

Management's Report and

Audited Consolidated Financial Statements of

**NAV CANADA**

As at and for the years ended August 31, 2019 and 2018

## MANAGEMENT'S REPORT TO THE MEMBERS OF NAV CANADA

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

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

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

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

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

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

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

October 24, 2019

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

October 24, 2019

## INDEPENDENT AUDITORS' REPORT

To the Members of NAV CANADA:

### **Opinion**

We have audited the consolidated financial statements of NAV CANADA and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at August 31, 2019 and August 31, 2018 and the consolidated statements of operations, comprehensive income, changes in equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

- the consolidated statements of financial position as at August 31, 2019 and August 31, 2018
- the consolidated statements of operations and comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at August 31, 2019 and August 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

### **Basis for Opinion**

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

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

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

### **Other Information**

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

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

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

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

We also:

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

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

(Signed) KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

October 24, 2019

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

	Notes	2019	2018
<b>Revenue</b>			
Customer service charges	4	\$ 1,384	\$ 1,359
Other revenue	4	<u>53</u>	<u>56</u>
		1,437	1,415
<b>Operating expenses</b>			
Salaries and benefits	5	1,027	985
Technical services		114	109
Facilities and maintenance		64	62
Depreciation and amortization	11, 12	154	152
Other		<u>90</u>	<u>88</u>
		1,449	1,396
<b>Other (income) and expenses</b>			
Finance income	6	(14)	(58)
Net interest expense relating to employee benefits	13	38	54
Other finance costs	6	74	77
Other gains, net of losses		<u>(7)</u>	<u>(13)</u>
		91	60
Net loss before income tax and net movement in regulatory deferral accounts		(103)	(41)
Income tax recovery		<u>(3)</u>	<u>(8)</u>
<b>Net loss before net movement in regulatory deferral accounts</b>		<u>(100)</u>	<u>(33)</u>
Net movement in regulatory deferral accounts related to net loss, net of tax	7	100	33
<b>Net income (loss) after net movement in regulatory deferral accounts</b>	1	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

**NAV CANADA****Consolidated Statements of Comprehensive Income****Years ended August 31**

(millions of Canadian dollars)

	Notes	2019	2018
<b>Net income (loss) after net movement in regulatory deferral accounts</b>		\$ -	\$ -
<b>Other comprehensive income (loss)</b>			
<b>Items that will not be reclassified to income or (loss):</b>			
Re-measurements of employee defined benefit plans	13	(1,040)	600
Net movement in regulatory deferral accounts related to other comprehensive income	7	<u>1,040</u>	<u>(600)</u>
		-	-
<b>Items that will be reclassified to income or (loss):</b>			
Amortization of loss on cash flow hedge		1	1
Changes in fair value of cash flow hedges		(11)	5
Net movement in regulatory deferral accounts related to other comprehensive income	7	<u>10</u>	<u>(6)</u>
		-	-
<b>Total other comprehensive income (loss)</b>		<u>-</u>	<u>-</u>
<b>Total comprehensive income (loss)</b>	1	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

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

	Notes	2019	2018
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 30	\$ 38
Accounts receivable and other	8	98	102
Investments	9	72	71
Other		13	17
		<u>213</u>	<u>228</u>
<b>Non-current assets</b>			
Investment in preferred interests	10, 15	439	418
Property, plant and equipment	11	750	735
Intangible assets	12	906	932
Investment in equity-accounted investee		6	6
Related party loans receivable		3	12
Employee benefits	13	-	2
Other non-current assets		1	1
		<u>2,105</u>	<u>2,106</u>
<b>Total assets</b>		<u>2,318</u>	<u>2,334</u>
Regulatory deferral account debit balances	7	2,087	954
<b>Total assets and regulatory deferral account debit balances</b>		<u>\$ 4,405</u>	<u>\$ 3,288</u>

See accompanying notes to consolidated financial statements.



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

	Notes	2019	2018
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bank loan		\$ 8	\$ -
Trade and other payables		242	247
Derivative liabilities		1	-
Deferred revenue		7	4
Current portion of long-term debt	14	25	275
		<u>283</u>	<u>526</u>
<b>Non-current liabilities</b>			
Long-term debt	14	1,443	1,219
Employee benefits	13	2,226	1,070
Deferred tax liabilities	10	48	50
Other non-current liabilities		1	1
		<u>3,718</u>	<u>2,340</u>
<b>Total liabilities</b>		<u>4,001</u>	<u>2,866</u>
<b>Equity</b>			
Retained earnings		28	28
<b>Total equity</b>		<u>28</u>	<u>28</u>
<b>Total liabilities and equity</b>		<u>4,029</u>	<u>2,894</u>
Regulatory deferral account credit balances	7	376	394
Commitments and contingencies	16, 17		
<b>Total liabilities, equity and regulatory deferral account credit balances</b>		<u>\$ 4,405</u>	<u>\$ 3,288</u>

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
<b>Balance August 31, 2017</b>	\$ 28	\$ -	\$ 28
Net income (loss) and net movement in regulatory deferral accounts	-	-	-
Other comprehensive income (loss)	-	-	-
<b>Balance August 31, 2018</b>	<u>\$ 28</u>	<u>\$ -</u>	<u>\$ 28</u>
<b>Balance August 31, 2018</b>	\$ 28	\$ -	\$ 28
Net income (loss) and net movement in regulatory deferral accounts	-	-	-
Other comprehensive income (loss)	-	-	-
<b>Balance August 31, 2019</b>	<u>\$ 28</u>	<u>\$ -</u>	<u>\$ 28</u>

See accompanying notes to consolidated financial statements.

## NAV CANADA

### Consolidated Statements of Cash Flows

Years ended August 31

(millions of Canadian dollars)

	Notes	2019	2018
<b>Cash flows from (used in):</b>			
<b>Operating</b>			
Receipts from customer service charges		\$ 1,386	\$ 1,338
Refund of customer service charges		-	(33)
Other receipts		64	49
Payments to employees and suppliers		(1,131)	(1,051)
Pension contributions - current service	13	(92)	(94)
Other post-employment payments		(6)	(6)
Settlement of curtailed severance benefits		-	(42)
Interest payments		(80)	(79)
Interest receipts		2	3
		<u>143</u>	<u>85</u>
<b>Investing</b>			
Capital expenditures		(133)	(176)
Repayment of loans from (loans to) related parties	10	11	(10)
Income tax refund on investment in preferred interests		-	5
Proceeds from asset-backed commercial paper trusts		-	1
Settlement of derivative assets		-	2
		<u>(122)</u>	<u>(178)</u>
<b>Financing</b>			
Issuance of medium term notes	14	248	273
Repayment of medium term notes	14	(275)	(375)
Net proceeds from bank loans		8	-
Disbursements from settlement of derivatives		(9)	(13)
Debt service reserve fund		(1)	24
		<u>(29)</u>	<u>(91)</u>
<b>Cash flows used in operating, investing and financing activities</b>		<b>(8)</b>	<b>(184)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>38</b>	<b>222</b>
<b>Cash and cash equivalents at end of year</b>		<b>\$ 30</b>	<b>\$ 38</b>

See accompanying notes to consolidated financial statements.

# NAV CANADA

## Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

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### 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. As a result, we expect no net change in retained earnings on an annual basis. The impacts of rate regulation on the Company's consolidated financial statements are described in note 7.

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

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

### 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 24, 2019.

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

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

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#### 2. Basis of presentation (continued):

##### (c) Functional and reporting currency:

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

##### (d) Critical accounting estimates and judgments:

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

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

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

##### (i) Key sources of estimates and assumption uncertainties:

- Fair value of investment in preferred interests

The Company's investment in preferred interests in Aireon LLC (Aireon) is accounted for as a financial instrument and designated as FVTPL. In May 2018, NATS, the United Kingdom's air navigation service provider (ANSP) made an investment in Aireon. The Company used the price paid by that investor (note 10) as a basis to estimate the fair value of Aireon and its investment in the entity through preferred interests. In August 2019, an independent assessment of the valuation of Aireon was received, confirming the value of the Company's investment in preferred interests determined based on the price paid by NATS. The measurement is subject to estimation uncertainty and is dependent on the successful achievement of operational, technical and financial objectives by Aireon, as described in notes 3 (a) and 10.

- 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.

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

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#### 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, 2018.

The following standard and interpretation were adopted by the Company effective September 1, 2018:

##### IFRS 15 – Revenue from Contracts with Customers (IFRS 15)

IFRS 15 introduces a new revenue recognition model for contracts with customers to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. 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.

In accordance with the transition provisions in IFRS 15, the new standard has been adopted retrospectively. The effect on net earnings of the application of IFRS 15 to revenue contracts in progress at September 1, 2017 is \$nil. The Company reviewed its revenue streams and major contracts with customers using the IFRS 15 five-step model and there were no changes to net earnings or the timing of revenue recognized.

Under IFRS 15, the Company has applied the following practical expedients:

- Completed contracts that begin and end within the same annual reporting period and those completed before September 1, 2017 were not restated.

Refer to note 4 for more information, including additional disclosures as required by IFRS 15.

The Company's significant accounting policies for its revenue streams are described further in note 3 (k).

##### IFRIC 22 – Foreign Currency Transactions and Advance Consideration (IFRIC 22)

IFRIC 22 clarifies that the date of the transaction for the purpose of determining the foreign currency 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. The Company has adopted IFRIC 22 effective September 1, 2018, with no resulting impact on the consolidated financial statements.

##### (f) Future accounting pronouncements:

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

##### IFRS 16 – Leases (IFRS 16)

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 (IAS 17), and 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.

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

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#### 2. Basis of presentation (continued):

##### (f) Future accounting pronouncements (continued):

The Company has completed a detailed review of those contracts in the scope of IFRS 16 and has determined the accounting impacts to be minimal. The Company anticipates using the modified retrospective approach on transition to IFRS 16. For any lease that meets the definition of a lease in accordance with IFRS 16 and was previously classified as an operating lease, the Company anticipates measuring its right of use asset at an amount equal to the lease liability upon adoption of IFRS 16 on September 1, 2019.

##### Conceptual Framework for Financial Reporting (the Framework)

On March 29, 2018, the IASB issued a revised version of the Framework on which it develops new accounting standards. The Framework is not an accounting standard and does not override the requirements that exist in other IFRS. The revised Framework describes that financial information must be relevant and faithfully represented to be useful, provides revised definitions and recognition criteria for assets and liabilities, and confirms that different measurement bases are useful and permitted.

The IASB also issued *Amendments to References to the Conceptual Framework in IFRS Standards* (the Amendments) to update reference in IFRS to previous versions of the Framework. Both the revised Framework and Amendments are effective January 1, 2020 with earlier application permitted. The extent of the impact of the change has not yet been determined.

##### IAS 1 – Presentation of Financial Statements (IAS 1) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8)

On October 31, 2018, the IASB issued amendments to IAS 1 and IAS 8 to clarify its definition of material and how it should be applied. The objective of these amendments is to help entities decide whether information should be included in their financial statements.

The amendments are applicable for reporting periods beginning on or after January 1, 2020. The extent of the impact of these amendments on the Company has not yet been determined.

#### 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.

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

### 3. Significant accounting policies (continued):

#### (a) Basis of consolidation (continued):

##### (i) Subsidiaries (continued)

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

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

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

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

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

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

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

The Company owns 50% (August 31, 2018 - 50%) of the issued and outstanding shares of Searidge Technologies Inc. (Searidge) which is owned through NAV CANADA ATM Inc. The Company has classified its investment in Searidge as an investment in a joint venture.

As discussed in note 10, the Company is party to an arrangement with Iridium and the additional investors which allows the Company to exert significant influence over the strategic financial and operating activities of Aireon. The Company's investment in Aireon is held through NAV CANADA Satellite, Inc. This arrangement is an investment in an associate and the Company will have a right to the net assets of Aireon upon exercising its right to convert its preferred interests to common interests. As at August 31, 2019, 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.



## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

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#### 3. Significant accounting policies (continued):

##### (b) Foreign currency:

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

##### (c) Financial instruments:

###### (i) Recognition

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

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

###### (ii) Classification

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

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

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

###### (iii) Measurement

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

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

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

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

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

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#### 3. Significant accounting policies (continued):

##### (c) Financial instruments (continued):

###### (iii) Measurement (continued)

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

###### (iv) Impairment

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

###### (v) Derivatives and hedge accounting

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

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

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

##### *Cash flow hedges*

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

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

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#### 3. Significant accounting policies (continued):

##### (c) Financial instruments (continued):

###### (v) Derivatives and hedge accounting (continued)

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

##### (d) Employee benefits:

###### (i) Defined benefit plans

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

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

The service costs of employee benefits expense is recorded in salaries and benefits. The interest arising on net benefit obligations is recognized in net income (loss) and is presented 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).

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

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#### 3. Significant accounting policies (continued):

##### (d) Employee benefits (continued):

###### (ii) Other long-term employee benefits

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

###### (iii) Termination benefits

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

###### (iv) Short-term employee benefits

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

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

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

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:

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

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## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

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#### 3. Significant accounting policies (continued):

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

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

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

##### Other contributions to property, plant and equipment

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

##### (f) Intangible assets:

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

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

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

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

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:

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

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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.

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

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#### 3. Significant accounting policies (continued):

##### (f) Intangible assets (continued):

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

##### (g) Impairment of non-financial assets:

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

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.

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

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#### 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 7.

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

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

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

##### (k) Revenue:

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

##### (i) Customer service charges

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

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

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

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#### 3. Significant accounting policies (continued):

##### (k) Revenue (continued):

###### (i) Customer service charges (continued)

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

###### (ii) Service and development contracts

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

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

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

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

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

##### *Contract balances*

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

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

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

##### (l) 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.



# NAV CANADA

## Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

### 3. Significant accounting policies (continued):

#### (m) Finance income and other finance costs (continued):

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.

##### (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 President and Chief Executive Officer. The Company's core business is to provide air navigation services, for which it collects customer service charges. The core business is the Company's only reportable segment. The Company's air navigation services are provided primarily within Canada. Substantially all of the Company's capital expenditures and assets are located in Canada.

### 4. Revenue:

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

	2019	2018
Enroute <sup>(1)</sup>	\$ 706	\$ 704
Terminal <sup>(2)</sup>	537	517
Daily / annual / quarterly <sup>(3)</sup>	93	93
North Atlantic and international communication <sup>(4)</sup>	48	45
	<u>\$ 1,384</u>	<u>\$ 1,359</u>

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

#### 4. Revenue (continued):

- (1) Enroute charges related to air navigation services provided or made available to aircraft during the enroute phase of the flight, whether they overfly Canadian-controlled airspace or take-off and/or land in Canada. This performance obligation is satisfied at a point in time.
- (2) Terminal charges related to air navigation services provided or made available to aircraft at or in the vicinity of an airport. This performance obligation is satisfied at a point in time.
- (3) Daily / annual / quarterly charges related to enroute and terminal air navigation services. These charges generally apply to propeller aircraft and the performance obligations are satisfied over the period in which air navigation services are made available.
- (4) North Atlantic and international communication charges related to certain air navigation and communication services provided or made available to aircraft while in airspace over the North Atlantic Ocean. These services are provided outside of Canadian sovereign airspace but for which Canada has air traffic control responsibility pursuant to international agreements. The international communication charges also include services provided or made available while in Canadian airspace in the north. These performance obligations are satisfied at a point in time.

The Company has two customers each of which represents more than 10% of revenue. For the year ended August 31, 2019 (fiscal 2019), revenue from the largest customer was \$275 (year ended August 31, 2018 (fiscal 2018) - \$266) and revenue from the second largest customer was \$158 (fiscal 2018 - \$167), together representing 30% (fiscal 2018 – 31%) of the revenue of the Company. The revenue from these two major customers arose from air navigation services.

Other revenue for fiscal 2019 consists primarily of service and development contracts revenue of \$30 (fiscal 2018 - \$37).

#### 5. Salaries and benefits:

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

	2019	2018
Salaries and other	\$ 808	\$ 775
Fringe benefits (excluding pension)	84	79
Pension current service cost	169	177
Less: capitalized salaries and benefits	(34)	(46)
	<u>\$ 1,027</u>	<u>\$ 985</u>

#### 6. Finance income and other finance costs:

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

	2019	2018
Finance income		
Interest income on financial assets at amortized cost	\$ (3)	\$ (4)
Net change in fair value of financial assets at FVTPL	(11)	(54)
	<u>\$ (14)</u>	<u>\$ (58)</u>
Other finance costs		
Interest expense on financial liabilities at amortized cost	\$ 79	\$ 82
Less: Capitalized borrowing costs	(5)	(5)
	<u>\$ 74</u>	<u>\$ 77</u>

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

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

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

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

	August 31 2017	Regulatory deferral	Recovery/ reversal	August 31 2018	Recovery Period
<b>Regulatory deferral account debit balances</b>					
Derivatives	\$ 13	\$ (13)	\$ -	\$ -	1), 9)
Deferred income tax	56	(6)	-	50	2), 3)
Employee benefits:					
Accumulating sick leave (b)	30	(4)	(1)	25	4)
Other post-employment benefits re-measurements	41	(14)	(7)	20	5), 10)
Pension contributions (c)	-	108	(10)	98	6)
Pension re-measurements (c)	1,251	(608)	-	643	6), 10)
Supplemental pension re-measurements	33	22	-	55	5), 10)
Realized hedging transaction	51	13	(1)	63	1), 9)
	<u>\$ 1,475</u>	<u>\$ (502)</u>	<u>\$ (19)</u>	<u>\$ 954</u>	
<b>Regulatory deferral account (credit) balances</b>					
Rate stabilization account (a)	\$ (131)	\$ (3)	\$ 10	\$ (124)	7)
Derivatives	-	(3)	-	(3)	1), 9)
Employee benefits:					
Pension contributions (c)	(9)	9	-	-	6)
Long-term disability contributions	(8)	-	3	(5)	8)
Change in the fair value of the investment in preferred interests	(185)	(68)	-	(253)	2)
Investment in equity-accounted investee	(4)	1	-	(3)	3)
Realized hedging transaction	(5)	(2)	1	(6)	1)
	<u>\$ (342)</u>	<u>\$ (66)</u>	<u>\$ 14</u>	<u>\$ (394)</u>	

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 \$48 as at August 31, 2019 (August 31, 2018 - \$49).

## NAV CANADA

### Notes to Consolidated Financial Statements

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#### 7. 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 \$nil as at August 31, 2019 (August 31, 2018 - \$1).
- 4) Non-vesting accumulating sick leave is considered for rate setting when the sick leave benefits are used and paid in cash. Vested accumulating sick leave is considered for rate setting over the period in which the employees render service.
- 5) These re-measurement amounts will be recovered by amortizing the prior years' annual re-measurements over the expected average service period of the plan members.
- 6) The Company's cost of pension benefits for its funded plans are considered for rate setting based on the Company's cash contributions to the pension funds as described in note 7 (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.

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

- 7) 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 OCI due to changes in fair value of cash flow hedges for fiscal 2019 of \$10 is comprised of \$1 related to the amortization of losses on realized hedging transactions to net income (loss) and \$11 to defer positive fair value adjustments related to derivatives designated as cash flow hedges.
- 10) The net movement in regulatory deferral accounts related to OCI due to re-measurements of employee defined benefit plans for fiscal 2019 is \$1,040 which consists of pension re-measurements of \$1,010, other post-employment benefits re-measurements of \$17 and supplemental pension re-measurements of \$13.

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 extent to which operating costs are variable and available liquidity and sets the level as appropriate.

On August 15, 2019, the Company issued an announcement dealing with the implementation of revised service charges. The revised charges will be implemented in two phases, taking effect on September 1, 2019 and January 1, 2020. Effective September 1, 2019, revisions to base rates averaged a 0.8% increase from previous base rates, which recovers the cost of domestic space-based surveillance data services. Effective January 1, 2020, rates will increase on average by 3.6% from base rates in effect on August 31, 2019 to recover the cost of oceanic space-based surveillance data services. These revisions vary by service charge. Accordingly, some customers will pay more while others will pay less than the averages noted above.

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

Subsequent to August 31, 2019, the Canadian Transportation Agency received an appeal by the International Air Transportation Association of the revised customer services charges. Refer to note 21 for further details.

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:

	2019	2018
Before net movement in regulatory deferral accounts:		
Revenue	\$ 1,437	\$ 1,415
Operating expenses	1,449	1,396
Other (income) and expenses	91	60
Income tax recovery	(3)	(8)
	<u>(100)</u>	<u>(33)</u>
Net movement in regulatory deferral accounts:		
Rate stabilization adjustments (see table below)	<u>31</u>	<u>7</u>
Other regulatory deferral account adjustments:		
Employee benefit pension contributions	96	107
Other employee benefits	(5)	(9)
Investment in preferred interests, before tax	(21)	(68)
Investment in equity-accounted investee	-	1
Income tax	(2)	(6)
Realized hedging transactions	1	1
	<u>69</u>	<u>26</u>
	<u>100</u>	<u>33</u>
Net income (loss), after rate stabilization and regulatory deferral account adjustments	<u>\$ -</u>	<u>\$ -</u>

## NAV CANADA

### Notes to Consolidated Financial Statements

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

(a) Rate Stabilization Account:

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

	Years ended August 31	
	2019	2018
Rate stabilization account balance, beginning of period	\$ 124	\$ 131
Variations from planned results:		
Revenue higher (lower) than planned	(10)	24
Operating expenses higher than planned	(3)	(13)
Other (income) and expenses lower than planned	27	62
Net movement in other regulatory deferral accounts	(27)	(70)
Total variations from planned results	(13)	3
Initial approved adjustment <sup>(1)</sup>	(18)	(10)
Net movement in rate stabilization account recorded in net income (loss)	(31)	(7)
Rate stabilization account balance, end of period	\$ 93	\$ 124

<sup>(1)</sup> In order to achieve breakeven results of operations in fiscal 2019, the Board approved a reduction of the rate stabilization account as a result of a planned shortfall. As a result, \$18 has been transferred out of the rate stabilization account evenly throughout the fiscal year (fiscal 2018 - \$10).

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

	August 31	August 31
	2019	2018
Non-vesting accumulating sick leave	\$ 17	\$ 17
Vested accumulating sick leave	10	8
Total accumulating sick leave	\$ 27	\$ 25

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

(c) Pension contributions:

Included in regulatory deferral account debit balances at August 31, 2019 is \$194 relating to the recovery through customer service charges of pension contributions (August 31, 2018 - \$98). The accrued pension benefit liability, net of regulatory deferrals is as follows:

	August 31 2019	August 31 2018
Employee benefit liability	\$ (1,813)	\$ (707)
Less:		
Regulatory deferrals of non-cash adjustments	1,653	643
Benefit contributions less than benefit expense	\$ (160)	\$ (64)
Regulatory debit balances - recovery of contributions	\$ 194	\$ 98
Regulatory expense cumulatively less than contributions	\$ 34	\$ 34

The Company uses a regulatory approach to determine the net charge to net income (loss) for pension benefit costs for its funded plans. The objective of this approach is to reflect the cash cost of the funded pension plans in net income (loss) by recording an adjustment to the related regulatory deferral account. These regulatory adjustments are the difference between the pension benefit costs as determined by IAS 19 *Employee Benefits* and the annual going concern cash cost of the plan. Included in the regulatory deferral related to pension contributions of \$194, is the recovery of \$10 of solvency deficiency contributions of \$44 paid in fiscal 2017. The remaining balance of \$34 is expected to be recovered through future customer service charges. The funding of employee pension benefits as compared to the expense, net of regulatory adjustments, recorded in the consolidated statement of operations is summarized below.

	Years ended August 31	
	2019	2018
Consolidated statement of operations		
Pension current service expense <sup>(1)</sup>	\$ 164	\$ 173
Net interest expense <sup>(1)</sup>	24	41
Less: Regulatory deferrals	(96)	(107)
	92	107
Company cash pension contributions		
Going concern current service	92	97
Regulatory recovery of fiscal 2017 solvency contributions	\$ -	\$ 10

<sup>(1)</sup> For fiscal 2019, pension current service expense does not include \$5 related to the Company's unfunded pension plan (fiscal 2018 - \$4) and net interest expense does not include \$5 related to the Company's unfunded pension plan (fiscal 2018 - \$3).



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### Notes to Consolidated Financial Statements

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#### 8. Accounts receivable and other:

Accounts receivable and other were comprised of the following:

	August 31 2019	August 31 2018
Trade receivables	\$ 75	\$ 84
Accrued receivables and unbilled work in progress	20	19
Commodity taxes receivable	4	-
Allowance for doubtful accounts	(1)	(1)
	<u>\$ 98</u>	<u>\$ 102</u>

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

#### 9. Current investments:

As at August 31, 2019, current investments is comprised of the debt service reserve fund of \$72 (August 31, 2018 - \$71).

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

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

Pursuant to the General Obligation Indenture (note 14), the Company is required to maintain certain liquidity levels similar to the reserve fund requirements of the Master Trust Indenture. Specifically, the Company must maintain a minimum liquidity level equal to 12 months net interest expense plus 25% of the annual operating and maintenance expenses. Liquidity is defined to include all cash and qualified investments, amounts held in the operations and maintenance and debt service reserve funds and any undrawn amounts available under a committed credit facility. In addition, the Company must maintain cash liquidity equal to 12 months net interest expense. Cash liquidity includes cash and qualified investments held in the reserve funds maintained under the Master Trust Indenture.

#### 10. Investment in preferred interests of Aireon:

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

In December 2013, the November 2012 agreements were amended (the December 2013 agreements) to provide for the making of an aggregate investment of \$120 U.S. (\$160 CDN) in Aireon by three additional major ANSPs, namely ENAV (Italy), the Irish Aviation Authority (IAA), and Naviair (Denmark).

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### Notes to Consolidated Financial Statements

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#### 10. Investment in preferred interests of Aireon (continued):

In May 2018, the December 2013 agreements were amended to provide for the making of an investment of \$69 U.S. (\$92 CDN) in Aireon by NATS.

In accordance with the governing agreements, a portion of Iridium's existing common equity interest in Aireon will be redeemed for a payment from Aireon of \$120 U.S. (\$160 CDN) to finalize the ownership interests of all of Aireon's investors. Upon this redemption and the related conversion of all preferred interests into common equity interests, NAV CANADA will hold 45.3% of the fully diluted common equity interests of Aireon, ENAV and NATS will hold 11.1%, and each of IAA and Naviair will hold 5.3%, with the remaining 21.8% being retained by Iridium. This redemption is expected to occur by August 31, 2021.

As at August 31, 2019, the Company's investment in Aireon is \$150 U.S. (\$200 CDN) (August 31, 2018 - \$150 U.S. (\$196 CDN)). The Company is represented by five out of the eleven directors on Aireon's board of directors. As at August 31, 2019, the Company's total fully diluted common equity interest on a post conversion basis and prior to the redemption by Iridium is 37.2% (August 31, 2018 - 37.2%).

The Company's investment in preferred interests of Aireon provides for a 5% annual cumulative dividend (except for the \$40 U.S. (\$53 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 classified and measured at FVTPL.

Following the investment by NATS in May 2018, the Company used the price paid by NATS for an investment in preferred interests in Aireon to determine the fair value of its investment in Aireon from that date up to and as at August 31, 2018. In August 2019, an independent assessment of the valuation of Aireon was received, confirming the value of the Company's investment in preferred interests determined based on the price paid by NATS (note 15).

The Company's deferred tax assets and liabilities at August 31, 2019 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 \$83 CDN (August 31, 2018 - \$60 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 \$35 CDN (August 31, 2018 - \$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.

## NAV CANADA

### Notes to Consolidated Financial Statements

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#### 10. 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 2019	August 31 2018
Investment in preferred interests	\$ 439	\$ 418
Deferred tax liability	(48)	(49)
Financial position impact of the investment in preferred interests of Aireon before regulatory accounting	\$ 391	\$ 369
Regulatory deferral account debit balances		
Deferred regulatory income tax liability	\$ 48	\$ 49
Regulatory deferral account credit balances		
Cumulative change in fair value of the investment in preferred interests	\$ (274)	\$ (253)
Net financial position impact of the investment in preferred interest of Aireon after regulatory accounting	\$ 165	\$ 165

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 net impact on the Company's consolidated statement of operations for the year ended August 31, 2019 related to the Company's investment in Aireon. These amounts are not considered for rate setting purposes until realized in cash through the receipt of dividends net of tax.

During fiscal 2019, Aireon entered into a long-term financing agreement with a major international bank and used a portion of the funds drawn under that agreement to settle the bridge financing made available by the Company of \$29 U.S. (\$39 CDN) and other long-term liabilities. Aireon repaid \$8 U.S. (\$11 CDN), representing the total drawn under the bridge financing agreement along with accrued interest.

Aireon's fiscal year end is December 31. IAS 28 limits the difference between the end of the reporting period of an associate or joint venture and that of the investor to no more than three months and requires adjustment to the results for any significant transactions that occur during the intervening period. The Company has chosen a two month lag period and therefore the August 31, 2019 and August 31, 2018 information presented below is based on Aireon's financial position and financial performance as at June 30, 2019 and June 30, 2018, respectively. All amounts are translated from U.S. dollars.

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### Notes to Consolidated Financial Statements

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#### 10. Investment in preferred interests of Aireon (continued):

No significant transactions occurred during the intervening periods that were necessary to adjust for in Aireon's financial information presented as at and for the year ended August 31, 2019.

	August 31 2019	August 31 2018
Current assets		
Cash and cash equivalents	\$ 45	\$ 81
Prepaid expenses and other current assets	21	20
Non-current assets		
Property, plant and equipment	574	582
Other non-current assets	4	-
	<u>\$ 644</u>	<u>\$ 683</u>
Current liabilities		
Trade and other payables	\$ (9)	\$ (7)
Deferred revenue	(2)	(2)
Non-current liabilities		
Investor bridge loan	-	(15)
Financial liabilities	(1,027)	(863)
	<u>\$ (1,038)</u>	<u>\$ (887)</u>
Net assets	<u>\$ (394)</u>	<u>\$ (204)</u>
	Years ended August 31	
	2019	2018
Revenue	<u>\$ 18</u>	<u>\$ -</u>
Interest expense	<u>\$ 74</u>	<u>\$ 31</u>
Depreciation	<u>\$ 41</u>	<u>\$ 14</u>
Net loss	\$ (183)	\$ (106)
Other comprehensive loss	(7)	(3)
Total comprehensive loss	<u>\$ (190)</u>	<u>\$ (109)</u>

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#### 11. Property, plant and equipment:

Property, plant and equipment are comprised of the following:

	Land and buildings	Systems and equipment	Assets under development	Total
<b>Cost</b>				
Balance at August 31, 2017	\$ 227	\$ 626	\$ 102	\$ 955
Additions	-	-	117	117
Disposals	(3)	(29)	-	(32)
Transfers	42	31	(73)	-
Balance at August 31, 2018	<u>\$ 266</u>	<u>\$ 628</u>	<u>\$ 146</u>	<u>\$ 1,040</u>
Balance at August 31, 2018	\$ 266	\$ 628	\$ 146	\$ 1,040
Additions	-	-	103	103
Disposal	-	(1)	-	(1)
Transfers	14	118	(132)	-
Balance at August 31, 2019	<u>\$ 280</u>	<u>\$ 745</u>	<u>\$ 117</u>	<u>\$ 1,142</u>
<b>Accumulated depreciation</b>				
Balance at August 31, 2017	\$ 39	\$ 211	\$ -	\$ 250
Depreciation	15	72	-	87
Disposals	(3)	(29)	-	(32)
Balance at August 31, 2018	<u>\$ 51</u>	<u>\$ 254</u>	<u>\$ -</u>	<u>\$ 305</u>
Balance at August 31, 2018	\$ 51	\$ 254	\$ -	\$ 305
Depreciation	18	70	-	88
Disposal	-	(1)	-	(1)
Balance at August 31, 2019	<u>\$ 69</u>	<u>\$ 323</u>	<u>\$ -</u>	<u>\$ 392</u>
<b>Carrying amounts</b>				
At August 31, 2018	\$ 215	\$ 374	\$ 146	\$ 735
At August 31, 2019	<u>\$ 211</u>	<u>\$ 422</u>	<u>\$ 117</u>	<u>\$ 750</u>

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#### 12. Intangible assets:

Intangible assets are comprised of the following:

	Air navigation right	Purchased software	Internally developed software	Assets under development	Total
<b>Cost</b>					
Balance at August 31, 2017	\$ 702	\$ 165	\$ 193	\$ 43	\$ 1,103
Additions	-	-	-	68	68
Disposals	-	(8)	(1)	(1)	(10)
Transfers	-	13	37	(50)	-
Balance at August 31, 2018	<u>\$ 702</u>	<u>\$ 170</u>	<u>\$ 229</u>	<u>\$ 60</u>	<u>\$ 1,161</u>
Balance at August 31, 2018	\$ 702	\$ 170	\$ 229	\$ 60	\$ 1,161
Additions	-	-	-	41	41
Disposals	-	-	(1)	-	(1)
Transfers	-	25	37	(62)	-
Balance at August 31, 2019	<u>\$ 702</u>	<u>\$ 195</u>	<u>\$ 265</u>	<u>\$ 39</u>	<u>\$ 1,201</u>
<b>Accumulated amortization</b>					
Balance at August 31, 2017	\$ 75	\$ 53	\$ 45	\$ -	\$ 173
Amortization	25	19	21	-	65
Disposals	-	(8)	(1)	-	(9)
Balance at August 31, 2018	<u>\$ 100</u>	<u>\$ 64</u>	<u>\$ 65</u>	<u>\$ -</u>	<u>\$ 229</u>
Balance at August 31, 2018	\$ 100	\$ 64	\$ 65	\$ -	\$ 229
Amortization	25	19	22	-	66
Balance at August 31, 2019	<u>\$ 125</u>	<u>\$ 83</u>	<u>\$ 87</u>	<u>\$ -</u>	<u>\$ 295</u>
<b>Carrying amounts</b>					
At August 31, 2018	\$ 602	\$ 106	\$ 164	\$ 60	\$ 932
At August 31, 2019	<u>\$ 577</u>	<u>\$ 112</u>	<u>\$ 178</u>	<u>\$ 39</u>	<u>\$ 906</u>

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#### 13. Employee benefits:

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

	Pension benefit plans		Other benefit plans	
	2019	2018	2019	2018
Statement of operations				
Current service costs	\$ 169	\$ 177	\$ 5	\$ 5
Curtailment gain	-	-	-	(1)
Interest cost	257	244	7	8
Interest income on plan assets	(228)	(200)	-	-
Total expense	<u>\$ 198</u>	<u>\$ 221</u>	<u>\$ 12</u>	<u>\$ 12</u>
Statement of other comprehensive income				
Re-measurements:				
Return on plan assets, excluding interest				
income on plan assets	\$ (269)	\$ (306)	\$ -	\$ -
Actuarial losses (gains)	1,292	(280)	17	(14)
Total cost (income) recognized in				
other comprehensive income	<u>\$ 1,023</u>	<u>\$ (586)</u>	<u>\$ 17</u>	<u>\$ (14)</u>

Net interest costs relating to employee benefits of \$38 for fiscal 2019 (fiscal 2018 - \$54) are comprised of interest costs and interest income on plan assets as noted above for pension benefit plans and other benefit plans, including an additional \$2 (fiscal 2018 - \$2) of interest costs related to long-term sick leave benefits.

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#### 13. Employee benefits (continued):

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

	August 31 2019	August 31 2018
Recognized asset for long-term disability benefits	\$ -	\$ 2
Present value of funded defined benefit obligations	\$ (8,256)	\$ (6,740)
Fair value of plan assets	6,443	6,033
Liability for funded defined benefit obligations	\$ (1,813)	\$ (707)
Liability for unfunded pension defined benefit obligations	(144)	(124)
Liability for unfunded other defined benefit obligations	(218)	(195)
Recognized liability for defined benefit plans	(2,175)	(1,026)
Long-term employee benefit liabilities	(51)	(44)
Total long-term employee benefit liabilities <sup>(1)</sup>	\$ (2,226)	\$ (1,070)

<sup>(1)</sup> Includes long-term disability liability of \$3

The most recent actuarial funding valuations were carried out as at January 1, 2019.

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, 2019 and August 31, 2018.

(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.



## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

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#### 13. Employee benefits (continued):

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

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

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

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

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

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

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

- (ii) The Company also maintains the NAV CANADA Executive Pension Plan which is a non-contributory defined benefit plan covering certain senior executive employees of the Company. This plan is also registered under the PBSA. Members are neither required nor permitted to make contributions to the Plan, other than direct rollover contributions on admission to the Plan or remittances by members to purchase remaining eligible pensionable service under the members' former registered pension plan (prior service buy back). Contributions are made by the Company, the Plan sponsor. The Company is required to contribute the funding necessary to ensure that benefits will be fully provided. The determination of the contribution level is made on the basis of an annual actuarial valuation for funding purposes.
- (iii) The Company also provides other post-employment benefits for its employees including certain health care, life insurance and retiring allowance benefits to eligible retirees and their eligible dependents. Other post-employment benefits are not funded.

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

#### 13. Employee benefits (continued):

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

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, once the valuations are filed, going concern pension contributions are based on the January 1, 2019 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, 2019 reported a going concern surplus of \$738 (January 1, 2018 - \$503). A statutory solvency surplus of \$500 was reported as at January 1, 2019 (January 1, 2018 - \$561) based on the assumption that the September 1, 2016 plan text restatement, which included the plan termination amendment, was in effect on the valuation date. Had the amendment not been included, there would have been a statutory solvency deficiency of \$164 as of January 1, 2019 (January 1, 2018 - \$89).

The Company has funded its calendar 2019 solvency funding requirements of \$33 with letters of credit which satisfies its pension solvency funding requirements on a pre-amendment basis. Solvency contributions will continue to be determined on a pre-amendment basis to ensure we are in compliance with the PBSA.

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

	Years ended August 31	
	2019	2018
Funded pension plan		
Going concern current service costs	\$ 93	\$ 97
Unfunded pension plan	2	2
Unfunded other defined benefit plans	6	7
Settlement of curtailed severance benefits	-	42
Less: capitalized amounts	(3)	(5)
	<u>\$ 98</u>	<u>\$ 143</u>

## NAV CANADA

### Notes to Consolidated Financial Statements

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(millions of dollars)

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#### 13. Employee benefits (continued):

On a preliminary basis, going concern pension contributions for the year ending August 31, 2020 (fiscal 2020) are estimated to be \$102 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, 2019, the Company has put in place letters of credit totaling \$514 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.

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

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#### 13. Employee benefits (continued):

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

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

	Pension benefit plans		Other benefit plans	
	2019	2018	2019	2018
<b>Change in benefit obligations</b>				
Defined benefit obligations at				
August 31, prior year	\$ 6,864	\$ 6,891	\$ 195	\$ 246
Benefits paid	(215)	(202)	(6)	(49)
Plan participants' contributions	33	34	-	-
Current service cost	169	177	5	5
Interest cost	257	244	7	8
Curtailed expense	-	-	-	(1)
Actuarial loss (gain) from change in demographic assumptions	13	(36)	1	1
Actuarial loss (gain) from change in financial assumptions	1,267	(255)	26	(9)
Actuarial loss (gain) arising from experience adjustments	12	11	(10)	(6)
Defined benefit obligations at August 31	<u>\$ 8,400</u>	<u>\$ 6,864</u>	<u>\$ 218</u>	<u>\$ 195</u>
<b>Change in plan assets</b>				
Fair value of plan assets at				
August 31, prior year	\$ 6,033	\$ 5,596	\$ -	\$ -
Return on plan assets, excluding				
interest income	269	306	-	-
Interest income	228	200	-	-
Employer contributions	95	99	6	7
Settlement of curtailed severance benefits	-	-	-	42
Plan participants' contributions	33	34	-	-
Benefits paid	(215)	(202)	(6)	(49)
Fair value of plan assets at August 31	<u>6,443</u>	<u>6,033</u>	<u>-</u>	<u>-</u>
Net defined benefit liability	<u>\$ (1,957)</u>	<u>\$ (831)</u>	<u>\$ (218)</u>	<u>\$ (195)</u>
Liability for unfunded defined benefit obligations at August 31	<u>\$ (144)</u>	<u>(124)</u>	<u>(218)</u>	<u>(195)</u>
Liability for funded defined benefit obligations at August 31	<u>\$ (1,813)</u>	<u>\$ (707)</u>	<u>\$ -</u>	<u>\$ -</u>

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

#### 13. Employee benefits (continued):

(d) Fair value measurement of pension plan assets:

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

	August 31, 2019		August 31, 2018	
	Quoted market price in an active market	No quoted market price in an active market	Quoted market price in an active market	No quoted market price in an active market
Equities	20%	12%	26%	10%
Fixed income <sup>(1)</sup>	0%	39%	0%	37%
Real assets	0%	15%	0%	15%
Absolute return strategies	0%	7%	0%	6%
Private debt	0%	6%	0%	5%
Cash	1%	0%	1%	0%
	21%	79%	27%	73%

<sup>(1)</sup> The LDI strategy (discussed in (g) below) is comprised of a 1.7:1 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, 2019, the strategy represented 30% of net plan assets with leverage providing an additional 21% exposure (fiscal 2018 - 25%).

(e) Actuarial assumptions:

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

	Funded plans		Unfunded plans	
	August 31 2019	August 31 2018	August 31 2019	August 31 2018
Discount rate, defined benefit obligations	2.90%	3.80%	2.86%	3.78%
Discount rate, defined benefit expense	3.80%	3.60%	3.78%	3.52%
Future salary increases	3.10%	3.30%	3.10%	3.30%
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 2019 and all years thereafter.

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

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#### 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:

	2019	2018
Longevity at age 65 for current pensioners		
Males	22.9	22.9
Females	24.8	24.7
Longevity at age 65 for current members age 45		
Males	23.9	23.9
Females	25.7	25.7

As at the annual measurement date of August 31, 2019, the weighted-average duration of the defined benefit obligation was 19.2 years (August 31, 2018 – 18.1 years).

(f) Sensitivity analysis

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

	Change in assumption + or -	Defined benefit obligation		Benefit cost	
		Assumption increase	Assumption decrease	Assumption increase	Assumption decrease
Discount rate	0.25%	\$ (399)	\$ 428	\$ (24)	\$ 24
Salary, indexation, government benefit increases	0.25%	\$ 402	\$ (377)	\$ 28	\$ (26)
Health care trend rate	1%	\$ 22	\$ (18)	\$ 1	\$ (1)
Longevity (in years) for those currently aged 65	1 year	\$ 274	\$ (274)	\$ 15	\$ (15)

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

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#### 13. Employee benefits (continued):

(g) Risks associated with the defined benefit plans:

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

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

- (i) interest rate and inflation risks are managed via implementation of a LDI strategy that focuses on reducing the interest rate and inflation risk mismatch between the plan assets and its pension benefit obligations; and
- (ii) market risk, credit risk and liquidity risk related to the plan assets are managed through diversification amongst different asset classes, securities, risk factors and geographies while adhering to established investment policies, guidelines and collateral requirements.

#### 14. Long-term debt:

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

(a) Security:

The Master Trust Indenture established a borrowing platform secured by an assignment of revenue and the debt service reserve fund (note 9). The General Obligation Indenture is unsecured, but provides a set of positive and negative covenants similar to those of the Master Trust Indenture. In addition, under the terms of the General Obligation Indenture, no further indebtedness may be incurred under the Master Trust Indenture; furthermore, the amount of the Company's \$675 syndicated bank credit facility (note 15 (c)) that is secured under the Master Trust Indenture is limited to the declining amount of outstanding bonds issued under the Master Trust Indenture. At August 31, 2019, this amount is \$450 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 \$225 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 \$450 portion of the credit facility along with the \$250 series 96-3 bonds and \$200 series 97-2 bonds gives a total of \$900 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.

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

(millions of dollars)

#### 14. Long-term debt (continued):

(b) Debt:

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

	August 31 2019	August 31 2018
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	200	225
	<u>450</u>	<u>475</u>
Issued under the General Obligation Indenture:		
\$250 face value 3.209% general obligation notes, series MTN 2019-1, maturing September 29, 2050 <sup>(1)</sup>	250	-
\$275 face value 3.293% general obligation notes, series MTN 2018-1, maturing March 30, 2048	275	275
\$250 face value 3.534% general obligation notes, series MTN 2016-1, maturing February 23, 2046	250	250
\$250 face value 4.397% general obligation notes, series MTN 2011-1, maturing February 18, 2021	250	250
\$250 face value 5.304% general obligation notes, series MTN 2009-1, matured April 17, 2019 <sup>(1)</sup>	-	250
	<u>1,025</u>	<u>1,025</u>
Total bonds and notes payable	1,475	1,500
Adjusted for deferred financing costs and discounts	(7)	(6)
Carrying value of total bonds and notes payable	1,468	1,494
Less: current portion of long-term debt <sup>(2)</sup>	(25)	(275)
Total long-term debt	<u>\$ 1,443</u>	<u>\$ 1,219</u>

<sup>(1)</sup> On March 29, 2019, the Company issued \$250 Series MTN 2019-1 General Obligation Notes due on September 29, 2050. The notes have an annual interest rate of 3.209%. The proceeds from these notes were used to repay the Company's \$250 Series MTN 2009-1 General Obligation Notes on April 17, 2019.

<sup>(2)</sup> The current portion of long-term debt relates to the annual amortization payment of \$25 for the Series 97-2 amortizing revenue bonds.



## NAV CANADA

### Notes to Consolidated Financial Statements

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#### 14. Long-term debt (continued):

(b) Debt (continued):

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

The Company is in compliance with all covenants of the Master Trust Indenture and General Obligation Indenture as at August 31, 2019.

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

#### 15. Financial instruments and financial risk management:

*Summary of financial instruments:*

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

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

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

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

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

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#### 15. Financial instruments and financial risk management (continued):

*Summary of financial instruments (continued):*

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

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

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

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#### 15. Financial instruments and financial risk management (continued):

Summary of financial instruments (continued):

	August 31, 2018		Fair value hierarchy
	Amortized Cost	FVTPL	
<b>Financial assets</b>			
Cash and cash equivalents <sup>(1)</sup>	\$ 38	\$ -	
Accounts receivable and other	102	-	
<b>Current investments</b>			
Debt service reserve fund	71	-	
<b>Other current assets</b>			
Derivative assets <sup>(2)</sup>	-	3	Level 2
Investment in preferred interests <sup>(3)</sup>	-	418	Level 2
Related party loans receivable <sup>(6)</sup>	12	-	
<b>Other non-current assets</b>			
Long-term receivables	1	-	
	<u>\$ 224</u>	<u>\$ 421</u>	
<b>Financial liabilities</b>			
<b>Trade and other payables</b>			
Trade payables and accrued liabilities	\$ 242	\$ -	
<b>Long-term debt (including current portion)</b>			
Bonds and notes payable <sup>(5)</sup>	1,494	-	Level 2
	<u>\$ 1,736</u>	<u>\$ -</u>	

(1) Cash and cash equivalents include \$5 of short-term investments as at August 31, 2019 (August 31, 2018 - \$15).

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

(3) This instrument is recorded at fair value based on valuation techniques described in note 10.

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

(5) The fair value of the Company's bonds and notes payable is classified as Level 2 in the fair value hierarchy as it is determined using secondary market ask prices at the reporting date. As at August 31, 2019, the fair value was \$1,771 (August 31, 2018 - \$1,678) inclusive of accrued interest of \$20 (August 31, 2018 - \$22).

(6) During fiscal 2018, the Company provided bridge financing to Aireon which was repaid during fiscal 2019. See note 10 for details. Of this balance, \$2 was receivable from Searidge.

During fiscal 2019, the investment in preferred interests of Aireon was transferred from Level 2 to Level 3 of the fair value hierarchy. The transfer is due to the passage of time since the most recent input of observable market data and the increased level of judgment used in determining the fair value. There have been no other transfers between levels since August 31, 2018.

## NAV CANADA

### Notes to Consolidated Financial Statements

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#### 15. Financial instruments and financial risk management (continued):

*Summary of financial instruments (continued):*

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

	2019	2018
Fair value as at August 31	\$ 418	\$ 350
Net increase in fair value <sup>(1)</sup>	12	52
Effect of foreign exchange	9	16
Fair value as at August 31	\$ 439	\$ 418

<sup>(1)</sup> Net increase in fair value includes accrued dividend income.

#### *Derivative financial instruments*

From time to time, the Company holds forward dated interest rate swap agreements and bond and foreign exchange forward agreements to hedge risks from fluctuations in foreign exchange rates and interest rates. The time frame and manner in which we manage these risks varies for each item based upon our assessment of the risk and available alternatives for mitigating the risk.

Details of the derivative financial instruments for which the Company has applied hedge accounting are as follows:

August 31, 2019						
Carrying amount						
	Contract Rate	Notional amount of hedging instrument	Assets	Liabilities	Classification on statement of financial position	Changes in fair value used for calculating ineffectiveness
<i>Cash flow hedges</i>						
<i>Foreign exchange risk</i>						
Foreign currency forwards <sup>(1)</sup>	1.27299	\$1	\$ -	\$ -	Other assets (current)	\$ -
Foreign currency forwards <sup>(2)</sup>	1.30444	\$38	\$1	\$ -	Other assets (current)	\$1
Foreign currency forwards <sup>(3)</sup>	1.31142	\$8	\$ -	\$ -	Other assets (current)	\$ -

## NAV CANADA

### Notes to Consolidated Financial Statements

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#### 15. Financial instruments and financial risk management (continued):

##### Derivative financial instruments (continued)

		August 31, 2018				
		Carrying amount			Classification on statement of financial position	Changes in fair value used for calculating ineffectiveness
Contract Rate	Notional amount of hedging instrument	Assets	Liabilities			
<i>Cash flow hedges</i>						
Foreign exchange risk						
Foreign currency forwards <sup>(1)</sup>	1.27472	\$7	\$ -	\$ -	Other assets	\$ -
Interest rate risk						
Bond forward <sup>(4)</sup>	2.20672	\$190	\$3	\$ -	Other assets (current)	\$3

(1) As at August 31, 2019, the Company holds one forward contract to hedge monthly payments to Aireon related to satellite surveillance costs through to the end of fiscal 2019. The contract matured in September 2019. As at August 31, 2018, the Company held seven forward contracts to purchase a total of \$5 U.S. (\$7 CDN).

(2) The Company holds twelve forward contracts with a total notional value of \$29 U.S. (\$38 CDN) to hedge monthly payments to Aireon related to satellite surveillance costs for fiscal 2020. The contract rate shown in the table is an average of rates for all twelve forward contracts.

(3) The Company holds four forward contracts with a notional value of approximately \$2 each to purchase a total of \$6 U.S. (\$8 CDN) to hedge payments related to the Company's insurance premiums in fiscal 2020.

(4) In June 2018, the Company settled previously held interest rate swap agreements at a loss of \$8 and entered into a bond forward contract to mitigate the potential impact of rising interest rates on the cost of refinancing the Company's \$250 Series MTN 2009-1 General Obligation Notes that matured on April 17, 2019. The bond forward was closed in March 2019 at a loss of \$9 upon the issuance of the \$250 Series MTN 2019-1 General Obligation Notes.

The Company's hedging relationships are subject to ineffectiveness should the timing of the forecasted transaction not occur as intended or as a result of changes in counterparty risk.

The following table summarizes the hedging components of OCI:

	Years ended August 31	
	2019	2018
Net gain (loss) on derivatives designated as cash flow hedges		
Foreign currency forwards	\$ 1	\$ -
Interest rate swaps	-	4
Bond forward	(12)	1
	<u>\$ (11)</u>	<u>\$ 5</u>

For the years ended August 31, 2019 and 2018, the derivatives designated as cash flow hedges were considered to be fully effective and no ineffectiveness has been recognized in net income (loss).

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

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#### 15. Financial instruments and financial risk management (continued):

##### *Financial risk management*

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

##### (a) Market risk

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

##### (i) Interest rate risk:

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

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

	August 31 2019	August 31 2018
Floating rate financial assets		
Cash and cash equivalents	\$ 30	\$ 38
Debt service reserve fund investments	72	71
Total floating rate financial assets	<u>\$ 102</u>	<u>\$ 109</u>
Floating rate financial liabilities		
Bank loan	<u>\$ 8</u>	<u>\$ -</u>
Fixed rate financial liabilities		
Bonds and notes payable	<u>\$ 1,468</u>	<u>\$ 1,494</u>

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 \$1 in the Company's earnings before rate stabilization adjustments.

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

Interest rate risk related to the Company's fixed-interest long-term debt relates to the re-setting of interest rates upon maturity and refinancing of the debt. The Company mitigates this source of interest rate risk by spreading maturities of borrowings over periods currently up to and including 2050 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.

## NAV CANADA

### Notes to Consolidated Financial Statements

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(millions of dollars)

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#### 15. 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 matured on April 17, 2019. In June 2018, the forward-dated interest rate swaps were settled, and the Company simultaneously entered into bond forward agreements. The Company incurred a loss of \$8 on settlement of the forward-dated interest rate swaps in fiscal 2018.

In March 2019, the bond forward agreements were settled at a loss of \$9. 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 2019-1 General Obligation 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 matured on April 19, 2018. The bond forward agreement was closed in January 2018 as a result of changes in our refinancing plans and a new bond forward agreement for the same amount was entered into simultaneously to align with the revised plan.

On March 29, 2018, the Company issued \$275 Series MTN 2018-1 General Obligation Notes. The January 2018 bond forward was also closed. The Company incurred a net loss of \$2 in closing both bond forward agreements.

The Company had applied hedge accounting and accounted 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.

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

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#### 15. 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 2019		August 31 2018	
	CAD	USD	CAD	USD
Financial assets				
Current				
Cash and cash equivalents	\$ 4	\$ 3	\$ 2	\$ 1
Accounts receivable and other	3	2	1	-
Non-current				
Investment in preferred interests	439	330	418	321
Related party loans receivable	-	-	10	8
Other non-current assets	1	1	1	1
	<u>\$ 447</u>	<u>\$ 336</u>	<u>\$ 432</u>	<u>\$ 331</u>
Financial liabilities				
Current				
Trade and other payables	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ 5</u>	<u>\$ 4</u>
Net exposure	<u>\$ 445</u>	<u>\$ 335</u>	<u>\$ 427</u>	<u>\$ 327</u>

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, 2019, the Company has designated \$1 (fair value) of its forward contracts as cash flow hedging instruments. Refer to the *Derivative financial instruments* section for further details. These instruments are not included in the table above.

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

As at August 31, 2019, 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 \$40 (August 31, 2018 - \$38).

(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.



## NAV CANADA

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#### 15. 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 10) 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 2019, the fair value of the Company's investment in Aireon increased to \$439 as at August 31, 2019 (August 31, 2018 - \$418). A change of 5% in the fair value of the investment in preferred interests would impact finance income (other finance costs) by approximately \$14 U.S. (\$19 CDN) as at August 31, 2019 (August 31, 2018 - \$14 U.S. (\$18 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, 2019 represents the carrying amount of cash, accounts receivable, reserve funds, investments and forward contracts to purchase or sell foreign currencies.

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

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

The Company establishes an allowance for doubtful accounts that represents its estimate of lifetime expected credit losses to be incurred in respect to accounts receivable. The Company's loss allowance is not significant and largely relates to air navigation services provided to small general aviation aircraft. As at August 31, 2019, there were no significant balances past due but not impaired and the allowance for doubtful accounts was not significant.

## NAV CANADA

### Notes to Consolidated Financial Statements

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#### 15. Financial instruments and financial risk management (continued):

Financial risk management (continued)

(b) Credit risk (continued)

	August 31, 2019			August 31 2018
	Gross balance	Loss Allowance	Net balance	Net balance
0-30 days	\$ 72	\$ -	\$ 72	\$ 83
31-60 days	2	-	2	1
61-90 days	1	-	1	-
Over 91 days	-	(1)	(1)	(1)
Total	\$ 75	\$ (1)	\$ 74	\$ 83

(c) Liquidity risk

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

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 2019
Credit facilities	
Credit facility with a syndicate of Canadian financial institutions <sup>(1) (2)</sup>	\$ 675
Letter of credit facilities for pension funding purposes <sup>(3)</sup>	540
Total available credit facilities	1,215
Less: Outstanding letters of credit for pension funding purposes <sup>(3)</sup>	514
Less: Outstanding letters of credit for other purposes <sup>(2)</sup>	9
Less: Bank loan	8
Undrawn committed borrowing capacity	684
Less: Operations and maintenance reserve fund allocation <sup>(4)</sup>	310
Credit facilities available for unrestricted use	\$ 374

## NAV CANADA

### Notes to Consolidated Financial Statements

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#### 15. 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, 2021 and September 12, 2023. Subsequent to August 31, 2019, the facility was increased to \$850 and these maturity dates were extended to September 12, 2022 and September 12, 2024, respectively. The credit facility agreement provides for loans at varying rates of interest based on certain benchmark interest rates, specifically the Canadian prime rate and the Canadian bankers' acceptance rate, and on the Company's credit rating at the time of drawdown. A utilization fee is also payable on borrowings in excess of 25% of the available facility. The Company is required to pay commitment fees, which are dependent on the Company's credit rating. The Company is in compliance with the credit facility covenants as at August 31, 2019.
- (2) At August 31, 2019, \$9 was drawn from an uncommitted revolving credit facility. In connection with this facility, an allocation of \$25 with a Canadian financial institution has been made under its \$675 committed credit facility.
- (3) The letter of credit facilities for pension funding purposes are comprised of four facilities with Canadian financial institutions totaling \$540, which will mature on December 31, 2019, unless extended. During fiscal 2019, the Company increased these facilities by \$25. At August 31, 2019, \$514 was drawn for pension solvency funding purposes (note 13).
- (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, 2019, the Company met this requirement with an allocation of \$310 in undrawn availability under its committed credit facility. If at any fiscal year end the amount in the operations and maintenance reserve fund is less than 25% of the Company's operating and maintenance expense for the year (before other regulatory deferral account adjustments, depreciation, amortization, finance costs, OCI and unusual expenses), the Company must, at a minimum, increase the balance in the fund to the required level over the following four fiscal quarters through additional contributions or an allocation of its committed credit facility. The operations and maintenance reserve fund may be used to pay operating and maintenance expenses, if required.

#### 16. Commitments:

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

The following table presents a maturity analysis of the Company's undiscounted contractual cash flows for its financial liabilities as at August 31, 2019:

	Remaining payments – for years ending August 31						
	Total	2020	2021	2022	2023	2024	Thereafter
Bank loan	\$ 8	\$ 8	\$ -	\$ -	\$ -	\$ -	\$ -
Trade payables and accrued liabilities	218	218	-	-	-	-	-
Derivative liabilities	1	1	-	-	-	-	-
Long-term debt (including current portion) <sup>(1), (2)</sup>	1,475	25	275	25	25	25	1,100
Interest payments <sup>(2)</sup>	982	70	63	56	54	52	687
	<u>\$ 2,684</u>	<u>\$ 322</u>	<u>\$ 338</u>	<u>\$ 81</u>	<u>\$ 79</u>	<u>\$ 77</u>	<u>\$ 1,787</u>

## NAV CANADA

### Notes to Consolidated Financial Statements

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#### 16. Commitments (continued):

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

- (1) Payments represent principal of \$1,475. 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 14 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 \$77 as at August 31, 2019 (August 31, 2018 - \$103). The following table presents a maturity analysis of these capital commitments:

	Remaining payments – for years ending August 31						
	Total	2020	2021	2022	2023	2024	Thereafter
Capital commitments	\$ 77	\$ 36	\$ 6	\$ 4	\$ 13	\$ 3	\$ 15

(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 accounted for on a straight-line basis based on a fixed rate or percentage increase.

Future minimum lease payments excluding operating costs for operating leases are as follows:

	Remaining payments – for years ending August 31						
	Total	2020	2021	2022	2023	2024	Thereafter
Operating leases	\$ 84	\$ 7	\$ 6	\$ 5	\$ 6	\$ 4	\$ 56

The Company recorded operating lease expense during fiscal 2019 of \$11 (fiscal 2018 - \$9) within facilities and maintenance expense on the statement of operations.

(d) Letters of credit

As at August 31, 2019, the outstanding amount of letters of credit of \$523 (note 15 (c)) is comprised of \$514 drawn for pension solvency funding purposes (note 13) and \$9 for other purposes.

#### 17. Contingencies:

(a) Legal contingencies

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

## NAV CANADA

### Notes to Consolidated Financial Statements

As at and for the years ended August 31, 2019 and 2018

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#### 17. Contingencies (continued):

##### (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:

##### Provision of service and system sales

- (i) The Company has entered into five agreements for the sale and maintenance of technology that would indemnify the counterparties up to a maximum of \$1,000 for each occurrence and in the aggregate for losses sustained as a result of the negligence of the Company. In addition, the Company has entered into one agreement for the sale and maintenance of technology that would indemnify the counterparty up to a maximum of the Company's ANS liability insurance coverage. The Company's ANS liability insurance provides coverage for these indemnification commitments. These indemnities survive termination of the agreements.
- (ii) The Company entered into a sales agreement for the supply of an air traffic services data management system and provision of related services, which would indemnify the counterparty for the cumulative liability of the Company in relation to any claim in any manner howsoever arising out of or in connection with the agreement, up to a maximum. The Company's liability insurance provides coverage for this indemnification commitment. This indemnity survives termination of the agreement.

##### Other agreements

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

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

#### 18. Transactions with the Government of Canada:

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

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

## NAV CANADA

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#### 18. Transactions with the Government of Canada (continued):

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.

#### 19. Related party transactions:

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

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

##### 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 President and 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:

	2019	2018
Salaries and other benefits	\$ 7	\$ 7
Defined benefits, including pension benefits	3	2
Management incentive plan	2	2
Other long-term benefits	2	3
Total compensation	<u>\$ 14</u>	<u>\$ 14</u>

There were no loans provided to key management personnel during fiscal 2019.

##### 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 \$10 for fiscal 2019 (fiscal 2018 - \$12).

##### Transactions with joint ventures and associates

As discussed in note 10, the Company has a participation in Aireon. This participation has been classified as an investment in associate since the Company is able to exert significant influence over Aireon's strategic financial and operating activities. The Company's transactions with Aireon for fiscal 2019 were comprised of accrued dividend income of \$12 (fiscal 2018 - \$12), costs for data services of \$5 (fiscal 2018 - \$nil) and cost recoveries of \$2 (fiscal 2018 - \$3).

As at August 31, 2019, the Company has an accrued dividend receivable of \$63 (August 31, 2018 - \$46) from Aireon. The bridge loan of \$10 outstanding as at August 31, 2018 was repaid during fiscal 2019.

The Company has a 12-year commitment with Aireon to purchase data services, which commenced in March 2019. The estimated total remaining commitment is \$663 (\$510 U.S.).

The Company has a 50% interest in Searidge. This interest has been classified as a joint venture. As at August 31, 2019, the Company has a long-term loan receivable of \$3 outstanding from Searidge (August 31, 2018 - \$2). During fiscal 2019, the Company paid \$3 to Searidge for hardware and software purchases and consulting fees (2018 - \$nil).

## NAV CANADA

### Notes to Consolidated Financial Statements

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#### 20. Capital management:

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

	August 31 2019	August 31 2018
Bonds and notes payable (note 14)	\$ 1,468	\$ 1,494
Equity:		
Retained earnings	28	28
Regulatory deferral accounts:		
Debit balances (note 7)	(2,087)	(954)
Credit balances (note 7)	376	394
Employee benefits (note 13):		
LTD liability (asset)	3	(2)
Liability for funded pension benefits	1,813	707
Liability for accumulating sick leave	17	18
Total capital	\$ 1,618	\$ 1,685

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, 2019.

## **NAV CANADA**

### **Notes to Consolidated Financial Statements**

*As at and for the years ended August 31, 2019 and 2018*

(millions of dollars)

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#### **21. Subsequent events:**

The Canadian Transportation Agency received an appeal by the International Air Transportation Association (IATA) dated September 13, 2019 of the revised customer services charges. The appeal alleges that the Company did not comply with notice requirements and with two of the charging principles in the ANS Act. The Company disagrees with IATA's appeal. The Company and IATA held a mediation on October 17, 2019 but were unable to resolve the matter. The Company will vigorously defend the appeal. The outcome of this appeal is indeterminable at this time.