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**MANAGEMENT'S DISCUSSION AND  
ANALYSIS**

**ON FORM 51-102F1**

**THREE MONTHS ENDED**

**NOVEMBER 30, 2025**

**January 7, 2026**

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## INTRODUCTION

This management's discussion and analysis (MD&A) relates to the unaudited interim consolidated financial position, results of operations, comprehensive income (loss) and cash flows as at and for the three months ended November 30, 2025 (Q1 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 Q1 fiscal 2026 (Q1 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 Q1 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](http://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 Q1 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 January 7, 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" 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 January 7, 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) (a measure of the number of billable flights, aircraft size and distance flown in Canadian airspace and the basis for movement-based service charges), increased by 2.3% during the first quarter of fiscal 2026, exceeding budget expectations.

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- The Company ended the first quarter of fiscal 2026 with strong liquidity reserves, including a cash balance of \$750 million. This provides financial flexibility to manage through future volatility in air traffic levels and 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.

### **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.

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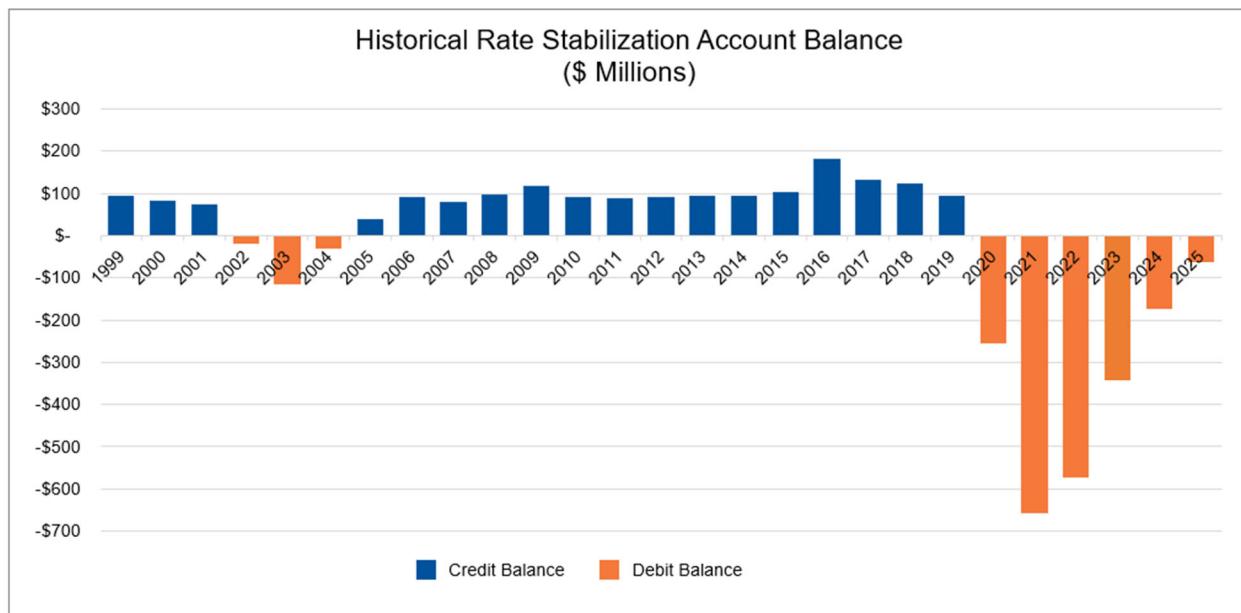
When establishing customer service charge rates, the Company monitors quarterly and considers, among other things:

- (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.

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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<sup>1</sup>**

The following items had significant financial importance to the Company in Q1 fiscal 2026:

**1. Air Traffic and Customer Service Charges**

During the three months ended November 30, 2025, air traffic levels, as measured in WCUs, increased by 2.3%, as compared to the same period in fiscal 2025, despite current economic and geopolitical uncertainty. The annual budget for the year ending August 31, 2026 (fiscal 2026) reflects year-over-year WCUs growth of 1.7%. During Q1 fiscal 2026, WCUs were 0.4% above the growth reflected in the fiscal 2026 budget for the same period.

**2. Rate Stabilization Account**

The rate stabilization account had a debit balance (representing a shortfall) of \$29 at November 30, 2025. During the first quarter of fiscal 2026, the rate stabilization account debit balance decreased by \$31, driven mainly by the planned recovery of \$27 and favourable variances from planned results of \$4. Rate stabilization adjustments are described under "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account".

**RESULTS OF OPERATIONS**

**Revenue**

The following table provides a summary of revenue by category. Our fiscal 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 November 30	2025	2024	\$ Change
Enroute	\$ 227	\$ 213	\$ 14
Terminal	198	189	9
Daily / annual / quarterly	16	13	3
North Atlantic and international communication	28	27	1
<b>Total customer service charges</b>	<b>469</b>	<b>442</b>	<b>27</b>
Other <sup>(1)</sup>	6	7	(1)
	<b>\$ 475</b>	<b>\$ 449</b>	<b>\$ 26</b>

<sup>(1)</sup> 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 months ended November 30, 2025 increased by \$27 compared to the same period in fiscal 2025. The increase was driven by a combination of changes in customer service charge rates effective January 1, 2025 and an increase in traffic volumes of 2.3%.

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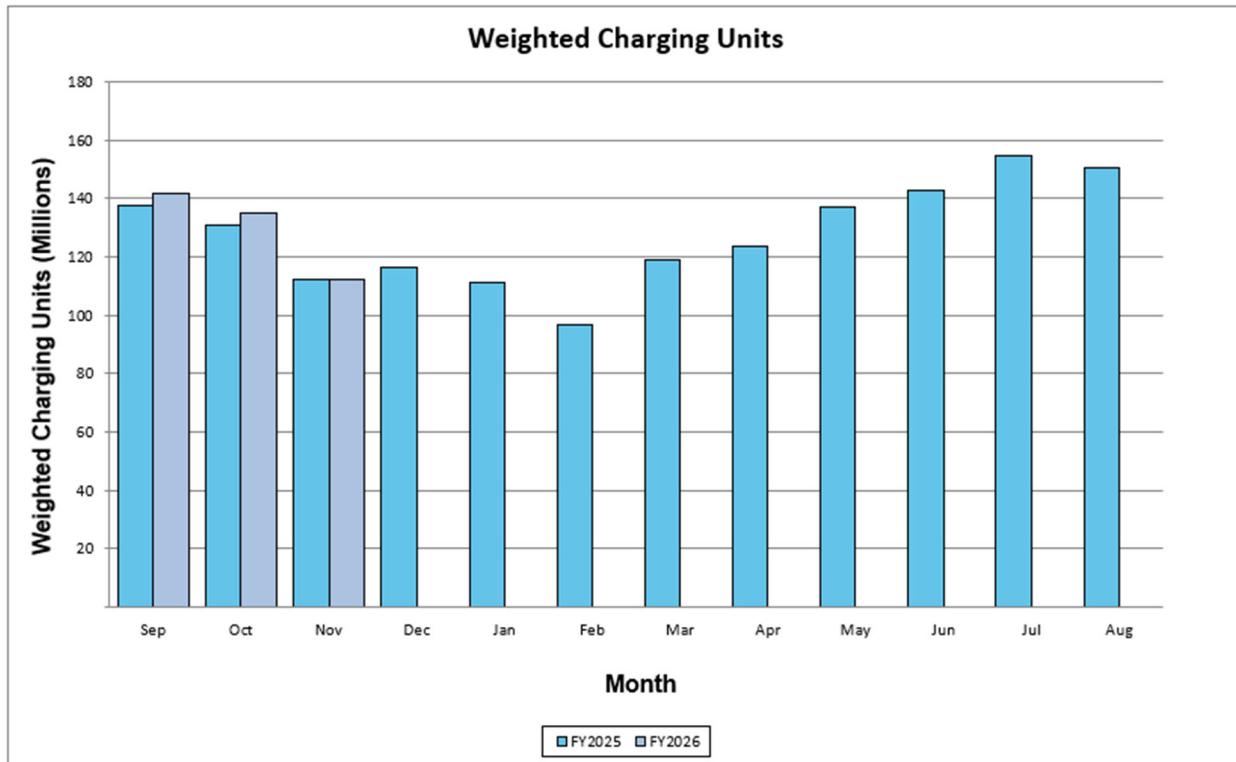
<sup>1</sup> Note: See "INTRODUCTION – Caution Concerning Forward-Looking Information", page 1

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### Air Traffic

As discussed in “INTRODUCTION – Significant Financial Matters”, air traffic levels (as measured in WCUs) increased by 2.3% during the three months ended November 30, 2025 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, 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.

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**Operating Expenses**

<b>Three months ended November 30</b>	<b>2025</b>	<b>2024</b>	<b>\$ Change</b>
Salaries and benefits	\$ 315	\$ 303	\$ 12
Technical services	52	50	2
Facilities and maintenance	17	16	1
Depreciation and amortization	33	35	(2)
Other	23	24	(1)
	<b>\$ 440</b>	<b>\$ 428</b>	<b>\$ 12</b>

Salaries and benefits expense during the three months ended November 30, 2025 increased by \$12 compared to the same period in fiscal 2025 primarily due to increased staffing levels to support service delivery and infrastructure maintenance and modernization, and increases in salary and wage levels, partially offset by higher allocations of labour to capital projects.

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

As of the date of this MD&A, the Company has expired agreements with two unions, comprising 7% of our represented workforce. The Company is in arbitration with the Canadian Federal Pilots Association (1% and expired April 30, 2022). On October 30, 2025, the Public Service Alliance of Canada (6% and expired December 31, 2023) filed a Notice of Dispute with the Minister of Labour pursuant to Section 71(1)(b) of Part I of the Canada Labour Code, requesting conciliation assistance to reach a settlement.

**Other (Income) and Expenses**

<b>Three months ended November 30</b>	<b>2025</b>	<b>2024</b>	<b>\$ Change</b>
Finance income	\$ (15)	\$ (22)	\$ (7)
Net interest expense relating to employee benefits	3	8	5
Other finance costs	18	18	-
Other gains	(4)	(8)	(4)
	<b>\$ 2</b>	<b>\$ (4)</b>	<b>\$ (6)</b>

Finance income decreased by \$7 in the three months ended November 30, 2025, primarily due to an increase of \$9 in the fair value of the investment in Aireon Holdings LLC (together with its wholly owned subsidiary Aireon LLC, "Aireon") as compared to an increase of \$13 in the same period 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 in the three months ended November 30, 2025, 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 \$4 during the three months ended November 30, 2025 due to the impact of changes in the exchange rate between the Canadian dollar and U.S. dollar on the investment in Aireon.

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**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.

<b>Three months ended November 30</b>	<b>2025</b>	<b>2024</b>	<b>\$ Change</b>
<b>Debit balance, beginning of period</b>	<b>\$ (60)</b>	<b>\$ (175)</b>	<b>\$ 115</b>
Variances from planned results:			
Revenue lower than planned	(2)	(6)	4
Operating expenses lower than planned	10	18	(8)
Other net expenses lower than planned	17	22	(5)
Net movement in other regulatory deferral accounts	(21)	(19)	(2)
Total variances from planned results	4	15	(11)
Initial approved adjustment <sup>(1)</sup>	27	8	19
<b>Net movement recorded in net income (loss)</b>	<b>31</b>	<b>23</b>	<b>8</b>
<b>Debit balance, end of period</b>	<b>\$ (29)</b>	<b>\$ (152)</b>	<b>\$ 123</b>

<sup>(1)</sup> 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 \$31 during the three months ended November 30, 2025 primarily due to:

- the planned adjustment of \$27, representing the anticipated net income for the three months ended November 30, 2025 per the fiscal 2026 budget;
- other net expenses that were \$17 lower than planned primarily due to the change in fair value of the investment in Aireon and the impact of foreign exchange gain on this investment; and
- operating expenses that were \$10 lower than planned, primarily due to cost management, lower professional services, and other expenses; and

partially offset by:

- net movement in other regulatory deferral accounts that was \$21 lower primarily due to the change in fair value of the investment in Aireon, foreign exchange gain on this investment and lower than planned accounting pension current service costs due to an increase in the discount rate.

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**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.

<b>Three months ended November 30</b>	<b>2025</b>	<b>2024</b>	<b>\$ Change</b>
Rate stabilization account <sup>(1)</sup>	\$ (31)	\$ (23)	\$ (8)
Other regulatory deferral accounts			
Employee benefit pension costs	12	17	(5)
Other employee benefits	(1)	(1)	-
Investment in Aireon, before tax	(13)	(21)	8
Cloud computing arrangements	3	5	(2)
Asset impairment	(3)	(2)	(1)
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	\$ (33)	\$ (25)	\$ (8)

<sup>(1)</sup> 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 is to offset the increase in fair value recorded in the three months ended November 30, 2025 and the impact of foreign exchange between the Canadian and U.S. dollar compared to the same period in fiscal 2025.

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**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 months ended November 30, 2025.

**Cash Flows**

<b>Three months ended November 30</b>	<b>2025</b>	<b>2024</b>	<b>\$ Change</b>
<b>Cash flows from (used in)</b>			
Operating	\$ 78	\$ 117	\$ (39)
Investing	(70)	(33)	(37)
Financing	(1)	(1)	-
<b>Cash flows from operating, investing and financing activities</b>			
Effect of foreign exchange on cash and cash equivalents	7	83	(76)
<b>Increase in cash and cash equivalents</b>	<b>1</b>	<b>1</b>	<b>-</b>
Cash and cash equivalents, beginning of period	8	84	(76)
<b>Cash and cash equivalents, end of period</b>	<b>742</b>	<b>647</b>	<b>95</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 750</b>	<b>\$ 731</b>	<b>\$ 19</b>
<b>Free cash flow (non-GAAP financial measure)<sup>(1)</sup></b>			
<b>Cash flows from (used in)<sup>(2)</sup></b>			
Operations	\$ 78	\$ 117	\$ (39)
Capital expenditures	(74)	(34)	(40)
Government grants received	4	1	3
Payment of lease liabilities	(1)	(1)	-
<b>Free cash flow</b>	<b>\$ 7</b>	<b>\$ 83</b>	<b>\$ (76)</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> See the statement of cash flows and note 2(g) in our Q1 fiscal 2026 financial statements.

Lower cash inflows from operations for the three months ended November 30, 2025 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 from investing activities for the three months ended November 30, 2025 were as a result of higher capital expenditures.

During Q1 fiscal 2026, the Company invested \$57 in capital (cash outflows of \$74, including payments related to capital investments in August fiscal 2025 and excluding capitalized interest of \$1) compared to \$45 in Q1 fiscal 2025 (cash outflows of \$34, including one-time settlement receipt of \$9 and excluding capitalized interest of \$1). Investments were made to progress on key strategic initiatives, facility replacements or refurbishment, equipment upgrades and replacements and operational and business system enhancements.

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**Liquidity and Financing Strategy**

As at November 30, 2025, we had total liquidity of \$1,685.

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.

	November 30 2025	August 31 2025
<b>LONG-TERM DEBT</b>		
<b>Bonds and notes payable</b>		
Under the Master Trust Indenture	\$ 239	\$ 239
Under the General Obligation Indenture	1,910	1,910
	<u>2,149</u>	2,149
Adjusted for deferred financing costs	(9)	(9)
<b>Total bonds and notes payable</b>	<b>2,140</b>	2,140
Less: current portion of long-term debt	(301)	(301)
<b>Total long-term debt</b>	<b>\$ 1,839</b>	\$ 1,839
<b>LIQUIDITY</b>		
Cash and cash equivalents	\$ 750	\$ 742
Debt service reserve fund	85	84
Undrawn committed borrowing capacity	850	850
<b>Total Liquidity</b>	<b>\$ 1,685</b>	\$ 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 November 30	2025
<b>Credit facilities for general purposes:</b>	
Credit facility with a syndicate of Canadian financial institutions - undrawn <sup>(1), (2)</sup>	
Less: Operations and maintenance reserve allocation <sup>(3)</sup>	\$ (390)
<b>Available for unrestricted use</b>	<b>\$ 460</b>
<b>Credit facilities for pension obligations:</b>	
Letter of credit facilities for pension obligations <sup>(4)</sup>	\$ 820
Less: Outstanding letters of credit for pension obligations <sup>(4)</sup>	(714)
<b>Undrawn committed letter of credit facilities</b>	<b>\$ 106</b>

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- (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. 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 November 30, 2025 (August 31, 2025 - \$860). During the three months ended November 30, 2025, 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 November 30, 2025, \$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).

### 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 November 30, 2025, 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	\$ 1	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ -	-
Long-term debt (including current portion) <sup>(1), (2)</sup>	<b>\$ 2,149</b>	\$ 301	\$ 223	\$ -	\$ -	\$ 300	\$ 1,325	
Interest payments <sup>(2)</sup>	<b>1,067</b>	48	65	48	48	48	810	
Capital commitments <sup>(3)</sup>	<b>241</b>	160	46	15	11	7	2	
Lease liability	<b>52</b>	2	3	3	3	3	38	
Related party loan <sup>(4)</sup>	<b>15</b>	15	-	-	-	-	-	
<b>Total contractual obligations</b>	<b>\$ 3,525</b>	<b>\$ 527</b>	<b>\$ 337</b>	<b>\$ 66</b>	<b>\$ 62</b>	<b>\$ 358</b>	<b>\$ 2,175</b>	

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- (1) Payments represent principal of \$2,149. 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 \$241 as at November 30, 2025 (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".

### 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.

	November 30 2025	August 31 2025
<b>Bonds and notes payable</b>	\$ 2,140	\$ 2,140
<b>Equity:</b>		
Retained earnings	28	28
<b>Regulatory deferral accounts:</b>		
Debit balances	(1,049)	(1,072)
Credit balances	951	939
<b>Employee benefits:</b>		
Assets for funded pension benefits	(32)	(44)
Liability for accumulating sick leave	22	22
<b>Total capital</b>	<hr/> <b>\$ 2,060</b>	<hr/> <b>\$ 2,013</b>

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### **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.

#### **Credit Ratings**

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

<b>Rating Agency</b>	<b>Senior Debt</b>	<b>General Obligation Notes</b>	<b>Outlook</b>
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.

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**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			
	Q1	Q4	Q3	Q2
	November 30 2025	August 31 2025	May 31 2025	February 28 2025
Revenue	\$ 475	\$ 545	\$ 466	\$ 396
Operating expenses	440	442	443	423
Other (income) and expenses	2	(7)	42	8
<b>Net income (loss) before net movement in regulatory deferral accounts</b>	<b>33</b>	<b>110</b>	<b>(19)</b>	<b>(35)</b>
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	(31)	(105)	(18)	34
Other regulatory deferral account adjustments	(2)	(5)	37	1
	(33)	(110)	19	35
<b>Net income (loss) after net movement in regulatory deferral accounts <sup>(1)</sup></b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
	Three months ended			
	Q1	Q4	Q3	Q2
	November 30 2024	August 31 2024	May 31 2024	February 29 2024
Revenue	\$ 449	\$ 510	\$ 433	\$ 393
Operating expenses	428	404	418	435
Other (income) and expenses	(4)	20	19	24
	25	86	(4)	(66)
Income tax expense	-	-	1	-
<b>Net income (loss) before net movement in regulatory deferral accounts</b>	<b>25</b>	<b>86</b>	<b>(5)</b>	<b>(66)</b>
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	(23)	(45)	(39)	(26)
Other regulatory deferral account adjustments	(2)	6	12	56
	(25)	(39)	(27)	30
<b>Net income (loss) after net movement in regulatory deferral accounts <sup>(1)</sup></b>	<b>\$ -</b>	<b>\$ 47</b>	<b>\$ (32)</b>	<b>\$ (36)</b>

<sup>(1)</sup> 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.

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**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 November 30	2025	2024
Net earnings <sup>(1)</sup>	\$ -	\$ (21)
Interest costs	<u>73</u>	<u>81</u>
<b>Consolidated earnings <sup>(2)</sup> before interest</b>	<b>\$ 73</b>	<b>\$ 60</b>
Depreciation and amortization expense	<u>135</u>	<u>145</u>
<b>Consolidated earnings <sup>(2)</sup> before interest and depreciation</b>	<b>\$ 208</b>	<b>\$ 205</b>
Earnings coverage ratio <sup>(1)</sup>	<b>1.00</b>	<b>0.74</b>
Cash flow coverage ratio	<b>2.85</b>	<b>2.53</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> Consolidated earnings are presented after rate stabilization.

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**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 Q1 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 Q1 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 Q1 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 November 30, 2025 that have materially affected or are reasonably likely to materially affect the Company's ICFR.