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MANAGEMENT'S DISCUSSION AND ANALYSIS

ON FORM 51-102F1

THREE AND NINE MONTHS ENDED

MAY 31, 2023

July 7, 2023

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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 nine months ended May 31, 2023 (Q3 fiscal 2023) of NAV CANADA and its subsidiaries (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 Q3 fiscal 2023 (Q3 fiscal 2023 financial statements), our audited annual consolidated financial statements and the accompanying notes for the year ended August 31, 2022 (fiscal 2022), our fiscal 2022 annual MD&A, as well as our fiscal 2022 Annual Information Form dated October 20, 2022 (fiscal 2022 AIF). Additional information about NAV CANADA, including our Q3 fiscal 2023 and fiscal 2022 financial statements, our fiscal 2022 annual MD&A, and our fiscal 2022 AIF are filed on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Our financial statements are prepared in Canadian dollars (CDN), in accordance with International Financial Reporting Standards (IFRS) and are comprised of the accounts of NAV CANADA and its subsidiaries. Our Q3 fiscal 2023 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 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 manmade 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 2022 AIF.

The forward-looking statements contained in this MD&A represent our expectations as of July 7, 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.

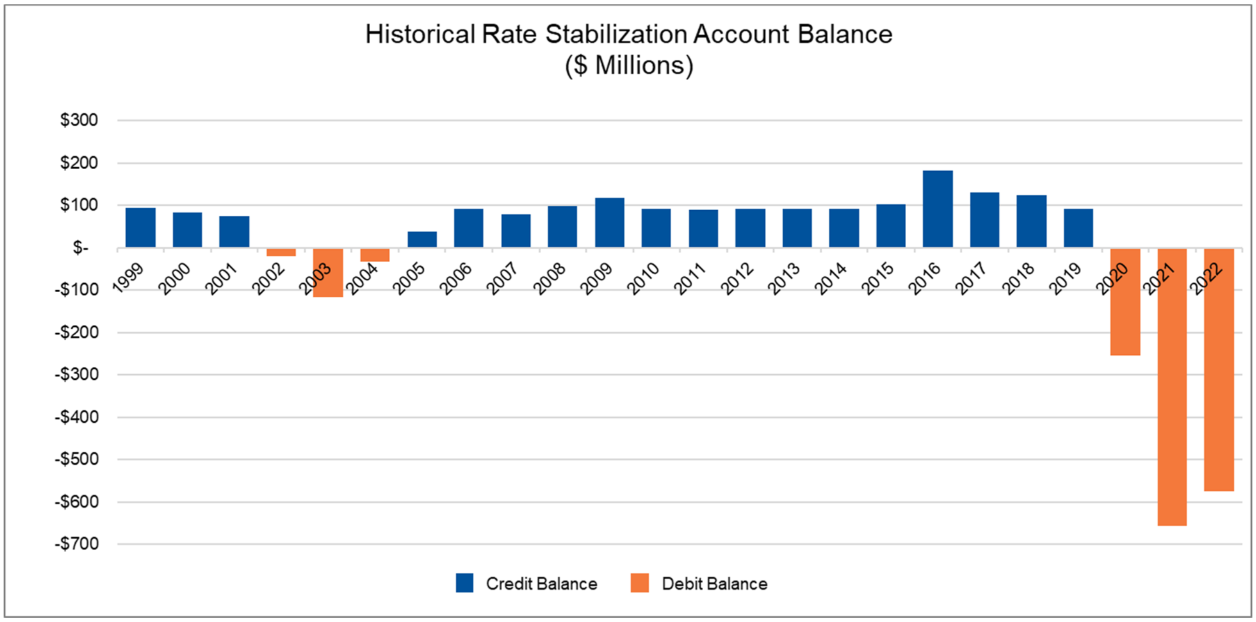
When establishing customer service charges, the Company monitors quarterly and considers, among other things:

(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 annual 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 the first nine months of fiscal 2023, WCUs increased by 22.5% as compared to the same period of fiscal 2022. In comparison to pre-pandemic levels in fiscal 2019 however, WCUs were 8.3% lower.

While uncertainty remains with respect to the pace of recovery of global air traffic and the aviation industry, the Company believes that full recovery will be achieved, and the pandemic will not have a material impact on our long-term financial stability.

2. Collective Agreements

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

During the first quarter of fiscal 2023, the Company received an arbitration award for the Canadian Federal Pilots Association (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 was ratified by members for the three-year-period ending December 31, 2023.

As at May 31, 2023, the Company has expired agreements with three unions, comprising 63% of our represented workforce (April 30, 2022 with CFPA (1%), March 31, 2023 with the Canadian Air Traffic Control Association (CATCA) (47%) and April 30, 2023 with the Air Traffic Specialists Association of Canada (ATSAC) (15%)).

Subsequent to May 31, 2023, the Company reached a new five-year collective agreement with CATCA. The Company is currently in negotiations with ATSAC and the Canadian Air Navigation Specialists Association with a contract that expired June 30, 2023, comprising 6% of our represented workforce.

3. Financing Activities

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 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 recent growth in air traffic levels enabled the Company to take advantage of attractive market conditions and reduce its debt levels.

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

(millions of Canadian dollars)

4. Rate Stabilization Account

As at May 31, 2023, the rate stabilization account had a debit balance of $414. During the nine months ended May 31, 2023, the rate stabilization account debit balance decreased by $160 due to $63 of net favourable variances from planned results and the $97 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".

Financial Highlights

Results of Operations

Three months ended May 31	2023	2022	$ Change
Revenue	**$ 436**	$ 381	$ 55
Operating expenses	**386**	361	25
Other (income) and expenses	**24**	28	(4)
Net income (loss), before net movement in regulatory deferral accounts	**26**	(8)	34
Rate stabilization adjustments:			
Favourable variances from planned results	**(16)**	(42)	26
Initial approved adjustment [1]	**(32)**	22	(54)
	(48)	(20)	(28)
Other regulatory deferral account adjustments:			
Employee benefit pension contributions	**8**	27	(19)
Other employee benefits	**(2)**	(2)	-
Investment in preferred interests, before tax	**1**	(2)	3
Other	**2**	-	2
	9	23	(14)
Net movement in regulatory deferral accounts [2]	**(39)**	3	(42)
Net loss, after net movement in regulatory deferral accounts	**$ (13)**	$ (5)	$ (8)

(millions of Canadian dollars)

Nine months ended May 31	2023	2022	$ Change
Revenue	**$ 1,259**	$ 1,039	$ 220
Operating expenses	**1,105**	1,048	57
Other (income) and expenses	**70**	81	(11)
Net income (loss), before net movement in regulatory deferral accounts	**84**	(90)	174
Rate stabilization adjustments:			
Favourable variances from planned results	**(63)**	(138)	75
Initial approved adjustment (1)	**(97)**	64	(161)
	(160)	(74)	(86)
Other regulatory deferral account adjustments:			
Employee benefit pension contributions	**32**	81	(49)
Other employee benefits	**(11)**	(5)	(6)
Investment in preferred interests, before tax	**(8)**	(10)	2
Investment in equity-accounted investee	**-**	4	(4)
Other	**4**	1	3
	17	71	(54)
Net movement in regulatory deferral accounts (2)	**(143)**	(3)	(140)
Net loss, after net movement in regulatory deferral accounts	**$ (59)**	$ (93)	$ 34

(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 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 May 31	2023	2022	$ Change (1)
Cash flows from (used in)			
Operating	**$ 68**	$ 13	$ 55
Investing	**(35)**	(33)	(2)
Financing	**(17)**	(26)	9
Cash flows from operating, investing and financing activities	**16**	(46)	62
Effect of foreign exchange on cash and cash equivalents	**1**	-	1
Increase (decrease) in cash and cash equivalents	**17**	(46)	63
Cash and cash equivalents, beginning of period	**411**	367	44
Cash and cash equivalents, end of period	**$ 428**	$ 321	$ 107
Free cash flow (non-GAAP financial measure) (2)			
Cash flows from (used in) (3)			
Operations	**$ 68**	$ 13	$ 55
Capital expenditures	**(34)**	(30)	(4)
Investment in regulatory assets	**(3)**	(3)	-
Government grants received	**2**	-	2
Payment of lease liabilities	**(1)**	(1)	-
Free cash flow	**$ 32**	$ (21)	$ 53

(millions of Canadian dollars)

Nine months ended May 31		2023		2022		$ Change [1]
Cash flows from (used in)						
Operating	**$**	**286**	$	99	$	187
Investing		**(110)**		(69)		(41)
Financing		**(143)**		(27)		(116)
Cash flows from operating, investing and financing activities		**33**		3		30
Effect of foreign exchange on cash and cash equivalents		**3**		(1)		4
Increase in cash and cash equivalents		**36**		2		34
Cash and cash equivalents, beginning of period		**392**		319		73
Cash and cash equivalents, end of period	**$**	**428**	$	321	$	107
Free cash flow (non-GAAP financial measure) [2]						
Cash flows from (used in) [3]:						
Operations	**$**	**286**	$	99	$	187
Capital expenditures		**(88)**		(73)		(15)
Investment in regulatory assets		**(8)**		(6)		(2)
Government grants received		**5**		-		5
Proceeds from sale of investment in equity-accounted investee		**-**		7		(7)
Payment of lease liabilities		**(2)**		(2)		-
Free cash flow	**$**	**193**	$	25	$	168

(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 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 Q3 fiscal 2023 financial statements.

(millions of Canadian dollars)

RESULTS OF OPERATIONS

Revenue

The following table provides a summary of revenue by category. Our fiscal 2022 AIF and the notes to our fiscal 2022 and Q3 fiscal 2023 financial statements provide more information about the different categories of our customer service charges.

Three months ended May 31	2023	2022	$ Change
Enroute	**$ 210**	$ 184	$ 26
Terminal	**171**	142	29
Daily / annual / quarterly	**14**	13	1
North Atlantic and international communication	**30**	26	4
Total customer service charges	**425**	365	60
Other [(1)]	**11**	16	(5)
	$ 436	$ 381	$ 55

Nine months ended May 31	2023	2022	$ Change
Enroute	**$ 597**	$ 503	$ 94
Terminal	**490**	384	106
Daily / annual / quarterly	**43**	34	9
North Atlantic and international communication	**83**	65	18
Total customer service charges	**1,213**	986	227
Other [(1)]	**46**	53	(7)
	$ 1,259	$ 1,039	$ 220

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

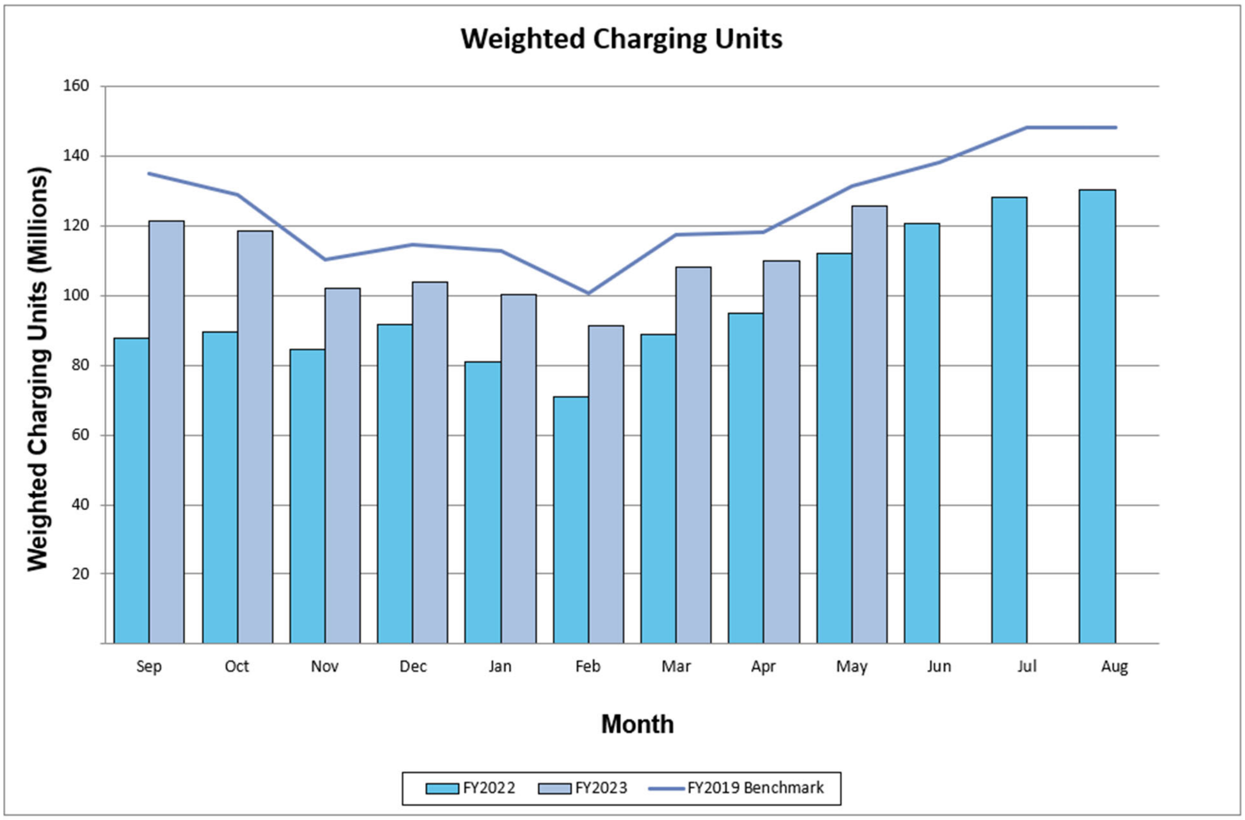
Revenue from customer service charges during the three and nine months ended May 31, 2023 increased by $60 and $227, respectively, compared to the same periods in fiscal 2022, primarily due to easing of travel restrictions and rising consumer demand. The increase in revenue reflects increases in air traffic levels, as measured in WCUs, of 16.1% and 22.5%, on a year-over-year basis, in the three and nine months ended May 31, 2023, respectively.

Other revenue for the three months ended May 31, 2023 decreased by $5 compared to the same period in fiscal 2022, mainly due to lower revenue from service and development contracts.

Other revenue for the nine months ended May 31, 2023 decreased by $7 compared to the same period in fiscal 2022. Lower revenue from conference centre services, due to the sale of the NAV CENTRE in fiscal 2022, and service and development contracts were largely offset by the successful conclusion of negotiations for reimbursement of maintenance work provided in previous years.

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 new COVID-19 variants, other 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 uncertainty and in particular increased volatility relating to the conflict in Ukraine, 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 manmade sources) and demographic patterns.

(millions of Canadian dollars)

Operating Expenses

Three months ended May 31	2023	2022	$ Change
Salaries and benefits	**$ 272**	$ 255	$ 17
Technical services	**42**	40	2
Facilities and maintenance	**16**	15	1
Depreciation and amortization	**37**	35	2
Other	**19**	16	3
	$ 386	$ 361	$ 25

Nine months ended May 31	2023	2022	$ Change
Salaries and benefits	$ **763**	$ 727	$ 36
Technical services	**120**	118	2
Facilities and maintenance	**48**	49	(1)
Depreciation and amortization	**109**	108	1
Other	**65**	46	19
	$ **1,105**	$ 1,048	$ 57

Salaries and benefits expense in the three and nine months ended May 31, 2023 increased by $17 and $36 compared to the same periods in fiscal 2022 primarily due to increased staffing levels and air traffic volumes, as well as higher wages, 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 in the three months ended May 31, 2023 increased by $3 compared to the same period in fiscal 2022 primarily due to higher travel and hospitality costs. Other operating expenses in the nine months ended May 31, 2023 increased by $19 compared to the same period in fiscal 2022 primarily due to recognition of an onerous contract provision of $13 related to a large service and development contract for the sale of air traffic management technology solutions. Travel, hospitality and relocation costs also increased compared to the prior periods but were partially offset by lower professional services fees.

Other (Income) and Expenses

Three months ended May 31	2023	2022	$ Change
Finance income	**$ (7)**	$ (4)	$ 3
Net interest expense relating to employee benefits	**10**	8	(2)
Other finance costs	**20**	21	1
Other	**1**	3	2
	$ 24	$ 28	$ 4

Nine months ended May 31	2023	2022	$ Change
Finance income	**$ (19)**	$ (11)	$ 8
Net interest expense relating to employee benefits	**30**	27	(3)
Other finance costs	**66**	63	(3)
Other	**(7)**	2	9
	$ 70	$ 81	$ 11

Total finance income increased by $3 and $8, respectively, during the three and nine months ended May 31, 2023 compared to the same periods in fiscal 2022 primarily as a result of higher cash and short-term investment balances and an increase in interest rates.

(millions of Canadian dollars)

Interest expense decreased by $1 during the three months ended May 31, 2023 compared to the same period in fiscal 2022 as a result of the Company's partial repurchase of its revenue bonds and certain General Obligation Notes. Interest expense increased by $3 during the nine months ended May 31, 2023 compared to the same period in fiscal 2022 primarily due to the net premium of $6 paid related to the Company's debt repurchase transaction in the first quarter of fiscal 2023.

Other gains and losses were favourable by $2 and $9 for the three and nine months ended May 31, 2023, respectively, as compared to the same periods in 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 2022 financial statements. The table below shows the net movements in the rate stabilization account.

Three months ended May 31	2023	2022	$ Change
Debit balance, beginning of period	**$ (462)**	$ (602)	$ 140
Variances from planned results:			
Revenue higher than planned	**19**	47	(28)
Operating expenses lower (higher) than planned	**-**	(7)	7
Other (income) and expenses (higher) lower than planned	**(2)**	2	(4)
Net movement in other regulatory deferral accounts	**(1)**	-	(1)
Total variances from planned results	**16**	42	(26)
Initial approved adjustment	**32**	(22)	54
Net movement recorded in net income (loss)	**48**	20	28
Debit balance, end of period	**$ (414)**	$ (582)	$ 168

The rate stabilization account debit balance decreased by $48 during the three months ended May 31, 2023 primarily due to:

- the planned adjustment of $32, representing one quarter of the fiscal 2023 anticipated $129 annual net income at the time the fiscal 2023 budget was approved; and
- revenue that was $19 higher than planned primarily due to higher than anticipated air traffic levels.

(millions of Canadian dollars)

Nine months ended May 31	2023	2022	$ Change
Debit balance, beginning of period	**$ (574)**	$ (656)	$ 82
Variances from planned results:			
Revenue higher than planned	**68**	143	(75)
Operating expenses lower (higher) than planned	**21**	(12)	33
Other (income) and expenses (higher) lower than planned	**(3)**	8	(11)
Net movement in other regulatory deferral accounts	**(23)**	(1)	(22)
Total variances from planned results	**63**	138	(75)
Initial approved adjustment	**97**	(64)	161
Net movement recorded in net income (loss)	**160**	74	86
Debit balance, end of period	**$ (414)**	$ (582)	$ 168

The rate stabilization account debit balance decreased by $160 during the nine months ended May 31, 2023 primarily due to:

- the planned adjustment of $97, representing three quarters of the fiscal 2023 anticipated $129 annual net income at the time the fiscal 2023 budget was approved;
- revenue that was $68 higher than planned primarily due to higher than anticipated air traffic levels and other revenue; and
- operating expenses that were $21 lower than planned, primarily due to lower than planned pension current service costs due to an increase in the discount rate;

partially offset by:

- net movement in other regulatory deferral accounts that was $23 lower than planned primarily due to regulatory adjustments of:
  - $17 related to lower than planned pension current service costs due to an increase in the discount rate; and
  - $6 related to a payment to fund the long-term disability plan deficit.

(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 May 31	2023	2022	$ Change
Rate stabilization account [1]	**$ (48)**	$ (20)	$ (28)
Other regulatory deferral accounts			
Employee benefit pension contributions	**8**	27	(19)
Other employee benefits	**(2)**	(2)	-
Investment in preferred interests, before tax	**1**	(2)	3
Other	**2**	-	2
	$ (39)	$ 3	$ (42)

Nine months ended May 31	2023	2022	$ Change
Rate stabilization account [1]	**$ (160)**	$ (74)	$ (86)
Other regulatory deferral accounts			
Employee benefit pension contributions	**32**	81	(49)
Other employee benefits	**(11)**	(5)	(6)
Investment in preferred interests, before tax	**(8)**	(10)	2
Investment in equity-accounted investee	**-**	4	(4)
Other	**4**	1	3
	$ (143)	$ (3)	$ (140)

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

The decrease in the employee benefit pension contributions regulatory deferral account, which is used to adjust the total pension benefit expense to reflect the cash contributions to be recovered through rate setting, for the three and nine months ended May 31, 2023 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 the nine months ended May 31, 2023 of $6 is largely due to a higher payment to fund the August 31, 2022 long-term disability plan deficit.

The change in net movement in regulatory deferral of the investment in equity-accounted investee during the nine months ended May 31, 2023 of $4 is a result of the recognition, for rate setting purposes in fiscal 2022, of the gain related to the sale of the Company's 50% ownership in Searidge Technologies Inc. (Searidge).

(millions of Canadian dollars)

FINANCIAL AND CAPITAL MANAGEMENT

Our fiscal 2022 annual MD&A explains how we manage our cash and capital resources. There have been no changes in that approach for the nine months ended May 31, 2023. As discussed in "INTRODUCTION – Significant Financial Matters", on November 29, 2022, the Company repurchased $119 of its revenue bonds and certain General Obligation Notes in advance of the maturity dates. The growth in air traffic levels enabled the Company to take advantage of attractive market conditions and reduce its debt.

As at May 31, 2023, we had $428 of cash and cash equivalents and undrawn committed credit facilities for general purposes of $850, all of which provided the Company with available liquidity. In addition, we had letter of credit facilities for pension obligations of $860 of which $78 was undrawn (see "LIQUIDITY AND CAPITAL RESOURCES – Liquidity and Financing Strategy").

Cash Flows

Three months ended May 31	2023	2022	$ Change
Cash flows from (used in)			
Operating	**$ 68**	$ 13	$ 55
Investing	**(35)**	(33)	(2)
Financing	**(17)**	(26)	9
Cash flows from (used in) operating, investing and financing activities	**16**	(46)	62
Effect of foreign exchange on cash and cash equivalents	**1**	-	1
Increase (decrease) in cash and cash equivalents	**17**	(46)	63
Cash and cash equivalents, beginning of period	**411**	367	44
Cash and cash equivalents, end of period	**$ 428**	$ 321	$ 107

Nine months ended May 31	2023	2022	$ Change
Cash flows from (used in)			
Operating	**$ 286**	$ 99	$ 187
Investing	**(110)**	(69)	(41)
Financing	**(143)**	(27)	(116)
Cash flows from operating, investing and financing activities	**33**	3	30
Effect of foreign exchange on cash and cash equivalents	**3**	(1)	4
Increase in cash and cash equivalents	**36**	2	34
Cash and cash equivalents, beginning of period	**392**	319	73
Cash and cash equivalents, end of period	**$ 428**	$ 321	$ 107

(millions of Canadian dollars)

Cash inflows from operations for the three and nine months ended May 31, 2023 were $68 and $268, respectively, compared to $13 and $99 for the three and nine months ended May 31, 2022, respectively. The variances were primarily due to higher receipts from customer service charges as a result of air traffic recovery, 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 the three months ended May 31, 2023 were comparable to the three months ended May 31, 2022. Cash outflows from investing activities for the nine months ended May 31, 2023 were $110 compared to $69 for the nine months ended May 31, 2022. The changes were primarily due to an increase in short-term investments and higher capital expenditures. During the first three quarters of fiscal 2022, the Company received proceeds and loan repayment associated with the sale of its ownership in Searidge. There were no similar transactions in the nine months ended May 31, 2023.

Cash outflows from financing activities for the three months ended May 31, 2023 were $17 compared to $26 for the three months ended May 31, 2022 as the annual repayment of the Series 97-2 amortizing revenue bonds decreased as a result of the Company's partial repurchase of its revenue bonds in the first quarter of fiscal 2023. Cash outflows from financing activities for the nine months ended May 31, 2023 were $143 compared to $27 for the nine months ended May 31, 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

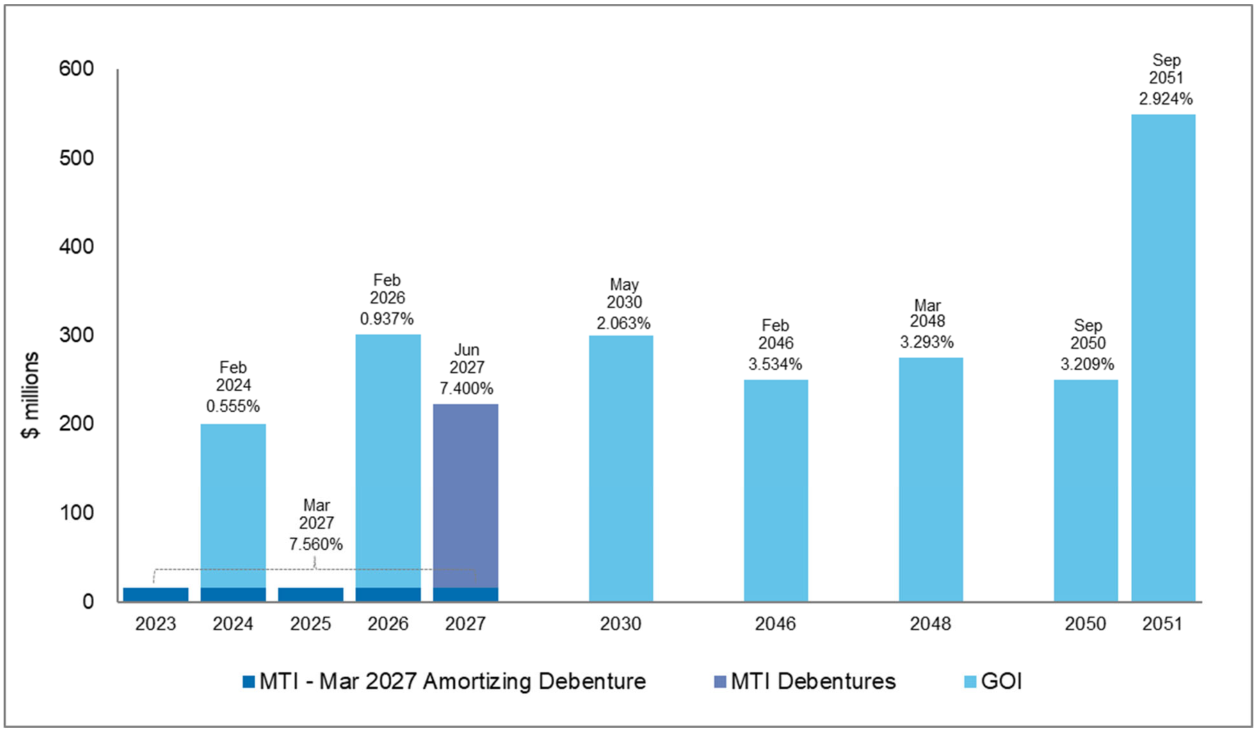
We are exposed to refinancing risk with respect to our bond and note maturities, including the $16 (August 31, 2022 - $25) annual amortizing payment due on the Series 97-2 amortizing revenue bonds. We mitigate this risk by maintaining committed credit facilities in an amount sufficient to meet our refinancing 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.

	May 31 2023	August 31 2022
LONG-TERM DEBT		
Bonds and notes payable		
Under the Master Trust Indenture (MTI)	**$ 270**	$ 375
Under the General Obligation Indenture (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	**$ 428**	$ 392
Short-term investments	**100**	80
Debt service reserve fund	**76**	74
Undrawn committed borrowing capacity	**849**	849
Total Liquidity	**$ 1,453**	$ 1,395

(millions of Canadian dollars)

The chart below shows our debt maturity profile:



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 May 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]		(303)
Available for unrestricted use	**$**	**546**
Credit facilities for pension obligations:		
Letter of credit facilities for pension obligations[4]	$	860
Less: Outstanding letters of credit for pension obligations[4]		(782)
Undrawn committed letter of credit facility	**$**	**78**

(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 May 31, 2023.

(millions of Canadian dollars)

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

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 May 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	2023	2024	2025	2026	2027	Thereafte
Long-term debt (including current portion) [1], [2]	**$ 2,365**	$ -	$ 201	$ 16	$ 301	$ 222	$ 1,625
Interest payments [2]	**1,238**	11	71	70	67	65	954
Capital commitments	**128**	55	25	21	5	7	15
Lease liability	**57**	-	3	3	3	3	45
Related party loan [3]	**15**	15	-	-	-	-	-
Total contractual obligations	**$ 3,803**	$ 81	$ 300	$ 110	$ 376	$ 297	$ 2,639

(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 7 of the Q3 fiscal 2023 financial statements.

(3) 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 June 2026 or the date on which the senior credit facility is paid in full and terminated or refinanced.

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

(millions of Canadian dollars)

Registered Pension Plan

The Company continues to meet the funding requirements of its defined benefit registered pension plan, the NAV CANADA Pension Plan (NCPP), in accordance with the regulations of the Office of the Superintendent of Financial Institutions Canada (OSFI).

The latest actuarial valuation of the NCPP (for funding purposes) was performed as at January 1, 2023 and filed with OSFI in June 2023. The actuarial valuation reported a going concern surplus of $1,049 (January 1, 2022 – $1,346).

The regulations governing the funding of federally regulated pension plans include a solvency test, which assumes a plan is terminated as at the valuation date. The actuarial valuation for funding solvency purposes performed as at January 1, 2023 reported 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. At January 1, 2023, outstanding letters of credit represented 10% of solvency liabilities (January 1, 2022 - 8%).

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.

	May 31 2023	August 31 2022
Bonds and notes payable	**$ 2,354**	$ 2,488
Equity:		
Retained earnings (deficit)	**(31)**	28
Regulatory deferral accounts:		
Debit balances	**(1,210)**	(1,341)
Credit balances	**132**	119
Employee benefits:		
Long-term disability liability	**-**	6
Liability for funded pension benefits	**620**	588
Liability for accumulating sick leave	**15**	15
Total capital	**$ 1,880**	$ 1,903

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 2022 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 2022 annual MD&A.

Insurance

Our aviation liability insurance program was renewed on November 15, 2022. 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.

During the three months ended May 31, 2023, Moody's and S&P each issued credit reports affirming no change to the Company's ratings or outlooks.

(millions of Canadian dollars)

QUARTERLY RESULTS

Quarterly Financial Information (unaudited)

	Three months ended			
	Q3 May 31 2023	Q2 February 28 2023	Q1 November 30 2022	Q4 August 31 2022
Revenue	$ 436	$ 388	$ 435	$ 468
Operating expenses	386	371	348	368
Other (income) and expenses	24	20	26	102
	26	(3)	61	(2)
Income tax recovery	-	-	-	(13)
Net income (loss) before net movement in regulatory deferral accounts	26	(3)	61	11
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	(48)	(34)	(78)	(8)
Other regulatory deferral account	9	1	7	90
	(39)	(33)	(71)	82
Net income (loss) after net movement in regulatory deferral accounts	$ (13)	$ (36)	$ (10)	$ 93

	Three months ended			
	Q3 May 31 2022	Q2 February 28 2022	Q1 November 30 2021	Q4 August 31 2021
Revenue	$ 381	$ 313	$ 345	$ 293
Operating expenses	361	350	337	348
Other (income) and expenses	28	29	24	19
Net loss before net movement in regulatory deferral accounts	(8)	(66)	(16)	(74)
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	(20)	5	(59)	159
Other regulatory deferral account	23	30	18	34
	3	35	(41)	193
Net income (loss) after net movement in regulatory deferral accounts	$ (5)	$ (31)	$ (57)	$ 119

(millions of Canadian dollars)

FINANCIAL OUTLOOK[2]

Presented below are the Company's current projected annual results before rate stabilization for our fiscal 2023 compared to fiscal 2022 actual results:

	Fiscal 2023	Fiscal 2022	$ Change
Results of operations (before rate stabilization)			
Revenue	**$ 1,759**	$ 1,507	$ 252
Operating expenses and other (income) and expenses, including other regulatory adjustments	**1,581**	1,425	156
Net income before rate stabilization adjustments	**$ 178**	$ 82	$ 96
Air traffic levels (year-over-year growth)	**17.1%**	76.8%	
Rate stabilization account debit balance	**$ (396)**	$ (574)	$ 178
Pension plan funding contributions	**$ 88**	$ 100	$ (12)
Investment in capital and regulatory assets (1)	**$ 136**	$ 127	$ 9
Cash and cash equivalent at end of year	**$ 541**	$ 392	$ 149
Short-term investments (including accrued interest)	**98**	80	18
Cash, cash equivalents and short-term investments	**$ 639**	$ 472	$ 167

(1) Investment in capital and regulatory assets is presented net of $7 of government grants received related to those investments (fiscal 2022 - $nil).

Revenue

Revenue in fiscal 2023 is expected to increase by $252 compared to fiscal 2022, primarily due to a forecasted increase in air traffic levels of 17.1% on a year-over-year basis, as measured in WCUs. In comparison to fiscal 2019 however, air traffic levels are expected to remain 8% lower on average.

In our Q2 fiscal 2023 MD&A, we had disclosed anticipated revenue of $1,724 for fiscal 2023, representing a year-over-year increase of 14.5% and 10.1% lower air traffic levels as compared to fiscal 2019. The increase of $35 is driven by higher average air traffic levels than expected.

Operating Expenses and Other (Income) and Expenses

Operating expenses and other (income) and expenses before rate stabilization are expected to increase by $156. The expected increase compared to fiscal 2022 is primarily due to increased compensation as a result of higher staffing levels and wages, travel and other operating costs as we invest in a growing workforce to meet service delivery requirements and progress on strategic initiatives. It also reflects the onerous provision recorded in Q2 fiscal 2023 related to a significant technology sales and services contract. 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 Q2 fiscal 2023 MD&A, we had disclosed anticipated operating expenses and other (income) and expenses, before rate stabilization of $1,573 for fiscal 2023. The increase of $8 is primarily due to increased compensation costs.

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

Rate Stabilization Account

The Company anticipates that the rate stabilization account will decline to a debit balance of $396 as at August 31, 2023, 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”).

In our Q2 fiscal 2023 MD&A, we had disclosed an anticipated rate stabilization account debit balance of $423 as at August 31, 2023. The lower forecast debit balance is primarily driven by the positive variance in revenue.

Cash Flows

The Company’s cash, cash equivalents and short-term investments are expected to reach $639 as at August 31, 2023. This reflects increased cash inflows from operating activities as air traffic levels continue to increase at a pace that exceeds the growth in costs and capital investment. The growth in air traffic levels enabled the Company to repurchase $119 of its revenue bonds and certain General Obligation Notes during the nine months ended May 31, 2023.

While we anticipate investing more in capital and regulatory assets in fiscal 2023, a portion of these costs will be reimbursed through the National Trade Corridors Fund (NTCF). During fiscal 2022, the Company entered into agreements with the Government of Canada to receive approximately $105 over several years under the NTCF in connection with certain projects that will increase aviation network capacity and resilience.

In our Q2 fiscal 2023 MD&A, we had disclosed an anticipated cash, cash equivalents and short-term investments balance of $576 as at August 31, 2023. The higher anticipated balance is largely due to higher revenue 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. 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.

(millions of Canadian dollars)

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

Twelve months ended May 31	2023	2022
Net earnings	**$ 34**	$ 26
Interest costs	**87**	85
Consolidated earnings [(1)] before interest	**121**	111
Depreciation and amortization expense	**145**	146
Consolidated earnings [(1)] before interest and depreciation	**266**	257
Earnings coverage ratio	**1.39**	1.31
Cash flow coverage ratio	**3.06**	3.02

(1) Consolidated earnings are presented after rate stabilization.

Related Party Transactions

The Company's related parties include its key management personnel, subsidiaries, entities in which it has a significant influence and registered pension plans for its employees. The transactions with these related parties are not materially different from what was reported in the fiscal 2022 annual MD&A.

Accounting Policies

Significant accounting policies used in the Q3 fiscal 2023 financial statements are disclosed in note 3 of the fiscal 2022 financial statements.

Future Accounting Pronouncements

Future accounting pronouncements issued during Q3 fiscal 2023 are disclosed in note 2 (g) of the Q3 fiscal 2023 financial statements.

Critical Accounting Estimates and Judgments

The preparation of our Q3 fiscal 2023 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 2022 annual financial statements.

The Company's critical accounting estimates and judgments applied in the preparation of the Company's Q3 fiscal 2023 financial statements are consistent with those applied and disclosed in our fiscal 2022 financial statements and as described in the fiscal 2022 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 May 31, 2023 that have materially affected or are reasonably likely to materially affect the Company's ICFR.