



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

ON FORM 51-102F1

THREE AND SIX MONTHS ENDED

FEBRUARY 28, 2026

April 9, 2026



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

TABLE OF CONTENTS

INTRODUCTION	1
Caution Concerning Forward-Looking Information	1
Financial Highlights	2
Our Business	2
Financial Strategy and Rate Regulation	3
Significant Financial Matters	4
RESULTS OF OPERATIONS	5
Revenue	5
Operating Expenses	7
Other (Income) and Expenses	7
Movements in Rate Stabilization Account	8
Net Movement in Regulatory Deferral Accounts	10
FINANCIAL AND CAPITAL MANAGEMENT	11
Cash Flows	11
Liquidity and Financing Strategy	12
Contractual Obligations and Commitments	14
Capital Management	15
Financial Risk Management	15
Credit Ratings	16
QUARTERLY RESULTS	16
Quarterly Financial Information (unaudited)	16
FINANCIAL OUTLOOK	17
ADDITIONAL INFORMATION	19
Earnings and Cash Flow Coverage	19
Related Party Transactions	20
Accounting Policies	20
Critical Accounting Estimates and Judgments	20
INTERNAL CONTROLS AND PROCEDURES	20

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

INTRODUCTION

This management's discussion and analysis (MD&A) relates to the unaudited interim consolidated financial position, results of operations, comprehensive income (loss) and cash flows as at and for the three and six months ended February 28, 2026 (Q2 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 unaudited interim condensed consolidated financial statements for Q2 fiscal 2026 (Q2 fiscal 2026 financial statements), our audited annual consolidated financial statements and the accompanying notes for the year ended August 31, 2025 (fiscal 2025 financial statements), our fiscal 2025 annual MD&A, as well as our fiscal 2025 Annual Information Form dated October 23, 2025 (fiscal 2025 AIF). Additional information about NAV CANADA, including our Q2 fiscal 2026 and fiscal 2025 financial statements, our fiscal 2025 annual MD&A, and our fiscal 2025 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 Accounting Standards Board (IASB) and are comprised of the accounts of NAV CANADA and its subsidiaries. Our Q2 fiscal 2026 financial statements have been prepared in accordance with International Accounting Standards (IAS) 34 *Interim Financial Reporting*. 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 April 9, 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 2025 AIF.

The forward-looking statements contained in this MD&A represent our expectations as of **April 9, 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.

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

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 1.5% and 1.9% during the first three and six months of the year ended August 31, 2026 (fiscal 2026), respectively, but remained below budget expectations. Performance was primarily impacted by severe weather events, including winter storms and adverse weather conditions in Canada and the United States, which led to flight cancellations, delays, and reduced traffic volumes, particularly affecting terminal and overflight activity.
- During the second quarter of fiscal 2026, the Company repaid the \$285 Series 2021-1 General Obligation Notes upon maturity on February 9, 2026. The Company ended the quarter with strong liquidity reserves, including a cash balance of \$393. This provides financial flexibility to manage through volatility in air traffic levels as well as cost headwinds, operational cost fluctuations, and near-term funding requirements, including upcoming debt maturities.
- The Company's focus continues to be enhancing service delivery through operational training and staffing initiatives and modernization of the Company's infrastructure while continuing to move forward with transformational initiatives.
- We maintained our high ratings and stable outlooks with Moody's Investors Service (Aa2) and Standard & Poor's (AA,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.

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

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:

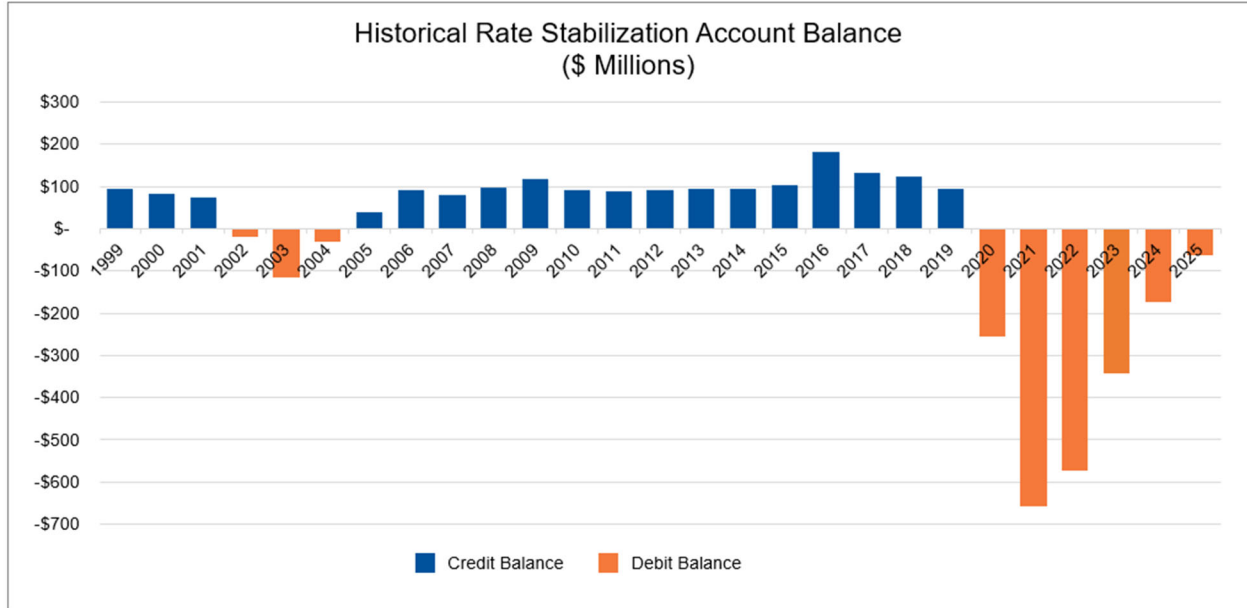
- (a) The statutory requirement to provide air navigation services;
- (b) Air traffic results and forecasts;
- (c) Financial and operating requirements, including our current and anticipated balance in the rate stabilization account and the extent to which our operating costs are variable and can be 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”).

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

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 Matters¹

The following items had significant financial importance to the Company in Q2 fiscal 2026:

1. Air Traffic and Customer Service Charges

During the three and six months ended February 28, 2026, air traffic levels, as measured in WCUs, increased by 1.5% and 1.9%, respectively, as compared to the same periods in fiscal 2025, but remained below budget expectations. During the first half of fiscal 2026, air traffic performance was not materially impacted by broader economic or geopolitical conditions, as those pressures emerged toward the end of the period. Instead, results were primarily affected by severe weather disruptions, including winter storms and adverse conditions in Canada and the United States, which led to flight cancellations, delays, and reduced air traffic volumes. Management does not view these weather-related impacts as structural and expects variability to normalize over time. Looking ahead, however, evolving geopolitical conditions are expected to create headwinds across the business, potentially affecting both air traffic levels and cost pressures; the extent and persistence of these impacts remain uncertain. The outlook for fiscal 2026 reflects year-over-year air traffic growth of 0.1%, which is 1.6% lower than the annual growth reflected in the fiscal 2026 plan as discussed in “FINANCIAL OUTLOOK”.

¹ Note: See “INTRODUCTION – Caution Concerning Forward-Looking Information”, page 1

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

2. Rate Stabilization Account

The rate stabilization account had a debit balance (representing a shortfall) of \$89 at February 28, 2026. During the six months ended February 28, 2026, the rate stabilization account debit balance increased by \$29, driven mainly by the planned shortfall of \$26 and net unfavourable variances from planned results of \$3. The outlook for fiscal 2026 reflects a reduction in the rate stabilization account of \$21, which is \$13 below the recovery reflected in the 2026 fiscal plan as discussed in "FINANCIAL OUTLOOK". Rate stabilization adjustments are described under "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account".

3. Collective Agreements

Approximately 85% of our workforce is unionized under eight collective agreements.

During the second quarter of fiscal 2026 and up to the date of this MD&A, the Company has ratified collective agreements in place with the Canadian Federal Pilots Association (1% of our represented workforce), for the five-year period ending April 30, 2027, and the Public Service Alliance of Canada (6% of our represented workforce), for the five-year period ending December 31, 2028.

4. Financing Activities

On February 9, 2026, the Company repaid the \$285 Series 0.937% 2021-2 General Obligation Notes upon maturity, reducing the Company's long-term debt balance to \$1,855, including \$16 classified as current.

RESULTS OF OPERATIONS

Revenue

The following table provides a summary of revenue by category. Our fiscal 2025 AIF and the notes to our fiscal 2025 financial statements provide more information about the different categories of our customer service charges.

Three months ended February 28	2026	2025	\$ Change
Enroute	\$ 182	\$ 176	\$ 6
Terminal	182	181	1
Daily / annual / quarterly	13	12	1
North Atlantic and international communication	23	21	2
Total customer service charges	400	390	10
Other ⁽¹⁾	5	6	(1)
	\$ 405	\$ 396	\$ 9

Six months ended February 28	2026	2025	\$ Change
Enroute	\$ 409	\$ 389	\$ 20
Terminal	380	370	10
Daily / annual / quarterly	29	25	4
North Atlantic and international communication	51	48	3
Total customer service charges	869	832	37
Other ⁽¹⁾	11	13	(2)
	\$ 880	\$ 845	\$ 35

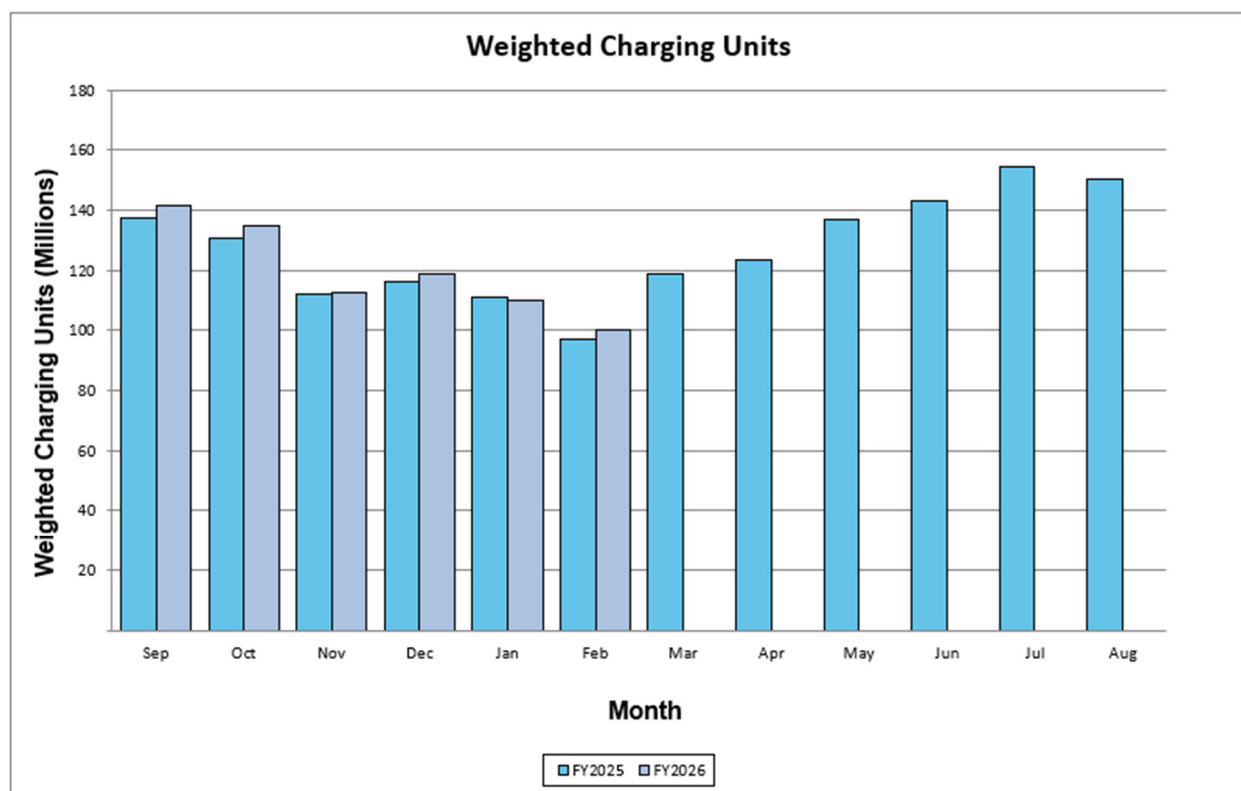
NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

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

Revenue from customer service charges during the three and six months ended February 28, 2026 increased by \$10 and \$37, respectively, compared to the same periods in fiscal 2025. The increase in revenue mainly reflects higher air traffic levels of 1.5% and 1.9%, respectively, and the average 3.73% increase of customer service charges effective January 1, 2025.

Air Traffic

As discussed in “INTRODUCTION – Significant Financial Matters”, air traffic levels (as measured in WCUs) increased by 1.9% during the six months ended February 28, 2026 compared to the same period of fiscal 2025 as illustrated below.



Future air traffic levels may be influenced by numerous factors, including epidemics or pandemics, 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) and demographic patterns.

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

Operating Expenses

Three months ended February 28	2026	2025	\$ Change
Salaries and benefits	\$ 331	\$ 310	\$ 21
Technical services	49	46	3
Facilities and maintenance	16	15	1
Depreciation and amortization	33	34	(1)
Other	28	18	10
	<u>\$ 457</u>	<u>\$ 423</u>	<u>\$ 34</u>

Six months ended February 28	2026	2025	\$ Change
Salaries and benefits	\$ 646	\$ 613	\$ 33
Technical services	101	96	5
Facilities and maintenance	33	31	2
Depreciation and amortization	66	69	(3)
Other	51	42	9
	<u>\$ 897</u>	<u>\$ 851</u>	<u>\$ 46</u>

Salaries and benefits expense during the three and six months ended February 28, 2026 increased by \$21 and \$33, respectively, compared to the same periods in fiscal 2025. The increase reflects higher salary and wage levels and increases in staffing levels to support service delivery and infrastructure maintenance and modernization, partially offset by higher labour allocations to capital projects and lower pension costs driven by an increase in the discount rate.

Technical services expense during the three and six months ended February 28, 2026 increased by \$3 and \$5, respectively, compared to the same periods in fiscal 2025, primarily due to higher software subscriptions and support required for ongoing systems maintenance and development.

Other operating expenses during the three and six months ended February 28, 2026 increased by \$10 and \$9, respectively, compared to the same periods in fiscal 2025, primarily due to higher professional fees to support employee relations, the increase in operational training capacity and key organizational projects.

Other (Income) and Expenses

Three months ended February 28	2026	2025	\$ Change
Finance income	\$ (5)	\$ (11)	\$ (6)
Net interest expense relating to employee benefits	3	8	5
Other finance expense	17	18	1
Other (gains) and losses	6	(7)	(13)
	<u>\$ 21</u>	<u>\$ 8</u>	<u>\$ (13)</u>

Six months ended February 28	2026	2025	\$ Change
Finance income	\$ (20)	\$ (33)	\$ (13)
Net interest expense relating to employee benefits	6	16	10
Other finance expense	35	36	1
Other (gains) and losses	2	(15)	(17)
	<u>\$ 23</u>	<u>\$ 4</u>	<u>\$ (19)</u>

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

Finance income decreased by \$6 and \$13 during the three and six months ended February 28, 2026, respectively, primarily due to lower fair value gains on the Company's investment in Aireon Holdings LLC (together with its wholly owned subsidiary Aireon LLC, "Aireon") as compared to the same periods in fiscal 2025 and lower interest income as a result of lower interest rates earned on interest-bearing cash balances.

Net interest expense relating to employee benefits decreased by \$5 and \$10 during the three and six months ended February 28, 2026, respectively, primarily due to a 20-basis point increase in discount rates at August 31, 2025 compared to August 31, 2024.

Other gains and losses decreased by \$13 and \$17 during the three and six months ended February 28, 2026, respectively, as compared to the same periods in fiscal 2025, primarily due to the impact of changes in the exchange rate between the Canadian dollar and U.S. dollar on the investment in Aireon.

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 2025 financial statements. The table below shows the net movements in the rate stabilization account.

Three months ended February 28	2026	2025	\$ Change
Debit balance, beginning of period	\$ (29)	\$ (152)	\$ 123
Variances from planned results:			
Revenue (lower) higher than planned	(11)	1	(12)
Operating expenses lower than planned	9	18	(9)
Other net expenses (higher) lower than planned	(1)	11	(12)
Net movement in other regulatory deferral accounts	(4)	-	(4)
Total variances from planned results	(7)	30	(37)
Initial approved adjustment ⁽¹⁾	(53)	(64)	11
Net movement recorded in net income (loss)	(60)	(34)	(26)
Debit balance, end of period	\$ (89)	\$ (186)	\$ 97

⁽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 planned quarterly change in the rate stabilization account is aligned with the planned quarterly results, which may fluctuate resulting in either an addition to or a reduction of the account.

The rate stabilization account debit balance increased by \$60 during the three months ended February 28, 2026 primarily due to:

- the planned adjustment of \$53, representing the anticipated net loss for the three months ended February 28, 2026, per the fiscal 2026 budget;
- lower than planned revenue of \$11, due to lower than anticipated air traffic levels;
- lower than planned net movement in other regulatory deferral accounts of \$4, primarily due to the lower regulatory adjustments related to the accounting pension current service costs; and

partially offset by:

- lower than planned operating expenses of \$9, primarily due to lower professional services as well as lower travel and relocation expenses.

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

Six months ended February 28	2026	2025	\$ Change
Debit balance, beginning of period	\$ (60)	\$ (175)	\$ 115
Variances from planned results:			
Revenue lower than planned	(13)	(5)	(8)
Operating expenses lower than planned	19	36	(17)
Other net expenses lower than planned	16	33	(17)
Net movement in other regulatory deferral accounts	(25)	(19)	(6)
Total variances from planned results	(3)	45	(48)
Initial approved adjustment ⁽¹⁾	(26)	(56)	30
Net movement recorded in net income (loss)	(29)	(11)	(18)
Debit balance, end of period	\$ (89)	\$ (186)	\$ 97

⁽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 planned quarterly change in the rate stabilization account is aligned with the planned quarterly results, which may fluctuate resulting in either an addition to or a reduction of the account.

The rate stabilization account debit balance increased by \$29 during six months ended February 28, 2026 primarily due to:

- the planned adjustment of \$26, representing the anticipated net loss for the six months ended February 28, 2026, per the fiscal 2026 budget;
- lower than planned net movement in other regulatory deferral accounts of \$25, mainly driven by lower regulatory adjustments related to the accounting pension current service costs and the change in fair value of the investment in Aireon;
- lower than planned revenue of \$13, primarily due to lower than anticipated air traffic levels; and

partially offset by:

- lower than planned operating expenses of \$19, mainly due to lower professional services as well as lower travel and relocation expenses;
- lower than planned other net expenses of \$16, primarily due to the change in fair value of the investment in Aireon and lower than planned accounting pension current service costs.

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

Net Movement in Regulatory Deferral Accounts

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

Three months ended February 28	2026	2025	\$ Change
Rate stabilization account ⁽¹⁾	\$ 60	\$ 34	\$ 26
Other regulatory deferral accounts			
Employee benefit pension costs	7	13	(6)
Other employee benefits	(1)	(1)	-
Investment in Aireon, before tax	6	(11)	17
Cloud computing arrangements	3	3	-
Asset impairment	(1)	(3)	2
Other	(1)	-	(1)
	<u>\$ 73</u>	<u>\$ 35</u>	<u>\$ 38</u>

Six months ended February 28	2026	2025	\$ Change
Rate stabilization account ⁽¹⁾	\$ 29	\$ 11	\$ 18
Other regulatory deferral accounts			
Employee benefit pension costs	19	30	(11)
Other employee benefits	(2)	(2)	-
Investment in Aireon, before tax	(7)	(32)	25
Cloud computing arrangements	6	8	(2)
Asset impairment	(4)	(5)	1
Other	(1)	-	(1)
	<u>\$ 40</u>	<u>\$ 10</u>	<u>\$ 30</u>

⁽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 employee benefit pension costs deferrals, which represents the adjustment required to reflect the pension cash contributions to be recovered through rate setting, is largely due to relative changes to discount rates used for pension accounting and going concern funding purposes.

The change in regulatory adjustments related to the investment in Aireon are to offset the change in fair value recorded in the three and six months ended February 28, 2026 and the impact of foreign exchange between the Canadian and U.S. dollar compared to the same periods in fiscal 2025.

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

FINANCIAL AND CAPITAL MANAGEMENT

Our fiscal 2025 annual MD&A explains how we manage our cash and capital resources. There have been no changes in that approach for the three and six months ended February 28, 2026.

Cash Flows

Three months ended February 28	2026	2025	\$ Change
Cash flows from (used in)			
Operating	\$ (24)	\$ (14)	\$ (10)
Investing	(47)	(55)	8
Financing	(285)	-	(285)
Cash flows used in operating, investing and financing activities	(356)	(69)	(287)
Effect of foreign exchange on cash and cash equivalents	(1)	2	(3)
Decrease in cash and cash equivalents	(357)	(67)	(290)
Cash and cash equivalents, beginning of period	750	731	19
Cash and cash equivalents, end of period	\$ 393	\$ 664	\$ (271)

Free cash flow (non-GAAP financial measure) ⁽¹⁾

Cash flows from (used in):

Operations	\$ (24)	\$ (14)	\$ (10)
Capital expenditures	(51)	(58)	7
Government grants received	4	3	1
Free cash flow	\$ (71)	\$ (69)	\$ (2)

Six months ended February 28	2026	2025	\$ Change
Cash flows from (used in)			
Operating	\$ 54	\$ 103	\$ (49)
Investing	(117)	(88)	(29)
Financing	(286)	(1)	(285)
Cash flows (used in) from operating, investing and financing activities	(349)	14	(363)
Effect of foreign exchange on cash and cash equivalents	-	3	(3)
(Decrease) increase in cash and cash equivalents	(349)	17	(366)
Cash and cash equivalents, beginning of period	742	647	95
Cash and cash equivalents, end of period	\$ 393	\$ 664	\$ (271)

Free cash flow (non-GAAP financial measure) ⁽¹⁾

Cash flows from (used in):

Operations	\$ 54	\$ 103	\$ (49)
Capital expenditures	(125)	(92)	(33)
Government grants received	8	4	4
Payment of lease liabilities	(1)	(1)	-
Free cash flow	\$ (64)	\$ 14	\$ (78)

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

(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), investments in 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 net cash inflows from operations for the six months ended February 28, 2026 were primarily due to higher compensation costs, higher payments to suppliers and lower receipts related to other revenue, partially offset by higher receipts from customer service charges, including customer advance payments.

Higher cash outflows used in investing activities for the three and six months ended February 28, 2026 were due to higher capital expenditures.

During the three and six months ended February 28, 2026 the Company invested \$123 in capital (total cash outflows of \$125 including payments related to capital investments in August fiscal 2025, excluding capitalized interest of \$3) compared to \$104 for the same periods in fiscal 2025 (total cash outflows of \$92, excluding capitalized interest of \$2). 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 used in financing activities for the three and six months ended February 28, 2026 was due to the repayment of the \$285 Series 2021-1 General Obligation Notes upon maturity on February 9, 2026.

Liquidity and Financing Strategy

As at February 28, 2026, we had total liquidity of \$1,328. We are exposed to refinancing risk with respect to our bond and note maturities, including the \$16 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 table below shows our long-term debt, liquidity and investment profile.

	February 28 2026	August 31 2025
LONG-TERM DEBT		
Bonds and notes payable		
Under the Master Trust Indenture	\$ 239	\$ 239
Under the General Obligation Indenture	1,625	1,910
	<u>1,864</u>	<u>2,149</u>
Adjusted for deferred financing costs	(9)	(9)
Total bonds and notes payable	1,855	2,140
Less: current portion of long-term debt	(16)	(301)
Total long-term debt	\$ 1,839	\$ 1,839
LIQUIDITY		
Cash and cash equivalents	\$ 393	\$ 742
Debt service reserve fund	85	84
Undrawn committed borrowing capacity	850	850
Total Liquidity	\$ 1,328	\$ 1,676

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

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

As at February 28	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⁾	<u>(390)</u>
Available for unrestricted use	\$ 460
Credit facilities for pension obligations:	
Letter of credit facilities for pension obligations ⁽⁴⁾	\$ 820
Less: Outstanding letters of credit for pension obligations ⁽⁴⁾	<u>(714)</u>
Undrawn committed letter of credit facilities	\$ 106

(1) The Company's credit facility with a syndicate of Canadian financial institutions comprises two equal tranches maturing on March 27, 2028 and March 26, 2030, respectively. Subsequent to February 28, 2026, the maturity dates were extended to March 26, 2029 and March 26, 2031, respectively. The credit facility agreement provides for loans at varying rates of interest based on certain benchmark interest rates, specifically the Canadian prime rate and the Canadian 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 \$820 as at February 28, 2026 (August 31, 2025 - \$860). During the six months ended February 28, 2026, all four letter of credit facilities were extended by one year, whereby \$450 will mature on December 31, 2026 and \$370 will mature on December 31, 2027, unless extended. As at February 28, 2026, \$670 was drawn for solvency funding (August 31, 2025 - \$670) for the registered pension plan and \$44 for supplemental retirement arrangements (August 31, 2025 - \$44).

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

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 February 28, 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	2026	2027	2028	2029	2030	Thereafter
Derivative liabilities	\$ 2	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ -
Long-term debt (including current portion) ^{(1), (2)}	1,864	16	223	-	-	300	1,325
Interest payments ⁽²⁾	1,050	31	65	48	48	48	810
Capital commitments ⁽³⁾	248	165	48	15	11	7	2
Lease liability	51	1	3	3	3	3	38
Related party loan ⁽⁴⁾	15	15	-	-	-	-	-
Total contractual obligations	\$ 3,230	\$ 230	\$ 339	\$ 66	\$ 62	\$ 358	\$ 2,175

(1) Payments represent principal of \$1,864. 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 12 of the fiscal 2025 financial statements.

(3) The Company has commitments for the acquisition of property, plant and equipment and intangible assets amounting to \$248 as at February 28, 2026 (August 31, 2025 - \$238).

(4) The Company has an agreement with Aireon to provide a subordinated loan up to a total of \$15 CDN (\$11 U.S.) through the earlier of October 10, 2028, or the date on which Aireon's senior credit facility is paid in full and terminated or refinanced.

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

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

Capital Management

The Company views capital as the sum of its issued long-term debt, retained earnings and accumulated other comprehensive income, regulatory deferral accounts and balances under certain employee benefit plans, as depicted in the following table. This definition of capital is used by management and may not be comparable to measures presented by other companies. Management's approach and objectives when managing capital remain unchanged from those described in our fiscal 2025 annual MD&A.

	February 28 2026	August 31 2025
Bonds and notes payable	\$ 1,855	\$ 2,140
Equity:		
Retained earnings	28	28
Regulatory deferral accounts:		
Debit balances	(1,116)	(1,072)
Credit balances	942	939
Employee benefits:		
Assets for funded pension benefits	(25)	(44)
Liability for accumulating sick leave	22	22
Total capital	<u>\$ 1,706</u>	<u>\$ 2,013</u>

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 2025 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

Our air traffic risk and strategy to mitigate the risk remains unchanged from that disclosed in our fiscal 2025 annual MD&A.

Insurance

Our 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.

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

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 September 18, 2025, S&P reaffirmed the Company's AA long-term issuer credit and senior secured debt ratings, and its AA- subordinated debt rating with a stable outlook. The stable outlook reflects S&P's expectation that projected growth in air traffic activity will support revenue generation and allow NAV CANADA to maintain strong debt service coverage (DSC) and a 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			
	Q2 February 28 2026	Q1 November 30 2025	Q4 August 31 2025	Q3 May 31 2025
Revenue	\$ 405	\$ 475	\$ 545	\$ 466
Operating expenses	457	440	442	443
Other (income) and expenses	21	2	(7)	42
Net income (loss) before net movement in regulatory deferral accounts	(73)	33	110	(19)
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	60	(31)	(105)	(18)
Other regulatory deferral account adjustments	13	(2)	(5)	37
	73	(33)	(110)	19
Net income (loss) after net movement in regulatory deferral accounts ⁽¹⁾	\$ -	\$ -	\$ -	\$ -

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

	Three months ended			
	Q2 February 28 2025	Q1 November 30 2024	Q4 August 31 2024	Q3 May 31 2024
Revenue	\$ 396	\$ 449	\$ 510	\$ 433
Operating expenses	423	428	404	418
Other (income) and expenses	8	(4)	20	19
	(35)	25	86	(4)
Income tax expense	-	-	-	1
Net income (loss) before net movement in regulatory deferral accounts	(35)	25	86	(5)
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	34	(23)	(45)	(39)
Other regulatory deferral account adjustments	1	(2)	6	12
	35	(25)	(39)	(27)
Net income (loss) after net movement in regulatory deferral accounts ⁽¹⁾	\$ -	\$ -	\$ 47	\$ (32)

⁽¹⁾ Prior to fiscal 2025, planned annual recovery was reflected evenly across the four quarters, leading to fluctuations in retained earnings during the year due to differences between the planned quarterly results and the smoothed quarterly rate stabilization account recovery. Beginning in fiscal 2025, the planned quarterly change in the rate stabilization account is aligned with the planned quarterly results, eliminating fluctuations in retained earnings during the year.

FINANCIAL OUTLOOK²

The operating environment remains uncertain, driven by geopolitical tensions, energy price volatility, and evolving global economic conditions. These factors may impact both air traffic demand and the Company's cost base through changes in travel patterns, airline operating economics, and broader system costs. In addition, ongoing trade tensions continue to contribute to economic volatility. Management is actively monitoring these developments and will adjust planning assumptions as needed.

In fiscal 2026, the Company will focus on strengthening its core operational and financial foundations while enhancing agility in a complex environment. Priorities include improving governance, simplifying processes, and reinforcing cost discipline, alongside continued investment in workforce stability, stakeholder collaboration, and targeted modernization initiatives to support long-term efficiency and resilience.

The Company continues to execute a comprehensive strategy to enhance service delivery and operational resilience while addressing workforce challenges affecting Air Navigation Service Providers globally. While the Company has achieved significant milestones in its multi-year recovery plan, we acknowledge that certain facilities continue to experience operational pressures. The Company is addressing these facility-specific challenges through targeted initiatives including dedicated action teams, accelerated training programs, optimized scheduling and strategic retention incentives.

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

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

Air traffic levels, as measured in WCUs, are projected to grow only marginally in fiscal 2026, compared with the 1.7% growth assumed in the fiscal 2026 budget. Uncertainty remains given external factors. At the same time, the Company expects operating and capital expenditures to remain at comparable levels, reflecting labour-related costs, inflation, and targeted investments to support service delivery. Management will maintain a disciplined approach to cost management and spending. Operating cash flows are expected to remain sufficient to meet operating needs. Planned capital expenditures will be supported through refinancing activities, enabling continued investment while maintaining prudent financial management. In light of projected slower growth in air traffic levels in fiscal 2026, the Company is taking a measured approach in reducing the Rate Stabilization Account shortfall by staying on track to recover the pandemic-related shortfall while taking a gradual and sustainable approach to rebuilding financial resilience. This is supported by prioritizing enhancements to service delivery and alignment of service charges with cost recovery objectives, although some uncertainty remains given ongoing geopolitical volatility and the evolving nature of its potential impact.

Presented below are the Company's current projected annual results for fiscal 2026 compared to fiscal 2026 budget results:

	Forecast Fiscal 2026	Budget Fiscal 2026	\$ Change
Results of operations (before rate stabilization)			
Customer service charges	1,850	1,880	(30)
Other revenue	27	34	(7)
	<u>\$ 1,877</u>	<u>\$ 1,914</u>	<u>\$ (37)</u>
Operating expenses and other (income) and expenses, including other regulatory adjustments	1,876	1,880	(4)
Net income before rate stabilization adjustments	<u>\$ 1</u>	<u>\$ 34</u>	<u>\$ (33)</u>
Air traffic levels (year-over-year growth)	<u>0.1%</u>	<u>1.7%</u>	
Rate stabilization account debit balance	<u>\$ (59)</u>	<u>\$ (26)</u>	<u>\$ (33)</u>
Investment in capital and regulatory assets ⁽¹⁾	<u>\$ 331</u>	<u>\$ 337</u>	<u>\$ (6)</u>
Cash, cash equivalents at end of fiscal year	<u>\$ 396</u>	<u>\$ 317</u>	<u>\$ 79</u>

(1) Investment in capital and regulatory assets is presented net of \$20 of government funding under the NTCF (fiscal 2025 - \$29).

Revenue

Our outlook for revenue in fiscal 2026 reflects a decrease of \$37 when compared to the budgeted revenue of \$1,914 as disclosed in our fiscal 2025 annual MD&A. The outlook for customer service charges for fiscal 2026 is \$30 below the plan due to the anticipated impact of recent geopolitical developments. The outlook for other revenue is \$7 lower than the plan due to lower projected revenue from technology sales and services contracts.

Operating Expenses and Other (Income) and Expenses

Operating expenses and other (income) and expenses, including other regulatory adjustments, before rate stabilization are expected to decrease by \$4 in fiscal 2026 as compared to the budget, primarily driven by lower professional fees resulting from project delays, reduced investment in regulatory assets, and lower travel and relocation costs. These cost pressures were partially offset by higher compensation costs, reflecting higher wage and staffing levels.

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

Rate Stabilization Account

The Company projects that the rate stabilization account will remain relatively steady at a debit or shortfall balance of \$59 as at August 31, 2026. This represents a smaller reduction in the debit balance of \$33 as compared to the budget, primarily driven by lower customer service charges and lower other revenue from technology sales and service contracts.

Cash Flows

The Company's cash and cash equivalents are expected to be \$396 as at August 31, 2026. Net cash outflow of \$346 is projected, reflecting debt repayments, increased payments to employees and suppliers and higher capital expenditures. This represents a positive variance of \$79 as compared to the budget, primarily due to anticipated cash receipts.

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 February 28	2026	2025
Net earnings	\$ -	\$ 15
Interest costs	<u>72</u>	<u>73</u>
Consolidated earnings ⁽¹⁾ before interest	\$ 72	\$ 88
Depreciation and amortization expense	<u>\$ 134</u>	<u>\$ 142</u>
Consolidated earnings ⁽¹⁾ before interest and depreciation	\$ 206	\$ 230
Earnings coverage ratio	1.00	1.21
Cash flow coverage ratio	2.86	3.15

⁽¹⁾ Consolidated earnings are presented after rate stabilization.

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q2 FISCAL 2026
(millions of Canadian dollars)

Related Party Transactions

The Company's related parties include its key management personnel, subsidiaries and associates and registered pension plan for its employees. The transactions with these related parties are not materially different from what was reported in the fiscal 2025 annual MD&A.

Accounting Policies

Material accounting policies applied in the Q2 fiscal 2026 financial statements are consistent with those disclosed in note 3 of the fiscal 2025 financial statements.

Critical Accounting Estimates and Judgments

The preparation of our Q2 fiscal 2026 financial statements requires management to make estimates and judgments about the future.

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

Critical judgments and key sources of estimation uncertainty are consistent with those disclosed in note 2 (d) of the fiscal 2025 financial statements.

The Company's critical accounting estimates and judgments applied in the preparation of the Company's Q2 fiscal 2026 financial statements are consistent with those applied and disclosed in our fiscal 2025 financial statements and as described in the fiscal 2025 annual MD&A.

INTERNAL CONTROLS AND PROCEDURES

There have been no changes to the Company's internal control over financial reporting (ICFR) during the three months ended February 28, 2026 that have materially affected or are reasonably likely to materially affect the Company's ICFR.