MANAGEMENT'S DISCUSSION AND ANALYSIS

ON FORM 51-102F1

THREE MONTHS ENDED

NOVEMBER 30, 2018

January 9, 2019

TABLE OF CONTENTS

INTRODUCTION

This management's discussion and analysis (MD&A) relates to the unaudited interim consolidated financial position, results of operations, comprehensive income and cash flows for the three months ended November 30, 2018 (Q1 fiscal 2019) of NAV CANADA and its subsidiaries (also referred to in this MD&A as we, our, us or the Company). It should be read in conjunction with our unaudited interim condensed consolidated financial statements for Q1 fiscal 2019 (Q1 fiscal 2019 financial statements), our audited annual consolidated financial statements and the accompanying notes for the year ended August 31, 2018 (fiscal 2018), our fiscal 2018 annual MD&A, as well as our 2018 Annual Information Form dated October 25, 2018 (fiscal 2018 AIF). Additional information about NAV CANADA, including our consolidated financial statements for Q1 fiscal 2019 and fiscal 2018, our fiscal 2018 annual MD&A, and our fiscal 2018 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 Q1 fiscal 2019 financial statements have been prepared in accordance with International Accounting Standards (IAS) 34 *Interim Financial Reporting*. Our Audit & Finance Committee reviewed this MD&A and our Board of Directors (the Board) approved it before it was filed.

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" and "RESULTS OF OPERATIONS – Financial Outlook" of this MD&A, contain certain statements about NAV CANADA's future expectations. These statements are generally identified by words like "anticipate", "plan", "believe", "intend", "expect", "estimate", "approximate" and the like, as well as future or conditional verbs such as "will", "should", "would" and "could", or negative versions thereof. Because forward-looking statements involve future risks and uncertainties, actual results may be different from those expressed or implied in these statements. Examples include geopolitical unrest, terrorist attacks and the threat of terrorist attacks, war, epidemics or pandemics, natural disasters, weather patterns, environmental concerns, cyber security attacks, labour negotiations, arbitrations, workforce recruitment, training and retention, general aviation industry conditions, air traffic levels, 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), credit losses on investments, 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 2018 AIF. The forward-looking statements contained in this MD&A represent our expectations as of January 9, 2019 and are subject to change after this date. 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 statements 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.

(millions of Canadian dollars)

Financial Highlights

Results of operations for the three months ended November 30, 2018

The Company recorded a net loss of $2 in Q1 fiscal 2019 (Q1 fiscal 2018 - net income of $3). Excluding rate stabilization and other regulatory deferral account adjustments, the Company recorded a net loss of $8 (Q1 fiscal 2018 - $11).

	Three months ended November 30		
	2018	2017	Change
Revenue	$ 357	$ 347	$ 10
Operating expenses	348	340	8
Other (income) and expenses	17	18	(1)
Net loss, before rate stabilization and regulatory deferral account adjustments	(8)	(11)	3
Net movement in regulatory deferral accounts			
Rate stabilization adjustments:			
Favourable variances from planned results	(9)	-	(9)
Initial approved adjustment [1]	5	3	2
	(4)	3	(7)
Other regulatory deferral account adjustments:			
Employee benefit pension contributions	20	24	(4)
Investment in preferred interests, before tax	(11)	(15)	4
Investment in equity-accounted investee	(1)	-	(1)
Income tax	1	2	(1)
Realized hedging transactions	1	-	1
	10	11	(1)
	6	14	(8)
Net income (loss), after rate stabilization and regulatory deferral account adjustments	$ (2)	$ 3	$ (5)

(1) In order to achieve breakeven results of operations in fiscal 2019, the Board approved a reduction of the rate stabilization account as a result of a planned shortfall. As a result, $18 is being transferred out of the rate stabilization account evenly throughout the fiscal year (fiscal 2018 - $10). For the three months ended November 30, 2018, $5 has been transferred from the rate stabilization account (three months ended November 30, 2017 - $3).

The Company is subject to legislation that regulates the level of its charges (see "INTRODUCTION – Financial Strategy and Rate Regulation"). The timing of the recognition of certain revenue and expenses recovered through charges is recorded through movements in regulatory deferral accounts. The net movement in regulatory deferral accounts for the three months ended November 30, 2018 was an income of $6 as compared to $14 over the same period in fiscal 2018. This change in regulatory deferrals of $8 is due to higher favourable results deferred through rate stabilization adjustments of $7 and a $1 net decrease in regulatory deferral adjustments to adjust the accounting recognition of certain transactions to the periods in which they will be considered for rate setting.

(millions of Canadian dollars)

Cash flows for the three months ended November 30, 2018

As shown below, cash and cash equivalents increased by $6 during the three months ended November 30, 2018 and the Company experienced positive free cash flow of $6, 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 generated from operations, less capital expenditures and investments in Aireon and equity related investments. Management places importance on this indicator as it assists in measuring the impact of its investment program on the Company's financial resources.

	Three months ended November 30		
	2018	2017	Change
Cash flows from:			
Operations [1]	$ 38	$ 19	$ 19
Investing [1]	(32)	(39)	7
Financing [1]	-	25	(25)
Increase in cash and cash equivalents	6	5	1
Cash and cash equivalents, beginning of period	38	222	(184)
Cash and cash equivalents, end of period	$ 44	$ 227	$ (183)
Free cash flow (non-GAAP financial measure):			
Cash flows from:			
Operations [2]	$ 38	$ 19	$ 19
Capital expenditures [2]	(32)	(43)	11
Income tax refund on investment in preferred interests [2]	-	4	(4)
Free cash flow	$ 6	$ (20)	$ 26

(1) See "LIQUIDITY AND CAPITAL RESOURCES – Cash flows for the three months ended November 30, 2018" for discussion of the changes in cash flows from the prior fiscal year.

(2) See the statement of cash flows in our Q1 fiscal 2019 financial statements.

(millions of Canadian dollars)

Financial position as at November 30, 2018

The following table outlines significant changes in our assets and liabilities between August 31, 2018 and November 30, 2018:

	November 30 2018	August 31 2018	Change
Assets			
Current assets			
Cash and cash equivalents	$ 44	$ 38	$ 6
Accounts receivable and other	87	102	(15)
Related party loan receivable	11	-	11
Investments	71	71	-
Other current assets	20	17	3
	233	228	5
Non-current assets			
Investment in preferred interests	429	418	11
Related party loans receivable	2	12	(10)
Employee benefits	1	2	(1)
Investment in equity-accounted investee	7	6	1
Property, plant and equipment	733	735	(2)
Intangible assets	928	932	(4)
Other non-current assets	1	1	-
	2,101	2,106	(5)
Total assets	2,334	2,334	-
Regulatory deferral account debit balances	972	954	18
Total assets and regulatory deferral account debit balances	$ 3,306	$ 3,288	$ 18
Liabilities			
Current liabilities			
Trade and other payables	$ 223	$ 247	$ (24)
Deferred revenue	5	4	1
Current portion of long-term debt	275	275	-
	503	526	(23)
Non-current liabilities			
Long-term debt	1,219	1,219	-
Employee benefits	1,095	1,070	25
Deferred tax liability	50	49	1
Other non-current liabilities	2	2	-
	2,366	2,340	26
Total liabilities	2,869	2,866	3
Equity			
Retained earnings	26	28	(2)
Regulatory deferral account credit balances	411	394	17
Total liabilities, equity and regulatory deferral account credit balances	$ 3,306	$ 3,288	$ 18

For a discussion of the changes in cash and cash equivalents from August 31, 2018, see "LIQUIDITY AND CAPITAL RESOURCES – Cash flows for the three months ended November 30, 2018".

The change in non-current employee benefit liabilities are the result of the impact of current service costs, net finance costs and contributions on each of the Company's benefit plans.

The changes in regulatory deferral account debit and credit balances are discussed further in "RESULTS OF OPERATIONS – Net Movement in Regulatory Deferral Accounts Related to Net Income (Loss)".

The balance in retained earnings as at November 30, 2018 reflects the earnings up to that date. We plan our operations to essentially be in an annual financial breakeven position after expenses are met through customer service charges and other revenue sources, and after adjustments are made to the rate stabilization account. As a result, the balance in the retained earnings account at the end of each fiscal year has remained stable at $28. Any variation from this amount at the end of any interim period reflects seasonal or other planned fluctuations in revenue and expenses.

Significant Financial Matters

The following items have significant financial importance to the Company:

1. Rate Stabilization Account

As at November 30, 2018, the rate stabilization account (see "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account") had a credit balance of $128, which is above its target of $110 for fiscal 2019 (see "RESULTS OF OPERATIONS – Amounts Considered for Rate Setting Purposes").

The rate stabilization account increased by $4 during the three months ended November 30, 2018 due to $9 of favourable variances from planned results, partially offset by the $5 initially approved adjustment to the rate stabilization account. Rate stabilization adjustments are described under "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account".

2. Air Traffic and Customer Service Charges[1]

Over the course of Q1 fiscal 2019, air traffic volumes increased by 3.5% year-over-year. The approved budget for fiscal 2019 and the Company's current annual forecast for air traffic growth for fiscal 2019 is 3.6%.

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 review the most current information available from aviation industry sources as well as forecasts of macro-economic indicators; we then modify our forecast assumptions accordingly and consider the need for a change in rates.

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

(millions of Canadian dollars)

3. Collective Agreements

Approximately 88% of our workforce is unionized under eight collective agreements. As at the end of fiscal 2018, the Company had ratified collective agreements with seven of its unions, comprising approximately 93% of its represented workforce.

The expiry dates of these agreements range from March 2019 to February 2020.

Subsequent to November 30, 2018, the Company announced the ratification of its collective agreement with the Public Service Alliance of Canada (PSAC), which comprises the remaining 7% of its represented workforce. The three-year agreement will run until December 31, 2020.

RESULTS OF OPERATIONS

Revenue

The following table provides a breakdown of our revenue by category. Our fiscal 2018 AIF and the notes to our Q1 fiscal 2019 financial statements provide more information about the different categories of our customer service charges.

	Three months ended November 30			
	2018	2017	Change	%
Enroute	$ 177	$ 174	$ 3	2%
Terminal	130	124	6	5%
Daily / annual / quarterly	24	23	1	4%
North Atlantic and international communication	13	12	1	8%
Total customer service charges	344	333	11	3%
Other	13	14	(1)	(7%)
	$ 357	$ 347	$ 10	3%

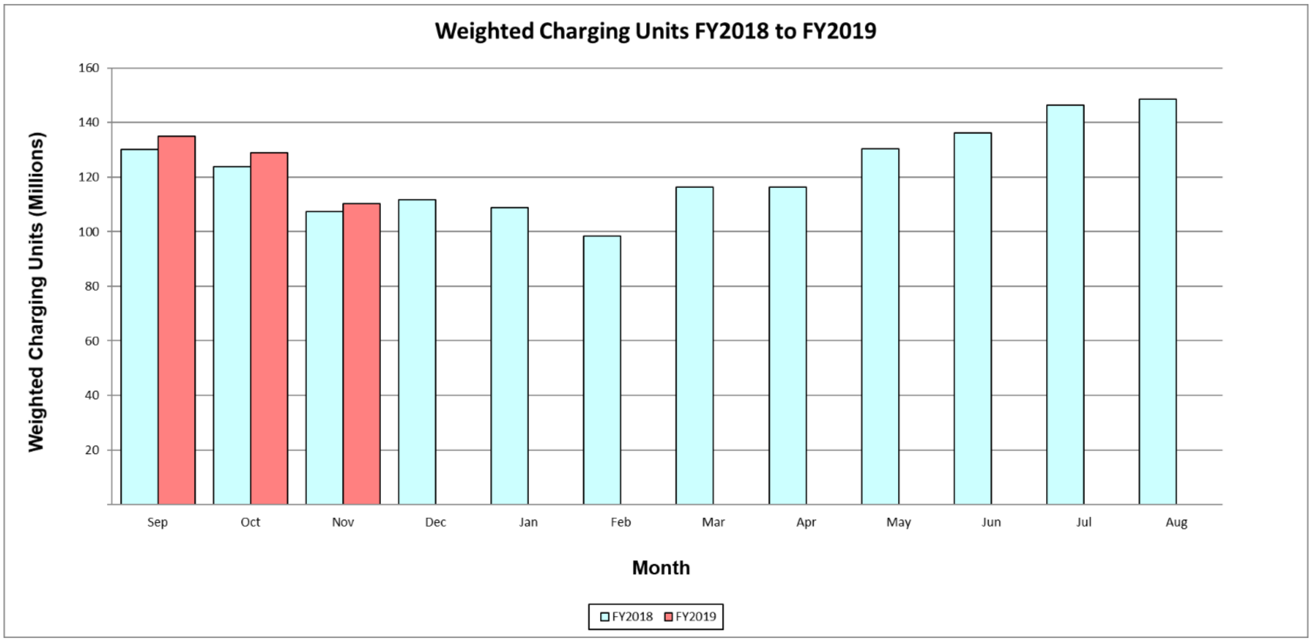
Other revenue consists of service and development contracts, conference centre services at our facility in Cornwall (Ontario), the sale of civil aeronautical publications and other miscellaneous revenue.

Revenue for Q1 fiscal 2019 was $357 compared to $347 for Q1 fiscal 2018. The $10 increase is primarily due to a 3.5% growth in air traffic volumes during Q1 fiscal 2019.

Effective September 1, 2018, the Company implemented revisions to its service charges resulting in a decrease on average of 0.4% to existing base rates. This effectively continues the 0.4% one-year temporary rate reduction that was implemented on September 1, 2017.

Air Traffic

Air traffic growth for the first three months of fiscal 2019 reflects normal seasonality and increased by 3.5% when compared to the first three months of fiscal 2018. The chart shows traffic in "weighted charging units", a measure of the number of flights, aircraft size and distance flown.



Future air traffic volumes may be influenced by numerous factors, including the rate of economic growth or decline, changing air passenger demand, aircraft capacity utilization levels, fuel costs, changes in air carrier operations, air carrier competition, airline restructurings and insolvencies, terrorist activities, epidemics or pandemics, weather patterns, natural disasters, environmental concerns, demographic patterns and other factors.

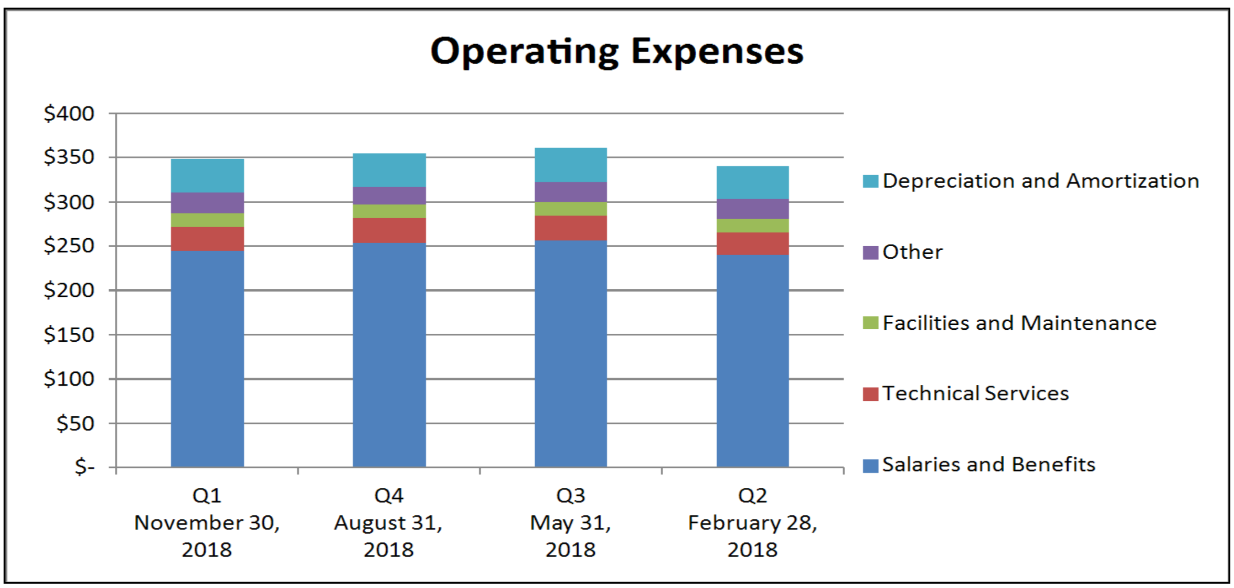
(millions of Canadian dollars)

Operating Expenses

	Three months ended November 30			
	2018	2017	Change	%
Salaries and benefits	$ 245	$ 235	$ 10	4%
Technical services	27	28	(1)	(4%)
Facilities and maintenance	15	15	-	0%
Depreciation and amortization	38	38	-	0%
Other	23	24	(1)	(4%)
	$ 348	$ 340	$ 8	2%

Salaries and benefits expense in Q1 fiscal 2019 increased by $10 compared to Q1 fiscal 2018 primarily due to increased compensation levels and overtime costs arising from increases in collective agreements and increased staffing requirements to meet air traffic growth, to support projects and to train air traffic controllers.

As illustrated in the table below, the majority of our operating expenses are incurred evenly throughout the year.



(millions of Canadian dollars)

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

	Three months ended November 30		
	2018	2017	Change
Finance income			
Interest income	$ (1)	$ (1)	$ -
Net change in fair value of financial assets at FVTPL [1]			
MAV II, ABCP and other investments [2]	-	(1)	(1)
Investment in preferred interests	(3)	(3)	-
	(3)	(4)	(1)
Total finance income	(4)	(5)	(1)
Net interest costs relating to employee benefits	10	14	4
Other finance costs			
Interest expense	19	19	-
Other (gains) and losses			
Foreign exchange gains	(7)	(10)	(3)
Other (gains) and losses	(1)	-	1
	(8)	(10)	(2)
	$ 17	$ 18	$ 1

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

[2] Master Asset Vehicle II (MAV II), asset-backed commercial paper (ABCP) and other investments

Net interest cost relating to employee benefits decreased by $4 in Q1 fiscal 2019 compared to Q1 fiscal 2018 primarily due to higher than planned finance costs, partially offset by higher interest income.

The $3 decrease in foreign exchange gains and losses mainly relates to the unrealized gains from the fluctuation of the CDN against the US dollar on the Company's investment in the preferred interests of Aireon.

In Q1 fiscal 2019, the Company recorded equity pick-up of $1 related to its investment in Searidge Technologies Inc. (Searidge).

(millions of Canadian dollars)

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

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

	Three months ended November 30		
	2018	2017	Change
Rate stabilization account	$ (4)	$ 3	$ (7)
Other regulatory deferral accounts			
Employee benefit pension contributions	20	24	(4)
Investment in preferred interests, before tax	(11)	(15)	4
Investment in equity-accounted investee	(1)	-	(1)
Income tax	1	2	(1)
Realized hedging transactions	1	-	1
	$ 6	$ 14	$ (8)

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

The net movement in the employee benefit pension contributions regulatory deferral account for Q1 fiscal 2019 decreased by $4 compared to Q1 fiscal 2018. Regulatory adjustments to adjust the total pension benefit expense to the level of pension contributions to be recovered through rate setting were $20 in Q1 fiscal 2019 compared to $24 in Q1 fiscal 2018.

The $4 decrease in the net movement in the investment in preferred interests regulatory deferral account in Q1 fiscal 2019 is due to the change in the regulatory deferral of unrealized foreign exchange gains from $15 in Q1 fiscal 2018 to $11 in Q1 fiscal 2019.

The net movement in the investment in equity-accounted investee regulatory deferral account of $1 relates to the Company's equity pickup of Searidge's earnings.

(millions of Canadian dollars)

Movements in Rate Stabilization Account

Our rate stabilization mechanism and accounting are described at the beginning of this MD&A and in notes 1 and 8 of our fiscal 2018 annual consolidated financial statements. The table below shows the movements in the rate stabilization account.

	Three months ended November 30		
	2018	2017	Change
Credit balance on the statement of financial position, beginning of period	$ 124	$ 131	$ (7)
Variances from planned results:			
Revenue higher (lower) than planned	(1)	4	(5)
Operating expenses (higher) lower than planned	12	(2)	14
Other (income) and expenses lower than planned	12	11	1
Net movement in other regulatory deferral accounts	(14)	(13)	(1)
Total variances from planned results	9	-	9
Initial approved adjustment	(5)	(3)	(2)
Net movement in rate stabilization account recorded in net income (loss)	4	(3)	7
Credit balance on the statement of financial position, end of period	$ 128	$ 128	$ -

The $4 increase in the rate stabilization account during the three months ended November 30, 2018 is primarily due to:

- operating expenses that were $12 lower than planned, primarily due to lower salaries and benefits expense and non-staff cost operating expenses; and
- other (income) and expenses that were $12 lower than planned primarily due to higher foreign exchange gains on our investment in preferred interests of Aireon, and lower than planned net finance costs relating to employee benefits.

partially offset by:

- net movement of $14 in regulatory deferral accounts that was less favourable than planned primarily due to:
  - a net regulatory expense $7 higher than planned related to the Company's investment in preferred interests of Aireon, to defer the unrealized foreign exchange gains due to the fluctuation of the Canadian dollar against the U.S. dollar;
  - a regulatory expense $1 higher than planned to defer the Company's equity pick-up of Searidge's earnings; and
  - a regulatory expense for pensions that was $9 lower than planned primarily due to lower pension contributions;

(millions of Canadian dollars)

partially offset by:

  - a regulatory adjustment of $3 to recognize a surplus on long-term disability (LTD) benefits;

- revenue that was $1 lower than planned; and
- the planned adjustment of $5, representing the Q1 fiscal 2019 portion of the anticipated $18 annual net loss at the time the fiscal 2019 budget was approved.

Other Comprehensive Income (Loss)

The accounting recognition of other comprehensive income (loss) amounts are offset by regulatory deferrals in order to defer the accounting recognition to the periods in which they will be considered for rate setting. These transactions are generally considered for rate setting when the amounts are expected to be realized in cash, with the exception of the cash flows related to hedging instruments, which are considered for rate setting in the same period as the underlying hedged transaction, and re-measurements of unfunded defined employee benefit plans, which are considered for rate setting over the employees' average expected remaining service period.

	Three months ended November 30		
	2018	2017	Change
Items that will not be reclassified to income or (loss):			
Re-measurements of employee defined benefit plans	$ -	$ 100	$ (100)
Net movement in regulatory deferral accounts	-	(100)	100
	-	-	-
Items that will be reclassified to income or (loss):			
Changes in fair value of cash flow hedges	5	1	4
Net movement in regulatory deferral accounts	(5)	(1)	(4)
	-	-	-
Total other comprehensive income (loss)	$ -	$ -	$ -

There were no significant events or changes to the Company's defined pension and other post-employment benefit plans that would require a revaluation during Q1 fiscal 2019. As such, no revaluation was performed and no changes in measurement of the plans were recorded in the Company's statement of other comprehensive income. In Q1 fiscal 2018, the re-measurement gains of $100 were a result of a return on plan assets $226 greater than the expected return based on the discount rate of 3.60% at August 31, 2017, partially offset by actuarial losses of $126 from a 10 basis point decrease in the discount rates to 3.50% at November 30, 2017.

During Q1 fiscal 2019, positive fair value adjustments of $5 were recorded on the Company's interest rate hedges related to the re-financing of debt instruments that will mature in fiscal 2019. During Q1 fiscal 2018, positive fair value adjustments of $1 were recorded on the Company's interest rate hedges on debt instruments that matured in fiscal 2018.

(millions of Canadian dollars)

Amounts Considered for Rate Setting Purposes

As discussed under "INTRODUCTION – Financial Strategy and Rate Regulation", when establishing customer service charges the Board considers the Company's current and future financial requirements as well as:

(a) the current and anticipated balance in the rate stabilization account as compared to its target balance; and

(b) the recovery of pension contributions on a cash basis.

The table below shows the balance of the rate stabilization account as compared to its target balance and the amount of regulatory pension expense cumulatively lower than contributions.

		November 30 2018	August 31 2018	Change
(a) Rate stabilization account credit balance		$ 128	$ 124	$ 4
Target balance of the rate stabilization account [1]		(110)	(104)	(6)
Excess of the rate stabilization account from its target balance	(A)	$ 18	$ 20	$ (2)
(b) Pension contributions in excess of pension expense		84	64	20
Regulatory balance - recovery of contributions		(118)	(98)	(20)
Regulatory expense cumulatively lower than contributions	(B)	$ (34)	$ (34)	$ -
Amount to be recovered over time through rate setting	(A + B)	$ (16)	$ (14)	$ (2)

(1) The long-term target credit balance of the rate stabilization account is 7.5% of total planned annual expenses net of other (income) and expenses, excluding non-recurring items, on an ongoing basis. For fiscal 2019, the target balance is $110.

(millions of Canadian dollars)

Financial Outlook[2]

Presented below are the Company's current projected annual consolidated results before rate stabilization for fiscal 2019 compared to fiscal 2018 actual results.

	Fiscal 2019	Fiscal 2018	Change	%
Before rate stabilization				
Revenue	$ 1,448	$ 1,415	$ 33	2%
Operating expenses and other (income) and expenses, including other regulatory adjustments	1,479	1,422	57	4%
Net income (loss) before rate stabilization adjustments	$ (31)	$ (7)	$ (24)	

Revenue

Revenue in fiscal 2019 is expected to increase by approximately 2.4% or $33 from $1,415 in fiscal 2018 primarily due to forecasted air traffic growth of 3.6%, partially offset by a decrease in other revenue. As discussed in "RESULTS OF OPERATIONS – Revenue", the revised charges, effective September 1, 2018, effectively continue the 0.4% temporary rate reduction that was implemented in fiscal 2018.

In our fiscal 2018 annual MD&A, we had disclosed anticipated revenue of $1,446 for fiscal 2019. The increase of $2 in the forecast is primarily due to an increase in other revenue.

Operating Expenses and Other (Income) and Expenses

Operating expenses and other (income) and expenses before rate stabilization for fiscal 2019 are expected to be $1,479. This is an increase of 4.0% or $57 compared to fiscal 2018 primarily due to:

- increased compensation levels and overtime costs arising from inflationary increases in collective agreements, increased staffing requirements to meet air traffic growth and support projects, and increased training of air traffic controllers to maintain optimum staffing levels across the country;
- first partial year of satellite surveillance charges;
- increased operational requirements impacting facilities and maintenance and other expenses; and
- the effects of inflation.

Across the Company, we remain focused on cost saving measures that are consistent with safety, which is our top priority. Our efforts are aimed at managing staffing levels and discretionary expenses, as well as continuing to implement process improvement initiatives and efficiencies.

In our fiscal 2018 annual MD&A, we had disclosed anticipated operating expenses and other (income) and expenses, before rate stabilization of $1,465 for fiscal 2019. The increase of $14 is primarily related to an increase in compensation levels and overtime costs to meet operational requirements and lower regulatory deferral of pension contributions.

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

Cash Flows

Given the expected net cash flows from operations and cash flows from investing and financing activities in fiscal 2019, the Company's cash position is currently expected to decrease to $31 as at August 31, 2019 from $38 as at August 31, 2018. This cash outlook is based on anticipated annual cash inflows from operating activities of $133 and financing activities of $21, partially offset by cash outflows from investing activities of $161. Financing net cash inflows are primarily comprised of the issuance of $225 in medium term notes and net proceeds from bank loans of $74, partially offset by $275 for the repayment of long-term debt and interest of $2 related to the debt service reserve fund. Investing activities include cash outflows for capital expenditures of $170, partially offset by the receipt of proceeds from the settlement of derivatives of $9. As discussed below, the Company has adequate existing sources of financing to cover all of its anticipated cash flow requirements.

In our fiscal 2018 annual MD&A, we had disclosed an anticipated cash position of $31 by the end of fiscal 2019.

Rate Stabilization Account

As noted above, the Company has implemented revisions to its customer service charges, effective September 1, 2018 which effectively continue the 0.4% temporary rate reduction that was implemented in fiscal 2018.

The Company currently anticipates that the rate stabilization account will have a credit balance of $93 at the end of fiscal 2019, resulting from estimated revenue of $1,448 and total operating expenses and other (income) and expense (including other regulatory adjustments) of $1,479 (before rate stabilization). The target balance of the rate stabilization account in fiscal 2019 is $110.

In our fiscal 2018 annual MD&A, we had forecast an anticipated rate stabilization account credit balance of $104 at the end of fiscal 2019. The decrease in the forecasted credit balance at August 31, 2019 of $11 is due to the forecasted increase in operating expenses and other (income) and expenses (including other regulatory adjustments), partially offset by the increase in revenue.

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 November 30, 2018, the Company had a net loss of $5. Our interest costs were $77. Consolidated earnings (after rate stabilization) before interest were $72, which is 0.94 times our interest requirement for this period and just below our one-to-one target. Depreciation and amortization expense for this period was $152. Our cash flow coverage was 2.91 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 fund 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 November 30, 2018, 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 and registered pension plans for its employees. The transactions with these related parties are not materially different from what was reported in the fiscal 2018 annual MD&A.

(millions of Canadian dollars)

SUMMARY OF QUARTERLY RESULTS

Quarterly Financial Information (unaudited)

	Three months ended			
	Q1 November 30 2018	Q4 August 31 2018	Q3 May 31 2018	Q2 February 28 2018
Revenue	$ 357	$ 414	$ 349	$ 305
Operating expenses	348	355	361	340
Other (income) and expenses	17	26	(14)	30
	(8)	33	2	(65)
Income tax (recovery) expense	-	1	10	(19)
Net income (loss) before net movement in regulatory deferral accounts	(8)	32	(8)	(46)
Net movement in regulatory deferral accounts related to net income (loss), net of tax				
Rate stabilization adjustments	(4)	(2)	13	(7)
Other regulatory deferral account adjustments	10	20	(13)	8
	6	18	-	1
Net income (loss) after net movement in regulatory deferral accounts	$ (2)	$ 50	$ (8)	$ (45)

	Three months ended			
	Q1 November 30 2017	Q4 August 31 2017	Q3 May 31 2017	Q2 February 28 2017
Revenue	$ 347	$ 331	$ 332	$ 296
Operating expenses	340	333	348	328
Other (income) and expenses	18	44	16	15
	(11)	(46)	(32)	(47)
Income tax (recovery) expense	-	5	3	5
Net income (loss) before net movement in regulatory deferral accounts	(11)	(51)	(35)	(52)
Net movement in regulatory deferral accounts related to net income (loss), net of tax				
Rate stabilization adjustments	3	46	2	(3)
Other regulatory deferral account adjustments	11	47	25	21
	14	93	27	18
Net income (loss) after net movement in regulatory deferral accounts	$ 3	$ 42	$ (8)	$ (34)

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. Air traffic for Q1 fiscal 2019 was 3.5% higher on average than in Q1 fiscal 2018. Strong traffic results in fiscal 2018 along with traffic growth projections for fiscal 2019 have enabled the Company to implement revised service charges, whereby existing base rates decreased by an average of 0.4% on September 1, 2018. This effectively continues the one-year temporary rate reduction implemented on September 1, 2017. On average, customers will pay the same rates in fiscal 2019 as they did in fiscal 2018.

The majority of our operating expenses are incurred evenly throughout the year.

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 costs 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.

(millions of Canadian dollars)

LIQUIDITY AND CAPITAL RESOURCES

Our fiscal 2018 annual MD&A explains how we manage our cash and capital resources. There have been no changes in that approach for the three months ended November 30, 2018. The following sections discuss changes in our cash and capital resources since August 31, 2018.

As at November 30, 2018, we had $44 of cash and cash equivalents and committed credit facilities of $1,190, of which $388 was available for unrestricted use (see "LIQUIDITY AND CAPITAL RESOURCES – Liquidity and Financing Strategy").

Cash flows for the three months ended November 30, 2018

	Three months ended November 30		
	2018	2017	Change
Cash flows from:			
Operations	$ 38	$ 19	$ 19
Investing	(32)	(39)	7
Financing	-	25	(25)
Increase in cash and cash equivalents	6	5	1
Cash and cash equivalents, beginning of period	38	222	(184)
Cash and cash equivalents, end of period	$ 44	$ 227	$ (183)
Free cash flow (non-GAAP financial measure):			
Cash flows from:			
Operations	$ 38	$ 19	$ 19
Capital expenditures [(1)]	(32)	(43)	11
Income tax refund on investment in preferred interests [(1)]	-	4	(4)
Free cash flow	$ 6	$ (20)	$ 26

(1) See the statement of cash flows in our Q1 fiscal 2019 financial statements.

As shown above, cash and cash equivalents increased by $6 for the three months ended November 30, 2018 and the Company experienced positive free cash flow of $6, which is a non-GAAP financial measure as discussed in "INTRODUCTION – Financial Highlights: Cash flows for the three months ended November 30, 2018".

Cash flows from operations for the three months ended November 30, 2018 were inflows of $38 compared to $19 for the three months ended November 30, 2017, primarily due to $17 higher receipts from customer service charges and $26 of payments to settle curtailed severance benefits made in Q1 fiscal 2018 with none made in Q1 2019, partially offset by $18 higher payments to employees and suppliers and $5 higher pension current service contributions.

Cash outflows from investing activities for the three months ended November 30, 2018 were $32 compared to $39 for the three months ended November 30, 2017. In Q1 fiscal 2019, investment in capital projects was $32 (cash outflows of $32) compared to $38 in Q1 fiscal 2018 (cash outflows of $43). In Q1 fiscal 2018, cash outflows were partially offset by a refund of $4 for income taxes paid in fiscal 2017.

Cash inflows from financing activities for the three months ended November 30, 2018 were $nil compared to $25 for the three months ended November 30, 2017. The inflow in Q1 fiscal 2018 was a result of a $25 drawdown of surplus funds from the debt service reserve fund.

(millions of Canadian dollars)

Liquidity and Financing Strategy

Our liquidity and financing strategy remains unchanged from that disclosed in our fiscal 2018 annual MD&A.

We are exposed to re-financing 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 issued a Base Shelf Prospectus on November 9, 2017 that is valid for a 25 month period.

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 November 30, 2018, the credit facilities are utilized as follows:

Credit facilities:	
Credit facility with a syndicate of Canadian financial institutions (1) (2)	$ 675
Letter of credit facilities for pension funding purposes (3)	515
Total available credit facilities	1,190
Less: Outstanding letters of credit for pension funding purposes (3)	495
Less: Outstanding letters of credit for other purposes (2)	12
Undrawn committed borrowing capacity	683
Less: Operations and maintenance reserve fund allocation (4)	295
Credit facilities available for unrestricted use	$ 388

(1) The Company's credit facility with a syndicate of Canadian financial institutions in the amount of $675 is comprised of two equal tranches maturing on September 12, 2021 and September 12, 2023. The credit facility agreement provides for loans at varying rates of interest based on certain benchmark interest rates, specifically the Canadian prime rate and the Canadian bankers' acceptance rate, and on the Company's credit rating at the time of drawdown. The Company is required to pay commitment fees, which are dependent on the Company's credit rating. The Company is in compliance with the credit facility covenants as at November 30, 2018.

(2) At November 30, 2018, $12 was drawn from an uncommitted revolving credit facility (including letters of credit with a value of $2 issued on behalf of Searidge). In connection with this facility, an allocation of $25 with a Canadian financial institution has been made under its $675 committed credit facility.

(3) The letter of credit facilities for pension funding purposes are comprised of four facilities with Canadian financial institutions totalling $515, which will mature on December 31, 2019, unless extended. At November 30, 2018, $495 was drawn for pension solvency funding purposes.

(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").

(millions of Canadian dollars)

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

	November 30 2018	August 31 2018
LONG-TERM DEBT:		
Bonds and notes payable		
Under the Master Trust Indenture	$ 475	$ 475
Under the General Obligation Indenture	1,025	1,025
	1,500	1,500
Adjusted for deferred financing costs and discounts	(6)	(6)
Total bonds and notes payable	1,494	1,494
Less: current portion of long-term debt	(275)	(275)
Total long-term debt	$ 1,219	$ 1,219
LIQUIDITY:		
Cash and cash equivalents	$ 44	$ 38
Debt service reserve fund	71	71
	$ 115	$ 109
Undrawn committed borrowing capacity (1)	$ 683	$ 683

(1) $388 of this borrowing capacity is available as described in the previous table (August 31, 2018 - $388).

Credit Ratings

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

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

Our credit ratings remain unchanged from those described in our fiscal 2018 annual MD&A.

(millions of Canadian dollars)

Cash Requirements

The following information about our contractual obligations and other commitments summarizes certain of our liquidity and capital resource requirements that have changed from that reported in our fiscal 2018 annual MD&A.

Contractual Obligations

A breakdown of contractual obligations as at November 30, 2018 for the next five fiscal years and thereafter is presented in the following table.

	Remaining payments – for years ending August 31						
	Total	2019	2020	2021	2022	2023	Thereafter
Long-term debt (including current portion) (1), (2)	$ 1,500	$ 275	$ 25	$ 275	$ 25	$ 25	$ 875
Interest payments (2)	787	58	62	55	48	46	518
Capital commitments (3)	78	28	19	6	3	3	19
Operating lease commitments	85	5	6	5	5	5	59
Related party loan (4)	29	29	-	-	-	-	-
Total contractual obligations	$ 2,479	$ 395	$ 112	$ 341	$ 81	$ 79	$ 1,471

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.

(1) Payments represent principal of $1,500. The Company intends to refinance principal maturities at their maturity dates. The Company may choose to repay a portion of these maturities with available cash, and/or may increase the size of a re-financing to generate additional liquidity or for other purposes, and/or may choose to redeem, in whole or in part, an issue in advance of its scheduled maturity date.

(2) Further details on interest rates and maturity dates on long-term debt are provided in note 16 to our fiscal 2018 annual consolidated financial statements.

(3) The Company has firm commitments for the acquisition of property, plant and equipment and intangible assets amounting to $78 as at November 30, 2018 (August 31, 2018 - $103).

(4) This is the undrawn commitment under the bridge financing agreement with Aireon. As at November 30, 2018, Aireon has drawn $7 U.S. ($10 CDN). Subsequent to November 30, 2018, the amount drawn, including accrued interest, was repaid.

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

The Company's contributions to its pension plans are discussed in the fiscal 2018 annual MD&A.

(millions of Canadian dollars)

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 certain employee benefits, 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.

	November 30 2018	August 31 2018
Bonds and notes payable	$ 1,494	$ 1,494
Equity:		
Retained earnings	26	28
Regulatory deferral accounts:		
Debit balances	(972)	(954)
Credit balances	411	394
Employee benefits:		
LTD asset	(1)	(2)
Liability for funded pension benefits	727	707
Liability for accumulating sick leave	18	18
Total capital	$ 1,703	$ 1,685

Management's approach and objectives when managing capital remain unchanged from those described in our fiscal 2018 annual MD&A.

Financial Instruments and Risk Management

Reserve Funds and Financial Instruments

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 requirements of the debt service reserve fund and the operations and maintenance reserve fund remain unchanged from that described in our fiscal 2018 annual MD&A.

Financial Risk Management

The Company is exposed to several risks as a result of holding financial instruments, including interest rate risk, foreign exchange risk, price risk, credit risk and liquidity risk. The Company's exposure to financial risks and how the Company manages each of those risks are described in the Company's fiscal 2018 annual MD&A. There were no significant changes to those risks or to the Company's management of exposure to those risks during the three months ended November 30, 2018.

Insurance: Our aviation liability insurance program was last renewed on November 15, 2018 with liability limits of $5,250 U.S. ($6,978 CDN). This insurance, placed with syndicates at Lloyd's of London and other international insurers, covers all of our ANS operations liabilities to third parties for both bodily injury and property damage. The Company purchased war liability coverage of $2,000 U.S. ($2,658 CDN) per occurrence with $4,000 U.S. ($5,317 CDN) in the aggregate for periods subsequent to June 30, 2016. This insurance was renewed on November 15, 2018 and is non-cancellable in nature. The cost of this insurance is not significant 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

The Company's Q1 fiscal 2019 financial statements were prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB). Significant accounting policies used in the Q1 fiscal 2019 financial statements are disclosed in note 3 of the Company's fiscal 2018 annual consolidated financial statements, except for the application of new standards, amendments and interpretations effective or early adopted September 1, 2018 as described below. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

The following standards were adopted by the Company effective September 1, 2018:

<u>IFRS 15 – Revenue from Contracts with Customers (IFRS 15)</u>

IFRS 15 introduces a new revenue recognition model for contracts with customers to depict the transfer of goods and/or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods and/or services. The model contains two approaches for recognizing revenue, at a point in time or over time, and features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized.

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

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

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

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

(i) Customer service charges

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

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

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

(ii) Service and development contracts

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

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

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

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

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

Contract balances

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

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

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

<u>IFRIC 22 – Foreign Currency Transactions and Advance Considerations (IFRIC 22)</u>

IFRIC 22 clarifies that the date of the transaction for the purpose of determining the foreign currency exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The Company has adopted IFRIC 22 effective September 1, 2018, with no resulting impact on the consolidated financial statements.

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.

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

IFRS 16 – Leases (IFRS 16)

In January 2016, the IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard will replace IAS 17 Leases, and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires recognition of assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17, maintaining the classification of leases as operating or finance leases, and accounting for the lease according to its classification. IFRS 16 is to be applied retrospectively, using either a full retrospective approach or a modified retrospective approach, for annual periods beginning on or after January 1, 2019. Earlier application is permitted, but only if IFRS 15 has also been adopted.

The Company is in the process of assessing the anticipated impact of IFRS 16 on its consolidated financial statements. The Company has formed a project team, identified its current contracts containing lease components and is conducting a detailed review of those contracts to determine the accounting impacts. The Company anticipates using the modified retrospective approach on transition to IFRS 16.

The following revision and amendment issued by the IASB, and not already disclosed in the Company's 2018 annual consolidated financial statements and MD&A, have been assessed as having a possible effect on the Company in the future:

Conceptual Framework for Financial Reporting (the Framework):

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

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

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. 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.

The Company's critical accounting estimates and judgments applied in the preparation of the Company's Q1 fiscal 2019 financial statements are consistent with those applied and disclosed in our fiscal 2018 annual consolidated financial statements and as described in the fiscal 2018 annual MD&A.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

A material change in internal control over financial reporting (ICFR) is a change that has, or is reasonably likely to materially affect the issuer's ICFR. A material change in ICFR occurred during Q1 fiscal 2019 with the implementation of Workday, a cloud-based Enterprise Resource Planning system (ERP). The Workday solution enhanced NAV CANADA's Human Capital Management and introduced new functionalities and capabilities for the Finance and Procurement departments to streamline processes. Given the materiality of the transactions processed by the ERP, we consider the change to be a material change in ICFR. We have determined that ICFR under the new Workday system has been appropriately designed.