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MANAGEMENT'S DISCUSSION AND ANALYSIS

ON FORM 51-102F1

YEAR ENDED

AUGUST 31, 2020

October 22, 2020

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INTRODUCTION

This management's discussion and analysis (MD&A) relates to the consolidated financial position, results of operations, comprehensive income and cash flows for the year ended August 31, 2020 (fiscal 2020) of NAV CANADA (also referred to in this MD&A as we, our, us or the Company). It should be read in conjunction with our audited consolidated financial statements and the accompanying notes for the year ended August 31, 2020 (fiscal 2020 financial statements) 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 fiscal 2020 and the year ended August 31, 2019 (fiscal 2019) 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 Canadian dollars (CDN) and in accordance with International Financial Reporting Standards (IFRS). Our Audit & Finance Committee reviewed this MD&A and our Board of Directors (the Board) approved it before it was filed.

Caution Concerning Forward-Looking Information

This MD&A and, in particular, but without limitation, sections "INTRODUCTION – Significant Financial Matters: Air Traffic and Customer Service Charges", "RESULTS OF OPERATIONS – Revenue: Customer Service Charges", "RESULTS OF OPERATIONS – Financial Outlook", "LIQUIDITY AND CAPITAL RESOURCES – Cash Requirements: Pension Plans" and "LIQUIDITY AND CAPITAL RESOURCES – Cash Requirements: Capital Expenditures and Other Investments" 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 risk 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 October 22, 2020 and are subject to change after this date. In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The COVID-19 pandemic and the resulting economic contraction has had, and is expected to continue to have, a significant negative impact on global air traffic and on the aviation industry. Refer to "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 the 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 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 volumes 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 volumes resulting from unforeseen events. We meet these objectives through the use of a "rate stabilization" mechanism.

In preparing our consolidated 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.

Selected Annual Financial Information

The following table shows selected consolidated financial information of the Company for fiscal 2020, fiscal 2019 and the fiscal year ended August 31, 2018 (fiscal 2018). This information has been derived from the Company's consolidated financial statements.

	Years ended August 31		
	2020	2019	2018
Revenue [(1)]	$ 1,000	$ 1,437	$ 1,415
Net income (loss) after rate stabilization and regulatory deferral account adjustments	$ -	$ -	$ -
Total assets	$ 2,958	$ 2,318	$ 2,334
Total regulatory deferral account debit balances	$ 2,112	$ 2,087	$ 954
Total current liabilities	$ 777	$ 283	$ 526
Total non-current financial liabilities [(2)]	$ 2,014	$ 1,444	$ 1,219
Total non-current liabilities, including non-current financial liabilities	$ 4,081	$ 3,718	$ 2,340
Total regulatory deferral account credit balances	$ 184	$ 376	$ 394

(1) Revenue in the table above is presented before rate stabilization adjustments.

(2) Non-current financial liabilities include long-term debt and derivative liabilities. See note 15 to our fiscal 2020 financial statements.

Revenue:

In 2020, the Company implemented revisions to its service charges resulting in an increase of 0.8% to existing base rates on average to recover the cost of domestic space-based surveillance data services.

The COVID-19 pandemic and the resulting economic contraction has had, and is expected to continue to have, a significant negative impact on global air traffic and on the aviation industry. NAV CANADA has seen the number of air traffic movements decline since March 2020 as a result of a decline in passenger demand given COVID-19 concerns, travel restrictions imposed by governments, the closing of international borders and the economic impact of the pandemic. As a result, the Company's customer service charges revenue declined significantly as compared to fiscal 2019. This is due to air carriers reducing their operations, grounding aircraft fleets and cancelling flights and routes.

Revenue from customer service charges decreased by $454 compared to fiscal 2019 due to a decrease in air traffic of 34.1%. Excluding the effect of an extra day for the leap year, air traffic volumes for fiscal 2020 decreased by 34.3% year-over-year.

Revenue from service and development contracts for the sale of air traffic management technology solutions increased by $23, partially offset by a decrease in conference centre sales of $3 and other miscellaneous revenue of $3. See "RESULTS OF OPERATIONS – Revenue" for more details on revenue balances.

During fiscal 2019, the Company experienced an increase in air traffic of 1.9% as compared to fiscal 2018, resulting in increased revenue from customer service charges of $25. Revenue from service and development contracts for the sale of air traffic management technology solutions and other miscellaneous revenue decreased by $4, partially offset by an increase in conference centre sales of $1.

Net income (loss), after rate stabilization and regulatory deferral account adjustments:

In keeping with the Company's financial strategy and rate stabilization mechanism, breakeven financial results were achieved in fiscal 2020, fiscal 2019 and fiscal 2018. See "RESULTS OF OPERATIONS" for further details on net income (loss) after rate stabilization and regulatory deferral account adjustments.

Total assets:

Total assets as at August 31, 2020 were $2,958 which is an increase of $640 compared to August 31, 2019 primarily due to:

- a $780 increase in current assets primarily due to a $659 increase in cash and cash equivalents (see "LIQUIDITY AND CAPITAL RESOURCES – Cash flows for the year ended August 31, 2020") and an increase of $145 in short term investments as a result of additional debt financing during the period to increase liquidity reserves, partially offset by a $21 decrease in accounts receivable and other as well as a net decrease of $4 in other current assets; and
- a $4 increase in employee benefits related to the Company's long-term disability (LTD) plans resulting from higher contributions paid than benefit expense;

partially offset by:

- a $103 decrease in the investment in preferred interests of Aireon primarily due to the decrease in the fair value to reflect the impact of the COVID-19 pandemic, partially offset by annual accrued dividend income;
- a $32 decrease in intangible assets, mainly due to amortization of the air navigation right; and
- a $10 decrease in property, plant and equipment.

Total assets as at August 31, 2019 were $2,318 which is a decrease of $16 compared to August 31, 2018 primarily due to:

- a $15 decrease in current assets as a result of a $8 decrease in cash and cash equivalents, a $4 decrease in accounts receivable and other as well as a net decrease of $3 in investments and other short-term assets;
- a $26 decrease in intangible assets, mainly due to amortization of the air navigation right;
- a $9 decrease in related party loans receivable, mainly due to the repayment of the bridge financing provided to Aireon in fiscal 2018; and
- a $2 decrease in employee benefits related to the Company's LTD plans resulting from higher benefit expense than contributions paid;

partially offset by:

- a $21 increase in the investment in preferred interests of Aireon primarily due to an increase in preferred dividends receivable during the year and unrealized foreign exchange gains as a result of fluctuation in the Canadian dollar against the U.S. dollar; and

- a $15 increase in property, plant and equipment.

Total regulatory deferral account debit balances:

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

Total regulatory deferral account debit balances as at August 31, 2020 increased by $25 compared to August 31, 2019 primarily due to:

- a $255 increase in the debit rate stabilization account balance as a result from the account changing from a credit balance of $93 as at August 31, 2019 primarily due to unfavourable variances from budget that are largely driven by the negative air traffic levels experienced due to the COVID-19 pandemic and the decrease in associated revenues; and
- a $177 increase in the regulatory deferral account related to employee benefit pension contributions to adjust the total pension benefit expense to the level of going concern pension contributions recovered through rate setting;

partially offset by:

- a $347 decrease in the regulatory deferral account related to pension re-measurement gains;
- a $27 decrease in the regulatory deferral account related to the deferred tax liability primarily due to the reduction of the fair value of the Company's investment in preferred interests of Aireon to reflect the impact of the COVID-19 pandemic;
- a $26 decrease in the regulatory deferral account related to supplemental pension benefits to defer re-measurement gains of $22 for fiscal 2020 and recover $4 related to costs deferred in prior years; and
- a $5 decrease in the regulatory deferral accounts related to other post-employment benefits to defer net re-measurement gains of $2 for fiscal 2020 and recover $7 related to costs deferred in prior years.

Total regulatory deferral account debit balances as at August 31, 2019 increased by $1,133 compared to August 31, 2018 primarily due to:

- a $1,010 increase in the regulatory deferral account related to pension re-measurement losses;
- a $96 increase in the regulatory deferral account related to employee benefit pension contributions to adjust the total pension benefit expense to the level of going concern pension contributions recovered through rate setting;
- an $11 increase in the regulatory deferral accounts related to other post-employment benefits to defer the re-measurement losses of $17 for fiscal 2019 and recover $6 related to costs deferred in prior years;
- a $9 increase in the regulatory deferral account related to supplemental pension benefits to defer re-measurement losses of $13 for fiscal 2019 and recover $4 related to costs deferred in prior years; and
- a $7 increase in the regulatory deferral related to realized hedging transactions to defer a loss of $9 on a bond forward, partially offset by the recovery of losses deferred in prior years.

Total current liabilities:

The Company's total current liabilities as at August 31, 2020 increased by $494 compared to August 31, 2019 primarily due to:

- a $250 increase in the current portion of long-term debt due to the $250 Series MTN 2011-1 General Obligation Notes that will mature on February 18, 2021;
- a $215 increase in bank loans as the Company drew on its syndicated credit facility to address near-term liquidity needs as a result of the COVID-19 pandemic;
- a $20 increase in trade and other payables;
- a $5 increase in other current liabilities related to derivative liabilities and the current portion of lease liabilities; and
- a $4 increase in deferred revenue.

The Company's total current liabilities as at August 31, 2019 decreased by $243 compared to August 31, 2018 primarily due to:

- a $250 decrease in the current portion of long-term debt due to the repayment of the $250 Series MTN 2009-1 General Obligation Notes that matured in April 2019; and
- a $5 decrease in trade and other payables;

partially offset by:

- an $8 increase in bank loans; and
- a $3 increase in deferred revenue.

Total non-current liabilities (including non-current financial liabilities):

The Company's total non-current liabilities as at August 31, 2020 increased by $363 compared to August 31, 2019 primarily due to:

- a $570 increase in long-term debt primarily due to the issuance of the $550 Series MTN 2020-1 General Obligation Notes, maturing on September 29, 2051 and $300 Series MTN 2020-2 General Obligation Notes, maturing on May 29, 2030, to increase liquidity reserves, partially offset by the reclassification to current liabilities of the $250 Series MTN 2011-1 General Obligation Notes that will mature on February 18, 2021 and $25 principal payment on the Series 97-2 amortizing revenue bonds (see "LIQUIDITY AND CAPITAL RESOURCES – Liquidity and Financing Strategy");

partially offset by:

- a net $184 decrease in employee benefit liabilities, which includes a $186 decrease in accrued pension obligations, largely due to actuarial re-measurement gains as a result of changing future salary assumptions; and
- a $27 decrease in the deferred tax liability primarily due to the decrease in fair value of the Company's investment in preferred interests of Aireon to reflect the impact of the COVID-19 pandemic.

The Company's total non-current liabilities as at August 31, 2019 increased by $1,378 compared to August 31, 2018 primarily due to:

- a $1,156 increase in employee benefit liabilities, including a $1,126 increase in accrued pension obligations and $30 in other defined benefit obligations, largely due to actuarial re-measurement losses as a result of decreases in discount rates; and
- a $224 increase in long-term debt due to the issuance of the $250 Series MTN 2019-1 General Obligation Notes in March 2019, partially offset by the reclassification of the $25 principal payment on the Series 97-2 amortizing revenue bonds.

Total regulatory deferral account credit balances:

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

Total regulatory deferral account credit balances as at August 31, 2020 decreased by $192 compared to August 31, 2019 primarily due to:

- a $93 decrease in the rate stabilization account credit balance as a result from the account changing from a credit balance as at August 31, 2019 to a debit balance of $255 as at August 31, 2020 primarily due to unfavourable variances from budget that are largely driven by the negative air traffic levels experienced due to the COVID-19 pandemic and the decrease in associated revenues; and
- a $103 decrease in the regulatory deferral related to the Company's investment in preferred interests of Aireon primarily due to the decrease in fair value of the investment, partially offset by annual accrued dividend income;

partially offset by:

- a $4 increase in regulatory deferrals of LTD contributions.

Total regulatory deferral account credit balances as at August 31, 2019 decreased by $18 compared to August 31, 2018 primarily due to:

- a $31 decrease in the rate stabilization account due to the initial Board-approved adjustment of $18 and unfavourable variances from planned results of $13;
- a $4 decrease in regulatory deferrals of LTD contributions; and
- a $2 decrease in the regulatory deferral related to derivatives due to the deferral of changes in fair value of $11, partially offset by the realization of the $9 loss on a bond forward;

partially offset by:

- a $21 increase in the regulatory deferral related to the Company's investment in preferred interests of Aireon primarily due to an increase in dividends earned and unrealized foreign exchange gains.

Financial Highlights

Results of operations for the year ended August 31, 2020

	Year ended August 31		
	2020	2019	Change
Revenue	$ 1,000	$ 1,437	$ (437)
Operating expenses	1,371	1,449	(78)
Other (income) and expenses	241	91	150
Income tax recovery	(28)	(3)	(25)
Net loss, before net movement in regulatory deferral accounts	(584)	(100)	(484)
Net movement in regulatory deferral accounts [1]			
Rate stabilization adjustments:			
Unfavourable variances from planned results	313	13	300
Initial approved adjustment [2]	35	18	17
	348	31	317
Other regulatory deferral account adjustments:			
Employee benefit pension contributions	177	96	81
Other employee benefits	(18)	(5)	(13)
Investment in preferred interests, before tax	103	(21)	124
Investment in equity-accounted investee	(1)	-	(1)
Income tax	(27)	(2)	(25)
Realized hedging transactions	1	1	-
Other	1	-	1
	236	69	167
	584	100	484
Net (income) loss, after net movement in regulatory deferral accounts	$ -	$ -	$ -

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

[2] The Board approved the fiscal 2020 budget with a reduction of the rate stabilization account, in order to achieve breakeven results of operations, as a result of a planned shortfall. As a result, $35 has been transferred out of the rate stabilization account evenly throughout the fiscal year (fiscal 2019 - $18).

Cash flows for the year ended August 31, 2020

As shown below, cash and cash equivalents increased by $659 during fiscal 2020 (fiscal 2019 - decrease of $8) and the Company experienced negative free cash flow of $231 (fiscal 2019 - positive free cash flow of $10), which is a non-GAAP (Generally Accepted Accounting Principles) 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 flow generated from operations, less capital expenditures, investments in Aireon, 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.

	Year ended August 31		
	2020	2019	Change
Cash flows from (used in):			
Operating [(1)]	$ (96)	$ 143	$ (239)
Investing [(1)]	(277)	(122)	(155)
Financing [(1)]	1,031	(29)	1,060
Cash flows from (used in) operating, investing and financing activities	658	(8)	666
Effect of foreign exchange on cash and cash equivalents	1	-	1
Increase (decrease) in cash and cash equivalents	659	(8)	667
Cash and cash equivalents, beginning of period	30	38	(8)
Cash and cash equivalents, end of period	$ 689	$ 30	$ 659
Free cash flow (non-GAAP financial measure):			
Cash flows from (used in):			
Operations [(2)]	$ (96)	$ 143	$ (239)
Capital expenditures [(2)]	(132)	(133)	1
Payment of lease liabilities [(2)]	(3)	-	(3)
Free cash flow	$ (231)	$ 10	$ (241)

(1) See "LIQUIDITY AND CAPITAL RESOURCES – Cash flows for the year ended August 31, 2020" for discussion of the changes in cash flows from the prior fiscal year.

(2) See the statement of cash flows in our fiscal 2020 financial statements.

Significant Financial Matters

The following items have significant financial importance to the Company:

1. Coronavirus ("COVID-19") pandemic

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The pandemic and the resulting economic contraction has had, and is expected to continue to have, a significant negative impact on global air traffic and on the aviation industry. As a private not-for-profit company, our revenues come from our aviation customers, namely airlines, air cargo operators, other commercial air operators and general aviation.

NAV CANADA has seen the number of air traffic movements decline since March 2020 as a result of a decline in passenger demand given COVID-19 concerns, travel restrictions imposed by governments, the closing of international borders and the economic impact of the pandemic. As a result, the Company's customer service charges revenue declined significantly in the third and fourth quarters of fiscal 2020 as compared to the same periods in fiscal 2019. This is due to air carriers reducing their operations, grounding fleets and cancelling flights and routes.

The pandemic is expected to continue to have a negative impact on demand for air travel globally and this will likely continue until such time as travel restrictions are eased, airline passenger concerns about air travel due to COVID-19 subside, and consumer demand for air travel returns. Industry participants are indicating it may be some time before they fully return to pre-COVID-19 operating levels. We expect until this occurs that reduced air traffic activity will have a material negative impact on the Company's operations and revenues.

In response to the impact of the pandemic, the Company continues to review, monitor and take actions to reduce capital and operating spending and cash outflows, 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 of its employees.

To address the significant revenue shortfall, some of the actions the Company has taken include:

- drawing $225 from its syndicated credit facility to address near-term liquidity needs and the subsequent issuance of $850 of General Obligation Notes;
- accessing the Canada Emergency Wage Subsidy (CEWS) government relief program;
- increasing customer service charges, effective September 1, 2020, by an average of 29.5% on overall rate levels; and
- implementing cost-cutting measures where possible, including the reduction the fiscal 2020 capital spending program by nearly $60 and the elimination of more than 720 jobs through reductions in staffing of temporary and permanent positions along with early retirements.

2. Air Traffic and Customer Service Charges[1]

Over the course of fiscal 2020, air traffic volumes, as measured by weighted charging units (WCU) (a measure of the number of flights, aircraft size and distance flown), decreased by 34.1%. Excluding the effect of an extra day for the leap year, air traffic volumes for fiscal 2020 decreased by 34.3% year over year. The approved budget for fiscal 2020 assumed growth of 3.7% for the year.

The Company revised its customer service charges effective September 1, 2020, increasing charges by an average of 29.5% on overall rate levels. This revision was required to allow the Company to achieve a minimum level of revenue in its fiscal year ending August 31, 2021 (fiscal 2021), thereby enabling the additional borrowings needed to provide NAV CANADA with sufficient liquidity to weather the COVID-19 pandemic.

The service charge increase includes provisions to ease the cash flow burden of the increase on customers through payment deferral mechanisms. The portion of monthly invoices related to the service charge increase can be deferred throughout NAV CANADA's fiscal 2021 and will become payable in equal instalments over the following five years.

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

Subsequent to August 31, 2020, the Canadian Transportation Agency (the Agency) received an appeal by WestJet dated September 11, 2020 of the revised customer service charges set out in the Company's Announcement of Revised Service Charges dated August 12, 2020 requesting, among other things, the cancellation of the revised charges. The appeal alleges that the Company did not comply with two of the charging principles in the ANS Act. The Company denies the allegations advanced by WestJet. The Company and WestJet are in the process of considering mediation. The Company will vigorously defend the appeal if mediation is not undertaken or if after mediation the Company and WestJet are unable to resolve the matter. The outcome of the appeal is not determinable at this time.

The Agency is the designated appeal body for the Company's charges pursuant to the provisions of the ANS Act. Appeals can be made only on the basis that the Company did not observe one or more of the charging principles in establishing the charges or the statutory notice and announcement requirements set out in the ANS Act. After considering the submissions of both WestJet and the Company, the Agency must decide the appeal within 60 days, unless it is of the opinion that there are special circumstances involved in the determination of the appeal, in which case it has a further 30 days to decide the appeal.

3. Rate Stabilization Account

As at August 31, 2020, the rate stabilization account had a debit balance of $255 (see "RESULTS OF OPERATIONS – Amounts Considered for Rate Setting Purposes").

The rate stabilization account changed by $348 from a credit balance of $93 to a debit balance of $255 during fiscal 2020 due to $313 of unfavourable variances from planned results and the $35 initially approved adjustment to the rate stabilization account. The unfavourable variances from budget are largely driven by the decreased air traffic levels experienced due to the COVID-19 pandemic and the decrease in associated revenues. Rate stabilization adjustments are described under "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account".

4. Financing Activities

On May 29, 2020, the Company issued $850 of General Obligation Notes in two series: $550 Series MTN 2020-1 General Obligation Notes with an annual interest rate of 2.924%, maturing on September 29, 2051 and $300 Series MTN 2020-2 General Obligation Notes with an annual interest rate of 2.063%, maturing on May 29, 2030.

As at August 31, 2020, the Company has drawn $225 from its syndicated credit facility in addition to the issue of $850 of General Obligation Notes. The net proceeds of these notes are being used for general corporate purposes, including the repayment of borrowings under the syndicated credit facility which will enhance the Company's liquidity reserves. The Company's syndicated credit facility is described further in section "LIQUIDITY AND CAPITAL RESOURCES – Liquidity and Financing Strategy".

5. Salaries and Benefits

Through August 31, 2020, the Company took a number of cost-cutting measures to curb the impact of the significant decline in air traffic revenue, including management compensation reductions, ending the terms of temporary employees, early retirement incentives and concessions from bargaining agents on deferred economic increases. In addition, the Company has availed itself of the CEWS offered by the Government of Canada, which is intended to help businesses keep workers on their payroll through the challenges posed by the COVID-19 pandemic. As at August 31, 2020, the Company received $86 from the CEWS government relief program, partially offsetting compensation costs.

The original program of the CEWS was provided to individuals, taxable corporations and partnerships consisting of eligible employers as well as non-profit organizations and registered charities that saw a drop of at least 30% of their revenue (15% for the first month of the program). For periods starting July 5, 2020, eligible employers who had any drop in revenue can now qualify for the amended wage subsidy. Eligible remuneration under the subsidy includes salary, wages, and other remuneration for which the Company would generally be required to withhold or deduct amounts to remit to the Receiver General of Canada on account of the employee's income tax obligation.

The maximum subsidy percentage will be gradually reduced over the amended subsidy period to November 21, 2020. Based on the September 23, 2020 Speech from the Throne, the CEWS is expected to be continued into the summer of 2021, however details of the extension are not yet known.

On September 22, 2020, the Company announced workforce reductions through the elimination of permanent jobs. The job cuts are across all departments of the Company and include most of the current cohort of operational students. The Company is in the process of finalizing the financial impact of these reductions. Prior to the onset of the COVID-19 pandemic, the Company had approximately 5,100 employees nationwide. Including previous reductions in staffing of temporary employees in the spring and early retirements, the Company has reduced more than 720 jobs or 14% of its workforce. NAV CANADA will continue to monitor air traffic activity across the country and adapt its operations and workforce accordingly as necessary.

Approximately 88% of our workforce is unionized under eight collective agreements. As at August 31, 2020, the Company has ratified collective agreements with seven of its bargaining agents. The Company's agreement with the Canadian Federal Pilot Association (CFPA) expired on April 30, 2019 and negotiations are ongoing with the union.

6. Investment in Space-Based Aircraft Surveillance through Aireon

As at August 31, 2020, the Company measured the fair value of its investment in preferred interests of Aireon at $258 U.S. ($336 CDN) (August 31, 2019 - $330 U.S. ($439 CDN)), which reflects the impact of the COVID-19 pandemic as it relates to the number and frequency of air traffic movements in the aviation sector in general, the resulting impact on Aireon's operations and revenues and the expected timing of when future dividends from Aireon may be received. While not all of Aireon's revenue will be impacted, overall revenue levels are expected to decline and the reduction in air traffic is expected to delay Aireon in signing new customers for space-based air traffic surveillance data services. Included in the fair value presented in the statement of financial position as at August 31, 2020 are dividends receivable of $58 U.S ($76 CDN) (August 31, 2019 - $47 U.S. ($63 CDN)).

In addition, as a result of the decrease in the fair value, the related net deferred tax liability decreased to $21 CDN as at August 31, 2020 (August 31, 2019 - $48 CDN).

RESULTS OF OPERATIONS

Revenue

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

	Year ended August 31			
	2020	2019	Change	%
Enroute	$ 476	$ 706	$ (230)	(33%)
Terminal	364	537	(173)	(32%)
Daily / annual / quarterly	53	93	(40)	(43%)
North Atlantic and international communication	37	48	(11)	(23%)
Total customer service charges	930	1,384	(454)	(33%)
Other [1]	70	53	17	32%
	$ 1,000	$ 1,437	$ (437)	(30%)

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

Revenue for fiscal 2020 was $1,000 compared to $1,437 for fiscal 2019. The $437 decrease is primarily due to:

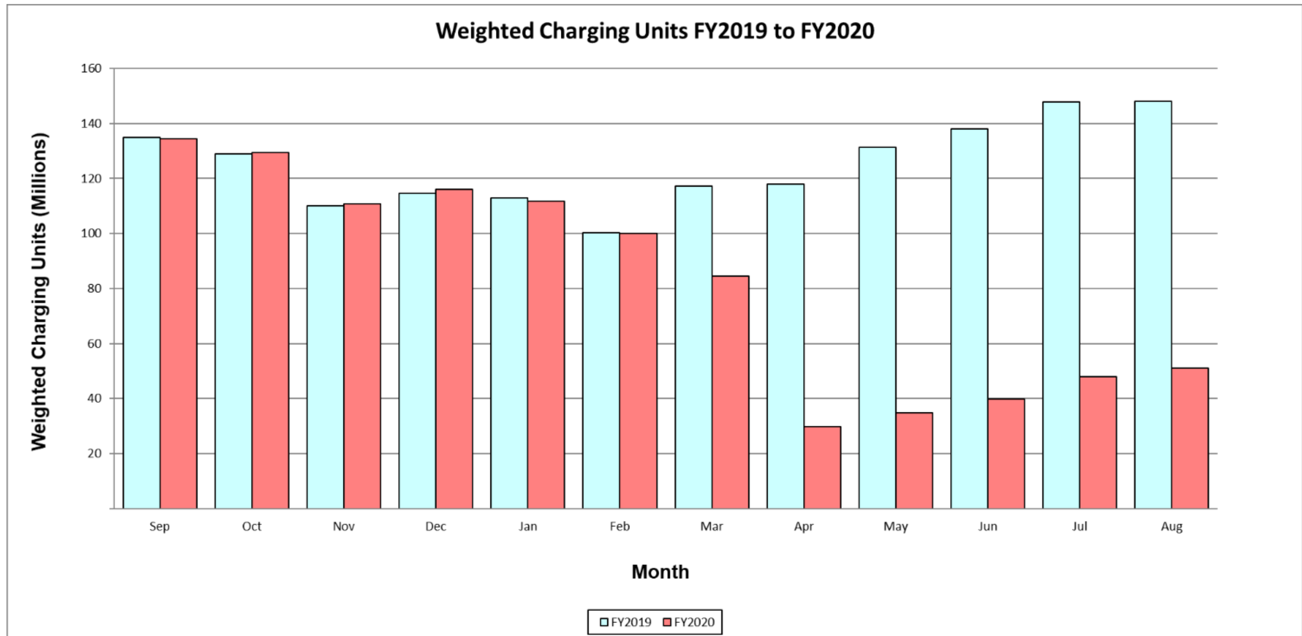
- a $454 decrease in customer service charges revenue arising from a decrease of 34.1% in air traffic volumes during fiscal 2020 due to the impact of the COVID-19 pandemic. Excluding the effect of an extra day for the leap year, air traffic volumes for fiscal 2020 decreased by 34.3% year-over-year;

partially offset by:

- a $17 increase in other revenue, primarily due to a large service and development contract for the sale of air traffic management technology solutions that commenced in fiscal 2020 and is expected to continue through fiscal 2026, partially offset by a decrease in other miscellaneous revenue and a decrease in conference centre sales.

Air Traffic

The reduction in air traffic volumes in fiscal 2020 reflects the impact of the COVID-19 pandemic beginning in March 2020. Fiscal 2020 air traffic volumes decreased by 34.1% when compared to fiscal 2019. The chart below shows traffic in WCUs.



Future air traffic volumes 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.

Customer Service Charges[2]

The level of our customer service charges are a function of our costs, the required level of service, air traffic volumes and revenue from non-aeronautical sources (see "RESULTS OF OPERATIONS – Amounts Considered for Rate Setting Purposes").

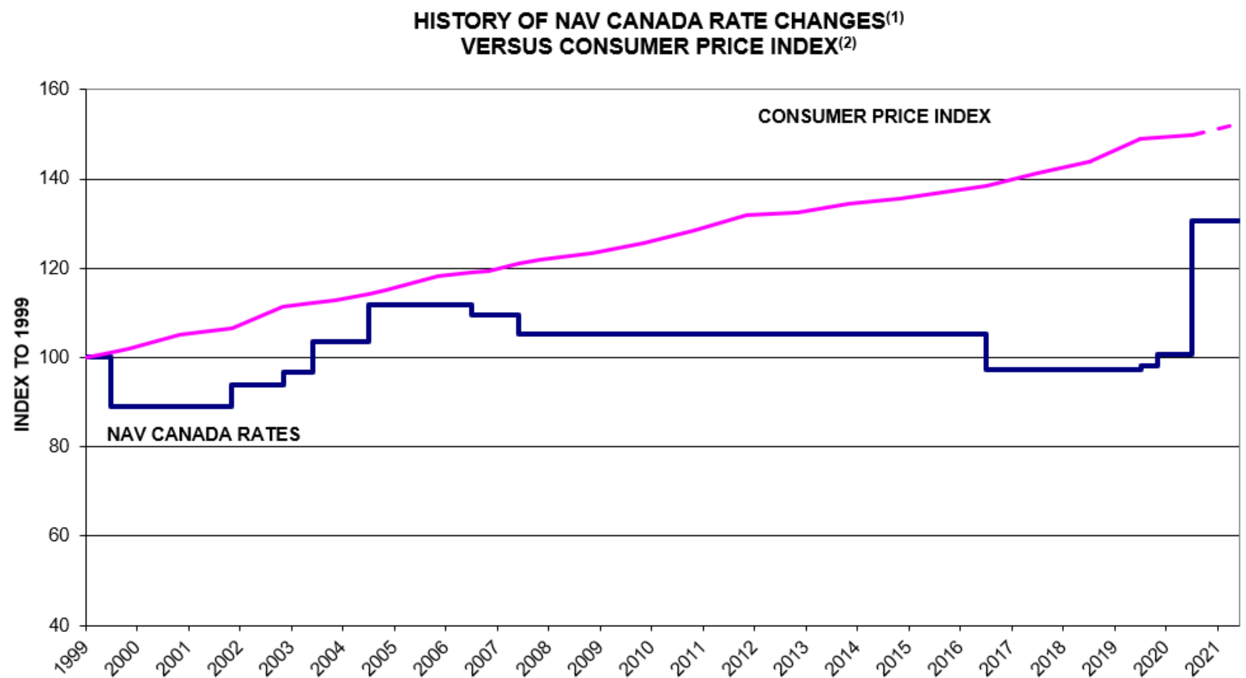
Our business operates 24 hours a day, 365 days a year, providing an essential, national and international safety infrastructure. Given that the majority of our costs are predominantly fixed in nature and are directly related to service delivery, we have relatively few opportunities to significantly reduce these costs further without reducing service, which is not acceptable in most cases. We continue to focus on cost reduction, productivity improvements and opportunities for new revenue sources from licensing or sales of technology and other sources. This assists in keeping customer service charges as low as possible, while continuing to meet our safety and service obligations.

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

We continuously monitor our financial requirements and air traffic, and regularly update our financial forecasts to account for changes in the economic environment. On a quarterly basis, we consider the need for a change in rates.

The Company revised its customer service charges effective September 1, 2020, increasing charges by an average of 29.5% on overall rate levels. This revision was required to allow the Company to achieve a minimum level of revenue in its fiscal 2021, thereby facilitating the additional borrowings needed to provide NAV CANADA with additional liquidity to weather the COVID-19 pandemic. Including this revision, service charges on September 1, 2020 are on average 30.5% higher than when they were fully implemented in 1999. As a result of cost controls and increases in air traffic levels over the same period, the change in customer service charges is below the change in the CPI by approximately 19.3 percentage points.

The following chart illustrates the evolution of our levels of customer service charges over time.



1. Average changes since charges were fully implemented on March 1, 1999.
2. Consumer Price Index - Forecast from the June 2020 Consensus Economics publication.

Operating Expenses

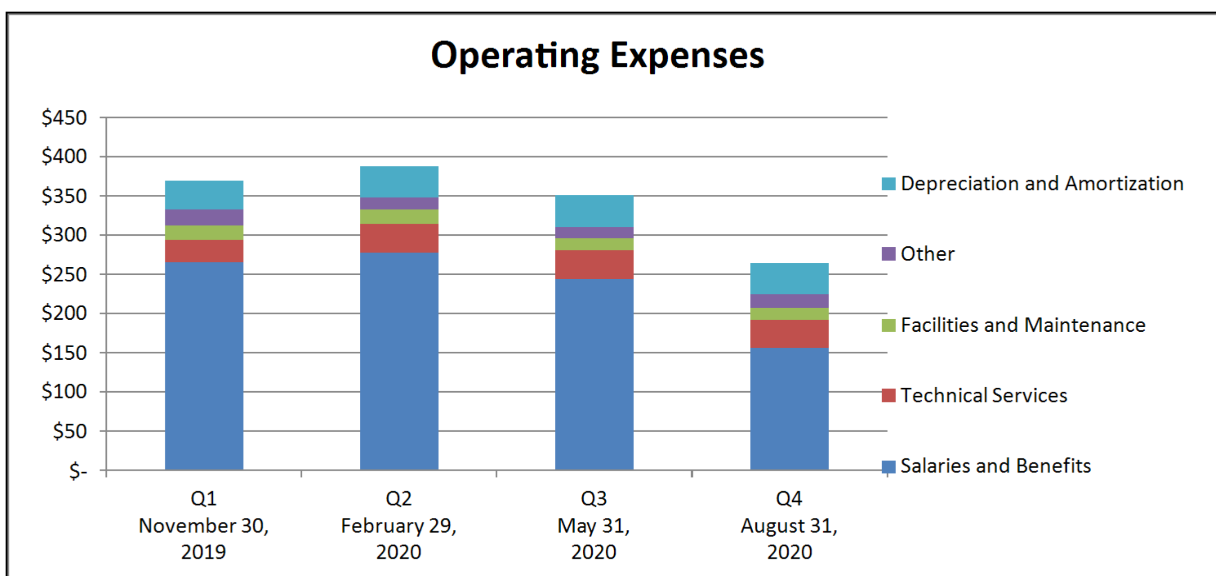
	Year ended August 31			
	2020	2019	Change	%
Salaries and benefits	$ 942	$ 1,027	$ (85)	(8%)
Technical services	139	114	25	22%
Facilities and maintenance	66	73	(7)	(10%)
Depreciation and amortization	157	154	3	2%
Other	67	81	(14)	(17%)
	$ 1,371	$ 1,449	$ (78)	(5%)

Salaries and benefits expense for fiscal 2020 decreased by $85 compared to fiscal 2019 primarily due to CEWS receipts partially offsetting compensation costs, reduced overtime costs as a result of the significant decrease in air traffic volume in the second half of fiscal 2020 as a result of the COVID-19 pandemic, partially offset by increased pension current service costs as a result of a 90 basis point decrease in the discount rate at August 31, 2019 compared to August 31, 2018.

Technical services costs for fiscal 2020 increased by $25, compared to fiscal 2019 primarily due to the cost of domestic and oceanic space-based surveillance data services of $38 in fiscal 2020.

Facilities and maintenance and other expenses decreased in fiscal 2020 by $21 compared to fiscal 2019 primarily due to Company-wide efforts to reduce discretionary spending to offset the impact of decreased customer service charges revenue due to the COVID-19 pandemic.

While our operating expenses have historically demonstrated a stable pattern, in Q2 2020, the Company ratified collective agreements with six bargaining agents, resulting in an increase in compensation costs. Beginning in Q3 2020, the Company was impacted by the COVID-19 pandemic. The reduction in air traffic volumes significantly reduced overtime costs in both Q3 and Q4 and beginning in May 2020, CEWS receipts helped offset compensation costs. Cost reduction efforts have been a key focus throughout the fiscal year, especially with respect to discretionary expenditures.



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

	Year ended August 31		
	2020	2019	Change
Finance income			
Interest income	$ (2)	$ (3)	$ (1)
Net change in fair value of financial assets at FVTPL [1]			
Investment in preferred interests	-	(12)	(12)
Other investments	(1)	1	2
	(1)	(11)	(10)
Total finance income	(3)	(14)	(11)
Net interest expense relating to employee benefits	62	38	(24)
Other finance costs			
Interest expense	79	74	(5)
Net change in fair value of financial assets at FVTPL [1]			
Investment in preferred interests	100	-	(100)
	179	74	(105)
Other (gains) and losses			
Foreign exchange (gains) and losses	4	(7)	(11)
Share of net gain of equity-accounted investee	(1)	-	1
	3	(7)	(10)
	$ 241	$ 91	$ (150)
Income tax recovery	$ (28)	$ (3)	$ 25

[1] The net change in fair value of financial assets at FVTPL includes interest and dividend income related to those financial assets.

During fiscal 2020, the net change in fair value of the investment in preferred interests was a loss of $100 as compared to a gain of $12 for fiscal 2019, primarily due to the $112 decrease of the fair value of the investment in preferred interests of Aireon as discussed in section "INTRODUCTION – Significant Financial Matters: Investment in Preferred Interests of Aireon".

Net interest expense relating to employee benefits increased by $24 during the year ended August 31, 2020 compared to year ended August 31, 2019 primarily due to lower interest income, partially offset by lower interest expense due to the decrease in discount rates at August 31, 2019 compared to August 31, 2018.

The fiscal 2020 income tax recovery is largely due to the reduction in the net deferred tax liability as a result of the decrease of the fair value of the investment in preferred interests of Aireon.

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.

	Year ended August 31		
	2020	2019	Change
Rate stabilization account [(1)]	$ 348	$ 31	$ 317
Other regulatory deferral accounts			
Employee benefit pension contributions	177	96	81
Other employee benefits	(18)	(5)	(13)
Investment in preferred interests, before tax	103	(21)	124
Investment in equity-accounted investee	(1)	-	(1)
Income tax	(27)	(2)	(25)
Realized hedging transactions	1	1	-
Other	1	-	1
	$ 584	$ 100	$ 484

(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 amount of contributions to be recovered through rate setting, the net movement in the employee benefit pension contributions regulatory deferral account for fiscal 2020 was $177 compared to $96 for fiscal 2019. The increase is largely due to the increase in pension current service costs and net interest expense as a result of a decrease in the discount rate at August 31, 2019 compared to August 31, 2018.

The net movement in the other employee benefits regulatory deferral accounts for fiscal 2020 of $18 is largely due to the deferral of net re-measurement gains on the Company's supplemental pension, LTD and sick leave plans, partially offset by re-measurement losses on the other post-employment benefits plan.

The net movement in regulatory deferral accounts of the Company's investment in preferred interests, before tax of $103 during fiscal 2020, is primarily due to the decrease in the fair value of the investment in preferred interests of Aireon as at August 31, 2020, as discussed in "INTRODUCTION – Significant Financial Matters: Investment in Preferred Interests of Aireon".

The net movement in regulatory deferral of income tax of $27 during fiscal 2020 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 August 31, 2020.

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 financial statements. The table below shows the movements in the rate stabilization account.

	Year ended August 31		
	2020	2019	Change
Credit balance on the statement of financial position, beginning of period	$ 93	$ 124	$ (31)
Variances from planned results:			
Revenue lower than planned	(518)	(10)	(508)
Operating expenses lower (higher) than planned	194	(3)	197
Other (income) and expenses (higher) lower than planned	(112)	27	(139)
Net movement in other regulatory deferral accounts	123	(27)	150
Total variances from planned results	(313)	(13)	(300)
Initial approved adjustment	(35)	(18)	(17)
Net movement in rate stabilization account recorded in net loss	(348)	(31)	(317)
Credit (debit) balance on the statement of financial position, end of period	$ (255)	$ 93	$ (348)

The $348 movement in the rate stabilization account during the year ended August 31, 2020 is primarily due to:

- revenue that was $518 lower than planned primarily due to the negative impact of the COVID-19 pandemic on air traffic volumes;
- other expenses that were $112 higher than planned, primarily due to the decrease in fair value of the investment in preferred interests of Aireon of $112, a $15 increase in net interest expense relating to employee benefits, a $10 increase in interest expense and foreign exchange losses of $4, offset by the decrease in income tax expenses of $29; and
- the planned adjustment of $35, representing the anticipated annual net loss at the time the fiscal 2020 budget was approved;

partially offset by:

- operating expenses that were $194 lower than planned, primarily as a result of the Company's actions taken to reduce spending and cash outflow amid the COVID-19 pandemic, including availing itself of the CEWS government relief program; and
- net movement of $123 in other regulatory deferral accounts that was higher than planned primarily due to:
  - a regulatory adjustment of $112 to offset the decrease in fair value in the investment in preferred interests of Aireon;

- a regulatory expense for pension benefits that was $43 higher than planned primarily due to higher pension current service costs as a result of a decrease in the discount rate at August 31, 2019 compared to that used to prepare the fiscal 2020 budget; and
- a regulatory adjustment of $4 related to the deferral of foreign exchange losses on our investment in preferred interests of Aireon;

partially offset by

- a regulatory adjustment of $29 related to the deferral of income tax recoveries due to the decrease in fair value of the investment in preferred interests of Aireon;
- a regulatory expense for other employee benefits that was $7 higher than planned primarily due to the deferral of re-measurement gains on the Company's LTD and vested sick leave plans.

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.

	Year ended August 31		
	2020	2019	Change
Items that will not be reclassified to income or (loss):			
Re-measurements of employee defined benefit plans	$ 367	$ (1,040)	$ 1,407
Net movement in regulatory deferral accounts	(367)	1,040	(1,407)
	-	-	-
Items that will be reclassified to income or (loss):			
Amortization of loss on cash flow hedge	$ 1	$ 1	$ -
Changes in fair value of cash flow hedges	(4)	(11)	7
Net movement in regulatory deferral accounts	3	10	(7)
	-	-	-
Total other comprehensive income (loss)	$ -	$ -	$ -

Net re-measurement gains on employee defined benefit plans of $367 were recorded during fiscal 2020. This was primarily due to a return on plan assets of $276 greater than expected based on the discount rate of 2.90% at August 31, 2019, actuarial gains of $156 largely due to changes in future salary increase assumptions, partially offset by net negative impacts from demographics and experience adjustments of $65. For fiscal 2019, the net re-measurement losses of $1,040 were primarily due to actuarial losses of $1,293 due to a 90 basis point decrease in the discount rate to 2.90% and net negative impacts from demographics and experience adjustments of $16, partially offset by a return on plan assets $269 greater than expected based on the discount rate of 3.80% at August 31, 2018.

During fiscal 2020, negative fair value adjustments of $4 on the Company's foreign exchange hedges were recorded. In fiscal 2019, negative fair value adjustments of $11 were recorded on the Company's interest rate hedges related to the re-financing of debt instruments that matured in fiscal 2019.

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) our 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:

	August 31 2020	August 31 2019	Change
Rate stabilization account debit (credit) balance	$ 255	$ (93)	$ 348
Regulatory pension cash contributions to be recovered at a later date	$ 34	$ 34	$ -

Financial Outlook[3]

As noted previously under "INTRODUCTION - Caution Concerning Forward-Looking Information" and "INTRODUCTION - Significant Financial Matters", the Company has seen a significant decline in the number of air traffic movements as compared to the same period in fiscal 2019 as a result of a decline in passenger demand due to COVID-19 related concerns, travel restrictions imposed by governments, the closing of international borders and the economic impact of the pandemic. As a result, the Company's customer service charges revenue has declined significantly as air carriers have reduced their operations, grounded fleets and cancelled flights and routes. The pandemic is expected to continue to have a negative impact on air travel globally and this will likely continue until such time as travel restrictions are eased and consumer demand for air travel returns. Industry participants are indicating it may be some time before they fully return to pre COVID-19 operating levels. We expect until this occurs that reduced air traffic activity will have a material negative impact on the Company's operations and revenues.

Management continues to analyze the extent of the financial impact, which is expected to be material, depending on the duration of the pandemic. The Company has already taken steps to reduce operating costs as well as its ongoing and future capital program spending. In fiscal 2020, the Company accessed its available syndicated credit facility to address near-term liquidity requirements in the amount of $225 and issued $850 of General Obligation Notes. In addition, the Company has accessed the CEWS government relief program and will continue to do so in fiscal 2021.

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

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 remain depressed through February 2021 (as compared to the same periods in fiscal 2020).

	Fiscal 2021	Fiscal 2020	Change	%
Before rate stabilization				
Revenue	$ 1,098	$ 1,000	$ 98	10%
Operating expenses and other (income) and expenses, including other regulatory adjustments	1,408	1,348	60	4%
Net loss before rate stabilization adjustments	$ (310)	$ (348)	$ 38	

Revenue

Revenue in fiscal 2021 is expected to increase by approximately 10% to $1,098 from $1,000 in fiscal 2020. The increase in revenue is primarily due to the increase in customer service charge base rates by an average of 29.5%, effective September 1, 2020 (see "RESULTS OF OPERATIONS – Revenue"). Air traffic volume is forecasted to decline by 14.6% in fiscal 2021 on a year-over-year basis.

In our Q3 fiscal 2020 MD&A, we had disclosed anticipated revenue of $973 for fiscal 2020 and forecasted a 35.8% decline in air traffic volume. The increase in revenue is due to actual air traffic volume slightly less negative than expected as well as increased revenue from service and development contracts for the sale of air traffic management technology solutions.

Operating Expenses and Other (Income) and Expenses

Operating expenses and other (income) and expenses before rate stabilization for fiscal 2021 are expected to be $1,408. This is an increase of 4% or $60 compared to fiscal 2020 primarily due to:

- increased operational requirements, largely related to technical services, including satellite surveillance and systems maintenance and development costs to ensure the safe operation and maintenance of the air navigation system as an essential service and fulfill a large revenue-generating service and development contract; and
- increased compensation levels largely due to lower forecasted CEWS receipts based on the current program structure and costs associated with workforce reductions, partially offset by reduced compensation costs as a result of early retirements in fiscal 2020 through the Company's early retirement incentive (ERI) program;
- 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;

partially offset by:

- reduction in overtime costs as a result of the decrease in air traffic movements for the full year.

The Company continues to look at its operations, including staffing and level of service required to meet air traffic levels and ensure the safe operation and maintenance of the air navigation system.

In our Q3 fiscal 2020 MD&A, we had disclosed anticipated operating expenses and other (income) and expenses, before rate stabilization of $1,382 for fiscal 2020. The decrease of $34 is primarily due to an increase in CEWS receipts due to faster processing times and changes made to the program in August 2020 and lower salaries and benefits expense due to lower costs related to the ERI program than anticipated.

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 $79 as at August 31, 2021 (August 31, 2020 - $689).

This cash outlook includes anticipated annual cash outflows from operating activities of $440, largely due to the reduction in customer service charge revenue as a result of the ability for customers to defer cash payments of the September 1, 2020 increase in base rates. In addition, CEWS receipts are anticipated only for the first three months of fiscal 2021. While the September 23, 2020 Speech from the Throne announced that the CEWS program is expected to be continued into the summer of 2021, full details of the extension are not yet known. Payments to employees and suppliers are expected to increase, largely due to costs associated with workforce reductions along with the payment of economic increases deferred in fiscal 2020 to fiscal 2021. Pension contributions are also expected to increase, largely due to the timing of the true-up of contributions based on the January 1, 2020 funding valuation filed in September 2020. The Company's interest payments have also increased as a result of increased debt levels.

Expected net cash outflows include cash outflows from financing activities of $202 and are as a result of the repayment of the $250 Series MTN 2011-1 General Obligation Notes, the repayment of bank loans of $223 (net of expenses) and the annual amortization payment of $25 for the Series 97-2 amortizing revenue bonds. These are partially offset by the anticipated issuance of $300 of General Obligation Notes.

The expected cash outflows from operating and financing activities are partially offset by $32 of cash inflows from investing activities, largely due to proceeds from the maturity of short-term investments, partially offset by capital expenditures.

In our Q3 fiscal 2020 MD&A, we had disclosed an anticipated cash position of $763 at the end of fiscal 2020. The decrease is largely due to the purchase of $145 of short-term investments, partially offset by lower cash outflows from operating activities, largely due to reduced compensation costs as a result of the ERI program and higher CEWS receipts.

Rate Stabilization Account

The Company currently anticipates that the rate stabilization account will be in a debit position of $565 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 volumes 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.

In our Q3 fiscal 2020 MD&A, we had disclosed a rate stabilization account debit balance of $316 at the end of fiscal 2020. The decrease of $61 is due to air traffic volume slightly less negative than anticipated and lower compensation costs and operating expenses as a result of continued cost mitigation efforts.

Earnings and Cash Flow Coverage

During a fiscal year, quarterly revenue 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.

For the twelve months ended August 31, 2020, consistent with the nature of its operating structure, the Company had breakeven results. Our interest costs were $79. Consolidated earnings (after rate stabilization) before interest costs were $79, which equals our requirement for the fiscal year and meets our one-to-one earnings coverage ratio target. Depreciation and amortization expense for this period was $157. Our cash flow coverage was 2.99 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 our Master Trust Indenture and we are subject to liquidity covenants under our General Obligation Indenture, designed to cover 12 months interest on borrowings and 25% of our annual operating and maintenance expenses. As at August 31, 2020, we were in full compliance with our debt indentures, including the Master Trust Indenture'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 General Obligation Indenture.

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. During fiscal 2020, total amounts paid by us to these related parties, directly or indirectly, were $146 (fiscal 2019 - $114), including contributions to the Company's registered pension plans of $91 (fiscal 2019 - $93) and payment for data services to Aireon of $38 (fiscal 2019 - $5). Total amounts received from these related parties during fiscal 2020 were $15 (fiscal 2019 - $12) primarily related to reimbursement for certain costs from the Company's pension plans. In addition, accrued dividend income on the investment in preferred interests of Aireon of $13 was recorded in fiscal 2020 (fiscal 2019 - $12).

As at August 31, 2020, the Company has an accrued dividend receivable of $76 (August 31, 2019 - $63) from Aireon and a long-term loan receivable of $3 (August 31, 2019 - $3) outstanding from Searidge Technologies Inc. (Searidge).

The Company has a 12-year commitment with Aireon to purchase data services, which commenced in March 2019. The estimated total remaining commitment is $625 ($481 U.S.). In addition, the Company entered into an agreement with Aireon in January 2020 to provide a subordinated loan up to a total of $11 U.S. ($14 CDN).

Additional details of these transactions are disclosed in note 19 of our fiscal 2020 financial statements.

SUMMARY OF QUARTERLY RESULTS

Quarterly Financial Information (unaudited)

	Three months ended			
	Q4 August 31 2020	Q3 May 31 2020	Q2 February 29 2020	Q1 November 30 2019
Revenue	$ 155	$ 159	$ 322	$ 364
Operating expenses	264	351	387	369
Other (income) and expenses	56	129	25	31
	(165)	(321)	(90)	(36)
Income tax recovery	(1)	(27)	-	-
Net income (loss) before net movement in regulatory deferral accounts	(164)	(294)	(90)	(36)
Net movement in regulatory deferral accounts related to net income (loss), net of tax				
Rate stabilization adjustments	177	169	2	-
Other regulatory deferral account adjustments	48	111	38	39
	225	280	40	39
Net income (loss) after net movement in regulatory deferral accounts	$ 61	$ (14)	$ (50)	$ 3

	Three months ended			
	Q4 August 31 2019	Q3 May 31 2019	Q2 February 28 2019	Q1 November 30 2018
Revenue	$ 412	$ 351	$ 317	$ 357
Operating expenses	374	367	360	348
Other (income) and expenses	32	15	27	17
	6	(31)	(70)	(8)
Income tax recovery	(3)	-	-	-
Net income (loss) before net movement in regulatory deferral accounts	9	(31)	(70)	(8)
Net movement in regulatory deferral accounts related to net income (loss), net of tax				
Rate stabilization adjustments	21	11	3	(4)
Other regulatory deferral account adjustments	30	6	23	10
	51	17	26	6
Net income (loss) after net movement in regulatory deferral accounts	$ 60	$ (14)	$ (44)	$ (2)

Discussion of Quarterly Results

The quarterly variations in revenue mainly reflect 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 volumes. Given the negative impact of the COVID-19 pandemic on air traffic volumes, the normal seasonality pattern did not occur in fiscal 2020. The Company's air traffic volumes decreased 68.0% over the course of Q4 fiscal 2020, as measured in WCU.

The majority of our operating expenses are incurred evenly throughout the year. To offset the significant reduction in revenue as a result of the pandemic, the Company continues to review, monitor and take actions to reduce capital and operating spending and cash outflows.

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 annual 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 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 LTD experience and funding requirements;
- changes in the investment in preferred interests of Aireon, before tax;
- changes in the investment in equity-accounted investee;
- changes in income taxes; and
- changes in unrealized hedging transactions.

LIQUIDITY AND CAPITAL RESOURCES

The following sections explain how we manage our cash and capital resources.

Our non-cash current assets are less than our current liabilities. This results from accounts receivable collections that are more rapid than the settlement of accounts payable and accrued liabilities. Should our working capital requirements increase, the Company has adequate credit facilities and cash as noted below.

The inclusion of non-cash depreciation and amortization expenses in the calculation of service charge rates typically leads to positive cash flows from operations. Our strategy is to use these positive cash flows to fund capital expenditures and to replenish our working capital, if required. In addition, our strategy is to maintain a financial structure and credit ratings that will allow the Company to access the capital markets to meet debt maturities as they come due. Should we believe that conditions are not appropriate to undertake a refinancing at a particular time or should we experience a temporary downturn in revenue from seasonal or other factors, the Company has sufficient cash and committed credit facilities at its disposal.

As a result of the COVID-19 pandemic, the Company had negative cash flows from operations of $96 in fiscal 2020 (fiscal 2019 – positive cash flows from operations of $143). To address the negative cash flows the Company reduced planned capital expenditures by nearly $60 from budget and accessed its available liquidity, drawing $225 from its syndicated credit facility in addition to the issuance of $850 of General Obligation Notes during the fiscal year.

As at August 31, 2020, we had $689 of cash and cash equivalents, $145 of short-term investments and committed credit facilities of $1,390, of which $357 was available for unrestricted use (see "LIQUIDITY AND CAPITAL RESOURCES – Liquidity and Financing Strategy").

Cash flows for the year ended August 31, 2020

	Year ended August 31		
	2020	2019	Change
Cash flows from (used in):			
Operating	$ (96)	$ 143	$ (239)
Investing	(277)	(122)	(155)
Financing	1,031	(29)	1,060
Cash flows from (used in) operating, investing and financing activities	658	(8)	666
Effect of foreign exchange on cash and cash equivalents	1	-	1
Increase (decrease) in cash and cash equivalents	659	(8)	667
Cash and cash equivalents, beginning of period	30	38	(8)
Cash and cash equivalents, end of period	$ 689	$ 30	$ 659
Free cash flow (non-GAAP financial measure):			
Cash flows from (used in):			
Operations	$ (96)	$ 143	$ (239)
Capital expenditures [(1)]	(132)	(133)	1
Payment of lease liabilities [(1)]	(3)	-	(3)
Free cash flow	$ (231)	$ 10	$ (241)

[(1)] See the statement of cash flows in our fiscal 2020 financial statements.

As shown above, cash and cash equivalents increased by $659 in fiscal 2020 and the Company experienced negative free cash flow of $231, which is a non-GAAP financial measure as discussed in "INTRODUCTION – Financial Highlights: Cash flows for the year ended August 31, 2020".

Cash flows from operations in fiscal 2020 were outflows of $96 compared to inflows of $143 for fiscal 2019, primarily due to lower receipts from customer service charges of $430 as a result of the negative impact of the COVID-19 pandemic on air traffic volumes and revenue, partially offset by lower payments to employees and suppliers of $96, $86 received under the CEWS government relief program to offset compensation costs and lower interest payments of $7.

Cash outflows from investing activities for fiscal 2020 were $277 compared to $122 in fiscal 2019. The Company invested $132 in capital projects during fiscal 2020 compared to $133 in fiscal 2019 which was partially offset by $11 cash inflows from the repayment of the bridge financing from Aireon. In fiscal 2020, the Company invested $145 in short-term investments which have an original maturity greater than three months.

Cash flows from financing activities for fiscal 2020 were inflows of $1,031 compared to outflows of $29 for fiscal 2019. The inflows in fiscal 2020 were primarily a result of net proceeds of $845 from the issuance of the General Obligation Notes and $215 net proceeds from bank loans, partially offset by $25 to repay the Series 97-2 amortizing revenue bonds.

Liquidity and Financing Strategy

As a corporation without share capital, the Company finances its operations with borrowed money. When the Company was created, we developed a financing plan called the Capital Markets Platform. All borrowings were incurred and secured under a master trust indenture (the Master Trust Indenture), which initially provided a total drawn and undrawn borrowing capacity of $3,000. The Master Trust Indenture provides for a gradually escalating reduction of the initial borrowing capacity over 33 years.

In February 2006, we entered into a separate trust indenture (the General Obligation Indenture), which established a borrowing program that qualifies as subordinated debt under the Master Trust Indenture. As subordinated debt, General Obligation Notes are not subject to the mandatory annual debt reduction provisions of the Master Trust Indenture. Provided we meet an additional indebtedness test, we are not limited in the amount of debt we can issue under the General Obligation Indenture. Under the terms of the General Obligation Indenture, no new indebtedness may be incurred under the Master Trust Indenture. Therefore, as bonds mature or are redeemed under the Master Trust Indenture, they will be replaced with General Obligation Notes or borrowings under our credit facility described below.

Borrowings under the Master Trust Indenture are secured by an assignment of revenue and a security interest over the debt service reserve fund and revenue account maintained under the Master Trust Indenture. The General Obligation Indenture is unsecured but contains positive and negative covenants similar to the Master Trust Indenture.

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 August 31, 2020, the credit facilities are utilized as follows:

Credit facilities:	
Credit facility with a syndicate of Canadian financial institutions [1] [2]	$ 850
Letter of credit facilities for pension funding purposes [3]	540
Total available credit facilities	1,390
Less: Outstanding letters of credit for pension funding purposes [3]	533
Less: Outstanding letters of credit for other purposes [2]	2
Less: Bank loan (net of interest costs)	223
Undrawn committed borrowing capacity	632
Less: Operations and maintenance reserve fund allocation [4]	275
Credit facilities available for unrestricted use	$ 357

[1] The Company's credit facility with a syndicate of Canadian financial institutions in the amount of $850 is comprised of two equal tranches maturing on September 12, 2022 and September 12, 2024, respectively. The credit facility agreement provides for loans at varying rates of interest based on certain benchmark interest rates, specifically the Canadian prime rate and the Canadian bankers' acceptance rate, and on the Company's credit rating at the time of drawdown. A utilization fee is also payable on borrowings in excess of 25% of the available facility. The Company is required to pay commitment fees, which are dependent on the Company's credit rating. The Company is in compliance with the credit facility covenants as at August 31, 2020.

[2] At August 31, 2020, $2 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 letter of credit facilities for pension funding purposes are comprised of four facilities with Canadian financial institutions totalling $540. Two of the credit facilities, representing $250, will mature on December 31, 2020 and the remaining facilities will expire on December 31, 2021, unless extended.

At August 31, 2020, $533 was drawn for pension solvency funding purposes. As discussed in "LIQUIDITY AND CAPITAL RESOURCES – Cash Requirements: Pension Plans", the Company is not required to make solvency special payments due for the months of March to November 2020.

[4] The operations and maintenance reserve fund 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").

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

	August 31 2020	August 31 2019
LONG-TERM DEBT:		
Bonds and notes payable		
Under the Master Trust Indenture	$ 425	$ 450
Under the General Obligation Indenture	1,875	1,025
	2,300	1,475
Adjusted for deferred financing costs and discounts	(12)	(7)
Total bonds and notes payable	2,288	1,468
Less: current portion of long-term debt	(275)	(25)
Total long-term debt	$ 2,013	$ 1,443
LIQUIDITY:		
Cash and cash equivalents	$ 689	$ 30
Short-term investments	145	-
Debt service reserve fund	73	72
	$ 907	$ 102
Undrawn committed borrowing capacity (1)	$ 632	$ 684

(1) $357 of this borrowing capacity is available as described in the previous table (August 31, 2019 - $374).

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	AA-	Negative

As a result of the COVID-19 pandemic, on April 1, 2020, S&P revised its outlook on the Company to negative from stable and affirmed its 'AA' long-term issuer credit and senior secured debt ratings, and 'AA-' senior subordinated debt rating. In revising its outlook to negative, S&P noted that the revision reflects a one-in-three chance that they could lower the ratings over the next 12 to 24 months. S&P indicated they would consider doing so should a prolonged traffic downturn or slow traffic recovery post-pandemic lead to large and sustained deterioration in financial metrics.

S&P noted that they "expect NAV CANADA to withstand the significant pressure that the traffic decline is exerting on its cash flows, as it possesses adequate liquidity and no large debt issues until February 2021".

S&P stated that they expect NAV CANADA will preserve strong relationships with domestic financial institutions, maintaining its track record of access to external liquidity. In assessing our ability to manage external shocks, S&P points to the Company's legislated ability to fully adjust user charges to meet our financial obligations with the view that good debt service metrics provide additional financial capacity.

On April 8, 2020, Moody's affirmed NAV CANADA's ratings and stable outlook. A detailed credit rating analysis on the decision was then published on April 17, 2020, 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 rating outlook is stable, reflecting our expectation that NAV CANADA will ultimately implement the necessary rate increases to compensate for lower levels of activity as a result of the coronavirus outbreak."

On May 26, 2020, S&P and Moody's affirmed NAV CANADA's credit ratings ahead of the Company's issuance of General Obligation Notes.

A credit rating is not a recommendation to buy, sell, or hold securities and may be subject to revision or withdrawal at any time by the rating organization. Our fiscal 2020 AIF contains more detailed information about the credit ratings, including each rating agency's rationale for assigning the given rating.

We are exposed to risks related to the level of our credit ratings. Specifically, our credit facility agreement contains a pricing scale that is based on our credit ratings. If our senior debt ratings were to fall below AA (or equivalent) and/or our General Obligation Indenture debt ratings were to fall below AA- (or equivalent) our cost of borrowing under the facility would increase, as would the commitment fees payable under the facility.

Cash Requirements

The following information about our contractual obligations and other commitments summarizes certain of our liquidity and capital resource requirements.

Pension Plans[4]

Required pension contributions to the Company's pension plans are determined by annual actuarial valuations for funding purposes performed as at January 1 (see below under "Pension Contributions (Going Concern and Solvency)"). Our latest actuarial valuations (for funding purposes) as at January 1, 2020 were completed and filed with OSFI in September 2020, in line with a filing extension provided by OSFI in response to the COVID-19 pandemic.

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

Pension Plans' Accounting Deficit: The Company's pension plans had an accounting deficit of $1,771 as at the annual measurement date of August 31, 2020 ($1,957 as at August 31, 2019). The decrease of $186 in the deficit position during fiscal 2020 is primarily due to actuarial gains of $369 partially offset by actuarial accounting expense exceeding Company contributions by $183. The $369 of actuarial gains are primarily due to a return on plan assets $276 greater than expected based on the discount rate of 2.90% at August 31, 2019, actuarial gains of $157 largely due to changes in future salary increase assumptions, partially offset by net negative impacts from demographics and experience adjustments of $64.

The accounting deficit of $1,957 at August 31, 2019 increased from an accounting deficit of $831 as at August 31, 2018. The $1,126 increase in the deficit position during fiscal 2019 is primarily due to actuarial losses of $1,023 and actuarial accounting expense exceeding Company contributions by $103. The $1,023 of actuarial losses are primarily due to actuarial losses of $1,267 due to a 90 basis point decrease in the discount rate to 2.90% and net negative impacts from demographics and experience adjustments of $25, partially offset by a return on plan assets $269 greater than expected based on the discount rate of 3.80% at August 31, 2018.

The market-based discount rate used to determine pension obligations is based on the yield on long-term high quality corporate bonds, with maturities matching the estimated cash flows of the plan. A 0.25% decrease in the discount rate would increase the accounting deficit by approximately $426. Conversely, a 0.25% increase in the discount rate would decrease the deficit by approximately $397.

Pension Expenses: Annual pension benefit costs can increase by approximately $23 from a 0.25% decrease in the discount rate used in actuarial calculations or decrease by approximately $22 from a 0.25% increase in the discount rate.

Regulatory Recovery of Pension Costs: The Company uses a regulatory approach for pension costs to determine the net impact charged to net income (loss). The objective of this approach is to expense the cost of the Company's going concern cash contributions to the funded pension plans. In the fiscal year ended August 31, 2017 (fiscal 2017), the Company made solvency deficiency contributions of $44 which were deferred. During fiscal 2018, $10 was recorded as a regulatory expense to recover part of the contributions. The remaining balance of $34 is expected to be recovered through future customer service charges.

The funding of employee benefits as compared to the expense, net of regulatory adjustments, recorded in the consolidated statement of operations for the Company's funded pension plans is as follows:

	Years ended August 31	
	2020	2019
Consolidated statement of operations		
Pension current service expense [1]	$ 218	$ 164
Net interest expense [1]	50	24
Less: Regulatory deferrals	(177)	(96)
	91	92
Company cash pension contributions		
Going concern current service	91	92
Regulatory recovery of fiscal 2017 solvency contributions	$ -	$ -

(1) Pension current service expense does not include $5 related to the Company's unfunded pension plan (fiscal 2019 - $5) and net interest expense does not include $4 related to the Company's unfunded pension plan (fiscal 2019 - $5).

Pension Contributions (Going Concern and Solvency): The actuarial valuations for funding purposes of the pension plans performed as at January 1, 2020 reported a going concern surplus of $933 (January 1, 2019 – $738).

The regulations governing the funding of federally regulated pension plans include a solvency test, which assumes the plans are terminated as at the valuation date. The actuarial valuations performed as at January 1, 2020 reported a statutory solvency deficit of $192 as of January 1, 2020 (January 1, 2019 - $164).

On April 15, 2020, the Minister of Finance announced a moratorium on solvency special payments which came into force on May 27, 2020, whereby defined benefit plan sponsors are not required to make solvency special payments due for the months of March to November 2020.

The Company has the option of meeting its pension solvency funding requirements with letters of credit or cash contributions, with the maximum letters of credit based on 15% of solvency liabilities. As at August 31, 2020, the Company has put in place letters of credit totaling $533 to meet its cumulative pension solvency funding requirements, including $19 in fiscal year 2020. Outstanding letters of credit represent 7% of solvency liabilities.

Going concern pension contributions for fiscal 2020 were $91, with no requirement for cash special payments. Once the valuations are filed, going concern pension contributions are based on the January 1, 2020 actuarial valuations. On a preliminary basis, going concern pension contributions for fiscal 2021 are expected to be $105 with no requirement for cash special payments. The increase over fiscal 2020 contributions is largely due to the timing of the true-up of contributions based on the January 1, 2020 funding valuation filed in September 2020.

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

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

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

More specifically, funding risk is managed as follows:

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

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

Contractual Obligations

A breakdown of contractual obligations as at August 31, 2020 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
Bank loan	$ 223	$ 223	$ -	$ -	$ -	$ -	$ -
Derivative liabilities	4	4	-	-	-	-	-
Long-term debt (including current portion) [1], [2]	2,300	275	25	25	25	25	1,925
Interest payments [2]	1,478	83	78	76	74	73	1,094
Capital commitments	108	82	10	3	3	3	7
Lease liability	6	3	3	-	-	-	-
Future lease liabilities[3]	59	-	-	2	3	3	51
Related party loan [4]	14	14	-	-	-	-	-
Total contractual obligations	$ 4,192	$ 684	$ 116	$ 106	$ 105	$ 104	$ 3,077

[1] Payments represent principal of $2,300. The Company intends to refinance principal maturities at their maturity dates. The Company may choose to repay a portion of these maturities with available cash and/or may increase the size of a re-financing to generate additional liquidity or for other purposes, and/or may choose to redeem in whole or in part an issue in advance of its scheduled maturity.

[2] Further details on interest rates and maturity dates on long-term debt are provided in note 14 of the fiscal 2020 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] During fiscal 2020, the Company entered into an agreement with Aireon to provide a subordinated loan up to a total of $11 U.S. ($14 CDN).

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 under the heading "LIQUIDITY AND CAPITAL RESOURCES – Cash Requirements: Pension Plans".

Capital Expenditures and Other Investments[5]

Planning capital expenditures in respect of systems, technology, buildings and equipment forms part of our annual budgeting process. As part of this planning, we review proposed capital expenditures against safety, financial and business needs justification criteria, considering the Company's unique status as a provider of essential safety-critical infrastructure. As a result of the COVID-19 pandemic, significant reductions were made to both the Company's fiscal 2020 capital program as well as its originally planned fiscal 2021 program.

During fiscal 2020, the Company invested $107 in capital assets (cash outflows of $132, excluding capitalized interest of $2) compared to $145 in fiscal 2019 (cash outflows of $133, excluding capitalized interest of $5). Investments were made in systems enhancements, functional upgrades, equipment upgrades or replacements, facility replacements or refurbishment and other projects to meet safety and other operational requirements.

We anticipate spending approximately $110 on capital assets in fiscal 2021.

Capital Management

The Company views capital as the sum of its issued long-term debt, retained earnings and accumulated other comprehensive income, regulatory deferral accounts and balances under certain employee benefit plans, 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.

	August 31 2020	August 31 2019
Bonds and notes payable	$ 2,288	$ 1,468
Equity:		
Retained earnings	28	28
Regulatory deferral accounts:		
Debit balances	(2,112)	(2,087)
Credit balances	184	376
Employee benefits:		
LTD (asset) liability	(4)	3
Liability for funded pension benefits	1,643	1,813
Liability for accumulating sick leave	16	17
Total capital	$ 2,043	$ 1,618

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

The Company's main objectives when managing capital are:

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

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

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

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

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

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

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

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

Management's responses to managing capital during the current economic period, including variable air traffic and pension funding requirements, are addressed in other sections of this MD&A.

There were no changes in the Company's approach to capital management during the year ended August 31, 2020.

Financial Instruments and Risk Management

Reserve Funds and Financial Instruments

Financial instruments are also disclosed in note 15 to the fiscal 2020 financial statements. Under the Master Trust Indenture, we maintain a debt service reserve fund and an operations and maintenance reserve fund. We are also required to meet certain minimum liquidity levels under the General Obligation Indenture.

The debt service reserve fund is maintained in cash and qualified investments deposited with our Trustee. An amount equal to or greater than one year's debt service (excluding General Obligation Indenture debt) is required to be maintained. The debt service reserve fund also counts toward our minimum cash liquidity level under the General Obligation Indenture, which is one year's interest on all debt.

The operations and maintenance reserve fund requirements are met with an allocation of $275 in undrawn availability under our committed credit facility. At a fiscal year end the fund must cover at least one quarter of our annual operating and maintenance expenses. This fund also serves to meet the minimum liquidity level under the General Obligation Indenture, which consists of the minimum liquidity level mentioned above plus one quarter of the previous year's operating and maintenance expenses.

As at August 31, 2020 we were in full compliance with our debt indentures, including the Master Trust Indenture's requirements regarding the reserve funds, the flow of funds and rate covenants, as well as the liquidity and other provisions of the General Obligation Indenture.

Financial Risk Management

Interest Rate Risk: We are exposed to the risk that net interest expense will increase as a result of changes in market interest rates. One aspect of this risk relates to the possibility that maturing bonds may need to be re-financed at higher interest rates. We mitigate this source of interest rate risk in the following ways:

- maturities of borrowings are currently spread over periods up to and including 2051 so that only a portion of outstanding debt will mature in any given fiscal year; and

- the Company periodically enters into hedging arrangements as required to mitigate the impact of rising interest rates on the cost of refinancing debt.

A second source of interest rate risk is that the Company has $332 invested in financial assets that bear interest at floating rates. Earnings on the financial assets will fall when interest rates decline. In the current low interest rate environment, the Company has positioned itself to benefit from increased earnings on floating rate assets as a result of rising interest rates without an offsetting increase in interest expense.

Interest rate risk relating to our pension plans is discussed above under "LIQUIDITY AND CAPITAL RESOURCES – Cash Requirements: Pension Plans".

Foreign Exchange Risk: The Company is exposed to foreign exchange risk on sales and purchases that are denominated in currencies other than the functional currency of the Company. However, the Company invoices and receives the vast majority of its revenue in Canadian dollars and also incurs operating expenses and capital expenditures primarily in Canadian dollars. The majority of the Company's exposure to foreign exchange risk relates to the U.S. dollar (U.S.). The Company does not have a significant exposure arising from other currencies. The Company has $333 ($257 U.S.) of net exposure to U.S. dollar foreign exchange risk that is primarily related to the Company's investment in preferred interests of Aireon.

The Company designates certain of its forward contracts as cash flow hedging instruments to hedge the Company's exposure to the impact of exchange rate fluctuations. As at August 31, 2020, the Company has designated $3 (fair value) of its forward contracts as cash flow hedging instruments.

The foreign exchange rate sensitivity is the net amount of foreign exchange rate exposure of the items at the reporting date, less foreign currency hedges. As at August 31, 2020, if the Canadian dollar strengthened or weakened by 10% against the U.S. dollar, all other variables remaining constant, net income (loss) before net movement in regulatory deferral accounts would have been impacted by $31.

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

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

During fiscal 2020, the Company reviewed and adjusted the fair value of its investment in preferred interests of Aireon. The fair value was determined using a discounted cash flow model. The estimated fair value of the investment in preferred interests of Aireon may change in subsequent periods. Any such changes could be material and would be reflected in the statement of operations as they occur. A sensitivity analysis with respect to changes in the unobservable inputs to the valuation is discussed in note 15 of the fiscal 2020 financial statements.

Aireon provides global satellite-based surveillance capability for air navigation service providers around the world. The following risks have been identified with respect to the Company's investment in preferred interests of Aireon:

- The reduction in air traffic across the globe as a result of the COVID-19 pandemic and travel restrictions put in place;
- The expectation that air traffic may not return to pre COVID-19 levels for some time, which will impact Aireon's revenue where billings are volumetric and reflect air traffic movements; and

- The expectation that the Company's receipt of dividends will therefore be delayed.

Credit Risk on Investments: The Company limits investments to obligations of the federal government, certain provincial governments, entities guaranteed by a federal or provincial government or other obligations of entities rated by at least two rating agencies in the top two categories for long-term debt or the highest category for short-term debt. Asset backed securities must be sponsored by a Schedule I bank and may not contain synthetic assets. Our portfolio is diversified, with dollar and percentage limits on investment counterparties. None of the Company's holdings in current investments as at August 31, 2020 are past due or impaired, and all have long-term ratings in either the AAA or AA category or short-term ratings in the highest category.

Collection of Accounts Receivable: We have strong credit policies and have established a maximum credit limit of $4 for our largest air navigation services customers, with the exclusion for deferred payments, and have other credit control measures that reduce our credit exposure. Our general payment terms provide for payment periods of 30 days for air navigation services and for payment periods of up to 45 days for some other types of services, but shorter payment terms are imposed where customer circumstances warrant. Our credit policies also require payments in advance or satisfactory security to be posted under certain circumstances for all receivable amounts, including amounts that have been deferred for later collection, where NAV CANADA acting reasonably and in good faith is of the opinion that NAV CANADA charges will not be paid when due. However, while we have strong credit policies, we remain at risk should we be unable to collect amounts from customers as they come due in excess of the security we hold.

Liquidity Risk: The Company mitigates this risk by monitoring current and expected liquidity requirements, taking into account trends in air traffic and expected contributions to our pension plans, to ensure that we maintain sufficient reserves of cash, cash equivalents, investments and/or available undrawn credit facilities to meet our liquidity requirements in the short and longer term. Under the Master Trust Indenture and General Obligation Indenture, the Company is required to maintain certain reserve funds and liquidity levels, as described in note 14 to our fiscal 2020 financial statements.

As at August 31, 2020, the Company had $632 of undrawn availability under its committed credit facilities and had allocated $275 of this facility to meet its operations and maintenance reserve fund requirement under the Master Trust Indenture. The Company has investments in highly rated short-term obligations in its debt service reserve fund. The Company believes that it has sufficient available liquidity to meet its operating needs.

Cash Flow Variances arising from Air Traffic levels: We are exposed to unpredictable changes in air traffic volumes that directly affect the Company's cash flows, such as recessions (2009), terrorist attacks (2001), epidemics and pandemics (COVID-19 - 2020; SARS - 2004), air carrier financial difficulties, changes in air carrier operations (Boeing 737 Max grounding – 2019) and changing weather patterns that may cause flights to move into or out of Canadian air space. Future traffic volumes could be influenced by a number of factors, including:

- Economic climate – Air traffic generally is influenced by economic growth, decline or uncertainty. For example, during an economic downturn, growth rates in air traffic generally decline. Since a substantial portion of air traffic is international, traffic volumes are influenced by both Canadian and global economic circumstances. On an annual basis (using typical air traffic volumes, excluding the impact of COVID-19), a 1.0% change in air traffic volumes flown in Canadian airspace corresponds to approximately a $14 change in our revenue before rate stabilization.

- Aviation fuel prices – As fuel represents a major portion of airline operating costs, a change in the price of fuel can affect air traffic demand to the extent that the change is passed on to consumers.

- Terrorist activities, epidemics, pandemics, passenger willingness to travel, government restrictions on air travel, natural disasters, environmental concerns or weather patterns may all affect air traffic volumes within the airspace for which the Company provides air navigation services.

Our strategy is to mitigate the immediate impact of a sudden decline in air traffic with the least disruption possible to our customer base. We do this with our rate stabilization mechanism, which reduces short-term volatility in customer service charges. Our rate stabilization account tracks and accumulates revenue and expense variances from planned levels (whether positive or negative), so that they may be factored into the setting of future customer service charges. As a result of the significant decline in air traffic in fiscal 2020 due to the COVID-19 pandemic, the rate stabilization account changed from a credit balance of $93 as at August 31, 2019 to a debit balance of $255 as at August 31, 2020. The Company continues to review, monitor and take actions to reduce capital and operating spending and cash outflows to help offset the significant decline in revenue.

We also mitigate the impact of sudden declines in air traffic by maintaining substantial liquidity in the form of our reserve funds and unrestricted available credit facilities (see discussion under "Liquidity Risk" above).

Insurance

Our aviation liability insurance program was last renewed on November 15, 2019 and we intend to renew it on November 15, 2020. 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

A summary of the Company's significant accounting policies are described in note 3 to the fiscal 2020 financial statements.

The following standard was adopted by the Company effective September 1, 2019:

IFRS 16 – Leases

In January 2016, the International Accounting Standards Board (IASB) issued IFRS 16 *Leases* (IFRS 16), which replaces IAS 17 *Leases* (IAS 17) and related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases and requires recognition of assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17, maintaining the classification of leases as operating or finance leases, and accounting for the lease according to its classification. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

The Company adopted IFRS 16 effective September 1, 2019, using the modified retrospective approach, in accordance with the transitional provisions of the standard. As a result, the comparative information provided continues to be in accordance with the Company's previous accounting policy as disclosed in our fiscal 2019 financial statements.

The effect of applying IFRS 16 on September 1, 2019 had no impact on opening retained earnings as the right-of-use assets were initially measured at an amount equal to the lease liabilities. As at September 1, 2019 the Company recorded $9 as a right-of-use asset within Property, plant and equipment and a total of $9 within other current liabilities ($3) and Lease liability ($6) on the consolidated statement of financial position (see table below). Depreciation charges for the right-of-use asset are recorded in Depreciation and amortization. Interest expense on the lease liability is recorded in Other finance costs in the consolidated statement of operations.

As permitted by IFRS 16, the Company elected not to recognize lease liabilities and right-of-use assets for short-term leases and leases of low value assets, which will continue to be expensed on a straight-line basis over the lease term. The Company has also applied the practical expedient to use hindsight when determining the lease term, when the lease contract contains options to extend or terminate the lease.

The Company's significant accounting policy for leases is described further in note 3(l) of the fiscal 2020 financial statements.

Impact on Financial Statements

The following table summarizes the impact of adopting IFRS 16 on our September 1, 2019 consolidated statement of financial position:

	As previously reported August 31, 2019	IFRS 16 impacts	Restated September 1, 2019
Property, plant and equipment	$ 750	$ 9	$ 759
Total assets and regulatory deferral account debit balances	$ 4,405	$ 9	$ 4,414
Other current liabilities	$ -	$ 3	$ 3
Lease liability	-	6	6
Total liabilities	$ 4,001	$ 9	$ 4,010
Total liabilities, equity and regulatory deferral account credit balances	$ 4,405	$ 9	$ 4,414

The table below presents a reconciliation of commitments under operating leases as at August 31, 2019 to the lease liability recorded as at September 1, 2019:

	September 1, 2019
Operating lease commitments as at August 31, 2019	$ 84
Discounted using the incremental borrowing rate as at September 1, 2019	$ 66
Less: Contracts outside the scope of IFRS 16, including short-term leases and leases of low-value items	$ (16)
Lease commitments that have not yet commenced	(41)
Lease liability as at September 1, 2019	$ 9

The weighted average incremental borrowing rate applied to the lease liability was 1.84%.

Future Accounting Pronouncements

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

Interest Rate Benchmark Reform – Phase 2

On August 27, 2020, the IASB issued amendments that focus on the effects of the interest rate benchmark reform on an entity's financial statements that arise when, for example, an interest rate benchmark used to calculate interest on a financial asset is replaced with an alternative benchmark rate. The Phase 2 amendments address issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues). The amendments are applicable for reporting periods beginning on or after January 1, 2021. The extent of the impact of these amendments on the Company has not yet been determined.

The amendments described below are applicable for reporting periods beginning on or after January 1, 2022. The extent of the impact of these amendments on the Company has not yet been determined.

Annual Improvements – 2018-2020 Cycle

On May 14, 2020, the IASB issued Annual Improvements to IFRS Standards 2018–2020 containing the following amendment of relevance to the Company:

IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies which fees an entity includes when it applies the '10 per cent' test of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

IAS 37 – Onerous Contracts – Costs of Fulfilling a Contract

On May 14, 2020, the IASB issued amendments to specify that the "cost of fulfilling" a contract comprises the "costs that relate directly to the contract". Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling the contract.

IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use

On May 14, 2020, the IASB issued amendments to prohibit an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the entity is preparing the asset for its intended use. Instead, an entity will recognise such sales proceeds and related cost in profit or loss.

IAS 1 – Classification of Liabilities as Current or Non-Current

On July 15 2020, the IASB issued amendments to IAS 1 to clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months. The classification should be unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires management to make estimates and judgments that affect the reported amounts of revenue and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of commitments and contingencies at the date of the financial statements. These estimates and judgments are based on historical experience, current conditions and various other assumptions made by management that are believed to be reasonable under the circumstances. By their nature, these estimates and judgments are subject to uncertainty and the amounts currently reported in the Company's consolidated financial statements could, in future, prove to be inaccurate.

The following accounting estimates and judgments are based on management's assumptions and are considered to be critical as they involve matters that are highly uncertain. Any changes from those estimates and judgments could have a material impact on our consolidated financial statements. The estimates and judgments are reviewed on an ongoing basis.

Key Sources of Estimates and Assumption Uncertainties

Employee Benefits

We account for pension, other post-employment benefits and other long-term benefits as required by IAS 19 *Employee Benefits*.

Under IFRS, the amounts reported in our consolidated financial statements are determined using actuarial assumptions regarding the estimation of future benefit obligations and investment performance of plan assets. These assumptions include, but are not limited to, the discount rate used to estimate the future benefit obligation, the rate of compensation increase, inflation, health-care cost trends and expected average remaining years of service of employees. The amounts impacted are the employee benefits asset and liability on the statement of financial position, salaries and benefits and net finance costs relating to employee benefits on the statement of operations, and re-measurements of employee defined benefit plans on the statement of comprehensive income.

While these assumptions reflect management's best estimates, differences in actual results or changes in assumptions could materially affect employee benefit obligations and future net benefit plan costs.

The most significant assumptions used to calculate the net costs of our employee benefit plans are the discount rate used to determine employee benefit obligations including pensions and pensioner mortality assumptions.

The discount rate is the interest rate used to determine the present value of the future expected cash flows that will be needed to meet employee benefit obligations. It is based on the yield on long-term high quality corporate bonds, with maturities matching the estimated cash flows of the plan.

Funding of the pension plans' deficits (as determined in funding valuations in accordance with OSFI regulations) in prior years resulted in pension contributions significantly higher than pension benefit expenses charged to the statement of operations. Our estimates for future pension contributions are discussed above under the heading "LIQUIDITY AND CAPITAL RESOURCES – Cash Requirements: Pension Plans".

Refer to note 2 of our fiscal 2020 financial statements for more detailed information on key sources of estimation and uncertainty related to employee benefits.

Investment in Preferred Interests of Aireon

The Company's investment in Aireon is in preferred interests, which are redeemable and convertible to common equity interests. Until the Company exercises its right to convert its preferred interests to common interests, it does not have access to Aireon's residual net assets and accordingly this investment is accounted for as a financial instrument classified and measured at FVTPL.

During fiscal 2020, the Company remeasured the fair value of its investment in preferred interests of Aireon to reflect the impact of the COVID-19 pandemic and related travel restrictions on Aireon's operations and the aviation sector in general as discussed in section "INTRODUCTION – Significant Financial Matters: Investment in Preferred Interests of Aireon".

The fair value of the Company's investment in preferred interests of Aireon as at August 31, 2020 was determined using a discounted cash flow model, where the valuation model considers the present value of expected future amounts, discounted using a risk-adjusted discount rate. The critical assumptions and estimates used when determining the fair value are:

- discount rates – the discount rate range used is 15% - 17%, which is generally consistent with discount rates used by other investors in preferred and common equity interests of Aireon; and
- expected timing of receipt of future dividend payments – the timing of the receipt of payments based on Aireon's forecasted after-tax dividend payment schedule has been delayed to reflect the impact of COVID-19.

The Company continues to monitor the status of Aireon in order to determine whether there are any indicators that would impact Aireon's fair value. Changes in the valuation of Aireon as a whole could materially affect the valuation of the investment in preferred interests, with changes reflected in the statement of operations as required. The investment in preferred interests of Aireon is subject to price risk. The fair value may fluctuate over time due to, among other things, economic conditions and the cash flows of Aireon.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

In accordance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Company has filed certificates signed by the Chief Executive Officer and the Chief Financial Officer that, among other things, report on the design and effectiveness of disclosure controls and procedures (DC&P) and the design and effectiveness of internal control over financial reporting (ICFR).

Disclosure Controls and Procedures

The Company has designed DC&P to provide reasonable assurance that material information relating to the Company is made known to the Chief Executive Officer and the Chief Financial Officer, particularly during the period in which the annual filings are being prepared, and that information required to be disclosed to satisfy the Company's continuous disclosure obligations is recorded, processed, summarized and reported within the time periods specified by applicable Canadian securities legislation.

Management, under the supervision of the certifying officers, has evaluated the effectiveness of the DC&P and based on that evaluation, the certifying officers have concluded that the DC&P were effective as at August 31, 2020.

Internal Control over Financial Reporting

The Company has designed ICFR using the framework established in "Internal Control – Integrated Framework" issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In designing and evaluating internal controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements.

Management, under the supervision of the certifying officers, has evaluated the effectiveness of ICFR and based on that evaluation, the certifying officers have concluded that the Company's ICFR was effective as at August 31, 2020.

Changes to ICFR

A material change in ICFR is a change that has or is reasonably likely to materially affect the issuer's ICFR.

There have been no changes to the Company's ICFR during the year ended August 31, 2020 that have materially affected or are reasonably likely to materially affect the Company's ICFR and there were no changes to the Company's ICFR during Q4 fiscal 2020.