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MANAGEMENT'S DISCUSSION AND ANALYSIS

ON FORM 51-102F1

THREE AND NINE MONTHS ENDED

MAY 31, 2021

July 9, 2021

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INTRODUCTION

This management's discussion and analysis (MD&A) relates to the unaudited interim consolidated financial position, results of operations, comprehensive income (loss) and cash flows for the three and nine months ended May 31, 2021 (Q3 fiscal 2021) of NAV CANADA and its subsidiaries (also referred to in this MD&A as we, our, us or the Company). It should be read in conjunction with our unaudited interim condensed consolidated financial statements for Q3 fiscal 2021 (Q3 fiscal 2021 financial statements), our audited annual consolidated financial statements (annual financial statements) and the accompanying notes for the year ended August 31, 2020 (fiscal 2020), our fiscal 2020 annual MD&A, as well as our 2020 Annual Information Form dated October 22, 2020 (fiscal 2020 AIF). Additional information about NAV CANADA, including our financial statements for Q3 fiscal 2021 and fiscal 2020, our fiscal 2020 annual MD&A, and our fiscal 2020 AIF are filed on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Our financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). Our Q3 fiscal 2021 financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. Our Audit & Finance Committee reviewed this MD&A and our Board of Directors (the Board) approved it before it was filed.

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

Caution Concerning Forward-Looking Information

This MD&A and, in particular, but without limitation, sections "INTRODUCTION – Significant Financial Matters" and "RESULTS OF OPERATIONS – Financial Outlook" of this MD&A, contain certain statements about NAV CANADA's future expectations. These statements are generally identified by words like "anticipate", "plan", "believe", "intend", "expect", "estimate", "approximate" and the like, as well as future or conditional verbs such as "will", "should", "would" and "could", or negative versions thereof. Because forward-looking statements involve future risks and uncertainties, actual results may be different from those expressed or implied in these statements. Examples of risks and uncertainties include geopolitical unrest, terrorist attacks and the threat of terrorist attacks, war, epidemics or pandemics and related travel advisories, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from manmade sources), cyber security attacks, labour negotiations, arbitrations, workforce recruitment, training and retention, general aviation industry conditions, air traffic levels, government interventions or restrictions on or concerning air travel, the use of telecommunications and ground transportation as alternatives to air travel, capital market and economic conditions, the ability to collect customer service charges and reduce operating costs, the success of our investment in space-based aircraft surveillance through Aireon LLC (Aireon), changes in interest rates, changes in laws, tax changes, adverse regulatory developments or proceedings and lawsuits. Some of these risks and uncertainties are explained under "Risk Factors" in our fiscal 2020 AIF. The forward-looking statements contained in this MD&A represent our expectations as of July 9, 2021 and are subject to change after this date.

In March 2020, the coronavirus (COVID-19) outbreak was declared a pandemic by the World Health Organization. Given the rapidly evolving circumstances surrounding the COVID-19 pandemic and resulting economic contraction, there is more uncertainty associated with the assumptions underlying the forward-looking information contained in this MD&A. These assumptions include the following: the COVID-19 pandemic and resulting economic contraction will continue to have a significant negative impact on global air traffic and the aviation industry in the near-term; the post-pandemic economic recovery is likely to be gradual and may be uneven; long-term growth in economic recovery will provide the basis for increased aviation demand in the future; no other significant event such as a natural disaster or other calamity will occur that has an impact on the ordinary course of business or the macroeconomic environment. These assumptions are based on information currently available to the Company. Refer to our fiscal 2020 annual MD&A and "INTRODUCTION – Significant Financial Matters" for further discussion of the impact on NAV CANADA.

Readers of this MD&A are cautioned not to place undue reliance on any forward-looking statement. We disclaim any intention or obligation to update or revise any forward-looking statement included in this document whether as a result of new information, future events or for any other reason, except as required by applicable securities legislation.

Our Business

NAV CANADA is the private sector, non-share capital company that operates Canada's civil air navigation system (ANS). With operations across Canada, we provide air navigation services to aircraft owners and operators within Canadian–controlled airspace. These services include air traffic control, flight information, weather briefings, airport advisories, aeronautical information and electronic navigation aids.

The core business of the Company is to manage and operate the ANS and related services in a safe, efficient and cost effective manner. Our mandate covers both Canadian airspace and airspace delegated to Canada under international agreements.

Financial Strategy and Rate Regulation

In establishing new customer service charges or revising existing charges, we must follow the charging principles set out in our governing legislation, the *Civil Air Navigation Services Commercialization Act* (ANS Act), which prevents us from setting customer service charges higher than what is needed to meet our financial requirements for the provision of air navigation services. Pursuant to these principles, the Board approves the amount and timing of changes to customer service charges. The Board also approves the Company's annual budget where amounts to be recovered through customer service charges for the ensuing year are determined. Our aim is essentially to achieve breakeven financial results on the consolidated statement of operations on an annual basis. Due to seasonal and other fluctuations in air traffic, such as the COVID-19 pandemic discussed in "INTRODUCTION – Significant Financial Matters", and given that our costs are predominantly fixed in nature, our quarterly financial results may not achieve a breakeven position, after recording adjustments to the rate stabilization account. This is illustrated in the table under the heading "SUMMARY OF QUARTERLY RESULTS – Quarterly Financial Information (unaudited)".

As noted above, customer service charges are set based on the Company's financial requirements, which take into account estimated air traffic levels and planned expenses. Since actual revenue and expenses will differ from these estimates, methods to accumulate the variances are required so that they may be taken into account when setting future customer service charges. There is also a need to absorb the immediate effect of unpredictable factors – mainly fluctuations in air traffic levels resulting from unforeseen events. We meet these objectives through the use of a "rate stabilization" mechanism.

In preparing our financial statements we reflect the impact of rate regulation. As such, 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 charges. For example, we adjust our net income (loss) through transfers to or from the rate stabilization account, based on variations from the amounts that were used when establishing customer service charges. If our actual revenue exceeds actual expenses, the excess is reflected as a credit to the rate stabilization account and is returnable to customers through future customer service charges. Similarly, if actual revenue is less than actual expenses, the revenue shortfall is reflected as a debit to the rate stabilization account and is recoverable from customers through future customer service charges (see "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account").

In addition, for certain transactions where the timing of the cash flows differs significantly from the accounting recognition, the Company recognizes regulatory deferral account debits and credits in order to adjust 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.

When determining the level of customer service charges, we consider the Company's current and future financial requirements (see "RESULTS OF OPERATIONS – Net Movement in Regulatory Deferral Accounts Related to Net Income (Loss)" and "RESULTS OF OPERATIONS – Amounts Considered for Rate Setting Purposes").

Our financial strategy is to fulfil our essential services mandate based on a sound financial foundation, reflected in part through high credit ratings in the financial markets. Maintaining this strong foundation requires a prudent approach that balances the interests of our key stakeholders while complying with our statutory and contractual obligations.

Financial Highlights

The COVID-19 pandemic and the resulting economic contraction continues to have a significant negative impact on global air traffic and the aviation industry. The significant decrease in air traffic levels and associated customer service charges impacted revenue commencing in the third quarter of fiscal 2020. During the third quarter of the fiscal year ending August 31, 2021 (fiscal 2021), air traffic levels, as measured by weighted charging units (WCUs) (a measure of the number of billable flights, aircraft size and distance flown in Canadian airspace and the basis for movement-based service charges) were higher by 1.6% than those experienced in the third quarter of fiscal 2020, however, air traffic levels remain significantly lower than the pre-pandemic levels experienced in the same period of the fiscal year ended August 31, 2019 (fiscal 2019). See "INTRODUCTION – Significant Financial Matters" for further discussion of the impacts of the COVID-19 pandemic on the Company and its financial results.

(millions of Canadian dollars)

Results of operations for the three months ended May 31, 2021

The Company recorded net income of $8 for the three months ended May 31, 2021 (three months ended May 31, 2020 – net loss of $14). Excluding rate stabilization and other regulatory deferral account adjustments, the Company recorded a net loss of $186 (three months ended May 31, 2020 - $294).

	Three months ended May 31		
	2021	2020	$ Change
Revenue	$ 196	$ 159	$ 37
Operating expenses	305	351	(46)
Other (income) and expenses	86	129	(43)
Income tax recovery	(9)	(27)	18
Net loss, before net movement in regulatory deferral accounts	(186)	(294)	108
Net movement in regulatory deferral accounts [1]			
Rate stabilization adjustments:			
Unfavourable variances from plan	45	160	(115)
Initial approved adjustment [2]	74	9	65
	119	169	(50)
Other regulatory deferral account adjustments:			
Employee benefit pension contributions	35	42	(7)
Other employee benefits	(3)	(2)	(1)
Investment in preferred interests, before tax	51	97	(46)
Income tax	(11)	(26)	15
Allowance for doubtful accounts	3	-	3
	75	111	(36)
	194	280	(86)
Net income (loss), after net movement in regulatory deferral accounts	$ 8	$ (14)	$ 22

(1) The Company is subject to legislation that regulates the level of its charges (see "INTRODUCTION – Financial Strategy and Rate Regulation"). The timing of the recognition of certain revenue and expenses recovered through charges is recorded through movements in regulatory deferral accounts (see "RESULTS OF OPERATIONS – Net Movement in Regulatory Deferral Accounts Related to Net Income (Loss)").

(2) In order to achieve breakeven results of operations in fiscal 2021, the Board approved the fiscal 2021 budget with an increase to the debit position of the rate stabilization account as a result of a planned shortfall of $295 (fiscal 2020 - $35), which is being reflected in the rate stabilization account evenly throughout the fiscal year.

(millions of Canadian dollars)

Cash flows for the three months ended May 31, 2021

As shown below, cash and cash equivalents decreased by $94 during the three months ended May 31, 2021 (three months ended May 31, 2020 - increased by $870) and the Company experienced negative free cash flow of $140 (three months ended May 31, 2020 - $129), which is a non-GAAP (Generally Accepted Accounting Principle) financial measure. Non-GAAP financial measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. The Company defines free cash flow as cash generated from operations, less capital expenditures, investments in Aireon and equity related investments and principal payments of lease liabilities. Management places importance on this indicator as it assists in measuring the impact of its investment program on the Company's financial resources.

	Three months ended May 31		
	2021	2020	$ Change (1)
Cash flows from (used in):			
Operating	$ (124)	$ (102)	$ (22)
Investing	58	(26)	84
Financing	(25)	997	(1,022)
Cash flows from (used in) operating, investing and financing activities	(91)	869	(960)
Effect of foreign exchange on cash and cash equivalents	(3)	1	(4)
Increase (decrease) in cash and cash equivalents	(94)	870	(964)
Cash and cash equivalents, beginning of period	498	48	450
Cash and cash equivalents, end of period	$ 404	$ 918	$ (514)
Free cash flow (non-GAAP financial measure):			
Cash flows from (used in):			
Operations (2)	$ (124)	$ (102)	$ (22)
Capital expenditures (2)	(16)	(26)	10
Payment of lease liabilities (2)	-	(1)	1
Free cash flow	$ (140)	$ (129)	$ (11)

(1) See "LIQUIDITY AND CAPITAL RESOURCES – Cash flows for the three months ended May 31, 2021" for discussion of the changes in cash flows from the prior fiscal year.

(2) See the statement of cash flows in our Q3 fiscal 2021 financial statements.

(millions of Canadian dollars)

Results of operations for the nine months ended May 31, 2021

The Company recorded a net loss of $119 for the nine months ended May 31, 2021 (nine months ended May 31, 2020 – $61). Excluding rate stabilization and other regulatory deferral account adjustments, the Company recorded a net loss of $504 (nine months ended May 31, 2020 - $420).

	Nine months ended May 31		
	2021	2020	$ Change
Revenue	$ 577	$ 845	$ (268)
Operating expenses	931	1,107	(176)
Other (income) and expenses	157	185	(28)
Income tax recovery	(7)	(27)	20
Net loss, before net movement in regulatory deferral accounts	(504)	(420)	(84)
Net movement in regulatory deferral accounts [(1)]			
Rate stabilization adjustments:			
Unfavourable variances from planned results	21	144	(123)
Initial approved adjustment [(2)]	221	27	194
	242	171	71
Other regulatory deferral account adjustments:			
Employee benefit pension contributions	97	130	(33)
Other employee benefits	(7)	(4)	(3)
Investment in preferred interests, before tax	53	87	(34)
Investment in equity-accounted investee	-	(1)	1
Income tax	(9)	(25)	16
Realized hedging transactions	1	1	-
Allowance for doubtful accounts	8	-	8
	143	188	(45)
	385	359	26
Net loss, after net movement in regulatory deferral accounts	$ (119)	$ (61)	$ (58)

(1) See "RESULTS OF OPERATIONS – Net Movement in Regulatory Deferral Accounts Related to Net Income (Loss)".

(2) In order to achieve breakeven results of operations in fiscal 2021, the Board approved the fiscal 2021 budget with an increase to the debit position of the rate stabilization account as a result of a planned shortfall of $295 (fiscal 2020 - $35), which is being reflected in the rate stabilization account evenly throughout the fiscal year.

(millions of Canadian dollars)

Cash flows for the nine months ended May 31, 2021

As shown below, cash and cash equivalents decreased by $285 during the nine months ended May 31, 2021 (nine months ended May 31, 2020 - increase of $888) and the Company experienced negative free cash flow of $425 (nine months ended May 31, 2020 - $147), which is a non-GAAP financial measure as discussed in "INTRODUCTION – Financial Highlights: Cash flows for the three months ended May 31, 2021".

	Nine months ended May 31		
	2021	2020	$ Change [1]
Cash flows from (used in):			
Operating	$ (373)	$ (39)	$ (334)
Investing	94	(106)	200
Financing	(2)	1,032	(1,034)
Cash flows from (used in) operating, investing and financing activities	(281)	887	(1,168)
Effect of foreign exchange on cash and cash equivalents	(4)	1	(5)
Increase (decrease) in cash and cash equivalents	(285)	888	(1,173)
Cash and cash equivalents, beginning of period	689	30	659
Cash and cash equivalents, end of period	$ 404	$ 918	$ (514)
Free cash flow (non-GAAP financial measure):			
Cash flows from (used in):			
Operations [2]	$ (373)	$ (39)	$ (334)
Capital expenditures [2]	(54)	(106)	52
Proceeds from sale of property, plant and equipment [2]	4	-	4
Payment of lease liabilities [2]	(2)	(2)	-
Free cash flow	$ (425)	$ (147)	$ (278)

(1) See "LIQUIDITY AND CAPITAL RESOURCES – Cash flows for the nine months ended May 31, 2021" for discussion of the changes in cash flows from the prior fiscal year.

(2) See the statement of cash flows in our Q3 fiscal 2021 financial statements.

(millions of Canadian dollars)

Financial position as at May 31, 2021

The following table outlines significant changes in our assets, liabilities and regulatory deferral accounts between August 31, 2020 and May 31, 2021:

	May 31 2021	August 31 2020	$ Change
Assets			
Current assets			
Cash and cash equivalents	$ 404	$ 689	$ (285)
Accounts receivable and other	78	77	1
Investments	74	218	(144)
Other current assets	14	9	5
	570	993	(423)
Non-current assets			
Property, plant and equipment	712	740	(28)
Intangible assets	828	874	(46)
Investment in preferred interests	283	336	(53)
Long-term receivables	78	4	74
Investment in equity-accounted investee	7	7	-
Employee benefits	4	4	-
	1,912	1,965	(53)
Total assets	2,482	2,958	(476)
Regulatory deferral account debit balances	1,795	2,112	(317)
Total assets and regulatory deferral account debit balances	$ 4,277	$ 5,070	$ (793)
Liabilities			
Current liabilities			
Bank loan	$ -	$ 223	$ (223)
Trade and other payables	189	262	(73)
Current portion of long-term debt	25	275	(250)
Deferred revenue	16	11	5
Other current liabilities	10	6	4
	240	777	(537)
Non-current liabilities			
Long-term debt	2,486	2,013	473
Employee benefits	1,499	2,042	(543)
Deferred tax liability	12	21	(9)
Lease liability	1	3	(2)
Other non-current liabilities	2	2	-
	4,000	4,081	(81)
Total liabilities	4,240	4,858	(618)
Equity			
Retained earnings (deficit)	(91)	28	(119)
Regulatory deferral account credit balances	128	184	(56)
Total liabilities, equity and regulatory deferral account credit balances	$ 4,277	$ 5,070	$ (793)

For a discussion of the changes in cash and cash equivalents (including those related to current investments and bank loans) from August 31, 2020, see "LIQUIDITY AND CAPITAL RESOURCES – Cash flows for the nine months ended May 31, 2021".

The change in the investment in preferred interests since August 31, 2020 (including those related to the deferred tax liability) is discussed in "INTRODUCTION – Significant Financial Matters: Investment in Preferred Interests of Aireon".

Long-term receivables include $75 of deferred payments related to the September 1, 2020 service charge increase of 29.5% on average. For the Company's fiscal 2021, the portion of invoices related to the service charge increase can be deferred and will become payable by customers in equal installments over the following five fiscal years. See "LIQUIDITY AND CAPITAL RESOURCES – Financial Instruments and Risk Management".

The change in long-term debt (including the current portion) is discussed in "INTRODUCTION – Significant Financial Matters: Financing Activities".

The change in non-current employee benefit liabilities is mainly a result of the re-measurement gains related to the Company's funded pension plans recorded during the nine months ended May 31, 2021. These changes along with the related changes in regulatory deferral account debit balances are discussed further in "RESULTS OF OPERATIONS – Other Comprehensive Income (Loss)".

We plan our operations to essentially be in an annual financial breakeven position after expenses are met through customer service charges and other revenue sources, and after adjustments are made to the rate stabilization account. As a result, the balance in the retained earnings account at the end of each fiscal year has remained stable at $28. Any variation from this amount at the end of any interim period reflects seasonal or other fluctuations in revenue and expenses. The balance in retained earnings (deficit) as at May 31, 2021 reflects the loss up to that date.

Significant Financial Matters[1]

The following items have significant financial importance to the Company:

1. COVID-19 pandemic

The COVID-19 pandemic and the resulting economic contraction continues to have a significant negative impact on global air traffic and on the aviation industry. The pandemic began impacting air traffic levels in mid-fiscal 2020 and since then, movement-based air traffic, as measured in WCUs, has continued to trend well below the quarterly levels seen in fiscal 2019.

The Company's customer service charges revenue declined significantly in the first and second quarters of fiscal 2021 as compared to the same periods in fiscal 2020. During the third quarter of fiscal 2021, customer service charges revenue increased slightly as compared to the third quarter of fiscal 2020. As compared to the three and nine months ended May 31, 2019, however, customer service charges revenue is 45.6% and 44.2% lower, respectively, despite the increase in customer service charges as of September 1, 2020. While the full duration and scope of the pandemic is unknown, it continues to have a negative impact on the aviation sector, air travel domestically and globally and movement-based revenues, reflected through air traffic levels measured in WCUs. We anticipate our revenues will continue to be impacted until such time as air travel restrictions are relaxed and air travel starts to recover.

[1] Note: See "INTRODUCTION – Caution Concerning Forward-Looking Information", page 1

In response to the impact of the pandemic, the Company continues to review, monitor and manage spending, while at the same time ensuring the continued fulfillment of the Company's mandate to safely operate and maintain the Canadian air navigation system as an essential service and to protect the safety and well-being of its employees, while positioning itself to support a post-pandemic recovery in air travel.

To continue to address the significant revenue shortfall, some of the actions the Company has taken in the first three quarters of fiscal 2021 include:

- increasing customer service charges, effective September 1, 2020, by an average of 29.5% on base rate levels, resulting in an estimated revenue increase of $170 based on forecasted air traffic levels for fiscal 2021 (refer to "RESULTS OF OPERATIONS – Financial Outlook" for a discussion on forecasted fiscal 2021 results);
- continuing to access the Canada Emergency Wage Subsidy (CEWS) government relief program, recognizing $95 as a reduction to Salaries and benefits expenses for the nine months ended May 31, 2021 (refer to "Operating Expenses" below);
- implementing cost-saving measures where possible, including the elimination of temporary and permanent positions (see further discussion in "Operating Expenses" below); and
- raising funds through the issuance of $500 in General Obligations Notes (See "Financing Activities" below).

2. Air Traffic and Customer Service Charges

Over the first nine months of fiscal 2021, air traffic levels, as measured in WCUs, decreased 47.1% as compared to the same period in fiscal 2020. In comparison to pre-pandemic levels experienced over the same period of fiscal 2019, air traffic levels have decreased 57.9%.

Air traffic levels are currently expected to decline by 38.1% in fiscal 2021 on a year-over year basis and decline by 59.2% in comparison to fiscal 2019.

The Company revised its customer service charges effective September 1, 2020, increasing charges by an average of 29.5% on base rate levels. The service charge increase includes provisions to ease the cash flow burden of the increase on customers through payment deferral mechanisms. For NAV CANADA's fiscal 2021, the portion of invoices related to the service charge increase can be deferred and will become payable by customers in equal installments over the following five fiscal years.

3. Operating Expenses

Since the onset of the pandemic, the Company has taken unprecedented measures to drive down operating expenses, including eliminating executive positions, reducing management salary and bonus programs, making changes to part of the pension plan applicable to executives and management, ending terms for temporary employees, reaching agreements with bargaining units to suspend programs, offering early retirement and departure incentives to employees and reducing all non-essential and non-critical activities across the Company.

On September 22, 2020 and December 9, 2020, the Company announced workforce reductions through the elimination of permanent jobs, impacting approximately 350 people. The job cuts were across all departments and included operational students. The Company's restructuring efforts since the onset of the pandemic are expected to result in a reduction of its workforce by approximately 650 people across the country (roughly 12.7% of the Company's pre-pandemic workforce). The restructuring of some of our business units and the adjustments of our workforce were critical to aligning operations and services with air traffic and strengthening the sustainability of NAV CANADA.

Based on air traffic forecasts and in order to ensure the Company is well positioned to support the aviation industry recovery, the Company has rescinded surplus notices for 41 employees, reducing accrued severance and termination costs.

In light of the impacts of the pandemic on our finances, the Company continues to have discussions with its bargaining agents to identify alternatives to workforce adjustments. During the nine months ended May 31, 2021, the Company reached an agreement with the Professional Institute of the Public Service of Canada (PIPSC), whereby employees represented by PIPSC will forego wage increases for the next two years (May 1, 2021 and May 1, 2022) in order to avoid layoffs for the same period of time. The agreement also includes an extension of the current collective agreement to April 30, 2026 and allows for wage increases of 2% in each of the additional three years of the agreement.

4. Investment in Preferred Interests of Aireon

As at May 31, 2021, the Company recorded a decrease in the fair value of its investment in preferred interests to $283 CDN ($235 U.S.) from $336 CDN ($258 U.S.) as at August 31, 2020. The fair value reflects the continued impact of the COVID-19 pandemic on international air traffic and the resulting impact on Aireon's operations and revenue. Included in the fair value presented in the statement of financial position are dividends receivable of $74 CDN ($61 U.S.) (August 31, 2020 - $76 CDN ($58 U.S.)).

The write-down recorded as at May 31, 2021 was $36 CDN ($30 U.S.) as compared to a write-down of $112 CDN ($82 U.S.) recorded as at May 31, 2020. The fair value write-downs were partially offset by the accrual of dividend income of $3 CDN ($2 U.S.) and $9 CDN ($7 U.S.) in the three and nine months ended May 31, 2021 and 2020.

The carrying value remains above the initial investment cost.

In addition, as a result of the decrease in the fair value, the related net deferred tax liability decreased to $12 CDN ($10 U.S.) as at May 31, 2021 (August 31, 2020 - $21 CDN ($16 U.S.)).

5. Financing Activities

On February 9, 2021, the Company issued $500 of General Obligation Notes in two series: $300 Series 2021-1 General Obligation Notes with an annual interest rate of 0.937%, maturing on February 9, 2026 and $200 Series 2021-2 General Obligation Notes with an annual interest rate of 0.555%, maturing on February 9, 2024.

On February 18, 2021, the Company repaid the $250 Series MTN 2011-1 General Obligation Notes with net proceeds of the issuance. Remaining proceeds of the notes issued will be used for general corporate purposes.

6. Pension Plans

The Company continues to meet the funding requirements of its two defined benefit registered pension plans, the NAV CANADA Pension Plan (NCPP) and the NAV CANADA Executive Pension Plan (NCEPP), in accordance with the regulations of the Office of the Superintendent of Financial Institutions Canada (OSFI). Effective January 1, 2021 and subject to OSFI approval, the NCEPP will be merged into the NCPP, with executive pensionable service accruing before April 1, 2022 continuing to be defined by the current NCEPP provisions, but within the NCPP. With the relative sizes of the two plans, the merger has minimal impact on the NCPP and no impact on NAV CANADA's aggregate obligations. However, until OSFI grants its approval, the two plans will continue to operate independently.

The latest actuarial valuation of the NCPP (for funding purposes), including the impact of the merger, was performed as at January 1, 2021 and filed with OSFI in June 2021. The actuarial valuation for funding purposes of the pension plans performed as at January 1, 2021 reported a going concern surplus of $1,297 (January 1, 2020 – $933).

The regulations governing the funding of federally regulated pension plans include a solvency test, which assumes a plan is terminated as at the valuation date. The actuarial valuation for funding purposes performed as at January 1, 2021 reported a statutory solvency deficiency of $501 (January 1, 2020 - $192).

Once the valuation report is filed, pension contributions are based on the January 1, 2021 actuarial valuation. 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. At January 1, 2021, outstanding letters of credit represent 6% of solvency liabilities (January 1, 2020 - 7%).

7. Rate Stabilization Account

As at May 31, 2021, the rate stabilization account had a debit balance of $497 (see "RESULTS OF OPERATIONS – Amounts Considered for Rate Setting Purposes").

The rate stabilization account changed by $242 due to the $221 initially approved adjustment to the rate stabilization account resulting from the planned shortfall in fiscal 2021 and $21 of net unfavourable variances from planned results. Rate stabilization adjustments are described under "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account".

(millions of Canadian dollars)

RESULTS OF OPERATIONS

Revenue

The following table provides a summary of revenue by category. Our fiscal 2020 AIF and the notes to our Q3 fiscal 2021 financial statements provide more information about the different categories of our customer service charges.

	Three months ended May 31			
	2021	2020	$ Change	% Change
Enroute	$ 109	$ 72	$ 37	51%
Terminal	58	56	2	4%
Daily / annual / quarterly	4	6	(2)	(33%)
North Atlantic and international communication	13	7	6	86%
Total customer service charges	184	141	43	30%
Other (1)	12	18	(6)	(33%)
	$ 196	$ 159	$ 37	23%

	Nine months ended May 31			
	2021	2020	$ Change	% Change
Enroute	$ 309	$ 404	$ (95)	(24%)
Terminal	191	314	(123)	(39%)
Daily / annual / quarterly	14	49	(35)	(71%)
North Atlantic and international communication	36	31	5	16%
Total customer service charges	550	798	(248)	(31%)
Other (1)	27	47	(20)	(43%)
	$ 577	$ 845	$ (268)	(32%)

(1) Other revenue consists of service and development contracts, conference centre services at our facility in Cornwall (Ontario), the sale of civil aeronautical publications and other miscellaneous revenue.

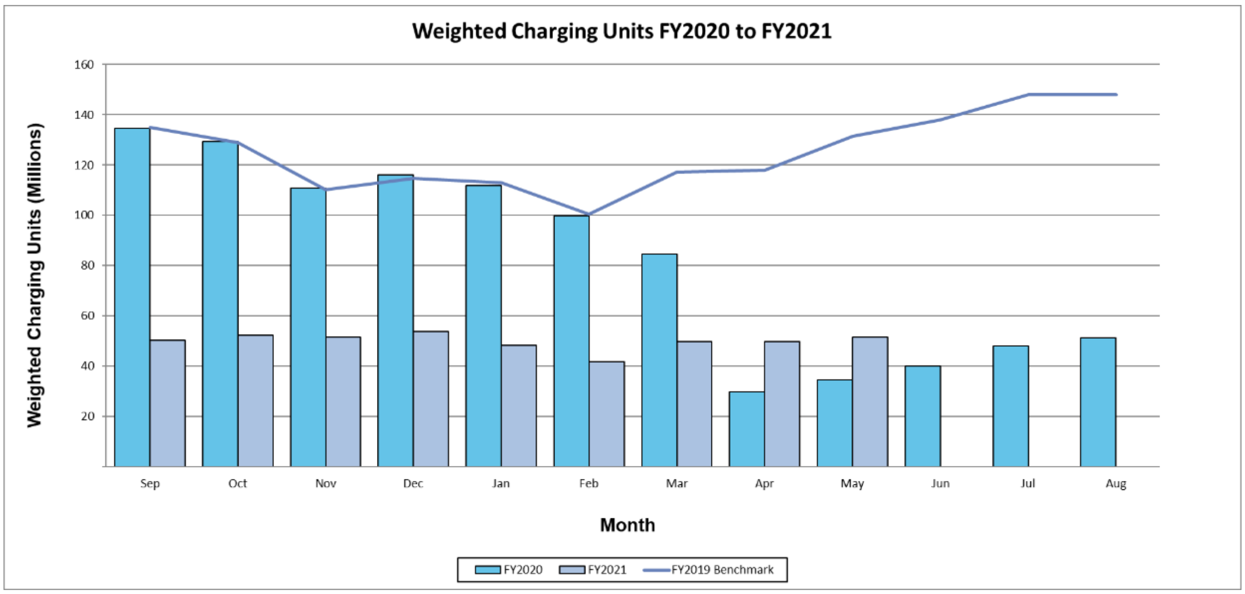
Revenue from customer service charges during the three months ended May 31, 2021 increased by $43 compared to the same period in fiscal 2020. The increase reflects both a year-over-year increase in air traffic levels of 1.6%, as measured in WCUs, as well as the increase in customer service charges, whereby base rates increased on average by 29.5%, effective September 1, 2020. As compared to fiscal 2019 however, revenue remains significantly lower.

Revenue from customer service charges during the nine months ended May 31, 2021 decreased by $248 compared to the same period in fiscal 2020, primarily due to the COVID-19 pandemic which continues to have a significant negative impact on air traffic levels. The Company saw air traffic decrease 47.1% year-over-year, as measured in WCUs. Excluding the effect of an extra day for the leap year in fiscal 2020, air traffic levels in the first nine months of fiscal 2021 decreased 46.9%. This has been partially offset by revised customer service charges, effective September 1, 2020, that increased overall rate levels by an average of 29.5%.

Other revenue during the three and nine months ended May 31, 2021 decreased by $6 and $20, respectively, compared to the same periods in fiscal 2020, primarily due to decreased revenue from service and development contracts and the closure of the NAV CENTRE to the general public as a result of the COVID-19 pandemic.

Air Traffic

Air traffic levels (as measured in WCUs) in the third quarter of fiscal 2021 continue to reflect the ongoing negative impact of the COVID-19 pandemic, which impacted revenue commencing in the third quarter of fiscal 2020. Air traffic levels during the three months ended May 31, 2021 began to exceed those seen in the same period of fiscal 2020 but continued to trend significantly lower than pre-pandemic levels.



Future air traffic levels may be influenced by numerous factors, including the speed of recovery of air traffic following the COVID-19 pandemic, other epidemics or pandemics, rate of economic growth or decline, changing air passenger demand or willingness to fly, aircraft capacity utilization levels, fuel costs, changes in air carrier operations and behaviours, general aviation industry conditions, air carrier competition, airline restructurings and insolvencies, terrorist activities, government interventions, travel restrictions and closings of borders to air travel, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from manmade sources) and demographic patterns.

(millions of Canadian dollars)

Operating Expenses

	Three months ended May 31			
	2021	2020	$ Change	% Change
Salaries and benefits	$ 196	$ 244	$ (48)	(20%)
Technical services	42	37	5	14%
Facilities and maintenance	15	15	-	- %
Depreciation and amortization	39	41	(2)	(5%)
Other	13	14	(1)	(7%)
	$ 305	$ 351	$ (46)	(13%)

Salaries and benefits expense during the three months ended May 31, 2021 decreased by $48 compared to the same period in fiscal 2020 primarily due to CEWS receipts, as the Company did not begin to receive payments from the program until May 2020. In addition, pension current service costs are lower as a result of a decrease in overall staffing levels and the future salary rate assumption at August 31, 2020 compared to August 31, 2019. Salaries and benefit costs were also lower as a result of cost-saving measures taken to address the impacts of the pandemic, including workforce adjustments implemented in the first half of fiscal 2021 and early retirement incentives offered in the latter half of fiscal 2020.

	Nine months ended May 31			
	2021	2020	$ Change	% Change
Salaries and benefits	$ 609	$ 786	$ (177)	(23%)
Technical services	121	103	18	17%
Facilities and maintenance	44	51	(7)	(14%)
Depreciation and amortization	117	117	-	- %
Other	40	50	(10)	(20%)
	$ 931	$ 1,107	$ (176)	(16%)

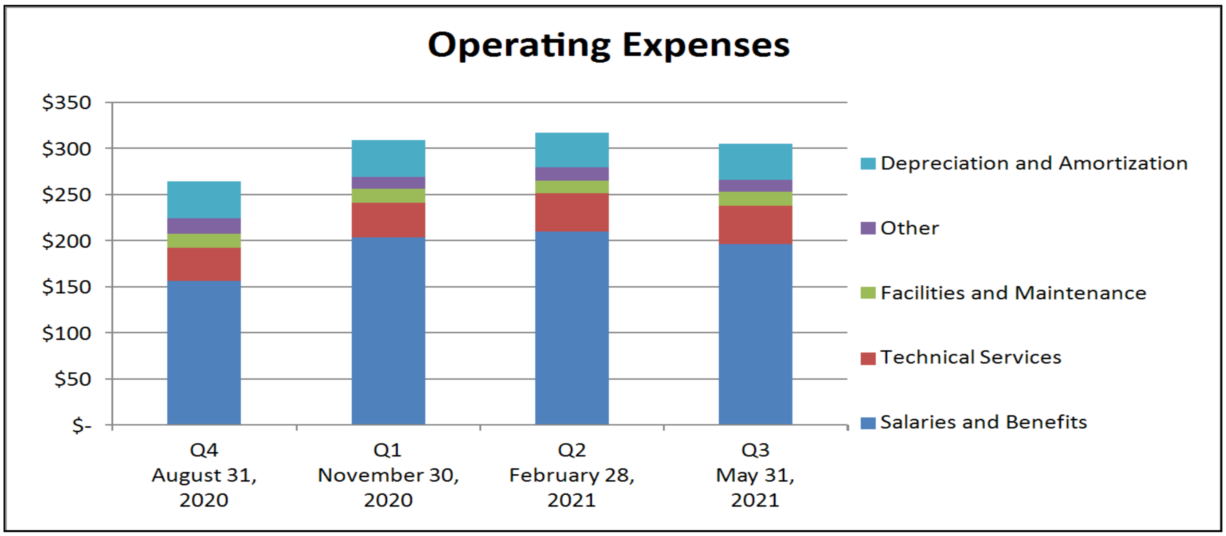
Salaries and benefits expense during the nine months ended May 31, 2021 decreased by $177 compared to the same period in fiscal 2020 primarily due to CEWS receipts, as the Company did not begin to receive payments from the program until May 2020. In addition, overtime costs were lower as a result of the significant decrease in air traffic levels as a result of the COVID-19 pandemic. Pension current service costs are also lower as a result of a decrease in overall staffing levels and the future salary rate assumption at August 31, 2020 compared to August 31, 2019. The impact of cost-saving measures taken related to salaries to address the impacts of the pandemic, including management compensation reductions, ending the terms of temporary employees, as well as offering early retirement incentives in the latter half of fiscal 2020, are largely offset by severance and termination costs related to restructuring efforts undertaken in the first half of fiscal 2021.

Technical services expense during the nine months ended May 31, 2021 increased by $18, compared to the same period in fiscal 2020 primarily due to the cost of oceanic space-based surveillance data services, which came into effect in January 2020.

Facilities and maintenance expense during the nine months ended May 31, 2021 decreased by $7 compared to the same period in fiscal 2020 primarily due to location lock downs and the closure of the NAV CENTRE to the general public as a result of the pandemic.

Other expenses during the nine months ended May 31, 2021 decreased by $10 compared to the same period in fiscal 2020 primarily due to cost containment efforts resulting in lower travel and relocation costs. The decreases are partially offset by an increase in bad debt expense as a result of recording a provision for lifetime estimated credit losses as discussed in "LIQUIDITY AND CAPITAL RESOURCES – Financial Instruments and Risk Management".

While our operating expenses have historically demonstrated a stable pattern, beginning in the three months ended May 31, 2020, the Company was impacted by the COVID-19 pandemic resulting in a significant decline in air traffic levels. The reduction in air traffic levels led to a reduction in overtime costs and the receipt of the CEWS beginning in May 2020 helped to partially offset compensation costs. During the first quarter of fiscal 2021, the Company continued restructuring efforts, resulting in an increase in severance and termination costs. Savings related to these efforts began to be realized in the third quarter of fiscal 2021. Company-wide cost reduction efforts have been a key focus, particularly with respect to discretionary expenditures.



(millions of Canadian dollars)

Other (Income) and Expenses (including Income Tax Recovery)

	Three months ended May 31		
	2021	2020	$ Change
Finance income			
Interest income	$ -	$ (1)	$ (1)
Net change in fair value of financial assets at FVTPL (1)			
Other investments	1	(1)	(2)
Total finance income	1	(2)	(3)
Net interest expense relating to employee benefits	14	16	2
Other finance costs			
Interest expense	20	18	(2)
Net change in fair value of financial assets at FVTPL (1)			
Investment in preferred interests	33	109	76
	53	127	74
Other (gains) and losses			
Foreign exchange (gains) and losses	16	(12)	(28)
Other losses	2	-	(2)
	18	(12)	(30)
	$ 86	$ 129	$ 43
Income tax recovery	$ (9)	$ (27)	$ (18)

	Nine months ended May 31		
	2021	2020	$ Change
Finance income			
Interest income	$ (2)	$ (2)	$ -
Net change in fair value of financial assets at FVTPL (1)			
Other investments	2	(3)	(5)
Total finance income	-	(5)	(5)
Net interest expense relating to employee benefits	41	47	6
Other finance costs			
Interest expense	67	55	(12)
Net change in fair value of financial assets at FVTPL (1)			
Investment in preferred interests	27	103	76
	94	158	64
Other (gains) and losses			
Foreign exchange (gains) and losses	23	(14)	(37)
Share of net gain of equity-accounted investee	-	(1)	(1)
Other gains	(1)	-	1
	22	(15)	(37)
	$ 157	$ 185	$ 28
Income tax recovery	$ (7)	$ (27)	$ (20)

(millions of Canadian dollars)

(1) The net change in fair value of financial assets at fair value through profit or loss (FVTPL) includes interest and dividend income related to those financial assets.

Interest expense increased by $2 and $12, respectively, during the three and nine months ended May 31, 2021 compared to the same periods in fiscal 2020 primarily due to interest expense related to the $550 Series 2020-1 and $300 Series 2020-2 General Obligation Notes issued in May 2020.

During the three and nine months ended May 31, 2021, the net change in fair value of the investment in preferred interests of Aireon was a loss of $33 and $27, respectively, as compared to a loss of $109 and $103 for the three and nine months ended May 31, 2020. The write-down recorded as at May 31, 2021 was $36 CDN ($30 U.S.) as compared to a write-down of $112 CDN ($82 U.S.) recorded as at May 31, 2020. The fair value write-downs were partially offset by the accrual of dividend income of $3 CDN ($2 U.S.) and $9 CDN ($7 U.S.) in the three and nine months ended May 31, 2021 and 2020.

Foreign exchange losses increased by $28 and $37, respectively, during the three and nine months ended May 31, 2021 compared to the same periods in fiscal 2020 primarily due to the impact of the fluctuation of the Canadian dollar against the U.S. dollar on the Company's investment in preferred interests of Aireon.

The write-down of the fair value of the investment in preferred interests of Aireon resulted in an income tax recovery of $9 CDN ($7 U.S.) for the three months ended May 31, 2021 as a result of the reduction in the net deferred tax liability. The income tax recovery of $7 CDN ($6 U.S.) for the nine months ended May 31, 2021 is net of an increase in the deferred tax liability related to the tax treatment of accrued dividend income.

Net Movement in Regulatory Deferral Accounts Related to Net Income (Loss)

The net movement in regulatory deferral accounts related to net income (loss) represents the regulatory accounting adjustments, including the rate stabilization mechanism, to adjust the accounting recognition of certain transactions to the periods in which they will be considered for rate setting.

	Three months ended May 31		
	2021	2020	$ Change
Rate stabilization account (1)	$ 119	$ 169	$ (50)
Other regulatory deferral accounts			
Employee benefit pension contributions	35	42	(7)
Other employee benefits	(3)	(2)	(1)
Investment in preferred interests, before tax	51	97	(46)
Income tax	(11)	(26)	15
Allowance for doubtful accounts	3	-	3
	$ 194	$ 280	$ (86)

(millions of Canadian dollars)

	Nine months ended May 31		
	2021	2020	$ Change
Rate stabilization account [1]	$ 242	$ 171	$ 71
Other regulatory deferral accounts			
Employee benefit pension contributions	97	130	(33)
Other employee benefits	(7)	(4)	(3)
Investment in preferred interests, before tax	53	87	(34)
Investment in equity-accounted investee	-	(1)	1
Income tax	(9)	(25)	16
Realized hedging transactions	1	1	-
Allowance for doubtful accounts	8	-	8
	$ 385	$ 359	$ 26

(1) The movements in the rate stabilization account are detailed in the table below under "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account".

To adjust the total pension benefit expense to reflect the cash contributions to be recovered through rate setting, the net movement in the employee benefit pension contributions regulatory deferral account for the three and nine months ended May 31, 2021 was $35 and $97, respectively, compared to $42 and $130 for the three and nine months ended May 31, 2020. The decrease in the regulatory deferral account is largely due to the decrease in pension current service costs as a result of a decrease in overall staffing levels and the future salary rate assumption at August 31, 2020 compared to August 31, 2019.

The change in the net movement in regulatory deferral related to the Company's investment in preferred interests of Aireon, before tax of $46 and $34, respectively, during the three and nine months ended May 31, 2021, is primarily due to the lower write-down of the fair value of the investment in preferred interests of Aireon as at May 31, 2021 as compared to the write down as at May 31, 2020, as well as the change in foreign exchange impacts due to fluctuation of the Canadian dollar against the U.S. dollar, as discussed in "RESULTS OF OPERATIONS – Other (Income) and Expenses (Including Income Tax Recovery)".

The $3 and $8 net movement in the allowance for doubtful accounts regulatory deferral account for the three and nine months ended May 31, 2021, respectively, is a result of deferring the non-cash impact of accounting for lifetime expected credit losses recorded on the deferred customer service charge base rate increase. See "LIQUIDITY AND CAPITAL RESOURCES – Financial Instruments and Risk Management".

The change in net movement in regulatory deferral of income tax during the three and nine months ended May 31, 2021 of $15 and $16, respectively, reflects the decrease in the net deferred tax liability as a result of the decrease in fair value of the investment in preferred interests of Aireon as at May 31, 2021, partially offset by an increase in the deferred tax liability related to the tax treatment of accrued dividend income.

(millions of Canadian dollars)

Movements in Rate Stabilization Account

Our rate stabilization mechanism and accounting are described at the beginning of this MD&A and in notes 1 and 7 of our fiscal 2020 annual financial statements. The table below shows the movements in the rate stabilization account.

	Three months ended May 31		
	2021	2020	$ Change
Credit (debit) balance on the statement of financial position, beginning of period	$ (378)	$ 91	$ (469)
Variances from planned results:			
Revenue lower than planned	(102)	(216)	114
Operating expenses lower than planned	54	50	4
Other (income) and expenses higher than planned	(45)	(77)	32
Net movement in other regulatory deferral accounts	48	83	(35)
Total variances from planned results	(45)	(160)	115
Initial approved adjustment	(74)	(9)	(65)
Net movement in rate stabilization account recorded in net loss	(119)	(169)	50
Credit balance on the statement of financial position, end of period	$ (497)	$ (78)	$ (419)

The $119 net movement in the rate stabilization account during the third quarter of fiscal 2021 is due to:

- revenue that was $102 lower than planned primarily due to lower air traffic levels as well as lower revenue from service and development contracts;
- the planned adjustment of $74, representing the third quarter of fiscal 2021 portion of the anticipated $295 annual net loss at the time the fiscal 2021 budget was approved; and
- other expenses that were $45 higher than planned primarily due to the decrease in the fair value of the investment in preferred interests of Aireon of $33 and net foreign exchange losses of $16 on our investment in preferred interests of Aireon, partially offset by an income tax recovery of $9 as a result of the decrease in fair value of the investment in preferred interests of Aireon;

partially offset by:

- operating expenses that were $54 lower than planned primarily due to unbudgeted CEWS receipts, lower overtime costs and the Company's continued efforts to reduce discretionary spending amid the COVID-19 pandemic; and
- net movement in other regulatory deferral accounts that was $48 higher than planned primarily due to:
    - a regulatory adjustment of $33 to offset the decrease in fair value in the investment in preferred interests of Aireon;

(millions of Canadian dollars)

- a regulatory adjustment of $16 related to the deferral of foreign exchange losses on our investment in preferred interests of Aireon; and
- a regulatory adjustment of $3 related to the allowance for doubtful accounts as a result of increased lifetime expected credit losses recorded on the receivable amount from the deferral of the customer service charge base rate increase; partially offset by
- a regulatory adjustment of $9 related to the deferral of income tax recoveries due to the decrease in fair value of the investment in preferred interests of Aireon.

	Nine months ended May 31		
	2021	2020	$ Change
Credit (debit) balance on the statement of financial position, beginning of period	$ (255)	$ 93	$ (348)
Variances from planned results:			
Revenue lower than planned	(125)	(231)	106
Operating expenses lower than planned	92	65	27
Other (income) and expenses higher than planned	(50)	(82)	32
Net movement in other regulatory deferral accounts	62	104	(42)
Total variances from planned results	(21)	(144)	123
Initial approved adjustment	(221)	(27)	(194)
Net movement in rate stabilization account recorded in net loss	(242)	(171)	(71)
Credit balance on the statement of financial position, end of period	$ (497)	$ (78)	$ (419)

The $242 net movement in the rate stabilization account during the nine months ended May 31, 2021 is primarily due to:

- the planned adjustment of $221, representing three quarters of the anticipated annual net loss at the time the fiscal 2021 budget was approved;
- revenue that was $125 lower than planned primarily due to lower air traffic levels as well as lower revenue from service and development contracts; and
- other expenses that were $50 higher than planned, primarily due to the decrease in the fair value of the investment in preferred interests of Aireon of $31 and foreign exchange losses of $24 on our investment in preferred interests of Aireon, partially offset by an income tax recovery of $7 largely due to the decrease in fair value of the investment in preferred interests of Aireon;

partially offset by:

- operating expenses that were $92 lower than planned, primarily due to unbudgeted CEWS receipts, lower overtime and restructuring costs than planned and the Company's continued efforts to reduce discretionary spending amid the COVID-19 pandemic; and
- net movement in other regulatory deferral accounts that was $62 higher than planned primarily due to:

(millions of Canadian dollars)

- a regulatory adjustment of $31 to offset the decrease in fair value in the investment in preferred interests of Aireon;
- a regulatory adjustment of $24 related to the deferral of foreign exchange losses on our investment in preferred interests of Aireon; and
- a regulatory adjustment of $8 related to the allowance for doubtful accounts as a result of increased lifetime expected credit losses recorded on the receivable amount from the deferral of the customer service charge base rate increase; partially offset by
- a regulatory adjustment of $7 related to the deferral of income tax recoveries largely due to the decrease in fair value of the investment in preferred interests of Aireon.

Other Comprehensive Income (Loss)

The accounting recognition of other comprehensive income (loss) amounts are offset by regulatory deferrals in order to defer the accounting recognition to the periods 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, and re-measurements of unfunded defined employee benefit plans, which are considered for rate setting over the employees' average expected remaining service period.

	Three months ended May 31		
	2021	2020	$ Change
Items that will be reclassified to income or (loss):			
Changes in fair value of cash flow hedges	$ (2)	$ -	$ (2)
Net movement in regulatory deferral accounts	2	-	2
Total other comprehensive income (loss)	$ -	$ -	$ -

	Nine months ended May 31		
	2021	2020	$ Change
Items that will not be reclassified to income or (loss):			
Re-measurements of employee defined benefit plans	$ 647	$ -	$ 647
Net movement in regulatory deferral accounts	(647)	-	(647)
	-	-	-
Items that will be reclassified to income or (loss):			
Amortization of loss on cash flow hedges	$ 1	$ 1	$ -
Changes in fair value of cash flow hedges	(2)	-	(2)
Net movement in regulatory deferral accounts	1	(1)	2
Total other comprehensive income (loss)	$ -	$ -	$ -

Re-measurement gains on the Company's funded pension plans of $647 were recorded during the nine months ended May 31, 2021 as a result of an increase in the discount rate to 3.2% (August 31, 2020 – 2.8%). The re-measurement gains were comprised of actuarial gains of $621 and a return on plan assets $26 greater than expected based on the discount rate at August 31, 2020.

(millions of Canadian dollars)

Amounts Considered for Rate Setting Purposes

As discussed under "INTRODUCTION – Financial Strategy and Rate Regulation", when establishing customer service charges the Company monitors quarterly and considers, among other things:

(a) air traffic results and forecasts;

(b) financial and operating requirements, including our current and anticipated balance in the rate stabilization account and the extent to which our operating costs are variable and can be contained;

(c) the recovery of pension contributions on a cash basis; and

(d) updates to our financial forecasts, debt servicing and financial requirements, and resulting financial coverage ratios.

The table below shows the balance of the rate stabilization account and the amount of regulatory pension cash contributions to be recovered at a later date:

	May 31 2021	August 31 2020	$ Change
Rate stabilization account debit balance	$ 497	$ 255	$ 242
Regulatory pension cash contributions to be recovered at a later date	$ 34	$ 34	$ -

Financial Outlook[2]

As noted previously under "INTRODUCTION - Caution Concerning Forward-Looking Information" and "INTRODUCTION - Significant Financial Matters", the COVID-19 pandemic began impacting revenue commencing in the third quarter of fiscal 2020. Since that time, movement-based air traffic, as measured in WCUs, has continued to trend well below pre-pandemic volumes.

While the full duration and scope of the pandemic is not known at this time, it is expected to continue to have a negative impact on air travel domestically and globally in the near-term.

Presented below are the Company's current projected annual consolidated results before rate stabilization for fiscal 2021 compared to fiscal 2020 actual results. These projections reflect the assumption that air traffic movements will not recover in fiscal 2021 and that recovery will be delayed into our fiscal year ending August 31, 2022 (fiscal 2022). In developing its forecast for the remainder of fiscal 2021, the Company noted several critical uncertainties, including:

- continued occurrence of COVID-19 outbreaks;
- emergence and travel-related spread of new COVID-19 strains;
- additional or continued travel restrictions and quarantine requirements;
- timing of Canadian vaccine distribution; and
- limited aviation industry specific support in Canada.

2 Note: See "INTRODUCTION – Caution Concerning Forward-Looking Information", page 1

(millions of Canadian dollars)

This is a subjective assessment and assumes that international air travel restrictions, scheduled carrier flight reductions and a general reluctance to travel by consumers would continue. Significant easing of travel restrictions and in government actions to limit or curtail COVID-19 transmission both domestically and internationally could result in commercial air traffic recovering more quickly than forecast.

The Company continues to assess the impact of the revenue reductions on operations and is managing operating costs and capital spending accordingly.

	Fiscal 2021	Fiscal 2020	$ Change	% Change
Before rate stabilization				
Revenue	$ 798	$ 1,000	$ (202)	(20%)
Operating expenses and other (income) and expenses, including other regulatory adjustments	1,276	1,348	(72)	(5%)
Net loss before rate stabilization adjustments	$ (478)	$ (348)	$ (130)	

Revenue

Revenue in fiscal 2021 is expected to decrease to $798 from $1,000 in fiscal 2020 primarily due to a forecasted decline in air traffic levels of 38.1% on a year-over-year basis and 59.2% as compared to fiscal 2019 levels, as measured in WCUs, partially offset by the increase in customer service charge base rates by an average of 29.5%, effective September 1, 2020 (see "RESULTS OF OPERATIONS – Revenue"), as well as a decrease in other revenues.

In our Q2 fiscal 2021 MD&A, we had disclosed anticipated revenue of $808 for fiscal 2021 and forecasted a 37.7% decline in air traffic. The decrease in revenue is due to continued travel restrictions and reduced consumer demand as a result of the COVID-19 pandemic and the impact on revenue from customer service charges lasting longer than originally anticipated.

Operating Expenses and Other (Income) and Expenses

Operating expenses and other (income) and expenses before rate stabilization for fiscal 2021 are expected to be $1,276. This is a decrease of 5% compared to fiscal 2020 primarily due to:

- reduced compensation levels largely due to early retirements in fiscal 2020 through the Company's early retirement incentive program and higher forecasted CEWS receipts as a result of the extension of the program to September 25, 2021 offsetting the costs associated with workforce reductions;
- reduced overtime costs as a result of the decrease in air traffic movements for the full year; and
- reduced travel and facilities costs, as the Company continues to reduce discretionary spending where possible;

partially offset by:

- increased satellite surveillance costs, as we began paying for oceanic space-based surveillance data services in January 2020, in addition to the domestic space-based surveillance data services which commenced in September 2019;

- increased operational requirements, largely related to telecommunications and systems maintenance and development costs to ensure the safe operation and maintenance of the air navigation system as an essential service;
- increased pension current service contributions, largely due to the timing of the true-up of contributions based on the January 1, 2020 funding valuation filed in September 2020; and
- increased interest costs as a result of the Company's higher debt levels.

In our Q2 fiscal 2021 MD&A, we had disclosed anticipated operating expenses and other (income) and expenses, before rate stabilization of $1,286 for fiscal 2021. The decrease of $10 is primarily due to increased CEWS receipts due to the extension of the program.

Cash Flows

Given the expected net cash outflows from operations, investing and financing activities in fiscal 2021, the Company's cash position is currently anticipated to be $233 as at August 31, 2021 (August 31, 2020 - $689).

This cash outlook includes anticipated annual cash outflows from operating activities of $504, largely due to reduced customer service charge revenue as a result of lower air traffic levels and the ability for customers to defer cash payments of the September 1, 2020 increase in base rates as well as lower receipts from other revenue. Payments to employees and suppliers are expected to increase, largely due to costs incurred associated with workforce reductions along with the payment of economic increases deferred in fiscal 2020 to fiscal 2021. We also expect higher pension contributions due to the timing of the true-up of contributions based on the January 1, 2020 funding valuation filed in September 2020. In addition, the Company's interest payments have increased as a result of higher debt levels. Partially offsetting these increased cash outflows are higher CEWS receipts as a result of the extension of the program.

Expected net cash outflows from financing activities of $3 relate to payment of lease liabilities. The repayment of the $250 Series MTN 2011-1 General Obligation Notes and bank loans of $223 (net of expenses), as well as the annual amortization payment of $25 for the Series 97-2 amortizing revenue bonds are offset by the issuance of $500 of General Obligation Notes.

The expected cash outflows from operating and financing activities are partially offset by $53 of cash inflows from investing activities, largely due to proceeds from the maturity of short-term investments, partially offset by lower capital expenditures.

In our Q2 fiscal 2021 MD&A, we had disclosed an anticipated cash position of $201 at the end of fiscal 2021. The increase is largely due to higher CEWS receipts as a result of the extension of the program, higher other receipts and lower capital expenditures.

Rate Stabilization Account

The Company currently anticipates that the rate stabilization account will be in a debit position of $733 at the end of fiscal 2021 (August 31, 2020 – $255). This is mainly as a result of the impact of the COVID-19 pandemic on air traffic levels resulting in a significant decrease in customer service charge revenue compared to the Company's operational requirements in order to ensure the safe operation and maintenance of the air navigation system as an essential service and to protect the safety of its employees. The current and anticipated balance in the rate stabilization account (see "RESULTS OF OPERATIONS – Amounts Considered for Rate Setting Purposes") is a consideration in the setting of rates as well as future cost containment measures to be taken.

The rate stabilization balance is not expected to change from that disclosed in our Q2 fiscal 2021 MD&A as lower anticipated revenue is expected to be offset by further reductions to operating expenses and other (income) and expenses before rate stabilization as discussed above.

Earnings and Cash Flow Coverage

During a fiscal year, quarterly revenue from customer service charges will reflect seasonal or other fluctuations in the airline industry and therefore our net results vary from quarter to quarter. Our mandate to operate on essentially a financial breakeven basis results in a planned earnings coverage ratio – calculated on the basis of earnings before interest divided by interest expense – that is close to one-to-one. However, the seasonal nature of our revenue may result in an earnings coverage ratio of less than one-to-one for any interim period. As a result of the COVID-19 pandemic, the normal seasonality pattern is not expected to occur in fiscal 2021 and will impact the earnings coverage ratio as well.

For the twelve months ended May 31, 2021, the Company had a net loss of $58. Our interest costs were $91. Consolidated earnings (after rate stabilization) before interest costs were $33, which is 0.36 times our interest requirement for this period and below our one-to-one earnings coverage ratio target due to the impact of the pandemic. Depreciation and amortization expense for this period was $157. Our cash flow coverage was 2.09 times our interest requirement for this period.

Earnings coverage ratio and cash flow coverage are non-GAAP financial measures and do not have any standardized meaning prescribed by IFRS. The earnings coverage ratio and cash flow coverage are provided pursuant to and in compliance with National Instrument 44-102 *Shelf Distributions* of the Canadian Securities Administrators. The Company calculates the earnings coverage ratio on the basis of earnings before interest expense on financial liabilities at amortized cost (interest expense) divided by interest expense. Cash flow coverage is calculated on the basis of earnings (after rate stabilization) before interest expense, depreciation and amortization divided by interest expense. Under the *Income Tax Act* (Canada), NAV CANADA, excluding its subsidiaries, is not subject to income taxes and accordingly, no deduction for income taxes has been made. After the application of rate regulated accounting, the provision for income taxes related to our taxable subsidiaries is not significant.

We maintain a debt service reserve fund and an operations and maintenance reserve under the master trust indenture (MTI) and we are subject to liquidity covenants under the general obligation indenture (GOI), designed to cover 12 months interest on borrowings and 25% of our annual operating and maintenance expenses. As at May 31, 2021, we were in full compliance with our debt indentures, including the MTI's requirements regarding the reserve funds, the flow of funds and with the rate covenants, as well as the liquidity and other provisions of the GOI. The Company has received temporary relief from compliance with the rate covenants and certain provisions under the additional indebtedness covenants under each of the MTI and the GOI, as the case may be, in respect of its fiscal years ending August 31, 2021, 2022 and 2023.

Related Party Transactions

The Company's related parties include its key management personnel, subsidiaries, joint ventures, entities in which it has a significant influence and registered pension plans for its employees. The transactions with these related parties are not materially different from what was reported in the fiscal 2020 annual MD&A.

(millions of Canadian dollars)

SUMMARY OF QUARTERLY RESULTS

Quarterly Financial Information (unaudited)

	Three months ended			
	Q3 May 31 2021	Q2 February 28 2021	Q1 November 30 2020	Q4 August 31 2020
Revenue	$ 196	$ 179	$ 202	$ 155
Operating expenses	305	317	309	264
Other (income) and expenses	86	40	31	56
	(195)	(178)	(138)	(165)
Income tax expense (recovery)	(9)	2	-	(1)
Net loss before net movement in regulatory deferral accounts	(186)	(180)	(138)	(164)
Net movement in regulatory deferral accounts related to net income (loss), net of tax				
Rate stabilization adjustments	119	81	42	177
Other regulatory deferral account adjustments	75	42	26	48
	194	123	68	225
Net income (loss) after net movement in regulatory deferral accounts	$ 8	$ (57)	$ (70)	$ 61

	Three months ended			
	Q3 May 31 2020	Q2 February 29 2020	Q1 November 30 2019	Q4 August 31 2019
Revenue	$ 159	$ 322	$ 364	$ 412
Operating expenses	351	387	369	374
Other (income) and expenses	129	25	31	32
	(321)	(90)	(36)	6
Income tax recovery	(27)	-	-	(3)
Net income (loss) before net movement in regulatory deferral accounts	(294)	(90)	(36)	9
Net movement in regulatory deferral accounts related to net income (loss), net of tax				
Rate stabilization adjustments	169	2	-	21
Other regulatory deferral account adjustments	111	38	39	30
	280	40	39	51
Net income (loss) after net movement in regulatory deferral accounts	$ (14)	$ (50)	$ 3	$ 60

Discussion of Quarterly Results

Historically, the quarterly variations in revenue have mainly reflected seasonal fluctuations. Typically, revenue is highest in our fourth quarter (June to August) as a result of increased air traffic in the summer months, and the second quarter (December to February) has the lowest air traffic levels. The COVID-19 pandemic and the resulting economic contraction continues to have a significant negative impact on global air traffic and the aviation industry, therefore the normal seasonality pattern is not expected to occur in fiscal 2021. The Company's air traffic levels increased 1.6% over the course of the third quarter of fiscal 2021, as measured in WCUs. However, in comparison to pre-pandemic levels experienced over the same period of fiscal 2019, air traffic levels decreased 58.7%.

The majority of our operating expenses are incurred evenly throughout the year. To offset the significant reduction in revenue as a result of the COVID-19 pandemic, the Company continues to review, monitor and manage spending.

Other (income) and expenses fluctuate primarily due to:

- fair value adjustments on investments, including the investment in preferred interests of Aireon, which change based on market factors and changes in expectations of credit losses;
- changes in net interest expense relating to employee benefits as a result of changes in discount rates; and
- changes in foreign exchange (gains) or losses as a result of the strengthening or weakening of the Canadian dollar compared to foreign currencies in which the Company transacts, mainly the U.S. dollar.

Net movement in regulatory deferral accounts related to net income (loss) fluctuates largely due to:

- changes in the rate stabilization account based on variances from planned results and the initial approved adjustment;
- the recovery of pension solvency deficiency contributions made;
- changes in employee benefit pension contributions and expense;
- changes in other employee benefits, including positive or negative long-term disability (LTD) experience and funding requirements;
- changes in the investment in preferred interests of Aireon, before tax;
- changes in income taxes; and
- changes in allowance for doubtful accounts.

LIQUIDITY AND CAPITAL RESOURCES

Our fiscal 2020 annual MD&A explains how we manage our cash and capital resources. There have been no changes in that approach for the nine months ended May 31, 2021.

As at May 31, 2021, we had $404 of cash and cash equivalents and undrawn committed credit facilities for general purposes of $849, all of which provided the Company with available liquidity. In addition, we had letter of credit facilities for pension funding purposes of $598 of which $49 was undrawn (see "LIQUIDITY AND CAPITAL RESOURCES – Liquidity and Financing Strategy").

(millions of Canadian dollars)

Cash flows for the three months ended May 31, 2021

	Three months ended May 31		
	2021	2020	$ Change
Cash flows from (used in):			
Operating	$ (124)	$ (102)	$ (22)
Investing	58	(26)	84
Financing	(25)	997	(1,022)
Cash flows from (used in) operating, investing and financing activities	(91)	869	(960)
Effect of foreign exchange on cash and cash equivalents	(3)	1	(4)
Increase (decrease) in cash and cash equivalents	(94)	870	(964)
Cash and cash equivalents, beginning of period	498	48	450
Cash and cash equivalents, end of period	$ 404	$ 918	$ (514)
Free cash flow (non-GAAP financial measure):			
Cash flows from (used in):			
Operations	$ (124)	$ (102)	$ (22)
Capital expenditures (1)	(16)	(26)	10
Payment of lease liabilities (1)	-	(1)	1
Free cash flow	$ (140)	$ (129)	$ (11)

(1) See the statement of cash flows in our Q3 fiscal 2021 financial statements.

As shown above, cash and cash equivalents decreased by $94 during the three months ended May 31, 2021 and the Company experienced negative free cash flow of $140, which is a non-GAAP financial measure as discussed in "INTRODUCTION – Financial Highlights: Cash flows for the three months ended May 31, 2021".

Cash outflows from operations for the three months ended May 31, 2021 were $124 compared to $102 for the three months ended May 31, 2020. The variance of $22 was primarily due to lower receipts from customer service charges of $27 as a result of timing of customer service charge payments and the payment deferral provisions in the September 1, 2020 rate increase, higher interest payments of $9, higher payments to employees and suppliers of $7 and lower other receipts of $4, partially offset by higher receipts from the CEWS government relief program of $24 to offset compensation costs.

Cash flows from investing activities for the three months ended May 31, 2021 were inflows of $58 compared to outflows of $26 for the three months ended May 31, 2020. The change of $84 was primarily related to proceeds of $75 from the maturity of short-term investments and lower capital expenditures.

Cash flows from financing activities for the three months ended May 31, 2021 were outflows of $25 compared to inflows of $997 for the three months ended May 31, 2020. The variance of $1,022 was primarily due to net proceeds of $845 from the issuance of the General Obligation Notes and net proceeds from bank loans of $179 in the three months ended May 31, 2020 with no similar transactions during the third quarter of fiscal 2021.

(millions of Canadian dollars)

Cash flows for the nine months ended May 31, 2021

	Nine months ended May 31		
	2021	2020	$ Change
Cash flows from (used in):			
Operating	$ (373)	$ (39)	$ (334)
Investing	94	(106)	200
Financing	(2)	1,032	(1,034)
Cash flows from (used in) operating, investing and financing activities	(281)	887	(1,168)
Effect of foreign exchange on cash and cash equivalents	(4)	1	(5)
Increase (decrease) in cash and cash equivalents	(285)	888	(1,173)
Cash and cash equivalents, beginning of period	689	30	659
Cash and cash equivalents, end of period	$ 404	$ 918	$ (514)
Free cash flow (non-GAAP financial measure):			
Cash flows from (used in):			
Operations	$ (373)	$ (39)	$ (334)
Capital expenditures (1)	(54)	(106)	52
Proceeds from sale of property, plant and equipment (1)	4	-	4
Payment of lease liabilities (1)	(2)	(2)	-
Free cash flow	$ (425)	$ (147)	$ (278)

(1) See the statements of cash flows of our Q3 fiscal 2021 financial statements.

As shown above, cash and cash equivalents decreased by $285 during the nine months ended May 31, 2021 and the Company experienced negative free cash flow of $425, which is a non-GAAP financial measure as discussed in "INTRODUCTION – Financial Highlights: Cash flows for the three months ended May 31, 2021".

Cash outflows from operations for the nine months ended May 31, 2021 were $373 compared to $39 for the nine months ended May 31, 2020, primarily due to lower receipts from customer service charges of $386 as a result of the negative impact of the COVID-19 pandemic on air traffic levels and payment deferral provisions in the September 1, 2020 rate increase, higher interest payments of $19, higher pension current service contributions of $15 and lower other receipts of $12. The cash outflows were partially offset by higher receipts from the CEWS government relief program of $82 to offset compensation costs and lower payments to employees and suppliers of $16.

Cash flows from investing activities for the nine months ended May 31, 2021 were inflows of $94 compared to outflows of $106 for the nine months ended May 31, 2020. The change of $200 was primarily related to proceeds of $145 from the maturity of short-term investments and planned reductions to the Company's capital spending program to address the impact of the COVID-19 pandemic.

Cash flows from financing activities for the nine months ended May 31, 2021 were outflows of $2 compared to inflows of $1,032 for the nine months ended May 31, 2020. During the nine months ended May 31, 2021, the Company issued General Obligation Notes for net proceeds of $498 and repaid the $250 Series MTN 2011-1 General Obligation Notes as well as $223 under the Company's syndicated credit facility. During the nine months ended May 31, 2020, the Company issued General Obligation Notes for net proceeds of $845 and also drew $215 from its syndicated credit facility to address near-term liquidity needs as a result of the COVID-19 pandemic.

(millions of Canadian dollars)

Liquidity and Financing Strategy

Our liquidity and financing strategy remains unchanged from that disclosed in our fiscal 2020 annual MD&A.

Effective December 18, 2020, the Company received the requisite amount of valid consents and proxies to temporarily relieve the Company from complying with the rate covenants and certain provisions under the additional indebtedness covenants under each of the MTI governing the Company's outstanding bonds and the GOI governing the Company's outstanding notes. The relief was obtained in light of the significant decline in air traffic levels and economic contraction resulting from the COVID-19 pandemic and apply to its fiscal years ending August 31, 2021, 2022 and 2023.

We are exposed to refinancing risk with respect to our bond and note maturities, including the $25 annual amortizing payment due on the Series 97-2 amortizing revenue bonds. We mitigate this risk by maintaining committed credit facilities in an amount sufficient to meet our refinancing needs in the event of temporary capital market disruptions or lack of access to the market for any reason.

The Company has a revolving credit facility with a syndicate of Canadian financial institutions and separate letter of credit facilities for pension funding purposes. As at May 31, 2021, the credit facilities are utilized as follows:

Credit facilities for general purposes:		
Credit facility with a syndicate of Canadian financial institutions (1) (2)	$	850
Less: Outstanding letters of credit for other purposes (2)		1
Undrawn committed borrowing capacity		849
Less: Operations and maintenance reserve allocation (3)		275
Available for unrestricted use	$	574
Credit facilities for pension funding purposes:		
Letter of credit facilities for pension funding purposes (4)	$	598
Less: Outstanding letters of credit for pension funding purposes (4)		549
Undrawn committed borrowing capacity	$	49

(1) As of May 31, 2021, the Company's credit facility with a syndicate of Canadian financial institutions in the amount of $850 was comprised of two equal tranches maturing on March 26, 2024 and March 26, 2026, respectively. The credit facility agreement provides for loans at varying rates of interest based on certain benchmark interest rates, specifically the Canadian prime rate and the Canadian bankers' acceptance rate, and on the Company's credit rating at the time of drawdown. The Company is required to pay commitment fees, which are dependent on the Company's credit rating. The Company is in compliance with the credit facility covenants as at May 31, 2021.

(2) At May 31, 2021, $1 was drawn from an uncommitted revolving credit facility. In connection with this facility, an allocation of $25 with a Canadian financial institution has been made under its $850 committed credit facility.

(3) The operations and maintenance reserve may be used to pay operating and maintenance expenses, if required (see also "LIQUIDITY AND CAPITAL RESOURCES – Financial Instruments and Risk Management: Reserve Funds and Financial Instruments").

(millions of Canadian dollars)

(4) The letter of credit facilities for pension funding purposes are comprised of four facilities with Canadian financial institutions totalling $598, which will mature on December 31, 2021, unless extended.

The table below shows our long-term debt, liquidity and investments profile.

	May 31 2021	August 31 2020
LONG-TERM DEBT:		
Bonds and notes payable		
Under the MTI	$ 400	$ 425
Under the GOI	2,125	1,875
	2,525	2,300
Adjusted for deferred financing costs	(14)	(12)
Total bonds and notes payable	2,511	2,288
Less: current portion of long-term debt	(25)	(275)
Total long-term debt	$ 2,486	$ 2,013
LIQUIDITY:		
Cash and cash equivalents	$ 404	$ 689
Short-term investments	-	145
Debt service reserve fund	74	73
Undrawn committed borrowing capacity	849	625
Total Liquidity	$ 1,327	$ 1,532

Credit Ratings

The Company's debt obligations have been assigned the following credit ratings:

Rating Agency	Senior Debt	General Obligation Notes	Outlook
Moody's Investors Service (Moody's)	Aa2	Aa2	Stable
Standard & Poor's (S&P)	AA-	A+	Negative

On June 7, 2021, S&P lowered the Company's long-term issuer credit and senior secured debt ratings by one notch to AA- from AA, and its subordinated debt rating to A+ from AA- while the outlook remains negative.

The action is driven by sustained low air traffic which is now expected to persist further into fiscal 2022, resulting in negative earnings before interest, depreciation and amortization and weakened debt metrics beyond their previous expectations. S&P states that they believe that the Company's key financial metrics will begin to demonstrate a material improvement beyond fiscal 2022 and that the deterioration in financial metrics is not reflective of the Company's longer-term credit worthiness and inherent credit strengths.

S&P noted the Company’s following credit strengths:

- Monopolistic business position as the national provider of essential air navigation services (non-military) within Canadian-controlled airspace and legislated ability to levy user charges on airlines to meet financial requirements;
- A relatively wealthy service area, with gross domestic product per capita of almost U.S. $44,400 dollars, covering all of Canada (and beyond), limiting localized economic risks; and
- An experienced and prudent management team that we believe is quickly reacting to adverse market conditions.

They also noted the following credit challenges:

- Protracted weakness in activity levels as a result of the ongoing pandemic is having a significant impact on the company's financial performance, with weak debt service coverage and very high debt leverage expected through fiscal 2022;
- Significantly reduced cash flow generation ability and a weakened rate-setting environment while flight volumes remain materially depressed;
- Limited ability to reduce service levels in line with decline in activity levels; and
- Reliance on lines of credit considered as part of a vulnerable liquidity position.

On January 26, 2021, Moody’s issued a credit opinion affirming NAV CANADA’s base line credit assessment at Aa2 and its senior and subordinated ratings at Aa2. Moody’s noted the Company’s following credit strengths:

- Essential infrastructure asset for the Canadian air transportation system;
- Monopoly provider of civil air navigation services over a very large airspace;
- Legislated right to establish and levy rates and charges as needed to meet financial requirements resulting in good degree of cash flow predictability; and
- Manageable capital expenditure program.

They also noted the following credit challenges:

- Material short-term negative impact of the coronavirus outbreak on revenues due to reduced air traffic activity; and
- Defined benefit pension plan creates recurring calls on cash.

Moody’s stated that “the stable rating outlook reflects our expectation that NAV CANADA will continue to implement the necessary rate increases to compensate for lower levels of air traffic activity as a result of the coronavirus outbreak and that it will maintain a strong liquidity profile.”

(millions of Canadian dollars)

Cash Requirements

The following information about our contractual obligations and other commitments summarizes certain of our liquidity and capital resource requirements that have changed from those reported in our fiscal 2020 annual MD&A.

Contractual Obligations

A breakdown of contractual obligations as at May 31, 2021 for the next five fiscal years and thereafter is presented in the following table. Total contractual obligations exclude commitments for goods and services in the ordinary course of business. Also excluded are other long-term liabilities mainly due to reasons of uncertainty of timing of cash flows and items that are non-cash in-nature.

	Remaining payments – for years ending August 31						
	Total	2021	2022	2023	2024	2025	Thereafter
Derivative liabilities	$ 8	$ 4	$ 3	$ 1	$ -	$ -	$ -
Long-term debt (including current portion) [1], [2]	2,525	-	25	25	225	25	2,225
Interest payments [2]	1,424	13	82	80	78	75	1,096
Capital commitments	129	52	18	11	12	8	28
Lease liability	4	1	3	-	-	-	-
Future lease liability [3]	59	-	-	2	3	3	51
Related party loan [4]	13	13	-	-	-	-	-
Total contractual obligations	$ 4,162	$ 83	$ 131	$ 119	$ 318	$ 111	$ 3,400

(1) Payments represent principal of $2,525. The Company may choose to repay a portion of these maturities with available cash and/or may increase the size of a re-financing to generate additional liquidity or for other purposes, and/or may choose to redeem in whole or in part an issue in advance of its scheduled maturity.

(2) Further details on interest rates and maturity dates on long-term debt are provided in note 14 of the 2020 annual financial statements and note 9 of the Q3 fiscal 2021 financial statements.

(3) The Company has entered into a commitment for the lease of head office space commencing in the fiscal year ending August 31, 2023. The annual commitment is approximately $3 with a term of 20 years. The current head office lease is set to expire on October 31, 2022.

(4) The Company has an agreement with Aireon to provide a subordinated loan up to a total of $13 CDN ($11 U.S.).

The Company's letters of credit are discussed under the heading "LIQUIDITY AND CAPITAL RESOURCES – Liquidity and Financing Strategy".

The Company's contributions to its pension plans are discussed in the fiscal 2020 annual MD&A.

(millions of Canadian dollars)

Capital Management

The Company views capital as the sum of its issued long-term debt, retained earnings (deficit) and accumulated other comprehensive income, regulatory deferral accounts and balances under certain employee benefit plans, as depicted in the following table. This definition of capital is used by management and may not be comparable to measures presented by other companies.

	May 31 2021	August 31 2020
Bonds and notes payable	$ 2,511	$ 2,288
Equity:		
Retained earnings (deficit)	(91)	28
Regulatory deferral accounts:		
Debit balances	(1,795)	(2,112)
Credit balances	128	184
Employee benefits:		
LTD asset	(4)	(4)
Liability for funded pension benefits	1,093	1,643
Liability for accumulating sick leave	16	16
Total capital	$ 1,858	$ 2,043

Management's approach and objectives when managing capital remain unchanged from those described in our fiscal 2020 annual MD&A.

Financial Instruments and Risk Management

Reserve Funds and Financial Instruments

Under the MTI, we maintain a debt service reserve fund and an operations and maintenance reserve. We are also required to meet certain minimum liquidity levels under the GOI. The requirements of the debt service reserve fund and the operations and maintenance reserve remain unchanged from that described in our fiscal 2020 annual MD&A.

Financial Risk Management

The Company is exposed to several risks as a result of holding financial instruments, including interest rate risk, foreign exchange risk, price risk, credit risk and liquidity risk. The Company's exposure to financial risks and how the Company manages each of those risks are described in the Company's fiscal 2020 annual MD&A. There were no significant changes to those risks or to the Company's management of exposure to those risks during the nine months ended May 31, 2021, except as discussed below and as noted under the heading "LIQUIDITY AND CAPITAL RESOURCES – Liquidity and Financing Strategy".

Interest Rate Risk: Investments included in the Company's cash and cash equivalents and debt service reserve fund earn interest at prevailing and fluctuating market rates. If interest rates decline, earnings on these instruments would fall. During the nine months ended May 31, 2021, the Company repaid borrowings of $223 under its syndicated credit facility. As a result of the repayment and change in cash and cash equivalents, as at May 31, 2021, a 100 basis point change in variable interest rates would result in an annual difference of approximately $5 in the Company's earnings before rate stabilization adjustments (August 31, 2020 - $1).

Foreign Exchange Risk: As at May 31, 2021, the Company's net exposure to foreign exchange risk related to the U.S. dollar has decreased from $333 CDN ($257 U.S.) to $276 CDN ($229 U.S.), largely due to the decrease in the fair value of the investment in preferred interests of Aireon. If the Canadian dollar strengthened or weakened by 10% against the U.S. dollar as at May 31, 2021, all other variables remaining constant, net income (loss) before net movement in regulatory deferral accounts would have been impacted by $26 (August 31, 2020 - $31).

Credit Risk: The Company revised its customer service charges effective September 1, 2020, increasing charges by an average of 29.5% on overall rate levels. The service charge increase includes 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 service charge increase can be deferred and will become payable by customers in equal installments over the following five fiscal years. These provisions increase the Company's exposure to credit risk as payments required in advance and security deposits under the Company's credit policies may not be sufficient to cover potential losses.

The Company establishes an allowance for doubtful accounts that represents its estimate of lifetime expected credit losses to be incurred in respect of accounts receivable. Given the high degree of uncertainty caused by the COVID-19 pandemic, the estimates and judgments made by management in the preparation of the expected credit loss allowance are subject to estimation uncertainty. Based on the Company's current estimates and assumptions, including but not limited to current and forecasted economic and credit conditions as well as recent trend for customer collections, the Company recorded an expected credit loss allowance of $3 and $9 during the three and nine months ended May 31, 2021.

Insurance

Our aviation liability insurance program was last renewed on November 15, 2020 and we intend to renew it on November 15, 2021. This insurance covers all of our ANS liabilities to third parties. The Company also carries other lines of insurance at levels deemed to be appropriate by management for the nature of our business. The cost of this insurance is not material to the Company.

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.

Legal Proceedings

The Company is party to certain 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.

CHANGES IN ACCOUNTING POLICIES

Significant accounting policies used in the Q3 fiscal 2021 financial statements are disclosed in note 3 of the fiscal 2020 annual financial statements. The accounting policies have been applied consistently to all periods presented.

Future Accounting Pronouncements

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

The Company has the following update regarding its progress in implementing future standards:

IAS 8 Definition of Accounting Estimates

In February 2021, the IASB published Definition of Accounting Estimates (Amendments to IAS 8) to introduce a definition of accounting estimates and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.

The amendment is effective for annual periods beginning on or after January 1, 2023 with early application permitted.

IAS 1 Disclosure of Accounting Policies

In February 2021, the IASB issued Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements.

The amendment is effective for annual periods beginning on or after January 1, 2023 with early application permitted.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of our Q3 fiscal 2021 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.

Critical judgments and key sources of estimation uncertainty are disclosed in note 2 (d) of the 2020 annual financial statements.

The Company's critical accounting estimates and judgments applied in the preparation of the Company's Q3 fiscal 2021 financial statements are consistent with those applied and disclosed in our fiscal 2020 annual financial statements and as described in the fiscal 2020 annual MD&A.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes to the Company's internal control over financial reporting (ICFR) during the three months ended May 31, 2021 that have materially affected or are reasonably likely to materially affect the Company's ICFR.