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MANAGEMENT'S DISCUSSION AND ANALYSIS

ON FORM 51-102F1

YEAR ENDED

AUGUST 31, 2023

October 19, 2023

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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, 2023 (fiscal 2023) 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, 2023 (fiscal 2023 financial statements) as well as our 2023 Annual Information Form dated October 19, 2023 (fiscal 2023 AIF). Additional information about NAV CANADA, including our financial statements for fiscal 2023 and the year ended August 31, 2022 (fiscal 2022) and our fiscal 2023 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 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 19, 2023 before it was filed.

Caution Concerning Forward-Looking Information

This MD&A and, in particular, but without limitation, the section "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 be different from those expressed or implied in these statements and these differences may be material. Examples of risks and uncertainties the Company faces include geopolitical unrest, terrorist attacks and the threat 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), cyber security attacks, labour negotiations, arbitrations, workforce recruitment, training and retention, general aviation industry conditions, air traffic levels, the use of telecommunications and ground transportation as alternatives to air travel, capital market and economic conditions, the ability to collect customer service charges and reduce operating costs, 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 2023 AIF.

The forward-looking statements contained in this MD&A represent our expectations as of October 19, 2023 and are subject to change after this date. Readers of this MD&A are cautioned not to place undue reliance on any forward-looking statement. We disclaim any intention or obligation to update or revise any forward-looking statement included in this document whether as a result of new information, future events or for any other reason, except as required by applicable securities legislation.

Our Business

NAV CANADA is the private sector, non-share capital company that operates Canada's civil air navigation system (ANS) 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.

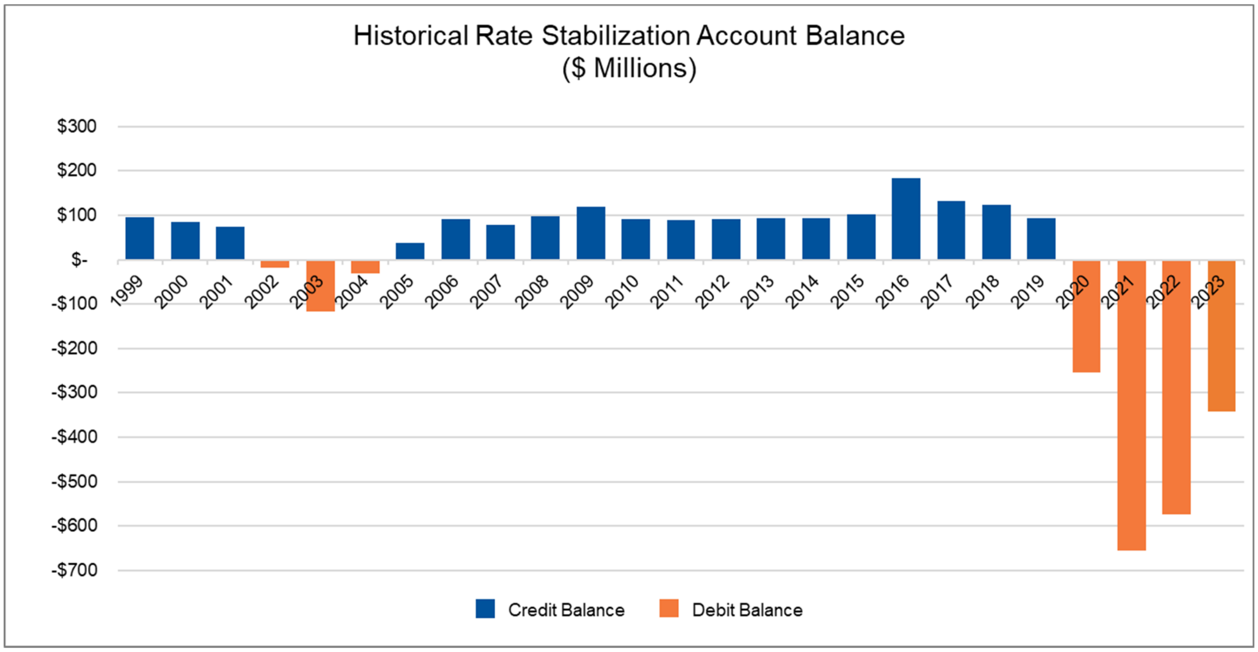
When establishing customer service charges, the Company monitors quarterly and considers, among other things:

(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 taken into account when setting future customer service charges. There is also a need to absorb the immediate effect of unpredictable factors – mainly fluctuations in air traffic levels resulting from unforeseen events. We meet these objectives through the use of a "rate stabilization" mechanism.

We reflect the impact of rate regulation in our financial statements. As such, the timing of recognition of certain revenue and expenses differs from what would otherwise be expected for companies that are not subject to regulatory statutes governing the level of charges. For example, we adjust our net income (loss) through transfers to or from the rate stabilization account, based on variations from the amounts that were used when establishing customer service charges. If our actual revenue exceeds actual expenses, the excess is reflected as a credit to the rate stabilization account and is returnable to customers through future customer service charges. Similarly, if actual revenue is less than actual expenses, the revenue shortfall is reflected as a debit to the rate stabilization account and is recoverable from customers through future customer service charges (see "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account").

The following shows changes in the rate stabilization account over time:



In addition, for certain transactions where the timing of the cash flows differs significantly from the accounting recognition, the Company recognizes regulatory deferral account debits and credits in order to adjust the accounting recognition to the period in which they will be considered for rate setting. These transactions are generally considered for rate setting when the amounts are expected to be realized in cash (see "RESULTS OF OPERATIONS – Net Movement in Regulatory Deferral Accounts").

Our aim is to achieve breakeven financial results on the consolidated statement of operations on an annual basis, after the application of rate regulated accounting. Due to seasonal and other fluctuations in air traffic, such as the COVID-19 pandemic, and given that our costs are predominantly fixed in nature, our quarterly financial results may not achieve a breakeven position after the application of rate regulated accounting. This is illustrated in the table under the heading "QUARTERLY RESULTS – Quarterly Financial Information (unaudited)".

Significant Financial Matters[1]

The following items have significant financial importance to the Company:

1. Air Traffic and Customer Service Charges

The COVID-19 pandemic began impacting air traffic levels in mid-fiscal 2020 and since then, 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), have continued to trend below levels seen in the fiscal year ended August 31, 2019 (fiscal 2019). During fiscal 2023, WCUs increased by 18.1% as compared to the same period of fiscal 2022. In comparison to pre-pandemic levels in fiscal 2019 however, WCUs were 7.3% lower.

Subsequent to August 31, 2023, the Company announced a proposed revision of its customer service charges effective January 1, 2024, decreasing overall charges by an average of 5.57%. The Company has observed strong air travel demand and the return of seasonal air traffic patterns with incremental growth, despite economic uncertainties. The rates proposal takes a balanced approach between the Company rebuilding its financial resilience, investing in safety and service delivery while supporting the industry by recovering the Rate Stabilization Account shortfall over an extended timeframe.

This proposal is subject to a mandatory 60-day consultation period required by the ANS Act that expires on the close of business on November 26, 2023. Input received during the consultation period will be considered by NAV CANADA's management and Board, prior to a final decision being made on the proposal.

2. Rate Stabilization Account

As at August 31, 2023, the rate stabilization account had a debit balance of $342. During fiscal 2023, the rate stabilization account debit balance decreased by $232 due to $103 of net favourable variances from planned results and the $129 initially approved adjustment to the rate stabilization account resulting from the planned excess in fiscal 2023. Rate stabilization adjustments are described under "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account".

3. Collective Agreements

Approximately 86% of our workforce is unionized under eight collective agreements.

As at August 31, 2023, the Company has expired agreements with three unions, comprising 22% of our represented workforce (April 30, 2022 with for the Canadian Federal Pilots Association (CFPA) (1%), April 30, 2023 with the Air Traffic Specialists Association of Canada (ATSAC) (15%) and June 30, 2023 with the Canadian Air Navigation Specialists Association (6%)).

During fiscal 2023, the Company received an arbitration award for CFPA, renewing the provisions of the most recent collective agreement for the three-year-period ended April 30, 2022. On March 6, 2023, a new agreement with the Public Service Alliance of Canada (6%) was ratified by members for the three-year-period ending December 31, 2023. A new collective agreement with the Canadian Air Traffic Control Association (46%) was ratified on July 6, 2023 for the five-year-period ending March 31, 2028.

Subsequent to August 31, 2023, the Company reached a tentative new five-year collective agreement with ATSAC which remains subject to the union ratification process.

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

(in millions of dollars)

4. Financing Activities

On November 29, 2022, the Company repurchased $119 of its revenue bonds and certain General Obligation Notes in advance of the maturity dates. The Company paid a net premium of $6 related to the partial repurchase. The growth in air traffic levels enabled the Company to take advantage of attractive market conditions to reduce its debt.

5. Investment in Preferred Interests of Aireon

As at August 31, 2023, the Company measured the fair value of its investment in preferred interests of Aireon LLC (Aireon) at $203 CDN ($150 U.S.) (August 31, 2022 - $229 CDN ($175 U.S.)).

The fair value was determined using a discounted cash flow model which discounts to present value future dividend projections based on Aireon's most recent Long-Term Operating Plan and the Company's assessment of that plan at a discount rate determined using the Capital Asset Pricing Model.

Selected Annual Financial Information

The following table shows selected annual information of the Company for fiscal 2023, fiscal 2022 and the fiscal year ended August 31, 2021 (fiscal 2021). This information has been derived from the Company's financial statements.

Years ended August 31		2023		2022		2021
Revenue	**$**	**1,778**	$	1,507	$	870
Net income (loss) before rate stabilization adjustments	**$**	**232**	$	82	$	(401)
Net income (loss) after rate stabilization adjustments	**$**	**-**	$	-	$	-
Total assets	**$**	**2,625**	$	2,473	$	2,423
Total regulatory deferral account debit balances	**$**	**1,213**	$	1,341	$	1,757
Total bonds and notes payable (including current portion) (1)	**$**	**2,354**	$	2,488	$	2,512
Total regulatory deferral account credit balances	**$**	**361**	$	119	$	146

(1) See "FINANCIAL AND CAPITAL MANAGEMENT – Cash Flows".

Revenue

In fiscal 2023, the Company's customer service charges revenue increased by $270 as compared to fiscal 2022. The increase in revenue reflects increases in air traffic levels, as measured in WCUs, of 18.1%, on a year-over-year basis. See "RESULTS OF OPERATIONS - Revenue" for the breakdown of our revenue by categories of customer services charges.

During fiscal 2022, the Company's customer service charges revenue increased by $638 as compared to fiscal 2021. The increase in revenue reflects increases in air traffic levels, as measured in WCUs, of 76.8% on a year-over-year basis.

Net income (loss) before rate stabilization adjustments

During fiscal 2023, the Company's net income before rate stabilization adjustments increased by $150 as compared to fiscal 2022 primarily due to higher revenue as a result of higher air traffic levels and lower other (income) and expenses, partially offset by higher operating expenses. See "RESULTS OF OPERATIONS – Operating Expenses" and "RESULTS OF OPERATIONS – Other (Income) and Expenses".

For fiscal 2022, the Company had net income before rate stabilization adjustments of $82 compared to a net loss of $401 in fiscal 2021. The favourable results in fiscal 2022 compared to fiscal 2021 were primarily due to higher revenue as a result of higher air traffic levels and lower other (income) and expenses, partially offset by higher operating expense.

In keeping with the Company's financial strategy and the use of the rate stabilization mechanism, net (income) loss, after the application of rate regulated accounting, in the statement of operations was $nil in fiscal 2023, fiscal 2022 and fiscal 2021.

Total assets

Total assets as at August 31, 2023 increased as compared to August 31, 2022 primarily due to higher cash and cash equivalents and short-term investments (see "FINANCIAL AND CAPITAL MANAGEMENT – Cash Flows"), partially offset by the reduction of the fair value of the Company's investment in preferred interests of Aireon.

Total assets as at August 31, 2022 increased as compared to August 31, 2021 primarily due to higher cash and cash equivalents and short-term investments, and recognition of a right-of-use asset related to the Company's new head office lease, partially offset by the reduction of the fair value of the Company's investment in preferred interests of Aireon and divestment of the NAV CENTRE and the Company's investment in Searidge Technologies Inc. (Searidge) during the year.

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 2023 financial statements and 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)".

(in millions of dollars)

Financial Highlights

Results of Operations

Years ended August 31	2023	2022	$ Change
Revenue	**$ 1,778**	$ 1,507	$ 271
Operating expenses	**1,493**	1,416	77
Other (income) and expenses	**124**	183	(59)
Income tax recovery	**-**	(13)	13
Net income (loss), before net movement in regulatory deferral accounts	**161**	(79)	240
Rate stabilization adjustments:			
Favourable variances from planned results	**(103)**	(167)	64
Initial approved adjustment [1]	**(129)**	85	(214)
	(232)	(82)	(150)
Other regulatory deferral account adjustments:			
Employee benefit pension contributions	**55**	106	(51)
Other employee benefits	**(12)**	(7)	(5)
Investment in preferred interests, before tax	**26**	70	(44)
Investment in equity-accounted investee	**-**	4	(4)
Income tax	**-**	(12)	12
Other	**2**	-	2
	71	161	(90)
Net movement in regulatory deferral accounts [2]	**(161)**	79	(240)
Net income (loss), after net movement in regulatory deferral accounts	**$ -**	$ -	$ -

(1) In order to achieve breakeven results of operations after the application of rate regulated accounting, the Board approved the fiscal 2023 budget with a decrease to the debit position of the rate stabilization account as a result of a planned excess of $129 (fiscal 2022 - planned shortfall of $85), which was reflected in the rate stabilization account evenly throughout the fiscal year.

(2) See “RESULTS OF OPERATIONS – Net Movement in Regulatory Deferral Accounts”.

(in millions of dollars)

Cash flows

Years ended August 31	2023	2022	$ Change (1)
Cash flows from (used in)			
Operating	**$ 485**	$ 267	$ 218
Investing	**(151)**	(166)	15
Financing	**(144)**	(27)	(117)
Cash flows from operating, investing and financing activities	**190**	74	116
Effect of foreign exchange on cash and cash equivalents	**4**	(1)	5
Increase in cash and cash equivalents	**194**	73	121
Cash and cash equivalents, beginning of period	**392**	319	73
Cash and cash equivalents, end of period	**$ 586**	$ 392	$ 194
Free cash flow (non-GAAP financial measure) (2)			
Cash flows from (used in) (3):			
Operations	**$ 485**	$ 267	$ 218
Capital expenditures	**(128)**	(119)	(9)
Investment in regulatory assets	**(10)**	(8)	(2)
Proceeds from sale of property, plant and equipment	**-**	30	(30)
Government grants received	**6**	-	6
Proceeds from sale of investment in equity-accounted investee	**-**	7	(7)
Payment of lease liabilities	**(3)**	(2)	(1)
Free cash flow	**$ 350**	$ 175	$ 175

(1) See "FINANCIAL AND CAPITAL MANAGEMENT – Cash Flows" for discussion of the changes in cash flows from the prior fiscal year.

(2) Free cash flow is a non-GAAP (Generally Accepted Accounting Principle) financial measure. Non-GAAP financial measures do not have any standardized meaning prescribed by IFRS Accounting Standards and therefore may not be comparable to similar measures presented by other issuers. The Company defines free cash flow as cash generated from operations, less capital expenditures (net of government grants received), investments in regulatory assets, investments in Aireon and equity related investments and principal payments of lease liabilities. Management places importance on this indicator as it assists in measuring the impact of its investment program on the Company's financial resources 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.

(3) See the statement of cash flows in our fiscal 2023 financial statements.

(in millions of dollars)

RESULTS OF OPERATIONS

Revenue

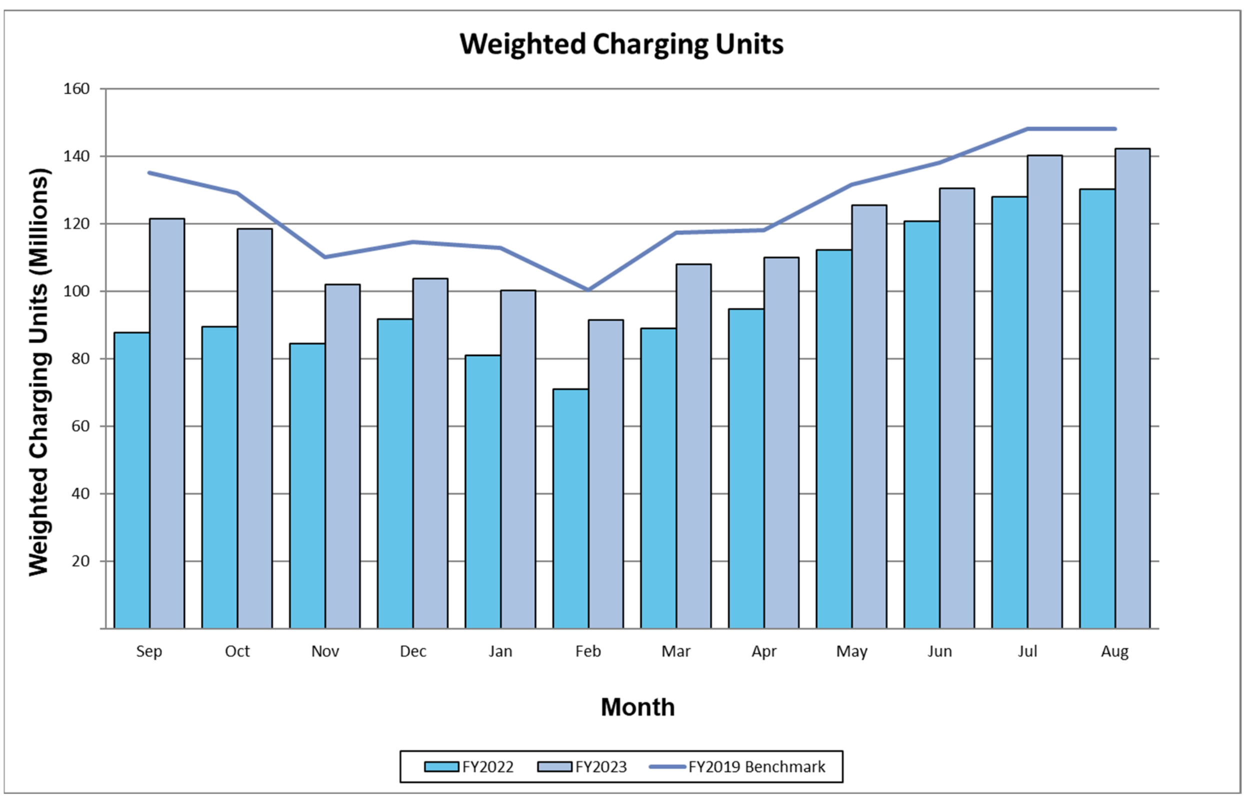
The following table provides a summary of revenue by category. Our fiscal 2023 AIF and the notes to our fiscal 2023 financial statements provide more information about the different categories of our customer service charges.

Years ended August 31	2023	2022	$ Change
Enroute	**$ 856**	$ 739	$ 117
Terminal	**687**	562	125
Daily / annual / quarterly	**60**	53	7
North Atlantic and international communication	**120**	99	21
Total customer service charges	**1,723**	1,453	270
Other (1)	**55**	54	1
	$ 1,778	$ 1,507	$ 271

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

Air Traffic

As discussed in "INTRODUCTION – Significant Financial Matters", air traffic levels (as measured in WCUs) are showing positive signs of recovery, however, they remain lower than pre-pandemic levels in fiscal 2019 as illustrated below.



Future air traffic levels may be influenced by numerous factors, including epidemics or pandemics, rate of economic growth or decline, changing air passenger demand or willingness to fly, aircraft capacity utilization levels, fuel costs, changes in air carrier operations and behaviours, general aviation industry conditions, air carrier competition, airline restructurings and insolvencies, terrorist activities, geopolitical 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.

Customer Service Charges

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

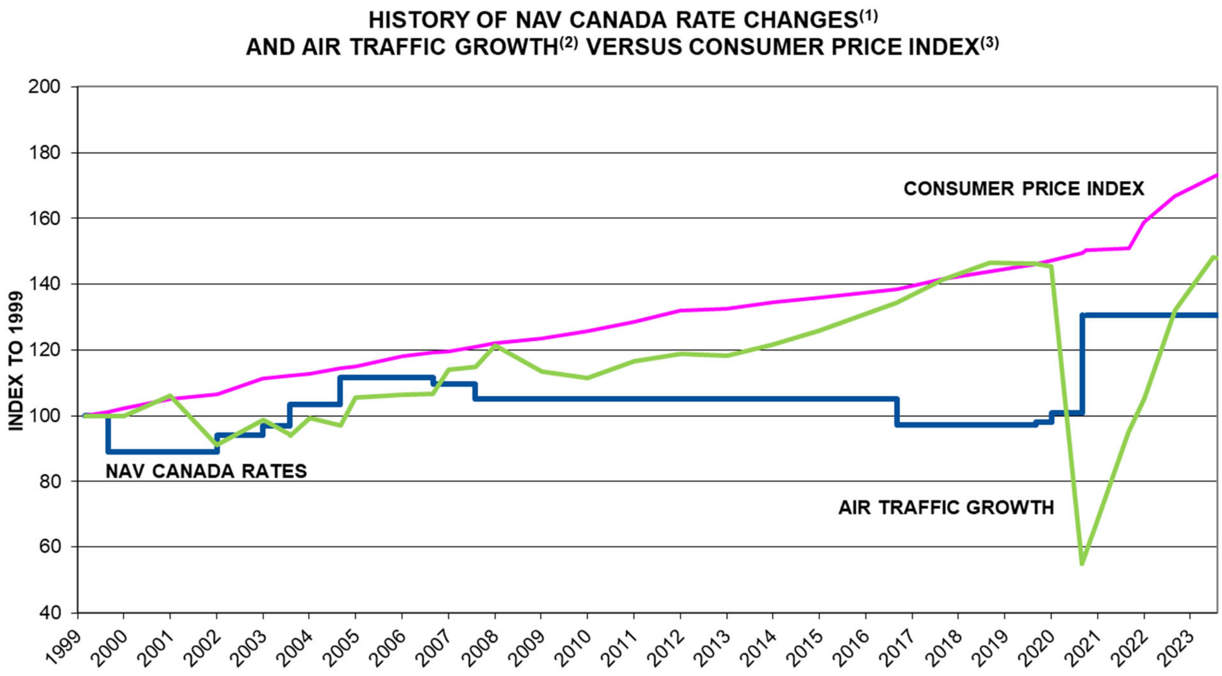
Our business operates 24 hours a day, 365 days a year, providing an essential, national and international safety infrastructure. Given that the majority of our costs are predominantly fixed in nature and are directly related to service delivery, we have relatively few opportunities to significantly reduce these costs further without reducing service, which is not acceptable in most cases. We continually focus on cost management and productivity improvements. This assists in keeping customer service charges as low as possible, while continuing to meet our safety and service obligations.

We regularly monitor our financial requirements and air traffic, update our financial forecasts to account for changes in the economic environment and consider the need for a change in rates.

The Company revised its customer service charges effective September 1, 2020, increasing charges by an average of 29.5% on base rate levels. This increase was necessitated by the financial impact that the COVID-19 pandemic had on the Company. Including this revision, service charges as at August 31, 2023 are on average 30.5% higher than when they were fully implemented in 1999, however the cumulative change in customer service charges since 1999 remains below the change in the Consumer Price Index by approximately 42.9%. Subsequent to August 31, 2023, the Company announced a proposed revision of its customer service charges effective January 1, 2024, decreasing overall charges by an average of 5.57% (see "INTRODUCTION – Significant Financial Matters").

(in millions of dollars)

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	2023	2022	$ Change
Salaries and benefits	$ **1,037**	$ 987	$ 50
Technical services	**164**	157	7
Facilities and maintenance	**64**	66	(2)
Depreciation and amortization	**144**	144	-
Other	**84**	62	22
	$ **1,493**	$ 1,416	$ 77

Salaries and benefits expenses for fiscal 2023 increased by $50 compared to fiscal 2022 primarily due to increased staffing levels and higher wages and salaries, partially offset by lower pension current service costs as a result of an increase in the discount rate to 4.8% at August 31, 2022 (August 31, 2021 – 3.1%).

Other operating expenses increased by $22 compared to the same period in fiscal 2022 primarily due to recognition of an onerous contract provision of $13 related to a multi-year service and development contract for the sale of air traffic management technology solutions. Travel, hospitality and relocation costs also increased compared to the prior period but were partially offset by lower professional services fees.

(in millions of dollars)

Other (Income) and Expenses

Years ended August 31	2023	2022	$ Change
Finance income	**$ (28)**	$ (5)	$ 23
Net interest expense relating to employee benefits	**40**	36	(4)
Other finance costs	**119**	166	47
Other	**(7)**	(14)	(7)
	$ 124	$ 183	$ 59

Total finance income increased by $23 in fiscal 2023 compared to fiscal 2022 primarily as a result of higher cash and short-term investment balances and an increase in interest rates.

Other finance costs decreased by $47 in fiscal 2023 compared to fiscal 2022 primarily as a result of the net change in fair value of the investment in preferred interests of Aireon being a loss of $33 in fiscal 2023 as compared to a loss of $82 for fiscal 2022.

Other gains and losses were unfavourable by $7 in fiscal 2023 compared to fiscal 2022 primarily due to the impact of the fluctuation of the U.S. dollar exchange rate on the Company's investment in preferred interests of 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 2023 financial statements. The table below shows the net movements in the rate stabilization account.

Years ended August 31	2023	2022	$ Change
Debit balance, beginning of period	**$ (574)**	$ (656)	$ 82
Variances from planned results:			
Revenue higher than planned	**106**	190	(84)
Operating expenses lower (higher) than planned	**13**	(38)	51
Other (income) and expenses higher than planned	**(38)**	(53)	15
Net movement in other regulatory deferral accounts	**22**	68	(46)
Total variances from planned results	**103**	167	(64)
Initial approved adjustment	**129**	(85)	214
Net movement recorded in net income (loss)	**232**	82	150
Debit balance, end of period	**$ (342)**	$ (574)	$ 232

The rate stabilization account debit balance decreased by $232 during fiscal 2023 primarily due to:

- the planned adjustment of $129, representing the anticipated annual net income at the time the fiscal 2023 budget was approved;
- revenue that was $106 higher than planned primarily due to higher than anticipated air traffic levels and higher other revenue;

(in millions of dollars)

- net movement in other regulatory deferral accounts that was $22 higher than planned primarily due to regulatory adjustments of:
  - $46 related to the net reduction of the fair value in the investment in preferred interests of Aireon; partially offset by
  - $10 related to lower than planned pension current service costs due to an increase in the discount rate;
  - $10 related to a payment to fund the long-term disability plan deficit and annual plan surplus accruals; and
  - $7 related to foreign exchange gains on our investment in preferred interests of Aireon; and
- operating expenses that were $13 lower than planned, primarily due to lower than planned pension current service costs due to an increase in the discount rate;

partially offset by:

- other (income) and expenses that were $38 higher than planned, primarily due to:
  - net change in the fair value of the investment in preferred interests of Aireon that was $46 higher than planned due to reduction in the fair value recorded in the period;
  - net finance costs relating to employee benefits $8 higher than planned as a result of changes in discount rates; partially offset by
  - interest income that was $12 higher than planned due to a higher cash balance and interest rates; and
  - foreign exchange gains of $7 on the Company's investment in preferred interests of Aireon due to the impact of the fluctuation of the Canadian dollar against the U.S. dollar.

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	2023	2022	$ Change
Rate stabilization account [1]	**$ (232)**	$ (82)	$ (150)
Other regulatory deferral accounts			
Employee benefit pension contributions	**55**	106	(51)
Other employee benefits	**(12)**	(7)	(5)
Investment in preferred interests, before tax	**26**	70	(44)
Investment in equity-accounted investee	**-**	4	(4)
Income tax	**-**	(12)	12
Other	**2**	-	2
	$ (161)	$ 79	$ (240)

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

(in millions of dollars)

The employee benefit pension contributions regulatory deferral account is used to adjust the total pension benefit expense to reflect the cash contributions to be recovered through rate setting. The decrease in the net movement in fiscal 2023 compared to fiscal 2022 is largely due to increases in the discount rates used for pension accounting and going concern funding purposes.

The change in net movement in regulatory deferral of other employee benefits during fiscal 2023 of $5 is largely due to payments to fund the August 31, 2022 long-term disability plan deficit and fiscal 2023 annual plan surplus accruals.

The change in the net movement of the Company's investment in preferred interests regulatory deferral account, before tax of $44 is due to the fair value reduction recorded in fiscal 2023 as compared to fiscal 2022, as well as the change in foreign exchange impacts due to fluctuation of the Canadian dollar against the U.S. dollar.

The change in the net movement of income tax during fiscal 2023 of $12 relates to the decrease in the net deferred tax liability as a result of the fair value reduction of the investment in preferred interests of Aireon recorded in fiscal 2022.

Other Comprehensive Income (Loss)

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

Years ended August 31	2023	2022	$ Change
Items that will not be reclassified to income or (loss)			
Re-measurements of employee defined benefit plans	**$ 208**	$ 466	$ (258)
Net movement in regulatory deferral accounts	**(208)**	(466)	258
	-	-	-
Items that will be reclassified to income or (loss)			
Amortization of net losses on cash flow hedges	**2**	1	1
Change in fair value of cash flow hedges	**(1)**	2	(3)
Net movement in regulatory deferral accounts	**(1)**	(3)	2
	-	-	-
Total other comprehensive income (loss)	**$ -**	$ -	$ -

Net re-measurement gains on employee defined benefit plans of $208 were recorded during fiscal 2023. This was primarily due to actuarial gains of $263 largely due to a 40 basis point increase in the discount rate to 5.20% at August 31, 2023, partially offset by experience adjustments of $50 and a return on plan assets $5 lower than expected based on the discount rate of 4.80% at August 31, 2022.

For fiscal 2022, the net re-measurement gains of $466 were primarily due to actuarial gains of $1,696 largely due to a 170 basis point increase in the discount rate to 4.80% at August 31, 2022, partially offset by a return on plan assets $1,211 lower than expected based on the discount rate of 3.10% at August 31, 2021 and experience adjustments of $19.

(in millions of dollars)

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 and to replenish our working capital, if required. 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. 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, 2023, we had $586 of cash and cash equivalents, $99 of short-term investments and undrawn committed credit facilities for general purposes of $849, all of which provide the Company with available liquidity. In addition, we had letter of credit facilities for pension funding purposes of $860 of which $71 was undrawn (see "FINANCIAL AND CAPITAL MANAGEMENT – Liquidity and Financing Strategy").

Cash flows

Years ended August 31	2023	2022	$ Change
Cash flows from (used in)			
Operating	**$ 485**	$ 267	$ 218
Investing	**(151)**	(166)	15
Financing	**(144)**	(27)	(117)
Cash flows from operating, investing and financing activities	**190**	74	116
Effect of foreign exchange on cash and cash equivalents	**4**	(1)	5
Increase in cash and cash equivalents	**194**	73	121
Cash and cash equivalents, beginning of period	**392**	319	73
Cash and cash equivalents, end of period	**$ 586**	$ 392	$ 194

Cash inflows from operations for fiscal 2023 were $485 compared to $267 for fiscal 2022. The variances were primarily due to higher receipts from customer service charges as a result of air traffic recovery, lower pension current service contributions and higher receipts related to other revenue and interest income partially offset by higher payments to employees and suppliers largely due to higher salary and overtime costs.

Cash outflows from investing activities for fiscal 2023 were $151 compared to $166 for fiscal 2022. The changes were primarily due to a decrease of $60 in transfers to short-term investments partially offset by higher net capital expenditures of $11 and lower proceeds received from the sale of the Company's assets. In fiscal 2022, the Company received proceeds and the loan repayment associated with the sale of its ownership in Searidge and proceeds from its divestment of the NAV CENTRE. There were no similar transactions in fiscal 2023.

During fiscal 2023, the Company invested $143 in capital and regulatory assets (cash outflows of $138, excluding capitalized interest of $2) compared to $128 in fiscal 2022 (cash outflows of $127, excluding capitalized interest of $3). Regulatory assets are investments in cloud-computing arrangements. Investments were made in systems enhancements, functional upgrades, equipment upgrades or replacements, facility replacements or refurbishment and other projects to meet safety and other operational requirements.

Cash outflows from financing activities for fiscal 2023 were $144 compared to $27 for fiscal 2022 due to the Company's partial repurchase of its revenue bonds and certain General Obligation Notes in addition to the annual repayment of the Series 97-2 amortizing revenue bonds.

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.

The Company received temporary relief from compliance with the rate covenants and certain provisions under the additional indebtedness covenants under each of the MTI and the GOI, as the case may be, in respect of fiscal 2021, 2022 and 2023.

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. 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 which is equal to the minimum cash liquidity level plus the operations and maintenance reserve requirement which 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.

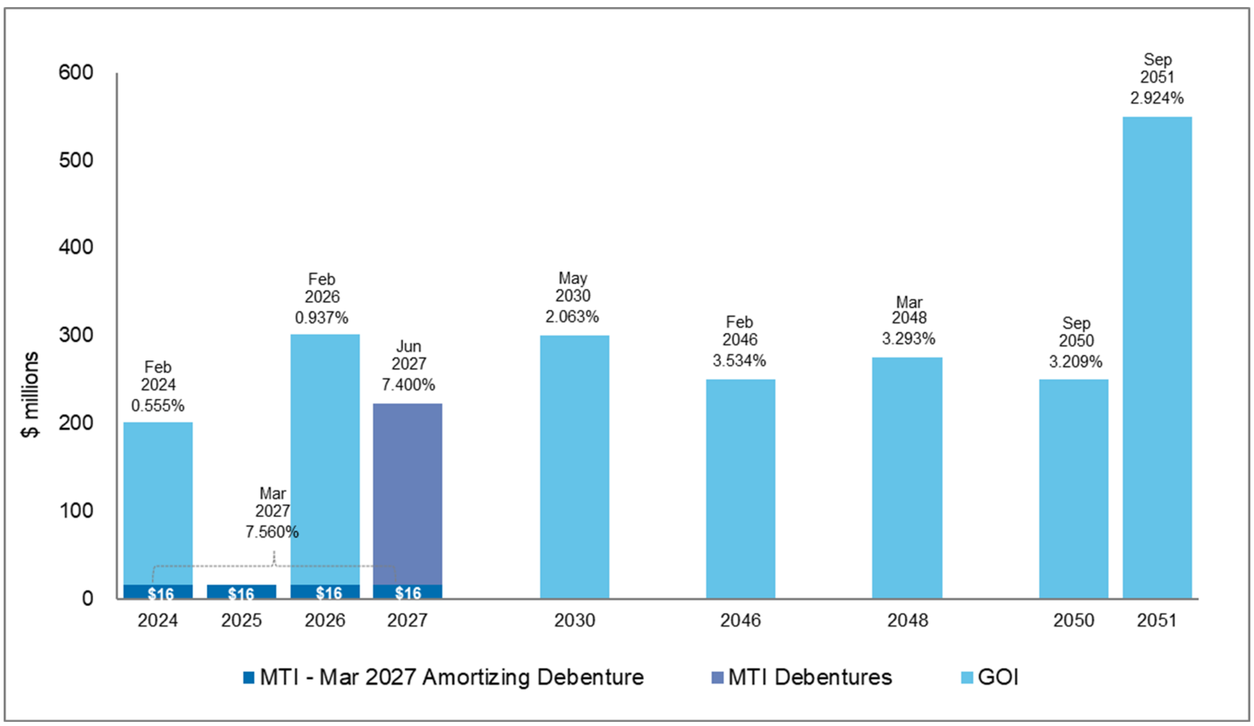
As at August 31, 2023 we were in full compliance with our debt indentures.

(in millions of dollars)

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

	August 31 2023	August 31 2022
LONG-TERM DEBT		
Bonds and notes payable		
Under the MTI	**$ 270**	$ 375
Under the GOI	**2,095**	2,125
	2,365	2,500
Adjusted for deferred financing costs	**(11)**	(12)
Total bonds and notes payable	**2,354**	2,488
Less: current portion of long-term debt	**(201)**	(25)
Total long-term debt	**$ 2,153**	$ 2,463
LIQUIDITY		
Cash and cash equivalents	**$ 586**	$ 392
Short-term investments	**99**	80
Debt service reserve fund	**77**	74
Undrawn committed borrowing capacity	**849**	849
Total Liquidity	**$ 1,611**	$ 1,395

The chart below shows our debt maturity profile:



(in millions of dollars)

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

As at August 31		2023
Credit facilities for general purposes:		
Credit facility with a syndicate of Canadian financial institutions - undrawn (1), (2)	**$**	**850**
Less: Outstanding letters of credit for other purposes (2)		**(1)**
Undrawn committed borrowing capacity		**849**
Less: Operations and maintenance reserve allocation (3)		**(335)**
Available for unrestricted use	**$**	**514**
Credit facilities for pension obligations:		
Letter of credit facilities for pension obligations (4)	**$**	**860**
Less: Outstanding letters of credit for pension obligations (4)		**(789)**
Undrawn committed letter of credit facilities	**$**	**71**

(1) The Company's credit facility with a syndicate of Canadian financial institutions is comprised of two equal tranches maturing on March 26, 2026 and March 26, 2028, respectively. The credit facility agreement provides for loans at varying rates of interest based on certain benchmark interest rates, specifically the Canadian prime rate and the Canadian bankers' acceptance rate, and on the Company's credit rating at the time of drawdown. The Company is required to pay commitment fees, which are dependent on the Company's credit rating. The Company is in compliance with the credit facility covenants as at August 31, 2023.

(2) An allocation of $25 with a Canadian financial institution has been made under the $850 committed credit facility. As at August 31, 2023, $1 was drawn from the uncommitted revolving 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 $860. During the year, an increase in the facilities of $50 was finalized. All facilities will mature on December 31, 2023, unless extended. On April 17, 2023, a letter of credit facility was issued to cover supplemental retirement arrangements in the amount of $38. The amount will be reviewed annually based on actuarial valuation results. As at August 31, 2023, $751 was drawn for solvency funding (August 31, 2022 - $684) for the registered pension plan and $38 for supplemental retirement arrangements (August 31, 2022 - $nil).

Contractual Obligations and Commitments

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

(in millions of dollars)

Contractual Obligations

A breakdown of contractual obligations as at August 31, 2023 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	**2024**	**2025**	**2026**	**2027**	**2028**	**Thereafter**
Long-term debt (including current portion) [1], [2]	**$ 2,365**	$ 201	$ 16	$ 301	$ 222	$ -	$ 1,625
Interest payments [2]	**1,228**	71	70	67	65	48	907
Capital commitments [3]	**151**	94	28	7	7	5	10
Lease liability	**57**	3	3	3	3	3	42
Related party loan [4]	**15**	15	-	-	-	-	-
Total contractual obligations	**$ 3,816**	$ 384	$ 117	$ 378	$ 297	$ 56	$ 2,584

(1) Payments represent principal of $2,365. The Company may choose to repay a portion of these maturities with available cash and/or may increase the size of a re-financing to generate additional liquidity or for other purposes, and/or may choose to redeem in whole or in part an issue in advance of its scheduled maturity.

(2) Further details on interest rates and maturity dates on long-term debt are provided in note 13 of fiscal 2023 financial statements.

(3) The Company has commitments for the acquisition of property, plant and equipment and intangible assets amounting to $151 as at August 31, 2023 (August 31, 2022 - $113).

(4) 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 June 2026 or the date on which the senior credit facility is paid in full and terminated or refinanced. Subsequent to August 31, 2023, the senior credit facility was terminated. As a condition of a new senior credit facility, a replacement subordinated loan with similar terms and conditions will be required.

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

Pension Plan

The Company has established and maintains defined benefit pension plans for its employees. The plans provide benefits based on age, length of service and best average earnings. Employee contribution rates vary by position and by plan. The Company is the administrator and sponsoring employer for the funded defined benefit registered pension plan, the NAV CANADA Pension Plan (the Plan).

The Company continues to meet the funding requirements of the Plan, in accordance with the regulations of the Office of the Superintendent of Financial Institutions Canada (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, 2023 and filed with OSFI in June 2023.

(in millions of dollars)

Pension Plan Accounting Deficit: The Company's pension plans had an accounting deficit of $536 as at the annual measurement date of August 31, 2023 ($687 as at August 31, 2022). The decrease is primarily due to actuarial gains of $207 partially offset by actuarial accounting expense exceeding Company contributions by $56. The net actuarial gains are primarily due to actuarial gains of $261 largely due to a 40 basis point increase in the discount rate to 5.20% at August 31, 2023, partially offset by experience adjustments of $49 and a return on plan assets $5 lower than expected based on the discount rate of 4.80% at August 31, 2022.

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 plans. A 0.25% decrease in the discount rate would increase the accounting deficit by approximately $260. Conversely, a 0.25% increase in the discount rate would decrease the deficit by approximately $249.

Pension Expenses: Annual pension benefit costs, determined in accordance with IAS 19 *Employee Benefits*, can increase by approximately $20 from a 0.25% decrease in the discount rate used in actuarial calculations or decrease by approximately $20 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 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		2023		2022
Consolidated statements of operations				
Pension current service expense [1]	**$**	**113**	$	181
Net interest expense [1]		**25**		25
Less: Regulatory deferrals		**(55)**		(106)
	$	**83**	$	100
Company cash pension contributions				
Going concern current service - cash payment	**$**	**77**	$	97
Going concern current service - accrued		**6**		3
	$	**83**	$	100

(1) For fiscal 2023, pension current service expense does not include $1 related to the Company's unfunded pension plan (fiscal 2022 - $2) and net interest expense does not include $5 related to the Company's unfunded pension plan (fiscal 2022 - $4).

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, 2023, reported a going concern surplus of $1,049 (January 1, 2022 - $1,346) and a statutory solvency deficiency of $291 (January 1, 2022 - $405).

Once the valuation report is filed, pension contributions are based on the January 1, 2023 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, 2023, the Company has put in place letters of credit totaling $751 to meet its cumulative pension solvency funding requirements, including $67 in the current fiscal year. At January 1, 2023, outstanding letters of credit represented 10% of solvency liabilities (January 1, 2022 – 8%)

Risks Associated with the Defined Benefit Plans: The nature of these benefit obligations exposes the Company to a number of risks, the most significant of which is funding risk. See note 14(g) to the fiscal 2023 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 16 to the fiscal 2023 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 a number of 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, excluding the impact of COVID-19), a 1.0% change in air traffic levels flown in Canadian airspace corresponds to approximately a $17 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.

- Terrorist activities, 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

Our aviation liability insurance program was renewed on November 15, 2022 for a one-year period. This insurance provides broad coverage for our ANS liabilities to third parties. The Company also carries other lines of insurance at levels deemed to be appropriate by management for the nature of our business. The cost of this insurance is not material to the Company.

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

Legal Proceedings

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

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-	A+	Positive

Based on improving market conditions, on November 8, 2022, S&P Global Ratings revised the outlook on NAV CANADA to positive from stable and affirmed its 'AA-' long-term issuer credit and senior secured debt rating, and 'A+' senior subordinated debt rating.

On October 16, 2023, S&P raised its long-term issuer credit and senior secured debt ratings on the Company to 'AA' from 'AA-', and its senior subordinated debt rating to 'AA-' from 'A+' with a stable outlook. The stable outlook reflects S&P's expectation that ongoing growth in air traffic activity will support revenue growth and allow the Company to maintain strong financial metrics in the next two fiscal years.

(in millions of dollars)

QUARTERLY RESULTS

Quarterly Financial Information (unaudited)

	Three months ended Q4 August 31 2023	Q3 May 31 2023	Q2 February 28 2023	Q1 November 30 2022
Revenue	$ 519	$ 436	$ 388	$ 435
Operating expenses	388	386	371	348
Other (income) and expenses	54	24	20	26
Net income (loss) before net movement in regulatory deferral accounts	77	26	(3)	61
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	(72)	(48)	(34)	(78)
Other regulatory deferral account adjustments	54	9	1	7
	(18)	(39)	(33)	(71)
Net income (loss) after net movement in regulatory deferral accounts	$ 59	$ (13)	$ (36)	$ (10)

	Three months ended Q4 August 31 2022	Q3 May 31 2022	Q2 February 28 2022	Q1 November 30 2021
Revenue	$ 468	$ 381	$ 313	$ 345
Operating expenses	368	361	350	337
Other (income) and expenses	102	28	29	24
	(2)	(8)	(66)	(16)
Income tax recovery	(13)	-	-	-
Net income (loss) before net movement in regulatory deferral accounts	11	(8)	(66)	(16)
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	(8)	(20)	5	(59)
Other regulatory deferral account adjustments	90	23	30	18
	82	3	35	(41)
Net income (loss) after net movement in regulatory deferral accounts	$ 93	$ (5)	$ (31)	$ (57)

Discussion of Quarterly Results

Historically, the quarterly variations in revenue have mainly reflected seasonal fluctuations. Typically, revenue is highest in our fourth quarter (June to August) as a result of increased air traffic in the summer months, and the second quarter (December to February) has the lowest air traffic levels.

Revenue from customer service charges during the fourth quarter of fiscal 2023 increased significantly compared to the same period in fiscal 2022, reflecting a year-over-year increase in air traffic levels of 8.9%, as measured in WCUs. However, in comparison to pre-pandemic levels experienced over the same period of fiscal 2019, air traffic levels were lower by 4.9%.

(in millions of dollars)

The majority of our operating expenses are incurred evenly throughout the year. The increase in operating expenses for the fourth quarter of fiscal 2023 as compared to the same period of fiscal 2022 is driven by higher salaries and benefits expenses as discussed in "RESULTS OF OPERATIONS – Operating Expenses."

Other (income) and expenses were lower during the fourth quarter of fiscal 2023 primarily due to a lower reduction of the fair value of the Company's investment in preferred interests of Aireon and higher interest income due to a higher cash balance and higher interest rates, partially offset by the impact of the fluctuation of the U.S. dollar exchange rate on the Company's investment in preferred interests of Aireon.

Net movement in regulatory deferral accounts related to net income (loss) were lower during the fourth quarter of fiscal 2023 as a result of regulatory adjustments related to a lower reduction of the fair value of the investment in preferred interests of Aireon as well as payment to fund the long-term disability plan deficit and annual plan surplus accruals. The regulatory adjustments for these results were partially offset by regulatory adjustments related to lower foreign exchange gains on the investment in preferred interests of Aireon and the income tax recovery recognized as a result of the fair value reduction of the investment in preferred interests of Aireon in fiscal 2022. There was no impact to income tax in fiscal 2023 as a result of the fair value reduction as the net deferred tax asset remains unrecognized as discussed in note 12 of the fiscal 2023 financial statements.

FINANCIAL OUTLOOK[2]

Throughout fiscal 2023, we focused on improving the Company's resilience and enhancing safety and service delivery while advancing key longer term strategic initiatives. As we move into the fiscal year ending August 31, 2024 (fiscal 2024), our financial strategy considers the increased investment required to support our core business while continuing to progress on key initiatives; the need to restore the Company's financial resilience through recovery of the rate stabilization account and reduced debt levels; and a balanced approach to rate setting as the industry recovers.

	Fiscal 2024	Fiscal 2023	$ Change
Results of operations (before rate stabilization)			
Revenue	**$ 1,795**	$ 1,778	$ 17
Operating expenses and other (income) and expenses, including other regulatory adjustments	**1,693**	1,546	147
Net income before rate stabilization adjustments	**$ 102**	$ 232	$ (130)
Air traffic levels (year-over-year growth)	**7.1%**	18.1%	
Rate stabilization account debit balance	**$ (240)**	$ (342)	$ 102
Pension plan funding contributions	**$ 84**	$ 83	$ 1
Investment in capital and regulatory assets (1)	**$ 210**	$ 132	$ 78
Cash and cash equivalents at end of year	**$ 471**	$ 586	$ (115)
Short-term investments (including accrued interest)	**99**	99	-
Cash, cash equivalents and short-term investments	**$ 570**	$ 685	$ (115)

(1) Investment in capital and regulatory assets is presented net of $18 of expected government grants related to those investments (fiscal 2023 - $6).

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

Revenue

In our Q3 fiscal 2023 MD&A, we had disclosed anticipated revenue of $1,759 for fiscal 2023, representing a year-over-year increase of 17.1% and 8.0% lower air traffic levels as compared to fiscal 2019. The increase of $19 is driven by higher average air traffic levels than expected.

Revenue in fiscal 2024 is expected to increase by $17 compared to fiscal 2023. Revenue from customer service charges is expected to increase by $49, which reflects a forecasted increase in air traffic levels of 7.1% on a year-over-year basis, along with a decrease in overall customer service charges by an average of 5.57%. Partially offsetting the increase in revenue from customer service charges is lower other revenue of $32 in fiscal 2024, as the Company focuses on its core business.

Operating Expenses and Other (Income) and Expenses

In our Q3 fiscal 2023 MD&A, we had disclosed anticipated operating expenses and other (income) and expenses, before rate stabilization of $1,581 for fiscal 2023. The decrease of $35 is primarily due to lower compensation costs, as a result of lower staffing levels than anticipated along with lower travel and professional fees, partially offset by provisions for technology projects.

Operating expenses and other (income) and expenses before rate stabilization are expected to increase by $147 in fiscal 2024. The expected increase compared to fiscal 2023 is primarily due to increased compensation as a result of higher staffing levels and wages, as well as increased travel and technical services costs. We are continuing to invest in a growing workforce to meet service delivery requirements and progress on strategic initiatives. These increased costs are partially offset by lower interest costs as a result of lower debt levels.

Rate Stabilization Account

In our Q3 fiscal 2023 MD&A, we had disclosed an anticipated rate stabilization account debit balance of $396 as at August 31, 2023. The lower debit balance is driven by the positive variance in results as discussed above.

The Company anticipates that the rate stabilization account will decline to a debit balance of $240 as at August 31, 2024, as air traffic recovers. The current and anticipated balance in the rate stabilization account is a consideration in the rate setting process (see "INTRODUCTION – Financial Strategy and Rate Regulation").

Cash Flows

In our Q3 fiscal 2023 MD&A, we had disclosed an anticipated cash, cash equivalents and short-term investments balance of $639 as at August 31, 2023. The higher balance is largely due to higher than anticipated receipts from customer service charges, including deposits and prepayments.

The Company's cash, cash equivalents and short-term investments are expected to reach $570 as at August 31, 2024. Net cash outflow of $115 is expected, reflecting higher capital expenditures and the planned repayment of the maturing $185 General Obligation Notes. These outflows are partially offset by positive operating cash inflows driven by increased air traffic levels and the planned recovery of a portion of the rate stabilization account after reflecting increased operational costs as discussed above.

(in millions of dollars)

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 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		2023		2022
Interest costs	$	**86**	$	84
Consolidated earnings [1] before interest	$	**86**	$	84
Depreciation and amortization expense	$	**144**	$	144
Consolidated earnings [1] before interest and depreciation	$	**230**	$	228
Earnings coverage ratio		**1.00**		1.00
Cash flow coverage ratio		**2.67**		2.71

(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 20 of our fiscal 2023 financial statements.

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

Years ended August 31		2023		2022
Key management personnel compensation	**$**	**11**	$	9
Purchase of data services [1]	**$**	**55**	$	53
Pension plan contributions [2]	**$**	**83**	$	100
Cost recoveries from pension plan	**$**	**(11)**	$	(21)

(in millions of dollars)

(1) The Company has a 12-year commitment with Aireon to purchase data services, which commenced in March 2019. The estimated total remaining commitment is $481 CDN ($356 U.S.).

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

Outstanding balances were:

As at August 31	2023	2022
Receivable from pension plan	**$ 6**	$ 2

The Company also entered into an agreement with Aireon in January 2020 to provide a subordinated loan up to a total of $15 CDN ($11 U.S.) through the earlier of June 2026 or the date on which the senior credit facility is paid in full and terminated or refinanced. Subsequent to August 31, 2023, the senior credit facility was terminated. As a condition of a new senior credit facility, a replacement subordinated loan with similar terms and conditions will be required.

Accounting Policies

The Company's significant accounting policies are described in note 3 to the fiscal 2023 financial statements. There have been no new standards, amendments or interpretations adopted by the Company effective September 1, 2022.

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 14 of the fiscal 2023 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.

Investment in Preferred Interests of Aireon

The Company's investment in Aireon is in preferred interests, which are redeemable and convertible to common equity interests. Until the Company exercises its right to convert its preferred interests to common interests, it does not have access to Aireon's residual net assets and accordingly this investment is accounted for as a financial instrument classified and measured at FVTPL. The fair value methodology and underlying assumptions are discussed in note 2(d), note 12 and note 16 of the fiscal 2023 financial statements.

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, 2023.

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, 2023.

Changes to Internal Control over Financial Reporting

There have been no changes to the Company's ICFR during the year ended August 31, 2023 that have materially affected or are reasonably likely to materially affect the Company's ICFR.