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MANAGEMENT'S DISCUSSION AND ANALYSIS

ON FORM 51-102F1

THREE AND SIX MONTHS ENDED

FEBRUARY 29, 2024

April 11, 2024

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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 and six months ended February 29, 2024 (Q2 fiscal 2024) of NAV CANADA (also referred to in this MD&A as we, our, us or the Company). It should be read in conjunction with our unaudited interim condensed consolidated financial statements for Q2 fiscal 2024 (Q2 fiscal 2024 financial statements), our audited annual consolidated financial statements and the accompanying notes for the year ended August 31, 2023 (fiscal 2023), our fiscal 2023 annual MD&A, as well as our fiscal 2023 Annual Information Form dated October 19, 2023 (fiscal 2023 AIF). Additional information about NAV CANADA, including our Q2 fiscal 2024 and fiscal 2023 financial statements, our fiscal 2023 annual MD&A, 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 as issued by the International Accounting Standards Board (IASB) and are comprised of the accounts of NAV CANADA and its subsidiaries. Our Q2 fiscal 2024 financial statements have been prepared in accordance with International Accounting Standards (IAS) 34 *Interim Financial Reporting*. All information presented has been rounded to the nearest million dollars, unless otherwise indicated. Our Audit & Finance Committee reviewed this MD&A and our Board of Directors (the Board) approved it on April 11, 2024 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 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 April 11, 2024 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.

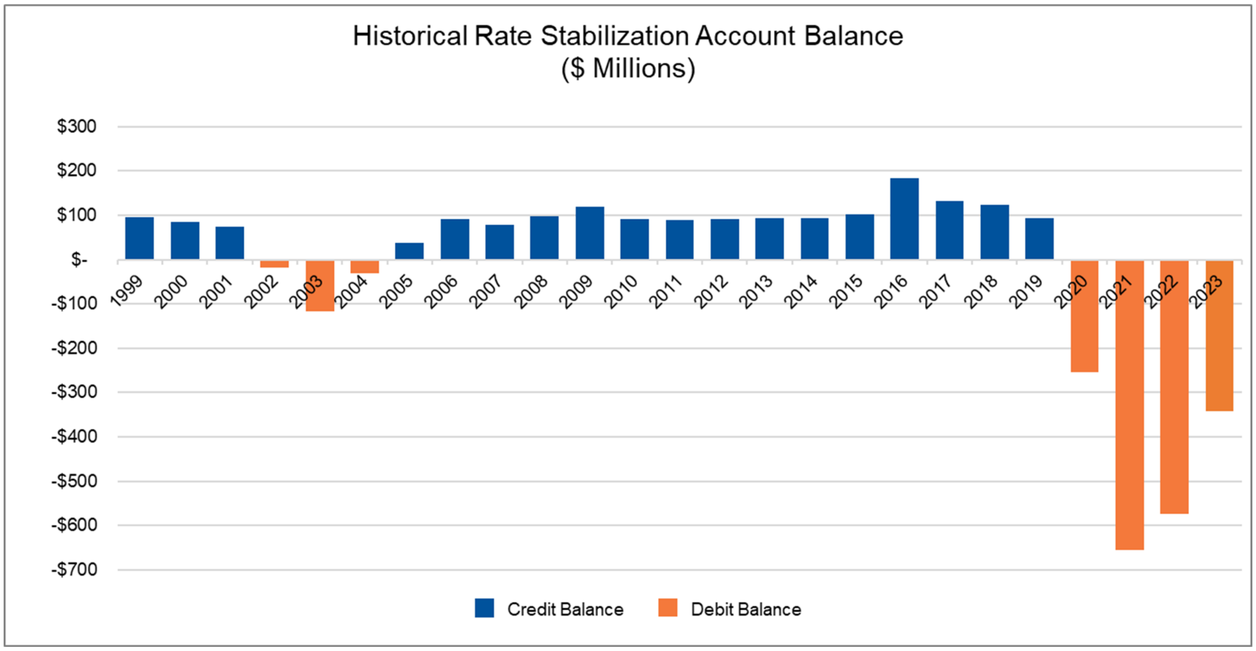
When establishing customer service charges, the Company monitors quarterly and considers, among other things:

(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 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 annual changes in the rate stabilization account over time:



In addition, 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 in order 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").

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, 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

During the six months ended February 29, 2024, 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 7.8% as compared to the same period of fiscal 2023. Excluding the effect of an extra day for the leap year, air traffic levels in the first six months of fiscal 2024 increased by 7.3%. The outlook for fiscal 2024 reflects year-over-year air traffic growth of 6.1%, 1.0% below the annual growth reflected in the fiscal 2024 plan.

On December 18, 2023, the Company announced a revision of its customer service charges effective January 1, 2024, decreasing overall charges by an average of 5.57%. The revised charges take 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.

2. Rate Stabilization Account

As at February 29, 2024, the rate stabilization account had a debit balance of $259. During the six months ended February 29, 2024, the rate stabilization account debit balance decreased by $83 due to $32 of net favourable variances from planned results and the $51 initially approved adjustment to the rate stabilization account resulting from the planned excess in fiscal 2024. The outlook for fiscal 2024 reflects a reduction of the rate stabilization account debit balance of $127, $25 above the recovery reflected in the fiscal 2024 plan. Rate stabilization adjustments are described under "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account".

3. Asset impairment

As of February 29, 2024, the Company recorded an asset impairment in relation to the termination in March 2024 of a purchase agreement for the replacement of certain surveillance equipment. The Company recognized a regulatory deferral of $45, representing the net impact of the asset impairment, which will be recovered over time.

4. Collective Agreements

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

During the six months ended February 29, 2024, a new collective agreement was ratified with the Air Traffic Specialists Association of Canada (15% of our represented workforce), for the five-year period ending April 30, 2028. In addition, an arbitration award was issued related to the classification system in the collective agreement with the Professional Institute of the Public Service of Canada (11% of our represented workforce). The arbitration award is effective retroactively to November 1, 2023 and provides for a new wage table. The new wage table was ratified by the membership in December 2023 with revised wages effective May 1, 2023 through April 30, 2026.

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

(millions of Canadian dollars)

As of the date of this MD&A, the Company has expired agreements with five unions, comprising 28% of our represented workforce (April 30, 2022 with the Canadian Federal Pilots Association (CFPA) (1%), June 30, 2023 with the Canadian Air Navigation Specialists Association (CANSA) (6%), December 31, 2023 with the International Brotherhood of Electrical Workers (IBEW) (14%), December 31, 2023 with the Public Service Alliance of Canada (PSAC) (6%) and February 6, 2024 with the Association of Canadian Financial Officers (ACFO) (1%)). The Company is currently in negotiations with CFPA, CANSA and ACFO, and will begin negotiations with PSAC later this fiscal year. On February 1, 2024, CANSA 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.

Subsequent to the quarter end, the Company reached a tentative agreement to resolve all bargaining issues with IBEW which remains subject to the union ratification process.

5. Financing Activities

On February 9, 2024, the Company repaid the $185 Series 2021-2 General Obligation Notes upon maturity, reducing the Company's bonds and notes payable balance to $2,170.

Financial Highlights

Results of Operations

Three months ended	February 29 2024	February 28 2023	$ Change
Revenue	**$ 393**	$ 388	$ 5
Operating expenses	**435**	371	64
Other (income) and expenses	**24**	20	4
Net loss, before net movement in regulatory deferral accounts	**(66)**	(3)	(63)
Rate stabilization adjustments:			
Favourable variances from planned results	**(1)**	(1)	-
Initial approved adjustment (1)	**(25)**	(33)	8
	(26)	(34)	8
Other regulatory deferral account adjustments:			
Employee benefit pension contributions	**10**	12	(2)
Other employee benefits	**-**	(8)	8
Investment in preferred interests	**-**	(4)	4
Asset impairment	**45**	-	45
Other	**1**	1	-
	56	1	55
Net movement in regulatory deferral accounts (2)	**30**	(33)	63
Net loss, after net movement in regulatory deferral accounts	**$ (36)**	$ (36)	$ -

(millions of Canadian dollars)

Six months ended	February 29 2024	February 28 2023	$ Change
Revenue	**$ 857**	$ 823	$ 34
Operating expenses	**816**	719	97
Other (income) and expenses	**41**	46	(5)
Net income, before net movement in regulatory deferral accounts	**-**	58	(58)
Rate stabilization adjustments:			
Favourable variances from planned results	**(32)**	(47)	15
Initial approved adjustment (1)	**(51)**	(65)	14
	(83)	(112)	29
Other regulatory deferral account adjustments:			
Employee benefit pension contributions	**22**	24	(2)
Other employee benefits	**(1)**	(9)	8
Investment in preferred interests, before tax	**(1)**	(9)	8
Asset impairment	**45**	-	45
Other	**3**	2	1
	68	8	60
Net movement in regulatory deferral accounts (2)	**(15)**	(104)	89
Net loss, after net movement in regulatory deferral accounts	**$ (15)**	$ (46)	$ 31

(1) In order to achieve breakeven results of operations after the application of rate regulated accounting, the Board approved the fiscal 2024 budget with a decrease to the debit position of the rate stabilization account as a result of a planned excess of $102 (fiscal 2023 - $129), which is being reflected in the rate stabilization account evenly throughout the fiscal year.

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

(millions of Canadian dollars)

Cash flows

Three months ended	February 29 2024	February 28 2023	$ Change (1)
Cash flows from (used in)			
Operating	**$ 9**	$ 66	$ (57)
Investing	**61**	(51)	112
Financing	**(185)**	-	(185)
Cash flows from (used in) operating, investing and financing activities	**(115)**	15	(130)
Effect of foreign exchange on cash and cash equivalents	**-**	1	(1)
Increase in cash and cash equivalents	**(115)**	16	(131)
Cash and cash equivalents, beginning of period	**685**	395	290
Cash and cash equivalents, end of period	**$ 570**	$ 411	$ 159
Free cash flow (non-GAAP financial measure) (2)			
Cash flows from (used in) (3)			
Operations	**$ 9**	$ 66	$ (57)
Capital expenditures	**(35)**	(30)	(5)
Investment in regulatory assets	**(3)**	(3)	-
Government grants received	**1**	1	-
Free cash flow	**$ (28)**	$ 34	$ (62)

Six months ended	February 29 2024	February 28 2023	$ Change (1)
Cash flows from (used in)			
Operating	**$ 144**	$ 218	$ (74)
Investing	**25**	(75)	100
Financing	**(186)**	(126)	(60)
Cash flows from (used in) operating, investing and financing activities	**(17)**	17	(34)
Effect of foreign exchange on cash and cash equivalents	**1**	2	(1)
Increase in cash and cash equivalents	**(16)**	19	(35)
Cash and cash equivalents, beginning of period	**586**	392	194
Cash and cash equivalents, end of period	**$ 570**	$ 411	$ 159
Free cash flow (non-GAAP financial measure) (2)			
Cash flows from (used in) (3):			
Operations	**$ 144**	$ 218	$ (74)
Capital expenditures	**(71)**	(54)	(17)
Investment in regulatory assets	**(6)**	(5)	(1)
Government grants received	**4**	3	1
Payment of lease liabilities	**(1)**	(1)	-
Free cash flow	**$ 70**	$ 161	$ (91)

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

(millions of Canadian dollars)

(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 LLC (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 Q2 fiscal 2024 financial statements.

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.

Three months ended	February 29 2024	February 28 2023	$ Change
Enroute	**$ 177**	$ 175	$ 2
Terminal	**172**	155	17
Daily / annual / quarterly	**11**	12	(1)
North Atlantic and international communication	**23**	24	(1)
Total customer service charges	**383**	366	17
Other [1]	**10**	22	(12)
	$ 393	$ 388	$ 5

Six months ended	February 29 2024	February 28 2023	$ Change
Enroute	**$ 407**	$ 387	$ 20
Terminal	**350**	319	31
Daily / annual / quarterly	**24**	29	(5)
North Atlantic and international communication	**55**	53	2
Total customer service charges	**836**	788	48
Other [1]	**21**	35	(14)
	$ 857	$ 823	$ 34

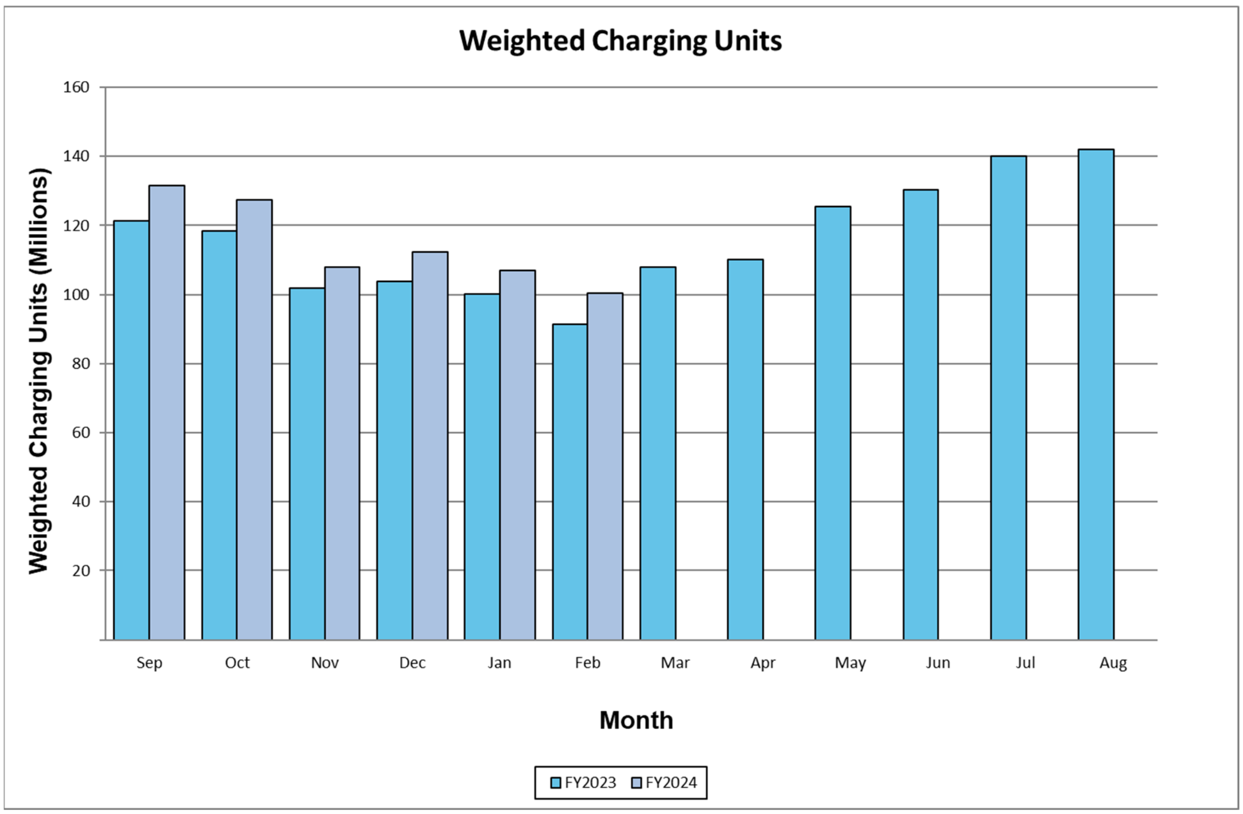
(1) Other revenue consists of service and development contracts, the sale of civil aeronautical publications and miscellaneous revenues.

Revenue from customer service charges during the three and six months ended February 29, 2024 increased by $17 and $48, respectively, compared to the same periods in fiscal 2023, due to higher air traffic levels partially offset by the average 5.57% decrease of customer service charges effective January 1, 2024.

Other revenue for the three and six months ended February 29, 2024 decreased by $12 and $14, respectively, compared to the same period in fiscal 2023, mainly due to the successful conclusion of negotiations during fiscal 2023 for reimbursement of maintenance work provided in previous years, partially offset by higher revenue for a large technology sales and services contract in fiscal 2024.

Air Traffic

As discussed in "INTRODUCTION – Significant Financial Matters", air traffic levels (as measured in WCUs) increased by 7.8% as compared to the same period of fiscal 2023 as illustrated below. Excluding the effect of an extra day for the leap year, air traffic levels in the first six months of fiscal 2024 increased by 7.3%.



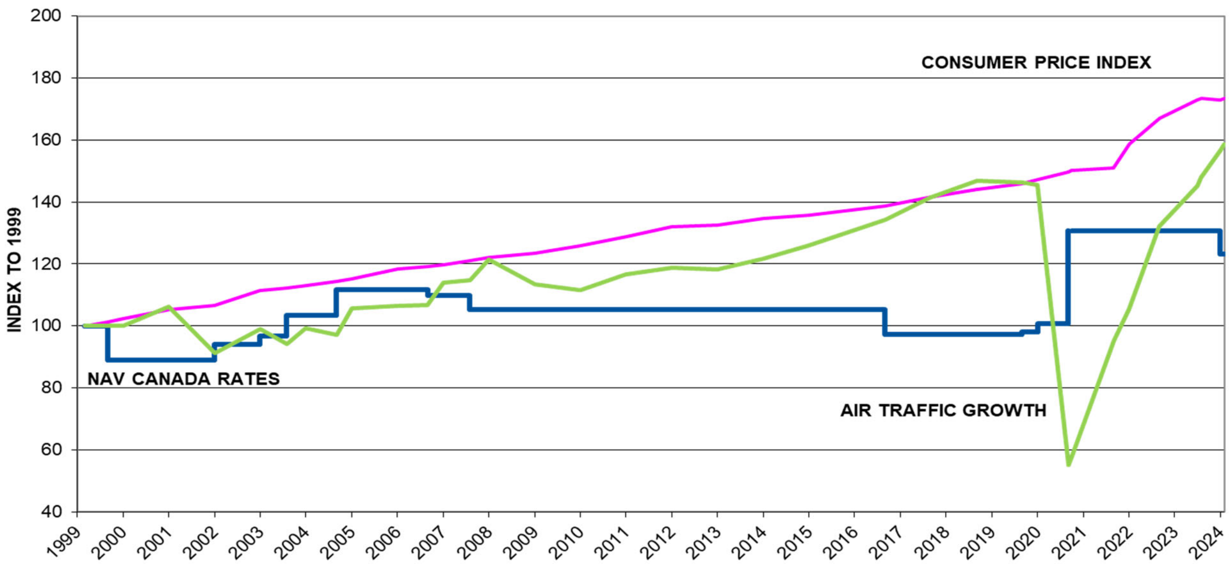
Future air traffic levels may be influenced by numerous factors, including epidemics or pandemics, rate of economic growth or decline, changing air passenger demand or willingness to fly, aircraft capacity utilization levels, fuel costs, changes in air carrier operations and behaviours, general aviation 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

On December 18, 2023, the Company announced a revision of its customer service charges effective January 1, 2024, decreasing overall charges by an average of 5.57%. (see "INTRODUCTION – Significant Financial Matters"). Including this revision, service charges as at February 29, 2024 are on average 23.3% higher than when they were fully implemented in 1999 which is approximately 50.3% below the cumulative change in the Consumer Price Index over the same period.

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

HISTORY OF NAV CANADA RATE CHANGES(1)
AND AIR TRAFFIC GROWTH(2) VERSUS CONSUMER PRICE INDEX(3)



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.

(millions of Canadian dollars)

Operating Expenses

Three months ended	February 29 2024	February 28 2023	$ Change
Salaries and benefits	**$ 299**	$ 252	$ 47
Technical services	**67**	39	28
Facilities and maintenance	**16**	17	(1)
Depreciation and amortization	**37**	35	2
Other	**16**	28	(12)
	$ 435	$ 371	$ 64

Six months ended	February 29 2024	February 28 2023	$ Change
Salaries and benefits	$ **572**	$ 491	$ 81
Technical services	**108**	78	30
Facilities and maintenance	**31**	32	(1)
Depreciation and amortization	**70**	72	(2)
Other	**35**	46	(11)
	$ **816**	$ 719	$ 97

Salaries and benefits expense in the three and six months ended February 29, 2024 increased by $47 and $81 compared to the same periods in fiscal 2023 primarily due to higher wages and staffing levels as well as the asset impairment of $10.

Technical services in the three and six months ended February 29, 2024 increased by $28 and $30, respectively, compared to the same periods in fiscal 2023 primarily due to the net impact of the asset impairment of $24.

Other operating expenses in the three and six months ended February 29, 2024 decreased by $12 and $11, respectively, compared to the same period in fiscal 2023 primarily due to the partial reversal in fiscal 2024 of an onerous revenue contract provision of $13 that was recorded in fiscal 2023, partially offset by higher travel, hospitality and relocation costs and the asset impairment of $2.

(millions of Canadian dollars)

Other (Income) and Expenses

Three months ended	February 29 2024	February 28 2023	$ Change
Finance income	**$ (11)**	$ (6)	$ 5
Net interest expense relating to employee benefits	**9**	10	1
Other finance costs	**26**	19	(7)
Other	**-**	(3)	(3)
	$ 24	$ 20	$ (4)

Six months ended	February 29 2024	February 28 2023	$ Change
Finance income	**$ (22)**	$ (12)	$ 10
Net interest expense relating to employee benefits	**18**	20	2
Other finance costs	**46**	46	-
Other	**(1)**	(8)	(7)
	$ 41	$ 46	$ 5

Finance income increased by $5 and $10, respectively, during the three and six months ended February 29, 2024 compared to the same periods in fiscal 2023 primarily as a result of higher cash balances and an increase in interest rates earned on interest-bearing cash balances.

Other finance costs increased by $7 during the three months ended February 29, 2024 compared to the same period in fiscal 2023 due to the asset impairment of $7.

Other gains and losses were favourable by $3 and $7 for the three and six months ended February 29, 2024, respectively, as compared to the same periods in fiscal 2023 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.

(millions of Canadian dollars)

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.

Three months ended	February 29 2024	February 28 2023	$ Change
Debit balance, beginning of period	**$ (285)**	$ (496)	$ 211
Variances from planned results:			
Revenue (lower) higher than planned	**(21)**	10	(31)
Operating expenses (higher) lower than planned	**(18)**	3	(21)
Other net expenses (higher) lower than planned	**(3)**	2	(5)
Net movement in other regulatory deferral accounts	**43**	(14)	57
Total variances from planned results	**1**	1	-
Initial approved adjustment	**25**	33	(8)
Net movement recorded in net income (loss)	**26**	34	(8)
Debit balance, end of period	**$ (259)**	$ (462)	$ 203

The rate stabilization account debit balance decreased by $26 during the three months ended February 29, 2024 primarily due to:

- the planned adjustment of $25, representing one quarter of the planned recovery of $102 as reflected in the fiscal 2024 budget; and
- net movement in other regulatory deferral accounts that was $43 higher than planned primarily due to the regulatory adjustment of $45 related to the net asset impairment;

partially offset by:

- revenue that was $21 lower than planned due to lower than anticipated air traffic levels (increase of 8.3% for Q2 fiscal 2024 as compared to a budgeted increase of 15.8%) partially offset by higher other revenue;
- operating expenses that were $18 higher than planned, primarily due to:
    - net asset impairment of $38, partially offset by
    - lower than planned professional, insurance systems maintenance and other costs;
- other net expenses that were $3 higher than planned, primarily due to asset impairment of $7, partially offset by higher interest income earned on interest-bearing cash balances.

(millions of Canadian dollars)

Six months ended	February 29 2024	February 28 2023	$ Change
Debit balance, beginning of period	**$ (342)**	$ (574)	$ 232
Variances from planned results:			
Revenue (lower) higher than planned	**(9)**	49	(58)
Operating expenses lower than planned	**1**	21	(20)
Other net expenses lower (higher) than planned	**2**	(1)	3
Net movement in other regulatory deferral accounts	**38**	(22)	60
Total variances from planned results	**32**	47	(15)
Initial approved adjustment	**51**	65	(14)
Net movement recorded in net income (loss)	**83**	112	(29)
Debit balance, end of period	**$ (259)**	$ (462)	$ 203

The rate stabilization account debit balance decreased by $83 during the six months ended February 29, 2024 primarily due to:

- the planned adjustment of $51, representing half of the planned recovery of $102 as reflected in the fiscal 2024 budget;
- net movement in other regulatory deferral accounts that was $38 higher than planned primarily due to regulatory adjustments of:
  - $45 related to the net asset impairment; partially offset by
  - $5 related to lower than planned pension current service costs due to an increase in the discount rate;
- other net expenses that were $2 lower than planned, primarily due to higher interest income earned on interest-bearing cash balances, partially offset by the asset impairment of $7; and
- operating expenses that were $1 lower than planned, primarily due to:
  - lower than planned salaries and benefits due to fewer staff than planned, professional services, partial reversal of the onerous revenue contract provision systems maintenance, travel and other costs; partially offset by
  - $38 related to the net asset impairment;

partially offset by:

- revenue that was $9 lower than planned due to lower than anticipated air traffic levels (increase of 7.8% as compared to a budgeted increase of 10.5%), partially offset by higher other revenue.

(millions of Canadian dollars)

Net Movement in Regulatory Deferral Accounts

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

Three months ended	February 29 2024	February 28 2023	$ Change
Rate stabilization account [(1)]	**$ (26)**	$ (34)	$ 8
Other regulatory deferral accounts			
Employee benefit pension contributions	**10**	12	(2)
Other employee benefits	**-**	(8)	8
Investment in preferred interests	**-**	(4)	4
Asset impairment	**45**	-	45
Other	**1**	1	-
	$ 30	$ (33)	$ 63

Six months ended	February 29 2024	February 28 2023	$ Change
Rate stabilization account [(1)]	**$ (83)**	$ (112)	$ 29
Other regulatory deferral accounts			
Employee benefit pension contributions	**22**	24	(2)
Other employee benefits	**(1)**	(9)	8
Investment in preferred interests, before tax	**(1)**	(9)	8
Asset impairment	**45**	-	45
Other	**3**	2	1
	$ (15)	$ (104)	$ 89

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

The change in the net movement in regulatory deferral of other employee benefits during the three and six months ended February 29, 2024 of $8 is largely due to a lower payment in fiscal 2024 to fund the long-term disability benefit at August 31, 2023 than required in the prior period.

The changes in the net movement of the Company's investment in preferred interests regulatory deferral account during the three and six months ended February 29, 2024 of $4 and $8, respectively, are as a result of the effect of foreign exchange due to fluctuation of the Canadian dollar against the U.S. dollar.

The change in the net movement of asset impairment during the three and six months ended February 29, 2024 of $45 relates to the net asset impairment that was recorded during the three months ended February 29, 2024.

(millions of Canadian dollars)

FINANCIAL AND CAPITAL MANAGEMENT

Our fiscal 2023 annual MD&A explains how we manage our cash and capital resources. There have been no changes in that approach for the six months ended February 29, 2024.

Cash Flows

Three months ended	February 29 2024	February 28 2023	$ Change
Cash flows from (used in)			
Operating	**$ 9**	$ 66	$ (57)
Investing	**61**	(51)	112
Financing	**(185)**	-	(185)
Cash flows from (used in) operating, investing and financing activities	**(115)**	15	(130)
Effect of foreign exchange on cash and cash equivalents	**-**	1	(1)
Increase in cash and cash equivalents	**(115)**	16	(131)
Cash and cash equivalents, beginning of period	**685**	395	290
Cash and cash equivalents, end of period	**$ 570**	$ 411	$ 159

Six months ended	February 29 2024	February 28 2023	$ Change
Cash flows from (used in)			
Operating	**$ 144**	$ 218	$ (74)
Investing	**25**	(75)	100
Financing	**(186)**	(126)	(60)
Cash flows from (used in) operating, investing and financing activities	**(17)**	17	(34)
Effect of foreign exchange on cash and cash equivalents	**1**	2	(1)
Increase in cash and cash equivalents	**(16)**	19	(35)
Cash and cash equivalents, beginning of period	**586**	392	194
Cash and cash equivalents, end of period	**$ 570**	$ 411	$ 159

Cash inflows from operations for the three and six months ended February 29, 2024 were $9 and $144, respectively, compared to $66 and $218 for the three and six months ended February 28, 2023, respectively. The variances were primarily due to higher payments to employees and suppliers, largely due to higher compensation costs, including retroactive payments related to collective agreements settled in fiscal 2023, and lower receipts related to other revenue. Partially offsetting were higher receipts from customer service charges, as a result of higher air traffic levels and lower net interest payments.

Cash from investing activities for the three and six months ended February 29, 2024 were inflows of $61 and $25, respectively, compared to outflows of $51 and $75 for the three and six months ended February 28, 2023, respectively. The inflows in fiscal 2024 were primarily due to proceeds received from maturity of short-term investments, partially offset by higher capital expenditures.

(millions of Canadian dollars)

Cash outflows from financing activities for the six months ended February 29, 2024 were $186 compared to $126 for the six months ended February 28, 2023 due to the repayment of the $185 Series 2021-2 General Obligation Notes upon maturity in the second quarter of fiscal 2024 as compared to the Company's partial repurchase of its revenue bonds and certain general obligation notes in the first quarter of fiscal 2023.

Liquidity and Financing Strategy

As at February 29, 2024, we had total liquidity of $1,499 along with letter of credit facilities for pension obligations of $860, of which $41 was undrawn.

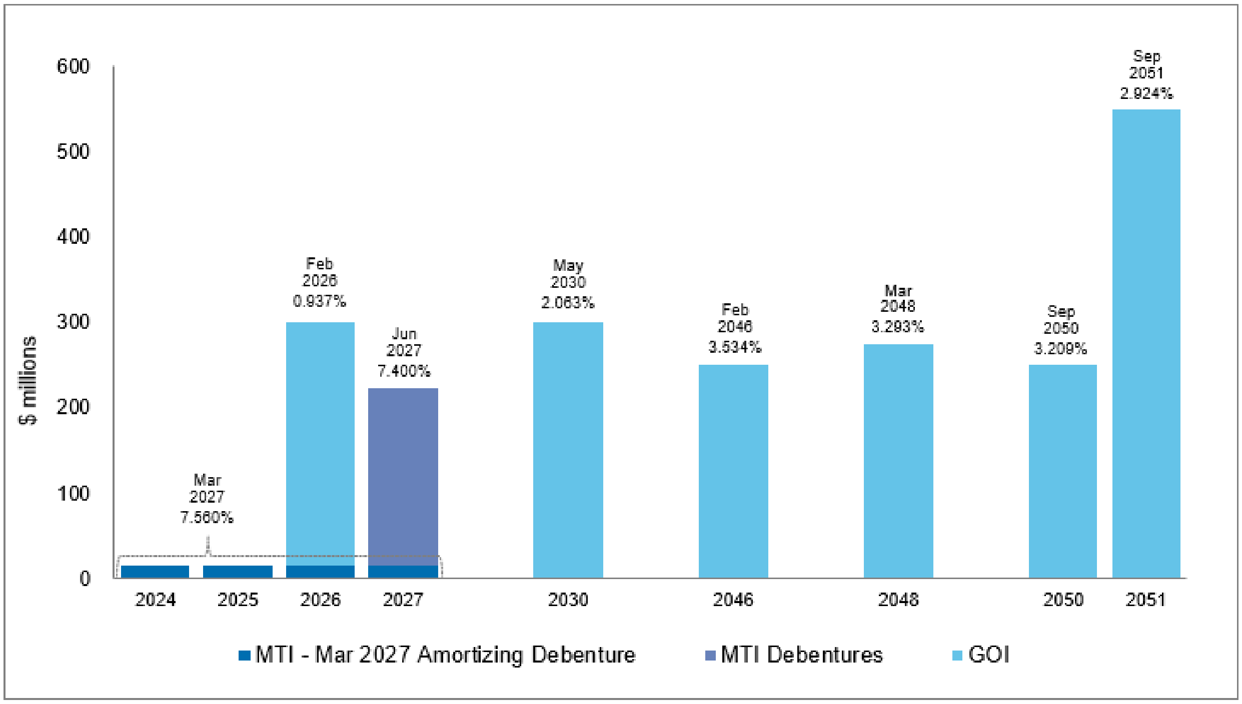
We are exposed to refinancing risk with respect to our bond and note maturities, including the $16 annual amortizing payment due on the Series 97-2 amortizing revenue bonds. We mitigate this risk by maintaining committed credit facilities in an amount sufficient to meet our refinancing needs in the event 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 investments profile.

	February 29 2024	August 31 2023
LONG-TERM DEBT		
Bonds and notes payable		
Under the Master Trust Indenture	**$ 270**	$ 270
Under the General Obligation Indenture	**1,910**	2,095
	2,180	2,365
Adjusted for deferred financing costs	**(10)**	(11)
Total bonds and notes payable	**2,170**	2,354
Less: current portion of long-term debt	**(16)**	(201)
Total long-term debt	**$ 2,154**	$ 2,153
LIQUIDITY		
Cash and cash equivalents	**$ 570**	$ 586
Short-term investments	**-**	99
Debt service reserve fund	**79**	77
Undrawn committed borrowing capacity	**850**	849
Total Liquidity	**$ 1,499**	$ 1,611

(millions of Canadian dollars)

The chart below shows our debt maturity profile as at February 29, 2024:



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 February 29		2024
Credit facilities for general purposes:		
Credit facility with a syndicate of Canadian financial institutions - undrawn (1), (2)	$	850
Less: Operations and maintenance reserve allocation (3)		(335)
Available for unrestricted use	**$**	**515**
Credit facilities for pension obligations:		
Letter of credit facilities for pension obligations (4)	$	860
Less: Outstanding letters of credit for pension obligations (4)		(819)
Undrawn committed letter of credit facilities	**$**	**41**

(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. Subsequent to February 29, 2024, the maturity dates were extended to March 26, 2027 and March 26, 2029, 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 February 29, 2024.

(millions of Canadian dollars)

(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, whereby $450 will mature on December 31, 2024 and $410 will mature on December 31, 2025, unless extended. As at February 29, 2024, $781 was drawn for solvency funding (August 31, 2023 - $751) for the registered pension plan and $38 for supplemental retirement arrangements (August 31, 2023 - $38).

Contractual Obligations and Commitments

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

Contractual Obligations

A breakdown of contractual obligations as at February 29, 2024 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]	**$ 2,180**	$ 16	$ 16	$ 301	$ 222	$ -	$ 1,625
Interest payments [2]	**1,191**	34	70	67	65	48	907
Capital commitments [3]	**293**	94	84	58	33	10	14
Lease liability	**55**	1	3	3	3	3	42
Related party loan [4]	**15**	15	-	-	-	-	-
Total contractual obligations	**$ 3,734**	$ 160	$ 173	$ 429	$ 323	$ 61	$ 2,588

(1) Payments represent principal of $2,180. 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 the fiscal 2023 financial statements.

(3) The Company has commitments for the acquisition of property, plant and equipment and intangible assets amounting to $293 as at February 29, 2024 (August 31, 2023 - $151). During the six months ended February 29, 2024, the Company reached an important milestone towards Trajectory-Based Operations by signing an agreement to deploy new Air Traffic Management systems over the next 5 years.

(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 the senior credit facility is paid in full and terminated or refinanced.

(millions of Canadian dollars)

The Company's letters of credit are discussed under the heading "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 2023 annual MD&A.

	February 29 2024	August 31 2023
Bonds and notes payable	**$ 2,170**	$ 2,354
Equity:		
Retained earnings	**13**	28
Regulatory deferral accounts:		
Debit balances	**(1,199)**	(1,213)
Credit balances	**363**	361
Employee benefits:		
Long-term disability asset	**(4)**	(4)
Liability for funded pension benefits	**398**	376
Liability for accumulating sick leave	**15**	15
Total capital	**$ 1,756**	$ 1,917

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

Our air traffic risk and strategy to mitigate the risk remains unchanged from that disclosed in our fiscal 2023 annual MD&A.

Insurance

Our aviation liability insurance program was renewed on November 15, 2023. 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	AA-	Stable

On March 21, 2024, S&P issued its credit opinion affirming 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 ongoing growth in air traffic activity will support revenue growth and allow NAV CANADA to maintain strong debt service coverage and a debt burden of less than 10.0x EBIDA in the next two fiscal years.

On March 25, 2024, Moody's issued its annual update to its credit opinion affirming NAV CANADA's base line credit assessment at Aa2 and its senior and subordinated ratings at Aa2. The stable outlook reflects Moody's expectation that NAV CANADA will continue its prudent strategy, taking into account its overall financial position and upcoming obligations when contemplating a rate decrease and, vice versa, that it will implement the necessary rate increases if air traffic growth slows down and/or expenses increase.

(millions of Canadian dollars)

QUARTERLY RESULTS

Quarterly Financial Information (unaudited)

	Three months ended Q2 February 29 2024	Q1 November 30 2023	Q4 August 31 2023	Q3 May 31 2023
Revenue	$ 393	$ 464	$ 519	$ 436
Operating expenses	435	381	388	386
Other (income) and expenses	24	17	54	24
Net income (loss) before net movement in regulatory deferral accounts	(66)	66	77	26
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	(26)	(57)	(72)	(48)
Other regulatory deferral account adjustments	56	12	54	9
	30	(45)	(18)	(39)
Net income (loss) after net movement in regulatory deferral accounts	$ (36)	$ 21	$ 59	$ (13)

	Three months ended Q2 February 28 2023	Q1 November 30 2022	Q4 August 31 2022	Q3 May 31 2022
Revenue	$ 388	$ 435	$ 468	$ 381
Operating expenses	371	348	368	361
Other (income) and expenses	20	26	102	28
	(3)	61	(2)	(8)
Income tax recovery	-	-	(13)	-
Net income (loss) before net movement in regulatory deferral accounts	(3)	61	11	(8)
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	(34)	(78)	(8)	(20)
Other regulatory deferral account adjustments	1	7	90	23
	(33)	(71)	82	3
Net income (loss) after net movement in regulatory deferral accounts	$ (36)	$ (10)	$ 93	$ (5)

(millions of Canadian dollars)

FINANCIAL OUTLOOK[2]

Presented below are the Company's current projected annual results for fiscal 2024 compared to fiscal 2023 actual results:

	Fiscal 2024	Fiscal 2023	$ Change
Results of operations (before rate stabilization)			
Customer service charges	**1,757**	1,723	34
Other revenue	**39**	55	(16)
	$ 1,796	$ 1,778	$ 18
Operating expenses and other (income) and expenses, including other regulatory adjustments	**1,669**	1,546	123
Net income before rate stabilization adjustments	**$ 127**	$ 232	$ (105)
Air traffic levels (year-over-year growth)	**6.1%**	18.1%	
Rate stabilization account debit balance	**$ (215)**	$ (342)	$ 127
Investment in capital and regulatory assets (1)	**$ 201**	$ 132	$ 69
Cash and cash equivalents at end of year	**$ 605**	$ 586	$ 19
Short-term investments (including accrued interest)	**-**	99	(99)
Cash, cash equivalents and short-term investments	**$ 605**	$ 685	$ (80)

(1) Investment in capital and regulatory assets is presented net of $16 of expected government grants related to those investments (fiscal 2023 - $6).

Revenue

Revenue from customer service charges in fiscal 2024 is expected to increase by $34 compared to fiscal 2023, primarily due to a forecasted increase in air traffic levels of 6.1%, as measured in WCUs, partially offset by the average decrease in customer service charges of 5.57% implemented on January 1, 2024. Partially offsetting the increase in revenue from customer service charges is lower other revenue of $16 in fiscal 2024, as other revenue in fiscal 2023 reflected the reimbursement of maintenance work that was provided in previous years.

Anticipated revenue of $1,795 for fiscal 2024 as disclosed in our fiscal 2023 annual MD&A is consistent with our outlook for fiscal 2024. The outlook of $1,757 for customer service charges for fiscal 2024 is $15 below the plan of $1,772, due to lower projected air traffic growth than anticipated. The outlook of $39 for other revenue is $16 higher than the plan of $23 due to higher projected revenue from technology sales and services contracts.

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

Operating Expenses and Other (Income) and Expenses

Operating expenses and other (income) and expenses before rate stabilization are expected to increase by $123. The expected increase compared to fiscal 2023 is primarily due to increased compensation and other operating and travel costs as we continue to invest in a growing workforce to meet service delivery requirements and progress on strategic initiatives. These increased costs are partially offset by higher interest income as a result of higher interest rates and cash and short-term investment balances.

In our fiscal 2023 annual MD&A, we had disclosed anticipated operating expenses and other (income) and expenses, before rate stabilization of $1,693 for fiscal 2024. The decrease of $24 reflects the reassessment of the onerous revenue contract provision, lower travel and system maintenance expenses and higher interest income as a result of higher interest rates and cash and short-term investment balances.

Rate Stabilization Account

The Company projects that the rate stabilization account will decline by $127 to a debit balance of $215 as at August 31, 2024.

In our fiscal 2023 annual MD&A, we had disclosed an anticipated rate stabilization account debit balance of $240 as at August 31, 2024. The lower forecast debit balance is primarily driven by the projected positive variance in operating expenses.

Cash Flows

The Company's cash, cash equivalents and short-term investments are expected to reach $605 as at August 31, 2024. Net cash outflow of $80 is projected, reflecting the repayment of the $185 general obligation notes and higher capital expenditures partially offset by positive cash inflow from operations.

In our fiscal 2023 annual MD&A, we had disclosed an anticipated cash, cash equivalents and short-term investments balance of $570 as at August 31, 2024. The higher anticipated balance reflects lower projected payments to employees and suppliers, higher interest receipts and lower capital expenditures than planned, partially offset by lower receipts from customer service charges.

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.

(millions of Canadian dollars)

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	February 29 2024	February 28 2023
Net earnings	**$ 10**	$ 42
Interest costs	**66**	88
Consolidated earnings [(1)] before interest	**$ 76**	**$** 130
Depreciation and amortization expense	**$ 108**	**$** 143
Consolidated earnings [(1)] before interest and depreciation	**$ 184**	**$** 273
Earnings coverage ratio	**1.15**	1.48
Cash flow coverage ratio	**2.79**	3.10

(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. The transactions with these related parties are not materially different from what was reported in the fiscal 2023 annual MD&A.

Accounting Policies

Significant accounting policies applied in the Q2 fiscal 2024 financial statements are disclosed in note 3 of the fiscal 2023 financial statements.

The following amendments were adopted by the Company effective September 1, 2023.

IAS 1 Disclosure of Accounting Policies

In February 2021, the IASB issued Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. Changes to the Company's disclosure of accounting policies will be reflected in the annual financial statements for fiscal 2024.

IAS 8 Definition of Accounting Estimates

In February 2021, the IASB amended IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to introduce a new definition of "accounting estimates" to replace the definition of "change in accounting estimates" and include clarifications intended to help entities distinguish changes in accounting policies from changes in accounting estimates. This distinction is important because changes in accounting policies must be applied retrospectively while changes in accounting estimates are accounted for prospectively. The Company adopted the amendment effective September 1, 2023 and determined that it had no impact on the Company's financial statements.

Critical Accounting Estimates and Judgments

The preparation of our Q2 fiscal 2024 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 disclosed in note 2 (d) of the fiscal 2023 financial statements.

The Company’s critical accounting estimates and judgments applied in the preparation of the Company’s Q2 fiscal 2024 financial statements are consistent with those applied and disclosed in our fiscal 2023 financial statements and as described in the fiscal 2023 annual MD&A.

INTERNAL CONTROLS AND PROCEDURES

There have been no changes to the Company’s internal control over financial reporting (ICFR) during the three months ended February 29, 2024 that have materially affected or are reasonably likely to materially affect the Company’s ICFR.