Management's Report and

Audited Consolidated Financial Statements of

NAV CANADA

Years ended August 31, 2017 and 2016

MANAGEMENT’S REPORT TO THE MEMBERS OF NAV CANADA

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

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

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

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

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

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

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

October 26, 2017

(Signed) “Alexander N. Struthers”
Alexander N. Struthers
Executive Vice President, Finance
and Chief Financial Officer

October 26, 2017

INDEPENDENT AUDITORS' REPORT

To the Members of NAV CANADA:

We have audited the accompanying consolidated financial statements of NAV CANADA, which comprise the consolidated statements of financial position as at August 31, 2017 and 2016 and the consolidated statements of operations, comprehensive income, changes in equity, and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of NAV CANADA as at August 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

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

October 26, 2017

NAV CANADA

Consolidated Statements of Operations

Years ended August 31

(millions of Canadian dollars)

	Notes	2017	2016
Revenue			
Customer service charges	4	$ 1,294	$ 1,333
Customer service charges refund	4	(60)	-
Other revenue	4	57	60
		1,291	1,393
Operating expenses			
Salaries and benefits	5	925	858
Technical services		112	112
Facilities and maintenance		72	70
Depreciation and amortization	14, 15	147	141
Other		74	57
		1,330	1,238
Other (income) and expenses			
Finance income	6	(55)	(21)
Net interest costs relating to employee benefits	13	55	43
Other finance costs	6	90	93
Other (gains) and losses	7	7	1
		97	116
Net income (loss) before income tax and net movement in regulatory deferral accounts		(136)	39
Income tax expense		14	2
Net income (loss) before net movement in regulatory deferral accounts		(150)	37
Net movement in regulatory deferral accounts related to net income (loss), net of tax	8	150	(37)
Net income (loss) after net movement in regulatory deferral accounts		$ -	$ -

See accompanying notes to consolidated financial statements.

NAV CANADA

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

	Notes	2017	2016
Net income (loss) after net movement in regulatory deferral accounts		$ -	$ -
Other comprehensive income (loss)			
Items that will not be reclassified to income or (loss):			
Re-measurements of employee defined benefit plans	13	209	(492)
Net movement in regulatory deferral accounts related to other comprehensive income	8	(209)	492
		-	-
Items that will be reclassified to income or (loss):			
Amortization of loss on cash flow hedge to net income (loss)		1	-
Changes in fair value of cash flow hedges		38	(95)
Net movement in regulatory deferral accounts related to other comprehensive income	8	(39)	95
		-	-
Total other comprehensive income (loss)		-	-
Total comprehensive income (loss)		$ -	$ -

See accompanying notes to consolidated financial statements.

NAV CANADA

Consolidated Statements of Financial Position

Years ended August 31

(millions of Canadian dollars)

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

See accompanying notes to consolidated financial statements.

NAV CANADA

Consolidated Statements of Financial Position

Years ended August 31

(millions of Canadian dollars)

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

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(Signed) "Marc Courtois"
Marc Courtois, Director

(Signed) "Linda Hohol"
Linda Hohol, Director

NAV CANADA

Consolidated Statements of Changes in Equity

(millions of Canadian dollars)

	Retained earnings	Accumulated other comprehensive income	Total
Balance August 31, 2015	$ 28	$ -	$ 28
Net income (loss) and net movement in regulatory deferral accounts	-	-	-
Other comprehensive income (loss)	-	-	-
Balance August 31, 2016	$ 28	$ -	$ 28
Balance August 31, 2016	$ 28	$ -	$ 28
Net income (loss) and net movement in regulatory deferral accounts	-	-	-
Other comprehensive income (loss)	-	-	-
Balance August 31, 2017	$ 28	$ -	$ 28

See accompanying notes to consolidated financial statements.

NAV CANADA

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

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

See accompanying notes to consolidated financial statements.

1. Reporting entity:

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

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

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

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

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

2. Basis of presentation:

(a) Statement of compliance:

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

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

(b) Basis of measurement:

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

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

(c) Functional and reporting currency:

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

2. Basis of presentation (continued):

(d) Critical accounting estimates and judgments:

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

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

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

(i) Critical judgments:

- Joint arrangements

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

(ii) Key sources of estimates and assumption uncertainties:

- Fair value of investment in preferred interests

  The Company's investment in preferred interests in Aireon is designated as FVTPL. In February 2014, three other air navigation service providers (ANSPs) (namely ENAV (Italy), the Irish Aviation Authority (IAA), and Naviair (Denmark)) (collectively, the Additional Investors) began to make scheduled investments in Aireon. The Company used the price paid by the Additional Investors (note 11) as a basis to estimate the fair value of Aireon and its investment in the entity through preferred interests in subsequent reporting periods. The measurement is subject to estimation uncertainty and is dependent on the successful achievement of operational, technical and financial objectives by Aireon and Iridium Communications Inc. (Iridium), as described in notes 3 (a) and 11.

- Employee benefits

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

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

2. Basis of presentation (continued):

(e) New standards, amendments and interpretations adopted:

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

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

IAS 1 – Presentation of Financial Statements

In December 2014, the IASB issued Disclosure Initiative (Amendments to IAS 1 *Presentation of Financial Statements*). These amendments improve the existing presentation and disclosure requirements and encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements. The adoption of these amendments resulted in the removal of certain immaterial disclosures in the Company's consolidated financial statements.

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

The IASB has issued a number of standards and amendments that are not yet effective. The Company continues to analyze these standards and amendments thereto to determine the extent of their impact on its consolidated financial statements. At this time, the Company does not expect to adopt any of these standards or amendments before their effective dates, with the exception of IFRS 9.

IFRS 9 – Financial Instruments

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

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

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

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

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

2. Basis of presentation (continued):

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

IFRS 15 – Revenue from Contracts with Customers

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

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

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard will replace IAS 17 *Leases*, and it sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires recognition of assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17, maintaining the classification of leases as operating or finance leases, and accounting for the lease according to its classification. IFRS 16 is to be applied retrospectively, using either a full retrospective approach or a modified retrospective approach, for annual periods beginning on or after January 1, 2019. Earlier application is permitted, but only if IFRS 15 has also been adopted. The Company has not yet determined the impact of adopting this new standard.

IAS 7 – Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 as part of the IASB's Disclosure Initiative. These amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. These amendments do not result in any changes to the Company's consolidated financial statements.

IAS 12 – Income Taxes

In January 2016, the IASB issued amendments to IAS 12. These amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. These amendments do not impact the Company's consolidated financial statements.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

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

2. Basis of presentation (continued):

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

IFRIC 23 – Uncertainty over Income Tax Treatments

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

3. Significant accounting policies:

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

(a) Basis of consolidation:

(i) Subsidiaries

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

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

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

(ii) Investments in joint ventures

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

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

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

3. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

(ii) Investments in joint ventures (continued)

As discussed in note 11, the Company is party to an arrangement with Iridium and the Additional Investors which allows the Company, together with Iridium, to jointly control the strategic financial and operating decisions of Aireon. This arrangement is a joint venture since the Company has joint control over Aireon's strategic financial and operating activities and will have a right to the net assets of Aireon upon exercising its right to convert its preferred interests to common interests. As at August 31, 2017, the Company's share of Aireon's net assets is $nil and therefore the Company's share of Aireon's net income (loss) and OCI is $nil. Until the Company exercises its right to convert its preferred interests to common interests, it does not have access to Aireon's net assets and accordingly this investment is accounted for as a financial instrument.

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

(b) Foreign currency:

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

(c) Financial instruments:

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

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

(i) Derivative financial instruments

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

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

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

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(ii) Non-derivative financial assets

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

- loans and receivables;
- FVTPL; and
- AFS.

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

Loans and receivables (L&R)

Cash and cash equivalents and accounts receivable and other are classified as L&R. They have fixed or determinable payments and are not quoted in an active market. L&R are recognized initially at fair value plus any attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method, less any impairment losses.

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

Fair value through profit or loss

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

Available for sale

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

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(iii) Non-derivative financial liabilities

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

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

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

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

(iv) Hedging

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

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

(v) Impairment of financial assets

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

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

3. Significant accounting policies (continued):

(d) Employee benefits:

(i) Defined benefit plans

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

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

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

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

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

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

(ii) Other long-term employee benefits

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

3. Significant accounting policies (continued):

(d) Employee benefits (continued):

(iii) Termination benefits

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

(iv) Short-term employee benefits

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

(e) Property, plant and equipment:

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

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

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

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

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

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

3. Significant accounting policies (continued):

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

Other contributions to property, plant and equipment

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

(f) Intangible assets:

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

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

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

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

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

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

Intangible assets under development are not amortized.

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

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

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 relate to the continuing right to provide civil air navigation services and the exclusive ability to set and collect customer service charges for such services. If changes in any such expectations arise, impairment charges may be required which could materially impact operating results. Goodwill and assets under development are tested annually for impairment.

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

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

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

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

(h) Borrowing costs:

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

(i) Provisions:

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

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

3. Significant accounting policies (continued):

(i) Provisions (continued):

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

(j) Regulatory deferral accounts:

The timing of recognition of certain revenue and expenses differs from what would otherwise be expected for companies that are not subject to regulatory statutes governing the level of their charges, the effect of which is described in note 8.

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

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

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

(k) Revenue:

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

(i) Customer service charges

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

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

3. Significant accounting policies (continued):

(k) Revenue (continued):

(ii) Service and development contracts

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

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

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

(iii) Aeronautical publications

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

(iv) Contributions

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

(l) Lease payments:

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

(m) Finance income and other finance costs:

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

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

(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.

3. Significant accounting policies (continued):

(n) Income taxes (continued):

(ii) Deferred taxes

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

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

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

(o) Segmented reporting:

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

4. Revenue:

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

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

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

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

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

4. Revenue (continued):

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

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

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

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

5. Salaries and benefits:

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

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

6. Finance income and other finance costs:

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

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

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

6. Finance income and other finance costs (continued):

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

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

7. Other gains and losses:

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

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

8. Financial statement impact of regulatory deferral accounts:

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

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

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

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

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

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

2) The regulatory deferrals related to the Company's investment in Aireon are considered for rate setting when they are realized in cash through the receipt of dividends net of tax. The total regulatory deferral of income tax related to the Company's investment in Aireon is $55 as at August 31, 2017 (August 31, 2016 - $45).

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

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

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

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

6) The Company's cost of pension benefits for its funded plans are considered for rate setting based on the Company's cash contributions to the pension funds as described in note 8 (c) below. Pension adjustments related to the adoption of IFRS and subsequent re-measurements are deferred and are considered for rate setting purposes as cash contributions to the pension funds are made.

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

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

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

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

9) The net movement in regulatory deferral accounts related to other comprehensive income due to changes in fair value of cash flow hedges for the year ended August 31, 2017 of $39 is comprised of $1 related to the amortization of the loss on the realized hedging transaction to net income (loss) and $38 to defer fair value adjustments related to derivatives designated as cash flow hedges.

10) The net movement in regulatory deferral accounts related to other comprehensive income due to re-measurements of employee defined benefit plans for the year ended August 31, 2017 is $209 which consists of pension re-measurements of $231, other post-employment benefits re-measurements of $4, partially offset by supplemental pension re-measurements of $26.

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

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

When establishing customer service charges, the Board considers the balance in the rate stabilization account. The long-term target credit balance of the rate stabilization account is 7.5% of total planned annual expenses net of other (income) expenses, excluding non-recurring items, on an ongoing basis. For fiscal 2017, the target balance was $101 (fiscal 2016– $100).

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

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

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

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

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

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

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

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

(a) Derivatives - Regulatory unrealized hedging transactions:

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

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

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

(2) The Company entered into a foreign exchange forward contract to hedge its fourth stage investment in preferred interests in Aireon. The forward contract matured and the Company took delivery of the U.S. dollars which were held as the hedging instrument as at August 31, 2016. The fourth stage investment was made in December 2016 and the hedge was settled simultaneously.

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

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

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

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

(c) Pension contributions:

Included in regulatory deferral account credit balances at August 31, 2017 is $9 (August 31, 2016 – $136) relating to the recovery through customer service charges of pension contributions. The accrued pension benefit liability, net of regulatory deferrals is as follows:

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

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

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

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

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

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

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

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

[2] During fiscal 2017, the Company received the remaining principal relating to the MAV II notes, investment in other notes, as well as the restructured ABCP. As at August 31, 2016, the total of fair value variances from face value on investments recorded on the Company's statement of financial position was a credit of $14, which included fair value adjustments of $11 and $3 realized fair value variance on MAV Class A-2 notes when purchased in the year ended August 31, 2011.

9. Accounts receivable and other:

Accounts receivable and other were comprised of the following:

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

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

10. Current investments:

Current investments were comprised of the following:

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

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

Pursuant to the Master Trust Indenture (note 16), the Company is required to establish and maintain certain reserve funds, as follows:

<u>Debt service reserve fund</u>

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

Pursuant to the General Obligation Indenture (note 16), the Company is required to maintain certain liquidity levels similar to the reserve fund requirements of the Master Trust Indenture. Specifically, the Company must maintain a minimum liquidity level equal to 12 months net interest expense plus 25% of the annual operating and maintenance expenses. Liquidity is defined to include all cash and qualified investments, amounts held in the operations and maintenance and debt service reserve funds and any undrawn amounts available under a committed credit facility. In addition, the Company must maintain cash liquidity equal to 12 months net interest expense. Cash liquidity includes cash and qualified investments held in the reserve funds maintained under the Master Trust Indenture.

The Company met all reserve fund requirements and liquidity covenants for the year ended August 31, 2017.

11. Investment in preferred interests of Aireon:

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

The Company's overall investment in Aireon was implemented in five stages. As at August 31, 2017, the Company has completed all stages investing a total of $150 U.S. ($187 CDN) (August 31, 2016 - $120 U.S. ($157 CDN)). The Company is represented by six out of the eleven directors on Aireon's board of directors. Each stage was subject to the successful achievement by Aireon and Iridium of certain specific milestones (or the waiver thereof) with respect to, among other things, development of the ADS-B payload, deployment of the Iridium NEXT satellite constellation, marketing Aireon's ADS-B service to potential ANSP customers, and regulatory approvals of the technology's use.

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

In December 2013, the November 2012 agreements were amended to provide for the making of an aggregate investment of $120 U.S. ($150 CDN) in Aireon by three additional major ANSPs, namely ENAV (Italy), the Irish Aviation Authority (IAA), and Naviair (Denmark).

In accordance with the amended agreements, a portion of Iridium's existing common equity interest in Aireon will be redeemed for a payment from Aireon of $120 U.S. ($150 CDN) to finalize the ownership interests of all of Aireon’s investors. Upon this redemption and the related conversion of all preferred interests into common equity interests, NAV CANADA will hold 51% of the fully diluted common equity interests of Aireon, ENAV will hold 12.5%, and each of IAA and Naviair will hold 6%, with the remaining 24.5% being retained by Iridium. This redemption is expected to occur by August 31, 2021.

The Company’s investment in preferred interests of Aireon provides for a 5% annual cumulative dividend (except for the $40 U.S. ($50 CDN) second stage investment that provides for a 10% annual cumulative dividend), calculated from the date of issuance. The preferred interests are redeemable for cash in three annual instalments beginning in January 2021 in the event the preferred interests have not been converted to common equity or redeemed by that time. The cash payments for these mandatory redemptions will include any unpaid dividends.

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

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

Upon the initial investment by the Additional Investors in February 2014, the price paid by the Additional Investors for preferred interests in Aireon with substantially the same characteristics was considered to be a reliable estimate of the fair value of Aireon. The Company has also used this valuation to measure the fair value of its investment in Aireon as at August 31, 2017 and August 31, 2016 as it was determined that this represents the best estimate of fair value (note 17).

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

The Company’s deferred tax assets and liabilities at August 31, 2017 relate to its investment in Aireon held in one of the Company’s wholly owned subsidiaries. Aireon is a limited liability company that is headquartered in the United States and is treated as a partnership for U.S. federal income tax purposes, and therefore is generally not subject to income taxes directly. Rather, the Company, Iridium and the Additional Investors are each allocated a portion of Aireon`s taxable income (loss) based on their respective tax basis interests in Aireon’s income or loss under U.S. tax regulations. The Company has recognized deferred tax liabilities amounting to $55 U.S. ($68 CDN) (August 31, 2016 - $56 CDN) primarily due to the increase in the fair value of the Company’s investment in Aireon. The Company has recognized deferred tax assets amounting to $10 U.S. ($13 CDN) (August 31, 2016 - $11 CDN) for operating losses and research and development expenses carried forward that have been allocated to the Company’s subsidiary. The recognition of deferred tax assets is based on management’s assessment that their realization is probable. The operating losses carried forward will begin to expire in calendar year 2033. The deferred tax assets and liabilities are presented net on the consolidated statement of financial position as a deferred tax liability as noted in the table below.

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

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

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

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

The use of regulatory deferral accounts defers the accounting recognition of transactions related to the Company's investment in Aireon on the Company's consolidated statement of operations. As a result, there is no impact on the Company's consolidated statement of operations for the year ended August 31, 2017 related to the Company's investment in Aireon. These amounts are not considered for rate setting purposes until realized in cash through the receipt of dividends net of tax.

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

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

Aireon's fiscal year end is December 31. IAS 28 *Investments in Associates and Joint Ventures* limits the difference between the end of the reporting period of a joint venture and that of the investor to no more than three months and requires adjustment to the results for any significant transactions that occur during the intervening period. The Company has chosen a two month lag period and therefore the August 31, 2017 and August 31, 2016 information presented below is based on Aireon's financial position and financial performance as at June 30, 2017 and June 30, 2016, respectively. All amounts are translated from U.S. dollars. Between June 30, 2017 and August 31, 2017, Aireon received additional tranche investments from several of its investors. These investments have been reflected in the financial information presented as at August 31, 2017.

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

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

12. Investment in equity-accounted investee:

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

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

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

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

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

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

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

13. Employee benefits:

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

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

Net interest costs relating to employee benefits of $55 for the year ended August 31, 2017 (fiscal 2016 - $43) are comprised of interest costs and interest income on plan assets as noted above for pension benefit plans and other benefits plans, including an additional $1 (fiscal 2016 - $2) of interest costs related to long-term sick leave benefits.

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

13. Employee benefits (continued):

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

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

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

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

The Company has determined that in accordance with:

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

the present value of reductions in future contributions is not lower than the balance of the total fair value of the plan assets plus any minimum funding requirement in respect of past service less the total present value of obligations. As such, no increase in the defined benefit liability is necessary as at August 31, 2017 and August 31, 2016.

13. Employee benefits (continued):

(a) Characteristics of defined benefit plans:

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

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

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

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

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

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

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

13. Employee benefits (continued):

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

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

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

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

(b) Pension plan funding requirements:

Actuarial valuations for pension funding purposes are performed annually as at January 1 and are required to be filed with the Office of the Superintendent of Financial Institutions Canada (OSFI) by June of the same year. Accordingly, going concern pension contributions for the annual period beginning July 1, 2017 are based on the January 1, 2017 actuarial valuations, with a retroactive adjustment to the beginning of the calendar year. The regulations governing the funding of federally regulated pension plans require actuarial valuations to be performed on both a going concern and a solvency basis. The actuarial valuations performed as at January 1, 2017 reported a going concern surplus of $242 (2016 - deficiency of $76). A statutory solvency surplus of $334 was reported as at January 1, 2017 based on the assumption that the September 1, 2016 plan text restatement, which included the plan termination amendment that is currently subject to OSFI's review, was in effect on the valuation date. Had the amendment not been included, there would have been a statutory solvency deficiency of $289 as of January 1, 2017 (2016 - deficiency of $306).

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

13. Employee benefits (continued):

(b) Pension plan funding requirements (continued):

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

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

On a preliminary basis, going concern pension contributions for fiscal 2018 are estimated to be $91 with no requirement for cash special payments expected.

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

The Company has the option of meeting its pension solvency funding requirements with letters of credit or cash contributions. Pension funding regulations came into effect in April 2011 permitting solvency special payments to be replaced by letters of credit provided the total value of the letters of credit does not exceed 15% of the pension plan's assets. These regulations were amended in June 2017 permitting the letters of credit maximum to be based on 15% of solvency liabilities instead of assets. As at August 31, 2017, the Company has put in place letters of credit totaling $477 to meet its cumulative pension solvency funding requirements on a pre-amendment basis. Outstanding letters of credit represent 9% of solvency liabilities on a post-amendment basis and 8% on a pre-amendment basis.

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.

13. Employee benefits (continued):

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

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

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

13. Employee benefits (continued):

(d) Fair value measurement of pension plan assets:

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

	August 31, 2017		August 31, 2016	
	Quoted market price in an active market	No quoted market price in an active market	Quoted market price in an active market	No quoted market price in an active market
Equities	30%	9%	32%	10%
Fixed income[1]	2%	33%	0%	38%
Real assets	0%	14%	0%	12%
Absolute return strategies	1%	6%	1%	1%
Private debt	0%	5%	0%	4%
Cash and cash equivalents	0%	0%	2%	0%
	33%	67%	35%	65%

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

(e) Actuarial assumptions:

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

	Funded plans		Unfunded plans	
	August 31 2017	August 31 2016	August 31 2017	August 31 2016
Discount rate, defined benefit obligations	3.60%	3.40%	3.52%	3.32%
Discount rate, defined benefit expense	3.40%	4.10%	3.32%	3.99%
Future salary increases	3.40%	3.10%	3.40%	3.10%
Medical cost trend rate	N/A	N/A	5.00%	5.00%
Inflation	2.00%	2.00%	2.00%	2.00%

The average rate of salary increases is expected to be equal to the rate of inflation with an adjustment for merit and productivity gains. An increase of 5.0% in drug and other health benefit cost was assumed for fiscal 2017 and all years thereafter.

13. Employee benefits (continued):

(e) Actuarial assumptions (continued):

Assumptions regarding future mortality are based on published statistics and mortality tables. As at August 31, longevities (in years) underlying the values of the liabilities in the defined benefit plans are as follows:

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

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

(f) Sensitivity analysis

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

	Change in assumption + or -	Defined benefit obligation		Benefit cost	
		Assumption increase	Assumption decrease	Assumption increase	Assumption decrease
Discount rate	0.25%	$ (319)	$ 342	$ (22)	$ 22
Salary, indexation, government benefit increases	0.25%	$ 316	$ (297)	$ 25	$ (23)
Health care trend rate	1%	$ 25	$ (20)	$ 1	$ (1)
Longevity (in years) for those currently aged 65	1 year	$ 202	$ (206)	$ 12	$ (13)

13. Employee benefits (continued):

(g) Risks associated with the defined benefit plans:

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

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

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

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

14. Property, plant and equipment:

Property, plant and equipment were comprised of the following:

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

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

15. Intangible assets:

Intangible assets were comprised of the following:

	Air navigation right	Purchased software	Internally developed software	Assets under development	Goodwill	Total
Cost						
Balance at August 31, 2015	$ 702	$ 150	$ 151	$ 23	$ 4	$ 1,030
Additions	-	-	-	35	-	35
Transfers	-	8	17	(25)	-	-
Balance at August 31, 2016	$ 702	$ 158	$ 168	$ 33	$ 4	$ 1,065
Balance at August 31, 2016	$ 702	$ 158	$ 168	$ 33	$ 4	$ 1,065
Additions	-	-	-	42	-	42
Derecognition[1]	-	-	-	-	(4)	(4)
Transfers	-	7	25	(32)	-	-
Balance at August 31, 2017	$ 702	$ 165	$ 193	$ 43	$ -	$ 1,103
Accumulated amortization						
Balance at August 31, 2015	$ 25	$ 17	$ 13	$ -	$ -	$ 55
Amortization	25	17	15	-	-	57
Balance at August 31, 2016	$ 50	$ 34	$ 28	$ -	$ -	$ 112
Balance at August 31, 2016	$ 50	$ 34	$ 28	$ -	$ -	$ 112
Amortization	25	19	17	-	-	61
Balance at August 31, 2017	$ 75	$ 53	$ 45	$ -	$ -	$ 173
Carrying amounts						
At August 31, 2016	$ 652	$ 124	$ 140	$ 33	$ 4	$ 953
At August 31, 2017	$ 627	$ 112	$ 148	$ 43	$ -	$ 930

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

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

16. Long-term debt:

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost. For more information about the Company's exposure to interest rate and liquidity risk, see note 17.

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

(a) Security:

The Master Trust Indenture established a borrowing platform secured by an assignment of revenue and the debt service reserve fund. The General Obligation Indenture is unsecured, but provides a set of positive and negative covenants similar to those of the Master Trust Indenture. In addition, under the terms of the General Obligation Indenture, no further indebtedness may be incurred under the Master Trust Indenture; furthermore, the amount of the Company's $675 syndicated bank credit facility (note 17 (c)) that is secured under the Master Trust Indenture is limited to the declining amount of outstanding bonds issued under the Master Trust Indenture. At August 31, 2017, this amount is $500 and will decline by $25 on March 1 of every year in conjunction with the annual principal repayment of the series 97-2 amortizing bonds. The remaining $175 of the $675 credit facility ranks pari passu to the borrowings under the General Obligation Indenture and will increase by $25 on March 1 of each year to offset the decline in the amount secured under the Master Trust Indenture. The $500 portion of the credit facility along with the $250 series 96-3 bonds and $250 series 97-2 bonds gives a total of $1,000 of indebtedness secured under the Master Trust Indenture and ranking ahead of General Obligation Indenture debt.

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

16. Long-term debt (continued):

(b) Debt:

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

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

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

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

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

The Company is in compliance with all covenants of the Master Trust Indenture and General Obligation Indenture as at August 31, 2017.

17. Financial instruments and financial risk management:

Summary of financial instruments:

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

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

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

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

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

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

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

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

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

Summary of financial instruments (continued):

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

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

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

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

(4) This financial instrument is designated as FVTPL.

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

(6) Bonds and notes payable are initially recognized at fair value, net of financing fees, premiums, discounts, regulatory deferral account debit balances and regulatory deferral account credit balances that arise from cash settlements on hedging transactions that qualify as effective hedges for accounting purposes. They are subsequently measured at amortized cost. Any difference between the carrying amount and the maturity amount is recognized in the consolidated statement of operations over the life of the bond or note payable using the effective interest rate method. The fair value of the Company's bonds and notes payable is determined using secondary market ask prices at the reporting date. As at August 31, 2017, the fair value was $1,835 (August 31, 2016 - $2,058) inclusive of accrued interest of $22 (August 31, 2016 - $25).

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

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

Summary of financial instruments (continued):

(8) Prior to the change in ownership in April 2017, in accordance with the amended shareholders' agreement for one of the Company's subsidiaries, under certain circumstances a non-controlling shareholder could compel a purchase of their shares at a price equal to their fair value at that time, subject to certain adjustments. The liability was recorded at inception based on the present value of the redemption amount. Changes in the liability due to changes in fair value of the underlying shares were treated as a change in estimate in the period in which they occurred.

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

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

The MAV II notes, received as a result of the restructuring of third party sponsored ABCP by the Pan-Canadian Investors Committee in January 2009, included a pooling of leveraged investments as well as traditional assets and cash. Traditional assets were un-levered investments and included residential and commercial mortgage backed securities, corporate credit and cash equivalents. The Class A-1 and A-2 notes provided for the payment of interest on a quarterly basis provided that the three month Canadian Dollar Offered Rate (CDOR) rate was above 50 basis points.

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

The Company used the following expected rates and discount factors:

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

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

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

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

Summary of financial instruments (continued):

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

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

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

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

[3] Net increase in fair value includes accrued dividend income.

Financial risk management:

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

(a) Market risk

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

(i) Interest rate risk:

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

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

Financial risk management (continued):

(a) Market risk (continued)

(i) Interest rate risk (continued):

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

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

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

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

The Company does not account for any fixed rate financial assets or liabilities as FVTPL or as AFS. Therefore the impact of a change in interest rates at the reporting date on fixed rate assets or liabilities would not affect the Company’s earnings, nor its equity. As discussed in note 16, during fiscal 2017, the Company redeemed $100 of the $350 Series MTN 2009-1 General Obligation Notes, reducing the Company’s financial liabilities exposed to interest rate risk.

Interest rate risk related to the Company's fixed-interest long-term debt relates to the re-setting of interest rates upon maturity and refinancing of the debt. The Company mitigates this source of interest rate risk by spreading maturities of borrowings over periods currently up to and including 2046 so that only a portion of outstanding debt will mature in any given fiscal year. In addition, the Company has International Swaps and Derivatives Association Agreements in place and has entered into the following hedging transactions to mitigate the impact of fluctuating interest rates on interest costs relating to the Company’s long-term debt.

- Forward-dated interest rate swaps totaling $200 to hedge the cost of refinancing the Company’s $450 Series MTN 2006-1 General Obligation Notes were entered into in June 2012 and were cash settled at a loss of $51 in February 2016. The loss was deferred in OCI and is being reclassified to net income (loss) using the effective interest rate method over the term of the hedged Series MTN 2016-1 General Obligation Notes.

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

Financial risk management (continued):

(a) Market risk (continued)

(i) Interest rate risk (continued):

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

The Company has applied hedge accounting and is accounting for these financial instruments as cash flow hedges. The Company has not entered into any other derivative contracts to manage interest rate risk.

(ii) Foreign exchange risk:

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

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

Financial risk management (continued):

(a) Market risk (continued)

(ii) Foreign exchange risk (continued):

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

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

The Company designates certain of its forward contracts as cash flow hedging instruments to hedge the Company's exposure to the impact of exchange rate fluctuations. As at August 31, 2017, the Company has not designated any of its forward contracts as cash flow hedging instruments.

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

As at August 31, 2017, if the Canadian dollar strengthened or weakened by 10% against the U.S. dollar, all other variables remaining constant, net income (loss) before net movement in regulatory deferral accounts would have been impacted by $30 (August 31, 2016 - $29).

(iii) Other price risk:

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

In order to mitigate the risk of losses arising from investment activities, the Company only invests in highly-rated (see credit risk discussion below) and short-term instruments, excluding Aireon.

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

Financial risk management (continued):

(a) Market risk (continued)

(iii) Other price risk (continued):

The investment in preferred interests of Aireon (note 11) is subject to price risk. The fair value of this investment may fluctuate over time due to, among other things, economic conditions and the cash flows of Aireon. Aireon is a start-up company and any such changes in the fair value could be material. During fiscal 2017, the Company made its fourth and fifth tranche investments in preferred interests of Aireon. As a result of the additional investments, the fair value of the investment in preferred interests increased to $350 as at August 31, 2017 (August 31, 2016 - $291). A change of 5% in the fair value of the investment in preferred interests would impact finance income (other finance costs) by approximately $12 U.S. ($15 CDN) as at August 31, 2017 (August 31, 2016 - $10 U.S. ($13 CDN)).

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The maximum credit risk to which the Company is exposed as at August 31, 2017 represents the carrying amount of cash, accounts receivable, reserve funds, investments and forward contracts to purchase or sell foreign currencies.

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

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

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

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

Financial risk management (continued):

(b) Credit risk (continued)

The aging of trade accounts receivable was as follows:

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

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

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to evaluate current and expected liquidity requirements under both normal and stressed conditions to ensure that it maintains sufficient reserves of cash and cash equivalents or an available undrawn committed credit facility to meet its liquidity requirements in the short and longer term. Under the Company's Master Trust Indenture and General Obligation Indenture, the Company is required to maintain certain reserve funds and liquidity levels, as described in note 16.

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

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

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

Financial risk management (continued):

(c) Liquidity risk (continued)

(1) The Company's credit facility with a syndicate of Canadian financial institutions in the amount of $675 is comprised of two equal tranches maturing on September 12, 2019 and September 12, 2021. Subsequent to August 31, 2017, these maturity dates were extended to September 12, 2020 and September 12, 2022. The credit facility agreement provides for loans at varying rates of interest based on certain benchmark interest rates, specifically the Canadian prime rate and the Canadian bankers' acceptance rate, and on the Company's credit rating at the time of drawdown. A utilization fee is also payable on borrowings in excess of 25% of the available facility. The Company is required to pay commitment fees, which are dependent on the Company's credit rating. The Company is in compliance with the credit facility covenants as at August 31, 2017.

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

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

(4) The Company is required to maintain a reserve fund of at least 25% of its prior year's annual operating and maintenance expenses, as defined in the Master Trust Indenture. At August 31, 2017, the Company met this requirement with an allocation of $290 in undrawn availability under its committed credit facility. If at any fiscal year end the amount in the operations and maintenance reserve fund is less than 25% of the Company's operating and maintenance expense for the year (before other regulatory deferral account adjustments, depreciation, amortization, finance costs, other comprehensive income and unusual expenses), the Company must, at a minimum, increase the balance in the fund to the required level over the following four fiscal quarters through additional contributions or an allocation of its committed credit facility. The operations and maintenance reserve fund may be used to pay operating and maintenance expenses, if required.

18. Commitments:

(a) Maturity analysis

The following table presents a maturity analysis of the Company's undiscounted contractual cash flows for its financial liabilities as at August 31, 2017:

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

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

[(2)] Further details on interest rates and maturity dates on long-term debt are provided in note 16 to these consolidated financial statements.

(b) Capital commitments

The Company has firm commitments for the acquisition of property, plant and equipment and intangible assets amounting to $141 as at August 31, 2017 (August 31, 2016 - $118). The following table presents a maturity analysis of these capital commitments:

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

(c) Operating leases

Leases as lessee

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

18. Commitments (continued):

(d) Operating leases (continued)

Future minimum lease payments for operating leases are as follows:

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

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

(d) Letters of credit

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

19. Contingencies:

(a) Legal contingencies

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

(b) Indemnification commitments

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

The Company has provided the following significant indemnification commitments:

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

(i) The Company has entered into five agreements for the sale and maintenance of technology that would indemnify the counterparties up to a maximum of $1,000 for each occurrence and in the aggregate for losses sustained as a result of the negligence of the Company. In addition, the Company has entered into one agreement for the sale and maintenance of technology that would indemnify the counterparty up to a maximum of the Company’s ANS liability insurance coverage of $5,034 U.S. ($6,283 CDN). The Company’s ANS liability insurance provides coverage for these indemnification commitments. These indemnities survive termination of the agreements.

19. Contingencies (continued):

(c) Indemnification commitments (continued)

Provision of service and system sales (continued)

(ii) The Company entered into a sales agreement for the supply of an air traffic services data management system and provision of related services, which would indemnify the counterparty up to a maximum of $35 U.S. ($44 CDN) for the cumulative liability of the Company in relation to any claim in any manner howsoever arising out of or in connection with the agreement. The Company's liability insurance provides coverage for this indemnification commitment. This indemnity survives termination of the agreement.

Other agreements

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

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

20. Transactions with the Government of Canada:

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

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

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

21. Related party transactions:

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

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

Compensation of key management personnel

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

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

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

Transactions with registered pension plans

The Company's transactions with its two registered pension plans include contributions paid to the plans and letters of credit for pension solvency funding purposes, which are disclosed in note 13, and a reimbursement from the Plan for certain costs in the amount of $12 for the year ended August 31, 2017 (year ended August 31, 2016 - $15).

Transactions with joint ventures

As discussed in note 11, the Company has a participation in Aireon. This participation has been classified as a joint venture since the Company has joint control over Aireon's key strategic financial and operating decisions. The Company's transactions with Aireon for the year ended August 31, 2017 were comprised of dividend income of $11 (year ended August 31, 2016 - $10) and cost recoveries of $3 (year ended August 31, 2016 - $3)

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

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

22. Capital management:

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

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

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

The Company's main objectives when managing capital are:

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

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

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

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

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

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

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

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