NAV CANADA

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MANAGEMENT'S DISCUSSION AND ANALYSIS

ON FORM 51-102F1

YEAR ENDED

AUGUST 31, 2026

October 22, 2026

NAV CANADA

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INTRODUCTION

This management's discussion and analysis (MD&A) relates to the consolidated financial position, results of operations, comprehensive income (loss) and cash flows as at and for the year ended August 31, 2026 (fiscal 2026) of NAV CANADA (also referred to in this MD&A as we, our, us or the Company). It should be read in conjunction with our audited consolidated financial statements (financial statements) and the accompanying notes for the year ended August 31, 2026 (fiscal 2026 financial statements) as well as our 2026 Annual Information Form dated October 22, 2026 (fiscal 2026 AIF). Additional information about NAV CANADA, including our financial statements for fiscal 2026 and the year ended August 31, 2025 (fiscal 2025) and our fiscal 2026 AIF are filed on the System for Electronic Document Analysis and Retrieval + (SEDAR+) at www.sedarplus.ca.

Our financial statements are prepared in Canadian dollars (CDN), in accordance with IFRS Accounting Standards as issued by the International Standards Board (IFRS Accounting Standards) and are comprised of the accounts of NAV CANADA and its subsidiaries. All information presented has been rounded to the nearest million dollars, unless otherwise indicated. Our Audit & Finance Committee reviewed this MD&A and our Board of Directors (the Board) approved it on October 22, 2026, before it was filed.

Caution Concerning Forward-Looking Information

This MD&A and, in particular, but without limitation, the section "INTRODUCTION – Significant Financial Matters" and "FINANCIAL OUTLOOK" of this MD&A, contain certain statements about NAV CANADA's future expectations. These statements are generally identified by words like "anticipate", "plan", "believe", "intend", "expect", "estimate", "approximate", "forecast" and the like, as well as future or conditional verbs such as "may", "will", "should", "would" and "could", or negative versions thereof. Because forward-looking statements involve future risks and uncertainties, actual results may differ 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 thereof, war, epidemics or pandemics, government interventions and related travel advisories and restrictions, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), cybersecurity 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, tariffs, trade protection measures, renegotiation of existing trade agreements, the ability to collect customer service charges and reduce operating costs, 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 2026 AIF.

The forward-looking statements contained in this MD&A represent our expectations as of October 22, 2026, 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.

Financial Highlights

- Air traffic levels, as measured in weighted charging units (WCUs), which reflect the number of billable flights, aircraft size, and distance flown in Canadian airspace, increased by 1.7% during fiscal 2026. Traffic performance was in line with budget expectations and demonstrated the continued strength and resilience of the aviation sector, supported by stable demand despite geopolitical uncertainty and weather-related disruptions.

  While external factors negatively affected WCUs earlier in the year, their impact was less pronounced and less prolonged than initially anticipated. Robust traffic activity in the latter part of the year offset these pressures, resulting in year-over-year growth in WCUs. The outcome highlights the resilience and adaptability of global air traffic patterns, including the rerouting of traffic flows and the substitution of traffic across corridors, which supported overall activity levels.

- On July 2, 2026, the Company sold its investment in preferred interests of Aireon Holdings LLC (together with its wholly owned subsidiary Aireon LLC, "Aireon") through the sale of all issued and outstanding shares of NAV CANADA Satellite, Inc. to a subsidiary of Iridium Communications Inc. (Iridium) for a total consideration of $241 CDN ($170 U.S.).

- Enhancing service delivery remains the Company's highest operational priority. Significant focus continues to be placed on staffing and training initiatives, strengthening workforce capacity, and modernizing critical infrastructure to support the safe, reliable, and efficient delivery of air navigation services. These efforts are being advanced while continuing to execute on key transformational initiatives that will improve long-term performance, resilience, and sustainability.

- The Company ended the year with strong liquidity reserves, including a cash balance of $416. This financial strength enhances flexibility to navigate market and operating uncertainties, fund strategic and capital requirements, and address upcoming debt maturities from a position of stability.

- The Company repaid the $285 Series 2021-1 General Obligation Notes upon maturity on February 9, 2026.

- We maintained our high ratings and stable outlooks with Moody's Investors Service (Aa2) and Standard & Poor's (AA).

Our Business

NAV CANADA is the private sector, non-share capital company that operates Canada's civil air navigation system (ANS) throughout Canada. The ANS was acquired from the Government of Canada in 1996 for a purchase price of $1.5 billion. Our services are provided to aircraft owners and operators within Canadian-controlled airspace and include air traffic control, flight information, weather briefings, airport advisories, aeronautical information, and navigation aids.

Our core business 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.

We have captured our mandate in a Shared Purpose statement: Keeping Canada's skies safe: *Shaping the future of air navigation services*. Our Shared Purpose is supported by the following four pillars:

- Safety is at the core – It is integral to everything we do and continues to mature as the industry evolves.
- Innovation is key – We are passionate about modernizing Canada's air navigation system to deliver value to our customers.

- Expertise is the cornerstone – The skill, agility, leadership and collaboration of our people make the difference.
- Partnerships are essential – Our partnerships help the aviation industry improve efficiency and support an environmentally sustainable future.

Financial Strategy and Rate Regulation

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.

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.

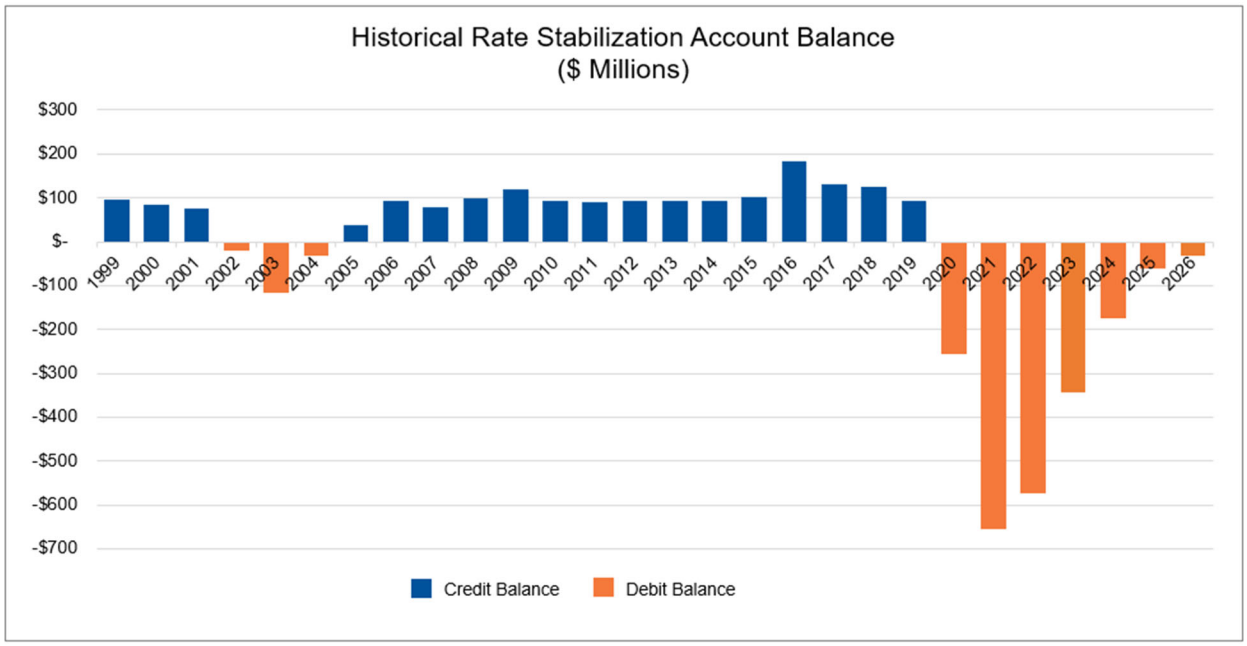
When establishing customer service charge rates, the Company monitors quarterly and considers, among other things:

(a) The statutory requirement to provide air navigation services;
(b) Air traffic results and forecasts;
(c) 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;
(d) The recovery of pension contributions on a cash basis; and
(e) Updates to our financial forecasts, debt servicing and financial requirements, and resulting financial coverage ratios.

Since actual revenue and expenses will differ from forecasts, a method to accumulate the variances is required so that they may be considered when setting future customer service charge rates. 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 a "rate stabilization" mechanism.

We adjust our net income (loss) through transfers to or from the rate stabilization account, based on variations from the amounts used when establishing customer service charges. If actual revenues are higher than planned or actual expenses are lower than planned, such excess is reflected as a credit to the rate stabilization account. Conversely, if actual revenues are less than planned or actual expenses are higher than planned, such shortfall is reflected as a debit to the rate stabilization account. A credit balance in the rate stabilization account represents amounts returnable through reductions in future customer service charges, while a debit balance represents amounts recoverable through future customer service charges (see "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account").

The following shows the balance of the rate stabilization account at the end of each fiscal year:



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 certain transactions where the timing of recognition for rate setting purposes differs from the accounting recognition before applying rate regulated accounting, the Company recognizes regulatory deferral account debits and credits to adjust the accounting recognition to the period in which they will be considered for rate setting. (see "RESULTS OF OPERATIONS – Net Movement in Regulatory Deferral Accounts").

Significant Financial Matters[1]

The following items had significant financial importance to the Company in fiscal 2026:

1. Air Traffic

During fiscal 2026, air traffic levels increased by approximately 1.7%, as compared to fiscal 2025, and were relatively consistent with budget expectations.

Traffic performance during the fiscal year demonstrated the resilience of the aviation sector despite weather-related disruptions early in the year and geopolitical developments later in the year. While these events contributed to periodic rerouting, delays, and cancellations, their impact was largely temporary. Strong underlying demand for air travel, combined with the flexibility of the air navigation system and the ability to adapt traffic flows across the network, supported a rapid recovery in activity levels and continued growth in WCUs.

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

While geopolitical, trade, and broader economic developments may continue to create uncertainty, recent experience highlights the adaptability of the aviation ecosystem and its ability to respond to changing conditions. Management remains focused on monitoring emerging developments and assessing their potential impact on traffic volumes, operating costs, and the broader operating environment.

The outlook for the year ending August 31, 2027 (fiscal 2027) reflects year-over-year air traffic growth of 2.5% as discussed in "FINANCIAL OUTLOOK".

2. Customer Service Charges

On May 22, 2026, the Company announced a proposed revision of its customer service charge rates effective September 1, 2026, increasing overall charges by an average of 1.92%. On August 14, 2026, the Company announced it will proceed with its proposal to change customer service charges consistent with the Notice of Revised Service Charges issued on May 22, 2026. The revised charges became effective on September 1, 2026.

The rate changes support continued investment in safety, service delivery, and infrastructure renewal, while maintaining disciplined financial management. In applying the service charge principles set out in the ANS Act, the Company is taking a measured and prudent approach, advancing critical investments while managing the timing of cost recovery. This reflects a balanced application of the rate stabilization framework, aligning current operational needs with the objective of maintaining rate stability and predictability over time.

3. Investment in Preferred Interests of Aireon and Divestiture

Strategic Investment, Benefits Realized and Divestiture

In 2012, NAV CANADA became a founding investor in Aireon, a company established to deploy the world's first space-based Automatic Dependent Surveillance-Broadcast (ADS-B) surveillance system. The investment was made to support the development of a safety-critical capability that did not exist as a mature commercial service at the time, and advanced the safety, efficiency and environmental performance of air navigation services, particularly in remote, oceanic and polar airspace where conventional radar surveillance was not available.

The investment achieved its intended objective. Aireon's space-based ADS-B technology transformed surveillance in remote and oceanic airspace by enabling real-time aircraft tracking where conventional radar coverage is unavailable. The technology has enhanced situational awareness, strengthened safety, improved operational efficiency, supported more efficient flight routings, and reduced fuel consumption and emissions. It has become an integral component of NAV CANADA's operations and the broader global air navigation system.

Today, Aireon has evolved into a mature and globally adopted provider of space-based surveillance services. With the successful commercialization of the platform, NAV CANADA's strategic objective as a founding investor has been realized, and its ongoing relationship with Aireon is primarily as a customer of its services. In light of this evolution, the Company determined that the time was appropriate to exit its ownership position. The transaction provided an opportunity to monetize a non-core investment at an attractive valuation, strengthen liquidity, and redeploy capital toward NAV CANADA's core air navigation and modernization priorities. Accordingly, on May 13, 2026, the Company entered into a definitive securities purchase agreement to sell its investment in preferred interest of Aireon through the sale of all issued and outstanding shares of NAV CANADA Satellite, Inc. to a subsidiary of Iridium as part of a broader transaction involving all Air Navigation Service Provider (ANSP) shareholders of Aireon. The transaction closed on July 2, 2026.

Financing Approach

Consistent with NAV CANADA's approach to funding long-term strategic and capital investments, the Aireon investment was financed through the Company's debt-financing program on the strength of our strong credit profile. Customer service charges reflected only the annual financing costs associated with the debt financing and the ongoing costs of receiving Aireon's surveillance services.

This approach enabled the Company to invest in a transformative technology while aligning cost recovery with the period over which its operational benefits were realized.

The Company had expected, subject to the Aireon shareholder agreement, to receive dividend distributions beginning in 2020. However, the COVID-19 pandemic significantly reduced global air traffic, delaying Aireon's path to profitability and the anticipated timing of shareholder distributions. As a result, the anticipated shareholder distributions did not materialize.

Financial and Accounting Impacts

Total consideration under the transaction is approximately $241 CDN ($170 U.S.), compared to the Company's original investment of approximately $165 CDN ($150 U.S.). The total consideration exceeds the Company's original investment and reflects both the successful commercialization and maturity of Aireon's business and the appreciation of the U.S. dollar relative to the Canadian dollar over the investment period.

The Company received the first installment of the purchase price, net of transaction costs, of $114 CDN ($83 U.S.), upon closing, with the remaining installment of $112 CDN ($83 U.S). expected to be received on July 2, 2027. As at August 31, 2026, the proceeds received and the related receivable for the remaining installment were recorded in the statement of financial position and the investment in preferred interests of Aireon was derecognized.

Consistent with the Company's accounting policies and regulatory accounting framework, the gain on sale and related foreign exchange gains have been deferred in regulatory deferral accounts and will be recognized when the transaction is substantially complete and the remaining proceeds are received. Accordingly, the transaction strengthened liquidity and NAV CANADA's financial position during fiscal 2026 but did not result in a corresponding increase in net income (loss), after net movement in regulatory deferral accounts during the year.

Use of Proceeds and Financial Benefits

The expected gain on sale and foreign exchange gains have been incorporated into NAV CANADA's fiscal 2027 financial plan and service charge determination process.

The proceeds strengthen liquidity and financial flexibility, support ongoing capital investment and modernization initiatives, reduce future financing requirements, and help mitigate future service charge pressures. The transaction also enhances the Company's balance sheet capacity and supports long-term financial sustainability while preserving its ability to continue investing in safety, technology and operational performance.

Ongoing Relationship with Aireon

Following the transaction, NAV CANADA transitioned from investor to long-term customer and extended its Aireon data services agreement through 2035.

Aireon's space-based ADS-B technology remains an integral component of NAV CANADA's operations, providing real-time aircraft surveillance in areas where conventional radar coverage is unavailable. The service continues to deliver significant safety, operational, environmental and customer benefits through improved situational awareness, enhanced aircraft tracking, more efficient use of airspace, reduced fuel consumption and lower emissions.

Through its long-term commercial agreement, NAV CANADA and its customers will continue to benefit from these capabilities and from NAV CANADA's renewed focus on its current transformation strategy.

Subsequent Development

On June 29, 2026, Rocket Lab Corporation announced an agreement to acquire Iridium. NAV CANADA does not expect the proposed acquisition to affect its commercial arrangements with Aireon or Iridium, the economics of the completed sale, or the collectability of the remaining proceeds. As a result, no material impact on the Company's operations or financial position is currently anticipated.

4. Rate Stabilization Account

The rate stabilization account had a debit balance of $30 at August 31, 2026, compared to $60 at August 31, 2025. The $30 reduction during the year reflects the planned recovery of $34, offset by net unfavourable variances from planned results of $4. Rate stabilization adjustments are described under "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account".

5. Financing Activities

On February 9, 2026, the Company repaid the $285 Series 0.937% 2021-1 General Obligation Notes upon maturity, reducing the Company's long-term debt balance to $1,840, including $223 classified as current.

During fiscal 2026, the Company filed the actuarial valuation for its registered pension plan as of January 1, 2026 with the Office of the Superintendent of Financial Institutions (OSFI). As permitted by regulations, based on the favourable valuation results, the Company was able to reduce its outstanding letters of credit for solvency funding purposes by $426 as discussed in "FINANCIAL AND CAPITAL MANAGEMENT – Liquidity and Financing Strategy" and "FINANCIAL AND CAPITAL MANAGEMENT – Registered Pension Plan".

Selected Annual Financial Information

The following table shows selected annual Company information for fiscal 2026, fiscal 2025 and the year ended August 31, 2024 (fiscal 2024). This information has been derived from the Company's financial statements.

Years ended August 31	2026	2025	2024
Revenue	**$ 1,903**	$ 1,856	$ 1,800
Net income (loss), before net movement in regulatory deferral accounts	**$ (34)**	$ 81	$ 81
Net income (loss), after net movement in regulatory deferral accounts [1]	**$ -**	$ -	$ -
Total assets	**$ 3,054**	$ 2,850	$ 2,561
Total liabilities	**$ 2,688**	$ 2,955	$ 3,228
Total regulatory deferral account debit balances	**$ 1,082**	$ 1,072	$ 1,139
Total bonds and notes payable (including current portion) [2]	**$ 1,840**	$ 2,140	$ 2,155
Total regulatory deferral account credit balances	**$ 1,420**	$ 939	$ 444

[1] **Net movement in regulatory deferral accounts**			
Rate stabilization adjustments	**$ (30)**	$ (112)	$ (167)
Other regulatory deferral account adjustments	**64**	31	86
Net movement in regulatory deferral accounts	**$ 34**	$ (81)	$ (81)

[2] See "FINANCIAL AND CAPITAL MANAGEMENT – Liquidity and Financing Strategy".

Revenue

In fiscal 2026, the Company's revenue increased by $47 compared to fiscal 2025. The increase in revenue reflects increases in air traffic levels, as measured in WCUs, of 1.7%, on a year-over-year basis, and the average 3.73% increase of customer service charge rates effective January 1, 2025. See "RESULTS OF OPERATIONS - Revenue" for the breakdown of our revenue by categories of customer service charges.

During fiscal 2025, the Company's revenue increased by $56 compared to fiscal 2024. The increase in revenue reflects increases in air traffic levels, as measured in WCUs, of 3.3%, on a year-over-year basis, and the average 3.73% increase of customer service charge rates effective January 1, 2025, partially offset by the impact of the average 5.57% decrease in customer service charge rates effective January 1, 2024 and lower other revenue from technology sales and service contracts and other projects.

Net income (loss), before net movement in regulatory deferral accounts

During fiscal 2026, the Company's net income (loss) before net movement in regulatory deferral accounts decreased by $115 as compared to fiscal 2025. The unfavourable result in fiscal 2026 compared to fiscal 2025 was primarily due to higher operating expenses, higher other expenses and (income) and lower other revenue offset by higher revenue from customer service charges. See "RESULTS OF OPERATIONS - Revenue", "RESULTS OF OPERATIONS – Operating Expenses" and "RESULTS OF OPERATIONS – Other Expenses and (Income)".

During fiscal 2025, the Company's net income before net movement in regulatory deferral accounts remained consistent with fiscal 2024 as higher operating expenses and lower other revenue were offset by higher revenue from customer service charges and lower other expenses and (income).

In keeping with the Company's financial strategy and the use of the rate stabilization mechanism, net income, after the application of rate regulated accounting, in the statement of operations was $nil in fiscal 2026, fiscal 2025 and fiscal 2024.

Total assets

Total assets as at August 31, 2026, increased compared to August 31, 2025, primarily due to higher employee benefit assets, higher investment in property plant and equipment, higher intangible assets and higher short term investments, partially offset by lower cash and cash equivalents (see "FINANCIAL AND CAPITAL MANAGEMENT – Cash Flows") and the sale of the Company's investment in preferred interests in Aireon (see "INTRODUCTION – Significant Financial Matters").

Total assets as at August 31, 2025, increased as compared to August 31, 2024, primarily due to higher investment in property plant and equipment and intangible assets, higher employee benefit assets and positive valuation adjustments to the investment in preferred interests of Aireon, partially offset by lower long-term receivables as the Company continued to collect from the payment deferral arrangement put in place in fiscal 2021 (see "FINANCIAL AND CAPITAL MANAGEMENT – Cash Flows").

Total liabilities

Total liabilities as at August 31, 2026, decreased compared to August 31, 2025, primarily due to the repayment of the $285 Series 0.937% 2021-1 General Obligation Notes upon maturity.

Total liabilities as at August 31, 2025, decreased as compared to August 31, 2024, primarily due to lower employee benefit liabilities as a result of remeasurement gains (see "FINANCIAL AND CAPITAL MANAGEMENT – Contractual Obligations and Commitments").

Total regulatory deferral account debit and credit balances

Changes in the Company's regulatory deferral account balances are presented in detail in note 7 of the fiscal 2026 financial statements. Current year changes are discussed under the heading "RESULTS OF OPERATIONS – Net Movement in Regulatory Deferral Accounts" and "RESULTS OF OPERATIONS – Other Comprehensive Income (Loss)".

RESULTS OF OPERATIONS

Revenue

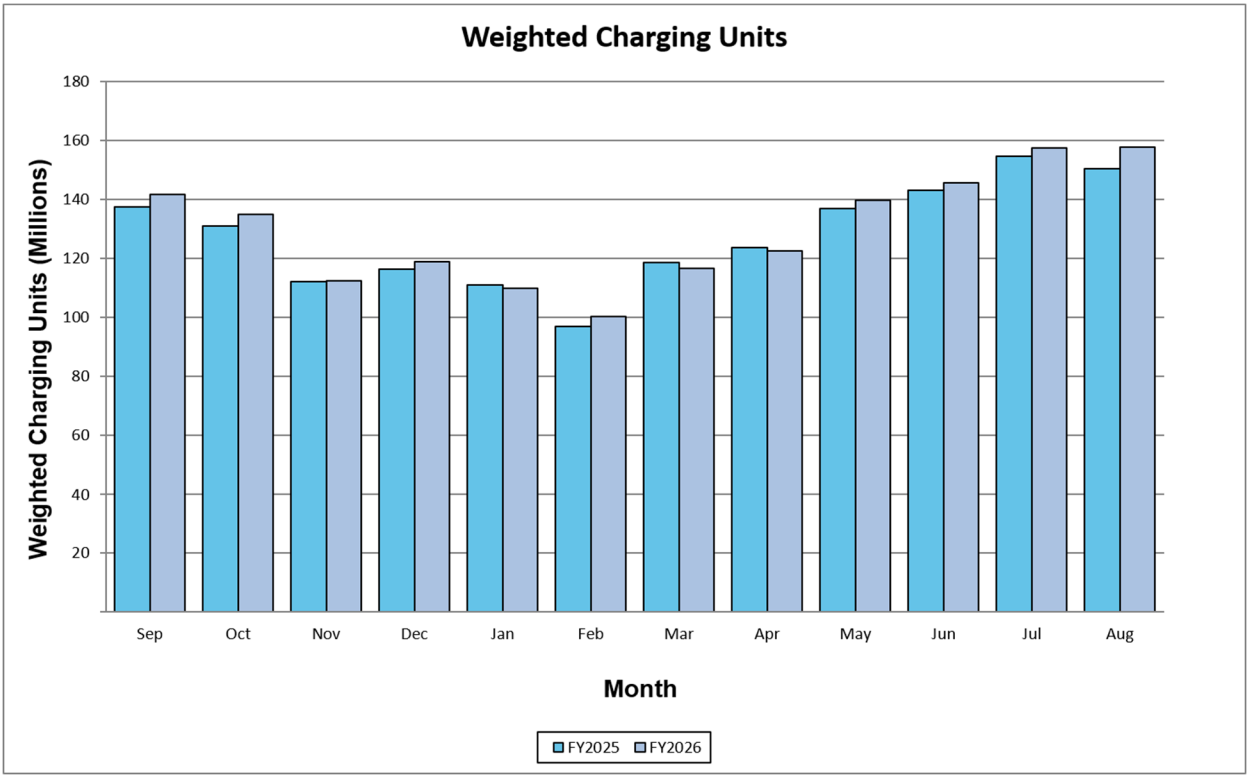
The following table provides a summary of revenue by category. Our fiscal 2026 AIF and the notes to our fiscal 2026 financial statements provide more information about the different categories of our customer service charges.

Years ended August 31	2026	2025	$ Change
Enroute	**$ 898**	$ 871	$ 27
Terminal	**811**	792	19
Daily / annual / quarterly	**60**	57	3
North Atlantic and international communication	**111**	108	3
Total customer service charges	**1,880**	1,828	52
Other [1]	**23**	28	(5)
	$ 1,903	$ 1,856	$ 47

[1] Other revenue consists of service and development contracts, the sale of civil aeronautical publications and miscellaneous revenue.

Air Traffic

As discussed in "INTRODUCTION – Significant Financial Matters", air traffic levels (as measured in WCUs) increased by 1.7% during the fiscal 2026 compared to fiscal 2025 as illustrated below.



Future air traffic levels may be influenced by numerous factors, including rates of economic growth or decline, tariffs, trade protection measures, renegotiation of existing trade agreements, 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 unrest, war, 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 man-made sources), demographic patterns and epidemics or pandemics.

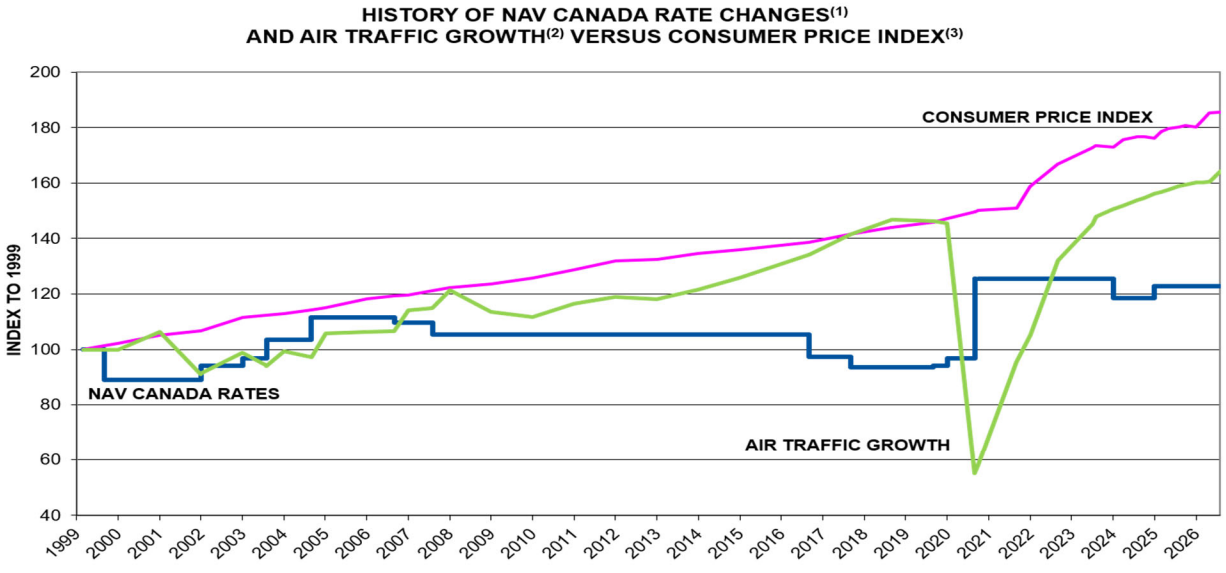
Customer Service Charges

Our customer service charges are a function of our costs, financial requirements, required levels of service, air traffic levels and revenue from non-aeronautical sources (see "INTRODUCTION – Financial Strategy and Rate Regulation").

Our business operates 24 hours a day, 365 days a year, providing an essential, national and international safety infrastructure. Given that the majority of our costs are predominantly fixed and are directly related to service delivery, we have relatively few opportunities to significantly reduce costs further without compromising our service. We are focused on meeting our safety and service obligations effectively while managing the impact on customer service levels through cost management efforts and productivity improvements.

While customer service charges have been adjusted over time to address changes in operating costs, staffing investments, and infrastructure modernization requirements, the cumulative increase in average service charges since 1999 remains significantly below the increase in the Consumer Price Index over the same period. Despite periodic rate adjustments, including both increases and decreases, average service charges as at August 31, 2026 were 22.9% above their 1999 levels, reflecting the Company's longstanding practice of balancing financial sustainability with rate stability and affordability for customers.

The following chart illustrates the evolution of our levels of customer service charges over time.



1. Average changes since charges were fully implemented on March 1, 1999.
2. Air Traffic Growth - Index values are based on Air Traffic WCU.
3. Consumer Price Index - Sourced from Bank of Canada.

Operating Expenses

Years ended August 31	2026	2025	$ Change
Salaries and benefits	$ **1,344**	$ 1,252	$ 92
Technical services	**208**	188	20
Facilities and maintenance	**69**	66	3
Depreciation and amortization	**135**	137	(2)
Other	**101**	93	8
	$ **1,857**	$ 1,736	$ 121

Salaries and benefits expense increased by $92 during fiscal 2026, compared with fiscal 2025, primarily reflecting higher staffing levels and wage rates to support service delivery, operational resiliency, and the ongoing maintenance and modernization of critical infrastructure. The increase also reflects targeted operational readiness initiatives aimed at maximizing service capacity during peak traffic periods, including measures to enhance staffing flexibility and controller availability. These impacts were partially offset by higher labour costs allocated to capital projects and lower pension expense resulting from an increase in the discount rate.

Approximately 85% of our workforce is unionized under eight collective agreements. As at August 31, 2026, the Company has ratified collective agreements in place with seven bargaining agents, comprising 87% of our represented workforce. Agreements with the Professional Institute of the Public Service of Canada expired on April 30, 2026.

Technical services expense during fiscal 2026 increased by $20 compared to fiscal 2025, primarily due to higher satellite surveillance costs, software subscriptions and support required for ongoing systems maintenance and development.

Other operating expenses during fiscal 2026 increased by $8 compared to fiscal 2025, primarily due to higher travel-related costs, professional fees relating to cloud computing arrangements and other expenses.

Other Expenses and (Income)

Years ended August 31	2026	2025	$ Change
Finance income	**$ (19)**	$ (63)	$ (44)
Net interest expense relating to employee benefits	**14**	33	19
Other finance expense	**89**	73	(16)
Other (gains) and losses	**(4)**	(4)	-
	$ 80	$ 39	$ (41)

Finance income and other finance expense in fiscal 2026 were both significantly affected by the Company's investment in preferred interests of Aireon and the subsequent sale transaction. Finance income decreased by $44, primarily reflecting lower fair value gains on the investment compared to fiscal 2025 and reduced returns on cash balances due to both lower average balances and lower interest rates. Other finance expense increased by $16, largely due to transaction costs and higher fair value losses on the investment.

Net interest expense relating to employee benefits decreased by $19 during fiscal 2026, primarily due to a 20-basis point increase in discount rates at August 31, 2025 compared to August 31, 2024.

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 2026 financial statements. The table below shows the net movements in the rate stabilization account.

Years ended August 31	2026	2025	$ Change
Debit balance, beginning of period	**$ (60)**	$ (175)	$ 115
Variances from planned results:			
Revenue lower than planned	**(11)**	-	(11)
Operating expenses lower than planned	**18**	59	(41)
Other net expenses lower than planned	**2**	40	(38)
Net movement in other regulatory deferral accounts	**(13)**	(8)	(5)
Total variances from planned results	**(4)**	91	(95)
Initial approved adjustment [1]	**34**	21	13
Net movement recorded in net income (loss)	**30**	112	(82)
Other adjustments	**-**	3	(3)
Debit balance, end of period	**$ (30)**	$ **(60)**	$ 30

[1] To achieve breakeven results of operations after the application of rate regulated accounting, the Board approved a planned surplus, representing a reduction of the rate stabilization account debit balance (representing a shortfall), together with the Company's annual budget.

The rate stabilization account debit balance decreased by $30 during fiscal 2026, reflecting the planned recovery of $34, representing the anticipated net income per the fiscal 2026 budget, offset by net unfavourable variances from planned results of $4.

Savings in professional services, depreciation, and travel costs more than offset higher salaries and benefits associated with increased staffing levels to support operational resilience. These favourable variances were partly offset by lower technology sales and services revenue and a lower than anticipated net movement in other regulatory deferral accounts, including the impact of Aireon related regulatory adjustments and certain pension and employee benefit related items.

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.

Years ended August 31	2026	2025	$ Change
Rate stabilization account [1]	**$ (30)**	$ (112)	$ 82
Other regulatory deferral accounts			
Employee benefit pension costs	**38**	63	(25)
Other employee benefits	**1**	2	(1)
Investment in Aireon	**17**	(38)	55
Cloud computing arrangements	**17**	14	3
Asset impairment	**(9)**	(9)	-
Other	**-**	(1)	1
	$ 34	$ (81)	$ 115

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

The change in the net movement of regulatory deferral accounts was influenced by both pension related and Aireon related adjustments. Pension cost deferrals reflect differences between pension costs recognized for accounting purposes and the amounts recovered through rate setting, with the year-over-year change primarily driven by changes in applicable discount rates. Aireon related regulatory adjustments were recorded to neutralize the impact on customer rates of fair value changes recognized prior to the sale and related transaction costs.

Other Comprehensive Income (Loss)

The accounting recognition of other comprehensive income (loss) amounts is completely offset by regulatory deferrals in order to defer the accounting recognition to those 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, except for the cash flows related to hedging instruments. These 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.

Years ended August 31	2026	2025	$ Change
Items that will not be reclassified to income or (loss)			
Re-measurements of employee defined benefit plans	**$ 507**	$ 473	$ 34
Net movement in regulatory deferral accounts	**(507)**	(473)	(34)
	-	-	-
Items that will be reclassified to income or (loss)			
Amortization of net losses on cash flow hedges	**2**	2	-
Change in fair value of cash flow hedges	**(1)**	3	(4)
Net movement in regulatory deferral accounts	**2**	(5)	7
	3	-	3
Items reclassified to income or (loss)			
Change in fair value of cash flow hedges	**(3)**	-	(3)
Total other comprehensive income (loss)	**$ -**	$ -	$ -

Net remeasurement gains on employee defined benefit plans were $507 in fiscal 2026, compared to $473 in fiscal 2025. The increase primarily reflected investment returns on plan assets exceeding expectations and actuarial gains resulting from a 30 basis point increase in the discount rate to 5.40% at August 31, 2026. These gains were partially offset by actuarial losses associated with changes in demographic assumptions.

For fiscal 2025, the net re-measurement gains of $473 were primarily due to a higher return on plan assets and actuarial gains resulting from a 20 basis point increase in the discount rate to 5.10% at August 31, 2025.

FINANCIAL AND CAPITAL MANAGEMENT

The following sections explain how we manage our cash and capital resources.

Our non-cash current assets are less than our current liabilities. This results from accounts receivable collections that are more rapid than the settlement of accounts payable and accrued liabilities. Should our working capital requirements increase, the Company has adequate credit facilities and cash as noted below.

The inclusion of non-cash depreciation and amortization expenses in the calculation of service charge rates typically leads to positive cash flows from operations. Our strategy is to use these positive cash flows to fund capital expenditures. In addition, our strategy is to maintain a financial structure and credit ratings that will allow the Company to access the capital markets to meet debt maturities as they come due and fund required investments in the business. Should we believe that conditions are not appropriate to undertake a refinancing at a particular time or should we experience a temporary downturn in revenue from seasonal or other factors, the Company has sufficient cash and committed credit facilities at its disposal.

As at August 31, 2026, we had $416 of cash and cash equivalents and undrawn committed credit facilities for general purposes of $850, all of which provide the Company with adequate liquidity reserve. In addition, we had letter of credit facilities for pension funding purposes of $720 of which $432 was undrawn (see "FINANCIAL AND CAPITAL MANAGEMENT – Liquidity and Financing Strategy").

Investment in Technology and Infrastructure

During fiscal 2026, the Company continued to invest in the technology and infrastructure required to support the safe, efficient and resilient delivery of air navigation services and to advance the modernization of Canada's air navigation system. Total investment of $329 during the year comprises of $317 in capital expenditures and $26 related to cloud computing arrangements, partially offset by $14 in funding received under the Government of Canada's National Trade Corridors Fund (NTCF) to support the financing of projects aimed at improving aviation network capacity and resilience. This funding supports the Company's continued investment in critical air navigation infrastructure and modernization initiatives, helping strengthen the safety, efficiency and resilience of Canada's air navigation system and deliver long-term benefits to customers and the broader aviation community. The Company's broader modernization plans are focused on renewing core infrastructure, meeting evolving customer requirements and transforming how air navigation services are delivered across Canada.

Investment activity remained focused on core priorities with $120 directed towards infrastructure delivery and technology infrastructure, and $53 towards deployment services. In addition, $56 was invested in the Company's Trajectory-Based Operations (TBO) programs alongside a range of targeted initiatives designed to enhance operational performance, elevate service delivery, and strengthen the Company's long standing safety foundation.

Cash flows

Years ended August 31	2026	2025	$ Change
Cash flows from (used in)			
Operating	**$ 189**	$ 320	$ (131)
Investing	**(214)**	(212)	(2)
Financing	**(303)**	(19)	(284)
Cash flows (used in) from operating, investing and financing activities	**(328)**	89	(417)
Effect of foreign exchange on cash and cash equivalents	**2**	6	(4)
(Decrease) increase in cash and cash equivalents	**(326)**	95	(421)
Cash and cash equivalents, beginning of period	**742**	647	95
Cash and cash equivalents, end of period	**$ 416**	$ 742	$ (326)
Free cash flow (non-GAAP financial measure) [(1)]			
Cash flows from (used in):			
Operations	**$ 189**	$ 320	$ (131)
Capital expenditures	**(302)**	(241)	(61)
Government grants received	**15**	29	(14)
Proceeds from sale of investment in preferred interests of Aireon	**114**	-	114
Payment of lease liabilities	**(2)**	(3)	1
Free cash flow	**$ 14**	$ 105	$ (91)

(1) Free cash flow is a non-GAAP financial measure. The Company defines free cash flow as cash generated from operations, less capital expenditures (net of government grants received), proceeds from sale of investments in preferred interests of Aireon, principal payments of lease liabilities and income tax payments. Management places importance on this indicator as it assists in measuring the impact of its investment program on the Company's financial resources and provides users with a more stable indication of the Company's ability to meet its debt obligations and continue to invest in the ANS.

Lower cash inflows from operations for fiscal 2026 were primarily due to higher payments to employees and suppliers, reflecting changes in working capital, as well as lower receipts related to other revenue, partially offset by higher customer service charges receipts.

Cash flows used in investing activities for fiscal 2026 remained relatively consistent, as outflows from higher capital expenditures and purchase of short-term investment were partially offset by proceeds from sale of investment in preferred interests of Aireon.

During fiscal 2026, the Company invested $317 in capital (cash outflows of $302, excluding capitalized interest of $8) compared to $282 in fiscal 2025 (cash outflows of $241, excluding capitalized interest of $4). Supporting these investments, the Company also received $15 in cash during fiscal 2026 under the NTCF, compared to $29 in fiscal 2025. Investments were made to progress on key strategic initiatives, facility replacements or refurbishment, equipment upgrades and replacements and operational and business system enhancements.

Higher cash outflows from financing activities for fiscal 2026 was due to the repayment of the $285 Series 2021-1 General Obligation Notes upon maturity in fiscal 2026.

Liquidity and Financing Strategy

As a corporation without share capital, the Company finances its operations with borrowed money. When the Company was created, we developed a financing plan called the Capital Markets Platform. All borrowings were incurred and secured under a Master Trust Indenture (MTI), which initially provided a total drawn and undrawn borrowing capacity of $3 billion. The MTI provides for a gradually escalating reduction of the initial borrowing capacity over 33 years.

In February 2006, we entered into a separate trust indenture, the General Obligation Indenture (GOI), which established a borrowing program that qualifies as subordinated debt under the MTI. As subordinated debt, General Obligation Notes are not subject to the mandatory annual debt reduction provisions of the MTI. Provided we meet an additional indebtedness test, we are not limited in the amount of debt we can issue under the GOI. Under the terms of the GOI, no new indebtedness may be incurred under the MTI. Therefore, as bonds mature or are redeemed under the MTI, they will be replaced with General Obligation Notes or borrowings under our credit facility described below.

Borrowings under the MTI are secured by an assignment of revenue and a security interest over the debt service reserve fund and revenue account maintained under the MTI. The GOI is unsecured but contains positive and negative covenants similar to the MTI.

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 debt service reserve fund is maintained in cash and qualified investments deposited with our Trustee. It's required that we maintain an amount equal to or greater than one year's debt service on MTI debt is required to be maintained.

The debt service reserve fund also counts toward our minimum cash liquidity level requirement under the GOI, which is equal to one year's interest on all debt. The GOI also requires a minimum liquidity level to be maintained equal to the minimum cash liquidity level plus the operations and maintenance reserve requirement. This is defined as one-quarter of the previous year's operating and maintenance expenses. The operations and maintenance reserve requirement is met with an allocation of undrawn availability under our committed credit facility.

As at August 31, 2026, we were in full compliance with our debt indentures.

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

	August 31 2026	August 31 2025
LONG-TERM DEBT		
Bonds and notes payable		
Under the MTI	**$ 223**	$ 239
Under the GOI	**1,625**	1,910
	1,848	2,149
Adjusted for deferred financing costs	**(8)**	(9)
Total bonds and notes payable	**1,840**	2,140
Less: current portion of long-term debt	**(223)**	(301)
Total long-term debt	**$ 1,617**	$ 1,839
LIQUIDITY		
Cash and cash equivalents	**$ 416**	$ 742
Short-term investments	**42**	-
Debt service reserve fund	**86**	84
Undrawn committed borrowing capacity	**850**	850
Total Liquidity	**$ 1,394**	$ 1,676

The Company has a revolving credit facility with a syndicate of Canadian financial institutions and separate letter of credit facilities for pension obligations. The credit facilities are utilized as follows:

As at August 31	2026
Credit facilities for general purposes:	
Credit facility with a syndicate of Canadian financial institutions - undrawn (1), (2)	**$ 850**
Less: Operations and maintenance reserve allocation (3)	**(425)**
Available for unrestricted use	**$ 425**
Credit facilities for pension obligations:	
Letter of credit facilities for pension obligations (4)	**$ 720**
Less: Outstanding letters of credit for pension obligations (4)	**(288)**
Undrawn committed letter of credit facilities	**$ 432**

(1) The Company's credit facility with a syndicate of Canadian financial institutions comprises two equal tranches maturing on March 26, 2029 and March 26, 2031, respectively. The maturity dates for both tranches were extended by one year during fiscal 2026. 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 Overnight Repo Rate Average (CORRA) 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.

(2) An allocation of $25 with a Canadian financial institution has been made under the $850 committed credit facility.

(3) The operations and maintenance reserve may be used to pay operating and maintenance expenses, if required.

(4) The letter of credit facilities for pension obligations are comprised of four facilities with Canadian financial institutions totalling $720 as at August 31, 2026 (August 31, 2025 - $860). During fiscal 2026, all four letter of credit facilities were extended by one year, whereby $350 will mature on December 31, 2026 and $370 will mature on December 31, 2027, unless extended.

During fiscal 2026, the Company filed the actuarial valuation for the registered pension plan dated January 1, 2026 with OSFI. As permitted by regulations, the filed valuation reflects the Company's election to reduce the outstanding letters of credit by the $384 statutory solvency excess. The total reduction of $426 in the outstanding letters of credit in July 2026 also included $42 cash contributions made to the registered pension plan to date in calendar 2026. As at August 31, 2026, $244 was drawn for solvency funding (August 31, 2025 - $670) for the registered pension plan and $44 for supplemental retirement arrangements (August 31, 2025 - $44).

Contractual Obligations and Commitments

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

Contractual Obligations

A breakdown of contractual obligations as at August 31, 2026, and 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.

	Remaining payments – for years ending August 31						
	Total	**2027**	**2028**	**2029**	**2030**	**2031**	**Thereafter**
Derivative liabilities	**$ 1**	$ 1	$ -	$ -	$ -	$ -	$ -
Long-term debt (including current portion) [1], [2]	**1,848**	223	-	-	300	-	1,325
Interest payments [2]	**1,019**	65	48	48	48	42	768
Capital commitments [3]	**208**	173	14	11	7	2	1
Lease liability	**49**	3	3	3	3	3	34
Total contractual obligations	**$ 3,125**	$ 465	$ 65	$ 62	$ 358	$ 47	$ 2,128

(1) Payments represent principal of $1,848. 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 11 of the fiscal 2026 financial statements.

(3) The Company has commitments for the acquisition of property, plant and equipment and intangible assets amounting to $208 as at August 31, 2026 (August 31, 2025 - $238).

The Company's letters of credit are discussed under "FINANCIAL AND CAPITAL MANAGEMENT – Liquidity and Financing Strategy".

Registered Pension Plan

The Company maintains funded and unfunded defined benefit pension plans for its employees. The funded registered pension plan, the NAV CANADA Pension Plan (the Plan), provides benefits based on age, length of service and best average earnings. Employees currently accrue benefits in one of two parts, depending on their position and length of service. Part A is a contributory component with automatic indexation, while Part B is a non-contributory component with a lower benefit formula applicable to post-2013 hires and management.

The Company continues to meet the funding requirements of the Plan in accordance with the regulations of OSFI. Required pension contributions to the Plan are determined by the annual actuarial valuation for funding purposes performed as at January 1 (see below under "Pension Contributions (Going Concern and Solvency)"). Our latest actuarial valuation of the Plan (for funding purposes) was performed as at January 1, 2026, and filed with OSFI in June 2026.

Employees with pension benefits in excess of Income Tax Act (Canada) limits participate in unfunded supplemental pension plans, with the supplemental plan in respect of current and retired Executive Officers partially secured by a letter of credit.

Pension Plan Accounting Surplus: The Company's pension plans had an accounting surplus of $342 as at the annual measurement date of August 31, 2026 (August 31, 2025 - deficit of $118). The increase in accounting surplus is primarily due to actuarial gains of $502, partially offset by actuarial accounting expense exceeding Company contributions by $42. The net actuarial gains are primarily due to return on plan assets of $385 higher than expected based on the discount rate of 5.10% at August 31, 2025, and actuarial gains of $117, primarily resulting from a 30 basis point increase in the discount rate to 5.40% at August 31, 2026, which resulted in a gain of $191, and experience adjustments of $47, partially offset by an actuarial loss, net of mortality and retirement, of $121 arising from changes in demographic assumptions.

The market-based discount rate used to determine pension obligations is based on the yield on long-term high quality corporate bonds, with maturities matching the estimated cash flows of the pension plan. A 0.25% decrease in the discount rate would increase the accounting deficit by approximately $283. Conversely, a 0.25% increase in the discount rate would decrease the deficit by approximately $267.

Pension Expenses: Annual pension benefit costs, determined in accordance with IAS 19 *Employee Benefits*, can increase by approximately $24 from a 0.25% decrease in the discount rate used in actuarial calculations or decrease by approximately $24 from a 0.25% increase in the discount rate.

Regulatory Recovery of Pension Costs: 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 recover the Company's going concern cash contributions to the Plan. In the fiscal year ended August 31, 2017, the Company made solvency deficiency cash contributions of $44 which were deferred. During the fiscal year ended August 31, 2018, $10 was recorded as a regulatory expense to recover part of the solvency contributions. The remaining balance of $34 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 Plan is as follows:

Years ended August 31	2026	2025
Consolidated statements of operations		
Pension current service expense [1]	**$ 128**	$ 131
Net interest expense [1]	**(5)**	15
Less: Regulatory deferrals	**(38)**	(63)
	$ 85	$ 83
Company cash pension contributions		
Going concern current service - cash payment	**$ 85**	$ 83

[1] For fiscal 2026, pension current service expense does not include $2 related to the Company's unfunded pension plan (fiscal 2025 - $4) and net interest expense does not include $8 related to the Company's unfunded pension plan (fiscal 2025 - $8).

Pension Contributions (Going Concern and Solvency): The regulations governing the funding of federally regulated pension plans require actuarial valuations to be performed on both a going concern and a solvency basis. The actuarial valuations performed as at January 1, 2026, reported a going concern surplus of $1,466 (January 1, 2025 - $1,436) and a statutory solvency excess of $384 (January 1, 2025 – $100). As permitted by regulations, the Company has elected to reduce the outstanding letters of credit by the statutory solvency excess, thereby reducing such excess to $nil.

Once the valuation report is filed, pension contributions are based on the January 1, 2026 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.

As at August 31, 2026, the Company has put in place letters of credit totaling $243 to meet its cumulative pension solvency funding requirements. At January 1, 2026, outstanding letters of credit of $670 represented 9.2% of solvency liabilities (January 1, 2025 - $795 and 10.6%) before the election and $285 representing 3.9% of solvency liabilities (January 1, 2025 - $695 and 9.3%) after the election. These letters of credit are considered an asset of the Plan in determining the statutory solvency deficiency shown above. As described in "FINANCIAL AND CAPITAL MANAGEMENT – Liquidity and Financing Strategy", the Company elected to reduce the outstanding letters of credit in July 2026.

Risks Associated with the Defined Benefit Plans: The nature of these benefit obligations exposes the Company to several risks, the most significant of which is funding risk. See note 12(g) to the fiscal 2026 financial statements for further discussion of these risks.

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. See note 14 to the fiscal 2026 financial statements for information on our financial instruments, including the exposure to and how we manage each of these risks as well as sensitivity analysis. Further discussion on liquidity risk is included under the heading "FINANCIAL AND CAPITAL MANAGEMENT – Liquidity and Financing Strategy".

The following risks may also impact the Company's cash and capital resources:

Air Traffic Levels

We are exposed to unpredictable changes in air traffic levels that directly affect the Company's cash flows, such as terrorist attacks (2001), recessions (2009), epidemics and pandemics (COVID-19 - 2020; SARS - 2004), air carrier and industry-specific constraints, changes in air carrier operations (Boeing 737 Max grounding – 2019) and changing weather patterns that may cause flights to move into or out of Canadian air space. Future traffic levels could be influenced by several factors, including:

- Economic climate – Air traffic generally is influenced by economic growth, decline or uncertainty. For example, during an economic downturn, growth rates in air traffic generally decline. Since a substantial portion of air traffic is international, traffic levels are influenced by both Canadian and global economic circumstances. On an annual basis (using typical air traffic levels), a 1.0% change in air traffic levels flown in Canadian airspace corresponds to approximately a $19 change in our revenue before rate stabilization.

- Aviation fuel prices – As fuel represents a major portion of airline operating costs, a change in the price of fuel can affect air traffic demand to the extent that the change is passed on to consumers.

- Changes in air carrier operations and behaviours, aviation industry-specific conditions such as cost, supply and capacity constraints, as well as air carrier competition, restructurings and insolvencies may all impact air traffic levels.

- Other external factors – Terrorist activities, war, epidemics, pandemics, passenger willingness to travel, government restrictions on air travel, natural disasters, environmental concerns or weather patterns may also affect air traffic levels.

Our strategy is to mitigate the immediate impact of a sudden decline in air traffic with the least disruption possible to our customer base. We do this with our rate stabilization mechanism, which reduces short-term volatility in customer service charges. Our rate stabilization account tracks and accumulates revenue and expense variances from planned levels (whether positive or negative), so that they may be factored into the setting of future customer service charges.

We also mitigate the impact of sudden declines in air traffic by maintaining substantial liquidity in the form of our reserve funds and unrestricted available credit facilities as discussed under "FINANCIAL AND CAPITAL MANAGEMENT – Liquidity and Financing Strategy".

Insurance

The Company's aviation liability insurance program was renewed on November 15, 2025. This insurance provides broad coverage for our ANS liabilities to third parties. The Company also carries other lines of insurance at levels deemed 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.

Credit Ratings

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

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

On August 20, 2026, Moody's reaffirmed the Company's Aa2 senior secured and senior unsecured ratings. The stable rating outlook reflects its expectation that NAV CANADA will continue its prudent strategy, taking 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 air traffic growth slows or declines and/or if expenses increase.

On September 24, 2026, S&P affirmed its long-term issuer credit and senior secured debt ratings on NAV CANADA at AA and raised its subordinate debt rating from AA- to AA. The stable outlook reflects S&P's expectation that despite some softening in demand, volumes will continue to grow and, in combination with planned rate increases, support strong debt service coverage (DSC) and an average debt burden of less than 10.0x earnings before interest, depreciation and amortization (EBIDA) in the next two fiscal years.

QUARTERLY RESULTS

Quarterly Financial Information (unaudited)

Due to seasonal and other fluctuations in air traffic and given that our costs are predominantly fixed, our quarterly financial results may fluctuate after the application of rate regulated accounting.

	Three months ended			
	Q4 August 31 2026	Q3 May 31 2026	Q2 February 28 2026	Q1 November 30 2025
Revenue	$ 559	$ 464	$ 405	$ 475
Operating expenses	488	472	457	440
Other expenses	24	33	21	2
Net income (loss) before net movement in regulatory deferral accounts	47	(41)	(73)	33
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	(68)	9	60	(31)
Other regulatory deferral account adjustments	21	32	13	(2)
	(47)	41	73	(33)
Net income (loss) after net movement in regulatory deferral accounts	$ -	$ -	$ -	$ -

	Three months ended			
	Q4 August 31 2025	Q3 May 31 2025	Q2 February 28 2025	Q1 November 30 2024
Revenue	$ 545	$ 466	$ 396	$ 449
Operating expenses	442	443	423	428
Other (income) and expenses	(7)	42	8	(4)
Net income (loss) before net movement in regulatory deferral accounts	110	(19)	(35)	25
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	(105)	(18)	34	(23)
Other regulatory deferral account adjustments	(5)	37	1	(2)
	(110)	19	35	(25)
Net income (loss) after net movement in regulatory deferral accounts	$ -	$ -	$ -	$ -

Discussion of Quarterly Results

The Company's financial results continue to reflect the seasonal nature of air traffic activity, with the highest levels of traffic and revenue typically occurring during the summer travel period in the fourth quarter and the lowest levels occurring during the winter months.

Fourth quarter revenue increased compared with the same period in fiscal 2025, reflecting higher traffic levels. The increase was supported by continued demand for air travel and strong traffic levels during the peak summer operating season.

Operating expenses also increased during the quarter, primarily reflecting investments in staffing and workforce capacity to support service delivery, operational resilience, and the modernization of the air navigation system. Higher software subscription and support costs associated with maintaining and enhancing critical technology platforms also contributed to the increase.

Other expenses and (income) was significantly influenced by the Aireon transaction. Compared with the fourth quarter of fiscal 2025, results in fiscal 2026 reflected transaction costs related to the sale and other transaction related adjustments. By comparison, the prior year period included fair value adjustments related to the Company's investment in preferred interests of Aireon.

The net movement in regulatory deferral accounts reflected these same underlying factors. Regulatory adjustments were recorded to offset the impact on customer rates of Aireon related fair value changes and transaction costs. The quarter also included the impact of regulatory adjustments related to post-employment benefit plans, partially offset by lower pension related and asset-impairment regulatory adjustments compared with the prior year.

FINANCIAL OUTLOOK[2]

	Budget Fiscal 2027	Actual Fiscal 2026	Forecast Fiscal 2026 [(1)]
Results of operations (before rate stabilization)			
Customer service charges	**1,928**	1,880	1,846
Other revenue	**18**	23	27
	$ 1,946	$ 1,903	$ 1,873
Operating expenses and other (income) and expenses, including other regulatory adjustments	**1,945**	1,873	1,877
Net income before rate stabilization adjustments	**$ 1**	$ 30	$ (4)
Air traffic levels (year-over-year growth)	**2.5%**	1.7%	(0.1%)
Rate stabilization account debit balance	**$ (30)**	$ (30)	$ (65)
Investment in capital and regulatory assets [(2)]	**$ 356**	$ 313	$ 336
Cash and cash equivalents at end of year	**$ 365**	$ 416	$ 395
Short-term investments (including accrued interest)	**42**	42	-
Cash, cash equivalents and short-term investments	**$ 407**	$ 458	$ 395

(1) Forecast information reflects the updated forecast disclosed in the third quarter MD&A.

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

(2) Investment in capital and regulatory assets for fiscal 2027 budget is presented net of $22 of government funding under the NTCF (fiscal 2026 - $15).

The Company's fiscal 2027 outlook reflects continued growth in air traffic levels, ongoing investments to strengthen service delivery and operational resilience, and continued progress on key modernization and transformation initiatives. Revenue growth is expected to be supported by higher traffic volumes and customer service charges, while expenditures will reflect investments in workforce capacity, infrastructure, and technology. The Company also expects to continue restoring financial resilience through the recovery of the rate stabilization account while maintaining a strong liquidity position to support future operating, capital, and financing requirements.

Revenue

Revenue expected to increase, supported by traffic growth and service charge adjustments

Revenue from customer service charges is expected to increase by $48 in fiscal 2027 compared to fiscal 2026. The increase reflects forecast growth in air traffic levels of approximately 2.5%, as measured in WCUs, together with the average 1.92% increase in customer service charges effective September 1, 2026. While broader geopolitical, trade, and economic uncertainties remain, the outlook assumes continued resilience in air travel demand and stable industry fundamentals. Other revenue is expected to decrease by $5, primarily reflecting lower technology sales and services activity.

Customer service charge revenue for fiscal 2026 exceeded the outlook disclosed in the third quarter MD&A by $34, driven by stronger than anticipated traffic growth. Traffic recovered more quickly than expected from the impacts of geopolitical tensions in the Middle East, demonstrating the adaptability of global traffic flows and the resilience of the aviation sector.

Operating Expenses and Other (Income) and Expenses

Continued investment in service delivery, workforce capacity and modernization

Operating expenses and other (income) and expenses, including regulatory adjustments before rate stabilization, are expected to increase by $72 in fiscal 2027. The increase primarily reflects higher compensation costs associated with wage increases and workforce growth, as well as continued investments to support service delivery, operational resilience, and the modernization of critical infrastructure and technology platforms. These investments are intended to strengthen operational performance, enhance system resilience, and support the Company's longer-term transformation initiatives.

Fiscal 2026 operating expenses and other (income) and expenses were generally consistent with the outlook provided in the third quarter MD&A.

Rate Stabilization Account

Continued progress in restoring financial resilience

The Company projects that the rate stabilization account will remain relatively steady at a debit or shortfall balance of $30 as at August 31, 2027.

The fiscal 2026 year end debit balance was $35 lower than anticipated in the third quarter MD&A, primarily due to stronger than expected customer service charge revenue and lower operating expenses than projected.

Cash Flows

Strong liquidity supports investment and financing requirements

The Company expects to maintain a strong liquidity position while continuing to invest in its operations and strategic priorities. Cash and cash equivalents and short-term investments are forecast to be approximately $407 at August 31, 2027.

Net cash outflows of approximately $51 are expected during fiscal 2027, reflecting capital investment programs, and payments to employees and suppliers. The Company's liquidity position is expected to remain sufficient to support ongoing operations, capital expenditures, and financing requirements.

Cash balances at August 31, 2026 exceeded the outlook disclosed in the third quarter MD&A, primarily due to lower capital expenditures and the timing of payments to employees and suppliers.

Long Term Strategic Initiatives And Modernization Program

The Company continues to advance a comprehensive multi-year program of operational and infrastructure modernization aimed at supporting long-term traffic growth, enhancing system resilience, and maintaining world class safety performance. These initiatives are designed to address increasing demand on Canada's air navigation system, evolving customer expectations for efficiency and predictability, and the need to renew critical infrastructure approaching obsolescence or the end of its service life.

Over the 2026–2031 planning horizon, the Company is progressing a portfolio of strategic programs that collectively transform how airspace is managed and how services are delivered. Key initiatives include the implementation of TBO to improve predictability and optimize routing, deployment of digital aerodrome technologies to modernize service delivery at airports, and development of frameworks to support the safe integration of remotely piloted aircraft systems. These initiatives are underpinned by continued investments in communications, surveillance, navigation and weather infrastructure to ensure operational reliability, scalability and resilience.

In parallel, the Company is investing in enabling capabilities that strengthen operational performance and organizational capacity. These include the modernization of aeronautical information systems and expanded training capacity to address industry wide staffing challenges. Together, these efforts enhance decision-making through improved data and analytics, while ensuring the Company has the capacity and capabilities required to meet future demand.

Given the multi-year nature of these programs, implementation timelines and scope will continue to evolve in response to operational requirements, regulatory developments, and broader economic and geopolitical conditions.

ADDITIONAL INFORMATION

Earnings and Cash Flow Coverage

Earnings coverage ratio and cash flow coverage are non-GAAP ratios and do not have any standardized meaning prescribed by IFRS Accounting Standards. 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.

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, after the application of rate regulated accounting, 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 or more than one-to-one for any interim period.

The table below shows the details relating to the Company's earnings coverage ratio and cash flow coverage:

Twelve months ended August 31	2026	2025
Interest costs	**67**	73
Consolidated earnings [1] before interest	**$ 67**	$ 73
Depreciation and amortization expense	**$ 135**	$ 137
Consolidated earnings [1] before interest and depreciation	**$ 202**	$ 210
Earnings coverage ratio	**1.00**	1.00
Cash flow coverage ratio	**3.02**	2.88

[1] Consolidated earnings are presented after rate stabilization.

Related Party Transactions

The Company's related parties include its key management personnel, subsidiaries and associates and registered pension plan for its employees.

Additional details of these transactions are disclosed in note 18 of our fiscal 2026 financial statements.

The Company's transactions with related parties were as follows:

Years ended August 31	2026	2025
Key management personnel compensation	**$ 13**	$ 12
Purchase of data services [1]	**$ 61**	$ 61
Pension plan contributions [2]	**$ 85**	$ 83
Cost recoveries from pension plan	**$ (18)**	$ (18)

[1] Amount represents expense incurred, up to the date of sale of the Company's investment in preferred interests of Aireon on July 2, 2026, for the purchase of data services under the Company's 12-year commitment with Aireon, which commenced in March 2019.

[2] Refer to "FINANCIAL AND CAPITAL MANAGEMENT – Contractual Obligations and Commitments: Pension Plans".

Outstanding balances were:

As at August 31	2026	2025
Receivable from pension plan	**$ 3**	$ 3

Accounting Policies

The Company's significant accounting policies are described in note 3 to the fiscal 2026 financial statements.

Future Accounting Pronouncements

In May 2026, the IASB issued IFRS 20 Regulatory Assets and Regulatory Liabilities, which will replace IFRS 14 Regulatory Deferral Accounts. The new standard introduces a comprehensive model for the effects of rate regulation, including the recognition of regulatory assets and liabilities and related regulatory income and expense. IFRS 20 is effective for annual reporting periods beginning on or after January 1, 2029. The Company is currently assessing its potential impact on the financial statements. The Company does not anticipate early adoption.

Critical Accounting Estimates and Judgments

The preparation of financial statements in conformity with IFRS Accounting Standards 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 financial statements could, in future, prove to be inaccurate.

The following accounting estimates and judgments are based on management's assumptions and are considered to be critical as they involve matters that are highly uncertain. Any changes from those estimates and judgments could have a material impact on our financial statements. The estimates and judgments are reviewed on an ongoing basis.

Employee Benefits

Defined benefit plans, other long-term employee benefits, termination benefits, and short-term employee benefits require significant actuarial assumptions to estimate the future benefit obligations and performance of plan assets. These assumptions are described in note 2(d) and note 12 of the fiscal 2026 financial statements.

While these assumptions reflect management's best estimates, differences in actual results or changes in assumptions could materially affect employee benefit obligations on the statement of financial position, salaries and benefits and net finance costs on the statement of operations, and re-measurements of employee defined benefit plans on the statement of comprehensive income.

INTERNAL CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Company has filed certificates signed by the President and Chief Executive Officer and the Vice President and Chief Financial Officer that, among other things, report on the design and effectiveness of disclosure controls and procedures (DC&P) and the design and effectiveness of internal control over financial reporting (ICFR).

Disclosure Controls and Procedures

The Company has designed DC&P to provide reasonable assurance that material information relating to the Company is made known to the President and Chief Executive Officer and the Vice President and Chief Financial Officer, particularly during the period in which the annual filings are being prepared, and that information required to be disclosed to satisfy the Company's continuous disclosure obligations is recorded, processed, summarized and reported within the time periods specified by applicable Canadian securities legislation.

Management, under the supervision of the certifying officers, has evaluated the effectiveness of the DC&P and based on that evaluation, the certifying officers have concluded that the DC&P were effective as at August 31, 2026.

Internal Control over Financial Reporting

The Company has designed ICFR using the framework established in "Internal Control – Integrated Framework" issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS Accounting Standards. In designing and evaluating internal controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements.

Management, under the supervision of the certifying officers, has evaluated the effectiveness of ICFR and based on that evaluation, the certifying officers have concluded that the Company's ICFR were effective as at August 31, 2026.

Changes to Internal Control over Financial Reporting

There have been no changes to the Company's ICFR during the year ended August 31, 2026 that have materially affected or are reasonably likely to materially affect the Company's ICFR.