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MANAGEMENT'S DISCUSSION AND ANALYSIS

ON FORM 51-102F1

THREE AND NINE MONTHS ENDED

MAY 31, 2022

July 8, 2022

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INTRODUCTION

This management's discussion and analysis (MD&A) relates to the unaudited interim consolidated financial position, results of operations, comprehensive income (loss) and cash flows as at and for the three and nine months ended May 31, 2022 (Q3 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 Q3 fiscal 2022 (Q3 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 Q3 fiscal 2022 and fiscal 2021 financial statements, 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 Q3 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", 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 July 8, 2022 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 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 current and future financial requirements (see "RESULTS OF OPERATIONS – Net Movement in Regulatory Deferral Accounts" and "RESULTS OF OPERATIONS – Amounts Considered for Rate Setting Purposes"), 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.

(millions of Canadian dollars)

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

Financial Highlights

Results of operations for the three months ended May 31, 2022

	Three months ended May 31		
	2022	2021	$ Change
Revenue	$ 381	$ 196	$ 185
Operating expenses	361	305	56
Other (income) and expenses	28	86	(58)
Income tax recovery	-	(9)	9
Net loss, before net movement in regulatory deferral accounts	(8)	(186)	178
Net movement in regulatory deferral accounts [(1)]			
Rate stabilization adjustments:			
Variances from planned results [(2)]	(42)	45	(87)
Initial approved adjustment [(3)]	22	74	(52)
	(20)	119	(139)
Other regulatory deferral account adjustments:			
Employee benefit pension contributions	27	35	(8)
Other employee benefits	(2)	(3)	1
Investment in preferred interests, before tax	(2)	51	(53)
Income tax	-	(11)	11
Allowance for expected credit losses	(1)	3	(4)
Other	1	-	1
	23	75	(52)
	3	194	(191)
Net income (loss), after net movement in regulatory deferral accounts	$ (5)	$ 8	$ (13)

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

(2) See "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account".

(3) 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 May 31, 2022

As shown below, cash and cash equivalents decreased by $46 during the three months ended May 31, 2022 (three months ended May 31, 2021 - $94) and the Company experienced negative free cash flow of $21 (three months ended May 31, 2021 - $140), 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 May 31		
	2022	2021	$ Change [1]
Cash flows from (used in):			
Operating	$ 13	$ (124)	$ 137
Investing	(33)	58	(91)
Financing	(26)	(25)	(1)
Cash flows used in operating, investing and financing activities	(46)	(91)	45
Effect of foreign exchange on cash and cash equivalents	-	(3)	3
Decrease in cash and cash equivalents	(46)	(94)	48
Cash and cash equivalents, beginning of period	367	498	(131)
Cash and cash equivalents, end of period	$ 321	$ 404	$ (83)
Free cash flow (non-GAAP financial measure):			
Cash flows from (used in):			
Operations [2]	$ 13	$ (124)	$ 137
Capital expenditures [2]	(30)	(15)	(15)
Investment in regulatory assets [2]	(3)	(1)	(2)
Payment of lease liabilities [2]	(1)	-	(1)
Free cash flow	$ (21)	$ (140)	$ 119

(1) See "LIQUIDITY AND CAPITAL RESOURCES – Cash flows for the three months ended May 31, 2022" for discussion of the changes in cash flows from the prior fiscal year.

(2) See the statements of cash flows in our Q3 fiscal 2022 financial statements.

(millions of Canadian dollars)

Results of operations for the nine months ended May 31, 2022

	Nine months ended May 31		
	2022	2021	$ Change
Revenue	$ 1,039	$ 577	$ 462
Operating expenses	1,048	930	118
Other (income) and expenses	81	157	(76)
Income tax recovery	-	(7)	7
Net loss, before net movement in regulatory deferral accounts	(90)	(503)	413
Net movement in regulatory deferral accounts [(1)]			
Rate stabilization adjustments:			
Variances from planned results [(2)]	(138)	21	(159)
Initial approved adjustment [(3)]	64	221	(157)
	(74)	242	(316)
Other regulatory deferral account adjustments:			
Employee benefit pension contributions	81	97	(16)
Other employee benefits	(5)	(7)	2
Investment in preferred interests, before tax	(10)	53	(63)
Investment in equity-accounted investee	4	-	4
Income tax	1	(9)	10
Allowance for expected credit losses	(2)	8	(10)
Other	2	-	2
	71	142	(71)
	(3)	384	(387)
Net loss, after net movement in regulatory deferral accounts	$ (93)	$ (119)	$ 26

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

(2) See "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account".

(3) In order to achieve breakeven results of operations after the application of rate regulated accounting, the Board approved the budget for 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 nine months ended May 31, 2022

As shown below, cash and cash equivalents increased by $2 during the nine months ended May 31, 2022 (nine months ended May 31, 2021 - decreased by $285) and the Company experienced positive free cash flow of $25 (nine months ended May 31, 2021 - negative free cash flow of $425), which is a non-GAAP financial measure as discussed in "INTRODUCTION – Financial Highlights: Cash flows for the three months ended May 31, 2022".

	Nine months ended May 31		
	2022	2021	$ Change [(1)]
Cash flows from (used in)			
Operating	$ 99	$ (373)	$ 472
Investing	(69)	94	(163)
Financing	(27)	(2)	(25)
Cash flows from (used in) operating, investing and financing activities	3	(281)	284
Effect of foreign exchange on cash and cash equivalents	(1)	(4)	3
Increase (decrease) in cash and cash equivalents	2	(285)	287
Cash and cash equivalents, beginning of period	319	689	(370)
Cash and cash equivalents, end of period	$ 321	$ 404	$ (83)
Free cash flow (non-GAAP financial measure)			
Cash flows from (used in):			
Operations [(2)]	$ 99	$ (373)	$ 472
Capital expenditures [(2)]	(73)	(51)	(22)
Investment in regulatory assets [(2)]	(6)	(3)	(3)
Proceeds from sale of property, plant and equipment [(2)]	-	4	(4)
Proceeds from sale of investment in equity-accounted investee [(2)]	7	-	7
Payment of lease liabilities [(2)]	(2)	(2)	-
Free cash flow	$ 25	$ (425)	$ 450

(1) See "LIQUIDITY AND CAPITAL RESOURCES – Cash flows for the nine months ended May 31, 2022" for discussion of the changes in cash flows from the prior fiscal year.

(2) See the statements of cash flows in our Q3 fiscal 2022 financial statements.

(millions of Canadian dollars)

Financial position as at May 31, 2022

The following table outlines significant changes in our assets, liabilities and regulatory deferral accounts between August 31, 2021 and May 31, 2022:

	May 31 2022	August 31 2021	$ Change
Assets			
Current assets			
Cash and cash equivalents	$ 321	$ 319	$ 2
Accounts receivable and other	145	106	39
Investments	74	73	1
Assets held for sale	22	-	22
Other	12	10	2
	574	508	66
Non-current assets			
Property, plant and equipment	686	717	(31)
Intangible assets	748	776	(28)
Investment in preferred interests	309	299	10
Long-term receivables	90	116	(26)
Investment in equity-accounted investee	-	7	(7)
Employee benefits	4	-	4
	1,837	1,915	(78)
Total assets	2,411	2,423	(12)
Regulatory deferral account debit balances	1,756	1,757	(1)
Total assets and regulatory deferral account debit balances	$ 4,167	$ 4,180	$ (13)
Liabilities			
Current liabilities			
Trade and other payables	$ 213	$ 203	$ 10
Current portion of long-term debt	25	25	-
Deferred revenue	3	8	(5)
Other	7	4	3
	248	240	8
Non-current liabilities			
Long-term debt	2,463	2,487	(24)
Employee benefits	1,352	1,266	86
Deferred tax liability	13	12	1
Other	7	1	6
	3,835	3,766	69
Total liabilities	4,083	4,006	77
Equity			
Retained earnings (deficit)	(65)	28	(93)
Regulatory deferral account credit balances	149	146	3
Total liabilities, equity and regulatory deferral account credit balances	$ 4,167	$ 4,180	$ (13)

For a discussion of the changes in cash and cash equivalents from August 31, 2021, see "LIQUIDITY AND CAPITAL RESOURCES – Cash flows for the nine months ended May 31, 2022".

Refer to "INTRODUCTION – Significant Financial Matters" for further discussion of the changes in assets held for sale, property, plant and equipment and investment in equity-accounted investee.

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 is payable by customers during fiscal 2022.

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

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.

We plan our operations to essentially be in an annual financial breakeven position after expenses are met through customer service charges and other revenue sources, and after adjustments are made to the rate stabilization account. As a result, the balance in the retained earnings account at the end of each fiscal year has remained stable at $28. Any variation from this amount at the end of any interim period reflects seasonal or other fluctuations in revenue and expenses. The balance in retained earnings (deficit) as at May 31, 2022 reflects the loss up to that date.

Significant Financial Matters[1]

The following items have significant financial importance to the Company:

1. Air Traffic

Over the first nine 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 77.8% as compared to the first nine 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 remained 25.1% lower. The approved budget for fiscal 2022 assumed growth of 54.0% year-over-year, 31.7% lower than in fiscal 2019. The Company's current forecast for air traffic growth in fiscal 2022 is an increase of 73.3% year-over-year. As compared to fiscal 2019, WCUs are expected to be 23.0% lower.

In response to the conflict in Ukraine, Canadian airspace was closed to all Russian and Belarusian aircraft operators on February 27, 2022 and March 16, 2022, respectively. These actions have not had a significant impact on air traffic revenue.

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

2. Assets Held for Sale

During the second quarter, the Company met the requirements to disclose certain assets related to its conference centre facility in Cornwall, Ontario, the NAV CENTRE, as held for sale as it is highly probable that they will be recovered primarily through sale rather than through continued use. The carrying value of the Company's property, plant and equipment associated with the NAV CENTRE is $22.

Subsequent to May 31, 2022, the Company closed on the sale of the NAV CENTRE for $30 on July 4, 2022.

3. Investment in Equity-Accounted Investee

In December 2021, the Company sold its investment in Searidge Technologies Inc. (Searidge). Prior to the sale, the Company owned 50% of the issued and outstanding shares of Searidge. Proceeds were commensurate with the carrying value of $7 at the time of sale (August 31, 2021 - $7). In connection with the sale, the loan receivable from Searidge of $5 was repaid (August 31, 2021 - $3).

4. Pension Plans

The Company continues to meet the funding requirements of its defined benefit registered pension plan, the NAV CANADA Pension Plan (NCPP), in accordance with the regulations of the Office of the Superintendent of Financial Institutions Canada (OSFI). On February 23, 2022, the Company received approval from OSFI to proceed with the merger of the NAV CANADA Executive Pension Plan (NCEPP) into the NCPP, effective January 1, 2021. The NCEPP assets, which were being held separately prior to approval, were transferred in May 2022. Given the relative sizes of the two plans, the merger has minimal impact on the NCPP and no impact on NAV CANADA's aggregate obligations.

The latest actuarial valuation of the NCPP (for funding purposes), including the impact of the merger, was performed as at January 1, 2022 and filed with OSFI in June 2022. The actuarial valuation for funding purposes of the NCPP performed as at January 1, 2022 reported a going concern surplus of $1,346 (January 1, 2021 – $1,297).

The regulations governing the funding of federally regulated pension plans include a solvency test, which assumes a plan is terminated as at the valuation date. The actuarial valuation for funding purposes performed as at January 1, 2022 reported a statutory solvency deficiency of $405 (January 1, 2021 - $501).

Once the valuation report is filed, pension contributions are based on the January 1, 2022 actuarial valuation. The Company has the option of meeting its pension solvency funding requirements with letters of credit or cash contributions, with the maximum letters of credit based on 15% of solvency liabilities. At January 1, 2022, outstanding letters of credit represent 8% of solvency liabilities (January 1, 2021 - 6%).

5. Rate Stabilization Account

As at May 31, 2022, the rate stabilization account had a debit balance of $582 (see "RESULTS OF OPERATIONS – Amounts Considered for Rate Setting Purposes").

The rate stabilization account debit balance decreased by $74 due to $138 of net favourable variances from planned results, partially offset by the $64 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".

(millions of Canadian dollars)

6. Subsequent event

On June 3, 2022, the agreement through which the Company's participation in Aireon is set out was amended to provide for the making of an additional investment of $50 U.S. in Aireon by Iridium Communications Inc. (Iridium). Following the additional investment, the Company continues to be represented by five out of the eleven directors on Aireon's board of directors.

In accordance with the amended agreement, a portion of the existing common equity interest in Aireon held by Iridium will be redeemed for a payment from Aireon of $120 U.S. to finalize the ownership interests of all of Aireon's investors. Upon this redemption and the related conversion of all preferred interests into common equity interests, NAV CANADA will hold 42.2% of the fully diluted common equity interests of Aireon (August 31, 2021 – 45.3%). This redemption is expected to occur by January 2, 2024.

Upon closing of the transaction on June 9, 2022, the Company's total fully diluted common equity interest in Aireon on a post conversion basis and prior to the redemption by Iridium is 35.0% (August 31, 2021 – 37.2%).

RESULTS OF OPERATIONS

Revenue

The following tables provide a summary of revenue by category. Our fiscal 2021 AIF and the notes to our fiscal 2021 and Q3 fiscal 2022 financial statements provide more information about the different categories of our customer service charges.

	Three months ended May 31			
	2022	2021	$ Change	% Change
Enroute	$ 184	$ 109	$ 75	69%
Terminal	142	58	84	145%
Daily / annual / quarterly	13	4	9	225%
North Atlantic and international communication	26	13	13	100%
Total customer service charges	365	184	181	98%
Other (1)	16	12	4	33%
	$ 381	$ 196	$ 185	94%

	Nine months ended May 31			
	2022	2021	$ Change	% Change
Enroute	$ 503	$ 309	$ 194	63%
Terminal	384	191	193	101%
Daily / annual / quarterly	34	14	20	143%
North Atlantic and international communication	65	36	29	81%
Total customer service charges	986	550	436	79%
Other (1)	53	27	26	96%
	$ 1,039	$ 577	$ 462	80%

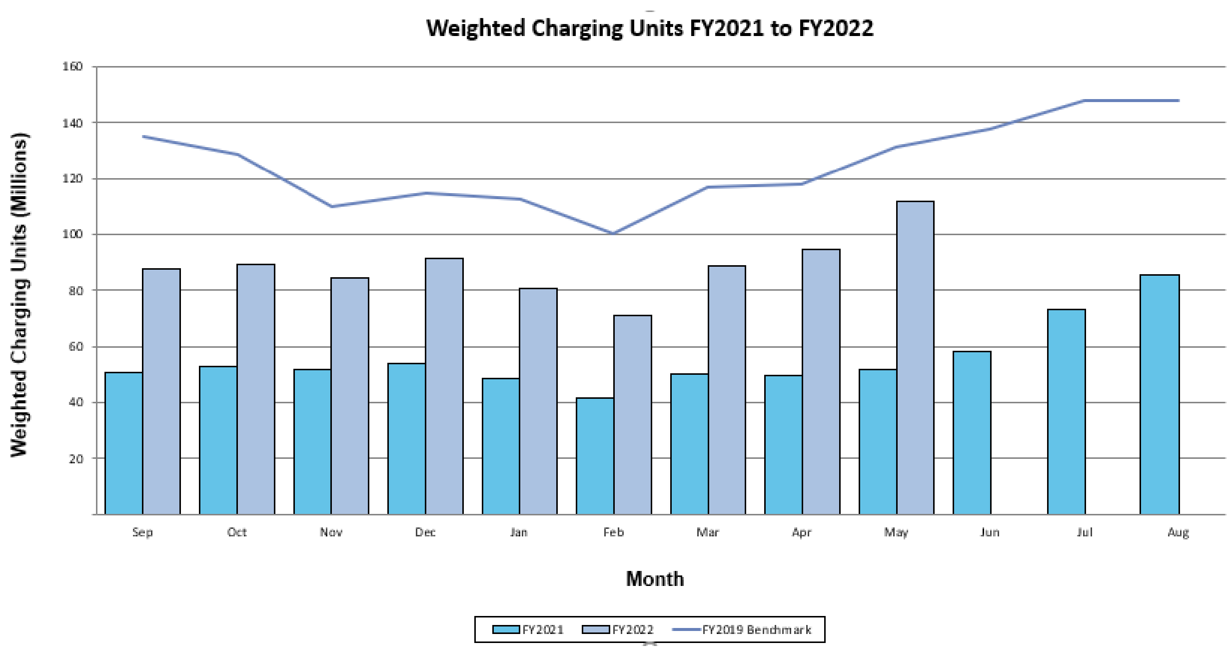
(1) Other revenue consists of service and development contracts, conference centre services at the NAV CENTRE, the sale of civil aeronautical publications and other miscellaneous revenue.

Revenue from customer service charges during the three and nine months ended May 31, 2022 increased by $181 and $436, respectively, compared to the same periods in fiscal 2021, primarily due to easing of travel restrictions and rising consumer demand. The increase in revenue reflects increases in air traffic levels of 95.3% and 77.8% during the three and nine months ended May 31, 2022, respectively, as measured in WCUs.

During the three and nine months ended May 31, 2022 other revenue increased by $4 and $26, respectively, as compared to the same periods in fiscal 2021. The increases are primarily due to the timing of revenue recognition for a large service and development contract for the sale of air traffic management technology solutions.

Air Traffic

Air traffic levels (as measured in WCUs) in Q3 fiscal 2022 continue to reflect the significant impact of the COVID-19 pandemic however they are showing positive signs of recovery. 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 and in particular increased volatility relating to the conflict in Ukraine, government interventions, travel restrictions and closings of borders to air travel, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from manmade sources) and demographic patterns.

(millions of Canadian dollars)

Operating Expenses

	Three months ended May 31			
	2022	2021	$ Change	% Change
Salaries and benefits	$ 255	$ 197	$ 58	29%
Technical services	40	42	(2)	(5%)
Facilities and maintenance	15	15	-	- %
Depreciation and amortization	35	38	(3)	(8%)
Other	16	13	3	23%
	$ 361	$ 305	$ 56	18%

	Nine months ended May 31			
	2022	2021	$ Change	% Change
Salaries and benefits	$ 727	$ 612	$ 115	19%
Technical services	118	121	(3)	(2%)
Facilities and maintenance	49	44	5	11%
Depreciation and amortization	108	113	(5)	(4%)
Other	46	40	6	15%
	$ 1,048	$ 930	$ 118	13%

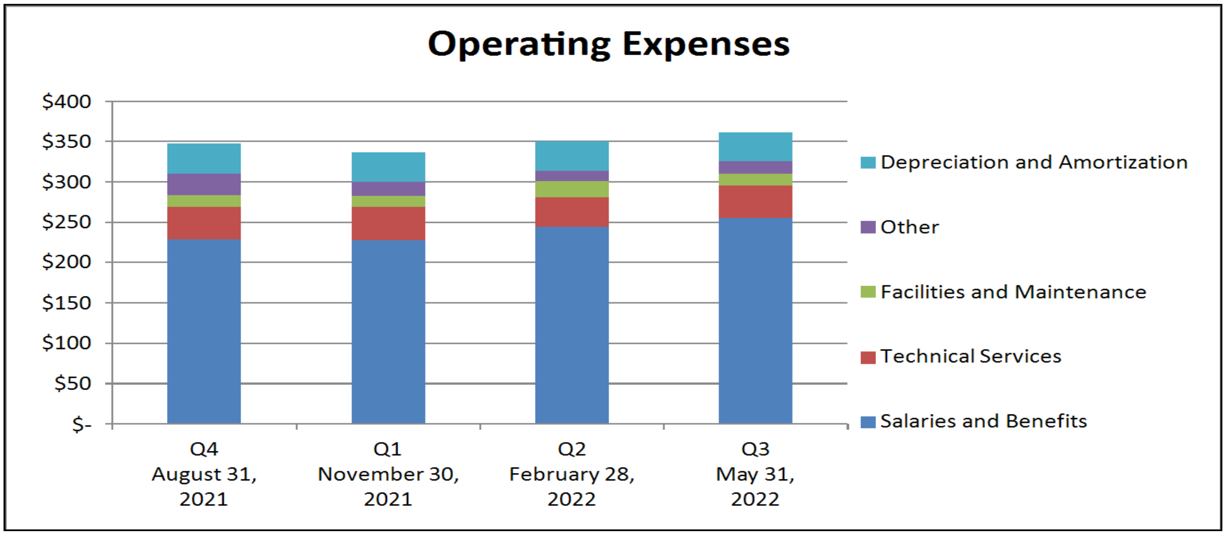
Salaries and benefits expense during the three and nine months ended May 31, 2022 increased by $58 and $115, respectively, compared to the same periods in fiscal 2021 primarily due to higher overtime costs along with the end of the Canada Emergency Wage Subsidy (CEWS) program in October 2021. The increase was partially offset by lower severance and termination costs as a result of the workforce reductions undertaken in fiscal 2021 and lower pension current service costs as a result of an increase in the discount rate to 3.1% at August 31, 2021 (August 31, 2020 – 2.8%).

Facilities and maintenance expense during the nine months ended May 31, 2022 increased by $5, compared to the same periods in fiscal 2021 primarily due to the recognition of certain decommissioning liabilities.

Other operating expenses during the during the three and nine months ended May 31, 2022 increased by $3 and $6, respectively, compared to the same periods in fiscal 2021 mainly due to increased professional service fees related to a large revenue-generating contract partially offset by a decrease in bad debt expense as the Company continues to receive payment from customers of the fiscal 2021 deferred customer service charges and the expected credit loss provision is reduced.

While our operating expenses have historically demonstrated a stable pattern, cost-saving measures taken to address the significant impact of the COVID-19 pandemic have altered that pattern. Savings related to workforce adjustments and cost mitigations 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 the first nine months of fiscal 2022, these savings were offset by higher overtime costs as a result of increasing air traffic levels and leave coverage.

(millions of Canadian dollars)



Other (Income) and Expenses (Including Income Tax)

	Three months ended May 31		
	2022	2021	$ Change
Finance income			
Interest income	$ (1)	$ -	$ 1
Net change in fair value of financial assets at FVTPL (1)			
Investment in preferred interests	(3)	-	3
Other investments	-	1	1
	(3)	1	4
Total finance income	(4)	1	5
Net interest expense relating to employee benefits	8	14	6
Other finance costs			
Interest expense	21	20	(1)
Net change in fair value of financial assets at FVTPL (1)			
Investment in preferred interests	-	33	33
	21	53	32
Other			
Foreign exchange losses	2	16	14
Other losses	1	2	1
	3	18	15
	$ 28	$ 86	$ 58
Income tax recovery	$ -	$ (9)	$ (9)

(millions of Canadian dollars)

	Nine months ended May 31		
	2022	2021	$ Change
Finance income			
Interest income	$ (2)	$ (2)	$ -
Net change in fair value of financial assets at FVTPL [1]			
Investment in preferred interests	(9)	-	9
Other investments	-	2	2
Total finance income	(11)	-	11
Net interest expense relating to employee benefits	27	41	14
Other finance costs			
Interest expense	63	67	4
Net change in fair value of financial assets at FVTPL [1]			
Investment in preferred interests	-	27	27
	63	94	31
Other			
Foreign exchange (gains) and losses	-	23	23
Other (gains) and losses	2	(1)	(3)
	2	22	20
	$ 81	$ 157	$ 76
Income tax recovery	$ -	$ (7)	$ (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.

During the three and nine months ended May 31, 2022, the net change in fair value of the investment in preferred interests of Aireon was a gain of $3 and $9, respectively, related to the accrual of dividend income. During the three and nine months ended May 31, 2021, the net change in fair value of the investment was a loss of $33 and $27, respectively, as a result of a reduction of the fair value of $36 CDN ($30 U.S.). The fair value reduction was partially offset by the accrual of dividend income of $3 CDN ($2 U.S.) and $9 CDN ($7 U.S.) in the three and nine months ended May 31, 2021.

Net interest expense relating to employee benefits decreased by $6 and $14, respectively, during the three and nine months ended May 31, 2022 compared to the same periods in fiscal 2021 mainly due to higher interest income, partially offset by higher interest expense due to the increase in discount rates at August 31, 2021 compared to August 31, 2020.

Foreign exchange losses decreased by $14 and $23, respectively, during the three and nine months ended May 31, 2022 compared to the same periods 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.

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

(millions of Canadian dollars)

Net Movement in Regulatory Deferral Accounts

The net movement in regulatory deferral accounts 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 May 31		
	2022	2021	$ Change
Rate stabilization account [1]	$ (20)	$ 119	$ (139)
Other regulatory deferral accounts			
Employee benefit pension contributions	27	35	(8)
Other employee benefits	(2)	(3)	1
Investment in preferred interests, before tax	(2)	51	(53)
Income tax	-	(11)	11
Allowance for expected credit losses	(1)	3	(4)
Other	1	-	1
	$ 3	$ 194	$ (191)

	Nine months ended May 31		
	2022	2021	$ Change
Rate stabilization account [1]	$ (74)	$ 242	$ (316)
Other regulatory deferral accounts:			
Employee benefit pension contributions	81	97	(16)
Other employee benefits	(5)	(7)	2
Investment in preferred interests, before tax	(10)	53	(63)
Investment in equity-accounted investee	4	-	4
Income tax	1	(9)	10
Allowance for expected credit losses	(2)	8	(10)
Other	2	-	2
	$ (3)	$ 384	$ (387)

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

The decrease in the employee benefit pension contributions regulatory deferral account, which is used to adjust the total pension benefit expense to reflect the cash contributions to be recovered through rate setting, is largely due to the decrease in pension current service costs as a result of an increase in the discount rate to 3.1% at August 31, 2021 (August 31, 2020 – 2.8%).

The change in the net movement of the Company's investment in preferred interests regulatory deferral account, before tax of $53 and $63, respectively, during the three and nine months ended May 31, 2022, as compared to the same periods of fiscal 2021 are due to the reduction of the fair value of the investment in preferred interests of Aireon as at May 31, 2021, as well as the change in foreign exchange impacts due to fluctuation of the Canadian dollar against the U.S. dollar. There was no change to the fair value as at May 31, 2022.

(millions of Canadian dollars)

The net movement in the investment in equity-accounted investee regulatory deferral account of $4 for the nine months ended May 31, 2022 is a result of the recognition, for rate setting purposes, of the unrealized gain related to the Company's 50% ownership in Searidge, which was realized when the investment was disposed of.

The change in net movement in regulatory deferral of income tax during the three and nine months ended May 31, 2022 of $11 and $10, respectively, as compared to the same periods of fiscal 2021 reflects the decrease in the net deferred tax liability as a result of the reduction of the fair value of the investment in preferred interests of Aireon as at May 31, 2021, partially offset by an increase in the deferred tax liability related to the tax treatment of accrued dividend income.

The change in the net movement of the allowance for expected credit losses during the three and nine months ended May 31, 2022 of $4 and $10, respectively, as compared to the same periods of fiscal 2021 is due to the reversal of a portion of the expected credit loss provision. As the Company continues to receive payment from customers of the fiscal 2021 deferred customer service charges, the expected credit loss provision is reduced.

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 May 31		
	2022	2021	$ Change
Debit balance, beginning of period	$ (602)	$ (378)	$ (224)
Variances from planned results:			
Revenue higher (lower) than planned	47	(102)	149
Operating expenses (higher) lower than planned	(7)	55	(62)
Other (income) and expenses lower (higher) than planned	2	(45)	47
Net movement in other regulatory deferral accounts	-	47	(47)
Total variances from planned results	42	(45)	87
Initial approved adjustment	(22)	(74)	52
Net movement in rate stabilization account recorded in net income (loss)	20	(119)	139
Debit balance, end of period	$ (582)	$ (497)	$ (85)

The rate stabilization account debit balance decreased by $20 during Q3 fiscal 2022 primarily due to:

- revenue that was $47 higher than planned primarily due to higher than anticipated air traffic levels;

partially offset by:

- the planned adjustment of $22, representing the Q3 fiscal 2022 portion of the anticipated $85 annual net loss at the time the fiscal 2022 budget was approved; and
- operating expenses that were $7 higher than planned, primarily due to higher overtime costs.

(millions of Canadian dollars)

	Nine months ended May 31		
	2022	2021	$ Change
Debit balance, beginning of period	$ (656)	$ (255)	$ (401)
Variances from planned results:			
Revenue higher (lower) than planned	143	(125)	268
Operating expenses (higher) lower than planned	(12)	93	(105)
Other (income) and expenses lower (higher) than planned	8	(50)	58
Net movement in other regulatory deferral accounts	(1)	61	(62)
Total variances from planned results	138	(21)	159
Initial approved adjustment	(64)	(221)	157
Net movement in rate stabilization account recorded in net loss	74	(242)	316
Debit balance, end of period	$ (582)	$ (497)	$ (85)

The rate stabilization account debit balance decreased by $74 during the nine months ended May 31, 2022 primarily due to:

- revenue that was $143 higher than planned primarily due to higher than anticipated air traffic levels; and
- other (income) and expenses that were $8 lower than planned, primarily due to a decrease in net finance costs relating to employee benefits;

partially offset by:

- the planned adjustment of $64, representing nine months of the anticipated $85 annual net loss at the time the fiscal 2022 budget was approved; and
- operating expenses that were $12 higher than planned, primarily due to higher overtime costs.

Other Comprehensive Income (Loss)

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

	Three months ended May 31		
	2022	2021	$ Change
Items that will be reclassified to income or (loss):			
Changes in fair value of cash flow hedges	$ -	$ (2)	$ 2
Net movement in regulatory deferral accounts	-	2	(2)
Total other comprehensive income (loss)	$ -	$ -	$ -

	Nine months ended May 31		
	2022	2021	$ Change
Items that will not be reclassified to income or (loss)			
Re-measurements of employee defined benefit plans	$ -	$ 647	$ (647)
Net movement in regulatory deferral accounts	-	(647)	647
	-	-	-
Items that will be reclassified to income or (loss)			
Amortization of loss on cash flow hedges	1	1	-
Changes in fair value of cash flow hedges	-	(2)	2
Net movement in regulatory deferral accounts	(1)	1	(2)
	-	-	-
Total other comprehensive income (loss)	$ -	$ -	$ -

There was no re-measurement of the Company’s funded pension plan during the three and nine months ended May 31, 2022. Re-measurement gains on the Company’s funded pension plan of $647 were recorded during the nine months ended May 31, 2021 as a result of an increase in the discount rate to 3.2% (August 31, 2020 – 2.8%). The re-measurement gains were comprised of actuarial gains of $621 and a return on plan assets $26 greater than expected based on the discount rate at August 31, 2020.

Amounts Considered for Rate Setting Purposes

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

(a) air traffic results and forecasts;

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

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

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

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

	May 31 2022	August 31 2021	$ Change
Rate stabilization account debit balance	$ 582	$ 656	$ (74)
Regulatory pension cash contributions to be recovered at a later date	$ 34	$ 34	$ -

(millions of Canadian dollars)

Financial Outlook[2]

As government restrictions on air travel are relaxed, the willingness to resume air travel has increased, resulting in an upward trend in movement-based air traffic revenue. The Company remains cautiously optimistic about the recovery in air traffic however critical uncertainties affecting future air traffic growth continue to be present (industry impediments, ongoing pandemic, geo-political tensions and economic constraints).

Presented below are the Company's current projected annual consolidated results before rate stabilization for our fiscal 2022 compared to fiscal 2021 actual results:

	Fiscal 2022	Fiscal 2021	$ Change	% Change
Before rate stabilization				
Revenue	$ 1,485	$ 870	$ 615	71%
Operating expenses and other (income) and expenses, including other regulatory adjustments	1,435	1,271	164	13%
Net income (loss) before rate stabilization	$ 50	$ (401)	$ 451	

Revenue

Revenue in fiscal 2022 is expected to increase to $1,485 from $870 in fiscal 2021 primarily due to a forecasted increase in air traffic levels of 73.3% on a year-over-year basis, as measured in WCUs. In comparison to fiscal 2019, however, air traffic levels are expected to be 23.0% lower.

In our Q2 fiscal 2022 MD&A, we had disclosed anticipated revenue of $1,436 for fiscal 2022, representing 25.6% lower air traffic levels as compared to fiscal 2019. The increase in expected revenue is largely due to further easing of travel restrictions and increased consumer demand seen in Q3 fiscal 2022.

Operating Expenses and Other (Income) and Expenses

Operating expenses and other (income) and expenses before rate stabilization for fiscal 2022 are expected to be $1,435. This is an increase of 13% compared to fiscal 2021 primarily due to:

- lower CEWS receipts offsetting compensation costs as a result of the program ending in October 2021;
- increased overtime costs as a result of higher leaves and air traffic levels and the resumption of training and other activities that were halted at the onset of the COVID-19 pandemic; and
- increased travel and facilities costs as well as professional fees, as activities put on hold at the onset of the COVID-19 pandemic or delayed as a result of the COVID-19 pandemic have resumed or increased;

partially offset by:

- reduced compensation levels, largely due to workforce reductions in fiscal 2021;
- reduced pension current service contributions, largely due to the timing of the adjustment of contributions in September 2020 following the filing of the January 1, 2020 funding valuation;

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

- lower interest costs as a result of lower interest rates on long-term debt issued compared to the debt repaid in fiscal 2021; and
- the gain on the sale of the NAV CENTRE.

In our Q2 fiscal 2022 MD&A, we had disclosed anticipated operating expenses and other (income) and expenses, before rate stabilization of $1,444 for fiscal 2022. The decrease is largely due to lower net operating expenses.

Cash Flows

The Company's cash position is currently anticipated to be $364 as at August 31, 2022 (August 31, 2021 - $319), excluding short-term investments of $80 (August 31, 2021 - $nil).

This cash outlook includes anticipated net cash inflows from operating activities of $219. Receipts from customer service charges are anticipated to increase compared to fiscal 2021 as a result of higher air traffic levels and the repayment of a portion of the fiscal 2021 deferred customer charges related to the September 1, 2020 increase in base rates. Higher receipts from customer service charges are expected to be partially offset by significantly lower CEWS receipts as a result of the program ending in October 2021 and higher payments to employees and suppliers as a result of changes in operating costs as discussed above.

Anticipated cash outflows from investing activities include higher capital expenditures and investment in regulatory assets compared to fiscal 2021 along with the transfer of $80 to short-term investments. These outflows are partially offset by cash received related to the sales of the NAV CENTRE and the Company's investment in Searidge.

Expected cash outflows from financing activities of $27 are related to the annual amortization payment of $25 for the Series 97-2 amortizing revenue bonds and the payment of lease liabilities.

In our Q2 fiscal 2022 MD&A, we had disclosed an anticipated cash position of $339 at the end of fiscal 2022. The increase is largely due to higher anticipated receipts from customer service charges and lower payments to employees and suppliers, partially offset by the transfer of $80 to short-term investments.

Rate Stabilization Account

The Company currently anticipates that the rate stabilization account will be in a debit position of $606 at the end of fiscal 2022 (August 31, 2021 – $656). This is mainly due to the partial recovery of air traffic levels resulting in higher customer service charge revenue compared to the Company's operating expenditures. The current and anticipated balance in the rate stabilization account (see "RESULTS OF OPERATIONS – Amounts Considered for Rate Setting Purposes") is a consideration in the setting of rates as well as future cost containment measures to be taken.

In our Q2 fiscal 2022 MD&A, we had disclosed an anticipated rate stabilization account debit balance of $664 at the end of fiscal 2022. The decrease is largely due to the forecasted increase in air traffic revenue.

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 May 31, 2022, the Company had net earnings of $26. Our interest costs were $85. Consolidated earnings (after rate stabilization) before interest costs were $111, which is 1.31 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 $146. Our cash flow coverage was 3.02 times our interest requirement for this period.

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

We maintain a debt service reserve fund and an operations and maintenance reserve under the Master Trust Indenture (MTI), and we are subject to liquidity covenants under the General Obligation Indenture (GOI), designed to cover 12 months interest on borrowings and 25% of our annual operating and maintenance expenses. As at May 31, 2022, 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: Investment in Equity-Accounted Investee".

(millions of Canadian dollars)

SUMMARY OF QUARTERLY RESULTS

Quarterly Financial Information (unaudited)

	Three months ended			
	Q3 May 31 2022	Q2 February 28 2022	Q1 November 2021	Q4 August 31 2021
Revenue	$ 381	$ 313	$ 345	$ 293
Operating expenses	361	350	337	348
Other (income) and expenses	28	29	24	19
Net loss before net movement in regulatory deferral accounts	(8)	(66)	(16)	(74)
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	(20)	5	(59)	159
Other regulatory deferral account adjustments	23	30	18	34
	3	35	(41)	193
Net income (loss) after net movement in regulatory deferral accounts	$ (5)	$ (31)	$ (57)	$ 119

	Three months ended			
	Q3 May 31 2021	Q2 February 28 2021	Q1 November 2020	Q4 August 31 2020
Revenue	$ 196	$ 179	$ 202	$ 155
Operating expenses	305	316	309	264
Other (income) and expenses	86	40	31	56
	(195)	(177)	(138)	(165)
Income tax expense (recovery)	(9)	2	-	(1)
Net loss before net movement in regulatory deferral accounts	(186)	(179)	(138)	(164)
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	119	81	42	177
Other regulatory deferral account adjustments	75	41	26	48
	194	122	68	225
Net income (loss) after net movement in regulatory deferral accounts	$ 8	$ (57)	$ (70)	$ 61

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.

The Company continues to review, monitor and manage spending; positioning itself to support the 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.

Net movement in regulatory deferral accounts fluctuates largely due to:

- changes in the rate stabilization account based on variances from planned results and the initial approved adjustment;
- the recovery of pension solvency deficiency contributions made;
- changes in employee benefit pension contributions and expense;
- changes in other employee benefits, including positive or negative long-term disability 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.

(millions of Canadian dollars)

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 nine months ended May 31, 2022.

As at May 31, 2022, we had $321 of cash and cash equivalents and undrawn committed credit facilities for general purposes of $849, all of which provided the Company with available liquidity. In addition, we had letter of credit facilities for pension funding purposes of $810 of which $141 was undrawn (see "LIQUIDITY AND CAPITAL RESOURCES – Liquidity and Financing Strategy").

Cash flows for the three months ended May 31, 2022

	Three months ended May 31		
	2022	2021	$ Change
Cash flows from (used in):			
Operating	$ 13	$ (124)	$ 137
Investing	(33)	58	(91)
Financing	(26)	(25)	(1)
Cash flows used in operating, investing and financing activities	(46)	(91)	45
Effect of foreign exchange on cash and cash equivalents	-	(3)	3
Decrease in cash and cash equivalents	(46)	(94)	48
Cash and cash equivalents, beginning of period	367	498	(131)
Cash and cash equivalents, end of period	$ 321	$ 404	$ (83)

(1) See the statements of cash flows in our Q3 fiscal 2022 financial statements.

Cash flows from operations for the three months ended May 31, 2022 were inflows of $13 compared to outflows of $124 for the same period of fiscal 2021. The variance of $137 was primarily due to higher receipts from customer service charges of $196 as a result of increased air traffic and receipt of deferred customer service charges, partially offset by lower receipts from the CEWS government relief program of $30, higher payments to employees and suppliers of $22 and higher pension current service contributions of $8 primarily due to the timing of payments.

Cash flows from investing activities for the three months ended May 31, 2022 were outflows of $33 compared to inflows of $58 for the same period of fiscal 2021. The change of $91 was primarily related to higher capital expenditures in fiscal 2022 and proceeds of $75 from the maturity of short-term investments in fiscal 2021.

Cash inflows from financing activities for the three months ended May 31, 2022 were comparable to the same period of fiscal 2021.

(millions of Canadian dollars)

Cash flows for the nine months ended May 31, 2022

	Nine months ended May 31		
	2022	2021	$ Change
Cash flows from (used in)			
Operating	$ 99	$ (373)	$ 472
Investing	(69)	94	(163)
Financing	(27)	(2)	(25)
Cash flows from (used in) operating, investing and financing activities	3	(281)	284
Effect of foreign exchange on cash and cash equivalents	(1)	(4)	3
Increase (decrease) in cash and cash equivalents	2	(285)	287
Cash and cash equivalents, beginning of period	319	689	(370)
Cash and cash equivalents, end of period	$ 321	$ 404	$ (83)

[(1)] See the statements of cash flows in our Q3 fiscal 2022 financial statements.

Cash flows from operations for the nine months ended May 31, 2022 were inflows of $99 compared to outflows of $373 for the nine months ended May 31, 2021, primarily due to higher receipts from customer service charges of $534 as a result of air traffic recovery and receipt of deferred customer service charges, lower pension current service contributions of $10 and lower payments to employees and suppliers of $6, partially offset by lower receipts from the CEWS government relief program of $84.

Cash flows from investing activities for the nine months ended May 31, 2022 were outflows of $69 compared to inflows of $94 for the nine months ended May 31, 2021. The change of $163 was primarily related to higher capital expenditures of $22 and proceeds of $145 from the maturity of short-term investments in fiscal 2021, partially offset by proceeds and loan repayment of $10 associated with the sale of the Company's investment in Searidge in fiscal 2022.

Cash outflows from financing activities for the nine months ended May 31, 2022 were $27 compared to $2 for the nine months ended May 31, 2021. The variance was primarily due to the issuance of $500 of General Obligation Notes, partially offset by the repayment of the $250 Series MTN 2011-1 General Obligation Notes and repayment of $223 under the Company's syndicated credit facility in fiscal 2021. No similar transactions occurred in fiscal 2022.

(millions of Canadian dollars)

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 May 31, 2022, 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)]		1
Undrawn committed borrowing capacity		849
Less: Operations and maintenance reserve allocation [(3)]		257
Available for unrestricted use	$	592
Credit facilities for pension funding purposes:		
Letter of credit facilities for pension funding purposes [(4)]	$	810
Less: Outstanding letters of credit for pension funding purposes [(4)]		669
Undrawn committed borrowing capacity	$	141

(1) The Company's credit facility with a syndicate of Canadian financial institutions in the amount of $850 is comprised of two equal tranches maturing on March 26, 2025 and March 26, 2027, respectively. The credit facility agreement provides for loans at varying rates of interest based on certain benchmark interest rates, specifically the Canadian prime rate and the Canadian bankers' acceptance rate, and on the Company's credit rating at the time of drawdown. The Company is required to pay commitment fees, which are dependent on the Company's credit rating. The Company is in compliance with the credit facility covenants as at May 31, 2022.

(2) At May 31, 2022, $1 was drawn from an uncommitted revolving credit facility. In connection with this facility, an allocation of $25 with a Canadian financial institution has been made under its $850 committed credit facility.

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

(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.

(millions of Canadian dollars)

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

	May 31 2022	August 31 2021
LONG-TERM DEBT		
Bonds and notes payable		
Under the MTI	$ 375	$ 400
Under the GOI	2,125	2,125
	2,500	2,525
Adjusted for deferred financing costs	(12)	(13)
Total bonds and notes payable	2,488	2,512
Less: current portion of long-term debt	(25)	(25)
Total long-term debt	$ 2,463	$ 2,487
LIQUIDITY		
Cash and cash equivalents	$ 321	$ 319
Debt service reserve fund	74	73
Undrawn committed borrowing capacity	849	848
Total liquidity	$ 1,244	$ 1,240

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 February 9, 2022, Moody's issued its annual update to its credit opinion affirming NAV CANADA's base line credit assessment at Aa2 and its senior and subordinated ratings at Aa2. Moody's noted the Company's following credit strengths:

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

They also noted the following credit challenges:

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

(millions of Canadian dollars)

Moody's stated that "the stable rating outlook reflects our expectation that NAV CANADA will continue to manage its cash flows through necessary rate increases to compensate for the current lower levels of air traffic activity as a result of the coronavirus outbreak and that it will maintain a strong liquidity profile."

On March 10, 2022, S&P issued its annual update to its credit opinion affirming the Company's AA- long-term issuer credit and senior secured debt ratings, and its A+ subordinated debt rating with a stable outlook. S&P noted that "the recovery in air traffic volume within NAV CANADA's controlled airspace has been gaining traction since June 2021 and demand for air travel appears to be robust as pandemic-related restrictions are gradually repealed. We expect that the company's credit metrics will materially improve in fiscal 2022 and beyond as volume recovers toward pre-pandemic levels in the next several years. However, we recognize that material uncertainties remain as further coronavirus variants, as well as geopolitical tensions, and their potential economic fallout pose risks to the recovery path."

S&P stated that "the stable outlook reflects our view that NAV CANADA's key financial metrics will materially improve in the next two years as air traffic activity gradually recovers toward pre-pandemic levels."

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 May 31, 2022 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]	2,500	-	25	225	25	325	1,900
Interest payments [2]	1,342	14	80	78	75	72	1,023
Capital commitments	104	43	14	12	8	5	22
Lease liability	1	1	-	-	-	-	-
Future lease liability [3]	59	-	2	3	3	3	48
Related party loan [4]	14	14	-	-	-	-	-
Total contractual obligations	$ 4,021	$ 73	$ 121	$ 318	$ 111	$ 405	$ 2,993

(1) Payments represent principal of $2,500. 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 nine months ended May 31, 2022, 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 Q3 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 $43 and regulatory deferral account debit balances have increased by $43 as at August 31, 2021, from that previously reported in the 2021 annual financial statements. There is no net impact to net income (loss) after the application of regulatory accounting.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of our Q3 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 Q3 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 May 31, 2022 that have materially affected or are reasonably likely to materially affect the Company's ICFR.