan="2">David Weger</th></tr>
<tr><td colspan="2">Director
Saskatchewan, Canada
Elected by: General Aviation
Director since: January 10, 2018
Current Term Expires: 2024
</td></tr>
<tr><th>Meeting Attendance/Committee Membership</th><th>Principal Occupation Held in Last Five Years</th></tr>
<tr><td>Board 6/6
Audit & Finance Committee 5/5
Safety Committee 4/4</td><td>Corporate Director. From January 2011 to May 1, 2018, Senior Director, Administration Services at Nutrien Ltd. (formerly Potash Corporation of Saskatchewan Inc.)</td></tr>
</table>

Gender Diversity and Board Committees

For information on gender diversity within the Company and the Board, and for descriptions of the Board's six committees, please refer to the 2022 Annual Information Form.

Director Compensation

Directors' Compensation Fiscal 2022			
Name	Fees Earned($)	All Other Compensation[6] ($)	Total($)
Edward Barrett[1]	111,719	4,200	115,919
Mary-Ann Bell	106,586	-	106,586
Raymond G. Bohn[2]	-	-	-
Paul Brotto	96,355	-	96,355
Marc Courtois[3]	186,567	-	186,567
Michael DiLollo	87,859	-	87,859
Peter Duffey	95,992	-	95,992
Bonnie DuPont	105,987	4,000	109,987
Marc Grégoire	95,292	-	95,292
Linda Hohol	113,415	3,000	116,415
Kevin Howlett	93,159	4,200	97,359
Davey Lewis[4]	55,476	3,000	58,476
Candice Li	91,492	1,500	92,992
Michelle Savoy	108,086	1,000	109,086
Scott Sweatman[5]	45,540	-	45,540
David Weger	91,492	4,200	95,692

1) Mr. Barrett voluntarily waived all fees he would be entitled to receive as a member of the Corporate Governance Committee for fiscal 2022.

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

3) 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.

4) Mr. Lewis joined the Board on January 12, 2022.

5) Mr. Sweatman retired from the Board effective January 12, 2022.

6) 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 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. All Executive Officers receive base salaries. Base salaries are reviewed annually by the Committee.

In response to the COVID-19 pandemic, the Executive Officers volunteered to reduce their base salaries indefinitely effective April 2, 2020. This reduction, which was approved by the Committee, consisted of a 10% reduction to the base salary of the past President and CEO, a 20% reduction to the base salary for the current President and CEO and a 5% to 17% reduction to the base salaries of each of the other remaining Executive Officers (Executive Salary Reduction Program). However, their pension and benefits were based on compensation prior to these reductions. The Committee approved the discontinuance of the temporary Executive Salary Reduction Program effective January 1, 2022.

Base salaries for fiscal 2022 for the five highest paid executive officers were as follows:

Name and Position	Annual Base Salary
Raymond G. Bohn, President and CEO	$555,333
Mark Cooper, Vice President, Chief Technology and Information Officer	$358,917
Donna Mathieu, Vice President & Chief Financial Officer	$337,584
Leigh Ann Kirby, Vice President, Chief Legal Officer and Corporate Secretary	$319,583
Ben Girard, Vice President & Chief of Operations	$270,417

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 2022, 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* (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, Harassment Occurrence Resolution Process, grievance processes available to unionized employees, and the Internal Complaints Resolution Process.

The Company has in place policies and processes on whistleblowing. The NAV CANADA whistleblowing system, called SENTINEL, is confidential and independently managed, and has procedures for the receipt, retention and treatment of complaints received regarding accounting, internal accounting controls, auditing or pension plan matters, as well as reporting of serious ethical, legal, fraudulent or other concerns that could harm the reputation and/or financial standing of the Company. SENTINEL ensures that employees have an outlet for reporting concerns relating to the Company that are not being addressed through existing channels. 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 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 ensures communications to the investing public are timely, accurate, consistent, informative, compliant with legal and regulatory requirements and are broadly disseminated.

Advisory Committee

The NAV CANADA Advisory Committee (NCAC or the Committee) brings together twenty air navigation system stakeholder groups to provide advice to the NAV CANADA Board of Directors. NCAC members represent air carriers, business and general aviation, airports, regional aviation associations and labour. The strength of the Committee, and its primary value to NAV CANADA, comes from its diverse membership and the relationships its members develop with one another through rich discussions at Committee meetings. With such a diverse membership, it could be challenging to fulfil a key tenet of the Committee's mandate, which is to speak with one voice. However, Committee members consistently demonstrate a high capacity to understand and appreciate the contrasting and sometimes disparate perspectives of others on issues brought before the Committee to find common ground necessary to advise NAV CANADA.

The past year has been one of continual crisis for the aviation industry, which moved from a pandemic response posture characterized by grounded fleets, laid-off employees and substantial financial losses to a near tripling of traffic year over year, with flying levels rebounding to more than 80% of 2019 levels. The NCAC congratulates the management and staff of NAV CANADA for continuing to operate and maintain Canada's air navigation system safely throughout this challenging period. Furthermore, the Committee believes the experience gained and leadership developed in successfully navigating through COVID will serve NAV CANADA, and ANS stakeholders, well as attention in the year ahead focuses on the current wave of challenges, including talent shortages, economic recession, inflation, snarled supply chains, the war in Ukraine and the next pandemic threat.

The NCAC had its first in-person meeting in more than two years in Ottawa on June 8th and 9th. This meeting was an opportunity for tenured members to reconnect and for new and old members to meet face-to-face to build new relationships. Key topics of discussion at that meeting, and in the two virtual meetings prior to it, included 5G, the aeronautical study process, major airspace projects at Toronto and Vancouver, ADS-B, RPAS Traffic Management (RTM), stakeholder relations, staffing, fatigue management, aerodrome and airspace capacity, ANS modernization strategy, ATS service delivery, and system performance metrics and targets. The Committee has an ongoing interest in all of these topics. However, the Committee is particularly keen to support NAV CANADA in developing system performance metrics and targets, where it believes that such a data-driven approach will promote more objective and effective dialogue with stakeholders and improve decision-making.

The Committee is, once again, appreciative of the support it received throughout the year from the management and staff at NAV CANADA. The NCAC's success is dependent on the openness, transparency and timeliness of information shared with it and on the relationships developed among its members, with management and staff, and with the Board. In the year ahead, the Committee looks forward to the opportunity to continue the dialogue and provide input on the critical issues facing NAV CANADA in delivering safe, efficient and sustainable air navigation services across the country and to further strengthen relations with management and the Board.

(Signed) "Brett Patterson"

Brett Patterson
Chairman
NAV CANADA Advisory Committee

Advisory Committee 2022

Member	Nominating Association
Brett Patterson – Chairman Canadian Airports Council (CAC)	National Airports Association
Anthony Norejko – Vice Chair Canadian Business Aviation Association (CBAA)	Non-Commercial User Association
Rob Astwood – Secretary Manitoba Aviation Council (MAC)	Regional Aviation Associations
Les Aalders Air Transport Association of Canada (ATAC)	Air Transport Association of Canada
Heather Bell British Columbia Aviation Council (BCAC)	Regional Aviation Associations
Peter Black Air Line Pilots Association (ALPA), International	Professional Pilots Association
Capt. Daniel Cadieux Air Canada Pilots Association (ACPA)	Professional Pilots Association
Paul Cameron International Brotherhood of Electrical Workers (IBEW) Local 2228	Unions
Andrew (Andy) Cebula Airlines for America (A4A)	Foreign Air Operators Associations
Chris Drossos Northern Air Transport Association (NATA)	Regional Aviation Associations
James (Jim) Ferrier Canadian Owners and Pilots Association (COPA)	Recreational, Non-Commercial Aviation Association
Capt. Rod Graham National Airlines Council of Canada (NACC)	Commercial User
Janet Keim Saskatchewan Aviation Council (SAC)	Regional Aviation Associations
Jeff Miller International Air Transport Association (IATA)	Foreign Air Operators Associations

Member	Nominating Association
Trevor Mitchell Helicopter Association of Canada (HAC)	National Helicopter Association
Elizabeth O'Hurley Air Traffic Specialists Association of Canada (ATSAC) Unifor Local 2245	Unions
Duane Riddell Airport Management Council of Ontario (AMCO)	Regional Airports Association
Bram Tilroe Alberta Aviation Council (AAC)	Regional Aviation Associations
Todd Tripp Regional Community Airports of Canada (RCAC)	Member-at-Large
Nick von Schoenberg Canadian Air Traffic Control Association (CATCA), Unifor Local 5454	Unions

Officers and Other Information

Raymond G. Bohn
President and Chief Executive Officer

Mark Cooper
Vice President, Chief Technology and Information Officer

Ben Girard
Vice President and Chief of Operations

Diana Kelly
Vice President and Chief Human Resources Officer

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

Donna Mathieu
Vice President and Chief Financial Officer

Lyne Moreau
Vice President and Chief Strategy Officer

As of August 31, 2022.

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

Legal Counsel

Gowling WLG (Canada) LLP

Auditors

KPMG LLP

Bankers

Royal Bank of Canada

Corporate and Financial Information

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

NAV CANADA
Communications
communicationsnav@navcanada.ca

General inquiries can also be made by calling 1-800-876-4693, or by email to service@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 11, 2023 at 2 p.m. (ET) in Ottawa, Ontario.

ANNUAL REPORT 2022

MANAGEMENT'S REPORT AND

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF NAV CANADA

AS AT AND FOR THE YEARS ENDED **AUGUST 31, 2022** AND **2021**

Serving a world in motion
navcanada.ca

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.

(Signed) "Raymond G. Bohn"
Raymond G. Bohn
President and Chief Executive Officer
October 20, 2022

(Signed) "Donna Mathieu"
Donna Mathieu
Vice President and Chief Financial Officer
October 20, 2022

INDEPENDENT AUDITOR'S 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, 2022 and August 31, 2021
- the consolidated statements of operations for the years then ended
- the consolidated statements of comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at August 31, 2022 and August 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Other Information

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

(Signed) KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada
October 20, 2022

NAV CANADA
Consolidated Statements of Operations

Years ended August 31 (millions of Canadian dollars)	Note	2022	2021
Revenue			
Customer service charges	4	**$ 1,453**	$ 815
Other revenue	4	**54**	55
		1,507	870
Operating expenses			
Salaries and benefits	5	**987**	841
Technical services		**157**	161
Facilities and maintenance		**66**	59
Depreciation and amortization	10, 11	**144**	151
Other		**62**	66
		1,416	1,278
Other (income) and expenses			
Finance income	6	**(5)**	(2)
Net interest expense relating to employee benefits	15	**36**	55
Other finance costs	6	**166**	113
Other		**(14)**	10
		183	176
Net income (loss), before income tax and net movement in regulatory deferral accounts		**(92)**	(584)
Income tax recovery		**(13)**	(7)
Net income (loss), before net movement in regulatory deferral accounts		**(79)**	(577)
Net movement in regulatory deferral accounts related to net income (loss), net of tax	7	**79**	577
Net income (loss), after net movement in regulatory deferral accounts	1	**$ -**	$ -

See accompanying notes to consolidated financial statements.

NAV CANADA
Consolidated Statements of Comprehensive Income (Loss)

Years ended August 31 (millions of Canadian dollars)	Note	2022	2021
Net income (loss), after net movement in regulatory deferral accounts		**$ -**	$ -
Other comprehensive income (loss)			
Items that will not be reclassified to income or (loss)			
Re-measurements of employee defined benefit plans	15	**466**	933
Net movement in regulatory deferral accounts related to other comprehensive income (loss)	7	**(466)**	(933)
		-	-
Items that will be reclassified to income or (loss)			
Amortization of net losses on cash flow hedges		**1**	1
Change in fair value of cash flow hedges		**2**	3
Net movement in regulatory deferral accounts related to other comprehensive income (loss)	7	**(3)**	(4)
		-	-
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)	Note	2022	2021
Assets			
Current assets			
Cash and cash equivalents		**$ 392**	$ 319
Accounts receivable and other	8	**141**	116
Investments	9	**154**	73
Other		**10**	10
		697	518
Non-current assets			
Property, plant and equipment	10	**729**	717
Intangible assets	11	**743**	776
Investment in preferred interests	12	**229**	299
Long-term receivables	8	**75**	106
Investment in equity-accounted investee	13	**-**	7
		1,776	1,905
Total assets		**2,473**	2,423
Regulatory deferral account debit balances	7	**1,341**	1,757
Total assets and regulatory deferral account debit balances		**$ 3,814**	$ 4,180

See accompanying notes to consolidated financial statements.

NAV CANADA
Consolidated Statements of Financial Position

As at August 31 (millions of Canadian dollars)	Note	2022	2021
Liabilities			
Current liabilities			
Trade and other payables		**$ 213**	$ 203
Current portion of long-term debt	14	**25**	25
Deferred revenue		**3**	8
Other current liabilities		**7**	4
		248	240
Non-current liabilities			
Long-term debt	14	**2,463**	2,487
Employee benefits	15	**910**	1,266
Deferred tax liabilities	12	**-**	12
Lease liability	17	**37**	-
Other non-current liabilities		**9**	1
		3,419	3,766
Total liabilities		**3,667**	4,006
Equity			
Retained earnings		**28**	28
Total equity		**28**	28
Total liabilities and equity		**3,695**	4,034
Regulatory deferral account credit balances	7	**119**	146
Commitments and contingencies	17, 18		
Total liabilities, equity and regulatory deferral account credit balances		**$ 3,814**	$ 4,180

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(Signed) "Marc Courtois"
Marc Courtois, Director

(Signed) "Linda Hohol"
Linda Hohol, Director

NAV CANADA
Consolidated Statements of Changes in Equity

Years ended August 31 (in millions of Canadian dollars)		Retained earnings		Accumulated other comprehensive income		Total
Balance August 31, 2020	$	28	$	-	$	28
Net income (loss), after net movement in regulatory deferral accounts		-		-		-
Other comprehensive income (loss)		-		-		-
Balance August 31, 2021	$	28	$	-	$	28
Balance August 31, 2021	**$**	**28**	**$**	**-**	**$**	**28**
Net income (loss), after net movement in regulatory deferral accounts		**-**		**-**		**-**
Other comprehensive income (loss)		**-**		**-**		**-**
Balance August 31, 2022	**$**	**28**	**$**	**-**	**$**	**28**

See accompanying notes to consolidated financial statements.

NAV CANADA
Consolidated Statements of Cash Flows

Years ended August 31 (millions of Canadian dollars)	Note	2022	2021
Cash flows from (used in)			
Operating			
Receipts from customer service charges		**$ 1,465**	$ 652
Other receipts		**52**	47
Government grants received	19	**4**	115
Payments to employees and suppliers		**(1,068)**	(1,038)
Pension contributions - current service	15	**(98)**	(107)
Other post-employment payments		**(8)**	(8)
Interest payments		**(84)**	(89)
Interest receipts		**4**	3
		267	(425)
Investing			
Capital expenditures		**(119)**	(80)
Investment in regulatory assets		**(8)**	(5)
Proceeds from sale of property, plant and equipment	10	**30**	4
Proceeds from sale of investment in equity-accounted investee	13	**7**	-
Net loan repayment from related party	13	**3**	-
Proceeds from maturity (purchase) of short-term investments		**(79)**	145
		(166)	64
Financing			
Net proceeds from issuance of long-term debt	14	**-**	498
Repayment of long-term debt	14	**(25)**	(275)
Net proceeds from (repayment of) bank loans		**-**	(223)
Payment of lease liabilities		**(2)**	(3)
		(27)	(3)
Cash flows from (used in) operating, investing and financing activities		**74**	(364)
Effect of foreign exchange on cash and cash equivalents		**(1)**	(6)
Increase (decrease) in cash and cash equivalents		**73**	(370)
Cash and cash equivalents at beginning of year		**319**	689
Cash and cash equivalents at end of year		**$ 392**	$ 319

See accompanying notes to consolidated financial statements.

1. General information

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

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

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

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

NAV CANADA is domiciled in Canada. The address of NAV CANADA's registered office is 151 Slater Street, Ottawa, Ontario, Canada K1P 5H3.

2. Basis of presentation

(a) Statement of compliance

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

These financial statements include the accounts of all NAV CANADA subsidiaries and were authorized for issue by the Board on October 20, 2022.

(b) Basis of measurement

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

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

(c) Functional and reporting currency

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

2. Basis of presentation (continued)

(d) Critical accounting estimates and judgments

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

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

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

(i) Key sources of estimates and assumption uncertainties

- Fair value of investment in preferred interests

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

  (a) discount rates – the discount rate used is 15%; and

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

- Employee benefits

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

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

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

2. Basis of presentation (continued)

(e) New standards, amendments and interpretations adopted

The following new standards, amendments or interpretations were adopted by the Company effective September 1, 2021:

Implementation costs associated with Software as a Service (or cloud computing) arrangements

As a result of the IFRS Interpretations Committee's agenda decision entitled "Configuration or Customization Costs in a Cloud Computing Arrangement (IAS 38)", the Company reviewed its accounting policy with respect to implementation costs associated with cloud computing arrangements. The Company assessed whether these costs would give rise to a software intangible asset over which the Company has control, and in applying the guidance in the agenda decision, it was determined that they generally do not give rise to such an asset. Accordingly, the implementation costs of cloud computing arrangements are recorded within operating expenses in the statements of operations as incurred.

The Board, acting as rate regulator, has approved the creation of regulatory deferral account debit balances for these costs. These balances will be recovered over time by amortizing them over the terms of the cloud computing arrangements.

These changes have been applied retrospectively.

As a result of this accounting policy change, intangible assets have decreased by $43 and regulatory deferral account debit balances have increased by $43 as at August 31, 2021, from that previously reported in the 2021 annual financial statements. There is no net impact to net income (loss) after the application of regulatory accounting.

(f) Comparative information

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

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

The financial statements of the Company include the following subsidiaries:

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

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(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 and associates are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the financial statements include the participant's share of the net income (loss) and other comprehensive income (OCI) of equity-accounted investees, until the date on which joint control or significant influence ceases. The Company's investment in an equity-accounted investee is reduced for distributions received during the fiscal year.

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

As discussed in note 13, the Company previously owned 50% (August 31, 2021 – 50%) of the issued and outstanding shares of Searidge Technologies Inc. (Searidge), which was owned through NAV CANADA ATM Inc. The Company classified its investment in Searidge as an investment in a joint venture when it was held. The Company sold its investment in December 2021.

As discussed in note 12, the Company is party to an arrangement with Iridium Communications Inc. (Iridium) and four major air navigation service providers (ANSPs), NATS (United Kingdom), ENAV (Italy), the Irish Aviation Authority (IAA) and Naviair (Denmark) (collectively, 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, 2022, 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.

3. Significant accounting policies (continued)

(c) Financial instruments

(i) Recognition

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

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

(ii) Classification

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

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

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

(iii) Measurement

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

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

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).

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Impairment

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

(v) Derivatives and hedge accounting

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

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

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).

3. Significant accounting policies (continued)

(d) Employee benefits

(i) Defined benefit plans

The defined benefit obligation and estimated costs of the Company's defined benefit pension plans and other post-employment benefits are calculated annually by a qualified actuary using the projected unit credit method. The actuarial calculations are performed using management's estimates of expected investment performance, compensation, the retirement ages of employees, mortality rates, health-care costs, inflation and other relevant factors. The discount rate is determined using the yield at the reporting date on high quality Canadian corporate bonds that have maturity dates approximating the terms of the Company's obligations. 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 are presented in salaries and benefits. The interest arising on net benefit obligations is recognized in net income (loss) and is presented as net interest costs relating to employee benefits. A portion of these employee benefit costs are allocated to the cost of assets under development.

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

The Company's registered pension plan is 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 accumulating sick leave benefits (vesting and non-vesting) and long-term executive incentive plan benefits. The same methodology and management estimates are used to value these other long-term benefits as in the defined benefit plans; however actuarial gains and losses are included in net income (loss) in the period when they occur. The Company also provides long-term disability (LTD) benefits, which are insured and funded through reserves held by the insurance carriers. Management estimates are based on the insurers' assumptions and methodology used to calculate reserves. The net amount of long-term employee benefit expense is presented with salaries and benefits net of any costs allocated to assets under development.

3. Significant accounting policies (continued)

(d) Employee benefits (continued)

(iii) Termination benefits

Termination benefits are recognized as an expense in net income (loss) when the Company has committed to either terminate employment 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, health, dental, 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, and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located when a legal commitment or constructive obligation exists for them. Borrowing costs for qualifying assets are capitalized in accordance with the Company's accounting policy as described in note 3(h).

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

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

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

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

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

3. Significant accounting policies (continued)

(e) Property, plant and equipment (continued)

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 measured at cost less accumulated amortization and accumulated impairment losses, if applicable. The cost of intangible assets includes the cost of materials, direct labour and employee benefits, 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.

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

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

Intangible assets under development are not amortized.

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

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

3. Significant accounting policies (continued)

(g) Impairment of non-financial assets

At each reporting date, the Company reviews its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If so, the assets' recoverable amount is estimated. Assumptions in assessing the recoverable amount of the air navigation right 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 ANS 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.

(h) Borrowing costs

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

(i) Provisions

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

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

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

(j) Regulatory deferral accounts

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

3. Significant accounting policies (continued)

(j) Regulatory deferral accounts (continued)

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

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

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 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.

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.

(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.

3. Significant accounting policies (continued)

(k) Revenue (continued)

(ii) Service and development contracts

Revenue is recognized as services are rendered. Revenue from a contract to provide services is 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.

Contract balances

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

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

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

(l) Leases

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

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

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

3. Significant accounting policies (continued)

(l) Leases (continued)

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

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

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

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

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

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

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

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

(m) Finance income and other finance costs

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

Other finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at FVTPL, interest expense on leases and impairment losses recognized on financial assets. Interest expense on borrowings, net of capitalized borrowing costs, 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.

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

3. Significant accounting policies (continued)

(n) Income taxes (continued)

(ii) Deferred taxes (continued)

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

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

(o) Segmented reporting

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

4. Revenue

Customer service charges by type of air navigation service provided were as follows:

Years ended August 31	2022	2021
Enroute (1)	**$ 739**	$ 455
Terminal (2)	**562**	284
Daily / annual / quarterly (3)	**53**	22
North Atlantic and international communication (4)	**99**	54
	$ 1,453	$ 815

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

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

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

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

The Company has two customers each of which represents more than 10% of revenue. For the year ended August 31, 2022 (fiscal 2022), revenue from the largest customer was $333 (year ended August 31, 2021 (fiscal 2021) - $155) and revenue from the second largest customer was $156 (fiscal 2021 - $65), together representing 32% (fiscal 2021 – 25%) of the revenue of the Company. The revenue from these two major customers arose from air navigation services.

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

4. Revenue (continued)

Other revenue for fiscal 2022 consists primarily of service and development contracts revenue of $43 (fiscal 2021 - $41).

5. Salaries and benefits

Salaries and benefits expenses were comprised of the following:

Years ended August 31		2022		2021
Salaries and other	**$**	**759**	$	673
Government grant (note 19)		**(4)**		(114)
Severance and termination costs [1]		**-**		27
Curtailment expense (note 15)		**-**		12
Fringe benefits (excluding pension)		**77**		71
Pension current service cost		**183**		201
Less: capitalized salaries and benefits		**(28)**		(29)
	$	**987**	$	841

[1] In fiscal 2021, the Company announced workforce reductions through the elimination of permanent jobs. The reductions were across all departments and included operational students. These reductions were undertaken to address the significant impact of the COVID-19 pandemic on air traffic levels and associated revenues.

6. Finance income and other finance costs

Finance income and other finance costs were comprised of the following:

Years ended August 31		2022		2021
Finance income				
Interest income on financial assets at amortized cost	**$**	**(5)**	$	(3)
Net change in fair value of financial assets at FVTPL [1]		**-**		1
	$	**(5)**	$	(2)
Other finance costs				
Net change in fair value of financial assets at FVTPL [1]	**$**	**82**	$	24
Interest expense on financial liabilities at amortized cost		**86**		91
Less: Capitalized borrowing costs		**(2)**		(2)
	$	**166**	$	113

[1] Net change in fair value of financial assets at FVTPL is largely related to the changes in the fair value of the Company's investment in preferred interests of Aireon (see note 16).

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian 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:

As at August 31	2021	Deferral	Recovery/ reversal	2022	Note
Rate stabilization account (b)	$ 656	$ 85	$ (167)	**$ 574**	1)
Deferred income tax	12	(12)	-	**-**	2)
Employee pension benefits:					
Pension contributions (d)	518	106	-	**624**	3)
Pension re-measurements (d)	392	(394)	2	**-**	3), 6)
Other pension benefits:					
Accumulating sick leave (c)	23	(8)	1	**16**	4)
Other post-employment benefits re-measurements	14	(54)	40	**-**	5), 6)
Supplemental pension re-measurements	19	(18)	(1)	**-**	5), 6)
Long-term disability contributions	-	-	6	**6**	11)
Realized hedging transaction	67	-	(2)	**65**	7)
Decommissioning liability	1	-	-	**1**	8)
Allowance for expected credit losses	12	-	(3)	**9**	9)
Cloud computing arrangements	43	8	(5)	**46**	10)
Debit balances	$ 1,757	$ (287)	$ (129)	**$ 1,341**	
Derivatives	$ -	$ (2)	$ -	**$ (2)**	7)
Employee benefits:					
Pension re-measurements (d)	-	-	(2)	**(2)**	3), 6)
Other pension benefits:					
Accumulating sick leave (c)	-	-	(3)	**(3)**	4)
Other post-employment benefits re-measurements	-	-	(45)	**(45)**	5), 6)
Supplemental pension re-measurements	-	-	(3)	**(3)**	5), 6)
Long-term disability contributions	(6)	10	(4)	**-**	11)
Change in the fair value of the investment in preferred interests	(134)	70	-	**(64)**	2)
Investment in equity-accounted investee	(4)	-	4	**-**	12)
Realized hedging transaction	(1)	-	1	**-**	7)
Leases	(1)	-	1	**-**	13)
Credit balances	$ (146)	$ 78	$ (51)	**$ (119)**	

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

7. Financial statement impact of regulatory accounting (continued)

(a) Regulatory deferral accounts (continued)

As at August 31	2020	Deferral	Recovery/ reversal	2021	Note
Rate stabilization account (b)	$ 255	$ 401	$ -	$ 656	1)
Derivatives	4	(3)	(1)	-	7)
Deferred income tax	21	(9)	-	12	2)
Employee pension benefits:					
Pension contributions (d)	371	147	-	518	3)
Pension re-measurements (d)	1,306	(914)	-	392	3), 6)
Other pension benefits:					
Accumulating sick leave (c)	23	2	(2)	23	4)
Other post-employment benefits re-measurements	26	(5)	(7)	14	5), 6)
Supplemental pension re-measurements	38	(14)	(5)	19	5), 6)
Realized hedging transaction	68	-	(1)	67	7)
Decommissioning liability	-	1	-	1	8)
Allowance for expected credit losses	-	12	-	12	9)
Cloud computing arrangements	43	5	(5)	43	10)
Debit balances	$ 2,155	$ (377)	$ (21)	$ 1,757	
Rate stabilization account (b)	$ (1)	$ -	$ 1	$ -	1)
Employee benefits:					
Long-term disability contributions	(5)	-	(1)	(6)	11)
Change in the fair value of the investment in preferred interests	(171)	37	-	(134)	2)
Investment in equity-accounted investee	(4)	-	-	(4)	12)
Realized hedging transaction	(2)	-	1	(1)	7)
Leases	(1)	-	-	(1)	13)
Credit balances	$ (184)	$ 37	$ 1	$ (146)	

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

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

7. Financial statement impact of regulatory accounting (continued)

(a) Regulatory deferral accounts (continued)

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

3) The Company's cost of pension benefits for its funded plan is considered for rate setting based on the Company's cash contributions to the pension fund 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.

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 net movement in regulatory deferral accounts related to OCI due to re-measurements of employee defined benefit plans for fiscal 2022 consists of pension re-measurement gains of $394, supplemental pension re-measurement gains of $18 and other post-employment benefits re-measurement gains of $54.

7) 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.

The net movement in regulatory deferral accounts related to OCI due to changes in fair value of cash flow hedges for fiscal 2022 of $3 is comprised of $1 related to the amortization of losses on realized hedging transactions to net income (loss) and $2 to defer positive fair value adjustments related to derivatives designated as cash flow hedges.

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

9) The Company is deferring the non-cash impact of accounting for lifetime expected credit losses in accordance with IFRS 9 using regulatory accounting. See note 16 for discussion of the impact on the Company's credit risk. Only write-offs of receivables, should they occur, will be included for rate setting purposes.

10) The Company is deferring the impact of the implementation costs associated with cloud computing arrangements. These balances will be recovered over time by amortizing them over the terms of the cloud computing arrangements.

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

12) The unrealized gain on the Company's previously-held 50% interest in Searidge, as well as its share of Searidge's net assets, is 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). See note 13 for further discussion.

13) The Company is deferring the non-cash impacts of accounting for its head office lease in accordance with IFRS 16 *Leases* 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.

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian 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 net income (loss):

Years ended August 31	2022	2021
Revenue	**$ 1,507**	$ 870
Operating expenses	**1,416**	1,278
Other (income) and expenses	**183**	176
Income tax recovery	**(13)**	(7)
Net income (loss), before net movement in regulatory deferral accounts	**(79)**	(577)
Rate stabilization adjustments (b)	**(82)**	401
Other regulatory deferral account adjustments:		
Employee benefit pension contributions	**106**	147
Other employee benefits	**(7)**	(13)
Investment in preferred interests, before tax	**70**	37
Investment in equity-accounted investee	**4**	-
Income tax	**(12)**	(9)
Allowance for expected credit losses	**(3)**	12
Other	**3**	2
	161	176
Net movement in regulatory deferral accounts	**79**	577
Net income (loss), after net movement in regulatory deferral accounts	**$ -**	$ -

(b) Rate stabilization account

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

When establishing customer service charges, the Board considers, among other things:

(i) the statutory requirement to provide air navigation services;
(ii) air traffic results and forecasts;
(iii) financial and operating requirements, including the current and anticipated balance in the rate stabilization account and the extent to which operating costs are variable and can be contained;
(iv) the recovery of pension contributions on a cash basis; and
(v) updates to our financial forecasts, debt servicing and financial requirements, and resulting financial coverage ratios.

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian 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:

Years ended August 31	2022	2021
Debit balance, beginning of period	**$ (656)**	$ (255)
Variances from planned results:		
Revenue higher (lower) than planned	**190**	(228)
Operating expenses (higher) lower than planned	**(38)**	95
Other (income) and expenses lower (higher) than planned	**(53)**	(35)
Net movement in other regulatory deferral accounts	**68**	62
Total variances from planned results	**167**	(106)
Initial approved adjustment [(1)]	**(85)**	(295)
Net movement recorded in net income (loss)	**82**	(401)
Debit balance, end of period	**$ (574)**	$ (656)

(1) In order to achieve breakeven results of operations after the application of rate regulated accounting, the Board approved the fiscal 2022 budget with an increase to the debit position of the rate stabilization account as a result of a planned shortfall of $85 (fiscal 2021 - $295), which has been reflected in the rate stabilization account evenly throughout the fiscal year.

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

As at August 31	2022	2021
Non-vesting accumulating sick leave	**$ 16**	$ 17
Vested accumulating sick leave	**(3)**	6
Total accumulating sick leave	**$ 13**	$ 23

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

7. Financial statement impact of regulatory accounting (continued)

(d) Pension contributions

Included in regulatory deferral account debit balances as at August 31, 2022 is $624 relating to the recovery through customer service charges of pension contributions (August 31, 2021 - $518). The pension benefit liability, net of regulatory deferrals was:

As at August 31	2022	2021
Pension benefit liability	**$ (588)**	$ (876)
Less:		
Regulatory deferrals of non-cash adjustments	**(2)**	392
Benefit contributions less than benefit expense	**(590)**	(484)
Regulatory debit balance - recovery of contributions	**624**	518
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 plan. The objective of this approach is to reflect the cash cost of the funded pension plan 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 $624, is the recovery of $10 of solvency deficiency contributions of $44 paid in the fiscal year ended August 31, 2017. The remaining balance of $34 is expected to be recovered through customer service charges. The funding of employee pension benefits as compared to the expense, net of regulatory adjustments, recorded in the consolidated statements of operations is summarized below.

Years ended August 31	2022	2021
Consolidated statements of operations		
Pension current service expense (1)	**$ 181**	$ 198
Curtailment expense (2)	**-**	12
Net interest expense (1)	**25**	45
Less: Regulatory deferrals	**(106)**	(147)
	$ 100	$ 108
Company cash pension contributions		
Going concern current service - cash payment	**$ 97**	$ 108
Going concern current service - accrued	**3**	-
	$ 100	$ 108

(1) For fiscal 2022, pension current service expense does not include $2 related to the Company's unfunded pension plan (fiscal 2021 - $3) and net interest expense does not include $4 related to the Company's unfunded pension plan (fiscal 2021 - $4).

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

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

8. Receivables

Accounts receivable and other and long-term receivables were comprised of the following:

As at August 31		2022		2021
Trade receivables	**$**	**102**	$	85
Accrued receivables and unbilled work in progress		**39**		33
Commodity taxes receivable		**4**		1
Allowance for expected credit losses [(1)]		**(4)**		(3)
	$	**141**	$	116
Long-term receivables		**82**		113
Allowance for expected credit losses [(1)]		**(7)**		(10)
	$	**75**	$	**103**

(1) The Company's exposure to credit and foreign exchange risks and to impairment losses related to receivables is described in note 16.

9. Current investments

Current investments were comprised of the following:

As at August 31		2022		2021
Short-term investments [(1)]	**$**	**80**	$	-
Debt service reserve fund [(2)]		**74**		73
	$	**154**	$	73

(1) Short-term investments have maturities greater than three months but less than one year and are generally held to maturity (note 16). The carrying value includes accrued interest.

(2) Pursuant to the Master Trust Indenture (MTI) (note 14), the Company is required to establish and maintain certain reserve funds.

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian 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, 2020	$ 294	$ 800	$ 124	$ 1,218
Additions	-	-	66	66
Derecognition	(1)	-	-	(1)
Disposals	-	(4)	(1)	(5)
Transfers	48	19	(67)	-
Balance at August 31, 2021	$ 341	$ 815	$ 122	$ 1,278
Balance at August 31, 2021	$ 341	$ 815	$ 122	$ 1,278
Additions	36	-	87	123
Disposals [2]	(33)	(15)	(5)	(53)
Transfers [3]	79	(29)	(50)	-
Balance at August 31, 2022	**$ 423**	**$ 771**	**$ 154**	**$ 1,348**
Accumulated depreciation				
Balance at August 31, 2020	$ 90	$ 388	$ -	$ 478
Depreciation	23	64	-	87
Disposals	-	(4)	-	(4)
Balance at August 31, 2021	$ 113	$ 448	$ -	$ 561
Balance at August 31, 2021	$ 113	$ 448	$ -	$ 561
Depreciation	22	59	-	81
Disposals [2]	(11)	(12)	-	(23)
Balance at August 31, 2022	**$ 124**	**$ 495**	**$ -**	**$ 619**
Carrying amounts				
At August 31, 2021	$ 228	$ 367	$ 122	$ 717
At August 31, 2022	**$ 299**	**$ 276**	**$ 154**	**$ 729**

(1) Included in Land and buildings are right-of-use assets related to the Company's head office leases. During fiscal 2022, the Company commenced the lease for its new head office. Depreciation of $3 was recognized during fiscal 2022 (fiscal 2021 - $3). The carrying amount as at August 31, 2022 is $36 (August 31, 2021 - $3).

(2) On July 4, 2022, the Company closed on the sale of assets related to its conference center facility in Cornwall, Ontario, formerly the NAV CENTRE, for $30. The carrying value of the Company's property, plant and equipment associated with the NAV CENTRE was $22.

(3) Transfers represent an estimate of the allocation of assets available for use but not yet transferred from assets under development. During the year the Company adjusted its estimate to better reflect the nature of the related projects.

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

11. Intangible assets

Intangible assets are comprised of the following:

	Air navigation right	Purchased software	Internally developed software	Assets under development[1]	Total
Cost					
Balance at August 31, 2020	$ 702	$ 168	$ 270	$ 43	$ 1,183
Additions	-	-	-	20	20
Disposals	-	(2)	(4)	(9)	(15)
Transfers	-	4	19	(23)	-
Balance at August 31, 2021	$ 702	$ 170	$ 285	$ 31	$ 1,188
Balance at August 31, 2021	$ 702	$ 170	$ 285	$ 31	$ 1,188
Additions	-	-	-	32	32
Disposals	-	(1)	(6)	(1)	(8)
Transfers	-	12	14	(26)	-
Balance at August 31, 2022	**$ 702**	**$ 181**	**$ 293**	**$ 36**	**$ 1,212**
Accumulated amortization					
Balance at August 31, 2020	$ 150	$ 93	$ 109	$ -	$ 352
Amortization	25	14	25	-	64
Disposals	-	(1)	(3)	-	(4)
Balance at August 31, 2021	$ 175	$ 106	$ 131	$ -	$ 412
Balance at August 31, 2021	$ 175	$ 106	$ 131	$ -	$ 412
Amortization	25	11	27	-	63
Disposals	-	(1)	(5)	-	(6)
Balance at August 31, 2022	**$ 200**	**$ 116**	**$ 153**	**$ -**	**$ 469**
Carrying amounts					
At August 31, 2021	$ 527	$ 64	$ 154	$ 31	$ 776
At August 31, 2022	**$ 502**	**$ 65**	**$ 140**	**$ 36**	**$ 743**

(1) Additions to assets under development have been reduced by $2 for funding to be received under the National Trade Corridors Fund (see note 19).

12. Investment in preferred interests of Aireon

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.

The Company's investment in preferred interests of Aireon provides for a 5% annual cumulative dividend (except for the $53 CDN ($40 U.S.) second stage investment that provides for a 10% annual cumulative dividend), calculated from the date of issuance. As at August 31, 2022, the Company's cash investment in Aireon is $150 U.S. (August 31, 2021 - $150 U.S.).

According to the agreement under which the Company's participation in Aireon is governed (the Aireon Agreement), the preferred interests and any unpaid dividends are redeemable for cash in three annual instalments beginning in January 2024 in the event the preferred interests have not been converted to common equity or redeemed by that time.

The Aireon Agreement allows the Company to exert significant influence over the strategic financial and operating activities of Aireon. The Company is represented by five out of the eleven directors on Aireon's board of directors.

In June 2022, the Aireon Agreement was amended to provide for an additional investment in preferred interests of $66 CDN ($50 U.S.) by Iridium, in addition to Iridium's existing investment in common equity interests. The effect of this transaction reduces the Company's fully diluted common equity interest on a post-conversion basis to 35.0% (August 31, 2021 - 37.2%).

In accordance with the Aireon Agreement, a portion of Iridium's common equity interest in Aireon will be redeemed for a payment from Aireon of $158 CDN ($120 U.S.) to finalize the ownership interests of all of Aireon's investors. Upon this redemption and the related conversion of all preferred interests into common equity interests, in accordance with the provisions contained in the Aireon Agreement, NAV CANADA would hold 42.2% of the fully diluted common equity interests of Aireon (August 31, 2021 - 45.3%).

The Company may at any time and from time to time elect to convert all or a portion of its preferred interests in Aireon into common equity interests. As long as the conversion feature remains unexercised, the Company's investment in preferred interests does not give the Company any rights to the residual net assets of Aireon and accordingly the investment is accounted for as a financial instrument classified and measured at FVTPL as discussed in note 2(d)(i) and below.

As at August 31, 2022, the Company measured the fair value of its investment in preferred interests of Aireon at $229 CDN ($175 U.S.) (August 31, 2021 - $299 CDN ($237 U.S.)). The fair value was determined using a discounted cash flow model, where the valuation model considers the present value of expected future dividend payments from Aireon, discounted using a risk-adjusted discount rate. Cash flow projections have been adjusted to reflect the continued impact of the COVID-19 pandemic and other critical uncertainties on the timing and amount of dividend payments expected to be received.

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

12. Investment in preferred interests of Aireon (continued)

The Company's deferred tax assets and liabilities 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 deferred tax liabilities amounting to $56 CDN (August 31, 2021 - $70 CDN) primarily related to the fair value of the Company's investment in Aireon. The Company has deferred tax assets amounting to $66 CDN (August 31, 2021 - $58 CDN) for net operating losses, denied interest deductions and research and development expenses carried forward that have been allocated to the Company's subsidiary.

As at August 31, 2022, the net deferred tax asset of $10 CDN, related to net operating losses carried forward, has not been recognized in the statement of financial position based on management's assessment that it is not probable that the deferred tax asset will be utilized against future taxable income (August 31, 2021 - net deferred tax liability of $12 CDN). The gross amount of unrecognized net operating losses carried forward is $42 CDN. The losses can be carried forward indefinitely. The deferred tax assets and deferred tax liabilities are presented net on the consolidated statements of financial position as a $nil deferred tax liability.

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

As at August 31	2022	2021
Investment in preferred interests	$ **229**	$ 299
Deferred tax liability	**-**	(12)
Financial position impact before regulatory accounting	**229**	287
Regulatory deferral account debit (credit) balances		
Deferred income tax liability	**-**	12
Cumulative change in fair value of the investment in preferred interests	**(64)**	(134)
	(64)	(122)
Net financial position impact after regulatory accounting	$ **165**	$ 165

After regulatory accounting, the Company's investment in preferred interests of Aireon on the statement of financial position reflects the actual amounts paid by the Company (at the exchange rates prevailing on the dates of the transactions). The use of regulatory deferral accounts defers the accounting recognition of transactions related to the Company's investment in Aireon on the Company's consolidated statements of operations. As a result, there is no net impact on the Company's consolidated statements of operations for the year ended August 31, 2022 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.

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

12. Investment in preferred interests of Aireon (continued)

Aireon's fiscal year end is December 31. IAS 28 *Investments in Associates and Joint Ventures* limits the difference between the end of the reporting period of 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, 2022 and August 31, 2021 information presented below is based on Aireon's financial position and financial performance as at June 30, 2022 and June 30, 2021, 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, 2022.

As at August 31		2022		2021
Current assets				
Cash and cash equivalents	**$**	**108**	$	38
Other current assets		**22**		22
Non-current assets				
Property, plant and equipment		**417**		450
Other non-current assets		**70**		65
	$	**617**	$	575
Current liabilities				
Trade and other payables	**$**	**(9)**	$	(7)
Deferred revenue		**(2)**		(2)
Non-current liabilities				
Financial liabilities		**(1,241)**		(1,154)
	$	**(1,252)**	$	(1,163)
Net assets	**$**	**(635)**	$	(588)

Years ended August 31		2022		2021
Revenue	**$**	**129**	$	109
Interest expense	**$**	**88**	$	90
Depreciation	**$**	**51**	$	51
Net loss	**$**	**(85)**	$	(89)
Other comprehensive income		**(21)**		33
Total comprehensive loss	**$**	**(106)**	$	(56)

13. Investment in equity-accounted investee

In December 2021, the Company sold its investment in Searidge. Prior to the sale, the Company owned 50% of the issued and outstanding shares of Searidge. Proceeds were commensurate with the carrying value of $7 at the time of sale (August 31, 2021 - $7). In connection with the sale, the loan receivable from Searidge of $5 was repaid (August 31, 2021 - $3).

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 MTI that provided the Company with a maximum borrowing capacity, which declines each year. On February 21, 2006, the Company entered into a new indenture (the General Obligation Indenture (GOI)) that established an unsecured borrowing program that qualifies as subordinated debt under the MTI. The borrowing capacity under the GOI does not decline each year. In addition, there is no limit on the issuance of notes under the GOI so long as the Company is able to meet an additional indebtedness test.

(a) Security

The MTI established a borrowing platform secured by an assignment of revenue and the debt service reserve fund (note 9). At the end of each fiscal year, the amount in the debt service reserve fund must be equal to or greater than the annual projected debt service requirement (principal amortization, interest and fees) on outstanding MTI obligations determined in the manner required by the MTI. Any additional contributions required to be made to the debt service reserve fund must, at a minimum, be made in equal instalments over the following four fiscal quarters. Funds deposited into the debt service reserve fund are held by a trustee in high-quality short-term money market instruments and are released only to pay principal, interest and fees owing in respect of outstanding borrowings under the MTI except that, provided no event of default has occurred and is continuing, surplus funds may be released from time to time at the request of the Company.

Pursuant to the MTI, the Company is required to maintain an operations and maintenance reserve. The operations and maintenance reserve may be used to pay operating and maintenance expenses, if required. If at any fiscal year end the amount in the operations and maintenance reserve is less than 25% of the Company's operating and maintenance expense for the year, as defined in the MTI (before other regulatory deferral account adjustments, depreciation, amortization, finance costs, OCI and extraordinary expenses), the Company must, at a minimum, increase the balance in the reserve to the required level over the following four fiscal quarters through additional contributions or an allocation of its committed credit facility.

The Company established revenue accounts under the dominion and control of the Company but subject to the lien and the terms of MTI. The balance of the revenue accounts include cash, qualified investments, and the undrawn availability under committed credit facilities to the extent allocated exclusively to the MTI.

The GOI is unsecured but provides a set of positive and negative covenants similar to those of the MTI. In addition, under the terms of the GOI, no further indebtedness may be incurred under the MTI; furthermore, the amount of the Company's $850 syndicated bank credit facility (note 16(c)) that is secured under the MTI is limited to the declining amount of outstanding bonds issued under the MTI. As at August 31, 2022, this amount is $375 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 $475 of the $850 credit facility ranks pari passu to the borrowings under the GOI and will increase by $25 on March 1 of each year to offset the decline in the amount secured under the MTI.

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

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

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

14. Long-term debt (continued)

(b) Debt

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

As at August 31	2022	2021
Bonds and notes payable		
Issued under the MTI:		
$250 face value 7.40% revenue bonds, series 96-3, maturing June 1, 2027	**$ 250**	$ 250
$500 initial face value 7.56% amortizing revenue bonds, series 97-2, maturing March 1, 2027	**125**	150
	375	400
Issued under the GOI:		
$300 face value 0.937% general obligation notes, series 2021-1, maturing February 9, 2026	**300**	300
$200 face value 0.555% general obligation notes, series 2021-2, maturing February 9, 2024	**200**	200
$550 face value 2.924% general obligation notes, series 2020-1, maturing September 29, 2051	**550**	550
$300 face value 2.063% general obligation notes, series 2020-2, maturing May 29, 2030	**300**	300
$250 face value 3.209% general obligation notes, series MTN 2019-1, maturing September 29, 2050	**250**	250
$275 face value 3.293% general obligation notes, series MTN 2018-1, maturing March 30, 2048	**275**	275
$250 face value 3.534% general obligation notes, series MTN 2016-1, maturing February 23, 2046	**250**	250
	2,125	2,125
Total bonds and notes payable	**2,500**	2,525
Adjusted for deferred financing costs and discounts	**(12)**	(13)
Carrying value of total bonds and notes payable	**2,488**	2,512
Less: current portion of long-term debt [1]	**(25)**	(25)
Total long-term debt	**$ 2,463**	$ 2,487

[1] The current portion of long-term debt relates to the annual amortization payment of $25 for the Series 97-2 amortizing revenue bonds.

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

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 MTI and GOI as at August 31, 2022.

For information about the Company's exposure to interest rate and liquidity risk, see note 16.

15. Employee benefits

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

	Pension benefit plans		Other benefit plans	
Years ended August 31	**2022**	**2021**	**2022**	**2021**
Statement of operations				
Current service costs	**$ 183**	$ 201	**$ 6**	$ 7
Curtailment expense	**-**	12	**-**	-
Interest cost	**254**	237	**6**	6
Interest income on plan assets	**(225)**	(189)	**-**	-
Total expense	**$ 212**	$ 261	**$ 12**	$ 13
Statement of other comprehensive income (loss)				
Re-measurements:				
Return on plan assets, excluding interest income	**$ 1,211**	$ (446)	**$ -**	$ -
Actuarial gains	**(1,623)**	(482)	**(54)**	(5)
Total net income recognized in other comprehensive income (loss)	**$ (412)**	$ (928)	**$ (54)**	$ (5)

Net interest costs relating to employee benefits of $36 for fiscal 2022 (fiscal 2021 - $55) are comprised of interest costs and interest income on plan assets as noted above for pension benefit plans and other benefit plans, including an additional $1 (fiscal 2021 - $1) of interest costs related to long-term sick leave benefits.

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

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

15. Employee benefits (continued)

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

As at August 31	2022	2021
Present value of funded defined benefit obligations	**$ (6,781)**	$ (8,192)
Fair value of plan assets	**6,193**	7,316
Liability for funded defined benefit obligations	**(588)**	(876)
Liability for unfunded pension defined benefit obligations	**(99)**	(116)
Liability for unfunded other defined benefit obligations	**(175)**	(224)
Recognized liability for defined benefit plans	**(862)**	(1,216)
Long-term employee benefit liabilities	**(48)**	(50)
Total long-term employee benefit liabilities	**$ (910)**	$ (1,266)

The most recent actuarial funding valuations were carried out as at January 1, 2022.

The Company has determined that 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, 2022 and August 31, 2021. This determination was made in accordance with:

- the terms and conditions of the funded defined benefit pension plan,
- 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.

(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 the funded registered pension plan. In addition, the Company maintains a Supplemental Retirement Plan (the Supplemental Plan) that is not funded. The Company's net obligation is calculated separately for each pension 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 and (b) effective in 2014, to new hires represented by unions.

On February 23, 2022, the Company received approval from the Office of the Superintendent of Financial Institutions Canada (OSFI) to proceed with the merger of the NAV CANADA Executive Pension Plan (the Executive Plan) into the Plan, effective January 1, 2021. The Executive Plan assets of $9, which were being held separately prior to approval, were transferred in May 2022, becoming Part C of the Plan. Given the relative sizes of the two plans, the merger had minimal impact on the Plan and no impact on the Company's aggregate obligations.

15. Employee benefits (continued)

(a) Characteristics of defined benefit plans (continued)

Effective April 1, 2022, all future pensionable service for management employees under Part A and executive employees previously participating in the Executive Plan (now Part C) is recognized under Part B.

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 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.

All parts of the Plan provide a benefit based on pensionable service and the average of the best six years' pensionable earnings (five years for members represented by CATCA/Unifor and Part C) prior to retirement or termination. Pensionable benefits are reduced at age 65 due to Canada Pension Plan (CPP)/ and Quebec Pension Plan (QPP) integration. All three parts of the Plan 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 the registered pension plan.

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 and Part C 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.

(ii) 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 registered pension plan 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 registered pension plan's 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 plan's assets and administration of the Company's registered pension plan and the Supplemental Plan.

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

15. Employee benefits (continued)

(b) Pension plan funding requirements

Actuarial valuations for pension funding purposes are performed annually as at January 1 and are required to be filed with OSFI by June of the same year. The January 1, 2022 funding valuation was filed with OSFI in June 2022.

Once the valuations are filed, going concern pension contributions are based on the January 1, 2022 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, 2022, including the impact of the merger, reported a going concern surplus of $1,346 (January 1, 2021 - $1,297) and a statutory solvency deficiency of $405 (January 1, 2021 - $501).

The Company's contributions to its defined benefits plans included in the statements of cash flows were as follows:

Years ended August 31		2022		2021
Funded pension plan				
Going concern current service costs	**$**	**97**	$	108
Unfunded pension plan		**4**		4
Unfunded other defined benefit plans		**8**		8
Less: capitalized amounts		**(3)**		(5)
	$	**106**	$	115

On a preliminary basis, fiscal 2023 going concern pension contributions for the registered pension plan are estimated to be $94 with no requirement for cash special payments expected.

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

The Company has the option of meeting its pension solvency funding requirements with letters of credit or cash contributions, with the maximum letters of credit based on 15% of solvency liabilities. As at August 31, 2022, the Company has put in place letters of credit totaling $684 to meet its cumulative pension solvency funding requirements, including $90 in the current fiscal year. At January 1, 2022, outstanding letters of credit represent 8% of solvency liabilities (January 1, 2021 – 6%).

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.

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

15. 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 was as follows:

	Pension benefit plans		Other benefit plans	
	2022	**2021**	**2022**	**2021**
Change in benefit obligations				
Defined benefit obligations at August 31, prior year	**$ 8,308**	$ 8,569	**$ 224**	$ 224
Benefits paid	**(269)**	(260)	**(7)**	(8)
Plan participants' contributions	**27**	31	**-**	-
Current service cost	**183**	201	**6**	7
Interest cost	**254**	237	**6**	6
Curtailment expense	**-**	12	**-**	-
Actuarial gain from change in financial assumptions	**(1,646)**	(461)	**(50)**	(9)
Actuarial loss (gain) arising from experience adjustments	**23**	(21)	**(4)**	4
Defined benefit obligations at August 31	**$ 6,880**	$ 8,308	**$ 175**	$ 224
Change in plan assets				
Fair value of plan assets at August 31, prior year	**$ 7,316**	$ 6,798	**$ -**	$ -
Return on plan assets, excluding interest income	**(1,211)**	446	**-**	-
Interest income	**225**	189	**-**	-
Employer contributions	**105**	112	**7**	8
Plan participants' contributions	**27**	31	**-**	-
Benefits paid	**(269)**	(260)	**(7)**	(8)
Fair value of plan assets at August 31	**$ 6,193**	$ 7,316	**$ -**	$ -
Net defined benefit liability	**$ (687)**	$ (992)	**$ (175)**	$ (224)
Liability for unfunded defined benefit obligations at August 31	**$ (99)**	(116)	**(175)**	(224)
Liability for funded defined benefit obligations at August 31	**$ (588)**	$ (876)	**$ -**	$ -

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

15. Employee benefits (continued)

(d) Fair value measurement of pension plan assets

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

	August 31, 2022		August 31, 2021	
	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	20%	17%	19%	22%
Fixed income[(1)]	0%	26%	0%	33%
Real assets	0%	21%	0%	15%
Absolute return strategies	0%	8%	0%	6%
Private debt	0%	6%	0%	5%
Cash	2%	0%	0%	0%
	22%	78%	19%	81%

(1) The LDI strategy (discussed in (g) below) is comprised of a 2:1 leveraged portfolio of long Canadian nominal and real return bonds. Leverage is achieved largely through the use of sale and repurchase agreements. As at August 31, 2022, the strategy represented 25% of net plan assets (August 31, 2021 - 28%) with leverage providing an additional 24% exposure (fiscal 2021 - 25%).

(e) Actuarial assumptions

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

	Funded plan		Unfunded plans	
As at August 31	2022	2021	2022	2021
Discount rate, defined benefit obligations	4.80%	3.10%	4.80%	2.99%
Discount rate, defined benefit expense	3.10%	2.80%	2.99%	2.69%

As a result of the high rate of inflation currently being experienced, inflation assumptions step down from 6.00% in fiscal 2022 to stabilize at 2.00% in the long-term. The average rate of salary increases is expected to be 2.50%-2.75% with an adjustment for merit and promotion (fiscal 2021 – 2.40%). An increase of 4.50% - 5.00% in drug and other health benefit costs were assumed for fiscal 2022 and all years thereafter (fiscal 2021 – 5.00%).

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

15. Employee benefits (continued)

(e) Actuarial assumptions (continued)

Assumptions regarding future mortality are based on published statistics and mortality tables. Longevities (in years) underlying the values of the liabilities in the defined benefit plans are as follows:

As at August 31	2022	2021
Longevity at age 65 for current pensioners		
Males	**23.1**	23.1
Females	**24.9**	24.9
Longevity at age 65 for current members age 45		
Males	**24.0**	24.0
Females	**25.8**	25.8

As at the annual measurement date of August 31, 2022, the weighted-average duration of the defined benefit obligation was 16 years (August 31, 2021 – 18.1 years).

(f) Sensitivity analysis

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

		Defined benefit obligation		Benefit cost	
	Change in assumption + or -	Assumption increase	Assumption decrease	Assumption increase	Assumption decrease
Discount rate	0.25%	$ (259)	$ 276	$ (19)	$ 19
Salary, indexation, government benefit increases	0.25%	$ 261	$ (246)	$ 19	$ (18)
Health care trend rate	1%	$ 14	$ (11)	$ 1	$ (1)
Longevity (in years) for those currently aged 65	1 year	$ 186	$ (192)	$ 11	$ (12)

15. Employee benefits (continued)

(g) Risks associated with the defined benefit plans

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

Adverse changes in the value of plan assets of the funded plan, 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.

16. Financial instruments and financial risk management

Summary of financial instruments

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

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

The Company recognizes any transfers between levels of the fair value measurement hierarchy at the beginning of the fiscal year in which the change occurs. There have been no transfers between levels of the fair value hierarchy since August 31, 2021.

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.

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

16. 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.

As at August 31, 2022		Amortized Cost		FVTPL	Fair value hierarchy
Financial assets					
Cash and cash equivalents (1)	**$**	**392**	**$**	**-**	
Accounts receivable and other		**137**		**-**	
Current investments					
Short-term investments (2)		**80**		**-**	
Debt service reserve fund		**74**		**-**	
Other current assets					
Derivative assets (3)		**-**		**2**	Level 2
Investment in preferred interests (4)		**-**		**229**	Level 3
Long-term receivables (5)		**75**		**-**	
	$	**758**	**$**	**231**	
Financial liabilities					
Trade and other payables					
Trade payables and accrued liabilities	**$**	**207**	**$**	**-**	
Other current liabilities					
Derivative liabilities (3)		**-**		**1**	Level 2
Long-term debt (including current portion)					
Bonds and notes payable (6)		**2,488**		**-**	Level 2
	$	**2,695**	**$**	**1**	

As at August 31, 2021		Amortized Cost		FVTPL	Fair value hierarchy
Financial assets					
Cash and cash equivalents (1)	$	319	$	-	
Accounts receivable and other		115		-	
Current investments					
Debt service reserve fund		73		-	
Investment in preferred interests (4)		-		299	Level 3
Long-term receivables (5)		106		-	
	$	613	$	299	
Financial liabilities					
Trade and other payables					
Trade payables and accrued liabilities	$	201	$	-	
Other current liabilities					
Derivative liabilities (3)		-		1	Level 2
Long-term debt (including current portion)					
Bonds and notes payable (6)		2,512		-	Level 2
	$	2,713	$	1	

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

16. Financial instruments and financial risk management (continued)

Summary of financial instruments (continued)

(1) As at August 31, 2022, cash and cash equivalents include $175 of highly liquid instruments with original terms to maturity of less than three months (August 31, 2021 - $nil).

(2) Short-term investments are instruments invested in Canadian government T-bills, earning fixed rates of interest of 2.68%, with an original maturity of more than three months.

(3) 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.

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

(5) Long-term receivables include $81 of deferred payments related to the September 1, 2020 customer service charge increase as described in note 16 (b) (August 31, 2021 - $112) and $nil loan receivable from Searidge (August 31, 2021 - $3).

(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, 2022, the fair value was $2,227 (August 31, 2021 - $2,722) inclusive of accrued interest of $25 (August 31, 2021 - $26).

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:

		2022		2021
Fair value as at August 31, prior year	**$**	**299**	$	336
Net change in fair value [1]		**(82)**		(24)
Effect of foreign exchange [2]		**12**		(13)
Fair value as at August 31	**$**	**229**	$	299

(1) Net change in fair value is based on discounted future cash flows, which include preferred and common dividends. See note 6.

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

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

		Increase		Decrease
Number of years over which cash flow is expected				
(change of 1 year)	$	(30)	$	32
Risk-adjusted discount rate (1% movement (100 basis points))	$	(29)	$	34

16. Financial instruments and financial risk management (continued)

Derivative financial instruments

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

(1) The Company holds foreign exchange forward agreements with a total notional value of $59 CDN ($47 U.S.) to hedge monthly payments to Aireon related to satellite surveillance costs for the fiscal year ending August 31, 2023 (fiscal 2023). The average contract rate is 1.275911. The carrying amount of these contracts is $2 as at August 31, 2022, which is included in current assets.

As at August 31, 2021, the Company held foreign exchange forward agreements to purchase a total of $58 CDN ($45 U.S.) with an average rate of 1.274837. The carrying amount of these contracts was $1 as at August 31, 2021 and is included in current liabilities.

(2) The Company holds foreign exchange forward agreements with a notional value of approximately $2 each to purchase a total of $9 CDN ($7 U.S.) to hedge payments related to the Company's insurance premiums in fiscal 2023. The average contract rate is 1.276603. The carrying amount of these contracts is $nil as at August 31, 2022.

As at August 31, 2021, the Company held foreign exchange forward agreements to purchase a total of $9 CDN ($7 U.S.) with an average rate of 1.265784. The carrying amount of these contracts was $nil as at August 31, 2021.

The Company's hedging relationships are subject to ineffectiveness should the timing of the forecasted transaction not occur as intended, when actual amounts significantly differ to the estimates, or as a result of changes in counterparty risk. For the years ended August 31, 2022 and 2021, the derivatives designated as cash flow hedges were considered to be fully effective and no ineffectiveness has been recognized in net income (loss).

For the year ended August 31, 2022, a gain of $2 was recorded in OCI (August 31, 2021 - $3).

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.

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

16. 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:

As at August 31		2022		2021
Floating rate financial assets				
Cash	**$**	**217**	$	319
Total floating rate financial assets	**$**	**217**	$	319
Fixed rate financial assets				
Cash equivalents	**$**	**175**	$	-
Short-term investments		**80**		-
Debt service reserve fund investments		**74**		73
Total fixed rate financial assets	**$**	**329**	$	73
Fixed rate financial liabilities				
Bonds and notes payable [1]	**$**	**2,488**	$	2,512

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

Instruments included in the Company's cash and cash equivalents 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 $2 in the Company's earnings before rate stabilization adjustments (August 31, 2021 - $3).

The Company does not account for any fixed rate financial assets or liabilities as FVTPL. Therefore, the impact of a change in interest rates at the reporting date on fixed rate assets or liabilities would not affect the Company's earnings.

Interest rate risk related to the Company's fixed-interest long-term debt relates to the re-setting of interest rates upon maturity and refinancing of the debt. The Company mitigates this source of interest rate risk by spreading maturities of borrowings over periods currently up to and including 2051 so that only a portion of outstanding debt will mature in any given fiscal year. The Company has not entered into any derivative contracts to manage interest rate risk as at August 31, 2022.

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

16. 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. 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, 2022		August 31, 2021	
	CDN	**U.S.**	**CDN**	**U.S.**
Financial assets				
Current				
Cash and cash equivalents	**$ 3**	**$ 2**	$ 2	$ 1
Non-current				
Investment in preferred interests	**229**	**175**	299	237
Long-term receivables	**1**	**1**	1	1
	$ 233	**$ 178**	$ 302	$ 239
Financial liabilities				
Current				
Trade and other payables	**$ 7**	**$ 5**	$ 5	$ 4
Net exposure	**$ 226**	**$ 173**	$ 297	$ 235

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, 2022, the Company has designated $2 (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, 2022, 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 $24 (August 31, 2021 - $29).

16. Financial instruments and financial risk management (continued)

Financial risk management (continued)

(a) Market risk (continued)

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. In order to mitigate the risk of losses arising from investment activities, the Company only invests in highly-rated and short-term instruments, excluding Aireon.

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.

The following risks have been identified with respect to the Company's investment in preferred interests of Aireon:

- the global impact on air traffic as a result of the COVID-19 pandemic;
- 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;
- the ability of Aireon to bring in new customers; and
- the possibility that the Company's receipt of dividends may 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, 2022 represents the carrying amount of cash, accounts receivable, reserve funds, investments and forward contracts to purchase or sell foreign currencies.

The current investments 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. 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 current investments 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.

16. Financial instruments and financial risk management (continued)

Financial risk management (continued)

(b) Credit risk (continued)

Historically, accounts receivable are primarily short-term receivables from customers that arise in the normal course of business. The Company provides air navigation services to various aircraft operators, including Canadian and foreign commercial air carriers as well as small general aviation aircraft. Credit limits and compliance with payment terms are monitored by the Company to manage its exposure to credit loss. The Company has established a maximum credit limit of $4 for its largest air navigation services customers (with the exclusion for deferred payments), 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 for all receivable amounts, including amounts that have been deferred for later collection.

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

The Company establishes an allowance for expected credit losses that represents its estimate of lifetime expected credit losses to be incurred in respect of accounts receivable. Given the high degree of uncertainty caused by the COVID-19 pandemic, the estimates and judgments made by management in the preparation of the expected credit loss allowance are subject to estimation uncertainty. Based on the Company's current estimates and assumptions, including but not limited to current and forecasted economic and credit conditions as well as recent trends for customer collections, the allowance for expected credit losses is $11 as at August 31, 2022 (August 31, 2021 - $13). There were no significant balances past due.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to evaluate current and expected liquidity requirements under both normal and stressed conditions to ensure that it maintains sufficient reserves of cash and cash equivalents or an available undrawn committed credit facility to meet its liquidity requirements in the short and longer term. Under the Company's MTI and GOI, the Company is required to maintain certain reserve funds and liquidity levels, as described in note 14.

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

16. 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:

As at August 31		2022
Credit facilities for general purposes:		
Credit facility with a syndicate of Canadian financial institutions [1] [2]	$	850
Less: Outstanding letters of credit for other purposes [2]		(1)
Undrawn committed borrowing capacity		849
Less: Operations and maintenance reserve allocation [3]		(303)
Available for unrestricted use	$	546
Credit facilities for pension funding purposes:		
Letter of credit facilities for pension funding purposes [4]	$	810
Less: Outstanding letters of credit for pension funding purposes [4]		(684)
Undrawn committed letter of credit facility	$	126

[1] The Company's credit facility with a syndicate of Canadian financial institutions is comprised of two equal tranches maturing on March 26, 2024 and March 26, 2026, respectively. The credit facility agreement provides for loans at varying rates of interest based on certain benchmark interest rates, specifically the Canadian prime rate and the Canadian bankers' acceptance rate, and on the Company's credit rating at the time of drawdown. The Company is required to pay commitment fees, which are dependent on the Company's credit rating. The Company is in compliance with the credit facility covenants as at August 31, 2022.

[2] As at August 31, 2022, $1 was drawn from an uncommitted revolving credit facility. In connection with this facility, an allocation of $25 with a Canadian financial institution has been made under its $850 committed credit facility.

[3] The Company is required to maintain a reserve of at least 25% of its prior year's annual operating and maintenance expenses, as defined in the MTI. As at August 31, 2022, the Company met this requirement with an allocation of $303 in undrawn availability under its committed credit facility.

[4] The letter of credit facilities for pension funding purposes are comprised of four facilities with Canadian financial institutions, of which $400 will mature on December 31, 2022 and $410 will mature on December 31, 2023, unless extended.

As at and for the years ended August 31, 2022 and 2021 (millions of Canadian dollars)

17. Commitments

The following table presents a maturity analysis of the Company's undiscounted contractual cash flows for its financial liabilities, capital commitments, lease liabilities and other commitments as at August 31, 2022:

		Remaining payments – for years ending August 31					
	Total	**2023**	**2024**	**2025**	**2026**	**2027**	**Thereafter**
Trade payables and accrued liabilities	**$ 187**	$ 187	$ -	$ -	$ -	$ -	$ -
Derivative liabilities	**1**	1	-	-	-	-	-
Long-term debt (including current portion) (1), (2)	**2,500**	25	225	25	325	25	1,875
Interest payments (2)	**1,328**	80	78	75	72	69	954
Capital commitments (3)	**113**	64	14	8	5	7	15
Lease liability (4)	**59**	2	3	3	3	3	45
Related party loan (note 20)	**14**	14	-	-	-	-	-
	$ 4,202	$ 373	$ 320	$ 111	$ 405	$ 104	$ 2,889

(1) Payments represent principal of $2,500. 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.

(2) Further details on interest rates and maturity dates on long-term debt are provided in note 14.

(3) The Company has commitments for the acquisition of property, plant and equipment and intangible assets amounting to $113 as at August 31, 2022 (August 31, 2021 - $124).

(4) The Company's lease agreements convey to the Company the right to use office space. The Company's lease of its new head office has a term of 20 years. The lease for the former head office is set to expire on October 31, 2022.

As at August 31, 2022, the outstanding letters of credit of $685 (note 16 (c)) are comprised of $684 drawn for pension solvency funding purposes (note 15) and $1 for other purposes.

18. 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.

18. Contingencies (continued)

(b) Indemnification commitments (continued)

The Company has provided the following significant indemnification commitments:

Provision of service and system sales

(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. 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.

Other agreements

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

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

19. 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.

The Canada Emergency Wage Subsidy (CEWS) program offered by the Government of Canada to help businesses keep workers on their payroll through the challenges posed by the COVID-19 pandemic ended on October 23, 2021. During fiscal 2022, the Company received $4 in subsidies under the program (August 31, 2021 - $114). These have been recorded as a reduction to Salaries and benefits expenses as shown in note 5.

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19. Transactions with the Government of Canada (continued)

During fiscal 2022, the Company entered into agreements to receive funding under the National Trade Corridors Fund for the financing of aviation network capacity and resilience improvements. Intangible asset additions for assets under development were reduced by $2 as at August 31, 2022 for amounts receivable under the agreements.

20. Related party transactions

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

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

Compensation of key management personnel

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

Years ended August 31	2022	2021
Salaries and other benefits	**$ 5**	$ 4
Defined benefits, including pension benefits	**2**	2
Management incentive plan	**1**	1
Other long-term benefits	**1**	2
	$ 9	$ 9

There were no loans provided to key management personnel during fiscal 2022.

Transactions with joint ventures and associates

The Company previously held a 50% interest in Searidge, which was classified as a joint venture. The Company sold its investment in December 2021. Transactions with Searidge are as disclosed in note 13.

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 net change in fair value of the Company's investment in preferred interests of Aireon is based on discounted future cash flows, which include preferred dividends. In addition, the Company has a 12-year commitment with Aireon to purchase data services, which commenced in March 2019. During the year ended August 31, 2022, the Company incurred $53 for the purchase of data services under this agreement (year ended August 31, 2021 - $55). The estimated total remaining commitment is $512 CDN ($399 U.S.).

The Company also entered into an agreement with Aireon in January 2020 to provide a subordinated loan up to a total of $14 CDN ($11 U.S.) through June 2026 or the date on which the senior credit facility is paid in full and terminated or refinanced.

Transactions with the registered pension plan

The Company's transactions with the Plan include contributions paid to the Plan and letters of credit for pension solvency funding purposes, which are disclosed in note 15, reimbursements from the Plan for certain costs in the amount of $21 for fiscal 2022 (fiscal 2021 - $10) and receivables from the Plan in the amount of $2 for fiscal 2022 (fiscal 2021 - $9).

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21. 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:

As at August 31		2022		2021
Bonds and notes payable (note 14)	**$**	**2,488**	$	2,512
Equity:				
Retained earnings		**28**		28
Regulatory deferral accounts:				
Debit balances (note 7)		**(1,341)**		(1,757)
Credit balances (note 7)		**119**		146
Employee benefits (note 15):				
LTD liability		**6**		-
Liability for funded pension benefits		**588**		876
Liability for accumulating sick leave		**15**		17
Total capital	**$**	**1,903**	$	1,822

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

The Company's main objectives when managing capital are:

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

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

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

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

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

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

Given that the Company has no share capital, these objectives are achieved through a process that determines an appropriate period and level of cost recoveries through customer service charge rate setting, as well as the appropriate amount of debt and committed credit facilities. This process includes the Company's operational and capital budgeting process and considers the overall economic and capital market environments. The optimal level of debt is reviewed on a regular basis and 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, 2022.