MANAGEMENT'S DISCUSSION AND ANALYSIS

ON FORM 51-102F1

THREE AND SIX MONTHS ENDED

FEBRUARY 28, 2018

April 11, 2018

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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 and cash flows for the three and six months ended February 28, 2018 (Q2 fiscal 2018) 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 Q2 fiscal 2018 (Q2 fiscal 2018 financial statements), our audited annual consolidated financial statements and the accompanying notes for the year ended August 31, 2017 (fiscal 2017), our fiscal 2017 annual MD&A, as well as our 2017 Annual Information Form dated October 26, 2017 (fiscal 2017 AIF). Additional information about NAV CANADA, including our consolidated financial statements for Q2 fiscal 2018 and fiscal 2017, our fiscal 2017 annual MD&A, and our fiscal 2017 AIF are filed on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Our financial statements are prepared in Canadian dollars (CDN) and in accordance with International Financial Reporting Standards (IFRS). Our Q2 fiscal 2018 financial statements have been prepared in accordance with International Accounting Standards (IAS) 34 *Interim Financial Reporting*. Our Audit & Finance Committee reviewed this MD&A and our Board of Directors (the Board) approved it before it was filed.

Caution Concerning Forward-Looking Information

This MD&A and, in particular, but without limitation, sections "INTRODUCTION – Significant Financial Matters: Air Traffic and Customer Service Charges", "RESULTS OF OPERATIONS – Financial Outlook" and "LIQUIDITY AND CAPITAL RESOURCES – Financial Instruments and Risk Management" of this MD&A, contain certain statements about NAV CANADA's future expectations. These statements are generally identified by words like "anticipate", "plan", "believe", "intend", "expect", "estimate", "approximate" and the like, as well as future or conditional verbs such as "will", "should", "would" and "could", or negative versions thereof. Because forward-looking statements involve future risks and uncertainties, actual results may be quite different from those expressed or implied in these statements. Examples include geopolitical unrest, terrorist attacks and the threat of terrorist attacks, war, epidemics or pandemics, natural disasters, weather patterns, environmental concerns, cyber security attacks, labour negotiations, arbitrations, workforce recruitment, training and retention, general aviation industry conditions, air traffic levels, the use of telecommunications and ground transportation as alternatives to air travel, capital market and economic conditions, the ability to collect customer service charges and reduce operating costs, the success of our investment in space-based aircraft surveillance through Aireon LLC (Aireon), credit losses on investments, changes in interest rates, changes in laws, tax changes, adverse regulatory developments or proceedings and lawsuits. Some of these risks and uncertainties are explained under "Risk Factors" in our fiscal 2017 AIF. The forward-looking statements contained in this MD&A represent our expectations as of April 11, 2018 and are subject to change after this date. Readers of this MD&A are cautioned not to place undue reliance on any forward-looking statement. We disclaim any intention or obligation to update or revise any forward-looking statements included in this document whether as a result of new information, future events or for any other reason, except as required by applicable securities legislation.

Our Business

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

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

Financial Strategy and Rate Regulation

In establishing new customer service charges or revising existing charges, we must follow the charging principles set out in our governing legislation, the *Civil Air Navigation Services Commercialization Act* (ANS Act), which prevents us from setting customer service charges higher than what is needed to meet our financial requirements for the provision of air navigation services. Pursuant to these principles, the Board approves the amount and timing of changes to customer service charges. The Board also approves the Company's annual budget where the amounts to be recovered through customer service charges for the ensuing year are determined. Our aim is essentially to achieve breakeven financial results on the consolidated statement of operations on an annual basis. Due to seasonal and other fluctuations in air traffic and given that our costs are predominantly fixed in nature, our quarterly financial results may not achieve a breakeven position, after recording adjustments to the rate stabilization account. This is illustrated in the table under the heading "SUMMARY OF QUARTERLY RESULTS – Quarterly Financial Information (unaudited)".

As noted above, customer service charges are set based on the Company's financial requirements, which take into account estimated air traffic volumes and planned expenses. Since actual revenue and expenses will differ from these estimates, methods to accumulate the variances are required so that they may be taken into account when setting future customer service charges. There is also a need to absorb the immediate effect of unpredictable factors – mainly fluctuations in air traffic volumes resulting from unforeseen events. We meet these objectives through the use of a "rate stabilization" mechanism.

In preparing our consolidated financial statements we reflect the impact of rate regulation. As such, the timing of recognition of certain revenue and expenses differs from what would otherwise be expected for companies that are not subject to regulatory statutes governing the level of charges. For example, we adjust our net income (loss) through transfers to or from the rate stabilization account, based on variations from the amounts that were used when establishing customer service charges. If our actual revenue exceeds actual expenses, the excess is reflected as a credit to the rate stabilization account and is returnable to customers through future customer service charges. Similarly, if actual revenue turns out to be 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.

Financial Highlights

Results of operations for the three months ended February 28, 2018

The Company recorded a net loss of $45 in Q2 fiscal 2018 (Q2 fiscal 2017 - net loss of $34). Excluding rate stabilization and other regulatory deferral account adjustments, the Company recorded a net loss of $46 (Q2 fiscal 2017 - net loss of $52).

	Three months ended February 28		
	2018	2017	Change
Revenue	$ 305	$ 296	$ 9
Operating expenses	340	328	12
Other (income) and expenses	30	15	15
Income tax (recovery) expense	(19)	5	(24)
Net income (loss), before rate stabilization and regulatory deferral account adjustments	(46)	(52)	6
Net movement in regulatory deferral accounts			
Rate stabilization adjustments:			
Favourable variances from planned results	(9)	(12)	3
Initial approved adjustment[1]	2	9	(7)
	(7)	(3)	(4)
Other regulatory deferral account adjustments:			
Employee benefit pension contributions	30	32	(2)
Other employee benefits	(2)	-	(2)
Investment in preferred interests, before tax	(1)	(16)	15
Income tax	(19)	5	(24)
	8	21	(13)
	1	18	(17)
Net income (loss), after rate stabilization and regulatory deferral account adjustments	$ (45)	$ (34)	$ (11)

(1) In order to achieve breakeven results of operations in fiscal 2018, the Board approved a reduction of the rate stabilization account as a result of a planned shortfall. As a result, $10 is being transferred out of the rate stabilization account evenly throughout the fiscal year (fiscal 2017 - $38). For the three months ended February 28, 2018, $2 has been transferred from the rate stabilization account (three months ended February 28, 2017 - $9).

The Company is subject to legislation that regulates the level of its charges (see "INTRODUCTION – Financial Strategy and Rate Regulation"). The timing of the recognition of certain revenue and expenses recovered through charges is recorded through movements in regulatory deferral accounts. The net movement in regulatory deferral accounts for the three months ended February 28, 2018 was an income of $1 as compared to an income of $18 over the same period in fiscal 2017. This change in regulatory deferrals of $17 is due to higher favourable results deferred through rate stabilization adjustments of $4 and a $13 net decrease in regulatory deferral adjustments to reflect the accounting recognition of certain transactions to the periods in which they will be considered for rate setting.

As shown below, cash and cash equivalents decreased by $93 during the three months ended February 28, 2018 and the Company experienced negative free cash flow of $95, which is a non-GAAP (Generally Accepted Accounting Principles) financial measure. Non-GAAP financial measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. The Company defines free cash flow as cash generated from operations, less capital expenditures and investments in Aireon and equity related investments. Management places importance on this indicator as it assists in measuring the impact of its investment program on the Company's financial resources.

	Three months ended February 28		
	2018	2017	Change
Cash flows from:			
Operations[1]	$ (54)	$ 3	$ (57)
Investing[1]	(39)	163	(202)
Financing[1]	-	(110)	110
Cash flows from operating, investing and financing activities	(93)	56	(149)
Effect of foreign exchange on cash and cash equivalents	-	(4)	4
Increase (decrease) in cash and cash equivalents	(93)	52	(145)
Cash and cash equivalents, beginning of period	227	224	3
Cash and cash equivalents, end of period	$ 134	$ 276	$ (142)
Free cash flow (non-GAAP financial measure):			
Cash flows from:			
Operations[2]	$ (54)	$ 3	$ (57)
Capital expenditures[2]	(42)	(28)	(14)
Investment in preferred interests[2]	-	(16)	16
Income tax refund (payment) on investment in preferred interests[2]	1	(5)	6
Free cash flow	$ (95)	$ (46)	$ (49)

(1) See "LIQUIDITY AND CAPITAL RESOURCES – Cash flows for the three months ended February 28, 2018" for discussion of the changes in cash flows from the prior fiscal year.

(2) See the statement of cash flows in our Q2 fiscal 2018 financial statements.

Results of operations for the six months ended February 28, 2018

The Company recorded a net loss of $42 for the six months ended February 28, 2018 (six months ended February 28, 2017 - net loss of $34). Excluding rate stabilization and other regulatory deferral account adjustments, the Company recorded a net loss of $57 (six months ended February 28, 2017 - net loss of $64). This is primarily due to seasonally low air traffic volumes in Q2 compared to our predominantly fixed costs.

	Six months ended February 28		
	2018	2017	Change
Revenue	$ 652	$ 628	$ 24
Operating expenses	680	649	31
Other (income) and expenses	48	37	11
Income tax (recovery) expense	(19)	6	(25)
Net income (loss), before rate stabilization and regulatory deferral account adjustments	(57)	(64)	7
Net movement in regulatory deferral accounts			
Rate stabilization adjustments:			
Favourable variances from planned results	(9)	(29)	20
Initial approved adjustment[1]	5	19	(14)
	(4)	(10)	6
Other regulatory deferral account adjustments:			
Employee benefit pension contributions	54	62	(8)
Other employee benefits	(2)	(3)	1
Investment in preferred interests, before tax	(16)	(26)	10
Income tax	(17)	6	(23)
Realized hedging transactions	-	1	(1)
	19	40	(21)
	15	30	(15)
Net income (loss), after rate stabilization and regulatory deferral account adjustments	$ (42)	$ (34)	$ (8)

(1) In order to achieve breakeven results of operations in fiscal 2018, the Board approved a reduction of the rate stabilization account as a result of a planned shortfall. As a result, $10 is being transferred out of the rate stabilization account evenly throughout the fiscal year (fiscal 2017 - $38). For the six months ended February 28, 2018, $5 has been transferred from the rate stabilization account (six months ended February 28, 2017 - $19).

The net movement in regulatory deferral accounts for the six months ended February 28, 2018 was an income of $15 as compared to an income of $30 over the same period in fiscal 2017. This change in regulatory deferrals of $15 is due to lower favourable results deferred through rate stabilization adjustments of $6 offset by a $21 net decrease in regulatory deferral adjustments to reflect the accounting recognition of certain transactions to the periods in which they will be considered for rate setting.

As shown below, cash and cash equivalents decreased by $88 during the six months ended February 28, 2018 and the Company experienced negative free cash flow of $115, which is a non-GAAP financial measure as discussed in "INTRODUCTION – Financial Highlights: Results of operations for the three months ended February 28, 2018".

	Six months ended February 28		
	2018	2017	Change
Cash flows from:			
Operations[1]	$ (35)	$ 59	$ (94)
Investing[1]	(78)	211	(289)
Financing[1]	25	(110)	135
Cash flows from operating, investing and financing activities	(88)	160	(248)
Effect of foreign exchange on cash and cash equivalents	-	(3)	3
Increase (decrease) in cash and cash equivalents	(88)	157	(245)
Cash and cash equivalents, beginning of period	222	119	103
Cash and cash equivalents, end of period	$ 134	$ 276	$ (142)
Free cash flow (non-GAAP financial measure):			
Cash flows from:			
Operations[2]	$ (35)	$ 59	$ (94)
Capital expenditures[2]	(85)	(60)	(25)
Investment in preferred interests[2]	-	(16)	16
Income tax refund (payment) on investment in preferred interests[2]	5	(5)	10
Free cash flow	$ (115)	$ (22)	$ (93)

(1) See "LIQUIDITY AND CAPITAL RESOURCES – Cash flows for the six months ended February 28, 2018" for discussion of the changes in cash flows from the prior fiscal year.

(2) See the statement of cash flows in our Q2 fiscal 2018 financial statements.

Financial position as at February 28, 2018:

The following table outlines significant changes in our assets and liabilities between August 31, 2017 and February 28, 2018:

	February 28 2018	August 31 2017	Change
Assets			
Current assets			
Cash and cash equivalents	$ 134	$ 222	$ (88)
Accounts receivable and other	75	107	(32)
Investments	70	95	(25)
Other current assets	11	11	-
	290	435	(145)
Non-current assets			
Investment in preferred interests	366	350	16
Employee benefits	9	11	(2)
Investment in equity-accounted investee	7	7	-
Property, plant and equipment	706	705	1
Intangible assets	929	930	(1)
Other non-current assets	4	3	1
	2,021	2,006	15
Total assets	2,311	2,441	(130)
Regulatory deferral account debit balances	1,390	1,475	(85)
Total assets and regulatory deferral account debit balances	$ 3,701	$ 3,916	$ (215)
Liabilities			
Current liabilities			
Trade and other payables	$ 212	$ 230	$ (18)
Deferred revenue	6	6	-
Customer service charges refund	-	60	(60)
Current portion of long-term debt	375	375	-
	593	671	(78)
Non-current liabilities			
Long-term debt	1,220	1,220	-
Employee benefits	1,508	1,586	(78)
Deferred tax liability	38	55	(17)
Derivative liabilities	2	12	(10)
Other non-current liabilities	2	2	-
	2,770	2,875	(105)
Total liabilities	3,363	3,546	(183)
Equity			
Retained earnings (deficit)	(14)	28	(42)
Regulatory deferral account credit balances	352	342	10
Total liabilities, equity and regulatory deferral account credit balances	$ 3,701	$ 3,916	$ (215)

For a discussion of the changes in cash and cash equivalents from August 31, 2017, see "LIQUIDITY AND CAPITAL RESOURCES – Cash flows for the six months ended February 28, 2018".

The decrease in accounts receivable is related to the issuance of the customer service charge refund during Q2 fiscal 2018, as certain refunds were issued through credit notes to customers' accounts.

The change in non-current employee benefit liabilities are mainly a result of the net re-measurement gains of employee defined benefit plans recorded during the six months ended February 28, 2018 and the settlement of curtailed severance benefits. These changes, along with the related changes in regulatory deferral account debit balances, are discussed further in "RESULTS OF OPERATIONS – Other Comprehensive Income (Loss)".

The balance in retained earnings (deficit) as at February 28, 2018 reflects the earnings up to that date. We plan our operations to essentially result 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 (deficit) account at the end of each fiscal year has remained stable at $28. Any variation from this amount at the end of any interim period reflects seasonal or other planned fluctuations in revenue and expenses.

Significant Financial Matters

The following items have significant financial importance to the Company:

1. Rate Stabilization Account

As at February 28, 2018, the rate stabilization account (see "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account") had a credit balance of $135, which is above its target of $104 for fiscal 2018 (see "RESULTS OF OPERATIONS – Amounts Considered for Rate Setting Purposes").

The rate stabilization account improved by $4 during the six months ended February 28, 2018. This improvement was due to $9 of favourable variances from planned results, partially offset by the $5 initially approved adjustment to the rate stabilization account. Rate stabilization adjustments are described under "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account".

2. Air Traffic and Customer Service Charges[1]

Over the course of the first six months of fiscal 2018, air traffic volumes increased by 4.8% year-over-year. The approved budget for fiscal 2018 had assumed growth of 4.2% for the year. The Company's current annual forecast for air traffic growth for fiscal 2018 is 4.7%.

We continuously monitor our financial requirements and air traffic, and regularly update our financial forecasts to account for changes in the economic environment. On a quarterly basis, we review the most current information available from aviation industry sources as well as forecasts of macro-economic indicators; we then modify our forecasts accordingly and consider the need for a change in rates.

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

3. Pension Plans

The Company funds its registered pension plans based on the January 1 actuarial valuations, as discussed in our fiscal 2017 annual MD&A. We use an annual measurement date of August 31 to determine the accounting surplus or deficit and to establish pension costs for the coming fiscal year. The Company's pension plans had an accounting deficit of $1,251 as at February 28, 2018 as compared to an accounting deficit of $1,295 as at the annual measurement date of August 31, 2017. The $44 decrease in the deficit position during the six months ended February 28, 2018 is primarily due to net actuarial gains of $106, partially offset by actuarial accounting expense exceeding Company contributions by $62. The $106 of net actuarial gains are primarily due to a return on plan assets $226 greater than the expected return based on the discount rate of 3.60% at August 31, 2017, partially offset by actuarial losses of $120 from a 10 basis point decrease in the discount rate to 3.50%. During Q2 fiscal 2018, there were no significant events or changes to the Company's defined pension plans that would require a revaluation. As such, no revaluation was performed and no changes in re-measurements of the plans were recorded in the Company's statement of other comprehensive income for the three months ended February 28, 2018.

Further information on the Company's pension plans is discussed under the heading "LIQUIDITY AND CAPITAL RESOURCES – Cash Requirements: Pension Plans".

4. Collective Agreements

Approximately 87% of our workforce is unionized under eight collective agreements. During fiscal 2017, the Company announced the ratification of new collective agreements with four of its unions: the Canadian Air Traffic Control Association Unifor Local 5454 (CATCA), the Air Traffic Specialists Association of Canada (ATSAC), the Professional Institute of the Public Service of Canada (PIPSC) and the Canadian Association of Financial Officers.

During Q2 fiscal 2018, the Company announced the ratification of its collective agreement with the Canadian Federal Pilots Association, which represents approximately 50 pilots. The two year agreement covers the period from May 1, 2017 to April 30, 2019.

Subsequent to February 28, 2018, the Company announced the ratification of its collective agreement with the International Brotherhood of Electrical Workers, which represents approximately 650 members. The two year agreement covers the period January 1, 2018 to December 31, 2019.

The Company is currently in mediation with one union, comprising approximately 6% of our represented workforce whose collective agreement expired on June 30, 2017. Negotiations have commenced with the remaining union, comprising approximately 7% of our represented workforce, whose contract expired on December 31, 2017.

5. Investment in Space-Based Aircraft Surveillance through Aireon:

As discussed in note 4 to the Q2 fiscal 2018 financial statements, the Company has invested $150 U.S. ($192 CDN) (August 31, 2017 - $150 U.S. ($187 CDN)) in Aireon. The Company is represented by six out of the eleven directors on Aireon's board of directors. The Company's investment in Aireon is in preferred interests, which are redeemable or convertible to common equity.

On December 22, 2017 the U.S. government passed legislation to reduce the federal corporate income tax rate from 35% to 21%. The Company's net deferred tax liability as at February 28, 2018 reflects this new rate and as a result, has been reduced to $30 U.S. ($38 CDN) (August 31, 2017 - $45 U.S. ($55 CDN)).

On February 28, 2018, the Company entered into an agreement with Aireon to provide bridge financing, up to a total of $29 U.S. ($37 CDN), with an annual interest rate of 11%. Amounts drawn under the agreement are to be repaid on the earlier of June 29, 2018 and the date at which Aireon receives funding under a senior credit facility. Subsequent to February 28, 2018, Aireon has drawn $7 U.S. ($9 CDN) under the agreement.

6. Financing Activities

In August 2017, the Company entered into a bond forward transaction in the amount of $137 in order to mitigate a portion of the potential impact of rising interest rates on the cost of refinancing the $350 Series MTN 2013-1 General Obligation Notes that will mature on April 19, 2018. This bond forward agreement was closed in January 2018 as a result of changes in our refinancing plans and a new bond forward agreement for the same amount was entered into simultaneously to align with the revised plan.

On March 29, 2018, the Company issued $275 Series MTN 2018-1 General Obligation Notes due on March 30, 2048. The notes have an annual interest rate of 3.293%. The proceeds of these notes will be used to repay the Company's $350 Series MTN 2013-1 General Obligation Notes when they mature on April 19, 2018. The remainder of the maturity will be repaid with available cash and by drawing on the Company's syndicated credit facility, if necessary. The Company also closed the bond forward agreement that had been entered into in January 2018.

RESULTS OF OPERATIONS

Revenue

The following table provides a breakdown of our revenue by category. Our fiscal 2017 AIF and the notes to our fiscal 2017 annual consolidated financial statements provide more information about the different categories of our customer service charges.

	Three months ended February 28			
	2018	2017	Change	%
Enroute	$ 146	$ 142	$ 4	3%
Terminal	120	114	6	5%
Daily / annual / quarterly	20	19	1	5%
North Atlantic and international communication	9	9	-	- %
Total customer service charges	295	284	11	4%
Other	10	12	(2)	(17%)
	$ 305	$ 296	$ 9	3%

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

Revenue for Q2 fiscal 2018 was $305 compared to $296 for Q2 fiscal 2017. The $9 increase is primarily due to a 4.0% growth in air traffic volumes during Q2 fiscal 2018, partially offset by a decrease of $2 in other revenue mainly related to service and development contracts.

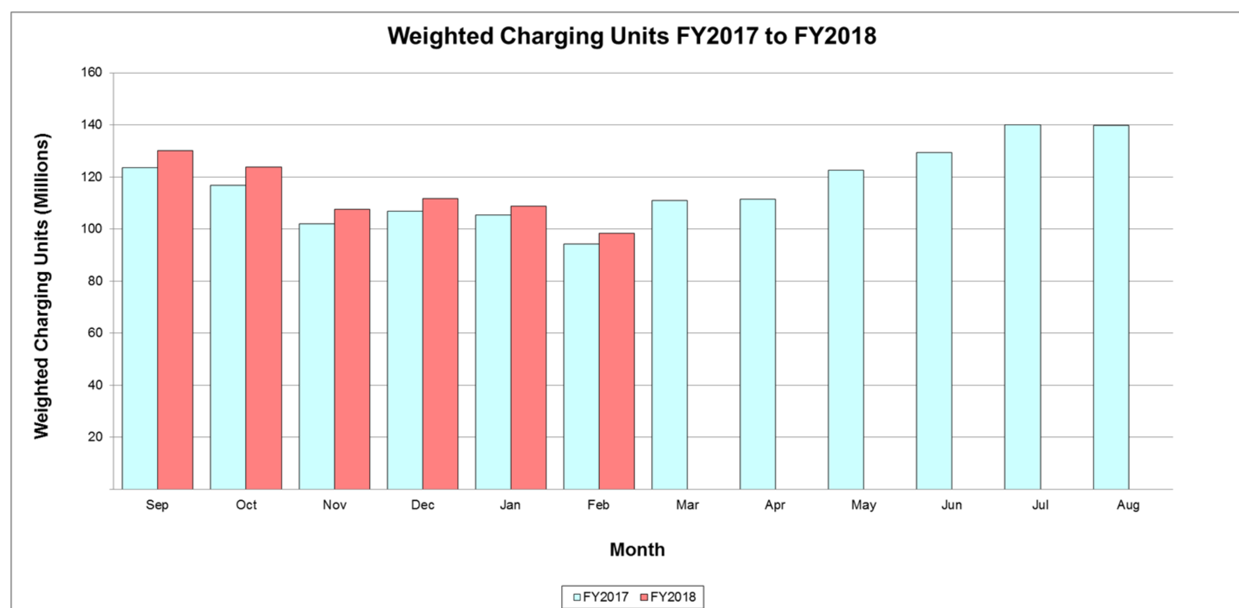
Effective September 1, 2017, the Company implemented revisions to its service charges resulting in a decrease on average of 3.5% as well as a temporary one-year rate reduction of 0.4%. This effectively continues the 3.9% one-year temporary rate reduction that was implemented on September 1, 2016.

	Six months ended February 28			
	2018	2017	Change	%
Enroute	$ 320	$ 309	$ 11	4%
Terminal	244	230	14	6%
Daily / annual / quarterly	43	40	3	8%
North Atlantic and international communication	21	20	1	5%
Total customer service charges	628	599	29	5%
Other	24	29	(5)	(17%)
	$ 652	$ 628	$ 24	4%

Revenue for the six months ended February 28, 2018 was $652 compared to $628 for the six months ended February 28, 2017. The $24 increase is primarily due to a $29 increase in customer service charge revenue arising from a 4.8% growth in air traffic volumes during fiscal 2018, partially offset by a decrease of $5 in other revenue mainly related to service and development contracts.

Air Traffic

Air traffic growth for the first six months of fiscal 2018 reflects normal experienced seasonality. The chart shows traffic in "weighted charging units", a measure of the number of flights, aircraft size and distance flown.



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

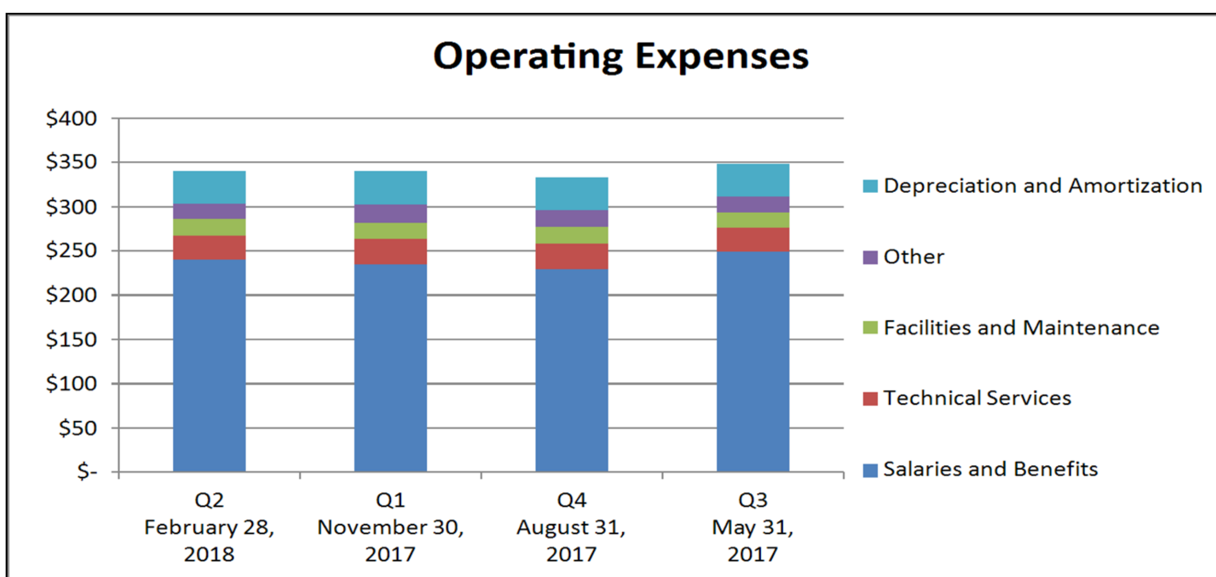
Operating Expenses

	Three months ended February 28			
	2018	2017	Change	%
Salaries and benefits	$ 240	$ 228	$ 12	5%
Technical services	27	26	1	4%
Facilities and maintenance	19	18	1	6%
Depreciation and amortization	37	37	-	- %
Other	17	19	(2)	(11%)
	$ 340	$ 328	$ 12	4%

	Six months ended February 28			
	2018	2017	Change	%
Salaries and benefits	$ 475	$ 447	$ 28	6%
Technical services	56	56	-	- %
Facilities and maintenance	37	36	1	3%
Depreciation and amortization	75	73	2	3%
Other	37	37	-	- %
	$ 680	$ 649	$ 31	5%

Salaries and benefits expense for the three and six months ended February 28, 2018 increased by $12 and $28, respectively, compared to the three and six months ended February 28, 2017 primarily due to increased compensation levels and overtime costs arising from negotiated increases in collective agreements, increased staffing requirements to meet air traffic growth and activities related to supporting projects and maintaining optimum staffing levels across the country.

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



The increase in salaries and benefits expense in Q3 fiscal 2017 was primarily due to the $9 curtailment expense accrued as a result of the voluntary elimination and settlement of severance benefits for employees represented by the CATCA collective agreement. In Q4 fiscal 2017, the curtailment expense was adjusted to $11 to reflect the voluntary elections received from employees represented by CATCA, as well as an additional curtailment expense for the voluntary elimination and settlement of severance benefits for employees represented by the ATSAC collective agreement and the elimination and settlement of severance benefits for employees represented by the PIPSC collective agreement.

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

	Three months ended February 28		
	2018	2017	Change
Finance income			
Interest income	$ (1)	$ -	$ 1
Net change in fair value of financial assets at FVTPL[1]			
MAV II, ABCP and other investments[2]	-	(2)	(2)
Investment in preferred interests	(3)	(17)	(14)
	(3)	(19)	(16)
Total finance income	(4)	(19)	(15)
Net interest costs relating to employee benefits	13	13	-
Other finance costs			
Interest expense	19	20	1
Other (gains) and losses			
Foreign exchange (gains) and losses	2	1	(1)
	$ 30	$ 15	$ (15)
Income tax (recovery) expense	$ (19)	$ 5	$ 24

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

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

The net change in fair value of financial assets at FVTPL decreased by $16 in Q2 fiscal 2018 compared to Q2 fiscal 2017. Dividend income of $3 was recorded in Q2 fiscal 2018 on the investment in preferred interests of Aireon compared to positive fair value adjustments of $14 and dividend income of $3 in Q2 fiscal 2017. The positive fair value adjustments were a result of the write-up on the Company's fourth tranche investment made in December 2016.

Income tax decreased by $24 in Q2 fiscal 2018 compared to Q2 fiscal 2017 as a result of the decrease in net deferred tax liabilities related to the Company's investment in preferred interests of Aireon due to the change in the U.S. federal corporate income tax rate from 35% to 21%.

	Six months ended February 28		
	2018	2017	Change
Finance income			
Interest income	$ (2)	$ (1)	$ 1
Net change in fair value of financial assets at FVTPL[1]			
MAV II, ABCP and other investments	(1)	(14)	(13)
Investment in preferred interests	(6)	(20)	(14)
	(7)	(34)	(27)
Total finance income	(9)	(35)	(26)
Net interest costs relating to employee benefits	27	27	-
Other finance costs			
Interest expense	38	41	3
Redemption premium	-	10	10
	38	51	13
Other (gains) and losses			
Foreign exchange (gains) and losses	(8)	(6)	2
	$ 48	$ 37	$ (11)
Income tax (recovery) expense	$ (19)	$ 6	$ 25

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

The net change in fair value of financial assets at FVTPL decreased by $27 compared to fiscal 2017. Lower positive fair value adjustments of $13 on MAV II, ABCP and other investments were recorded in fiscal 2018 compared to fiscal 2017. Dividend income of $6 was recorded in fiscal 2018 on the investment in preferred interests of Aireon compared to positive fair value adjustments of $14 and dividend income of $6 in fiscal 2017.

The $13 decrease in other finance costs is primarily due to the redemption premium of $10 incurred in fiscal 2017 related to the early redemption of $100 of the $350 Series MTN 2009-1 General Obligation Notes. No similar costs were incurred in fiscal 2018. In addition, the Company has incurred lower interest costs on long-term debt due to lower debt levels in fiscal 2018 compared to 2017.

Income tax decreased by $25 in fiscal 2018 compared to fiscal 2017 as a result of the decrease in net deferred tax liabilities related to the Company's investment in preferred interests of Aireon due to the change in the U.S. federal corporate income tax rate from 35% to 21%.

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

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

	Three months ended February 28		
	2018	2017	Change
Rate stabilization account	$ (7)	$ (3)	$ (4)
Other regulatory deferral accounts			
Employee benefit pension contributions	30	32	(2)
Other employee benefits	(2)	-	(2)
Investment in preferred interests, before tax	(1)	(16)	15
Income tax	(19)	5	(24)
	$ 1	$ 18	$ (17)

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

The net movement in the employee benefit pension contributions regulatory deferral account for Q2 fiscal 2018 decreased by $2 compared to Q2 fiscal 2017. Regulatory adjustments to adjust the total pension benefit expense to the level of pension contributions to be recovered through rate setting were $30 in Q2 fiscal 2018 compared to $32 in Q2 fiscal 2017. Included in the Q2 fiscal 2018 regulatory deferral related to pension contributions of $30 is the planned recovery of $5 of the $44 solvency deficiency contributions made in fiscal 2017.

The $15 increase in the investment in preferred interests regulatory deferral account in Q2 fiscal 2018 is primarily due to the regulatory deferral of the $14 increase in fair value of the investment recorded in Q2 fiscal 2017, with no similar regulatory deferral recorded in Q2 fiscal 2018.

The net movement in the income tax regulatory deferral account includes the deferral of future income tax liabilities related to the Company's investment in preferred interests of Aireon as well as its remaining 50% interest in Searidge Technologies Inc. (Searidge). The $24 decrease in Q2 fiscal 2018 compared to Q2 fiscal 2017 is a result of the decrease in net deferred tax liabilities related to the investment in preferred interests of Aireon which is due to the change in the U.S. federal corporate income tax rate from 35% to 21%.

	Six months ended February 28		
	2018	2017	Change
Rate stabilization account	$ (4)	$ (10)	$ 6
Other regulatory deferral accounts			
Employee benefit pension contributions	54	62	(8)
Other employee benefits	(2)	(3)	1
Investment in preferred interests, before tax	(16)	(26)	10
Income tax	(17)	6	(23)
Realized hedging transactions	-	1	(1)
	$ 15	$ 30	$ (15)

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

The net movement in the employee benefit pension contributions regulatory deferral account for the six months ended February 28, 2018 decreased by $8 compared to the same period in fiscal 2017. Regulatory adjustments to adjust the total pension benefit expense to the level of pension contributions to be recovered through rate setting were $54 in fiscal 2018 compared to $62 in fiscal 2017. Included in the fiscal 2018 regulatory deferral related to pension contributions of $54 is the planned recovery of $5 of the $44 solvency deficiency contributions made in fiscal 2017.

The $10 increase in the investment in preferred interests regulatory deferral account for the six months ended February 28, 2018 is primarily due to the regulatory deferral of the $14 increase in fair value of the investment recorded in the six months ended February 28, 2017, with no similar regulatory deferral recorded in fiscal 2018.

The net movement in the income tax regulatory deferral account includes the deferral of future income tax liabilities related to the Company's investment in preferred interests of Aireon as well as its remaining 50% interest in Searidge. The $23 decrease in fiscal 2018 compared to fiscal 2017 is a result of the decrease in net deferred tax liabilities related to the investment in preferred interests of Aireon which is due to the change in the U.S. federal corporate income tax rate from 35% to 21%.

Movements in Rate Stabilization Account

Our rate stabilization mechanism and accounting are described at the beginning of this MD&A and in notes 1 and 8 of our fiscal 2017 financial statements. The table below shows the movements in the rate stabilization account.

	Six months ended February 28		
	2018	2017	Change
Credit balance on the statement of financial position, beginning of period	$ 131	$ 169	$ (38)
Variances from planned results:			
Revenue higher than planned	3	18	(15)
Operating expenses lower than planned	6	3	3
Other (income) and expenses lower (higher) than planned	29	(5)	34
Net movement in other regulatory deferral accounts	(29)	13	(42)
Total variances from planned results	9	29	(20)
Initial approved adjustment	(5)	(19)	14
Net movement in rate stabilization account recorded in net income (loss)	4	10	(6)
Credit balance on the statement of financial position, end of period	$ 135	$ 179	$ (44)

The $4 increase in the rate stabilization account during the six months ended February 28, 2018 is primarily due to:

- other (income) and expense that was $29 lower than planned primarily due to the decrease in net deferred tax liabilities related to the investment in preferred interests of Aireon, as a result of the decrease in the U.S. federal corporate income tax rate, as well as foreign exchange gains higher than planned;
- operating expenses that were $6 lower than planned, primarily due to lower technical services expenses; and
- revenue that was $3 higher than planned as a result of an increase of 4.8% in air traffic volumes compared to the budgeted increase of 4.3% for the six months ended February 28, 2018;

partially offset by:

- net movement of $29 in regulatory deferral accounts that was less favourable than planned primarily due to:
    - a regulatory expense for income tax of $20 to defer the decrease in net deferred tax liabilities related to the investment in preferred interests of Aireon;
    - a net regulatory expense of $8 related to the Company's investment in preferred interests of Aireon, primarily to defer unrealized foreign exchange gains due to the fluctuation of the Canadian dollar against the U.S. dollar;

- a regulatory expense for pensions that was $3 higher than planned primarily due to higher pension contributions than planned;

partially offset by:

- a regulatory adjustment of $2 to recognize a surplus on LTD benefits; and

- the planned adjustment of $5, representing half of the anticipated annual net loss at the time the fiscal 2018 budget was approved.

Other Comprehensive Income (Loss)

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

	Three months ended February 28		
	2018	2017	Change
Items that will not be reclassified to income or (loss):			
Re-measurements of employee defined benefit plans	$ -	$ 158	$ (158)
Net movement in regulatory deferral accounts	-	(158)	158
	-	-	-
Items that will be reclassified to income or (loss):			
Amortization of loss on cash flow hedge	1	1	-
Changes in fair value of cash flow hedges	7	-	7
Net movement in regulatory deferral accounts	(8)	(1)	(7)
	-	-	-
Total other comprehensive income (loss)	$ -	$ -	$ -

During Q2 fiscal 2018, there were no significant events or changes to the Company's defined pension and other post-employment benefit plans that would require a revaluation. As such, no revaluation was performed and no changes in re-measurements of the plans were recorded in the Company's statement of other comprehensive income. In Q2 fiscal 2017, the re-measurement gains of $158 were a result of actuarial gains of $119, primarily due to a 10 basis point increase in the discount rates to 3.90% and a return on plan assets $39 greater than the expected return based on the discount rate of 3.40% at August 31, 2016.

During Q2 fiscal 2018, positive fair value adjustments of $7 were recorded primarily on the Company's interest rate hedges related to the re-financing of debt instruments that will mature in the fiscal year ending August 31, 2019 (fiscal 2019). During Q2 fiscal 2017, there was no change in the fair value of the same interest rate hedges.

	Six months ended February 28		
	2018	2017	Change
Items that will not be reclassified to income or (loss):			
Re-measurements of employee defined benefit plans	$ 100	$ 476	$ (376)
Net movement in regulatory deferral accounts	(100)	(476)	376
	-	-	-
Items that will be reclassified to income or (loss):			
Amortization of loss on cash flow hedge	1	1	-
Changes in fair value of cash flow hedges	8	36	(28)
Net movement in regulatory deferral accounts	(9)	(37)	28
	-	-	-
Total other comprehensive income (loss)	$ -	$ -	$ -

During Q2 fiscal 2018, there were no significant events or changes to the Company's defined pension and other post-employment benefit plans that would require a revaluation. As such, no revaluation was performed and no changes in re-measurements of the plans were recorded in the Company's statement of other comprehensive income for the three months ended February 28, 2018. Re-measurement gains on employee defined benefit plans in the six months ended February 28, 2018 of $100 are a result of a return on plan assets $226 greater than the expected return based on the discount rate of 3.60% at August 31, 2017, partially offset by actuarial losses of $126 from a 10 basis point decrease in the discount rate to 3.50%. For fiscal 2017, the net re-measurement gains of $476 were mainly a result of actuarial gains of $544, primarily due to a 50 basis point increase in the discount rate to 3.90% (August 31, 2016 – 3.40%), partially offset by a return on plan assets $68 less than the expected return based on the discount rate at August 31, 2016.

In fiscal 2018, positive fair value adjustments of $8 were recorded primarily on the Company's interest rate hedges related to the re-financing of debt instruments that will mature in fiscal 2019. In fiscal 2017, positive fair value adjustments of $36 were recorded on the same interest rate hedges.

Amounts Considered for Rate Setting Purposes

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

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

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

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

		February 28 2018	August 31 2017	Change
(a) Rate stabilization account credit balance		$ 135	$ 131	$ 4
Target balance of the rate stabilization account[1]		(104)	(101)	(3)
Excess of the rate stabilization account from its target balance	(A)	$ 31	$ 30	$ 1
(b) Pension contributions in excess of pension expense		6	(53)	59
Regulatory balance - recovery of contributions		(45)	9	(54)
Regulatory expense cumulatively lower than contributions	(B)	$ (39)	$ (44)	$ 5
Amount to be (recovered) returned over time through rate setting	(A + B)	$ (8)	$ (14)	$ 6

(1) The long-term target credit balance of the rate stabilization account is 7.5% of total planned annual expenses net of other (income) and expenses, excluding non-recurring items, on an ongoing basis. For fiscal 2018, the target balance is $104.

Financial Outlook[2]

Presented below are the Company's current projected annual consolidated results before rate stabilization for fiscal 2018 compared to fiscal 2017 results.

	Fiscal 2018	Fiscal 2017	Change	%
Before rate stabilization				
Revenue before customer service charges refund	$ 1,402	$ 1,351	$ 51	4%
Customer service charges refund	-	(60)	60	(100%)
	1,402	1,291	111	9%
Operating expenses and other (income) and expenses, including other regulatory adjustments	1,412	1,329	83	6%
Net income (loss) before rate stabilization adjustments	$ (10)	$ (38)	$ 28	

Revenue

Revenue before customer service charges refund for fiscal 2018 is expected to increase by approximately 3.7% or $51 from $1,351 in fiscal 2017 primarily due to forecasted air traffic growth of 4.7%, partially offset by lower other revenue. In fiscal 2018, there is no customer service charges refund offsetting revenue like that accrued at August 31, 2017. As discussed in "RESULTS OF OPERATIONS – Revenue", the revised charges, effective September 1, 2017, effectively continue the 3.9% temporary rate reduction that was implemented in fiscal 2017.

In our Q1 fiscal 2018 MD&A, we had disclosed anticipated revenue of $1,404 for fiscal 2018. The decrease of $2 in the forecast is consistent with the decrease in forecasted air traffic growth for fiscal 2018 from 4.9% at Q1 fiscal 2018 to 4.7% at Q2 fiscal 2018.

Operating Expenses and Other (Income) and Expenses

Operating expenses and other (income) and expenses before rate stabilization for fiscal 2018 are expected to be $1,412. This is an increase of 6.2% or $83 compared to fiscal 2017 due to:

- increased compensation levels and overtime costs arising from inflationary increases in collective agreements, increased staffing requirements to meet air traffic growth and support projects, and increased training of air traffic controllers to maintain optimum staffing levels across the country;
- increased operational requirements impacting technical services expenses as well as increased professional fees;
- the $10 planned regulatory recovery of pension solvency contributions;
- lower positive fair value adjustments on investments;
- higher LTD benefit costs due to positive experience recorded in fiscal 2017; and
- the effects of inflation;

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

partially offset by:

- decreased finance costs as a result of lower debt levels in fiscal 2018 compared to fiscal 2017.

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

In our Q1 fiscal 2018 MD&A, we had disclosed anticipated operating expenses and other (income) and expenses, before rate stabilization of $1,408 for fiscal 2018. The increase of $4 is primarily related to an increase in overtime costs to meet operational requirements.

Cash Flows

Given the expected net cash flows from operations and cash flows from investing and financing activities in fiscal 2018, the Company's cash position is currently expected to decrease to $50 as at August 31, 2018 from $222 as at August 31, 2017. This cash outlook is based on anticipated annual cash inflows from operating activities of $73, which is net of the impact of the $60 customer service charges refund to customers and the $42 settlement of the curtailed severance benefits, offset by cash outflows from investing and financing activities of $175 and $70, respectively. Investing activities include cash outflows for capital expenditures of $180 (excluding capitalized interest of $5), partially offset by the receipt of income taxes receivable of $5. Financing net cash outflows are primarily comprised of $375 for the repayment of long-term debt, partially offset by the issuance of $275 in medium term notes, a release of $25 from the debt service reserve fund and net proceeds from bank loans of $7. As discussed below, the Company has adequate existing sources of financing to cover all of its anticipated cash flow requirements.

In our Q1 fiscal 2018 MD&A, we had disclosed an anticipated cash position of $46 by the end of fiscal 2018. Our cash position anticipated at the end of fiscal 2018 is $4 higher primarily due to higher cash inflows from operations.

Rate Stabilization Account

As noted above, the Company has implemented revisions to its customer service charges, effective September 1, 2017 which effectively continue the 3.9% temporary rate reduction that was implemented in fiscal 2017.

The Company currently anticipates that the rate stabilization account will have a credit balance of $120 at the end of fiscal 2018, resulting from estimated revenue of $1,402 and total operating expenses and other (income) and expense (including other regulatory adjustments) of $1,412 (before rate stabilization). The target balance of the rate stabilization account in fiscal 2018 is $104.

In our Q1 fiscal 2018 MD&A, we had forecast an anticipated rate stabilization account credit balance of $126 at the end of fiscal 2018. The decrease in the forecasted credit balance at August 31, 2018 is due to the forecasted decrease in revenue and increase in other (income) and expense (including other regulatory adjustments).

Earnings and Cash Flow Coverage

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

For the twelve months ended February 28, 2018, the Company had a net loss of $8. Our interest cost was $77. Consolidated earnings (after rate stabilization) before interest were $69, which is 0.90 times our interest requirement for the fiscal year and just below our one-to-one target. Depreciation and amortization expense for this period was $149. Our cash flow coverage was 2.83 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 insignificant.

We maintain a debt service reserve fund and an operations and maintenance reserve fund under our Master Trust Indenture and we are subject to liquidity covenants under our General Obligation Indenture, designed to cover 12 months interest on borrowings and 25% of our annual operating and maintenance expenses. As at February 28, 2018, we were in full compliance with our debt indentures, including the Master Trust Indenture's requirements regarding the reserve funds, the flow of funds and with the rate covenants, as well as the liquidity and other provisions of the General Obligation Indenture.

Related Party Transactions

The Company's related parties include its key management personnel, subsidiaries, joint ventures and registered pension plans for its employees. The transactions with these related parties are not materially different from what was reported in the fiscal 2017 annual MD&A.

SUMMARY OF QUARTERLY RESULTS

Quarterly Financial Information (unaudited)

	Three months ended			
	Q2 February 28 2018	Q1 November 30 2017	Q4 August 31 2017	Q3 May 31 2017
Revenue	$ 305	$ 347	$ 331	$ 332
Operating expenses	340	340	333	348
Other (income) and expenses	30	18	44	16
	(65)	(11)	(46)	(32)
Income tax (recovery) expense	(19)	-	5	3
Net income (loss) before net movement in regulatory deferral accounts	(46)	(11)	(51)	(35)
Net movement in regulatory deferral accounts related to net income (loss), net of tax				
Rate stabilization adjustments	(7)	3	46	2
Other regulatory deferral account adjustments	8	11	47	25
	1	14	93	27
Net income (loss) after net movement in regulatory deferral accounts	$ (45)	$ 3	$ 42	$ (8)

	Three months ended			
	Q2 February 28 2017	Q1 November 30 2016	Q4 August 31 2016	Q3 May 31 2016
Revenue	$ 296	$ 332	$ 405	$ 337
Operating expenses	328	321	$ 316	$ 319
Other (income) and expenses	15	22	$ 27	$ 34
	(47)	(11)	62	(16)
Income tax (recovery) expense	5	1	$ 1	$ -
Net income (loss) before net movement in regulatory deferral accounts	(52)	(12)	61	(16)
Net movement in regulatory deferral accounts related to net income (loss), net of tax				
Rate stabilization adjustments	(3)	(7)	$ (32)	$ (16)
Other regulatory deferral account adjustments	21	19	$ 20	$ 24
	18	12	(12)	8
Net income (loss) after net movement in regulatory deferral accounts	$ (34)	$ -	$ 49	$ (8)

Discussion of Quarterly Results

The quarterly variations in revenue mainly reflect seasonal fluctuations. Typically, revenue is highest in our fourth quarter (June to August) as a result of increased air traffic in the summer months. The second quarter (December to February) typically has the lowest air traffic volumes. Air traffic for Q2 fiscal 2018 was 4.0% higher on average than in Q2 fiscal 2017. Effective September 1, 2017, the Company implemented revisions to its service charges resulting in a decrease on average by 3.5% as well as a temporary one-year rate reduction of 0.4%. This effectively continues the 3.9% one-year temporary rate reduction that was implemented September 1, 2016.

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

Other (income) and expenses fluctuate primarily due to:

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

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

- changes in the rate stabilization account based on variances from planned results and the initial approved adjustment;
- the recovery of pension solvency deficiency contributions made in fiscal 2017;
- changes in employee benefit pension contributions and expense;
- changes in other employee benefits, including positive or negative LTD experience and funding requirements;
- changes in the investment in preferred interests of Aireon, before tax;
- changes in the investment in equity-accounted investee;
- changes in income taxes; and
- changes in unrealized hedging transactions.

LIQUIDITY AND CAPITAL RESOURCES

Our fiscal 2017 annual MD&A explains how we manage our cash and capital resources. There have been no changes in that approach for the six months ended February 28, 2018. The following sections discuss changes in our cash and capital resources since August 31, 2017.

As at February 28, 2018, we had $134 of cash and cash equivalents and committed credit facilities of $1,190, of which $407 was available for unrestricted use (see "LIQUIDITY AND CAPITAL RESOURCES – Liquidity and Financing Strategy").

Cash flows for the three months ended February 28, 2018

	Three months ended February 28		
	2018	2017	Change
Cash flows from:			
Operations	$ (54)	$ 3	$ (57)
Investing	(39)	163	(202)
Financing	-	(110)	110
Cash flows from operating, investing and financing activities	(93)	56	(149)
Effect of foreign exchange on cash and cash equivalents	-	(4)	4
Increase in cash and cash equivalents	(93)	52	(145)
Cash and cash equivalents, beginning of period	227	224	3
Cash and cash equivalents, end of period	$ 134	$ 276	$ (142)
Free cash flow (non-GAAP financial measure):			
Cash flows from:			
Operations	$ (54)	$ 3	$ (57)
Capital expenditures[(1)]	(42)	(28)	(14)
Investment in preferred interests[(1)]	-	(16)	16
Income tax refund (payment) on investment in preferred interests[(1)]	1	(5)	6
Free cash flow	$ (95)	$ (46)	$ (49)

[(1)] See the statement of cash flows in our Q2 fiscal 2018 financial statements.

As shown above, cash and cash equivalents decreased by $93 for the three months ended February 28, 2018 and the Company experienced negative free cash flow of $95, which is a non-GAAP financial measure as discussed in "INTRODUCTION – Financial Highlights: Results of operations for the three months ended February 28, 2018".

Cash flows from operations for the three months ended February 28, 2018 decreased by $57 from the three months ended February 28, 2017, primarily due to $27 lower receipts from customer service charges (net of the impact of the refund of customer service charges of $60), $13 higher payments to employees and suppliers, and payments of $16 to settle curtailed severance benefits.

Cash outflows from investing activities for the three months ended February 28, 2018 were $39 compared to inflows of $163 for the three months ended February 28, 2017. In Q2 fiscal 2018, investment in capital projects was $39 (cash outflows of $42) compared to $31 in Q2 fiscal 2017 (cash outflows of $28). In Q2 fiscal 2017, we received $212 of proceeds from MAV II notes, other notes and restructured ABCP compared to $1 received in Q2 fiscal 2018. The Q2 fiscal 2017 cash inflows were partially offset by an additional $16 in investments in preferred interests and an income tax payment of $5 related to that investment.

Cash flows from financing activities for the three months ended February 28, 2018 were $nil compared to cash outflows of $110 for the three months ended February 28, 2017. The outflow in Q2 fiscal 2017 was a result of the early redemption of $100 of the $350 Series MTN 2009-1 General Obligation Notes at a redemption price of $110.

For the three months ended February 28, 2017, our cash and cash equivalents balance increased by $52. This was primarily due to proceeds of $212 from MAV II notes and restructured ABCP, partially offset by the early redemption of $100 of the $350 Series MTN 2009-1 General Obligation Notes at a redemption price of $110, cash outflows for capital projects of $28, and the additional $16 investment in preferred interests of Aireon, along with an income tax payment of $5 related to that investment.

Cash flows for the six months ended February 28, 2018

	Six months ended February 28		
	2018	2017	Change
Cash flows from:			
Operations	$ (35)	$ 59	$ (94)
Investing	(78)	211	(289)
Financing	25	(110)	135
Cash flows from operating, investing and financing activities	(88)	160	(248)
Effect of foreign exchange on cash and cash equivalents	-	(3)	3
Increase (decrease) in cash and cash equivalents	(88)	157	(245)
Cash and cash equivalents, beginning of period	222	119	103
Cash and cash equivalents, end of period	$ 134	$ 276	$ (142)
Free cash flow (non-GAAP financial measure):			
Cash flows from:			
Operations	$ (35)	$ 59	$ (94)
Capital expenditures[(1)]	(85)	(60)	(25)
Investment in preferred interests[(1)]	-	(16)	16
Income tax refund (payment) on investment in preferred interests[(1)]	5	(5)	10
Free cash flow	$ (115)	$ (22)	$ (93)

(1) See the statements of cash flows of our Q2 fiscal 2018 financial statements.

As shown above, cash and cash equivalents decreased by $88 for the six months ended February 28, 2018 and the Company experienced negative free cash flow of $115, which is a non-GAAP financial measure as discussed in "INTRODUCTION – Financial Highlights: Results of operations for the three months ended February 28, 2018".

Cash flows from operations for the six months ended February 28, 2018 decreased by $94 from the six months ended February 28, 2017, primarily due to higher payments to employees and suppliers of $36, lower receipts from customer service charges of $18 (net of the impact of the refund of customer service charges of $60) and the payment of $42 to settle curtailed severance benefits.

Cash flows from investing activities for the six months ended February 28, 2018 were outflows of $78 compared to inflows of $211 in the six months ended February 28, 2017. During the six months ended February 28, 2018, the Company invested $77 in capital projects (cash outflows of $85) compared to $62 in the six months ended February 28, 2017 (cash outflows of $60). The cash outflows in fiscal 2018 were partially offset by an income tax refund of $5 on the Company's investment in preferred interests of Aireon. In fiscal 2017, we received $292 of proceeds from MAV II notes, other notes and restructured ABCP compared to $1 received in fiscal 2018. The fiscal 2017 cash inflows were partially offset by an additional $16 in investments in preferred interests and an income tax payment of $5 related to that investment.

Cash flows from financing activities for the six months ended February 28, 2018 were inflows of $25 compared to outflows of $110 for the six months ended February 28, 2017. The inflow was a result of a $25 drawdown of surplus funds from the debt service reserve fund. The outflow in fiscal 2017 was a result of the early redemption of $100 of the $350 Series MTN 2009-1 General Obligation Notes at a redemption price of $110.

For the six months ended February 28, 2017, our cash and cash equivalents balance increased by $157. This was primarily due to proceeds of $292 from MAV II notes and restructured ABCP and cash inflows from operations of $59, partially offset by the early redemption of $100 of the $350 Series MTN 2009-1 General Obligation Notes at a redemption price of $110, cash outflows for capital projects of $60, and the additional $16 investment in preferred interests of Aireon, along with an income tax payment of $5 related to that investment.

Liquidity and Financing Strategy

Our liquidity and financing strategy remains unchanged from that disclosed in our fiscal 2017 annual MD&A.

We are exposed to re-financing risk with respect to our bond and note maturities, including the $25 annual amortizing payment due on the Series 97-2 amortizing revenue bonds. We mitigate this risk by maintaining committed credit facilities in an amount sufficient to meet our refinancing needs in the event of temporary capital market disruptions or lack of access to the market for any reason. The Company issued a Base Shelf Prospectus on November 9, 2017 that is valid for a 25 month period.

On March 29, 2018, the Company issued $275 Series MTN 2018-1 General Obligation Notes due on March 30, 2048. The proceeds of these notes will be used to repay the Company's $350 Series MTN 2013-1 General Obligation Notes when they mature on April 19, 2018. The remainder of the maturity will be repaid with available cash and by drawing on the Company's syndicated credit facility, if necessary.

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 February 28, 2018, the credit facilities are utilized as follows:

Credit facilities:	
Credit facility with a syndicate of Canadian financial institutions[(1)] [(2)]	$ 675
Letter of credit facilities for pension funding purposes[(3)]	515
Total available credit facilities	1,190
Less: Outstanding letters of credit for pension funding purposes[(3)]	481
Less: Outstanding letters of credit for other purposes[(2)]	12
Undrawn committed borrowing capacity	697
Less: Operations and maintenance reserve fund allocation[(4)]	290
Credit facilities available for unrestricted use	$ 407

(1) The Company's credit facility with a syndicate of Canadian financial institutions in the amount of $675 is comprised of two equal tranches maturing on September 12, 2020 and September 12, 2022. The credit facility agreement provides for loans at varying rates of interest based on certain benchmark interest rates, specifically the Canadian prime rate and the Canadian bankers' acceptance rate, and on the Company's credit rating at the time of drawdown. A utilization fee is also payable on borrowings in excess of 25% of the available facility. The Company is required to pay commitment fees, which are dependent on the Company's credit rating. The Company is in compliance with the credit facility covenants as at February 28, 2018.

(2) At February 28, 2018, $12 was drawn from an uncommitted revolving credit facility (including letters of credit with a value of $2 issued on behalf of Searidge). In connection with this facility, an allocation of $25 with a Canadian financial institution has been made under its $675 committed credit facility.

(3) The letter of credit facilities for pension funding purposes are comprised of four facilities with Canadian financial institutions totalling $515, which will mature on December 31, 2018, unless extended. At February 28, 2018, $481 was drawn for pension solvency funding purposes.

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

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

	February 28 2018	August 31 2017
LONG-TERM DEBT:		
Bonds and notes payable		
Under the Master Trust Indenture	$ 500	$ 500
Under the General Obligation Indenture	1,100	1,100
	1,600	1,600
Adjusted for deferred financing costs and discounts	(5)	(5)
Total bonds and notes payable	1,595	1,595
Less: current portion	(375)	(375)
Total non-current loans and borrowings	$ 1,220	$ 1,220
LIQUIDITY:		
Cash and cash equivalents	$ 134	$ 222
Debt service reserve fund	70	95
	$ 204	$ 317
Undrawn committed borrowing capacity[1]	$ 697	$ 701

(1) $407 of this borrowing capacity is available as described in the previous table (August 31, 2017 - $411).

Credit Ratings

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

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

On March 14, 2018, S&P issued a press release affirming the Company's ratings and stable outlook. The press release noted the Company's credit strengths as holding a monopoly over an essential transportation service, legislated ability to levy user charges on airlines to meet financial requirements and sound debt service coverage (DSC). They noted that the Company's debt metrics continue to improve thanks to a declining debt level.

S&P stated that NAV CANADA has "strong liquidity and financial flexibility, thanks to an adequate level of unrestricted reserves and lines of credit, and very strong debt capacity." S&P noted the Company's legislated perpetual monopoly over civil air navigation services in Canadian-controlled airspace and the fact that its air traffic volumes depend not on any one region, but the entire country and international airspace assigned to Canada by treaty. S&P therefore considers the Company's service area to be more diversified than that of airport operators.

On February 15, 2018, Moody's issued a 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 good degree of cash flow predictability;
- Continued strong traffic growth;
- Manageable capital expenditure program.

They also noted the following credit challenges:

- Defined benefit pension plan creates recurring calls on cash;
- Periods of weak debt service coverage ratio when the Company depletes its rate stabilization account.

They stated that "the rating outlook is stable, reflecting our expectation that NAV CANADA will be prudent and take into account its overall financial position and upcoming obligations when contemplating a rate decrease and, vice versa, that it will implement the necessary rate increases if traffic growth does not materialize."

Our credit ratings provided by DBRS remain unchanged from those described in our fiscal 2017 annual MD&A.

Cash Requirements

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

Pension Plans

Required pension contributions to the Company's pension plans are determined by annual actuarial valuations for funding purposes performed as at January 1 (see below under "Pension Contributions (Going Concern and Solvency)"). Our latest actuarial valuations (for funding purposes) as at January 1, 2017 were completed and filed with the Office of the Superintendent of Financial Institutions Canada (OSFI) in June 2017.

Pension Plans' Accounting Deficit: The Company's pension plans had an accounting deficit of $1,251 as at February 28, 2018 as compared to an accounting deficit of $1,295 as at the annual measurement date of August 31, 2017. The $44 decrease in the deficit position during the six months ended February 28, 2018 is primarily due to net actuarial gains of $106, partially offset by actuarial accounting expense exceeding Company contributions by $62. The $106 of net actuarial gains are primarily due to a return on plan assets $226 greater than the expected return based on the discount rate of 3.60% at August 31, 2017, partially offset by actuarial losses of $120 from a 10 basis point decrease in the discount rate to 3.50%. During Q2 fiscal 2018, there were no significant events or changes to the Company's defined pension plans that would require a revaluation. As such, no revaluation was performed and no changes in re-measurements of the plans were recorded in the Company's statement of other comprehensive income for the three months ended February 28, 2018.

Regulatory Recovery of Pension Costs: As described in our fiscal 2017 annual MD&A, the Company uses a regulatory approach for pension costs to determine the net impact charged to net income (loss). The objective of this approach is to expense the cost of the Company's going concern cash contributions to the funded pension plans. In fiscal 2017, the Company made solvency cash contributions of $44 which were deferred. During the six months ended February 28, 2018, $5 has been recorded as a regulatory expense to recover the cost. The remaining balance of $39 is expected to be recovered through future customer service charges.

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

	Three months ended February 28		Six months ended February 28	
	2018	2017	2018	2017
Consolidated statement of operations				
Pension current service costs[1]	$ 43	$ 44	$ 86	$ 87
Net finance costs[1]	11	11	21	22
Less: Regulatory deferrals	(30)	(32)	(54)	(62)
	24	23	53	47
Company cash contributions				
Going concern current service	22	23	48	47
Regulatory recovery of fiscal 2017 solvency contributions	$ 2	$ -	$ 5	$ -

(1) For the six months ended February 28, 2018, pension current service costs do not include $2 related to the Company's unfunded pension plan (six months ended February 28, 2017 - $1) and net finance costs do not include $2 related to the Company's unfunded pension plan (six months ended February 28, 2017 - $1). For the three months ended February 28, 2018, pension current service costs do not include $1 related to the Company's unfunded pension plan (three months ended February 28, 2017 - $nil) and net finance costs do not include $1 related to the Company's unfunded pension plan (three months ended February 28, 2017 - $nil).

Pension Contributions (Going Concern and Solvency): The actuarial valuations for funding purposes of the pension plans performed as at January 1, 2017 reported a going concern surplus of $242 (January 1, 2016 – a deficit of $76).

The regulations governing the funding of federally regulated pension plans include a solvency test, which assumes the plans are terminated as at the valuation date. The actuarial valuations performed as at January 1, 2017 reported a statutory solvency surplus of $334 based on the assumption that the September 1, 2016 plan text restatement, which included the plan termination amendment that is currently subject to OSFI's review, was in effect on the valuation date. Had the amendment not been included, there would have been a statutory solvency deficiency of $289 as of January 1, 2017 (January 1, 2016 – a statutory solvency deficiency of $306).

The Company has the option of meeting its pension solvency funding requirements with letters of credit or cash contributions. Pension funding regulations were amended in June 2017 permitting the letters of credit maximum to be based on 15% of solvency liabilities instead of assets. As at February 28, 2018, the Company has put in place letters of credit totaling $481 to meet its cumulative pension solvency funding requirements on a pre-amendment basis. Outstanding letters of credit represent 9% of solvency liabilities on a post-amendment basis and 8% on a pre-amendment basis.

The Company has funded its calendar 2017 solvency funding requirements of $58 with $14 of letters of credit and $44 in cash special payments. Beginning July 1, 2017, solvency contributions are determined on a pre-amendment basis while discussions with OSFI are ongoing. On a preliminary basis, going concern pension contributions for fiscal 2018 are expected to be $97, with no requirement for cash special payments. For the annual period beginning July 1, 2018, funding requirements will be based on the January 1, 2018 actuarial valuations.

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

Contractual Obligations

A breakdown of contractual obligations as at February 28, 2018 for the next five fiscal years and thereafter is presented in the following table.

	Remaining payments – for years ending August 31						
	Total	2018	2019	2020	2021	2022	Thereafter
Derivative liabilities	$ 5	$ 3	$ 2	$ -	$ -	$ -	$ -
Long-term debt (including current portion)(1), (2)	1,600	375	275	25	275	25	625
Interest payments(2)	572	37	69	53	46	39	328
Capital commitments(3)	129	66	16	15	6	4	22
Operating leases	38	4	8	8	7	7	4
Aireon bridge financing(4)	37	37	-	-	-	-	-
Total contractual obligations	$ 2,381	$ 522	$ 370	$ 101	$ 334	$ 75	$ 979

Total contractual obligations exclude commitments for goods and services in the ordinary course of business. Also excluded are other long-term liabilities mainly due to reasons of uncertainty of timing of cash flows and items that are non-cash in-nature.

(1) Payments represent principal of $1,600. The Company intends to refinance principal maturities at their maturity dates. The Company may choose to repay a portion of these maturities with available cash, and/or may increase the size of a re-financing to generate additional liquidity or for other purposes, and/or may choose to redeem, in whole or in part, an issue in advance of its scheduled maturity date.

(2) Further details on interest rates and maturity dates on long-term debt are provided in note 16 to our fiscal 2017 financial statements.

(3) The Company has firm commitments for the acquisition of property, plant and equipment and intangible assets amounting to $129 as at February 28, 2018 (August 31, 2017 - $141).

(4) Subsequent to February 28, 2018, Aireon has drawn $7 U.S. ($9 CDN) under the agreement.

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

The Company's contributions to its pension plans are discussed under the heading "LIQUIDITY AND CAPITAL RESOURCES – Cash Requirements: Pension Plans".

Subsequent to February 28, 2018, the Company entered into a lease for its head office premises. Lease payments will commence in fiscal 2023, with a total commitment of $127 over a twenty year term including estimated operating costs. The lease agreement provides for renewal options for periods up to fifteen years.

Capital Management

The Company views capital as the sum of its issued long-term debt, retained earnings (deficit) and accumulated other comprehensive income, regulatory deferral accounts and certain employee benefits, as depicted in the following table. This definition of capital is used by management and may not be comparable to measures presented by other companies.

	February 28 2018	August 31 2017
Bonds and notes payable	$ 1,595	$ 1,595
Equity:		
Retained earnings (deficit)	(14)	28
Regulatory deferral accounts:		
Debit balances	(1,390)	(1,475)
Credit balances	352	342
Employee benefits:		
LTD (asset) liability	(9)	(11)
Liability for funded pension benefits	1,149	1,198
Liability for accumulating sick leave	22	22
Total capital	$ 1,705	$ 1,699

Management's approach and objectives when managing capital remain unchanged from those described in our fiscal 2017 annual MD&A.

Financial Instruments and Risk Management

Reserve Funds and Financial Instruments

Under the Master Trust Indenture, we maintain a debt service reserve fund and an operations and maintenance reserve fund. We are also required to meet certain minimum liquidity levels under the General Obligation Indenture. The requirements of the debt service reserve fund and the operations and maintenance reserve fund remain unchanged from that described in our fiscal 2017 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 2017 annual MD&A. There were no significant changes to those risks or to the Company's management of exposure to those risks during the six months ended February 28, 2018, except as noted below.

Other Price Risk[3]: The fair value of the Company's investment in Aireon increased to $366 as at February 28, 2018 (August 31, 2017 - $350). A change of 5% in the fair value would impact finance income (other finance costs) by approximately $12 U.S. ($15 CDN) as at February 28, 2018 (August 31, 2017 - $12 U.S. ($15 CDN)).

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

Aireon is a joint venture that will provide global satellite-based surveillance capability for air navigation service providers around the world. It is expected that Aireon will commence operations later in calendar year 2018.

The following risks have been identified with respect to the Company's investment in preferred interests of Aireon:

- further delays may occur;
- the technology may not function as intended;
- agreements for data sales may not reach anticipated levels; and
- short or long-term bridge financing may not be obtained.

Aireon's liquidity has been under pressure due to delays in launching the satellites on which Aireon's payloads are hosted. For this reason, the payment of the Company's fourth and fifth tranche investments were brought forward with certain milestones waived. Aireon has secured a short-term facility with certain of its investors, of which the Company has committed $29 U.S. ($37 CDN). Aireon is currently working to secure long-term financing with a major international bank. It is expected that the bridge financing will provide Aireon with sufficient liquidity until such time as the system comes into operation. Further delays however may put pressure on Aireon's liquidity, which may in turn require further bridge financing.

The Company believes the investment in preferred interests of Aireon will provide the returns it is seeking. The price paid by three additional air navigation service providers, namely ENAV (Italy), the Irish Aviation Authority (IAA) and Naviair (Denmark), remains the best evidence of fair value as at February 28, 2018.

Insurance: Our aviation liability insurance program was last renewed on November 15, 2017 with liability limits of $5,250 U.S. ($6,736 CDN). The Company successfully secured an increase in the limits from $5,034 U.S. ($6,459 CDN) to $5,250 U.S. ($6,736 CDN). This insurance, placed with syndicates at Lloyd's of London and other international insurers, covers all of our ANS operations liabilities to third parties for both bodily injury and property damage. In June 2016, the Government of Canada ended a program they had maintained since shortly after September 11, 2001 that protected the Company from a terrorist-related loss in excess of our own insurance. As a result, the Company purchased war liability coverage of $2,000 U.S. ($2,566 CDN) per occurrence with $4,000 U.S. ($5,132 CDN) in the aggregate for periods subsequent to June 30, 2016. This insurance is non-cancellable in nature. The cost of this insurance is not significant to the Company.

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

Legal Proceedings

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

CHANGES IN ACCOUNTING POLICIES

The Company's Q2 fiscal 2018 financial statements were prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB). Significant accounting policies used in the Q2 fiscal 2018 financial statements are disclosed in note 3 of the Company's fiscal 2017 annual consolidated financial statements, except for the application of new standards, amendments and interpretations effective or early adopted September 1, 2017 as described in note 2 (f) to the Company's Q1 fiscal 2018 financial statements, which detail the impact and changes in accounting policies as a result of the adoption of IFRS 9 – *Financial Instruments* (IFRS 9) effective September 1, 2017. No other changes to significant accounting policies have been made. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

Future Accounting Pronouncements

The IASB has issued a number of standards and amendments that are not yet effective. The Company continues to analyze these standards and amendments to determine the extent of their impact on its consolidated financial statements. At this time, the Company does not expect to adopt any of the standards or amendments noted in our fiscal 2017 annual MD&A before their respective effective dates.

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

IFRS 15 – Revenue from Contracts with Customers

The Company continues to assess the anticipated impact of IFRS 15 - *Revenue from Contracts with Customers* (IFRS 15) on its consolidated financial statements. IFRS 15 will be adopted in the Company's fiscal year ending August 31, 2019. A detailed review of its current contracts under the standard's five-step model is underway. To date, the Company has determined that the recognition and measurement of customer service charges revenue, which represents approximately 96% of total annual revenue, will not change upon adoption of IFRS 15. The impact on adoption to the Company's revenue is largely related to service and development contracts included in other revenue on the consolidated statement of operations and is not expected to be significant. As the project team continues their review, this impact will be quantified.

The following amendments issued by the IASB, and not already disclosed in the Company's November 30, 2017 interim condensed consolidated financial statements, have been assessed as having a possible effect on the Company in the future:

IAS 28 – Investments in Associates and Joint Ventures

In October 2017, the IASB issued narrow-scope amendments to IAS 28 - *Investments in Associates and Joint Ventures* (IAS 28), clarifying that long-term interests in associates and joint ventures, to which the equity method is not applied, are in the scope of both IFRS 9 (including its impairment requirements) and IAS 28. The amendments are effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted.

The amendments to IAS 28 clarify that:

- an entity applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and which, in substance, form part of the net investment in those associates and joint ventures;
- an entity applies the requirements in IFRS 9 to long-term interests before applying the loss absorption and impairment requirements in IAS 28; and

- in applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28.

Annual Improvements to IFRS – 2015-2017 Cycle

On December 12, 2017, as part of the annual improvements process, the IASB issued narrow-scope amendments to IFRS 3 – *Business Combinations,* IFRS 11 – *Joint Arrangements*, IAS 12 – *Income Taxes* and IAS 23 – *Borrowing Costs*. The amendments are effective for annual reporting periods beginning on or after January 1, 2019, with early application permitted. Each of the amendments has its own specific transition requirements.

The Company intends to adopt the amendments to IAS 28 and the amendments from the annual improvements process in its financial statements for the annual period beginning on September 1, 2019. The extent of the impact of the amendments has not yet been determined.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

The Company's critical accounting estimates and judgments applied in the preparation of the Company's Q2 fiscal 2018 financial statements are consistent with those applied and disclosed in our fiscal 2017 annual consolidated financial statements and as described in the fiscal 2017 annual MD&A.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

A material change in internal control over financial reporting (ICFR) is a change that has, or is reasonably likely to materially affect the issuer's ICFR. A material change in ICFR occurred during Q1 fiscal 2018 with the implementation of the BenPlus system which streamlined pension administration by replacing manual processes with workflow capability and electronic pension files. Given the materiality of the transactions processed by the pension administration system, we consider the change to be a material change in ICFR. We have determined that ICFR under the new BenPlus system has been appropriately designed.

There have been no changes to the Company's ICFR during the three months ended February 28, 2018 that have materially affected or are reasonably likely to materially affect the Company's ICFR.