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, 2021

January 12, 2022

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 loss and cash flows for the three months ended November 30, 2021 (Q1 fiscal 2022) 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 2022 (Q1 fiscal 2022 financial statements), our audited annual consolidated financial statements and the accompanying notes for the year ended August 31, 2021 (fiscal 2021), our fiscal 2021 annual MD&A, as well as our 2021 Annual Information Form dated October 21, 2021 (fiscal 2021 AIF). Additional information about NAV CANADA, including our financial statements for Q1 fiscal 2022 and fiscal 2021, our fiscal 2021 annual MD&A, and our fiscal 2021 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 2022 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, and all information presented has been rounded to the nearest million dollars, unless otherwise indicated.

Caution Concerning Forward-Looking Information

This MD&A and, in particular, but without limitation, sections "INTRODUCTION – Significant Financial Matters" and "RESULTS OF OPERATIONS – Financial Outlook" of this MD&A, contain certain statements about NAV CANADA's future expectations. These statements are generally identified by words like "anticipate", "plan", "believe", "intend", "expect", "estimate", "approximate", "forecast" and the like, as well as future or conditional verbs such as "may", "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 and these differences may be material. Examples of risks and uncertainties the Company faces include geopolitical unrest, terrorist attacks and the threat of terrorist attacks, war, epidemics or pandemics, government interventions and related travel advisories, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from manmade sources), cyber security attacks, labour negotiations, arbitrations, workforce recruitment, training and retention, general aviation industry conditions, air traffic levels, 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 ultimate 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 2021 AIF. The forward-looking statements contained in this MD&A represent our expectations as of January 12, 2022 and are subject to change after this date.

Our forward-looking statements are based on information currently available to the Company. Given the rapidly evolving circumstances surrounding the COVID-19 pandemic and resulting economic contraction, including the occurrence of new variants and resulting government-implemented restrictions, there is significant uncertainty associated with various assumptions underlying the forward-looking information contained in this MD&A. These assumptions include but are not limited to the following: the impact of COVID-19 and vaccination levels on global and domestic air traffic and on the aviation industry in the near-term; the likelihood that the post-pandemic economic recovery may be gradual and uneven; long-term growth in economic recovery and a return to a willingness to travel will provide the basis for increased air travel demand in the future; no other significant event such as a natural disaster or other calamity will occur that has an impact on the ordinary course of business or the macroeconomic environment.

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

Our Business

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

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

Financial Strategy and Rate Regulation

In establishing new customer service charges or revising existing charges, we must follow the charging principles set out in our governing legislation, the *Civil Air Navigation Services Commercialization Act* (ANS Act), which prevents us from setting customer service charges higher than what is needed to meet our financial requirements for the provision of air navigation services. Pursuant to these principles, the Board approves the amount and timing of changes to customer service charges. The Board also approves the Company's annual budget where amounts to be recovered through customer service charges for the ensuing year are determined. Our aim is to achieve breakeven financial results on the consolidated statements of operations on an annual basis. Due to seasonal and other fluctuations in air traffic, such as the COVID-19 pandemic, 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 consider, among other things, estimated air traffic levels, the statutory requirement to provide air navigation services and planned expenses. Since actual revenue and expenses will differ from these estimates, methods to accumulate the variances are required so that they may be taken into account when setting future customer service charges. There is also a need to absorb the immediate effect of unpredictable factors – mainly fluctuations in air traffic levels resulting from unforeseen events. We meet these objectives through the use of a "rate stabilization" mechanism.

We reflect the impact of rate regulation in our financial statements. 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, 2021

	Three months ended November 30		
	2021	2020	$ Change
Revenue	$ 345	$ 202	$ 143
Operating expenses	337	309	28
Other (income) and expenses	24	31	(7)
Net loss, before net movement in regulatory deferral accounts	(16)	(138)	122
Net movement in regulatory deferral accounts [(1)]			
Rate stabilization adjustments:			
Favourable variances from planned results	(80)	(32)	(48)
Initial approved adjustment [(2)]	21	74	(53)
	(59)	42	(101)
Other regulatory deferral account adjustments:			
Employee benefit pension contributions	26	26	-
Other employee benefits	-	(1)	1
Investment in preferred interests, before tax	(7)	(2)	(5)
Allowance for expected credit losses	(1)	3	(4)
	18	26	(8)
	(41)	68	(109)
Net loss, after net movement in regulatory deferral accounts	$ (57)	$ (70)	$ 13

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

(2) In order to achieve breakeven results of operations after the application of rate regulated accounting, the Board approved the budget for the fiscal year ending August 31, 2022 (fiscal 2022) with an increase to the debit position of the rate stabilization account as a result of a planned shortfall of $85 (fiscal 2021 - $295), which is being reflected in the rate stabilization account evenly throughout the fiscal year.

(millions of Canadian dollars)

Cash flows for the three months ended November 30, 2021

As shown below, cash and cash equivalents increased by $16 during the three months ended November 30, 2021 (three months ended November 30, 2020 - decreased by $369) and the Company experienced positive free cash flow of $18 (three months ended November 30, 2020 - negative free cash flow of $146), 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 regulatory assets, 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		
	2021	2020	$ Change [1]
Cash flows from (used in):			
Operating	$ 43	$ (131)	$ 174
Investing	(26)	(14)	(12)
Financing	(1)	(224)	223
Increase (decrease) in cash and cash equivalents	16	(369)	385
Cash and cash equivalents, beginning of period	319	689	(370)
Cash and cash equivalents, end of period	$ 335	$ 320	$ 15
Free cash flow (non-GAAP financial measure):			
Cash flows from (used in):			
Operations [2]	$ 43	$ (131)	$ 174
Capital expenditures [2]	(23)	(17)	(6)
Investment in regulatory assets [2]	(1)	(1)	-
Proceeds from sale of property, plant and equipment [2]	-	4	(4)
Payment of lease liabilities [2]	(1)	(1)	-
Free cash flow	$ 18	$ (146)	$ 164

(1) See "LIQUIDITY AND CAPITAL RESOURCES – Cash flows for the three months ended November 30, 2021" for discussion of the changes in cash flows from the prior fiscal year.

(2) See the statements of cash flows in our Q1 fiscal 2022 financial statements.

(millions of Canadian dollars)

Financial position as at November 30, 2021

The following table outlines significant changes in our assets, liabilities and regulatory deferral accounts between August 31, 2021 and November 30, 2021:

	November 30 2021	August 31 2021	$ Change
Assets			
Current assets			
Cash and cash equivalents	$ 335	$ 319	$ 16
Accounts receivable and other	123	106	17
Investments	74	73	1
Assets held for sale	7	-	7
Loan receivable	5	-	5
Other	9	10	(1)
	553	508	45
Non-current assets			
Property, plant and equipment	712	717	(5)
Intangible assets	770	780	(10)
Investment in preferred interests	306	299	7
Long-term receivables	103	116	(13)
Investment in equity-accounted investee	-	7	(7)
	1,891	1,919	(28)
Total assets	2,444	2,427	17
Regulatory deferral account debit balances	1,716	1,753	(37)
Total assets and regulatory deferral account debit balances	$ 4,160	$ 4,180	$ (20)
Liabilities			
Current liabilities			
Trade and other payables	$ 203	$ 204	$ (1)
Current portion of long-term debt	25	25	-
Deferred revenue	3	8	(5)
Other	3	3	-
	234	240	(6)
Non-current liabilities			
Long-term debt	2,487	2,487	-
Employee benefits	1,295	1,266	29
Deferred tax liability	12	12	-
Other	10	1	9
	3,804	3,766	38
Total liabilities	4,038	4,006	32
Equity			
Retained earnings (deficit)	(29)	28	(57)
Regulatory deferral account credit balances	151	146	5
Total liabilities, equity and regulatory deferral account credit balances	$ 4,160	$ 4,180	$ (20)

For a discussion of the changes in cash and cash equivalents from August 31, 2021, see "LIQUIDITY AND CAPITAL RESOURCES – Cash flows for the three months ended November 30, 2021".

The changes in assets held for sale and the investment in equity-accounted investee relate to the Company's investment in Searidge Technologies Inc. (Searidge). Refer to "INTRODUCTION – Significant Financial Matters" for further discussion.

The change in current and long-term receivables is largely the result of receipt of deferred payments related to the September 1, 2020 service charge increase. For the Company's fiscal 2021, the portion of monthly invoices related to the service charge increase could be deferred and would become payable in equal installments over the Company's next five fiscal years. One-fifth of the deferred portion related to the service charge increase becomes payable by customers during fiscal 2022.

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

Intangible assets reflect the impact of the Company's change in accounting policy related to cloud computing arrangements. Refer to "CHANGES IN ACCOUNTING POLICIES".

We plan our operations to essentially be in an annual financial breakeven position after expenses are met through customer service charges and other revenue sources, and after adjustments are made to the rate stabilization account. As a result, the balance in the retained earnings account at the end of each fiscal year has remained stable at $28. Any variation from this amount at the end of any interim period reflects seasonal or other fluctuations in revenue and expenses. The balance in retained earnings (deficit) as at November 30, 2021 reflects the loss up to that date.

Significant Financial Matters[1]

The following items have significant financial importance to the Company:

1. Air Traffic and Customer Service Charges

Over the first three months of fiscal 2022, air traffic levels, as measured by weighted charging units (WCUs) (a measure of the number of flights, aircraft size and distance flown in Canadian airspace and the basis for movement-based service charges), increased 68.7% as compared to the first three months of fiscal 2021. In comparison to pre-pandemic levels experienced in the same period of the fiscal year ended August 31, 2019 (fiscal 2019), however, WCUs were lower by 30.1%.

Even with the positive signs of air traffic recovery experienced in Q1 fiscal 2022, future travel demand continues to be uncertain given the occurrence of new variants and changing government travel restrictions in Canada and around the world. We continuously monitor our financial requirements and air traffic, and regularly update our financial forecasts to account for changes in the economic environment.

2. Assets held for sale

As at November 30, 2021, the Company's investment in Searidge was classified as held for sale at its carrying value of $7 (August 31, 2021 – investment in equity-accounted investee of $7), as it was highly probable that the investment would be recovered through sale.

In connection with the pending sale, the loan receivable from Searidge of $5 was reclassified to current as at November 30, 2021 (August 31, 2021 – long-term receivable of $3).

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

(millions of Canadian dollars)

The sale of the Company's investment in Searidge was completed in December 2021 as was the repayment of the Company's loan to Searidge.

3. Rate Stabilization Account

As at November 30, 2021, the rate stabilization account had a debit balance of $597 (see "RESULTS OF OPERATIONS – Amounts Considered for Rate Setting Purposes").

The rate stabilization account debit balance decreased by $59 due to $80 of net favourable variances from planned results, partially offset by the $21 initially approved adjustment to the rate stabilization account resulting from the planned shortfall in fiscal 2022. Rate stabilization adjustments are described under "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account".

RESULTS OF OPERATIONS

Revenue

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

	Three months ended November 30			
	2021	2020	$ Change	% Change
Enroute	$ 167	$ 104	$ 63	61%
Terminal	122	69	53	77%
Daily / annual / quarterly	12	5	7	140%
North Atlantic and international communication	20	11	9	82%
Total customer service charges	321	189	132	70%
Other (1)	24	13	11	85%
	$ 345	$ 202	$ 143	71%

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

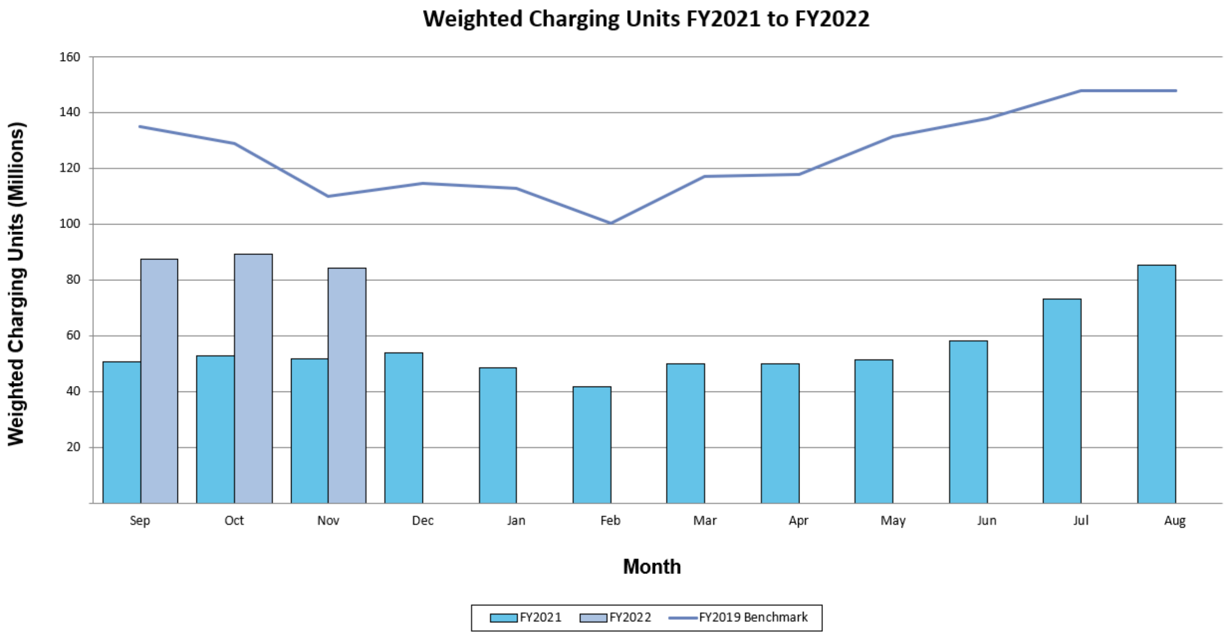
Revenue from customer service charges for Q1 fiscal 2022 increased by $132 compared to the same period in fiscal 2021, primarily due to easing of travel restrictions and increased consumer demand. In Q1 fiscal 2022, the Company saw air traffic levels grow 68.7% year-over-year, as measured in WCUs.

Other revenue for Q1 fiscal 2022 increased by $11 compared to the same period in fiscal 2021, primarily due to the timing of milestones and revenue recognition for a large service and development contract for the sale of air traffic management technology solutions.

(millions of Canadian dollars)

Air Traffic

Air traffic levels (as measured in WCUs) in Q1 fiscal 2022 continue to reflect the ongoing negative impact of the COVID-19 pandemic. While air traffic levels increased in comparison to the same period of fiscal 2021, they remained significantly lower than pre-pandemic levels seen in fiscal 2019.



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

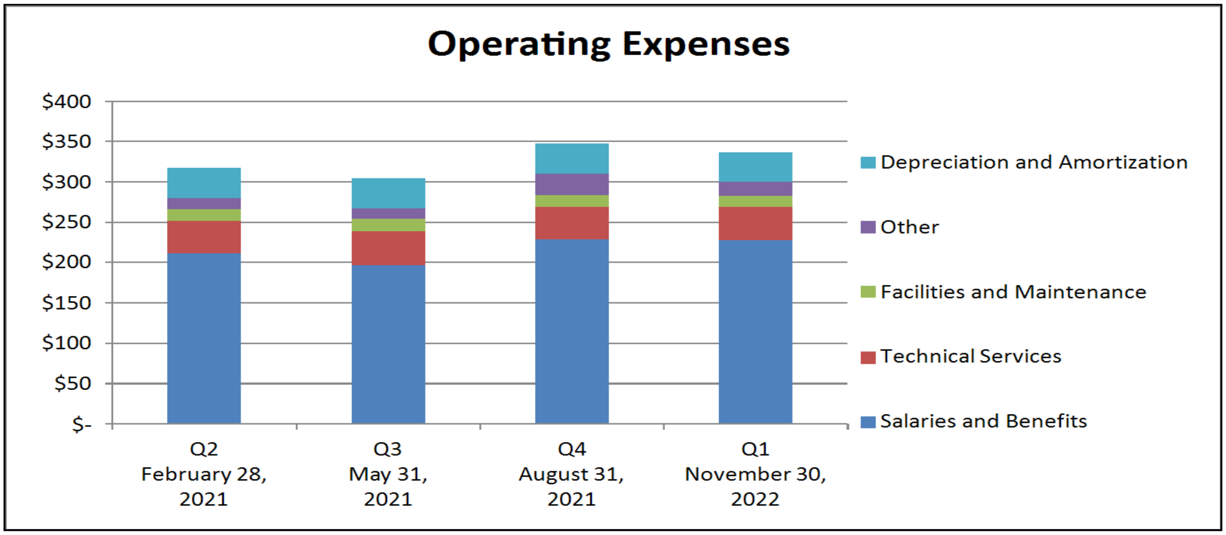
Operating Expenses

	Three months ended November 30			
	2021	2020	$ Change	% Change
Salaries and benefits	$ 228	$ 204	$ 24	12%
Technical services	41	38	3	8%
Facilities and maintenance	14	15	(1)	(7%)
Depreciation and amortization	37	39	(2)	(5%)
Other	17	13	4	31%
	$ 337	$ 309	$ 28	9%

Salaries and benefits expense in Q1 fiscal 2022 increased by $24 compared to the same period in fiscal 2021 primarily due to higher overtime costs and lower Canada Emergency Wage Subsidy (CEWS) receipts, as the program ended on October 23, 2021, partially offset by lower severance and termination costs as a result of the workforce reductions undertaken in fiscal 2021.

(millions of Canadian dollars)

While our operating expenses have historically demonstrated a stable pattern, the Company continues to focus on cost management, particularly with respect to discretionary spending. Savings related to restructuring efforts undertaken in the first half of fiscal 2021 began to be realized in the third quarter of fiscal 2021. During the fourth quarter of fiscal 2021, these savings were offset by the recognition of a curtailment expense related to pension benefits and higher overtime costs as a result of increasing air traffic levels and coverage for leaves over the summer months. While we continue to see savings from the restructuring efforts, during Q1 fiscal 2022, these savings were offset by higher overtime costs as a result of increasing air traffic levels and leave coverage.



Other (Income) and Expenses

	Three months ended November 30		
	2021	2020	$ 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	(3)	(4)	(1)
Net interest expense relating to employee benefits	9	14	5
Other finance costs			
Interest expense	21	23	2
Other (gains) and losses			
Foreign exchange (gains) and losses	(4)	1	5
Other	1	(3)	(4)
	(3)	(2)	1
	$ 24	$ 31	$ 7

(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.

(millions of Canadian dollars)

Net interest expense relating to employee benefits decreased by $5 in Q1 fiscal 2022 compared to the same period in fiscal 2021 mainly due to higher interest income, partially offset by lower interest expense due to the increase in discount rates at August 31, 2021 compared to August 31, 2020.

Foreign exchange gains were $4 in Q1 fiscal 2022 compared to losses of $1 for the same period in fiscal 2021 primarily due to the impact of the fluctuation of the Canadian dollar against the U.S. dollar on the Company's investment in preferred interests of Aireon.

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

The net movement in regulatory deferral accounts related to net income (loss) represents 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		
	2021	2020	$ Change
Rate stabilization account [1]	$ (59)	$ 42	$ (101)
Other regulatory deferral accounts			
Employee benefit pension contributions	26	26	-
Other employee benefits	-	(1)	1
Investment in preferred interests, before tax	(7)	(2)	(5)
Allowance for expected credit losses	(1)	3	(4)
	$ (41)	$ 68	$ (109)

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

The change in the net movement in regulatory deferral accounts of the Company's investment in preferred interests, before tax of $7 during Q1 fiscal 2022 compared to $2 in the same period of fiscal 2021, is mainly due to foreign exchange impacts on the investment.

The $1 net movement in the allowance for expected credit loss regulatory deferral account during Q1 fiscal 2022 is a result of a reduction of the expected credit loss provision as the Company receives payments for the fiscal 2021 deferred customer service charges. During Q1 fiscal 2021, the provision was first recorded as customers chose to defer payment.

(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 2021 financial statements. The table below shows the net movements in the rate stabilization account.

	Three months ended November 30		
	2021	2020	$ Change
Debit balance, beginning of period	$ (656)	$ (255)	$ (401)
Variances from planned results:			
Revenue higher than planned	79	8	71
Operating expenses lower than planned	-	16	(16)
Other (income) and expenses lower than planned	5	2	3
Net movement in other regulatory deferral accounts	(4)	6	(10)
Total variances from planned results	80	32	48
Initial approved adjustment	(21)	(74)	53
Net movement in rate stabilization account recorded in net income (loss)	59	(42)	101
Debit balance, end of period	$ (597)	$ (297)	$ (300)

The $59 net movement in the rate stabilization account during Q1 fiscal 2022 is due to:

- revenue that was $79 higher than planned primarily due to higher air traffic levels than planned;
- other expenses that were $5 lower than planned largely due to net foreign exchange gains of $4 on our investment in preferred interests of Aireon;

partially offset by:

- the planned adjustment of $21, representing the Q1 of fiscal 2022 portion of the anticipated $85 annual net loss at the time the fiscal 2022 budget was approved; and
- net movement in other regulatory deferral accounts that was $4 lower than planned primarily due to the deferral of foreign exchange gains on our investment in preferred interests of Aireon.

(millions of Canadian dollars)

Amounts Considered for Rate Setting Purposes

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

(a) air traffic results and forecasts;

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

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

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

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

	November 30 2021	August 31 2021	$ Change
Rate stabilization account debit balance	$ 597	$ 656	$ (59)
Regulatory pension cash contributions to be recovered at a later date	$ 34	$ 34	$ -

Financial Outlook[2]

The Company's current projected annual consolidated results before rate stabilization for fiscal 2022 compared to fiscal 2021 actual results have not changed from those presented in our fiscal 2021 annual MD&A. Future travel demand continues to be uncertain given the occurrence of new variants and changing government travel restrictions in Canada and around the world, and while we remain cautiously optimistic, we continue to take a measured approach to spending.

Earnings and Cash Flow Coverage

During a fiscal year, quarterly revenue from customer service charges will reflect seasonal or other fluctuations in the airline industry and therefore our net results vary from quarter to quarter. Our mandate to operate on essentially a financial breakeven basis results in a planned earnings coverage ratio – calculated on the basis of earnings before interest divided by interest expense – that is close to one-to-one. However, the seasonal nature of our revenue may result in an earnings coverage ratio of less than one-to-one for any interim period.

For the twelve months ended November 30, 2021, the Company had net earnings of $13. Our interest costs were $87. Consolidated earnings (after rate stabilization) before interest costs were $100, which is 1.15 times our interest requirement for this period and meets our one-to-one earnings coverage ratio target. Depreciation and amortization expense for this period was $150. Our cash flow coverage was 2.87 times our interest requirement for this period.

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

(millions of Canadian dollars)

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

We maintain a debt service reserve fund and an operations and maintenance reserve under the Master Trust Indenture (MTI), and we are subject to liquidity covenants under the General Obligation Indenture (GOI), designed to cover 12 months interest on borrowings and 25% of our annual operating and maintenance expenses. As at November 30, 2021, we were in full compliance with our debt indentures. The Company has received temporary relief from compliance with the rate covenants and certain provisions under the additional indebtedness covenants under each of the MTI and the GOI, as the case may be, in respect of its fiscal years ending August 31, 2021, 2022 and 2023.

Related Party Transactions

The Company's related parties include its key management personnel, subsidiaries, joint ventures and associates and registered pension plans for its employees. Transactions with these related parties are not materially different from what was reported in the fiscal 2021 annual MD&A, aside from those discussed in "INTRODUCTION – Significant Financial Matters: Assets held for sale".

SUMMARY OF QUARTERLY RESULTS

Quarterly Financial Information (unaudited)

	Three months ended			
	Q1 November 30 2021	Q4 August 31 2021	Q3 May 31 2021	Q2 February 28 2021
Revenue	$ 345	$ 293	$ 196	$ 179
Operating expenses	337	348	305	317
Other (income) and expenses	24	19	86	40
	(16)	(74)	(195)	(178)
Income tax expense (recovery)	-	-	(9)	2
Net loss before net movement in regulatory deferral accounts	(16)	(74)	(186)	(180)
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	(59)	159	119	81
Other regulatory deferral account adjustments	18	34	75	42
	(41)	193	194	123
Net income (loss) after net movement in regulatory deferral accounts	$ (57)	$ 119	$ 8	$ (57)

(millions of Canadian dollars)

	Three months ended			
	Q1 November 30 2020	Q4 August 31 2020	Q3 May 31 2020	Q2 February 29 2020
Revenue	$ 202	$ 155	$ 159	$ 322
Operating expenses	309	264	351	387
Other (income) and expenses	31	56	129	25
	(138)	(165)	(321)	(90)
Income tax recovery	-	(1)	(27)	-
Net loss before net movement in regulatory deferral accounts	(138)	(164)	(294)	(90)
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	42	177	169	2
Other regulatory deferral account adjustments	26	48	111	38
	68	225	280	40
Net income (loss) after net movement in regulatory deferral accounts	$ (70)	$ 61	$ (14)	$ (50)

Discussion of Quarterly Results

Historically, the quarterly variations in revenue have mainly reflected seasonal fluctuations. Typically, revenue is highest in our fourth quarter (June to August) as a result of increased air traffic in the summer months, and the second quarter (December to February) has the lowest air traffic levels. The COVID-19 pandemic and the resulting economic contraction continues to have a significant negative impact on global air traffic and the aviation industry. While the normal seasonality pattern may occur in fiscal 2022, its impact is likely to be muted. Even with the positive signs of air traffic recovery experienced in Q1 fiscal 2022, future travel demand continues to be uncertain given the occurrence of new variants and changing government travel restrictions in Canada and around the world.

The majority of our operating expenses are incurred evenly throughout the year. The Company continues to review, monitor and manage spending; positioning itself to support a post-pandemic recovery in air travel, while strategically investing in the long-term future of the Company. We continue to maintain the Canadian air navigation system as an essential service and protect the safety and well-being of our employees.

Other (income) and expenses fluctuate primarily due to:

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

(millions of Canadian dollars)

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

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

LIQUIDITY AND CAPITAL RESOURCES

Our fiscal 2021 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, 2021.

As at November 30, 2021, we had $335 of cash and cash equivalents and undrawn committed credit facilities for general purposes of $848, all of which provided the Company with available liquidity. In addition, we had letter of credit facilities for pension funding purposes of $804 of which $185 was undrawn (see "LIQUIDITY AND CAPITAL RESOURCES – Liquidity and Financing Strategy").

Cash flows for the three months ended November 30, 2021

	Three months ended November 30		
	2021	2020	$ Change
Cash flows from (used in):			
Operating	$ 43	$ (131)	$ 174
Investing	(26)	(14)	(12)
Financing	(1)	(224)	223
Increase (decrease) in cash and cash equivalents	16	(369)	385
Cash and cash equivalents, beginning of period	319	689	(370)
Cash and cash equivalents, end of period	$ 335	$ 320	$ 15
Free cash flow (non-GAAP financial measure):			
Cash flows from (used in):			
Operations	$ 43	$ (131)	$ 174
Capital expenditures (1)	(23)	(17)	(6)
Investment in regulatory assets (1)	(1)	(1)	-
Proceeds from sale of property, plant and equipment (1)	-	4	(4)
Payment of lease liabilities (1)	(1)	(1)	-
Free cash flow	$ 18	$ (146)	$ 164

(1) See the statements of cash flows in our Q1 fiscal 2022 financial statements.

(millions of Canadian dollars)

As shown above, cash and cash equivalents increased by $16 during the three months ended November 30, 2021 and the Company experienced positive free cash flow of $18, which is a non-GAAP financial measure as discussed in "INTRODUCTION – Financial Highlights: Cash flows for the three months ended November 30, 2021".

Cash flows from operations for the three months ended November 30, 2021 were inflows of $43 compared to outflows of $131 for the same period of fiscal 2021. The variance of $174 was primarily due to higher receipts from customer service charges of $177 as a result of air traffic recovery and repayment of customer service charge payments previously deferred, lower payments to employees and suppliers of $18 and lower pension current service contributions of $8, partially offset by lower receipts from the CEWS government relief program of $28.

Cash outflows from investing activities for the three months ended November 30, 2021 were $26 compared to $14 for the same period of fiscal 2021. The change of $12 was due to higher capital expenditures of $6, lower proceeds from disposal of property, plant and equipment of $4 and additional loans made to Searidge of $2.

Cash outflows from financing activities for the three months ended November 30, 2021 were $1 compared to $224 for the same period of fiscal 2021. The variance of $223 was due to repayments made under the Company's syndicated credit facility in Q1 fiscal 2021. No similar transactions occurred in Q1 fiscal 2022.

Liquidity and Financing Strategy

Our liquidity and financing strategy remains unchanged from that disclosed in our fiscal 2021 annual MD&A.

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

The Company has a revolving credit facility with a syndicate of Canadian financial institutions and separate letter of credit facilities for pension funding purposes. As at November 30, 2021, the credit facilities were utilized as follows:

Credit facilities for general purposes:		
Credit facility with a syndicate of Canadian financial institutions (1), (2)	$	850
Less: Outstanding letters of credit for other purposes (2)		2
Undrawn committed borrowing capacity		848
Less: Operations and maintenance reserve allocation (3)		257
Available for unrestricted use	$	591
Credit facilities for pension funding purposes:		
Letter of credit facilities for pension funding purposes (4)	$	804
Less: Outstanding letters of credit for pension funding purposes (4)		619
Undrawn committed borrowing capacity	$	185

(millions of Canadian dollars)

(1) The Company's credit facility with a syndicate of Canadian financial institutions in the amount of $850 was comprised of two equal tranches maturing on March 26, 2024 and March 26, 2026, respectively. The credit facility agreement provides for loans at varying rates of interest based on certain benchmark interest rates, specifically the Canadian prime rate and the Canadian bankers' acceptance rate, and on the Company's credit rating at the time of drawdown. The Company is required to pay commitment fees, which are dependent on the Company's credit rating. The Company is in compliance with the credit facility covenants as at November 30, 2021.

(2) At November 30, 2021, $2 was drawn from an uncommitted revolving credit facility. In connection with this facility, an allocation of $25 with a Canadian financial institution has been made under its $850 committed credit facility.

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

(4) The letter of credit facilities for pension funding purposes are comprised of four facilities with Canadian financial institutions, of which $400 will mature on December 31, 2022 and $410 will mature on December 31, 2023, unless extended.

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

	November 30 2021	August 31 2021
LONG-TERM DEBT		
Bonds and notes payable		
Under the MTI	$ 400	$ 400
Under the GOI	2,125	2,125
	2,525	2,525
Adjusted for deferred financing costs	(13)	(13)
Total bonds and notes payable	2,512	2,512
Less: current portion of long-term debt	(25)	(25)
Total long-term debt	$ 2,487	$ 2,487
LIQUIDITY		
Cash and cash equivalents	$ 335	$ 319
Debt service reserve fund	74	73
Undrawn committed borrowing capacity	848	848
Total liquidity	$ 1,257	$ 1,240

(millions of Canadian dollars)

Credit Ratings

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

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

On December 6, 2021, S&P revised its outlook on the Company to stable from negative and affirmed its AA- long-term issuer credit and senior secured debt ratings, and its A+ senior subordinated debt rating.

The outlook revision to stable reflects S&P's view that NAV CANADA's key financial metrics will materially improve in the next two years as air traffic activity recovers towards pre-pandemic levels.

Credit ratings from Moody's remain unchanged from that described in our fiscal 2021 annual MD&A.

Cash Requirements

The following information about our contractual obligations and other commitments summarizes certain of our liquidity and capital resource requirements that have changed from those reported in our fiscal 2021 annual MD&A.

Contractual Obligations

A breakdown of contractual obligations as at November 30, 2021 for the next five fiscal years and thereafter is presented in the following table. Total contractual obligations exclude commitments for goods and services in the ordinary course of business. Also excluded are other long-term liabilities mainly due to reasons of uncertainty of timing of cash flows and items that are non-cash in-nature.

	Remaining payments – for years ending August 31						
	Total	2022	2023	2024	2025	2026	Thereafter
Derivative liabilities	$ 1	$ 1	$ -	$ -	$ -	$ -	$ -
Long-term debt (including current portion) (1), (2)	2,525	25	25	225	25	325	1,900
Interest payments (2)	1,384	56	80	78	75	72	1,023
Capital commitments	113	52	14	12	8	5	22
Lease liability	2	2	-	-	-	-	-
Future lease liability (3)	59	-	2	3	3	3	48
Related party loan (4)	14	14	-	-	-	-	-
Total contractual obligations	$ 4,098	$ 150	$ 121	$ 318	$ 111	$ 405	$ 2,993

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

(2) Further details on interest rates and maturity dates on long-term debt are provided in note 13 of the 2021 annual financial statements.

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

(4) The Company has an agreement with Aireon to provide a subordinated loan up to a total of $14 CDN ($11 U.S.).

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

Capital Management

Management's approach and objectives when managing capital remain unchanged from those described in our fiscal 2021 annual MD&A.

Financial Instruments and Risk Management

Reserve Funds and Financial Instruments

Under the MTI, we maintain a debt service reserve fund and an operations and maintenance reserve. We are also required to meet certain minimum liquidity levels under the GOI. The requirements of the debt service reserve fund and the operations and maintenance reserve remain unchanged from that described in our fiscal 2021 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 2021 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, 2021, except as noted under the heading "LIQUIDITY AND CAPITAL RESOURCES – Liquidity and Financing Strategy".

Insurance

Our aviation liability insurance program was renewed on November 15, 2021 for a one-year period. This insurance covers all of our ANS liabilities to third parties. The Company also carries other lines of insurance at levels deemed to be appropriate by management for the nature of our business. The cost of this insurance is not material to the Company.

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

Legal Proceedings

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

CHANGES IN ACCOUNTING POLICIES

Significant accounting policies used in the Q1 fiscal 2022 financial statements are disclosed in note 3 of the fiscal 2021 annual financial statements, with the exception of the change in accounting policy described below. The accounting policies have been applied consistently to all periods presented.

- Implementation costs associated with Software as a Service (or cloud computing) arrangements

  As a result of the IFRS Interpretations Committee's agenda decision entitled "Configuration or Customization Costs in a Cloud Computing Arrangement (IAS 38)", the Company reviewed its accounting policy with respect to implementation costs associated with cloud computing arrangements. The Company assessed whether these costs would give rise to a software intangible asset over which the Company has control, and in applying the guidance in the agenda decision, it was determined that they generally do not give rise to such an asset. Accordingly, the implementation costs of cloud computing arrangements are recorded within operating expenses in the statements of operations as incurred.

  The Board, acting as rate regulator, has approved the creation of regulatory deferral account debit balances for these costs. These balances will be recovered over time by amortizing them over the terms of the cloud computing arrangements.

  These changes have been applied retrospectively.

  As a result of this accounting policy change, intangible assets have decreased by $39 and regulatory deferral account debit balances have increased by $39 as at August 31, 2021, from that previously reported. There is no net impact to net income (loss) after the application of regulatory accounting.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of our Q1 fiscal 2022 financial statements requires management to make estimates and judgments about the future.

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

Critical judgments and key sources of estimation uncertainty are disclosed in note 2 (d) of the fiscal 2021 financial statements.

The Company's critical accounting estimates and judgments applied in the preparation of the Company's Q1 fiscal 2022 financial statements are consistent with those applied and disclosed in our fiscal 2021 financial statements and as described in the fiscal 2021 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, 2021 that have materially affected or are reasonably likely to materially affect the Company's ICFR.