Annual Report 2023

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NAV CANADA

Message from the Chair of the Board

It has been another extraordinary year for NAV CANADA and our air navigation service.

Air traffic volumes are continuing to recover towards what they were pre-pandemic, with positive growth in traffic over the course of fiscal 2023. In response, we have expedited operational training and recruitment to meet the renewed demand and have substantially increased our headcount across the Company.

Over the past fiscal year, we have moved forward, reactivating some of our key air traffic management initiatives. We made further progress in restoring our Rate Stabilization Account and started to reduce the considerable debt that was taken on to fund the substantial financial losses that were incurred during the pandemic.

As our outlook for traffic remains positive, NAV CANADA is implementing an overall decrease in our customer service charges — on average by 5.57 percent — effective January 1, 2024. Our rate strategy takes a balanced approach between rebuilding our balance sheet, investing in our employees, safety and service delivery, and restoring our Rate Stabilization Account over a reasonable timeframe.

I am also very proud of the efforts we have made to continue to address sustainability and reduce our industry's carbon footprint. We are leveraging our governance structure to embed sustainability across the organization. As a member of the United Nations Global Compact, we completed our first Communication on Progress report in fiscal 2023 — strengthening the transparency and governance of our Environmental, Social and Governance (ESG) progress.

We also submitted our official commitment letter to the Science-Based Targets initiative (SBTi), signed by Raymond Bohn, our President and CEO. Our commitment is to develop emissions-reduction targets aligned with the Paris Agreement to limit the global temperature increase to 1.5°C above pre-industrial levels. This is an ambitious step towards climate action, and work is underway to set our targets and objectives for a climate-friendly air navigation system (ANS).

We have seen many successes this year. Whether focused on operational performance or sustainability, these achievements over the past fiscal year are thanks to the remarkable efforts and dedication of our employees. Together we are building a better future, and raising our ANS to a higher level.

In 2023, Sarah Morgan-Silvester and Kathy Baig joined the Board. They have been very positive additions to NAV CANADA. At the annual meeting in January 2024, Paul Brotto will be retiring from the Board. Paul, during his tenure, has chaired several committees and more importantly has been a great director.

This is my last annual report message to you as Chair. Michelle Savoy will be succeeding me at the conclusion of the annual meeting. It has been a great honour for me to have been part of such a special organisation.

<u>(Signed) "Marc Courtois"</u>

Marc Courtois

Chair of the Board

Message from the President and CEO

This time last year, I was confident that our industry had turned the corner and was moving toward a stronger future. Fiscal 2023 was even more encouraging, with continued increases in traffic volumes, both domestically and across the global air navigation system (ANS).

We have now reached the threshold of an exciting new chapter in our Company's history. By far, the biggest opportunity is to take our ANS to the next level, using innovation to change the way we do business, improving safety and efficiency, and committing to operating a sustainable business.

With sustainability a priority for NAV CANADA, we've set the foundation of an Environmental, Social, and Governance (ESG) Strategy. Using guidance from the UN Global Compact, we are focusing on the principles of climate action, inclusive society, and strong governance to ensure the industry stewardship and resilience of NAV CANADA.

Inside this annual report, you will read about many of the changes underway across our Company.

These include:

Airspace modernization projects in Vancouver and Toronto. In Vancouver, we are leveraging new technologies to improve efficiency and manage ever-increasing traffic volumes, while leveraging quieter continuous descent operations. The proposed changes will result in new arrival routes that will enhance safety while reducing overflight of residential communities where possible. This, combined with the continued implementation and analysis of safety risk mitigations, has reduced complexity in Vancouver airspace. In the Toronto Flight Information Region (FIR), a modernization project is underway with the aim of improving airspace harmonization and standardization across the FIR.

Moving forward on digital aerodrome air traffic services (DAATS). DAATS will be a game-changing innovation, using digital technologies to improve air traffic management. This past year, our Kingston Flight Service Station was selected to be the first of our new digital hubs.

Continuing to evolve air traffic management through space-based Automatic Dependent Surveillance-Broadcast (ADS-B). This provides radar-like surveillance capabilities using satellite technology. The ADS-B Out Performance Requirements Mandate has come into effect in Class A airspace, marking a milestone in our continued space-based ADS-B development.

Trajectory-Based Operations (TBO) evaluation of the iTEC Flight Data Processor. The goal was to assess how this system could improve operational performance, and the assessment was completed with a recommendation to join the iTEC Consortium.

One of the key challenges presented by our industry's recovery has been traffic delays at airports across the country, which have garnered considerable media attention over the past year. There are a multitude of reasons for traffic delays, weather being chief among them. Regardless of the reason, NAV CANADA has an important role to play in reducing these delays, and we are working closely with our government and industry partners to find solutions.

One solution involves the implementation of our new air traffic management technologies. Another involves our efforts to increase staffing and ramp up training of new air traffic services professionals. We are already seeing improved results, with reduced ground delays at the four major airports (Vancouver, Calgary, Toronto Pearson and Montreal Trudeau) over the past fiscal year.

Another integral component in meeting the demands of our industry's recovery is our People Strategy. The strategy focuses on designing authentic careers, driving a "one-company" culture and building brand advocates. We introduced Leaders of the Future, a program aimed at preparing a new generation of leaders who can take on the challenges of the future and raise us to the next level.

In our ANS, everything begins and ends with people. We would not have reached any of our goals without the commitment and dedication of our employees from coast-to-coast-to-coast.

A clear illustration of this commitment has been the way our people have responded to a multitude of weather events and natural disasters over the past fiscal year — including Hurricane Fiona, ice storms, floods, and an unprecedented season of wildfires across the country. NAV CANADA employees responded with the utmost professionalism, maintaining our operations and reducing or preventing disruptions to our service.

I wish to thank Marc Courtois for his years of service as Chair of the Board. His support has played a key role in bringing the Company to where it is today and all of us at NAV CANADA wish him the very best.

Finally, I extend my gratitude to all of our employees for their extraordinary efforts over the past year to improve safety, service and efficiency, and most importantly, to keep Canada's skies safe.

(Signed) "Raymond G. Bohn"

Raymond Bohn

President and CEO

Business Updates

Safety

Guiding safety management

NAV CANADA has always been proud of its record for operational safety, which has consistently placed it among the top air navigation service providers (ANSP) in the world.

Our chief tool for guiding our safety management system (SMS) at NAV CANADA has always been our annual Safety Plan, which has provided the pillars for managing and improving operational safety risks. The Plan identifies the approved safety goals and initiatives each fiscal year, and every year we produce comprehensive reports on how we are doing as a company. This fiscal year, we had a safety risk completion rate of almost 95%, with 52 of the 55 active Safety Plan Initiatives having met all related initiative measures, exceeding our planned target of 90%.

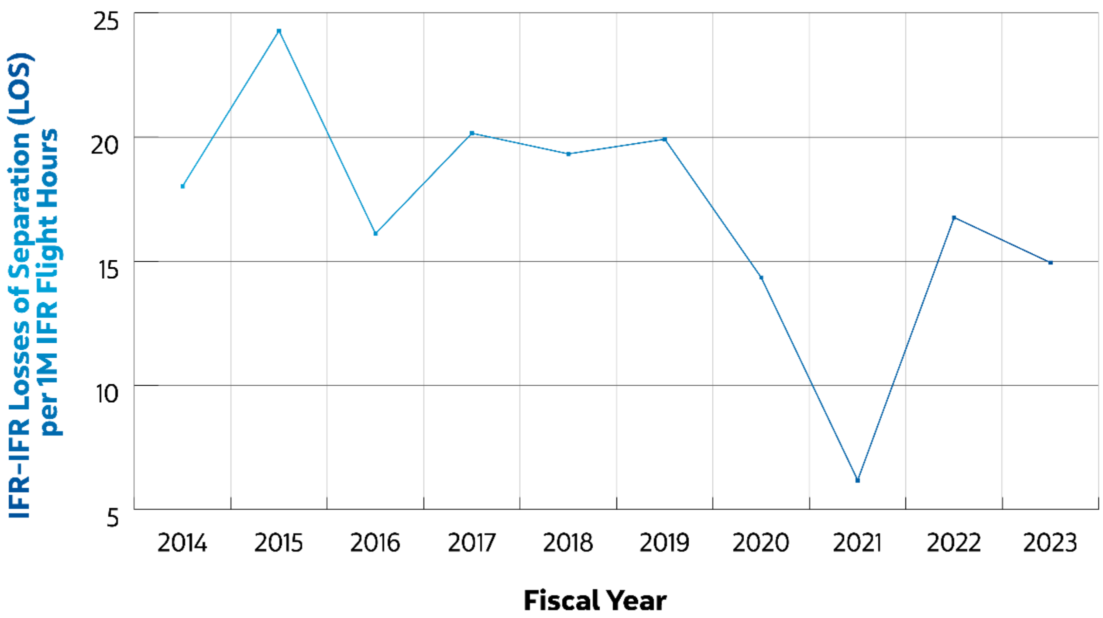
The 2023 NAV CANADA Safety Plan was published in November 2022. At the same time, NAV CANADA released a companion document titled Navigating Safety, which aims to enhance transparency and build awareness about safety issues and goals across our ANS, as well as outline our priorities for strengthening our SMS.

Building on our strong commitment to safety, in 2023, NAV CANADA introduced our first long-term safety strategy. This strategy promotes a positive discussion on how, together, we can keep Canada's skies safe today and tomorrow, and how we will shape the future of ANS safety management, domestically and abroad. It recognizes that it is people who keep Canada's skies safe, and it is built around six strategic themes: safety culture, safety capabilities, human performance, safety partnerships, safety leadership and the future SMS.

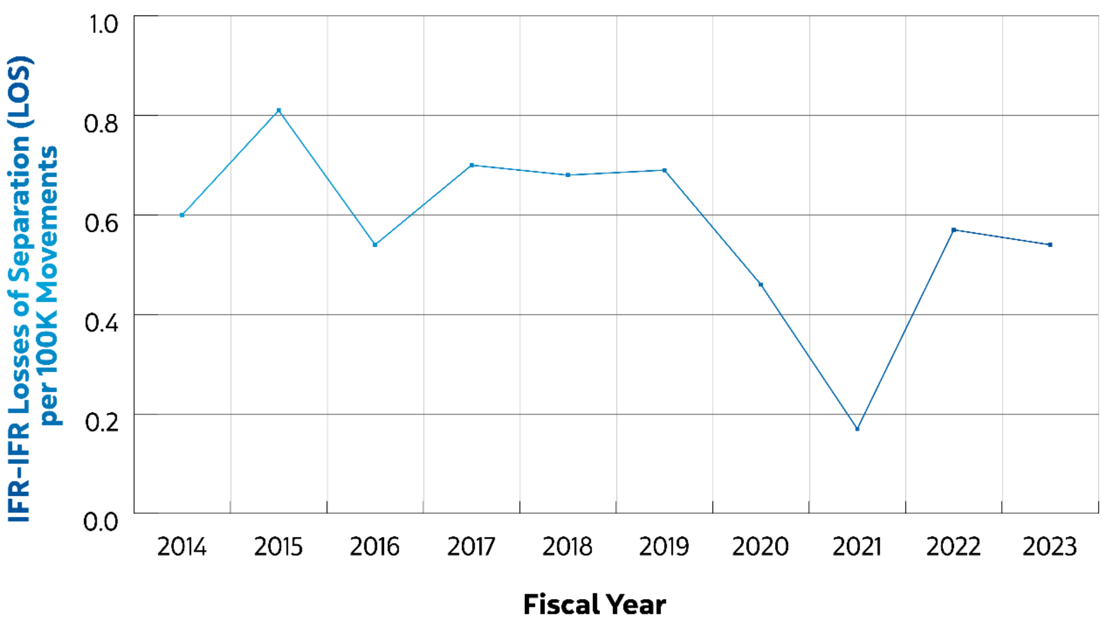
Continued safety performance through traffic growth

In fiscal 2023, NAV CANADA maintained a strong safety performance as traffic continued to rebound from the impacts of the global pandemic. The rate of IFR-to-IFR (instrument flight rules) loss of separation was 0.54 per 100,000 movements, which remains below the Company's benchmark rate of 1.0 losses per 100,000.

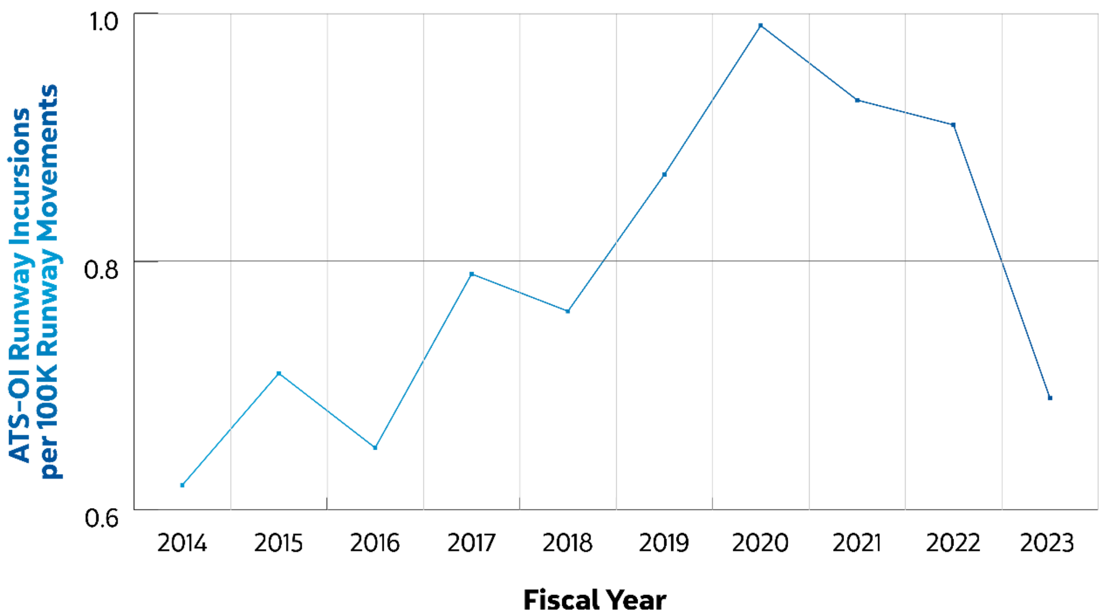
Since 2014, IFR-IFR losses of separation (LOS) per 1M IFR flight hours have been as follows:



Since 2014, IFR-IFR Losses of Separation (LOS) per 100K Movements were as follows:



Since 2014, the ATS-OI Runway Incursions per 100K Runway Movements were as follows:



Just culture

We have embedded safety into our corporate culture, championed by every single employee, at the core of everything we do. Our Just Culture program seeks to give all employees the confidence to raise safety-related issues so they can be addressed. Just Culture empowers us all to contribute to the overall safety of Canada's ANS.

Training programs for members of the Canadian Air Traffic Control Association (CATCA), Air Traffic Specialists Association of Canada (ATSAC), and Canadian Air Navigation Specialists Association (CANSA), and their management teams, on the Corporate Just Culture Policy and the Just Culture Standard, were developed and delivered in 2023. This is a significant step forward as we now have everyone in the Company on a single Just Culture policy, supporting the one-company mindset.

Assessing our SMS

Safety is at the core of everything we do, and the SMS helps us to fulfill our shared purpose of keeping Canada's skies safe while driving continuous improvement. How do we ensure that what we are doing in our SMS is effective and producing results? SMS assessments are crucial to our success and began again in fiscal 2023. Scheduled interviews at sites across the country included interviews with employees and leaders from all departments and levels, including frontline controllers, flight service specialists and technologists.

One key change this past fiscal year was a revision to our SMS Assessment Program in order to better align with international standards and Transport Canada guidelines, and to validate compliance with Canadian Aviation Regulations. As a result, the scope of our program has expanded to include all levels of employees within all corporate groups.

Improving quality management

Under the umbrella of continuous improvement, we made important changes to our quality management system, replacing our old system and introducing our new NAV CANADA Quality Management System (NC-QMS). Its focus is on more effective compliance and conformance with our safety standards, along with improved communication with all of our industry partners.

Sustainability

Toward a sustainable future

Over the past fiscal year, we have continued to make meaningful steps towards a more sustainable future.

As members of the UN Global Compact, NAV CANADA has completed its first UN Global Compact Communication on Progress (CoP), strengthening the transparency and governance of our Environmental, Social and Governance (ESG) progress.

NAV CANADA has established a strong ESG governance framework, with leadership support, board oversight, an active ESG steering committee with representation from groups across the Company and multiple working groups. We are leveraging this governance structure to embed sustainability across the organization.

In alignment with these efforts, NAV CANADA completed its first ESG materiality assessment, to identify where we can make changes that will have the greatest impact. As we develop our initial targets and strategy, we have identified six Sustainable Development Goals (SDGs) as priority areas, with a particular focus on SDG 10: Reduced Inequalities and SDG 13: Climate Action.

Across these six SDGs, NAV CANADA's sustainability efforts are reflected across our business and priorities – from our service delivery and innovations to the way we are governed.

Icons representing these SDGs can be found throughout this annual report where they intersect with our work.

Climate action

NAV CANADA is committed to a sustainable future, and over the past fiscal year has been strengthening that commitment. In August 2023, we submitted our official commitment letter to the Science-Based Targets initiative (SBTi), signed by Raymond Bohn, our President and CEO.

Per the commitment, we will develop emission reduction targets aligned with the SBTi, which aims to limit global warming to below 1.5°C above pre-industrial levels. We've already begun important work towards setting these targets with a long-term goal of net-zero emissions by 2050.

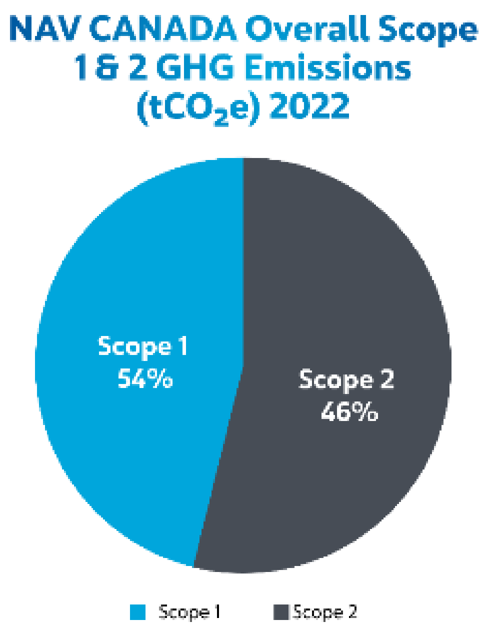
NAV CANADA is also a signatory to Canada's Aviation Climate Action Plan, which sets out a vision for net-zero greenhouse gas (GHG) emissions by 2050 for Canada's aviation sector and identifies the key measures to get there. Under the Action Plan, NAV CANADA is responsible for supporting improved operations, which includes improved air traffic management (ATM).

In 2023, NAV CANADA began measuring emissions with the intent to complete Scope 1, 2 and 3 inventory to submit to SBTi. We will continue to mature our emissions inventory measurement for 2023 calculations to ensure we meet the requirements for SBTi target submission.

Scope 1 GHG emissions include direct emissions from onsite heating facilities and back-up generators, mobile sources such as corporate fleet and inspection aircraft, and fugitive emissions from refrigerants. Scope 2 GHG emissions include indirect emissions from electricity, heating and cooling purchased through the grid. The reporting period for Scope 1 and 2 sources is January 1, 2022 to December 31, 2022. The control approach method was used to determine the organizational boundary for NAV CANADA, which includes staffed facilities, unstaffed facilities (including communications, navigation, and surveillance equipment), ground fleet, and inspection aircraft.

In 2022, our total GHG emissions (Scope 1 and 2) as carbon dioxide equivalent (CO2e), were 26,809 tCO2e. Of those totals, our Scope 1 (direct) GHG emissions were 14,498 tCO2e. We estimate our Scope 2 (indirect) GHG emissions, associated with electricity use for 2022 to be 12,311 tCO2e.

NAV CANADA's largest source of Scope 1 emissions are from natural gas used to heat our facilities. For Scope 2, a high proportion of our emissions come from operations in Alberta, due to the large percentage of fossil fuels powering the province's electricity generation. Preparation for the next annual emissions inventory is underway; Scope 3 emissions will be inventoried, an emissions baseline set, and targets developed according to the Science-Based Targets Initiative.



Notes:

- Emissions metrics are subject to ongoing quality assurance and NAV CANADA is continuously implementing processes to improve emissions data accessibility, quality, accuracy and auditability. Refinements are expected over the next few years.
- NAV CANADA has committed to setting science-based targets and will report 2023 scope 1, 2 and 3 emissions in full compliance with the greenhouse gas protocol and the practices of the science-based target initiative.
- NAV CANADA's initial emissions measures are intended as a transparent starting point to develop a plan for meaningful action to both reduce emissions and allow for continuous improvement in emission measurement.

Service Delivery

Collaborating with our industry partners

NAV CANADA continues to work in close collaboration with its industry partners, with a focus on increasing safety, improving operational performance and ensuring that technology enhancement happens in tandem with our stakeholders. On this front, our approach is multifaceted, encompassing regional, national, global or direct-to-stakeholder engagement opportunities, depending on the topics being discussed.

In fiscal 2023, we participated in a number of industry-hosted conferences and events, such as the Manitoba Aviation Conference, the Congrès de l'Association québécoise du transport aérien (AQTA) and the Alberta Aviation Conference, to name a few. We also hosted our own events, including the Area Operations Consultation meetings and the Communications/Navigation/Surveillance (CNS) Working Group, while supporting Transport Canada in ensuring that Canada's views on matters pertaining to air navigation services are well represented within the global aviation community through International Civil Aviation Organization (ICAO) working groups.

The core objective is to find ways in which we can improve safety, share data and information, and ensure that we are aligned as we implement new technology and procedures.

Integrated working position

The integrated working position (IWP) improves commonality by consolidating multiple key technology tools into a single integrated system for towers. It also introduces important safety features. The IWP went live in 12 additional towers in fiscal 2023, surpassing the fiscal year goal of 9 additional towers.

Trajectory-based operations

As part of a one-year evaluation of the iTEC Flight Data Processor, NAV CANADA worked with vendor Indra, as well as NATS and Avinor, to learn about and review iTEC's capabilities, along with representatives from other air navigation service providers (ANSPs). The evaluation found that from an operations and technology perspective, iTEC represented the right strategic choice for NAV CANADA, and this conclusion was endorsed by the Board of Directors in July. This review played a key role in helping NAV CANADA advance trajectory-based operations (TBO).

Modernizing our airspace

With growth in air traffic, advances in technology, and evolving traffic patterns, the Vancouver Airspace Modernization Project (VAMP) is one of our most important airspace modernization projects.

The initiative includes new arrival routes, and the introduction of Required Navigation Performance - Authorization Required (RNP-AR) at the Vancouver International Airport. The project will accommodate increased air traffic while enhancing safety and leveraging quieter continuous descent operations.

In another important milestone supporting the Company's efforts towards both airspace modernization and TBO, on August 10, 2023, the Automatic Dependent Surveillance-Broadcast (ADS-B) Out Performance Requirements Mandate came into effect for aircraft flying in Canada's domestic Class A airspace. This was made possible by collaborative efforts between NAV CANADA, Transport Canada and other industry stakeholders.

In another key modernization project, the first phase of the Toronto Airspace Amalgamation is well underway, with the successful consolidation of the North and North Bay specialties into the new "Great Lakes" specialty.

The next stage of Toronto airspace modernization activities started in May 2023. This work will help establish the framework for airspace harmonization and standardization in the Toronto Flight Information Region.

Digital facilities

We are excited to be among the leaders in innovative technologies such as digital aerodrome air traffic services (DAATS). This past year, we conducted an analysis and selected the Kingston Flight Service Station to be the first location where this new technology will be deployed. On-site evaluations are being conducted in preparation for Kingston to become the first of our digital hubs.

Throughout this process, a large extent of the evaluation of this technology took place through the submittal of requests for information and requests for proposals. After significant analyses and supplier assessments, a recommendation for a preferred vendor is expected by the end of 2023.

RNP AR and TBS at Toronto

RNP AR procedures for runways 05/23 at Toronto Pearson International Airport were implemented in November 2022. These new arrival procedures will allow aircraft to shorten their flight paths and flying times, reduce fuel burn and increase the use of quieter continuous descent operations. These procedures are one of the many airspace changes that will continue to help decrease the aviation industry's impact on the environment.

Time-based separation – intelligent approach (TBS IA) provides a new way of separating aircraft that are on final approach to an airport. As the name implies, the technology separates aircraft using time rather than distance. After years of planning and development, TBS IA was successfully implemented in the terminal and tower units at Toronto Pearson International Airport. With this achievement, TBS IA is expected to generate significant improvements in efficiency by reducing capacity constraints during challenging wind conditions.

Improving situational awareness

At any given time, there could be more than 1,800 NOTAMs circulating in Canada, and the Company is developing ways to reduce this number and purge those that go beyond 150 days and do not have to be extended. Positive strides were made as part of a national strategy to improve the quality, and reduce the volume, of valid NOTAMs. This included enhancements to the NOTAM Entry System (NES) to more easily identify the age of a NOTAM. With these enhancements, we are actively reducing the number of NOTAMs in our system, improving ANS efficiency and streamlining our services for our customers.

Additionally, NAV CANADA is modernizing how Aeronautical Information Publication (AIP) Supplements are published to increase their effectiveness and make them an option in situations where NOTAMs used to be the only choice. An improved AIP Supplement for Aerodrome Construction template is now available for aerodrome operators, featuring a standard format and chronological presentation of information. The template is intuitive to use and enables information to be found quickly. More enhancements are on the way, including changes to frequency of publication, standardization and website interface.

Supporting the growing number of remotely-piloted aircraft systems (RPAS)

RPAS Traffic Management (RTM) is the evolving program to integrate remotely-piloted, or autonomous, aircraft systems into Canadian domestic airspace. RTM has evolved on three fronts in the past year.

First, there has been ongoing evolution of NAV Drone, the existing service provided to RPAS pilots and operators. It has been enhanced to include guidance to microdrone pilots. A formal evaluation of the NAV Drone platform has been conducted with both internal and external stakeholders, resulting in important service and technology recommendations.

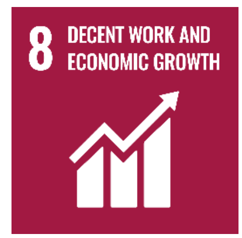
Secondly, the risk posed to aviation — specifically, airport operations — by rogue RPAS is being addressed, with an aligned response plan at major airports. Finally, we continue to work on the future of RTM, targeting the possibility of RPAS operations beyond visual line of sight (BVLOS) with Transport Canada, which has delivered a concept of operations (CONOPS) document that outlines how such flights could be conducted, the capabilities required and how airspace would need to be designed. This RTM vision, articulated in the CONOPS, seeks to enable service by third parties in RPAS airspace, supported by central NAV CANADA services.

People

Empowering our workforce

At the start of the 2023 fiscal year, we created a new People Strategy, with the goal of attracting, retaining, and developing a diverse group of talented and dedicated individuals. We are focused on a one-company mindset and supporting the growth of all our employees as we build brand advocates and the leaders of the future, while fostering our employees' career ambitions. As a key step in this journey, we were proud to finalize our Diversity, Equity, Inclusion and Belonging (DEIB) strategy this past fiscal year.

Welcoming new employees

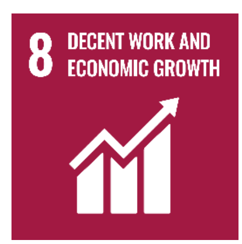


As one component of our People Strategy, recruitment has taken on added significance as air traffic volume rebounds following the pandemic. Our Talent Acquisition team is charged with recruiting our employee base and has achieved strong results in our hiring efforts over the past fiscal year.

Our Company hired 755 new employees and increased its base by 466 people. This move towards pre-pandemic levels reflects the shift in our service delivery needs and the reinstatement of programs that had been suspended. In addition to bolstering our frontline service delivery through air traffic services recruitment, our workforce growth in other departments will help further advance our strategic initiatives while keeping Canada's skies safe. This includes additions to our technology teams to support continued innovation with concurrent management of obsolescence risk. As well, our employer brand has been revamped. We have identified what we want our candidates and employees to experience, and we are putting key actions in motion to align with this.

Additionally, we now have a multi-pronged recruitment strategy in place to address three key areas: attracting top talent in a competitive labour market, maintaining employee interest in the work they do at NAV CANADA, and streamlining our selection process to expedite the entry of new employees into our workforce.

Enhanced Culture Initiative



At NAV CANADA, we are focused on building an organizational culture that will take us to the next level. It is the most important way we can build for the future.

This year, NAV CANADA has been proud to foster a positive employee experience through Look Up — our new employee value proposition, designed to help shape every step of an employee's experience. It describes what it is like to work at NAV CANADA and explains the commitment the Company is making to build a strong, healthy culture in which people are empowered to do their best work.

After the challenging circumstances of the pandemic, and its impacts on our Company, we have been committed to enhancing our culture. The first step in that process has been to uncover the current culture state and gain an understanding of what our employees experience every day. To that end, we have continued to build on our listening strategy, first launched in fiscal 2022.

Two comprehensive experience surveys were launched, spurring a strong response, including significant input from our operational employees, who comprised more than half of the respondents in the first survey. The second survey indicated a 9% increase in positive sentiment across our employee base, illustrating that we are on the right track with our focus on simplification, well-being, listening and leadership.

As a key component of our commitment to culture, we launched a shadow board as a channel for our executive team to listen and hear directly from our people. The board is made up of a group of 15 employees who provide feedback to executives at regular intervals on key business topics.

Building trusting relationships

One of our most important people objectives has always been to build and strengthen relationships with our bargaining agents. This fiscal year marked an important milestone: the 10th round of collective bargaining at NAV CANADA since the Company was launched in 1996.

In fiscal 2023, NAV CANADA was pleased to announce the ratification of a new collective agreement with the Canadian Air Traffic Control Association (CATCA), while bargaining continues with NAV CANADA's seven other unions.

New Head Office

In September 2022, employees gathered for a ribbon-cutting ceremony to celebrate the opening of our new Head Office, a newly-renovated building at 151 Slater Street in Ottawa. This marked the culmination of significant efforts across departments, including our construction, facilities, supply chain and real estate teams. The building is more cost-effective and financially sustainable, and offers a much-improved workplace environment for our employees.

Relaunching NAV CANADA Cares

The Company was forced to suspend its NAV CANADA Cares charitable contributions program at the height of the pandemic, due to financial restraints. However, the efforts of our employees to give all they could to community programs and initiatives continued unabated, with so many worthy causes being supported. This past year, we were very proud to restore our NAV CANADA Cares program, matching funds for employee-organized events that help sustain and build our communities.

Maintaining operations in a weather-challenged year

NAV CANADA is very proud of the efforts of its frontline employees to maintain our operations and limit service disruptions during a year of significant weather events and natural disasters in every region of the country. From wildfires to ice storms to hurricanes, weather events over the past year have devastated our communities and taken a heavy human and economic toll.

For one, Hurricane Fiona hit Atlantic Canada hard in September 2022, and our employees across the region reacted quickly to repair equipment and minimize disruptions to service. Ice storms in Newfoundland and New Brunswick also had a significant impact on our air navigation system.

In Gander, an ice storm impacted four antennas that are used with our main transmitters to provide high frequency communications across the North Atlantic. Our backup system proved effective, with no disruption to service, as our employees worked quickly to repair the antennas at the transmitter site. Another ice storm, in Moncton, caked one of our radar sites in heavy ice, making it inoperable. Our team there found an innovative solution to an unprecedented problem and the radar was quickly returned to service.

Meanwhile, in Western Canada and other regions of the country, we faced a record number of wildfires, with NAV CANADA employees working closely with our industry and government partners to ensure that our critical infrastructure remained safe, and our essential services continued without disruption.

Finance and Governance

Financial highlights

Throughout fiscal 2023, we focused on improving the Company's financial resilience while making important investments in safety and service delivery, and advancing key longer term strategic initiatives.

For the fiscal year ended August 31, 2023, the Company reported total revenue of $1,778 million, compared to $1,507 million the previous year.

Air traffic levels, as measured in weighted charging units (WCUs) — a measure of the number of billable flights, aircraft size and distance flown in Canadian airspace, which serves as the basis for movement-based service charges — have continued to trend below levels seen in the fiscal year ended August 31, 2019. In fiscal 2023, WCUs increased by 18.1% in comparison to fiscal 2022 but remained 7.3% lower than fiscal 2019.

Driven by the continued growth in revenue from customer service charges, the Rate Stabilization Account decreased from a debit balance (due from customers) of $574 million at the end of fiscal 2022 to a debit balance of $342 million at the end of fiscal 2023.

The Company had positive free cash flow of $350 million in fiscal 2023 as compared to $175 million in fiscal 2022. The increase in free cash flow in fiscal 2023 is largely attributable to higher receipts from customer service charges.

Operating expenses for fiscal 2023 were $1,493 million as compared to $1,416 million in fiscal 2022. The increase is largely due to salaries and benefit expenses from increased staffing and wage levels in fiscal 2023.

Net other income and expenses for fiscal 2023 were a net expense of $124 million as compared to a net expense of $183 million in fiscal 2022. During fiscal 2023, the Company recorded a $33 million (U.S. $25 million) non-cash reduction to the fair value of its investment in preferred interests of Aireon LLC as compared to a non-cash reduction of $82 million (U.S. $63 million) recorded in fiscal 2022. Finance income in fiscal 2023 was $28 million, as compared to $5 million in fiscal 2022, primarily due to higher interest income earned on our cash and short-term investment balances.

The Company had a net income (before net movement in regulatory deferral accounts, including rate stabilization) of $161 million in fiscal 2023 as compared to a net loss of $79 million in fiscal 2022.

Pension performance and adjustments

In fiscal 2023, our Company focused on reviewing the Pension Plan's liability hedging allocation and enhancing the risk-return profile of other asset classes. Interest rates continued to climb, causing a negative performance in our fixed income investments; however, global equities and all other asset classes delivered a positive performance during the fiscal year. Rising interest rates put downward pressure on pension liabilities, and combined with asset performance, positively impacted the financial position of the Pension Plan as a whole.

The Plan remained in a surplus position on a going-concern basis. The Plan's solvency deficit remains below the threshold that would require the Company to make special cash payments to the Plan. The Company's contribution requirements for accruing benefits are projected to grow modestly as pension costs for increasing headcount and salaries are partially offset by more employees participating in the non-contributory, defined benefit terms applicable to new hires and management employees.

Transforming key processes

NAV CANADA is in the process of transforming its program and project management processes. In support of this, we have implemented improved governance and a delivery methodology, along with a Project and Portfolio Management (PPM) platform. Releases for this innovative new tool started in October 2022, with the introduction of capacity planning and the digitizing of our Business Investment Documents (BIDs) and change-capacity capabilities.

This tool has had a significant impact on annual planning, particularly with respect to budgeting and operational shifts. The Company is now seeing capacity data for the first time, with entries and refinements still underway. The next release, in December 2023, will digitize our project status reporting and general project management activities, such as schedule, cost, decision, issue and risk management. Final capabilities will enhance financial and portfolio planning.

Corporate Governance

Board of Directors Structure and Composition

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

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

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

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

Member	Number of Directors
Government of Canada	3
Commercial Air Carriers	4
General Aviation	1
Labour Unions	2
Directors	4

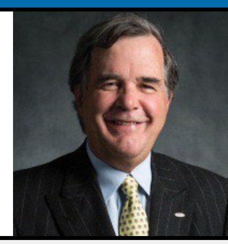
The Board discharges its responsibilities directly and through committees. The Board holds five scheduled meetings each year and unscheduled meetings are held from time to time as required.

Our By-laws disqualify from directorship any person elected to the Parliament of Canada or any provinciallegislature or territorial legislative assembly; federal, provincial or territorial government employees; and directors or employees of an entity that has a material interest as a supplier, client or customer of the ANS.

Every director and officer of the Company is required to sign and abide by our *Code of Conduct and Conflict of Interest Guidelines for Directors and Officers* (Code of Conduct).

Directors

Directors are elected for terms not exceeding three years, with terms expiring at the Company's annual meeting. No director, other than the President and CEO, may serve as a director for more than twelve years in total. Set out below is information on the current directors, including their Committee membership and meeting attendance records for fiscal 2023. Three meetings of the Human Resources & Compensation Committee and one meeting of the Corporate Governance Committee were scheduled on short notice in fiscal 2023.

<table>
<tr><th colspan="3">Marc Courtois</th></tr>
<tr><td colspan="2">Director; Chair of the Board
Québec, Canada
Elected by: Board of Directors
Director since: February 16, 2012
Current Term Expires: 2024*</td><td></td></tr>
<tr><th colspan="2">Meeting Attendance/Committee Membership</th><th>Principal Occupation Held in Last Five Years</th></tr>
<tr><td>Board
Audit & Finance Committee**
Corporate Governance Committee
Transformation Committee**
Human Resources & Compensation Committee**
Pension Committee**
Safety Committee</td><td>6/6
5/5
5/5
3/3
10/10
4/4
4/4</td><td rowspan="2">Corporate Director.</td></tr>
<tr><td colspan="2">* As of the completion of the Company's annual meeting in January 2024, Mr. Courtois will have served his 12-year maximum term on the Board.
**ex officio member.</td></tr>
</table>

Kathy Baig

Director
Québec, Canada
Elected by: Government of Canada
Director since: February 3, 2023
Current Term Expires: 2026

Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
Board	3/3	Vice President, Business Development Operations Leader, Transportation at Stantec Inc. From June 2016 to June 2022, President at Ordre des Ingénieurs du Québec.
Audit & Finance Committee	2/2	
Transformation Committee	2/2	

Edward M. Barrett

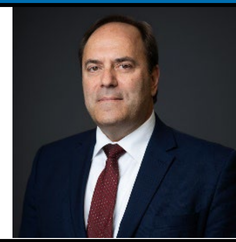
Director; Chair of the Transformation Committee
New Brunswick, Canada
Elected by: Board of Directors
Director since: February 7, 2013
Current Term Expires: 2025

Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
Board	6/6	Co-CEO and Chair of Barrett Corporation.
Audit & Finance Committee*	3/3	
Corporate Governance Committee	5/5	
Human Resources & Compensation Committee	9/10	
Transformation Committee	3/3	

** Mr. Barrett was a member of the Audit & Finance Committee until January 11, 2023.*

<table>
<tr><th colspan="3">Raymond G. Bohn</th></tr>
<tr><td colspan="2">Director
Ontario, Canada
Director since: February 1, 2021
Current Term Expires: N/A</td><td></td></tr>
<tr><th colspan="2">Meeting Attendance/Committee Membership</th><th>Principal Occupation Held in Last Five Years</th></tr>
<tr><td>Board
Pension Committee
Safety Committee</td><td>6/6
4/4
4/4</td><td>President and CEO of the Company from February 1, 2021. From September 1, 2020 to January 31, 2021, Mr. Bohn was Vice President & Chief Human Resources Officer. Mr. Bohn was Executive Vice President, Human Resources, Communications & Public Affairs from September 1, 2017 to August 31, 2020.</td></tr>
</table>

<table>
<tr><th colspan="3">Paul Brotto</th></tr>
<tr><td colspan="2">Director; Chair of the Pension Committee
Ontario, Canada
Elected by: Commercial Air Carriers
Director since: January 13, 2021*
Current Term Expires: 2024**</td><td></td></tr>
<tr><th colspan="2">Meeting Attendance/Committee Membership</th><th>Principal Occupation Held in Last Five Years</th></tr>
<tr><td>Board
Audit & Finance Committee***
Pension Committee
Transformation Committee</td><td>6/6
2/2
4/4
2/3</td><td rowspan="2">Corporate Director.</td></tr>
<tr><td colspan="2">* Mr. Brotto previously served on the Board from April 12, 2006 to January 14, 2015.
**As of the completion of the Company's annual meeting in January 2024, Mr. Brotto will have served his 12-year maximum term on the Board.
*** Mr. Brotto joined the Audit & Finance Committee on January 11, 2023.</td></tr>
</table>

Michael DiLollo	
Director; Chair of the Safety Committee Ontario, Canada Elected by: Commercial Air Carriers Director since: February 7, 2013 Current Term Expires: 2025	
Meeting Attendance/Committee Membership	**Principal Occupation Held in Last Five Years**
Board 6/6 Corporate Governance Committee 4/5 Safety Committee 4/4	Managing Director, Capital Solutions at Caisse de dépôt et placement du Québec (CDPQ). From May 2019 to May 2020, Managing Director, Specialty Finance, Fixed Income and from June 2017 to April 2019, Senior Director, Investment, Specialty Finance, Fixed Income at CDPQ.

Peter Duffey	
Director Ontario, Canada Elected by: Labour Unions Director since: January 7, 2021 Current Term Expires: 2025	
Meeting Attendance/Committee Membership	**Principal Occupation Held in Last Five Years**
Board 6/6 Pension Committee 2/2 Safety Committee 4/4 Transformation Committee 3/3	From May 2014 to June 2020, President & Chief Executive Officer of CATCA.

Bonnie DuPont		
Director; Chair of the Human Resources & Compensation Committee Alberta, Canada Elected by: Board of Directors Director since: February 7, 2013 Current Term Expires: 2025		
Meeting Attendance/Committee Membership		**Principal Occupation Held in Last Five Years**
Board	6/6	Corporate Director.
Corporate Governance Committee	5/5	
Human Resources & Compensation Committee	10/10	
Transformation Committee	3/3	

Marc Grégoire		
Director Québec, Canada Elected by: Government of Canada Director since: May 13, 2019 Current Term Expires: 2025		
Meeting Attendance/Committee Membership		**Principal Occupation Held in Last Five Years**
Board	6/6	Corporate Director.
Audit & Finance Committee*	3/3	
Human Resources & Compensation Committee	10/10	
Safety Committee*	2/2	
** Mr. Grégoire was a member of the Audit & Finance Committee until February 17, 2023 at which time he joined the Safety Committee.*		

<table>
<tr><th colspan="2">Kevin Howlett</th></tr>
<tr><td>Director
British Columbia, Canada
Elected by: Commercial Air Carriers
Director since: January 13, 2021
Current Term Expires: 2024</td><td></td></tr>
<tr><th>Meeting Attendance/Committee Membership</th><th>Principal Occupation Held in Last Five Years</th></tr>
<tr><td>Board 6/6
Human Resources & Compensation Committee 10/10
Pension Committee 4/4</td><td>Corporate Director. From May 2016 to November 1, 2018, Senior Vice President, Regional Markets and Government Relations at Air Canada.</td></tr>
</table>

<table>
<tr><th colspan="2">Davey Lewis</th></tr>
<tr><td>Director
British Columbia, Canada
Elected by: Labour Unions
Director since: January 12, 2022
Current Term Expires: 2025</td><td></td></tr>
<tr><th>Meeting Attendance/Committee Membership</th><th>Principal Occupation Held in Last Five Years</th></tr>
<tr><td>Board 6/6
Audit & Finance Committee 5/5
Corporate Governance Committee 5/5</td><td>Corporate Director.</td></tr>
</table>

Candice Li

Director; Chair of the Audit & Finance Committee
Alberta, Canada
Elected by: Commercial Air Carriers
Director since: January 13, 2021
Current Term Expires: 2024

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

Sarah Morgan-Silvester

Director
British Columbia, Canada
Elected by: Board of Directors
Director since: January 11, 2023
Current Term Expires: 2026

Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
Board	2/3*	Corporate Director.
Audit & Finance Committee	1/2*	
Human Resources & Compensation Committee	4/5*	
Pension Committee	1/2*	

**Ms. Morgan-Silvester was unbale to attend one meeting of each of the Board, the Audit & Finance Committee, the Human Resources & Compensation Committee and the Pension Committee due to previous commitments that the Board was aware of prior to her joining the Board.*

<table>
<tr><th colspan="2">Michelle Savoy</th></tr>
<tr><td>Director; Chair of the Corporate Governance Committee*
Ontario, Canada
Elected by: Government of Canada
Director since: December 15, 2015
Current Term Expires: 2024
*Ms. Savoy will succeed Marc Courtois as Chair of the Board following the Company's annual meeting in January 2024.</td><td></td></tr>
<tr><th>Meeting Attendance/Committee Membership</th><th>Principal Occupation Held in Last Five Years</th></tr>
<tr><td>Board 6/6
Corporate Governance Committee 5/5
Human Resources & Compensation Committee 8/10
Pension Committee 4/4</td><td>Corporate Director.</td></tr>
</table>

<table>
<tr><th colspan="2">David Weger</th></tr>
<tr><td>Director
Saskatchewan, Canada
Elected by: General Aviation
Director since: January 10, 2018
Current Term Expires: 2024</td><td></td></tr>
<tr><th>Meeting Attendance/Committee Membership</th><th>Principal Occupation Held in Last Five Years</th></tr>
<tr><td>Board 6/6
Audit & Finance Committee 5/5
Safety Committee 4/4</td><td>Corporate Director.</td></tr>
</table>

Gender Diversity and Board Committees

For information on gender diversity within the Company and the Board, and for descriptions of the Board's six committees, please refer to the 2023 Annual Information Form (AIF).

Director Compensation

Directors' Compensation Fiscal 2023			
Name	Fees Earned ($)	All Other Compensation[8] ($)	Total ($)
Kathy Baig[1]	60,083	-	60,083
Edward Barrett[2]	120,000	6,000	126,000
Mary-Ann Bell[3]	60,000	-	60,000
Raymond G. Bohn[4]	-	-	-
Paul Brotto	120,000	-	120,000
Marc Courtois[5]	191,888	20,000	211,888
Michael DiLollo	112,500	-	112,500
Peter Duffey	105,000	-	105,000
Bonnie DuPont	127,500	7,250	134,750
Marc Grégoire	105,000	-	105,000
Linda Hohol[6]	63,750	3,000	66,750
Kevin Howlett	105,000	7,500	112,500
Davey Lewis	105,000	7,500	112,500
Candice Li	116,250	6,000	122,500
Sarah Morgan-Silvester[7]	66,208	1,500	67,708
Michelle Savoy	120,000	1,250	121,250
David Weger	105,000	6,000	111,000

1) Ms. Baig joined the Board on February 3, 2023.

2) Mr. Barrett voluntarily waived all fees he would be entitled to receive as a member of the Corporate Governance Committee for fiscal 2023.

3) Ms. Bell retired from the Board effective February 3, 2023.

4) As President and CEO, Mr. Bohn does not receive directors' fees.

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

6) Ms. Hohol retired from the Board effective January 11, 2023.

7) Ms. Morgan-Silvester joined the Board on January 11, 2023.

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

Executive Compensation

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

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

The compensation of executive officers of the Company (Executive Officers), other than the President and CEO, is recommended by the President and CEO and reviewed and approved by the Human Resources & Compensation Committee. The compensation of the President and CEO is recommended by the Human Resources & Compensation Committee and reviewed and approved by the Board.

Base salaries for all Executive Officers, including that of the President and CEO, are designed to be competitive and are determined on the basis of outside market data as well as individual performance, responsibilities and experience level. All Executive Officers receive base salaries. Base salaries are reviewed annually by the Human Resources & Compensation Committee.

In response to the COVID-19 pandemic, the Executive Officers reduced their base salaries effective April 2, 2020. This reduction, which was approved the Human Resources & Compensation Committee, consisted of a 20% reduction to the base salary of the current President and CEO and a 5% to 17% reduction to the base salaries of each of the remaining Executive Officers (Executive Salary Reduction Program). While the Human Resources & Compensation Committee approved the discontinuance of the temporary Executive Salary Reduction Program effective January 1, 2022, there remained a gap to align salaries generally at the median of market value according to NAV

CANADA's Compensation Philosophy. The Human Resources & Compensation Committee, on advice of external independent consultants, is making progress to close this gap gradually.

Base salaries for fiscal 2023 for the five highest paid Executive Officers were as follows:

Name and Position	Annual Base Salary
Raymond G. Bohn, President and CEO	$625,000
Donna Mathieu, Vice President & Chief Financial Officer	$390,000
Mark Cooper, Vice President, Chief Technology and Information Officer	$380,000
Leigh Ann Kirby, Vice President, Chief Legal Officer and Corporate Secretary	$341,500
Diana Kelly, Vice President & Chief Human Resources Officer	$295,000

Ethical Business Conduct

The Code of Conduct is designed to govern the conduct of all directors and officers, and the disclosure and avoidance of conflicts of interest. This disclosure is updated annually, or more frequently, as required. All of the Company's directors and officers have signed a Code of Conduct and Conflict of Interest declaration. During fiscal 2023, no proceedings were taken against any director or officer by the Board under the Code of Conduct.

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

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

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

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

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

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

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

Advisory Committee

Message from the Chair of the NCAC

As the new Chair of the NAV CANADA Advisory Committee (NCAC), I am pleased to address you for the first time. Through this letter, I hope to update you on the current and future state of our committee's activities.

Current State of Affairs

As the industry continues to recover from the effects of COVID, I'm pleased to note that the NCAC recently undertook its first facilities visit since NCAC 72 in Toronto in May of 2019! NCAC members met in June 2023 for NCAC 84 in Edmonton. We had an opportunity to tour the various facilities and, importantly, to learn and observe firsthand the operational execution of NAV CANADA staff.

Meeting cadence and predictability are essential for the members of any committee. I'm pleased to report that our meeting and site tours have been set and agreed to for all NCAC 2024 activities.

Vision and Objectives

Members of the NCAC each bring a unique perspective and insight into the issues affecting NAV CANADA and the industry. Our mandate is to study, report and make recommendations to the Board on matters related to Canada's civil air navigation system. To that end, I'd like to leave you with three key themes that are relevant and impact the team at NAV CANADA.

1. Staffing and Change Management
2. Technology
3. Operational Execution

Staffing and Change Management

As we navigate the complexities of the air navigation service provider, it's imperative to focus on staffing and change management within NAV CANADA. The dynamic nature of our operations necessitates a workforce that is both skilled and adaptable. At the same time, the organization needs to ensure that employees are provided with the tools, technology and training in order to execute their mission.

The strategic direction NAV CANADA has chosen necessitates a careful review of existing procedures, technology, and ways of work for its staff members. Safe and efficient operations are the foundation of NAV CANADA's service level. Like you, NCAC members are invested in seeing that continue as the organization adapts to new technology and service delivery.

Technology

Technological advancements offer unprecedented opportunities to improve operational efficiency and safety protocols. However, integrating new technology requires meticulous planning and rigorous testing to meet the highest safety standards.

The NCAC is committed to working closely with NAV CANADA's technical teams to evaluate potential technologies, assess their impact on safety metrics, operational impacts and provide recommendations for implementation. We aim to balance innovation and safety, ensuring that NAV CANADA remains a global leader in aviation safety while embracing the benefits of technological progress.

Operational Execution

Operational excellence at NAV CANADA is increasingly being informed by data analytics and trend analysis. We can make more informed decisions that enhance safety and efficiency by leveraging real-time data and historical trends. Data analytics allow us to identify patterns in air traffic management and optimize routing. Committee members are very interested in these efforts and how they inform and impact their operations. Traffic management in the air and on the ground is central to safe and efficient operations. A theme the industry will continue to experience in the year ahead.

On behalf of my fellow NCAC committee members, I am committed to ensuring that the NCAC serves as an effective advisory body to the Board members at NAV CANADA. I look forward to your support and collaboration as we embark on this journey.

Sincerely,

(Signed) "Anthony Norejko"

Anthony Norejko

Chairman

NAV CANADA Advisory Committee

Advisory Committee 2023

Member	Nominating Association
Anthony Norejko – Chairman Canadian Business Aviation Association (CBAA)	Non-Commercial User Association
Robert Astwood – Vice Chair Manitoba Aviation Council (MAC)	Regional Aviation Associations
Heather Bell – Secretary British Columbia Aviation Council (BCAC)	Regional Aviation Associations
Chris Drossos Northern Air Transport Association (NATA)	Regional Aviation Associations
Jeff Halstrom Saskatchewan Aviation Council (SAC)	Regional Aviation Associations
Bram Tilroe Alberta Aviation Council (AAC)	Regional Aviation Associations
Kathleen Henderson Canadian Airports Council (CAC)	National Airports Association
Les Aalders Air Transport Association of Canada (ATAC)	ATAC
Andrew (Andy) Cebula Airlines for America (A4A)	Foreign Air Operators Associations
Jeff Miller International Air Transport Association (IATA)	Foreign Air Operators Associations
Capt. Rod Graham National Airlines Council of Canada (NACC)	Commercial User Association
Trevor Mitchell Helicopter Association of Canada (HAC)	National Helicopter Association
Peter Black Air Line Pilots Association (ALPA), International	Professional Pilots Association
Capt. Daniel Cadieux Air Canada Pilots Association (ACPA)	Professional Pilots Association
James (Jim) Ferrier Canadian Owners and Pilots Association (COPA)	Recreational, Non-Commercial Aviation Association
Duane Riddell Airport Management Council of Ontario (AMCO)	Regional Airports Association

Member	Nominating Association
Nick von Schoenberg Canadian Air Traffic Control Association (CATCA), Unifor Local 5454	Unions
Paul Cameron International Brotherhood of Electrical Workers (IBEW) Local 2228	Unions
Elizabeth O'Hurley Air Traffic Specialists Association of Canada (ATSAC) Unifor Local 2245	Unions
William Stewart Regional Community Airports of Canada (RCAC)	Member-at-Large

Officers and Other Information

Raymond G. Bohn
President and Chief Executive Officer

Marie-Pier Berman
Vice President and Chief of Operations

Mark Cooper
Vice President, Chief Technology and Information Officer

Diana Kelly
Vice President and Chief Human Resources Officer

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

Anthony Mackay
Vice President, Chief Safety and Quality Officer

Donna Mathieu
Vice President and Chief Financial Officer

Lyne Moreau
Vice President and Chief Strategy Officer

As of August 31, 2023.

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

Legal Counsel

Gowling WLG (Canada) LLP

Auditors

KPMG LLP

Bankers

Royal Bank of Canada

Additional Information

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

NAV CANADA
Communications
communicationsnav@navcanada.ca

General inquiries can also be made by calling 1-800-876-4693, or by email to service@navcanada.ca

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

Notice of Annual Meeting

The Annual Meeting of the Members of NAV CANADA will be held on Wednesday, January 10, 2024 at 2 p.m. (ET) in Ottawa, Ontario.

MANAGEMENT'S REPORT AND

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF NAV CANADA

AS AT AND FOR THE YEARS ENDED **AUGUST 31, 2023** AND **2022**

Serving a world in motion
navcanada.ca

NAV CANADA

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 IFRS Accounting Standards 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 Accounting Standards. 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 Auditor’s 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 Accounting Standards. The report of KPMG LLP outlines the scope of their examination and their opinion on the consolidated financial statements.

(Signed) “Raymond G. Bohn”
Raymond G. Bohn
President and Chief Executive Officer
October 19, 2023

(Signed) “Donna Mathieu”
Donna Mathieu
Vice President and Chief Financial Officer
October 19, 2023

INDEPENDENT AUDITOR'S REPORT

To the Members of NAV CANADA:

Opinion

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

- the consolidated statements of financial position as at August 31, 2023 and August 31, 2022
- the consolidated statements of operations for the years then ended
- the consolidated statements of comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at August 31, 2023 and August 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards (IFRS) as issued by the International Accounting Standards Board.

Basis for Opinion

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

We have nothing to report in this regard.

The information, other than the financial statements and the auditor's 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 auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of 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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 auditor's 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 auditor's 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 19, 2023

NAV CANADA
Consolidated Statements of Operations

Years ended August 31 (millions of Canadian dollars)	Note	2023	2022
Revenue			
Customer service charges	4	**$ 1,723**	$ 1,453
Other revenue		**55**	54
		1,778	1,507
Operating expenses			
Salaries and benefits	5	**1,037**	987
Technical services		**164**	157
Facilities and maintenance		**64**	66
Depreciation and amortization	10, 11	**144**	144
Other	15	**84**	62
		1,493	1,416
Other (income) and expenses			
Finance income	6	**(28)**	(5)
Net interest expense relating to employee benefits	14	**40**	36
Other finance costs	6	**119**	166
Other		**(7)**	(14)
		124	183
Net income (loss), before income tax and net movement in regulatory deferral accounts		**161**	(92)
Income tax recovery		**-**	(13)
Net income (loss), before net movement in regulatory deferral accounts		**161**	(79)
Net movement in regulatory deferral accounts related to net income (loss), net of tax	7	**(161)**	79
Net income (loss), after net movement in regulatory deferral accounts	1	**$ -**	$ -

See accompanying notes to consolidated financial statements.

NAV CANADA
Consolidated Statements of Comprehensive Income (Loss)

Years ended August 31 (millions of Canadian dollars)	Note	2023	2022
Net income (loss), after net movement in regulatory deferral accounts		**$ -**	$ -
Other comprehensive income (loss)			
Items that will not be reclassified to income or (loss)			
Re-measurements of employee defined benefit plans	14	**208**	466
Net movement in regulatory deferral accounts related to other comprehensive income (loss)	7	**(208)**	(466)
		-	-
Items that will be reclassified to income or (loss)			
Amortization of net losses on cash flow hedges		**2**	1
Change in fair value of cash flow hedges		**(1)**	2
Net movement in regulatory deferral accounts related to other comprehensive income (loss)	7	**(1)**	(3)
		-	-
Total other comprehensive income (loss)		**-**	-
Total comprehensive income (loss)	1	**$ -**	$ -

See accompanying notes to consolidated financial statements.

NAV CANADA
Consolidated Statements of Financial Position

As at August 31 (millions of Canadian dollars)	Note	2023	2022
Assets			
Current assets			
Cash and cash equivalents		**$ 586**	$ 392
Accounts receivable and other	8	**153**	141
Investments	9	**176**	154
Other		**15**	10
		930	697
Non-current assets			
Property, plant and equipment	10	**736**	729
Intangible assets	11	**702**	743
Investment in preferred interests	12	**203**	229
Long-term receivables	8	**50**	75
Employee benefits	14	**4**	-
		1,695	1,776
Total assets		**2,625**	2,473
Regulatory deferral account debit balances	7	**1,213**	1,341
Total assets and regulatory deferral account debit balances		**$ 3,838**	$ 3,814

See accompanying notes to consolidated financial statements.

NAV CANADA
Consolidated Statements of Financial Position

As at August 31 (millions of Canadian dollars)	Note	2023	2022
Liabilities			
Current liabilities			
Trade and other payables		**$ 269**	$ 213
Current portion of long-term debt	13	**201**	25
Deferred revenue		**3**	3
Other		**7**	7
		480	248
Non-current liabilities			
Long-term debt	13	**2,153**	2,463
Employee benefits	14	**760**	910
Lease liability	17	**36**	37
Other	15	**20**	9
		2,969	3,419
Total liabilities		**3,449**	3,667
Equity			
Retained earnings		**28**	28
Total equity		**28**	28
Total liabilities and equity		**3,477**	3,695
Regulatory deferral account credit balances	7	**361**	119
Commitments and contingencies	17, 18		
Total liabilities, equity and regulatory deferral account credit balances		**$ 3,838**	$ 3,814

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(Signed) "Marc Courtois"
Marc Courtois, Director

(Signed) "Candice Li"
Candice Li, Director

NAV CANADA
Consolidated Statements of Changes in Equity

(millions of Canadian dollars)	Retained earnings	Accumulated other comprehensive income	Total
Balance August 31, 2021	$ 28	$ -	$ 28
Net income (loss), after net movement in regulatory deferral accounts	-	-	-
Other comprehensive income (loss)	-	-	-
Balance August 31, 2022	$ 28	$ -	$ 28
Balance August 31, 2022	**$ 28**	**$ -**	**$ 28**
Net income (loss), after net movement in regulatory deferral accounts	**-**	**-**	**-**
Other comprehensive income (loss)	**-**	**-**	**-**
Balance August 31, 2023	**$ 28**	**$ -**	**$ 28**

See accompanying notes to consolidated financial statements.

NAV CANADA
Consolidated Statements of Cash Flows

Years ended August 31 (millions of Canadian dollars)	Note	2023	2022
Cash flows from (used in)			
Operating			
Receipts from customer service charges		**$ 1,776**	$ 1,465
Other receipts		**63**	52
Government grants received		**2**	4
Payments to employees and suppliers		**(1,212)**	(1,068)
Pension contributions - current service	14	**(79)**	(98)
Other post-employment payments		**(8)**	(8)
Interest payments		**(80)**	(84)
Interest receipts		**23**	4
		485	267
Investing			
Capital expenditures		**(128)**	(119)
Investment in regulatory assets		**(10)**	(8)
Proceeds from sale of property, plant and equipment	10	**-**	30
Government grants received		**6**	-
Proceeds from sale of investment in equity-accounted investee		**-**	7
Net loan repayment from related party		**-**	3
Purchase of short-term investments		**(19)**	(79)
		(151)	(166)
Financing			
Repayment of long-term debt	13	**(16)**	(25)
Repurchase of long-term debt	13	**(125)**	-
Payment of lease liabilities		**(3)**	(2)
		(144)	(27)
Cash flows from operating, investing and financing activities		**190**	74
Effect of foreign exchange on cash and cash equivalents		**4**	(1)
Increase in cash and cash equivalents		**194**	73
Cash and cash equivalents at beginning of year		**392**	319
Cash and cash equivalents at end of year		**$ 586**	$ 392

See accompanying notes to consolidated financial statements.

1. General information

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

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

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

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

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

2. Basis of presentation

(a) Statement of compliance

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

These financial statements include the accounts of all NAV CANADA subsidiaries and were authorized for issue by the Board on October 19, 2023.

(b) Basis of measurement

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

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

(c) Functional and reporting currency

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

2. Basis of presentation (continued)

(d) Critical accounting estimates and judgments

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

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

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

(i) Key sources of estimates and assumption uncertainties

- Fair value of investment in preferred interests

  The Company's investment in preferred interests in Aireon LLC (Aireon) represents a financial asset designated as FVTPL. Aireon is a privately owned entity with a few historic transactions with interest holders and is therefore, an illiquid, unquoted investment with no readily available market price. Therefore, the calculation of fair value involves the use of significant assumptions and estimates with respect to a variety of factors including the selection of an appropriate discount rate and the timing of the dividend payment assumption used in the valuation approach as described in note 12. The assumptions are based on Aireon's most recent Long-Term Operating Plan (LTOP), the Company's assessment of that plan and a discount rate based on the Capital Asset Pricing Model, using the best information available as of August 31, 2023. There can be no assurance that the estimates and assumptions used in the fair value determination will prove to be accurate predictions of the future and management may be required to record material adjustments to fair value.

- Employee benefits

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

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

(e) New standards, amendments and interpretations adopted

There have been no new standards, amendments or interpretations adopted by the Company effective September 1, 2022.

(f) Future accounting pronouncements

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

2. Basis of presentation (continued)

(f) Future accounting pronouncements (continued)

The amendments described below are applicable for reporting periods beginning on or after January 1, 2024. The extent of the impact of these amendments on the Company has not yet been determined.

IAS 1 Non-current Liabilities with Covenants

In October 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1). The amendments improve the information an entity provides when its right to defer settlement of a liability for at least twelve months is subject to compliance with covenants. The amendments also respond to stakeholders' concerns about the classification of such a liability as current or non-current.

IAS 7 and IFRS 7 Supplier Finance Arrangements

In May 2023, the IASB issued Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7). The amendments require an entity to provide additional disclosures about its supplier finance arrangements to provide users of financial statements with information to enable them to assess how supplier finance arrangements affect an entity's liabilities and cash flows, and to understand the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.

3. Significant accounting policies

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

(a) Basis of consolidation

(i) Subsidiaries

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

The financial statements of the Company include the following subsidiaries:

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

(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.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

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

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

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

As discussed in note 12, the Company is party to an arrangement with Iridium Communications Inc. (Iridium) and four major air navigation service providers (ANSPs), NATS (United Kingdom), ENAV (Italy), the Irish Aviation Authority (IAA) and Naviair (Denmark) (collectively, the additional investors) which allows the Company to exert significant influence over the strategic financial and operating activities of Aireon. The Company's investment in Aireon is held through NAV CANADA Satellite, Inc. This arrangement is an investment in an associate and the Company will have a right to the net assets of Aireon upon exercising its right to convert its preferred interests to common interests. As at August 31, 2023, the Company's share of Aireon's net assets is $nil and therefore the Company's share of Aireon's net income (loss) and OCI is $nil. Until the Company exercises its right to convert its preferred interests to common interests, it does not have access to Aireon's net assets and accordingly this investment is accounted for as a financial instrument.

(b) Foreign currency

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

(c) Financial instruments

(i) Recognition

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

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

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Classification

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

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

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

(ii) Measurement

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

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

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

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

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

(iii) Impairment

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

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Derivatives and hedge accounting

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

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

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

Cash flow hedges

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

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

3. Significant accounting policies (continued)

(d) Employee benefits

(i) Defined benefit plans

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

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

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

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

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

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

(ii) Other long-term employee benefits

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

3. Significant accounting policies (continued)

(d) Employee benefits (continued)

(iii) Termination benefits

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

(iv) Short-term employee benefits

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

(e) Property, plant and equipment

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

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

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

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

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

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

3. Significant accounting policies (continued)

(e) Property, plant and equipment (continued)

Other contributions to property, plant and equipment

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

(f) Intangible assets

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

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

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

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

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

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

Intangible assets under development are not amortized.

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

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

3. Significant accounting policies (continued)

(g) Impairment of non-financial assets

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

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

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

(h) Borrowing costs

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

(i) Provisions

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

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

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

3. Significant accounting policies (continued)

(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 Accounting Standards and remains in force until either repealed or replaced by permanent guidance on rate-regulated accounting. The Company recognized regulatory deferral account balances in its Canadian GAAP financial statements prior to adopting IFRS Accounting Standards and elected to early adopt this standard as of September 1, 2014 when it adopted IFRS Accounting Standards.

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

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

(k) Revenue

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

(i) Customer service charges

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

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

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

3. Significant accounting policies (continued)

(k) Revenue (continued)

(ii) Service and development contracts

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

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

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

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

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

Contract balances

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

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

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

(l) Leases

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

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

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

3. Significant accounting policies (continued)

(l) Leases (continued)

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

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

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

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

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

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

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

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

(m) Finance income and other finance costs

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

Other finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at FVTPL, interest expense on leases and impairment losses recognized on financial assets. Interest expense on borrowings, net of capitalized borrowing costs, is recognized in net income (loss) as it accrues, using the effective interest method.

(n) Income taxes

(i) Current taxes

NAV CANADA is exempt from Canadian 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 branches in other jurisdictions are subject to taxation.

(ii) Deferred taxes

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

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

3. Significant accounting policies (continued)

(n) Income taxes (continued)

(ii) Deferred taxes (continued)

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

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

(o) Segmented reporting

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

4. Revenue

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

Years ended August 31	2023	2022
Enroute [1]	**$ 856**	$ 739
Terminal [2]	**687**	562
Daily / annual / quarterly [3]	**60**	53
North Atlantic and international communication [4]	**120**	99
	$ 1,723	$ 1,453

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

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

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

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

In each of the year ended August 31, 2023 (fiscal 2023) and the year ended August 31, 2022 (fiscal 2022), the Company has two customers each of which represents more than 10% of revenue. For fiscal 2023, revenue from the largest customer was $396 (fiscal 2022 - $333) and revenue from the second largest customer was $198 (fiscal 2022 - $156), together representing 33% (fiscal 2022 – 32%) of the revenue of the Company. The revenue from these two major customers arose from air navigation services.

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

4. Revenue (continued)

Other revenue for fiscal 2023 consists primarily of service and development contracts revenue of $52 (fiscal 2022 - $43), including reimbursement of maintenance work provided in previous years.

Subsequent to August 31, 2023, the Company announced a proposed revision of its customer service charges effective January 1, 2024, decreasing overall service charges by an average of 5.57%.

5. Salaries and benefits

Salaries and benefits expenses were comprised of the following:

Years ended August 31		2023		2022
Salaries and other	**$**	**872**	$	759
Government grant		**-**		(4)
Fringe benefits (excluding pension)		**83**		77
Pension current service cost		**114**		183
Less: capitalized salaries and benefits		**(32)**		(28)
	$	**1,037**	$	987

6. Finance income and other finance costs

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

Years ended August 31		2023		2022
Finance income				
Interest income on financial assets at amortized cost	**$**	**(27)**	$	(5)
Net change in fair value of financial assets at FVTPL [1]		**(1)**		-
	$	**(28)**	$	(5)
Other finance costs				
Net change in fair value of financial assets at FVTPL [1]	**$**	**33**	$	82
Interest expense on financial liabilities at amortized cost		**88**		86
Less: Capitalized borrowing costs		**(2)**		(2)
	$	**119**	$	166

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

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

7. Financial statement impact of regulatory accounting

(a) Regulatory deferral accounts

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

As at August 31	2022	Deferral	Recovery/ reversal	2023	Note
Rate stabilization account (b)	$ 574	$ -	$ (232)	**$ 342**	1)
Employee pension benefits:					
Pension contributions (d)	624	55	-	**679**	2)
Other pension benefits:					
Accumulating sick leave (c)	16	-	-	**16**	3)
Supplemental pension re-measurements	-	60	(5)	**55**	4), 5)
Long-term disability contributions	6	-	(6)	**-**	6)
Realized hedging transaction	65	-	(2)	**63**	7)
Leases	-	1	-	**1**	8)
Decommissioning liability	1	-	-	**1**	9)
Allowance for expected credit losses	9	-	(4)	**5**	10)
Cloud computing arrangements	46	11	(6)	**51**	11)
Debit balances	$ 1,341	$ 127	$ (255)	**$ 1,213**	
Derivatives	$ (2)	$ 1	$ -	**$ (1)**	7)
Employee pension benefits:					
Pension re-measurements (d)	(2)	(267)	-	**(269)**	2), 4)
Other pension benefits:					
Accumulating sick leave (c)	(3)	4	(1)	**-**	3)
Other post-employment benefits re-measurements	(45)	(1)	(3)	**(49)**	4), 5)
Supplemental pension re-measurements	(3)	-	3	**-**	4), 5)
Long-term disability contributions	-	(4)	-	**(4)**	6)
Change in the fair value of the investment in preferred interests	(64)	26	-	**(38)**	12)
Credit balances	$ (119)	$ (241)	$ (1)	**$ (361)**	

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

7. Financial statement impact of regulatory accounting (continued)

(a) Regulatory deferral accounts (continued)

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

7. Financial statement impact of regulatory accounting (continued)

(a) Regulatory deferral accounts (continued)

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

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

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

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

4) The net movement in regulatory deferral accounts related to OCI due to re-measurements of employee defined benefit plans for fiscal 2023 consists of pension re-measurement gains of $267, supplemental pension re-measurement losses of $60 and other post-employment benefits re-measurement gains of $1.

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

7) Cash flow hedges are considered for rate setting in the same period as the underlying hedged transaction. Fair value changes on foreign exchange forward contracts are considered for rate setting in the period that they are realized.

   The net movement in regulatory deferral accounts related to OCI due to changes in fair value of cash flow hedges for fiscal 2023 of $1 is comprised of $2 related to the amortization of losses on realized hedging transactions to net income (loss) offset by $1 to defer negative fair value adjustments related to derivatives designated as cash flow hedges.

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

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

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

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

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

7. Financial statement impact of regulatory accounting (continued)

(a) Regulatory deferral accounts (continued)

12) The Company is deferring the impact of non-cash changes related to the Company's investment in Aireon. The regulatory deferrals are considered for rate setting when they are realized in cash.

13) The unrealized gain on the Company's previously-held 50% interest in Searidge Technologies Inc. (Searidge), as well as its share of Searidge's net assets, was considered for rate setting when realized in cash net of tax upon sale of the Company's investment in fiscal 2022.

The cumulative difference between total regulatory debit balances and total regulatory credit balances is reflected in equity at each reporting date. The Company does not use a rate of return to reflect the time value of money for any of its regulatory deferral account balances.

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

Years ended August 31	2023	2022
Revenue	**$ 1,778**	$ 1,507
Operating expenses	**1,493**	1,416
Other (income) and expenses	**124**	183
Income tax recovery	**-**	(13)
Net income (loss), before net movement in regulatory deferral accounts	**161**	(79)
Rate stabilization adjustments (b)	**(232)**	(82)
Other regulatory deferral account adjustments:		
Employee benefit pension contributions	**55**	106
Other employee benefits	**(12)**	(7)
Investment in preferred interests, before tax	**26**	70
Investment in equity-accounted investee	**-**	4
Income tax	**-**	(12)
Other	**2**	-
	71	161
Net movement in regulatory deferral accounts	**(161)**	79
Net income (loss), after net movement in regulatory deferral accounts	**$ -**	$ -

(b) Rate stabilization account

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

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

7. Financial statement impact of regulatory accounting (continued)

(b) Rate stabilization account (continued)

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

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

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

Years ended August 31	2023	2022
Debit balance, beginning of period	**$ (574)**	$ (656)
Variances from planned results:		
Revenue higher than planned	**106**	190
Operating expenses lower (higher) than planned	**13**	(38)
Other (income) and expenses higher than planned	**(38)**	(53)
Net movement in other regulatory deferral accounts	**22**	68
Total variances from planned results	**103**	167
Initial approved adjustment [1]	**129**	(85)
Net movement recorded in net income (loss)	**232**	82
Debit balance, end of period	**$ (342)**	$ (574)

[1] In order to achieve breakeven results of operations after the application of rate regulated accounting, the Board approved the fiscal 2023 budget with a decrease to the debit position of the rate stabilization account as a result of a planned excess of $129 (fiscal 2022 - planned shortfall of $85), which was reflected in the rate stabilization account evenly throughout the fiscal year.

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

As at August 31	2023	2022
Non-vesting accumulating sick leave	**$ 16**	$ 16
Vested accumulating sick leave	**-**	(3)
Total accumulating sick leave	**$ 16**	$ 13

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

7. Financial statement impact of regulatory accounting (continued)

(d) Pension contributions

Included in regulatory deferral account debit balances as at August 31, 2023 is $679 which relates to the recovery of pension contributions through customer service charges (August 31, 2022 - $624). After regulatory accounting, the pension benefit liability on the statement of financial position is:

		August 31 2023		August 31 2022
Pension benefit liability	**$**	**(376)**	$	(588)
Less:				
Regulatory deferrals of non-cash adjustments		**(269)**		(2)
Benefit contributions less than benefit expense		**(645)**		(590)
Regulatory debit balance - recovery of contributions		**679**		624
Regulatory expense cumulatively less than contributions	**$**	**34**	$	34

The Company uses a regulatory approach to determine the net charge to net income (loss) for pension benefit costs for its funded plan. The objective of this approach is to reflect the cash cost of the funded pension plan in net income (loss) by recording an adjustment to the related regulatory deferral account. These regulatory adjustments are the difference between the pension benefit costs as determined by IAS 19 *Employee Benefits* and the annual going concern cash cost of the plan. Included in the regulatory deferral related to pension contributions of $679, is the recovery of $10 of solvency deficiency contributions of $44 paid in the fiscal year ended August 31, 2017. The remaining balance of $34 is expected to be recovered through customer service charges. The funding of employee pension benefits as compared to the expense, net of regulatory adjustments, recorded in the consolidated statements of operations is summarized below.

Years ended August 31		2023		2022
Consolidated statements of operations				
Pension current service expense [(1)]	**$**	**113**	$	181
Net interest expense [(1)]		**25**		25
Less: Regulatory deferrals		**(55)**		(106)
	$	**83**	$	100
Company cash pension contributions				
Going concern current service - cash payment	**$**	**77**	$	97
Going concern current service - accrued		**6**		3
	$	**83**	$	100

(1) For fiscal 2023, pension current service expense does not include $1 related to the Company's unfunded pension plan (fiscal 2022 - $2) and net interest expense does not include $5 related to the Company's unfunded pension plan (fiscal 2022 - $4).

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

8. Receivables

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

As at August 31	2023	2022
Trade receivables	**$ 112**	$ 102
Accrued receivables and unbilled work in progress	**39**	39
Commodity taxes receivable	**4**	4
Allowance for expected credit losses [1]	**(2)**	(4)
	$ 153	$ 141
Long-term receivables	**54**	82
Allowance for expected credit losses [1]	**(4)**	(7)
	$ 50	$ **75**

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

9. Current investments

Current investments were comprised of the following:

As at August 31	2023	2022
Short-term investments [1]	**$ 99**	$ 80
Debt service reserve fund [2]	**77**	74
	$ 176	$ 154

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

(2) Pursuant to the Master Trust Indenture (MTI) (note 13), the Company is required to establish and maintain certain reserve funds.

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

10. Property, plant and equipment

Property, plant and equipment are comprised of the following:

	Land and buildings [1]	Systems and equipment	Assets under development [2]	Total
Cost				
Balance at August 31, 2021	$ 341	$ 815	$ 122	$ 1,278
Additions	36	-	87	123
Disposals	(33)	(15)	(5)	(53)
Transfers [3]	79	(29)	(50)	-
Balance at August 31, 2022	$ 423	$ 771	$ 154	$ 1,348
Balance at August 31, 2022	$ 423	$ 771	$ 154	$ 1,348
Additions	-	-	89	89
Disposals	-	(1)	-	(1)
Transfers	38	45	(83)	-
Balance at August 31, 2023	**$ 461**	**$ 815**	**$ 160**	**$ 1,436**
Accumulated depreciation				
Balance at August 31, 2021	$ 113	$ 448	$ -	$ 561
Depreciation	22	59	-	81
Disposals	(11)	(12)	-	(23)
Balance at August 31, 2022	$ 124	$ 495	$ -	$ 619
Balance at August 31, 2022	$ 124	$ 495	$ -	$ 619
Depreciation	22	60	-	82
Disposals	-	(1)	-	(1)
Balance at August 31, 2023	**$ 146**	**$ 554**	**$ -**	**$ 700**
Carrying amounts				
At August 31, 2022	$ 299	$ 276	$ 154	$ 729
At August 31, 2023	**$ 315**	**$ 261**	**$ 160**	**$ 736**

(1) Included in Land and buildings are right-of-use assets related to the Company's head office leases. During fiscal 2022, the Company commenced the lease for its new head office. Depreciation of $2 was recognized during fiscal 2023 (fiscal 2022 - $3). The carrying amount as at August 31, 2023 is $34 (August 31, 2022 - $36).

(2) Additions to assets under development are shown net of $5 (August 31, 2022 - $nil) related to government funding under the National Trade Corridors Fund (NTCF).

(3) Transfers represent an estimate of the allocation of assets available for use but not yet transferred from assets under development. During fiscal 2022, the Company adjusted the allocation of prior year transfers to reflect the nature of the related projects.

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

11. Intangible assets

Intangible assets are comprised of the following:

	Air navigation right	Purchased software	Internally developed software	Assets under development [(1)]	Total
Cost					
Balance at August 31, 2021	$ 702	$ 170	$ 285	$ 31	$ 1,188
Additions	-	-	-	32	32
Disposals	-	(1)	(6)	(1)	(8)
Transfers	-	12	14	(26)	-
Balance at August 31, 2022	$ 702	$ 181	$ 293	$ 36	$ 1,212
Balance at August 31, 2022	$ 702	$ 181	$ 293	$ 36	$ 1,212
Additions	-	-	-	30	30
Disposals	-	(1)	-	-	(1)
Derecognition	-	-	-	(9)	(9)
Transfers	-	8	9	(17)	-
Balance at August 31, 2023	**$ 702**	**$ 188**	**$ 302**	**$ 40**	**$ 1,232**
Accumulated amortization					
Balance at August 31, 2021	$ 175	$ 106	$ 131	$ -	$ 412
Amortization	25	11	27	-	63
Disposals	-	(1)	(5)	-	(6)
Balance at August 31, 2022	$ 200	$ 116	$ 153	$ -	$ 469
Balance at August 31, 2022	$ 200	$ 116	$ 153	$ -	$ 469
Amortization	26	10	26	-	62
Disposals	-	(1)	-	-	(1)
Balance at August 31, 2023	**$ 226**	**$ 125**	**$ 179**	**$ -**	**$ 530**
Carrying amounts					
At August 31, 2022	$ 502	$ 65	$ 140	$ 36	$ 743
At August 31, 2023	**$ 476**	**$ 63**	**$ 123**	**$ 40**	**$ 702**

(1) Additions to assets under development are shown net of $8 (August 31, 2022 - $2) related to government funding under the NTCF.

12. Investment in preferred interests of Aireon

Aireon's mandate is to provide global satellite-based surveillance capability for ANSPs around the world through Automatic Dependent Surveillance-Broadcast (ADS-B) receivers built as an additional payload on the Iridium NEXT satellite constellation. Aireon commenced operations on March 27, 2019.

The Company's investment in preferred interests of Aireon provides for a 5% annual cumulative dividend (except for the $54 CDN ($40 U.S.) second stage investment that provides for a 10% annual cumulative dividend), calculated from the date of issuance. As at August 31, 2023, the Company's cash investment in Aireon is $150 U.S. (August 31, 2022 - $150 U.S.).

According to the agreement under which the Company's participation in Aireon is governed (the Aireon Agreement), the preferred interests and any unpaid dividends are redeemable for cash in three annual instalments beginning in January 2027 in the event the preferred interests have not been converted to common equity or redeemed by that time.

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

In June 2022, the Aireon Agreement was amended to provide for an additional investment in preferred interests of $68 CDN ($50 U.S.) by Iridium, in addition to Iridium's existing investment in common equity interests. As a result, the Company's fully diluted common equity interest on a post-conversion basis is 35.0% (August 31, 2022 - 35.0%).

In accordance with the Aireon Agreement, a portion of Iridium's common equity interest in Aireon will be redeemed for a payment from Aireon of $162 CDN ($120 U.S.) to finalize the ownership interests of all of Aireon's investors. Upon this redemption and the related conversion of all preferred interests into common equity interests, in accordance with the provisions contained in the Aireon Agreement, NAV CANADA would hold 42.2% of the fully diluted common equity interests of Aireon (August 31, 2022 - 42.2%).

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

With a non-active market, the inputs used are consistent with Level 3 of the fair value hierarchy.

As at August 31, 2023, the Company measured the fair value of its investment in preferred interests of Aireon at $203 CDN ($150 U.S.) (August 31, 2022 - $229 CDN ($175 U.S.)). The fair value was determined using a discounted cash flow model, where the model considers the present value of expected future after-tax dividend payments from Aireon, discounted using a risk-adjusted discount rate.

The assumptions and estimates used when determining the fair value are:

- A discount rate of 16.7% and a growth rate of 1.9%; and
- Future dividend projections based on Aireon management's current LTOP for fiscal year ending December 31, 2023 to fiscal year ending December 31, 2034. The Company adjusted the LTOP for changes in new core business contracts and debt refinancing assumptions.

The nature of Aireon's business makes its LTOP sensitive to the achievement of management's revenue growth forecast, the risk of which is reflected in the discount rate critical assumption. A 1% increase in the discount rate would result in a $23 CDN decrease in fair value and a 1% reduction in the discount rate would result in a $27 CDN increase in fair value.

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

12. Investment in preferred interests of Aireon (continued)

The Company's deferred tax assets and liabilities relate to its investment in Aireon held in one of the Company's wholly owned subsidiaries. Aireon is a limited liability company that is headquartered in the United States and is treated as a partnership for U.S. federal income tax purposes, and therefore is generally not subject to income taxes directly. Rather, the Company, Iridium and the additional investors are each allocated a portion of Aireon's taxable income (loss) based on their respective tax basis interests in Aireon's income or loss under U.S. tax regulations.

The Company has deferred tax liabilities amounting to $40 CDN (August 31, 2022 - $56 CDN) primarily related to the Company's investment in Aireon, recorded at fair value. The Company has deferred tax assets amounting to $62 CDN (August 31, 2022 - $66 CDN) for net operating losses, denied interest deductions and research and development expenses carried forward that have been allocated to the Company's subsidiary.

As at August 31, 2023, the net deferred tax asset of $22 CDN, related to net operating losses carried forward, has not been recognized in the statement of financial position based on management's assessment that it is not probable that the deferred tax asset will be utilized against future taxable income (August 31, 2022 - $10 CDN). The gross amount of unrecognized net operating losses carried forward is $88 CDN (August 31, 2022 - $42 CDN). The losses can be carried forward indefinitely.

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

As at August 31	2023	2022
Investment in preferred interests	$ **203**	$ 229
Financial position impact before regulatory accounting	**203**	229
Regulatory deferral account debit (credit) balances		
Cumulative change in fair value of the investment in preferred interests	**(38)**	(64)
	(38)	(64)
Net financial position impact after regulatory accounting	$ **165**	$ 165

After regulatory accounting, the Company's investment in preferred interests of Aireon on the statement of financial position reflects the actual amounts paid by the Company (at the exchange rates prevailing on the dates of the transactions). The use of regulatory deferral accounts defers the accounting recognition of transactions related to the Company's investment in Aireon on the Company's consolidated statements of operations. As a result, there is no net impact on the Company's consolidated statements of operations for the year ended August 31, 2023 related to the Company's investment in Aireon. These amounts are not considered for rate setting purposes until realized in cash.

Aireon's fiscal year end is December 31. IAS 28 *Investments in Associates and Joint Ventures* limits the difference between the end of the reporting period of an associate or joint venture and that of the investor to no more than three months and requires adjustment to the results for any significant transactions that occur during the intervening period. The Company has chosen a two-month lag period and therefore the August 31, 2023 and August 31, 2022 information presented below is based on Aireon's financial position and financial performance as at June 30, 2023 and June 30, 2022, respectively. All amounts are translated from U.S. dollars.

No significant transactions occurred during the intervening periods that were necessary to adjust for in Aireon's financial information presented as at and for the year ended August 31, 2023.

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

12. Investment in preferred interests of Aireon (continued)

As at August 31		2023		2022
Current assets				
Cash and cash equivalents	**$**	**21**	$	108
Other current assets		**26**		22
Non-current assets				
Property, plant and equipment		**383**		417
Restricted cash		**82**		22
Other non-current assets		**49**		48
	$	**561**	$	617
Current liabilities				
Trade and other payables	**$**	**(15)**	$	(9)
Deferred revenue		**(2)**		(2)
Non-current liabilities				
Financial liabilities		**(1,292)**		(1,241)
	$	**(1,309)**	$	(1,252)
Net assets	**$**	**(748)**	$	(635)

Years ended August 31		2023		2022
Revenue	**$**	**146**	$	129
Interest expense	**$**	**121**	$	88
Depreciation	**$**	**54**	$	51
Net loss	**$**	**(87)**	$	(85)
Other comprehensive income		**(26)**		(21)
Total comprehensive loss	**$**	**(113)**	$	(106)

13. Long-term debt

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

13. Long-term debt (continued)

(a) Security

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

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

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

The GOI is unsecured but provides a set of positive and negative covenants similar to those of the MTI. In addition, under the terms of the GOI, no further indebtedness may be incurred under the MTI; furthermore, the amount of the Company's $850 syndicated bank credit facility (note 16(c)) that is secured under the MTI is limited to the declining amount of outstanding bonds issued under the MTI. As at August 31, 2023, this amount is $270. The remaining $580 of the $850 credit facility ranks pari passu to the borrowings under the GOI and will increase by $16 on March 1 of each year to offset the decline in the amount secured under the MTI.

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

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

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

13. Long-term debt (continued)

(b) Debt

On November 29, 2022, the Company repurchased $119 of its revenue bonds and certain General Obligation Notes. Specifically, the following notional amounts were repurchased: $43 of the Series 96-3 revenue bonds, $46 of the Series 97-2 amortizing revenue bonds, $15 of the Series 2021-1 General Obligation Notes, and $15 of the Series 2021-2 General Obligation Notes.

The Company paid a net premium of $6 related to the partial repurchase in advance of the maturity dates. This premium of $6 is reflected in other finance costs for fiscal 2023.

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

	August 31 2023	August 31 2022
Bonds and notes payable [(1)]		
Issued under the Master Trust Indenture:		
7.40% revenue bonds,		
series 96-3, maturing June 1, 2027	**$ 207**	$ 250
7.56% amortizing revenue bonds,		
series 97-2, maturing March 1, 2027	**63**	125
	270	375
Issued under the General Obligation Indenture:		
0.937% general obligation notes,		
series 2021-1, maturing February 9, 2026	**285**	300
0.555% general obligation notes,		
series 2021-2, maturing February 9, 2024	**185**	200
2.924% general obligation notes,		
series 2020-1, maturing September 29, 2051	**550**	550
2.063% general obligation notes,		
series 2020-2, maturing May 29, 2030	**300**	300
3.209% general obligation notes,		
series MTN 2019-1, maturing September 29, 2050	**250**	250
3.293% general obligation notes,		
series MTN 2018-1, maturing March 30, 2048	**275**	275
3.534% general obligation notes,		
series MTN 2016-1, maturing February 23, 2046	**250**	250
	2,095	2,125
Total bonds and notes payable	**2,365**	2,500
Adjusted for deferred financing costs and discounts	**(11)**	(12)
Carrying value of total bonds and notes payable	**2,354**	2,488
Less: current portion of long-term debt [(2)]	**(201)**	(25)
Total long-term debt	**$ 2,153**	$ 2,463

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

13. Long-term debt (continued)

(b) Debt (continued)

(1) 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.

(2) The current portion of long-term debt relates to the $185 Series 2021-2 General Obligation Notes, that mature on February 9, 2024 and the annual amortization payment of $16 for the Series 97-2 amortizing revenue bonds.

The Series 97-2 bonds are amortizing bonds repayable in annual instalments of $16 principal on March 1 of each year until maturity on March 1, 2027.

The Company is in compliance with all covenants of the MTI and GOI as at August 31, 2023.

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

14. Employee benefits

The Company maintains defined benefit plans that provide pension and other post-employment benefits to employees. Long-term employee benefit plans provide accumulating sick leave benefits (vested and non-vesting), LTD benefits and long-term executive incentive plan benefits. Registered pension plan (other than the supplemental pension plan) and LTD benefits are funded. The supplemental pension plan is unfunded though, effective April 2023, partially secured through a letter of credit facility. Other post-employment benefits and other long-term employee benefits are not funded. The Company has recorded net defined pension and other post-employment benefits expenses as follows:

	Pension benefit plans		Other benefit plans	
Years ended August 31	**2023**	**2022**	**2023**	**2022**
Statement of operations				
Current service costs	**$ 114**	$ 183	**$ 4**	$ 6
Interest cost	**324**	254	**8**	6
Interest income on plan assets	**(294)**	(225)	**-**	-
Total expense	**$ 144**	$ 212	**$ 12**	$ 12
Statement of other comprehensive income (loss)				
Re-measurements:				
Return on plan assets, excluding interest income	**$ 5**	$ 1,211	**$ -**	$ -
Actuarial gains	**(212)**	(1,623)	**(1)**	(54)
Total net income recognized in other comprehensive income (loss)	**$ (207)**	$ (412)	**$ (1)**	$ (54)

Net interest costs relating to employee benefits of $40 for fiscal 2023 (fiscal 2022 - $36) 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 2022 - $1) of interest costs related to long-term sick leave benefits.

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

14. Employee benefits (continued)

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

As at August 31	2023	2022
Recognized asset for long-term disability benefits	**$ 4**	$ -

As at August 31	2023	2022
Present value of funded defined benefit obligations	**$ (6,710)**	$ (6,781)
Fair value of plan assets	**6,334**	6,193
Liability for funded defined benefit obligations	**(376)**	(588)
Liability for unfunded pension defined benefit obligations	**(160)**	(99)
Liability for unfunded other defined benefit obligations	**(178)**	(175)
Recognized liability for defined benefit plans	**(714)**	(862)
Long-term employee benefit liabilities	**(46)**	(48)
Total long-term employee benefit liabilities	**$ (760)**	$ (910)

The most recent actuarial funding valuations were carried out as at January 1, 2023.

The Company has determined that the present value of reductions in future contributions is not lower than the balance of the total fair value of the plan assets plus any minimum funding requirement in respect of past service less the total present value of obligations. As such, no increase in the defined benefit liability is necessary as at August 31, 2023 and August 31, 2022. This determination was made in accordance with:

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

(a) Characteristics of defined benefit plans

The Company has established and maintains defined benefit pension plans for its employees.

(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 covers substantially all employees of the Company. The Plan is registered under the federal Pension Benefits Standards Act, 1985 (PBSA) and. consists of three parts, all being defined benefit designs:

- Part A is a contributory component that provides benefits under the original plan, with employee contribution rates varying by position at predetermined rates;
- Part B is a non-contributory component that provides benefits in respect of all service for (a) all new management hires on a mandatory basis after January 1, 2009 and (b) effective in 2014, to new hires represented by unions. In addition, effective April 1, 2022, all future pensionable service for management and executive employees is recognized under Part B; and
- Part C is a non-contributory component that provides benefits to those formerly participating in the NAV CANADA Executive Pension Plan. Effective January 1, 2021, the Executive Pension Plan was merged into the Plan.

14. Employee benefits (continued)

(a) Characteristics of defined benefit plans (continued)

Under the Plan, the Company is required to contribute the balance of the funding necessary to ensure that benefits will be fully provided. The determination of the value of these benefits is made on the basis of an annual actuarial valuation for funding purposes performed as at January 1.

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

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

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

In addition, the Company maintains a Supplemental Retirement Plan (the Supplemental Plan) to provide for benefits that exceed the maximum amount allowable under the ITA for the registered pension plan.

The Company's net obligation 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.

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

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

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

14. Employee benefits (continued)

(b) Pension plan funding requirements

Actuarial valuations for pension funding purposes are performed annually as at January 1 and are required to be filed with OSFI by June of the same year. The January 1, 2023 funding valuation was filed with OSFI in June 2023.

Once the valuations are filed, going concern pension contributions are based on the January 1 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, 2023 reported a going concern surplus of $1,049 (January 1, 2022 - $1,346) and a statutory solvency deficiency of $291 (January 1, 2022 - $405).

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

Years ended August 31		2023		2022
Funded pension plan				
Going concern current service costs	**$**	**77**	$	97
Unfunded pension plan		**4**		4
Unfunded other defined benefit plans		**8**		8
Less: capitalized amounts		**(2)**		(3)
	$	**87**	$	106

On a preliminary basis, fiscal 2024 going concern pension contributions for the registered pension plan are estimated to be $84 with no requirement for cash special payments expected.

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

The Company has the option of meeting its pension solvency funding requirements with letters of credit or cash contributions, with the maximum letters of credit based on 15% of solvency liabilities. As at August 31, 2023, the Company has put in place letters of credit totaling $751 to meet its cumulative pension solvency funding requirements, including $67 in the current fiscal year for the registered pension plan. At January 1, 2023, outstanding letters of credit represent 10% of solvency liabilities (January 1, 2022 – 8%).

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

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

14. Employee benefits (continued)

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

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

	Pension benefit plans		Other benefit plans	
	2023	**2022**	**2023**	**2022**
Change in benefit obligations				
Defined benefit obligations at August 31, prior year	**$ 6,880**	$ 8,308	**$ 175**	$ 224
Benefits paid	**(260)**	(269)	**(8)**	(7)
Plan participants' contributions	**24**	27	**-**	-
Current service cost	**114**	183	**4**	6
Interest cost	**324**	254	**8**	6
Actuarial gain from change in financial assumptions	**(261)**	(1,646)	**(2)**	(50)
Actuarial loss (gain) arising from experience adjustments	**49**	23	**1**	(4)
Defined benefit obligations at August 31	**$ 6,870**	$ 6,880	**$ 178**	$ 175
Change in plan assets				
Fair value of plan assets at August 31, prior year	**$ 6,193**	$ 7,316	**$ -**	$ -
Return on plan assets, excluding interest income	**(5)**	(1,211)	**-**	-
Interest income	**294**	225	**-**	-
Employer contributions	**88**	105	**8**	7
Plan participants' contributions	**24**	27	**-**	-
Benefits paid	**(260)**	(269)	**(8)**	(7)
Fair value of plan assets at August 31	**$ 6,334**	$ 6,193	**$ -**	$ -
Net defined benefit liability	**$ (536)**	$ (687)	**$ (178)**	$ (175)
Liability for unfunded defined benefit obligations at August 31	**$ (160)**	(99)	**(178)**	(175)
Liability for funded defined benefit obligations at August 31	**$ (376)**	$ (588)	**$ -**	$ -

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

14. Employee benefits (continued)

(d) Fair value measurement of pension plan assets

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

	August 31, 2023		August 31, 2022	
	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	**21%**	**16%**	20%	17%
Fixed income[(1)]	**0%**	**25%**	0%	26%
Real assets	**0%**	**21%**	0%	21%
Absolute return strategies	**0%**	**8%**	0%	8%
Private debt	**0%**	**7%**	0%	6%
Cash	**2%**	**0%**	2%	0%
	23%	**77%**	22%	78%

(1) The LDI strategy (discussed in (g) below) is comprised of a 2:1 leveraged portfolio of long Canadian nominal and real return bonds. Leverage is achieved largely through the use of sale and repurchase agreements. As at August 31, 2023, the strategy represented 24% of net plan assets (August 31, 2022 - 25%) with leverage providing an additional 27% exposure (fiscal 2022 - 24%).

(e) Actuarial assumptions

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

	Funded plan		Unfunded plans	
As at August 31	2023	2022	2023	2022
Discount rate, defined benefit obligations	**5.20%**	4.80%	**5.20%**	4.80%
Discount rate, defined benefit expense	**4.80%**	3.10%	**4.80%**	2.99%

As a result of the high rate of inflation currently being experienced, inflation assumptions step down from 5.00% in fiscal 2023 to stabilize at 2.00% in the long-term. The average long-term rate of salary increases is expected to be 2.75% (fiscal 2022 – 2.75%). Short-term salary increases reflect actual or assumed wage settlements and have been updated for new and expected collective bargaining agreements. Additional increases for merit and promotion are also assumed. An increase of 4.50% - 5.00% in drug and other health benefit costs were assumed for fiscal 2023 and all years thereafter (fiscal 2022 – 4.5% - 5.00%).

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

14. Employee benefits (continued)

(e) Actuarial assumptions (continued)

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

As at August 31	2023	2022
Longevity at age 65 for current pensioners		
Males	**23.2**	23.1
Females	**25.0**	24.9
Longevity at age 65 for current members age 45		
Males	**24.1**	24.0
Females	**25.9**	25.8

As at the annual measurement date of August 31, 2023, the weighted-average duration of the defined benefit obligation was 15 years (August 31, 2022 – 16 years).

(f) Sensitivity analysis

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

		Defined benefit obligation		Benefit cost	
	Change in assumption + or -	Assumption increase	Assumption decrease	Assumption increase	Assumption decrease
Discount rate	0.25%	$ (253)	$ 265	$ (21)	$ 20
Salary, indexation, government benefit increases	0.25%	$ 249	$ (243)	$ 20	$ (19)
Health care trend rate	1%	$ 14	$ (11)	$ -	$ -
Longevity (in years) for those currently aged 65	1 year	$ 175	$ (188)	$ 11	$ (13)

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

14. Employee benefits (continued)

(g) Risks associated with the defined benefit plans

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

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

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

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

15. Provisions

Provisions for onerous contracts have been recognized where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits to be received. During fiscal 2023, additions to onerous provisions were recorded in the amount of $13 related to a technology sales and services contract which is expected to be completed in the fiscal year ending August 31, 2025. This amount is included in Other operating expenses on the consolidated statements of operations. As at August 31, 2023, onerous provisions of $18 are included in other non-current liabilities on the consolidated statements of financial position (August 31, 2022 - $6).

16. Financial instruments and financial risk management

Summary of financial instruments

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

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

The Company recognizes any transfers between levels of the fair value measurement hierarchy at the beginning of the fiscal year in which the change occurs. There have been no transfers between levels of the fair value hierarchy since August 31, 2022.

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

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

16. Financial instruments and financial risk management (continued)

Summary of financial instruments (continued)

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

As at August 31, 2023	Amortized Cost	FVTPL	Fair value hierarchy
Financial assets			
Cash and cash equivalents (1)	**$ 586**	**$ -**	
Accounts receivable and other	**149**	**-**	
Current investments			
Short-term investments (2)	**99**	**-**	
Debt service reserve fund	**77**	**-**	
Other current assets			
Derivative assets (3)	**-**	**1**	Level 2
Investment in preferred interests (4)	**-**	**203**	Level 3
Long-term receivables (5)	**50**	**-**	
	$ 961	**$ 204**	
Financial liabilities			
Trade and other payables			
Trade payables and accrued liabilities	**$ 262**	**$ -**	
Long-term debt (including current portion)			
Bonds and notes payable (6)	**2,354**	**-**	Level 2
	$ 2,616	**$ -**	

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

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

16. Financial instruments and financial risk management (continued)

Summary of financial instruments (continued)

(1) As at August 31, 2023, cash and cash equivalents include $nil of highly liquid instruments with original terms to maturity of less than three months (August 31, 2022 - $175).

(2) Short-term investments consist of Banker's Acceptance with an original maturity of more than three months.

(3) Derivative assets and liabilities are recorded at fair value determined using prevailing foreign exchange market rates at the reporting date.

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

(5) Long-term receivables include $53 of deferred payments related to the September 1, 2020 customer service charge increase as described in note 16 (b) (August 31, 2022 - $81), which are presented net of an estimated credit loss provision of $4 (August 31, 2022 - $7).

(6) The fair value of the Company's bonds and notes payable is classified as Level 2 in the fair value hierarchy as it is determined using secondary market ask prices at the reporting date. As at August 31, 2023, the fair value was $2,045 (August 31, 2022 - $2,227) inclusive of accrued interest of $22 (August 31, 2022 - $25).

Level 3 financial instruments

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

		2023		2022
Fair value as at August 31, prior year	**$**	**229**	$	299
Net change in fair value [1]		**(33)**		(82)
Effect of foreign exchange [2]		**7**		12
Fair value as at August 31	**$**	**203**	$	229

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

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

Derivative financial instruments

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

(1) The Company holds foreign exchange forward agreements with a total notional value of $59 CDN ($44 U.S.) to hedge monthly payments to Aireon related to satellite surveillance costs for the fiscal year ending August 31, 2024 (fiscal 2024). The average contract rate is 1.34220. The carrying amount of these contracts is $1 as at August 31, 2023, which is included in Other current assets.

As at August 31, 2022, the Company held foreign exchange forward agreements to purchase a total of $59 CDN ($47 U.S.) with an average rate of 1.275911. The carrying amount of these contracts was $2 as at August 31, 2022 and is included in current liabilities.

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

16. Financial instruments and financial risk management (continued)

Derivative financial instruments (continued)

(2) The Company holds foreign exchange forward agreements with a notional value of approximately $2 each to purchase a total of $10 CDN ($8 U.S.) to hedge payments related to the Company's insurance premiums in fiscal 2024. The average contract rate is 1.340727. The carrying amount of these contracts is $nil as at August 31, 2023.

As at August 31, 2022, the Company held foreign exchange forward agreements to purchase a total of $9 CDN ($7 U.S.) with an average rate of 1.276603. The carrying amount of these contracts was $nil as at August 31, 2022.

The Company's hedging relationships are subject to ineffectiveness should the timing of the forecasted transaction not occur as intended, when actual amounts significantly differ to the estimates, or as a result of changes in counterparty risk. For the years ended August 31, 2023 and 2022, the derivatives designated as cash flow hedges were considered to be fully effective and no ineffectiveness has been recognized in net income (loss).

For the year ended August 31, 2023, a loss of $1 was recorded in OCI (August 31, 2022 - gain of $2).

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:

As at August 31	2023	2022
Floating rate financial assets		
Cash	**$ 586**	$ 217
Total floating rate financial assets	**$ 586**	$ 217
Fixed rate financial assets		
Cash equivalents	**$ -**	$ 175
Short-term investments	**99**	80
Debt service reserve fund investments	**77**	74
Total fixed rate financial assets	**$ 176**	$ 329
Fixed rate financial liabilities		
Bonds and notes payable [(1)]	**$ 2,354**	$ 2,488

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

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

16. Financial instruments and financial risk management (continued)

Financial risk management (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued)

Instruments included in the Company's cash and cash equivalents earn interest at prevailing and fluctuating market rates. If interest rates decline, earnings on these instruments would fall. A 100 basis point change in variable interest rates would result in an annual difference of approximately $6 in the Company's earnings before rate stabilization adjustments (August 31, 2022 - $2).

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

Interest rate risk related to the Company's fixed-interest long-term debt relates to the re-setting of interest rates upon maturity and refinancing of the debt. The Company mitigates this source of interest rate risk by spreading maturities of borrowings over periods currently up to and including 2051 so that only a portion of outstanding debt will mature in any given fiscal year. The Company has not entered into any derivative contracts to manage interest rate risk as at August 31, 2023.

(ii) Foreign exchange risk

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

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

	August 31, 2023		August 31, 2022	
	CDN	U.S.	CDN	U.S.
Financial assets				
Current				
Cash and cash equivalents	**$ 3**	**$ 2**	$ 3	$ 2
Accounts receivable and other	**1**	**-**	-	-
Non-current				
Investment in preferred interests	**203**	**150**	229	175
Long-term receivables	**1**	**1**	1	1
	$ 208	**$ 153**	$ 233	$ 178
Financial liabilities				
Current				
Trade and other payables	**$ 6**	**$ 4**	$ 7	$ 5
Net exposure	**$ 202**	**$ 149**	$ 226	$ 173

16. Financial instruments and financial risk management (continued)

Financial risk management (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk (continued)

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, 2023, 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, 2023, 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 $20 (August 31, 2022 - $24).

(iii) Other price risk

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

The fair value of the Company's investment in preferred interests of Aireon was determined using a discounted cash flow model (see note 12). The estimated fair value of the investment may change in subsequent periods. Any such changes could be material and would be reflected in the statement of operations as they occur. A sensitivity analysis with respect to changes in the unobservable inputs to the valuations is discussed in note 12.

(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, 2023 represents the carrying amount of cash, accounts receivable, reserve funds, investments and forward contracts to purchase or sell foreign currencies.

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

16. Financial instruments and financial risk management (continued)

Financial risk management (continued)

(b) Credit risk (continued)

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

The Company revised its customer service charges effective September 1, 2020, increasing customer service charges by an average of 29.5% on base rate levels. The customer service charge increase included provisions to ease the cash flow burden of the increase on customers through payment deferral mechanisms. For the Company's fiscal 2021, the portion of monthly invoices related to the customer service charge increase could be deferred and would become payable by customers in equal installments over the next five fiscal years, beginning in fiscal 2022. One-fifth of the deferred portion was payable by customers during fiscal 2023. The outstanding deferred customer service charges is $76 as at August 31, 2023 (August 31, 2022 - $108). These longer term payment provisions increase the Company's exposure to credit risk as payments required in advance and security deposits under the Company's credit policies may not be sufficient to cover potential losses.

The Company establishes an allowance for expected credit losses that represents its estimate of lifetime expected credit losses to be incurred in respect of accounts receivable. Based on the Company's current estimates and assumptions, including but not limited to current and forecasted economic and credit conditions as well as recent trends for customer collections, the allowance for expected credit losses is $6 as at August 31, 2023 (August 31, 2022 - $11). There were no significant balances past due.

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

16. Financial instruments and financial risk management (continued)

Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to evaluate current and expected liquidity requirements under both normal and stressed conditions to ensure that it maintains sufficient reserves of cash and cash equivalents or an available undrawn committed credit facility to meet its liquidity requirements in the short and longer term. Under the Company's MTI and GOI, the Company is required to maintain certain reserve funds and liquidity levels, as described in note 13.

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

As at August 31		2023
Credit facilities for general purposes:		
Credit facility with a syndicate of Canadian financial institutions - undrawn [(1)] [(2)]	$	850
Less: Outstanding letters of credit for other purposes [(2)]		(1)
Undrawn committed borrowing capacity		**849**
Less: Operations and maintenance reserve allocation [(3)]		(335)
Available for unrestricted use	**$**	**514**
Credit facilities for pension obligations:		
Letter of credit facilities for pension obligations [(4)]	$	860
Less: Outstanding letters of credit for pension obligations [(4)]		(789)
Undrawn committed letter of credit facilities	**$**	**71**

(1) The Company's credit facility with a syndicate of Canadian financial institutions is comprised of two equal tranches maturing on March 26, 2026 and March 26, 2028, respectively. The credit facility agreement provides for loans at varying rates of interest based on certain benchmark interest rates, specifically the Canadian prime rate and the Canadian bankers' acceptance rate, and on the Company's credit rating at the time of drawdown. The Company is required to pay commitment fees, which are dependent on the Company's credit rating. The Company is in compliance with the credit facility covenants as at August 31, 2023.

(2) An allocation of $25 with a Canadian financial institution has been made under the $850 committed credit facility. As at August 31, 2023, $1 was drawn from an uncommitted revolving credit facility.

(3) The Company is required to maintain a reserve of at least 25% of its prior year's annual operating and maintenance expenses, as defined in the MTI. As at August 31, 2023, the Company met this requirement with an allocation of $335 in undrawn availability under its committed credit facility.

(4) The letter of credit facilities for pension obligations are comprised of four facilities with Canadian financial institutions totalling $860. During the year, an increase in the facilities of $50 was finalized. All facilities will mature on December 31, 2023, unless extended. On April 17, 2023, a letter of credit facility was issued to cover supplemental retirement arrangements in the amount of $38. The amount will be reviewed annually based on actuarial valuation results. As at August 31, 2023, $751 was drawn for solvency funding (August 31, 2022 - $684) for the registered pension plan and $38 for supplemental retirement arrangements (August 31, 2022 - $nil).

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

17. Commitments

The following table presents a maturity analysis of the Company's undiscounted contractual cash flows for its financial liabilities, capital commitments, lease liabilities and other commitments as at August 31, 2023:

		Remaining payments – for years ending August 31					
	Total	**2024**	**2025**	**2026**	**2027**	**2028**	**Thereafter**
Trade payables and accrued liabilities	**$ 246**	$ 246	$ -	$ -	$ -	$ -	$ -
Long-term debt (including current portion) (1), (2)	**2,365**	201	16	301	222	-	1,625
Interest payments (2)	**1,228**	71	70	67	65	48	907
Capital commitments (3)	**151**	94	28	7	7	5	10
Lease liability	**57**	3	3	3	3	3	42
Related party loan (4)	**15**	15	-	-	-	-	-
	$ 4,062	$ 630	$ 117	$ 378	$ 297	$ 56	$ 2,584

(1) Payments represent principal of $2,365. The Company may choose to repay a portion of these maturities with available cash and/or may increase the size of a re-financing to generate additional liquidity or for other purposes, and/or may choose to redeem in whole or in part an issue in advance of its scheduled maturity.

(2) Further details on interest rates and maturity dates on long-term debt are provided in note 13.

(3) The Company has commitments for the acquisition of property, plant and equipment and intangible assets amounting to $151 as at August 31, 2023 (August 31, 2022 - $113).

(4) The Company has an agreement with Aireon to provide a subordinated loan up to a total of $15 CDN ($11 U.S.) through the earlier of June 2026 or the date on which the senior credit facility is paid in full and terminated or refinanced. Subsequent to August 31, 2023, the senior credit facility was terminated. As a condition of a new senior credit facility, a replacement subordinated loan with similar terms and conditions will be required.

As at August 31, 2023, the outstanding letters of credit of $790 (note 16 (c)) are comprised of $789 drawn for pension solvency funding purposes (note 14) and $1 for other purposes.

18. Contingencies

(a) Legal contingencies

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

(b) Indemnification commitments

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

18. Contingencies (continued)

(b) Indemnification commitments (continued)

The Company has provided the following significant indemnification commitments:

Provision of service and system sales

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

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

Other agreements

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

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

19. Transactions with the Government of Canada

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

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

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

During fiscal 2022, the Company entered into agreements to receive funding under the NTCF for the financing of aviation network capacity and resilience improvements. Additions for assets under development for Property, plant and equipment and Intangible assets were reduced by $5 and $8, respectively, as at August 31, 2023 (August 31, 2022 - $nil and $2, respectively) for amounts reimbursable under the agreements.

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

20. Related party transactions

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

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

Compensation of key management personnel

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

Years ended August 31		2023		2022
Salaries and other benefits	**$**	**5**	$	5
Defined benefits, including pension benefits		**2**		2
Management incentive plan		**2**		1
Other long-term benefits		**2**		1
	$	**11**	$	9

Transactions with associates

As discussed in note 12, the Company has a participation in Aireon. This participation has been classified as an investment in associate since the Company is able to exert significant influence over Aireon's strategic financial and operating activities. The net change in fair value of the Company's investment in preferred interests of Aireon is based on discounted future cash flows, which include preferred dividends. In addition, the Company has a 12-year commitment with Aireon to purchase data services, which commenced in March 2019. During the year ended August 31, 2023, the Company incurred $55 for the purchase of data services under this agreement (year ended August 31, 2022 - $53). The estimated total remaining commitment is $481 CDN ($356 U.S.).

Transactions with the registered pension plan

The Company's transactions with the Plan include contributions paid to the Plan and letters of credit for pension solvency funding purposes, which are disclosed in note 14, reimbursements from the Plan for certain costs in the amount of $11 for fiscal 2023 (fiscal 2022 - $21) and receivables from the Plan in the amount of $6 for fiscal 2023 (fiscal 2022 - $2).

As at and for the years ended August 31, 2023 and 2022 (millions of Canadian dollars)

21. Capital management

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

As at August 31		2023		2022
Bonds and notes payable (note 13)	**$**	**2,354**	$	2,488
Equity:				
Retained earnings		**28**		28
Regulatory deferral accounts:				
Debit balances (note 7)		**(1,213)**		(1,341)
Credit balances (note 7)		**361**		119
Employee benefits (note 14):				
LTD (asset) liability		**(4)**		6
Liability for funded pension benefits		**376**		588
Liability for accumulating sick leave		**15**		15
Total capital	**$**	**1,917**	$	1,903

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

The Company's main objectives when managing capital are:

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

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

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

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

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

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

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

There were no changes in the Company's approach to capital management during the year ended August 31, 2023.