Serving a world in motion
Au service d'un
monde en mouvement
navcanada.ca

MANAGEMENT'S DISCUSSION AND ANALYSIS

ON FORM 51-102F1

THREE MONTHS ENDED

NOVEMBER 30, 2019

January 9, 2020

Serving a world in motion
Au service d'un monde en mouvement
navcanada.ca

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 (loss) and cash flows for the three months ended November 30, 2019 (Q1 fiscal 2020) 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 2020 (Q1 fiscal 2020 financial statements), our audited annual consolidated financial statements and the accompanying notes for the year ended August 31, 2019 (fiscal 2019), our fiscal 2019 annual MD&A, as well as our 2019 Annual Information Form dated October 24, 2019 (fiscal 2019 AIF). Additional information about NAV CANADA, including our consolidated financial statements for Q1 fiscal 2020 and fiscal 2019, our fiscal 2019 annual MD&A, and our fiscal 2019 AIF are filed on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Our financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). Our Q1 fiscal 2020 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.

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

Caution Concerning Forward-Looking Information

This MD&A and, in particular, but without limitation, sections "INTRODUCTION – Significant Financial Matters: 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), 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 2019 AIF. The forward-looking statements contained in this MD&A represent our expectations as of January 9, 2020 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 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.

(millions of Canadian dollars)

Financial Highlights

Results of operations for the three months ended November 30, 2019

	Three months ended November 30		
	2019	2018	Change
Revenue	$ 364	$ 357	$ 7
Operating expenses	369	348	21
Other (income) and expenses	31	17	14
Net loss before net movement in regulatory deferral accounts	(36)	(8)	(28)
Net movement in regulatory deferral accounts [(1)]			
Rate stabilization adjustments:			
Favourable variances from planned results	(9)	(9)	-
Initial approved adjustment [(2)]	9	5	4
	-	(4)	4
Other regulatory deferral account adjustments:			
Employee benefit pension contributions	42	20	22
Investment in preferred interests, before tax	(2)	(11)	9
Investment in equity-accounted investee	(1)	(1)	-
Income tax	-	1	(1)
Realized hedging transactions	-	1	(1)
	39	10	29
	39	6	33
Net income (loss), after net movement in regulatory deferral accounts	$ 3	$ (2)	$ 5

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

(2) In order to achieve breakeven results of operations in the year ending August 31, 2020 (fiscal 2020), the Board approved a reduction of the rate stabilization account as a result of a planned shortfall. As a result, $35 is being transferred out of the rate stabilization account evenly throughout the fiscal year (fiscal 2019 - $18).

(millions of Canadian dollars)

Cash flows for the three months ended November 30, 2019

As shown below, cash and cash equivalents decreased by $3 during the three months ended November 30, 2019 (three months ended November 30, 2018 - increased by $6) and the Company experienced positive free cash flow of $6 (three months ended November 30, 2018 - $6), which is a non-GAAP (Generally Accepted Accounting Principle) financial measure. Non-GAAP financial measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. The Company defines free cash flow as cash generated from operations, less capital expenditures, investments in Aireon and equity related investments and principal payments of lease liabilities. Management places importance on this indicator as it assists in measuring the impact of its investment program on the Company's financial resources.

	Three months ended November 30		
	2019	2018	Change
Cash flows from (used in):			
Operations[(1)]	$ 44	$ 38	$ 6
Investing[(1)]	(38)	(32)	(6)
Financing[(1)]	(9)	-	(9)
Increase (decrease) in cash and cash equivalents	(3)	6	(9)
Cash and cash equivalents, beginning of period	30	38	(8)
Cash and cash equivalents, end of period	$ 27	$ 44	$ (17)
Free cash flow (non-GAAP financial measure):			
Cash flows from (used in):			
Operations [(2)]	$ 44	$ 38	$ 6
Capital expenditures [(2)]	(37)	(32)	(5)
Principal payment of lease liabilities [(2)]	(1)	-	(1)
Free cash flow	$ 6	$ 6	$ -

(1) See "LIQUIDITY AND CAPITAL RESOURCES – Cash flows for the three months ended November 30, 2019" for discussion of the changes in cash flows from the prior fiscal year.

(2) See the statement of cash flows in our Q1 fiscal 2020 financial statements.

(millions of Canadian dollars)

Financial position as at November 30, 2019

The following table outlines significant changes in our assets and liabilities between August 31, 2019 and November 30, 2019:

	November 30 2019	August 31 2019	Change
Assets			
Current assets			
Cash and cash equivalents	$ 27	$ 30	$ (3)
Accounts receivable and other	99	98	1
Investments	73	72	1
Other current assets	12	13	(1)
	211	213	(2)
Non-current assets			
Investment in preferred interests	441	439	2
Property, plant and equipment	753	750	3
Intangible assets	899	906	(7)
Investment in equity-accounted investee	7	6	1
Related party loan receivable	3	3	-
Other non-current assets	1	1	-
	2,104	2,105	(1)
Total assets	2,315	2,318	(3)
Regulatory deferral account debit balances	2,126	2,087	39
Total assets and regulatory deferral account debit balances	$ 4,441	$ 4,405	$ 36
Liabilities			
Current liabilities			
Bank loan	$ -	$ 8	$ (8)
Trade and other payables	228	242	(14)
Derivative liabilities	-	1	(1)
Deferred revenue	6	7	(1)
Current portion of long-term debt	25	25	-
Other current liabilities	3	-	3
	262	283	(21)
Non-current liabilities			
Long-term debt	1,443	1,443	-
Employee benefits	2,272	2,226	46
Deferred tax liability	48	48	-
Lease liability	5	-	5
Other non-current liabilities	1	1	-
	3,769	3,718	51
Total liabilities	4,031	4,001	30
Equity			
Retained earnings	31	28	3
Regulatory deferral account credit balances	379	376	3
Total liabilities, equity and regulatory deferral account credit balances	$ 4,441	$ 4,405	$ 36

For a discussion of the changes in cash and cash equivalents (including the bank loan) from August 31, 2019, see "LIQUIDITY AND CAPITAL RESOURCES – Cash flows for the three months ended November 30, 2019".

The balance in retained earnings as at November 30, 2019 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, 2019, the rate stabilization account (see "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account") had a credit balance of $93 (see "RESULTS OF OPERATIONS – Amounts Considered for Rate Setting Purposes").

The rate stabilization account remained consistent during fiscal 2020 due to $9 of favourable variances from planned results, offset by the $9 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 fiscal 2020, air traffic volumes, as measured by weighted charging units (WCU) (a measure of the number of flights, aircraft size and distance flown), increased by 0.2% year-over-year. The approved budget for fiscal 2020 assumed growth of 3.7% for the year. The Company's current annual forecast for air traffic growth for fiscal 2020 is 1.1% (see RESULTS OF OPERATIONS – Financial Outlook).

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.

In September 2019, the Canadian Transportation Agency received an appeal by the International Air Transport Association (IATA) dated September 13, 2019 of the revised customer services charges which were implemented on September 1, 2019 and those that took effect on January 1, 2020. The appeal alleges that the Company did not comply with notice requirements and with two of the charging principles in the ANS Act. The Company disagrees with IATA's appeal. The Company has filed material in support of its defence of the appeal and is awaiting a decision. The outcome of this appeal is indeterminable at this time.

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

(millions of Canadian dollars)

3. Salaries and benefits

Approximately 87% of our workforce is unionized under eight collective agreements.

As at November 30, 2019, the Company has expired agreements with five unions, comprising 77% of our represented workforce, whose collective agreements expired March 31, 2019, April 30, 2019 and June 30, 2019, respectively.

The Company is currently in negotiations with six bargaining units, five with expired contracts as noted above and one that expired December 31, 2019, comprising 14% of our represented workforce.

As disclosed in our fiscal 2019 annual MD&A, on June 21, 2019, Bill C-97 received Royal Assent. Amendments proposed in this Bill clarify that if a pension plan is terminated, it must still provide the same pension benefits as when it was ongoing. With this change, NAV CANADA's plan termination amendment is now offside with the federal *Pension Benefits Standards Act, 1985*.

On November 21, 2019, the Company confirmed its intent to withdraw the plan termination amendment and provided updated plan documentation to the Office of the Superintendent of Financial Institutions Canada.

RESULTS OF OPERATIONS

Revenue

The following table provides a breakdown of our revenue by category. Our fiscal 2019 AIF and the notes to our Q1 fiscal 2020 financial statements provide more information about the different categories of our customer service charges.

	Three months ended November 30			
	2019	2018	Change	%
Enroute	$ 182	$ 177	$ 5	3%
Terminal	132	130	2	2%
Daily / annual / quarterly	22	24	(2)	(8%)
North Atlantic and international communication	12	13	(1)	(8%)
Total customer service charges	348	344	4	1%
Other [(1)]	16	13	3	23%
	$ 364	$ 357	$ 7	2%

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

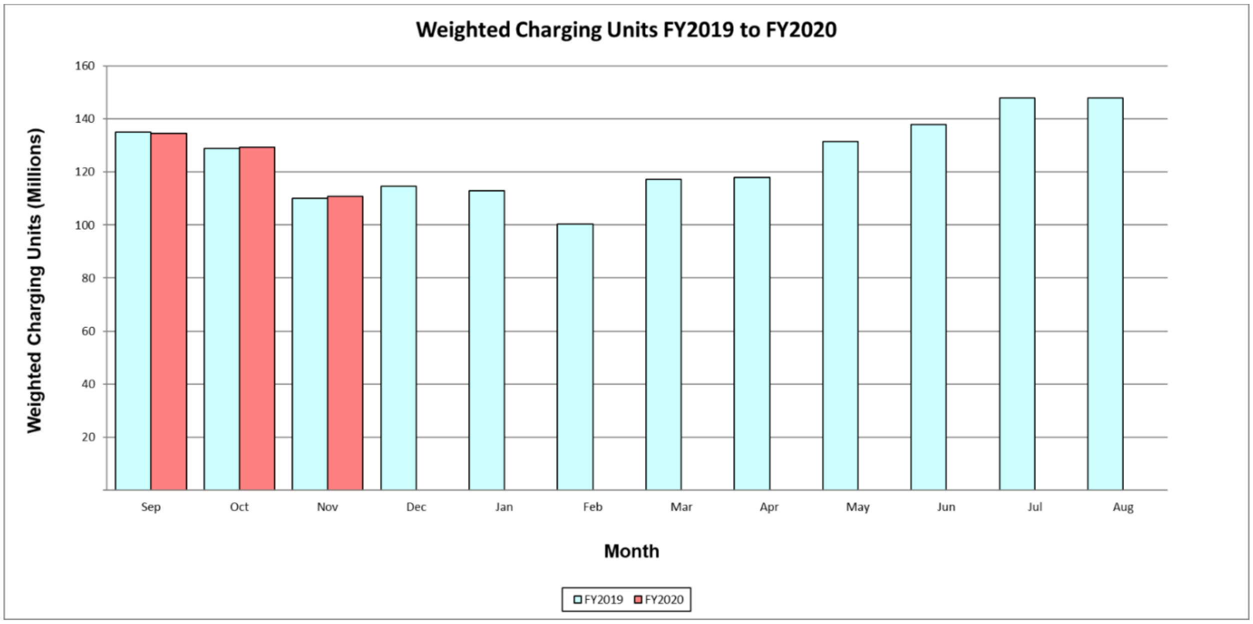
Revenue from customer service charges for Q1 fiscal 2020 increased by $4 compared to the same period in fiscal 2019, and reflects revised customer service charges, whereby existing base rates increased on average by 0.8%, effective September 1, 2019, to recover the cost of domestic space-based surveillance data services. In addition, the Company saw air traffic growth of 0.2% year-over-year, as measured by WCUs.

The increase in other revenue during Q1 fiscal 2020 of $3 compared to Q1 fiscal 2019 is largely related to service and development contracts.

(millions of Canadian dollars)

Air Traffic

Air traffic growth for Q1 fiscal 2020 increased by 0.2% when compared to Q1 fiscal 2019. The chart below shows traffic in WCUs.



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 and behaviours, general aviation industry conditions, air carrier competition, airline restructurings and insolvencies, terrorist activities, epidemics or pandemics, weather patterns, natural disasters, environmental concerns and demographic patterns.

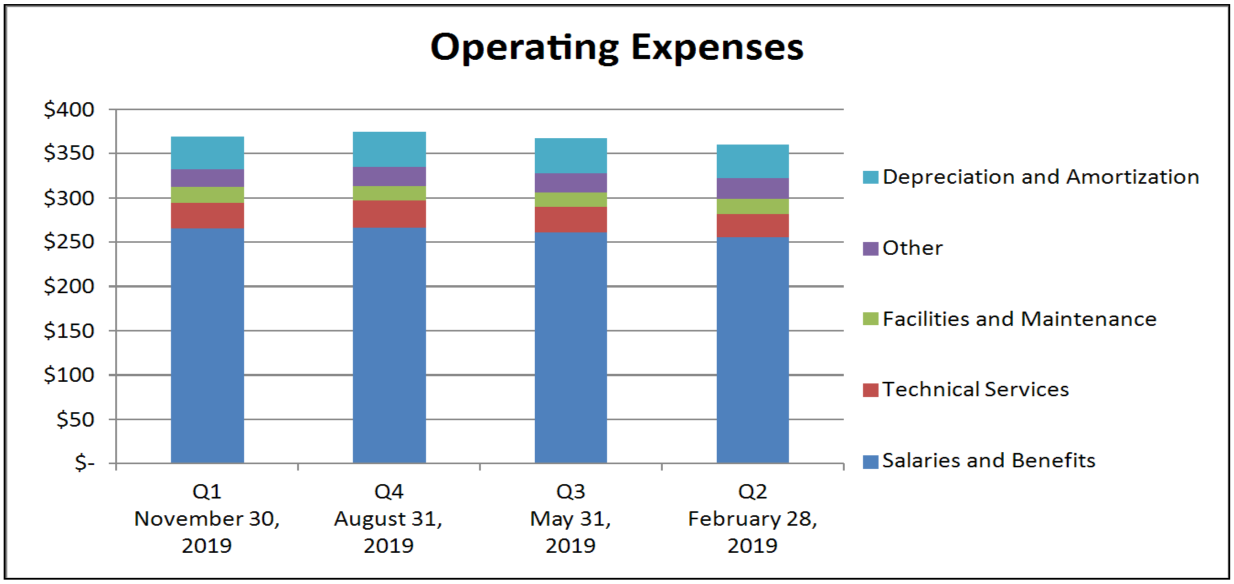
Operating Expenses

	Three months ended November 30			
	2019	2018	Change	%
Salaries and benefits	$ 265	$ 245	$ 20	8%
Technical services	29	27	2	7%
Facilities and maintenance	18	15	3	20%
Depreciation and amortization	37	38	(1)	(3%)
Other	20	23	(3)	(13%)
	$ 369	$ 348	$ 21	6%

Salaries and benefits expense in Q1 fiscal 2020 increased by $20 compared to Q1 fiscal 2019 primarily due to 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 as well as increased compensation levels and increased staffing requirements to meet air traffic growth, to support projects and to train air traffic controllers.

(millions of Canadian dollars)

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



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

	Three months ended November 30		
	2019	2018	Change
Finance income			
Interest income	$ (1)	$ (1)	$ -
Net change in fair value of financial assets at FVTPL [1]			
Investment in preferred interests	(3)	(3)	-
Total finance income	(4)	(4)	-
Net interest expense relating to employee benefits	15	10	(5)
Other finance costs			
Interest expense	20	19	(1)
Other gains, net of losses			
Foreign exchange (gains) and losses	1	(7)	(8)
Other (gains) and losses	(1)	(1)	-
	-	(8)	(8)
	$ 31	$ 17	$ (14)

[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.

Net interest expense relating to employee benefits increased by $5 in Q1 fiscal 2020 compared to Q1 fiscal 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.

(millions of Canadian dollars)

The $8 net decrease in foreign exchange gains and losses mainly relates to fluctuation of the CDN dollar against the US dollar on the Company's investment in the 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.

	Three months ended November 30		
	2019	2018	Change
Rate stabilization account [1]	$ -	$ (4)	$ 4
Other regulatory deferral accounts			
Employee benefit pension contributions	42	20	22
Investment in preferred interests, before tax	(2)	(11)	9
Investment in equity-accounted investee	(1)	(1)	-
Income tax	-	1	(1)
Realized hedging transactions	-	1	(1)
	$ 39	$ 6	$ 33

[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 Q1 fiscal 2020 was $42 compared to $20 in Q1 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 $9 net movement in regulatory deferral of the Company's investment in preferred interests before tax is primarily due to the change in the regulatory deferral of unrealized foreign exchange gains and losses from a gain of $7 in Q1 fiscal 2019 to a loss of $1 in Q1 fiscal 2020.

(millions of Canadian dollars)

Movements in Rate Stabilization Account

Our rate stabilization mechanism and accounting are described at the beginning of this MD&A and in notes 1 and 7 of our fiscal 2019 annual consolidated financial statements. The table below shows the movements in the rate stabilization account.

	Three months ended November 30		
	2019	2018	Change
Credit balance on the statement of financial position, beginning of period	$ 93	$ 124	$ (31)
Variances from planned results:			
Revenue (lower) than planned	(5)	(1)	(4)
Operating expenses lower than planned	9	12	(3)
Other (income) and expenses (higher) lower than planned	(6)	12	(18)
Net movement in other regulatory deferral accounts	11	(14)	25
Total variances from planned results	9	9	-
Initial approved adjustment	(9)	(5)	(4)
Net movement in rate stabilization account recorded in net income (loss)	-	4	(4)
Credit balance on the statement of financial position, end of period	$ 93	$ 128	$ (35)

The rate stabilization account remained consistent during the three months ended November 30, 2019. The movements in the account were primarily due to:

- net movement of $11 in other regulatory deferral accounts that was higher than planned primarily due to:
  - a regulatory expense for pension benefits that was $8 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 $3 related to other employee benefits, largely due to the true up of the long-term disability (LTD) plan deficit; and
- operating expenses that were $9 lower than planned, primarily due to lower compensation and operational costs;

fully offset by:

- revenue that was $5 lower than planned primarily due to lower air traffic growth than planned;
- other (income) and expenses that were $6 higher than planned primarily due to higher net interest expense relating to employee benefits and lower capitalized interest expense, resulting in higher interest expense; and
- the planned adjustment of $9, representing the Q1 fiscal 2020 portion of the anticipated $35 annual net loss at the time the fiscal 2020 budget was approved.

(millions of Canadian dollars)

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		
	2019	2018	Change
Items that will be reclassified to income or (loss):			
Changes in fair value of cash flow hedges	$ -	$ 5	$ (5)
Net movement in regulatory deferral accounts	-	(5)	5
Total other comprehensive income (loss)	$ -	$ -	$ -

There were no significant events or changes to the Company's defined benefit pension and other post-employment benefit plans that would require a revaluation during Q1 fiscal 2020 and Q1 fiscal 2019.

During Q1 fiscal 2020, no significant fair value adjustments were recorded on the Company's cash flow hedges. 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 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 and the 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:

	November 30 2019	August 31 2019	Change
Rate stabilization account credit balance	$ 93	$ 93	$ -
Regulatory pension cash contributions to be recovered at a later date	$ (34)	$ (34)	$ -

(millions of Canadian dollars)

Financial Outlook[2]

Presented below are the Company's current projected annual consolidated results before rate stabilization for fiscal 2020 compared to fiscal 2019 actual results.

	Fiscal 2020	Fiscal 2019	Change	%
Before rate stabilization				
Revenue	$ 1,505	$ 1,437	$ 68	5%
Operating expenses and other (income) and expenses, including other regulatory adjustments	1,569	1,468	101	7%
Net loss before rate stabilization adjustments	$ (64)	$ (31)	$ (33)	

Revenue

Revenue in fiscal 2020 is expected to increase by approximately 5% or $68 from $1,437 in fiscal 2019 primarily due to forecasted air traffic growth of 1.1%, an increase in customer service charge base rates and an increase in other revenue. As discussed in "RESULTS OF OPERATIONS – Revenue", the revised service charges, effective in two phases, increase base rates on average 0.8%, effective September 1, 2019 and increase the North Atlantic Enroute service charge to $155.03, effective January 1, 2020.

In our fiscal 2019 annual MD&A, we had disclosed anticipated revenue of $1,477 for fiscal 2020. The increase of $28 in revenue is largely due to an increase in anticipated revenue from technology sales and services.

Operating Expenses and Other (Income) and Expenses

Operating expenses and other (income) and expenses before rate stabilization for fiscal 2020 are expected to be $1,569. This is an increase of 7% or $101 compared to fiscal 2019 primarily due to:

- increased compensation levels arising from inflationary increases in collective agreements, increased staffing requirements to meet air traffic growth and to support projects, and the maintenance of optimum staffing levels across the country;
- higher pension current service costs due to decreases in discount rates;
- a full year of domestic satellite surveillance charges and the first partial year of oceanic satellite surveillance charges commencing in January 2020;
- increased operational requirements impacting facilities and maintenance and technical services; and
- the effects of inflation.

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

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 2019 annual MD&A, we had disclosed anticipated operating expenses and other (income) and expenses, before rate stabilization of $1,559 for fiscal 2020. The increase of $10 is primarily related to increased pension costs due to the decrease in discount rates and increased professional fees and systems maintenance and development costs related to the increase in revenue from technology sales and services. These increases are partially offset by lower other operational costs.

Cash Flows

Given the expected net cash flows from operations and cash flows from investing and financing activities in fiscal 2020, the Company's cash position is currently anticipated to be $31 as at August 31, 2020 (August 31, 2019 - $30). This cash outlook is based on anticipated annual cash inflows from operating activities of $102 and financing activities of $73, partially offset by cash outflows from investing activities of $174. Cash inflows from financing activities are largely due to net proceeds from bank loans, partially offset by the annual $25 principal repayment of the Series 97-2 amortizing revenue bonds and cash outflows from investing activities are for capital expenditures. As discussed below, the Company has adequate existing sources of financing to cover all of its anticipated cash flow requirements.

In our fiscal 2019 annual MD&A, we had disclosed an anticipated cash position of $30 by the end of fiscal 2020.

Rate Stabilization Account

The Company currently anticipates that the rate stabilization account will have a credit balance of $29 at the end of fiscal 2020, resulting from estimated revenue of $1,505 and total operating expenses and other (income) and expense (including other regulatory adjustments) of $1,569 (before rate stabilization). The current and anticipated balance in the rate stabilization account (see "RESULTS OF OPERATIONS – Amounts Considered for Rate Setting Purposes"), will be a consideration in the setting of rates as well as future cost containment measures to be taken.

In our fiscal 2019 annual MD&A, we had forecast a rate stabilization account credit balance of $11 at the end of fiscal 2020. The increase of $18 is primarily due to an increase in revenue related to technology sales and services and a reduction in other operational costs, partially offset by increased compensation levels and increased professional fees and systems maintenance and development costs related to 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, 2019, the Company had a net gain of $5. Our interest costs were $75. Consolidated earnings (after rate stabilization) before interest costs were $80, which is 1.07 times our interest requirement for the fiscal year and just above our one-to-one target. Depreciation and amortization expense for this period was $153. Our cash flow coverage was 3.11 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 November 30, 2019, 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. The transactions with these related parties are not materially different from what was reported in the fiscal 2019 annual MD&A with the exception of an agreement with Aireon to provide a subordinated loan, up to a total of $11 U.S. ($15 CDN), which was entered into subsequent to November 30, 2019.

(millions of Canadian dollars)

SUMMARY OF QUARTERLY RESULTS

Quarterly Financial Information (unaudited)

	Three months ended			
	Q1 November 30 2019	Q4 August 31 2019	Q3 May 31 2019	Q2 February 28 2019
Revenue	$ 364	$ 412	$ 351	$ 317
Operating expenses	369	374	367	360
Other (income) and expenses	31	32	15	27
	(36)	6	(31)	(70)
Income tax recovery	-	(3)	-	-
Net income (loss) before net movement in regulatory deferral accounts	(36)	9	(31)	(70)
Net movement in regulatory deferral accounts related to net income (loss), net of tax				
Rate stabilization adjustments	-	21	11	3
Other regulatory deferral account adjustments	39	30	6	23
	39	51	17	26
Net income (loss) after net movement in regulatory deferral accounts	$ 3	$ 60	$ (14)	$ (44)

	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)

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 2020 was 0.2% higher on average than in Q1 fiscal 2019. In fiscal 2020, the Company implemented revised service charges to recover the cost of space-based surveillance data services (as disclosed in our fiscal 2019 annual MD&A).

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 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

Our fiscal 2019 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, 2019.

As at November 30, 2019, we had $27 of cash and cash equivalents and committed credit facilities of $1,390, of which $549 was available for unrestricted use (see "LIQUIDITY AND CAPITAL RESOURCES – Liquidity and Financing Strategy").

(millions of Canadian dollars)

Cash flows for the three months ended November 30, 2019

	Three months ended November 30		
	2019	2018	Change
Cash flows from (used in):			
Operations	$ 44	$ 38	$ 6
Investing	(38)	(32)	(6)
Financing	(9)	-	(9)
Increase (decrease) in cash and cash equivalents	(3)	6	(9)
Cash and cash equivalents, beginning of period	30	38	(8)
Cash and cash equivalents, end of period	$ 27	$ 44	$ (17)
Free cash flow (non-GAAP financial measure):			
Cash flows from (used in):			
Operations	$ 44	$ 38	$ 6
Capital expenditures [(1)]	(37)	(32)	(5)
Payment of lease liabilities [(1)]	(1)	-	(1)
Free cash flow	$ 6	$ 6	$ -

[(1)] See the statement of cash flows in our Q1 fiscal 2020 financial statements.

As shown above, cash and cash equivalents decreased by $3 for the three months ended November 30, 2019 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, 2019".

Cash flows from operations for the three months ended November 30, 2019 were inflows of $44 compared to inflows of $38 for the three months ended November 30, 2018. The variance of $6 is primarily due to $13 lower payments to employees and suppliers, partially offset by $8 lower receipts from customer service charges.

Cash outflows from investing activities for the three months ended November 30, 2019 were $38 compared to $32 for the three months ended November 30, 2018. In Q1 fiscal 2020, investment in capital projects was $37 (cash outflows of $26), compared to $32 in Q1 fiscal 2019 (cash outflows of $32).

Cash outflows from financing activities for the three months ended November 30, 2019 were $9 compared to outflows of $nil for the three months ended November 30, 2018. The outflow in Q1 fiscal 2020 was primarily a result of the repayment of the outstanding bank loan of $8 at August 31, 2019.

Liquidity and Financing Strategy

Our liquidity and financing strategy remains unchanged from that disclosed in our fiscal 2019 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.

(millions of Canadian dollars)

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, 2019, 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)		522
Less: Outstanding letters of credit for other purposes (2)		9
Undrawn committed borrowing capacity		859
Less: Operations and maintenance reserve fund allocation (4)		310
Credit facilities available for unrestricted use	$	549

(1) During the three months ended November 30, 2019, the Company increased its credit facility with a syndicate of Canadian financial institutions to $850 (August 31, 2019 - $675). The credit facility is comprised of two equal tranches maturing on September 12, 2022 and September 12, 2024. 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, 2019.

(2) At November 30, 2019, $9 was drawn from an uncommitted revolving credit facility. In connection with this facility, an allocation of $25 with a Canadian financial institution has been made under its $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, which were set to mature on December 31, 2019. During the three months ended November 30, 2019, the Company extended two of the credit facilities, representing $250, to December 31, 2020 and the remaining facilities to December 31, 2021. At November 30, 2019, $522 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 2019	August 31 2019
LONG-TERM DEBT:		
Bonds and notes payable		
Under the Master Trust Indenture	$ 450	$ 450
Under the General Obligation Indenture	1,025	1,025
	1,475	1,475
Adjusted for deferred financing costs and discounts	(7)	(7)
Total bonds and notes payable	1,468	1,468
Less: current portion of long-term debt	(25)	(25)
Total long-term debt	$ 1,443	$ 1,443
LIQUIDITY:		
Cash and cash equivalents	$ 27	$ 30
Debt service reserve fund	73	72
	$ 100	$ 102
Undrawn committed borrowing capacity (1)	$ 859	$ 684

(1) $549 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-	Stable

Our credit ratings remain unchanged from those described in our fiscal 2019 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 2019 annual MD&A.

Contractual Obligations

A breakdown of contractual obligations as at November 30, 2019 for the next five fiscal years and thereafter is presented in the following table.

	Remaining payments – for years ending August 31						
	Total	2020	2021	2022	2023	2024	Thereafter
Long-term debt (including current portion) (1), (2)	$ 1,475	$ 25	$ 275	$ 25	$ 25	$ 25	$ 1,100
Interest payments (2)	965	53	63	56	54	52	687
Capital commitments	101	48	14	9	12	3	15
Operating contract commitments	15	3	3	3	3	1	2
Future lease liabilities(3)	59	-	-	-	2	3	54
Lease liability	8	2	3	3	-	-	-
Total contractual obligations	$ 2,623	$ 131	$ 358	$ 96	$ 96	$ 84	$ 1,858

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 $1,475. The Company intends to refinance principal maturities at their maturity dates. The Company may choose to repay a portion of these maturities with available cash and/or may increase the size of a re-financing to generate additional liquidity or for other purposes, and/or may choose to redeem in whole or in part an issue in advance of its scheduled maturity.

(2) Further details on interest rates and maturity dates on long-term debt are provided in note 14 to our fiscal 2019 annual consolidated 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.

As noted in "RESULTS OF OPERATIONS – Related Party Transactions", subsequent to November 30, 2019, the Company has entered into an agreement with Aireon to provide a subordinated loan, up to a total of $11 U.S. ($15 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 in the fiscal 2019 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 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.

	November 30 2019	August 31 2019
Bonds and notes payable	$ 1,468	$ 1,468
Equity:		
Retained earnings	31	28
Regulatory deferral accounts:		
Debit balances	(2,126)	(2,087)
Credit balances	379	376
Employee benefits:		
LTD liability	3	3
Liability for funded pension benefits	1,855	1,813
Liability for accumulating sick leave	17	17
Total capital	$ 1,627	$ 1,618

Management's approach and objectives when managing capital remain unchanged from those described in our fiscal 2019 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 2019 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 2019 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, 2019, except for changes in our liquidity risk as noted under the heading "LIQUIDITY AND CAPITAL RESOURCES – Liquidity and Financing Strategy".

Insurance

Our aviation liability insurance program was last renewed on November 15, 2019 for one year. 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 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 2020 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 2020 financial statements are disclosed in note 3 of the Company's fiscal 2019 annual consolidated financial statements, except for the application of new standards, amendments and interpretations effective or early adopted September 1, 2019 as described below. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

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

IFRS 16 – Leases

In January 2016, the 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 annual consolidated 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 Current lease liability ($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 whereby we have used hindsight when determining the lease term, when the lease contract contains options to extend or terminate the lease.

New Requirements

The following accounting policy applies as at September 1, 2019 following adoption of IFRS 16:

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

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

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

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

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

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

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

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

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

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

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

(millions of Canadian dollars)

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
Current portion of lease liability	$ -	$ 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%.

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 2020 financial statements are consistent with those applied and disclosed in our fiscal 2019 annual consolidated financial statements and as described in the fiscal 2019 annual MD&A.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes to the Company's internal control over financial reporting (ICFR) during the three months ended November 30, 2019 that have materially affected or are reasonably likely to materially affect the Company's ICFR.