MANAGEMENT'S DISCUSSION AND ANALYSIS

ON FORM 51-102F1

THREE AND NINE MONTHS ENDED

MAY 31, 2025

July 10, 2025

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TABLE OF CONTENTS

NAV CANADA
MANAGEMENT'S DISCUSSION AND ANALYSIS
Q3 FISCAL 2025
(millions of Canadian dollars)

INTRODUCTION

This management's discussion and analysis (MD&A) relates to the unaudited interim consolidated financial position, results of operations, comprehensive income (loss) and cash flows as at and for the three and nine months ended May 31, 2025 (Q3 fiscal 2025) 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 Q3 fiscal 2025 (Q3 fiscal 2025 financial statements), our audited annual consolidated financial statements and the accompanying notes for the year ended August 31, 2024 (fiscal 2024 financial statements), our fiscal 2024 annual MD&A, as well as our fiscal 2024 Annual Information Form dated October 24, 2024 (fiscal 2024 AIF). Additional information about NAV CANADA, including our Q3 fiscal 2025 and fiscal 2024 financial statements, our fiscal 2024 annual MD&A, and our fiscal 2024 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 Q3 fiscal 2025 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 July 10, 2025 before it was filed.

Caution Concerning Forward-Looking Information

This MD&A, and in particular, but without limitation, the section "INTRODUCTION – Significant Financial Matters" and "FINANCIAL OUTLOOK" of this MD&A, contain certain statements about NAV CANADA's future expectations. These statements are generally identified by words like "anticipate", "plan", "believe", "intend", "expect", "estimate", "approximate", "forecast" and the like, as well as future or conditional verbs such as "may", "will", "should", "would" and "could", or negative versions thereof. Because forward-looking statements involve future risks and uncertainties, actual results may differ from those expressed or implied in these statements and these differences may be material. Examples of risks and uncertainties the Company faces include geopolitical unrest, terrorist attacks and the threat thereof, war, epidemics or pandemics, government interventions and related travel advisories and restrictions, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), cybersecurity attacks, labour negotiations, arbitrations, workforce recruitment, training and retention, general aviation industry conditions, air traffic levels, the use of telecommunications and ground transportation as alternatives to air travel, capital market and economic conditions, tariffs, trade protection measures, renegotiation of existing trade agreements, the ability to collect customer service charges and reduce operating costs, changes in interest rates, changes in laws, tax changes, adverse regulatory developments or proceedings and lawsuits. Some of these risks and uncertainties are explained under "Risk Factors" in our fiscal 2024 AIF.

The forward-looking statements contained in this MD&A represent our expectations as of July 10, 2025 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.

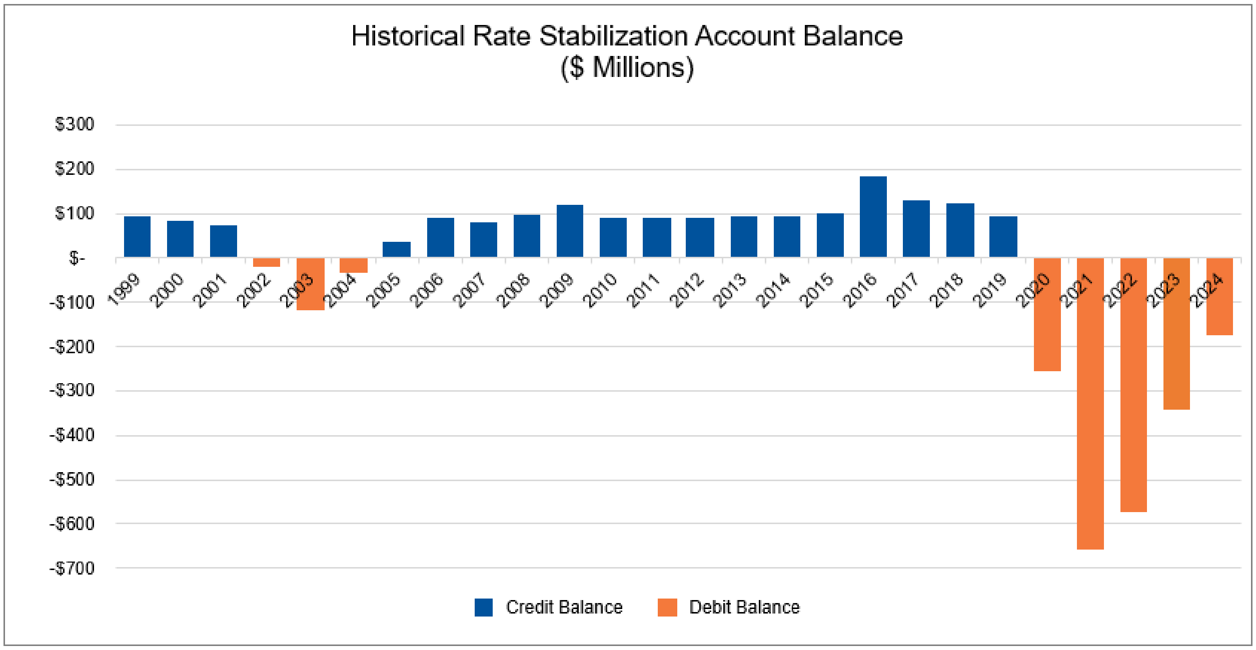
When establishing customer service charges, the Company monitors quarterly and considers, among other things:

(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 considered 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 a "rate stabilization" mechanism.

We adjust our net income (loss) through transfers to or from the rate stabilization account, based on variations from the amounts used when establishing customer service charges. If actual revenues are higher than planned or actual expenses are lower than planned, such excess is reflected as a credit to the rate stabilization account. Conversely, if actual revenues are less than planned or actual expenses are higher than planned, such shortfall is reflected as a debit to the rate stabilization account. A credit balance in the rate stabilization account represents amounts returnable through reductions in future customer service charges, while a debit balance represents amounts recoverable through future customer service charges (see "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account").

The following shows the balance of the rate stabilization account at the end of each fiscal year:



We reflect the impact of rate regulation in our financial statements. As such, the timing of recognition of certain revenue and expenses differs from what would otherwise be expected for companies that are not subject to regulatory statutes governing the level of charges.

For certain transactions where the timing of recognition for rate setting purposes differs from the accounting recognition before applying rate regulated accounting, the Company recognizes regulatory deferral account debits and credits to adjust the accounting recognition to the period in which they will be considered for rate setting. (see "RESULTS OF OPERATIONS – Net Movement in Regulatory Deferral Accounts").

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.

Significant Financial Matters[1]

The following items have significant financial importance to the Company:

1. Air Traffic and Customer Service Charges

During the three and nine months ended May 31, 2025, 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 4.5% and 3.2%, respectively, as compared to the same periods in fiscal 2024 reflecting the resilience of air traffic despite current economic and geopolitical uncertainty. Excluding the effect of an extra day for the leap year in fiscal 2024, air traffic levels in the nine months ended May 31, 2025 increased by 3.6%. The outlook for the year ended August 31, 2025 (fiscal 2025) reflects year-over-year air traffic growth of 2.8% as discussed in "FINANCIAL OUTLOOK", 0.4% above the annual growth reflected in the fiscal 2025 plan.

On December 19, 2024, the Company announced a revision of its customer service charges effective January 1, 2025, increasing overall charges by an average of 3.73%. The revised rates enable continued investment in safety and service delivery while supporting the industry by continuing to recover the Rate Stabilization Account shortfall over an extended time frame.

2. Rate Stabilization Account

The rate stabilization account had a debit or shortfall balance of $168 at May 31, 2025. During the three months ended May 31, 2025, the rate stabilization account debit balance decreased by $18, which consisted of the planned shortfall of $12 offset by net favourable variances from planned results of $30. During the nine months ended May 31, 2025, the rate stabilization account debit balance decreased by $7, which consisted of the planned shortfall of $68 offset by net favourable variances from planned results of $75. Rate stabilization adjustments are described under "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account".

The outlook for fiscal 2025 reflects a reduction of the rate stabilization account debit balance of $92 as discussed in "FINANCIAL OUTLOOK", $71 above the recovery reflected in the 2025 fiscal plan.

3. Financing Activities (Pension)

Subsequent to May 31, 2025, the Company filed the actuarial valuation for its registered pension plan as of January 1, 2025 with the Office of the Superintendent of Financial Institutions (OSFI). As permitted by regulations, based on the valuation results, the Company was able to reduce its outstanding letters of credit for solvency funding purposes by $131 as discussed in "FINANCIAL AND CAPITAL MANAGEMENT – Liquidity and Financing Strategy" and "FINANCIAL AND CAPITAL MANAGEMENT – Registered Pension Plan".

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

(millions of Canadian dollars)

Financial Highlights

Results of Operations

Three months ended May 31	2025	2024	$ Change
Revenue	**$ 466**	$ 433	$ 33
Operating expenses	**443**	418	25
Other (income) and expenses	**42**	19	23
Income tax expense	**-**	1	(1)
Net loss, before net movement in regulatory deferral accounts	**(19)**	(5)	(14)
Rate stabilization adjustments:			
Favourable variances from planned results	**(30)**	(13)	(17)
Initial approved adjustment [1]	**12**	(26)	38
	(18)	(39)	21
Other regulatory deferral account adjustments:			
Employee benefit pension costs	**18**	13	5
Other employee benefits	**(2)**	-	(2)
Investment in preferred interests	**21**	-	21
Asset impairment	**(2)**	(3)	1
Other	**2**	2	-
	37	12	25
Net movement in regulatory deferral accounts [2]	**19**	(27)	46
Net income (loss), after net movement in regulatory deferral accounts	**$ -**	$ (32)	$ 32

(millions of Canadian dollars)

Nine months ended May 31	2025	2024	$ Change
Revenue	**$ 1,311**	$ 1,290	$ 21
Operating expenses	**1,294**	1,234	60
Other (income) and expenses	**46**	60	(14)
Income tax expense	**-**	1	(1)
Net loss, before net movement in regulatory deferral accounts	**(29)**	(5)	(24)
Rate stabilization adjustments:			
Favourable variances from planned results	**(75)**	(45)	(30)
Initial approved adjustment [(1)]	**68**	(77)	145
	(7)	(122)	115
Other regulatory deferral account adjustments:			
Employee benefit pension costs	**48**	35	13
Other employee benefits	**(4)**	(1)	(3)
Investment in preferred interests, before tax	**(11)**	(1)	(10)
Asset impairment	**(7)**	42	(49)
Other	**10**	5	5
	36	80	(44)
Net movement in regulatory deferral accounts [(2)]	**29**	(42)	71
Net income (loss), after net movement in regulatory deferral accounts	**$ -**	$ (47)	$ 47

(1) To achieve breakeven results of operations after the application of rate regulated accounting, the Board approved the budget for fiscal 2025 which included a planned $21 reduction in the debit position of the rate stabilization account. The planned annual recovery in fiscal 2024 of $102 was reflected evenly across the four quarters, leading to fluctuations in retained earnings during the year due to differences between the planned quarterly results and the smoothed quarterly rate stabilization account recovery. In fiscal 2025, the planned quarterly change in the rate stabilization account is aligned with the planned quarterly results, eliminating fluctuations in retained earnings during the year.

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

(millions of Canadian dollars)

Cash flows

Three months ended May 31	2025	2024	$ Change [1]
Cash flows from (used in)			
Operating	**$ 66**	$ 82	$ (16)
Investing	**(39)**	**(64)**	25
Financing	**(17)**	**(17)**	-
Cash flows from operating, investing and financing activities	**10**	**1**	9
Effect of foreign exchange on cash and cash equivalents	**1**	**-**	1
Increase in cash and cash equivalents	**11**	**1**	10
Cash and cash equivalents, beginning of period	**664**	**570**	94
Cash and cash equivalents, end of period	**$ 675**	$ **571**	$ 104
Free cash flow (non-GAAP financial measure) [2]			
Cash flows from (used in) [3]			
Operations	**$ 66**	$ **82**	$ (16)
Capital expenditures	**(60)**	**(71)**	11
Government grants received	**21**	**8**	13
Payment of lease liabilities	**(1)**	**(1)**	-
Income tax payments on investment in preferred interests	**-**	**(1)**	1
Free cash flow	**$ 26**	$ **17**	$ 9

Nine months ended May 31	2025	2024	$ Change [1]
Cash flows from (used in)			
Operating	**$ 169**	$ 220	$ (51)
Investing	**(127)**	(33)	(94)
Financing	**(18)**	(203)	185
Cash flows from (used in) operating, investing and financing activities	**24**	(16)	40
Effect of foreign exchange on cash and cash equivalents	**4**	1	3
Increase (decrease) in cash and cash equivalents	**28**	(15)	43
Cash and cash equivalents, beginning of period	**647**	586	61
Cash and cash equivalents, end of period	**$ 675**	$ 571	$ 104
Free cash flow (non-GAAP financial measure) [2]			
Cash flows from (used in) [3]:			
Operations	**$ 169**	$ 220	$ (51)
Capital expenditures	**(152)**	(142)	(10)
Government grants received	**25**	12	13
Payment of lease liabilities	**(2)**	(2)	-
Free cash flow	**$ 40**	$ 87	$ (47)

(1) See "FINANCIAL AND CAPITAL MANAGEMENT – Cash Flows" for a 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 Aireon Holdings LLC (together with its wholly owned subsidiary Aireon LLC, "Aireon"), equity related investments, principal payments of lease liabilities and income tax payments. Management places importance on this indicator as it assists in measuring the impact of its investment program on the Company's financial resources and provides users with a more stable indication of the Company's ability to meet its debt obligations and continue to invest in the ANS.

(3) See the statement of cash flows and note 2 (g) in our Q3 fiscal 2025 financial statements.

RESULTS OF OPERATIONS

Revenue

The following table provides a summary of revenue by category. Our fiscal 2024 AIF and the notes to our fiscal 2024 financial statements provide more information about the different categories of our customer service charges.

Three months ended May 31	2025	2024	$ Change
Enroute	**$ 217**	$ 200	$ 17
Terminal	**198**	184	14
Daily / annual / quarterly	**15**	13	2
North Atlantic and international communication	**27**	26	1
Total customer service charges	**457**	423	34
Other [1]	**9**	10	(1)
	$ 466	$ 433	$ 33

Nine months ended May 31	2025	2024	$ Change
Enroute	**$ 606**	$ 607	$ (1)
Terminal	**568**	534	34
Daily / annual / quarterly	**40**	37	3
North Atlantic and international communication	**75**	81	(6)
Total customer service charges	**1,289**	1,259	30
Other [1]	**22**	31	(9)
	$ 1,311	$ 1,290	$ 21

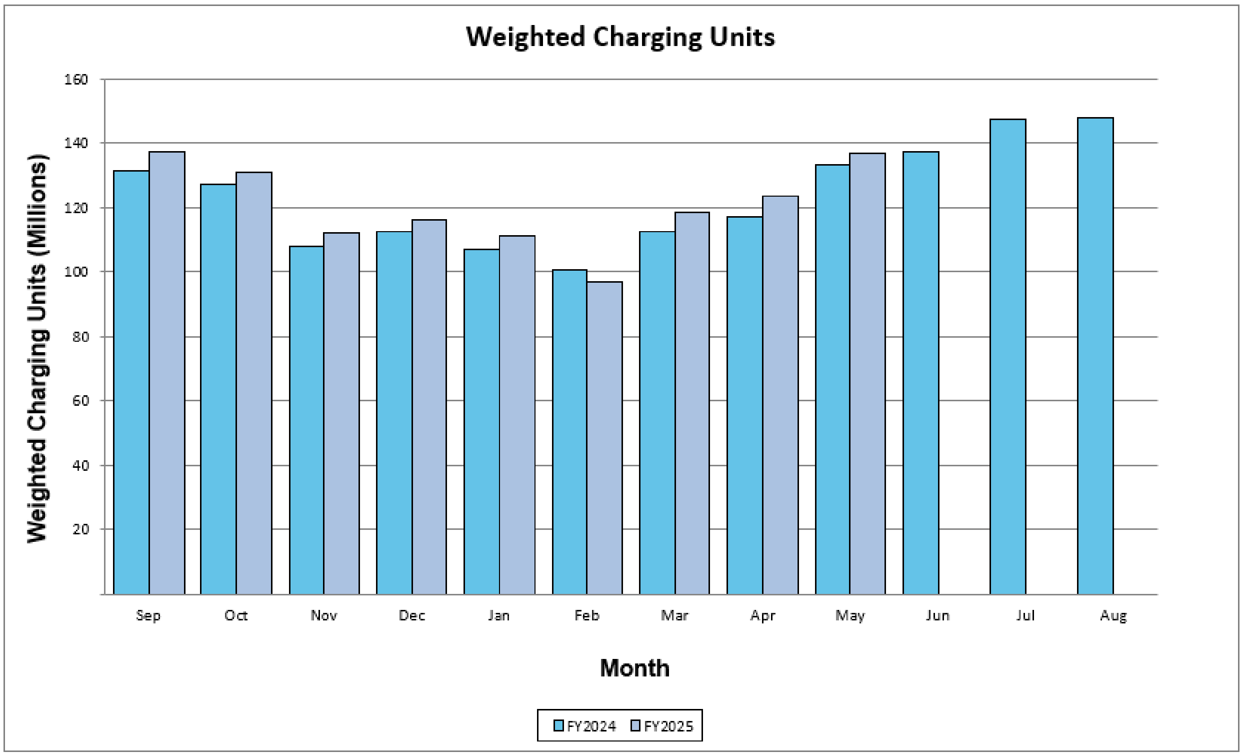
(1) Other revenue consists of service and development contracts, the sale of civil aeronautical publications and miscellaneous revenue.

Revenue from customer service charges during the three and nine months ended May 31, 2025 increased by $34 and $30, respectively, compared to the same periods in fiscal 2024. The increase in revenue mainly reflects higher air traffic levels of 4.5% and 3.2%, respectively, and the average 3.73% increase of customer service charges effective January 1, 2025.

Other revenue for the nine months ended May 31, 2025 decreased by $9 compared to the same period in fiscal 2024, mainly due to lower revenue for technology sales and services contracts and other revenue projects.

Air Traffic

As discussed in “INTRODUCTION – Significant Financial Matters”, air traffic levels (as measured in WCUs) increased by 3.2% during the nine months ended May 31, 2025 compared to the same period of fiscal 2024 as illustrated below. Excluding the effect of an extra day for the leap year in fiscal 2024, air traffic levels in the first nine months of fiscal 2025 increased by 3.6%.



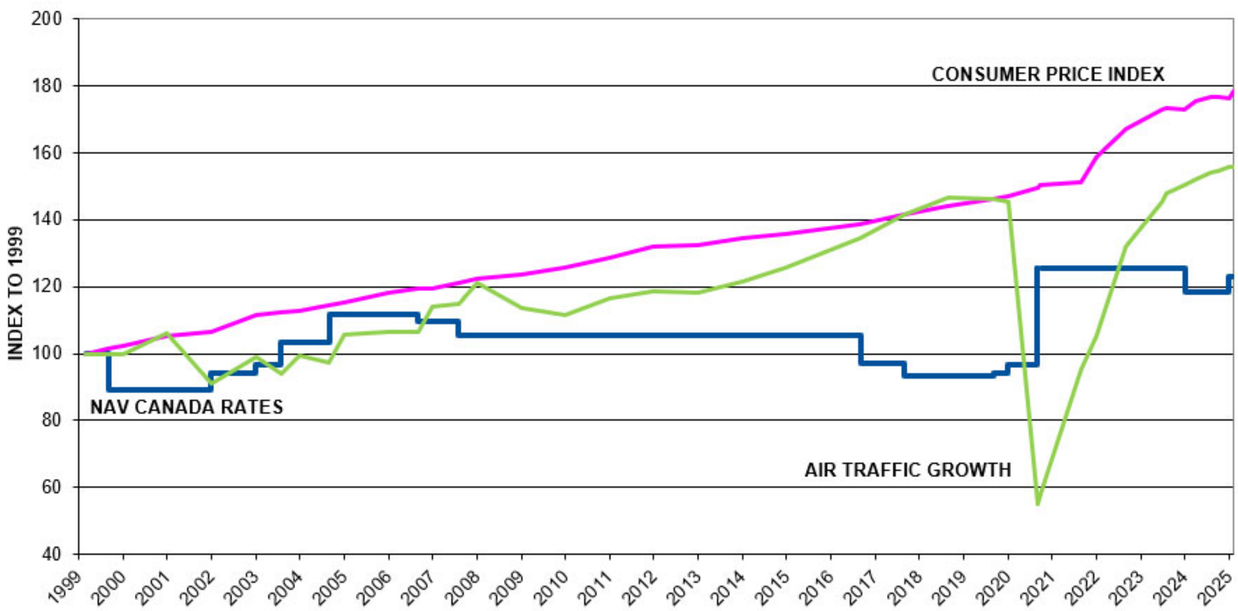
Future air traffic levels may be influenced by numerous factors, including epidemics or pandemics, rates of economic growth or decline, tariffs, trade protection measures, renegotiation of existing trade agreements, changing air passenger demand or willingness to fly, aircraft capacity utilization levels, fuel costs, changes in air carrier operations and behaviours, general aviation industry conditions, air carrier competition, airline restructurings and insolvencies, terrorist activities, geopolitical unrest, government interventions, travel restrictions and closings of borders to air travel, climate change and environmental factors (including weather systems and other natural phenomena, and factors arising from man-made sources) and demographic patterns.

(millions of Canadian dollars)

Customer Service Charges

On December 19, 2024, the Company revised its customer service charges effective January 1, 2025, increasing overall charges by an average of 3.73% (see "INTRODUCTION – Significant Financial Matters"). Including this revision, service charges are on average 22.9% higher than when they were fully implemented in 1999. The cumulative change in customer service charges since 1999 remains more than 50% below the change in the Consumer Price Index.

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.

Operating Expenses

Three months ended May 31	2025	2024	$ Change
Salaries and benefits	**$ 320**	$ 303	$ 17
Technical services	**46**	45	1
Facilities and maintenance	**17**	14	3
Depreciation and amortization	**33**	34	(1)
Other	**27**	22	5
	$ 443	$ 418	$ 25

(millions of Canadian dollars)

Nine months ended May 31	2025	2024	$ Change
Salaries and benefits	$ **933**	$ 875	$ 58
Technical services	**142**	153	(11)
Facilities and maintenance	**48**	45	3
Depreciation and amortization	**102**	104	(2)
Other	**69**	57	12
	$ **1,294**	$ 1,234	$ 60

Salaries and benefits expense during the three and nine months ended May 31, 2025 increased by $17 and $58, respectively, compared to the same periods in fiscal 2024 primarily due to increases in salary and wage levels, and increases in staffing levels to support service delivery and infrastructure maintenance and modernization. The increase is partially offset by higher allocations of labour to capital projects and the net impact of the asset impairment of $10 recorded in the first nine months of fiscal 2024.

Approximately 85% of our workforce is unionized under eight collective agreements. As of the date of this MD&A, the Company has expired agreements with two unions, comprising 7% of our represented workforce. The Company is in arbitration with the Canadian Federal Pilots Association (1% and expired April 30, 2022) and in active negotiations with the Public Service Alliance of Canada (6% and expired December 31, 2023).

Technical services expense during the nine months ended May 31, 2025 decreased by $11 compared to the same period in fiscal 2024 primarily due to the net impact of the asset impairment of $24 recorded in the first nine months of fiscal 2024 partially offset by higher systems maintenance and development expense.

Other operating expenses during the three months ended May 31, 2025 increased by $5, compared to the same period in fiscal 2024 primarily due to higher professional fees. Other operating expenses during the nine months ended May 31, 2025 increased by $12, compared to the same period in fiscal 2024 primarily due to higher professional fees relating to a contract to support the increase in operational training capacity and the partial reversal in the second quarter of fiscal 2024 of an onerous provision.

Other (Income) and Expenses

Three months ended May 31	2025	2024	$ Change
Finance income	**$ (6)**	$ (9)	$ (3)
Net interest expense relating to employee benefits	**8**	9	1
Other finance costs	**28**	19	(9)
Other (gains) and losses	**12**	-	(12)
	$ 42	$ 19	$ (23)

Nine months ended May 31	2025	2024	$ Change
Finance income	**$ (30)**	$ (31)	$ (1)
Net interest expense relating to employee benefits	**24**	27	3
Other finance costs	**55**	65	10
Other (gains) and losses	**(3)**	(1)	2
	$ 46	$ 60	$ 14

Other finance costs increased by $9 during the three months ended May 31, 2025 mainly due to the change in fair value of the investment in preferred interests of Aireon. Other finance costs decreased by $10 during the nine months ended May 31, 2025 primarily due to the impact of the asset impairment of $7 recorded in the first nine months of fiscal 2024.

(millions of Canadian dollars)

Other gains and losses increased by $12 during the three months ended May 31, 2025 as compared to the same period in fiscal 2024 primarily due to the impact of changes in the exchange rate between the Canadian dollar and U.S. dollar on the 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 2024 financial statements. The table below shows the net movements in the rate stabilization account.

Three months ended May 31	2025	2024	$ Change
Debit balance, beginning of period	**$ (186)**	$ (259)	$ 73
Variances from planned results:			
Revenue higher than planned	**11**	-	11
Operating expenses lower than planned	**15**	15	-
Other net expenses (higher) lower than planned	**(22)**	4	(26)
Net movement in other regulatory deferral accounts	**26**	(6)	32
Total variances from planned results	**30**	13	17
Initial approved adjustment	**(12)**	26	(38)
Net movement recorded in net income (loss)	**18**	39	(21)
Debit balance, end of period	**$ (168)**	$ (220)	$ 52

The rate stabilization account debit balance decreased by $18 during the three months ended May 31, 2025 primarily due to:

- operating expenses that were $15 lower than planned, primarily due to lower depreciation, travel, salaries and benefits costs; and
- revenue that was $11 higher than planned primarily due to higher air traffic growth;

partially offset by:

- the planned adjustment of $12, representing the anticipated net loss for the three months ended May 31, 2025 per the fiscal 2025 budget (see "FINANCIAL HIGHLIGHTS – Results of Operations").

Nine months ended May 31	2025	2024	$ Change
Debit balance, beginning of period	**$ (175)**	$ (342)	$ 167
Variances from planned results:			
Revenue higher (lower) than planned	**6**	(9)	15
Operating expenses lower than planned	**51**	16	35
Other net expenses lower than planned	**11**	6	5
Net movement in other regulatory deferral accounts	**7**	32	(25)
Total variances from planned results	**75**	45	30
Initial approved adjustment	**(68)**	77	(145)
Net movement recorded in net income (loss)	**7**	122	(115)
Debit balance, end of period	**$ (168)**	$ (220)	$ 52

(millions of Canadian dollars)

The rate stabilization account debit balance decreased by $7 during the nine months ended May 31, 2025 primarily due to:

- operating expenses that were $51 lower than planned, primarily due to lower professional services, salaries and benefits, depreciation, travel, systems maintenance, facilities and other costs;
- net movement in other regulatory deferral accounts was $7 higher primarily due to lower long-term disability deficit than planned; and
- higher than planned revenue of $6, due to higher air traffic growth;

partially offset by:

- the planned adjustment of $68, representing the anticipated net loss for the nine months ended May 31, 2025 per the fiscal 2025 budget (see "FINANCIAL HIGHLIGHTS – Results of Operations").

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	2025	2024	$ Change
Rate stabilization account [1]	**$ (18)**	$ (39)	$ 21
Other regulatory deferral accounts			
Employee benefit pension costs	**18**	13	5
Other employee benefits	**(2)**	-	(2)
Investment in preferred interests, before tax	**21**	-	21
Asset impairment	**(2)**	(3)	1
Other	**2**	2	-
	$ 19	$ (27)	$ 46

Nine months ended May 31	2025	2024	$ Change
Rate stabilization account [1]	**$ (7)**	$ (122)	$ 115
Other regulatory deferral accounts			
Employee benefit pension costs	**48**	35	13
Other employee benefits	**(4)**	(1)	(3)
Investment in preferred interests, before tax	**(11)**	(1)	(10)
Asset impairment	**(7)**	42	(49)
Other	**10**	5	5
	$ 29	$ (42)	$ 71

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

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

(millions of Canadian dollars)

The change in regulatory adjustments related to the investment in preferred interests of Aireon are to offset the change in fair value recorded in the three and nine months ended May 31, 2025 and the more significant impact of foreign exchange between the Canadian and U.S. dollar compared to the same periods in fiscal 2024.

The change in the net deferral related to the asset impairment during the nine months ended May 31, 2025 of $49 represents the net impact of the asset impairment that was initially recorded in the second quarter of fiscal 2024 and is being recovered over 5 years.

FINANCIAL AND CAPITAL MANAGEMENT

Our fiscal 2024 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, 2025.

Cash Flows

Three months ended May 31	2025	2024	$ Change
Cash flows from (used in)			
Operating	**$ 66**	$ 82	$ (16)
Investing	**(39)**	(64)	25
Financing	**(17)**	(17)	-
Cash flows from operating, investing and financing activities	**10**	1	9
Effect of foreign exchange on cash and cash equivalents	**1**	-	1
Increase in cash and cash equivalents	**11**	1	10
Cash and cash equivalents, beginning of period	**664**	570	94
Cash and cash equivalents, end of period	**$ 675**	$ 571	$ 104

Nine months ended May 31	2025	2024	$ Change
Cash flows from (used in)			
Operating	**$ 169**	$ 220	$ (51)
Investing	**(127)**	(33)	(94)
Financing	**(18)**	(203)	185
Cash flows from (used in) operating, investing and financing activities	**24**	(16)	40
Effect of foreign exchange on cash and cash equivalents	**4**	1	3
Increase (decrease) in cash and cash equivalents	**28**	(15)	43
Cash and cash equivalents, beginning of period	**647**	586	61
Cash and cash equivalents, end of period	**$ 675**	$ 571	$ 104

Lower net cash inflows from operations for the three and nine months ended May 31, 2025 were primarily due to higher payments to employees and suppliers, largely due to higher compensation costs and lower receipts related to other revenue, partially offset by higher receipts from customer service charges.

Lower cash outflows from investing activities for the three months ended May 31, 2025 were due to higher government funding received from the National Trade Corridors Fund (NTCF) and lower capital expenditures. Higher cash outflows from investing activities for the nine months ended May 31, 2025 were as a result of proceeds received from the maturity of short-term investments of $98 in the second quarter of fiscal 2024 and higher capital expenditures partially offset by higher NTCF funding received.

(millions of Canadian dollars)

Lower cash outflows from financing activities for the nine months ended May 31, 2025 was due to the repayment of the $185 Series 2021-2 General Obligation Notes upon maturity in the second quarter of fiscal 2024.

Liquidity and Financing Strategy

As at May 31, 2025, we had total liquidity of $1,609.

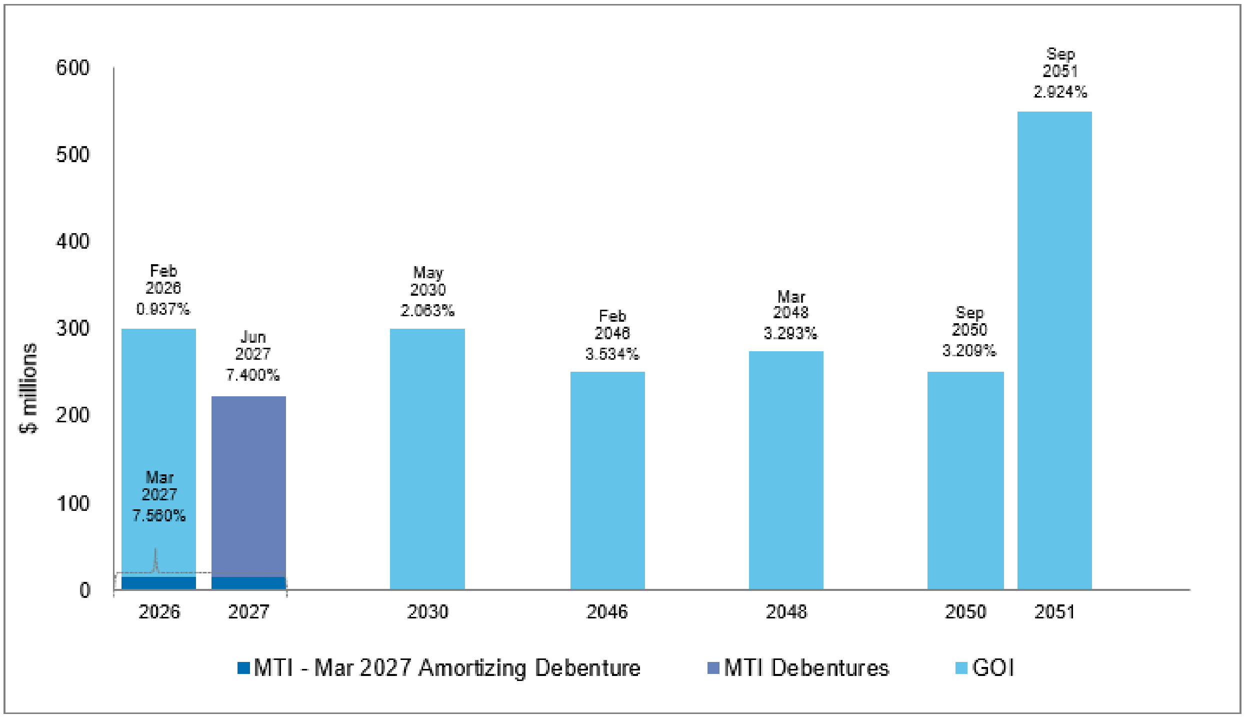
We are exposed to refinancing risk with respect to our bond and note maturities, including the $16 annual amortizing payment due on the Series 97-2 amortizing revenue bonds. We mitigate this risk by maintaining committed credit facilities in an amount sufficient to meet our refinancing needs in the event of temporary capital market disruptions or lack of access to the market for any reason.

The table below shows our long-term debt, liquidity and investment profile.

	May 31 2025	August 31 2024
LONG-TERM DEBT		
Bonds and notes payable		
Under the Master Trust Indenture	**$ 239**	$ 255
Under the General Obligation Indenture	**1,910**	1,910
	2,149	2,165
Adjusted for deferred financing costs	**(9)**	(10)
Total bonds and notes payable	**2,140**	2,155
Less: current portion of long-term debt	**(301)**	(16)
Total long-term debt	**$ 1,839**	$ 2,139
LIQUIDITY		
Cash and cash equivalents	**$ 675**	$ 647
Debt service reserve fund	**84**	81
Undrawn committed borrowing capacity	**850**	850
Total Liquidity	**$ 1,609**	$ 1,578

(millions of Canadian dollars)

The chart below shows our debt maturity profile as at May 31, 2025:



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

As at May 31		2025
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)		(372)
Available for unrestricted use	**$**	**478**
Credit facilities for pension obligations:		
Letter of credit facilities for pension obligations (4)	$	860
Less: Outstanding letters of credit for pension obligations (4)		(845)
Undrawn committed letter of credit facilities	**$**	**15**

(1) The Company's credit facility with a syndicate of Canadian financial institutions comprises two equal tranches maturing on March 27, 2028 and March 26, 2030, respectively. The maturity dates for both tranches were extended by one year during the nine months ended May 31, 2025. 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 term Canadian Overnight Repo Rate Average (CORRA), and on the Company's credit rating at the time of drawdown. The Company is required to pay commitment fees, which are dependent on the Company's credit rating.

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

(millions of Canadian dollars)

(3) The operations and maintenance reserve may be used to pay operating and maintenance expenses, if required.

(4) The four letter of credit facilities for pension obligations total $860 as at May 31, 2025 (August 31, 2024 - $860). During the nine months ended May 31, 2025, all four letter of credit facilities were extended by one year, whereby $450 will mature on December 31, 2025 and $410 will mature on December 31, 2026. As at May 31, 2025, $801 was drawn for solvency funding (August 31, 2024 - $795) for the registered pension plan and $44 for supplemental retirement arrangements (August 31, 2024 - $42). Subsequent to May 31, 2025, the Company filed the actuarial valuation for the registered pension plan dated January 1, 2025 with OSFI. As permitted by regulations, the filed valuation reflects the Company's election to reduce the outstanding letters of credit by the $100 statutory solvency excess. The total reduction of $131 in the outstanding letters of credit in June 2025 also included the reversal of $6 in letter of credit increments since the beginning of the calendar year that were not required based on the latest valuation and $25, as the cash contributions made to the registered pension plan to date in calendar 2025 exceeded the minimum required contributions of the January 1, 2025 valuation. The letters of credit drawn for solvency funding of the registered pension plan after these reductions are $670.

Contractual Obligations and Commitments

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

Contractual Obligations

A breakdown of contractual obligations as at May 31, 2025, and for the next five fiscal years and thereafter is presented in the following table. Total contractual obligations exclude commitments for goods and services in the ordinary course of business.

	Remaining payments – for years ending August 31						
	Total	**2025**	**2026**	**2027**	**2028**	**2029**	**Thereafter**
Derivative liabilities	**$ 4**	$ -	$ 4	$ -	$ -	$ -	$ -
Long-term debt (including current portion) [1], [2]	**$ 2,149**	$ -	$ 301	$ 223	$ -	$ -	$ 1,625
Interest payments [2]	**1,097**	10	67	65	48	48	859
Capital commitments [3]	**265**	114	83	43	11	9	5
Lease liability	**52**	1	3	3	3	3	39
Related party loan [4]	**15**	15	-	-	-	-	-
Total contractual obligations	**$ 3,582**	$ 140	$ 458	$ 334	$ 62	$ 60	$ 2,528

(1) Payments represent principal of $2,149. The Company may choose to repay a portion of these maturities with available cash and/or may increase the size of a re-financing to generate additional liquidity or for other purposes, and/or may choose to redeem in whole or in part an issue in advance of its scheduled maturity.

(2) Further details on interest rates and maturity dates on long-term debt are provided in note 13 of the fiscal 2024 financial statements.

(3) The Company has commitments for the acquisition of property, plant and equipment and intangible assets amounting to $265 as at May 31, 2025 (August 31, 2024 - $253).

(millions of Canadian dollars)

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

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

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 OSFI.

The latest actuarial valuation of the NCPP (for funding purposes) was performed as at January 1, 2025 and filed with OSFI in June 2025. The actuarial valuation reported a going concern surplus of $1,436 (January 1, 2024 – $1,325).

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 solvency purposes performed as at January 1, 2025 reported a statutory solvency excess of $100 (January 1, 2024 – deficiency of $98). As permitted by regulations, the Company has elected to reduce the outstanding letters of credit by the statutory solvency excess, thereby reducing such excess to $0.

Once the valuation report is filed, pension contributions are based on the January 1, 2025 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, 2025, outstanding letters of credit of $795 represented 10.6% of solvency liabilities (January 1, 2024 - $775 and 10.3%). These letters of credit are considered an asset of the NCPP in determining the statutory solvency deficiency shown above. As described in "FINANCIAL AND CAPITAL MANAGEMENT – Liquidity and Financing Strategy", the Company elected to reduce the outstanding letters of credit in June 2025.

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 2024 annual MD&A.

	May 31 2025	August 31 2024
Bonds and notes payable	**$ 2,140**	$ 2,155
Equity:		
Retained earnings	**28**	28
Regulatory deferral accounts:		
Debit balances	**(1,181)**	(1,139)
Credit balances	**459**	444
Employee benefits:		
Long-term disability asset	**(1)**	(1)
Liability for funded pension benefits	**395**	348
Liability for accumulating sick leave	**19**	19
Total capital	**$ 1,859**	$ 1,854

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 2024 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 2024 annual MD&A.

Insurance

Our aviation liability insurance program was renewed on November 15, 2024. This insurance provides broad coverage for our ANS liabilities to third parties. The Company also carries other lines of insurance at levels deemed appropriate by management for the nature of our business. The cost of this insurance is not material to the Company.

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

Legal Proceedings

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

Credit Ratings

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

Rating Agency	Senior Debt	General Obligation Notes	Outlook
Moody's Investors Service (Moody's)	Aa2	Aa2	Stable
Standard & Poor's (S&P)	AA	AA-	Stable

On September 18, 2024, S&P reaffirmed the Company's AA long-term issuer credit and senior secured debt ratings, and its AA- subordinated debt rating with a stable outlook. The stable outlook reflects S&P's expectation that 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 earnings before interest, depreciation and amortization (EBIDA) in the next two fiscal years.

(millions of Canadian dollars)

QUARTERLY RESULTS

Quarterly Financial Information (unaudited)

Due to seasonal and other fluctuations in air traffic and given that our costs are predominantly fixed, our quarterly financial results may fluctuate after the application of rate regulated accounting. In fiscal 2024, the planned annual recovery of $102 was reflected evenly across the four quarters, leading to fluctuations in retained earnings during the year due to differences between the planned quarterly results and the smoothed quarterly rate stabilization account recovery. In fiscal 2025, the planned quarterly change in the rate stabilization account is aligned with the planned quarterly results, eliminating fluctuations in retained earnings during the year.

	Three months ended			
	Q3 May 31 2025	Q2 February 28 2025	Q1 November 30 2024	Q4 August 31 2024
Revenue	$ 466	$ 396	$ 449	$ 510
Operating expenses	443	423	428	404
Other (income) and expenses	42	8	(4)	20
Net income (loss) before net movement in regulatory deferral accounts	(19)	(35)	25	86
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	(18)	34	(23)	(45)
Other regulatory deferral account adjustments	37	1	(2)	6
	19	35	(25)	(39)
Net income (loss) after net movement in regulatory deferral accounts	$ -	$ -	$ -	$ 47

	Three months ended			
	Q3 May 31 2024	Q2 February 29 2024	Q1 November 30 2023	Q4 August 31 2023
Revenue	$ 433	$ 393	$ 464	$ 519
Operating expenses	418	435	381	388
Other (income) and expenses	19	24	17	54
	(4)	(66)	66	77
Income tax recovery	1	-	-	-
Net income (loss) before net movement in regulatory deferral accounts	(5)	(66)	66	77
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	(39)	(26)	(57)	(72)
Other regulatory deferral account adjustments	12	56	12	54
	(27)	30	(45)	(18)
Net income (loss) after net movement in regulatory deferral accounts	$ (32)	$ (36)	$ 21	$ 59

(millions of Canadian dollars)

FINANCIAL OUTLOOK[2]

Presented below are the Company's current projected annual results for fiscal 2025 compared to fiscal 2024 actual results:

	Fiscal 2025	Fiscal 2024	$ Change
Results of operations (before rate stabilization)			
Customer service charges	**1,820**	1,760	60
Other revenue	**30**	40	(10)
	$ 1,850	$ 1,800	$ 50
Operating expenses and other (income) and expenses, including other regulatory adjustments	**1,758**	1,633	125
Net income before rate stabilization adjustments	**$ 92**	$ 167	$ (75)
Air traffic levels (year-over-year growth)	**2.8%**	6.4%	
Rate stabilization account debit balance	**$ (83)**	$ (175)	$ 92
Investment in capital and regulatory assets (1)	**$ 255**	$ 183	$ 72
Cash, cash equivalents at end of fiscal year	**$ 692**	$ 647	$ 45

(1) Investment in capital and regulatory assets is presented net of $29 of government funding under the NTCF (fiscal 2024 - $15).

The rapidly evolving landscape stemming from the executive orders signed by the President of the United States regarding new tariffs and subsequently retaliatory tariffs by the Canadian government and other trade protectionist measures implemented continue to create volatility in the Canadian economy. The Company is actively assessing the direct and indirect future impacts to its business as this situation develops. The magnitude of the impact remains unknown as at the date of this MD&A.

Revenue

Revenue from customer service charges in fiscal 2025 is expected to increase by $60 compared to fiscal 2024, which reflects a forecasted increase in air traffic levels of 2.8%, as measured in WCUs, along with an average increase in customer service charges of 3.73% effective January 1, 2025, partially offset by the average decrease in customer service charges of 5.57% effective January 1, 2024. Partially offsetting the increase in revenue from customer service charges is lower other revenue of $10 in fiscal 2025 due to technology sales and services contracts and other revenue projects.

In our Q2 fiscal 2025 MD&A, we had disclosed anticipated revenue from customer service charges of $1,799 for fiscal 2025, representing a year-over-year increase of 1.6%. The increase of $21 is due to higher projected air traffic growth than anticipated. There is no change to the outlook for other revenue as compared to our Q2 fiscal 2025 MD&A.

[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, including other regulatory adjustments, before rate stabilization are expected to increase by $125 in fiscal 2025. The increase is primarily due to increased compensation as a result of higher wages and staffing levels as well as higher other operating expenses, as we continue to invest in a growing workforce to support service delivery and infrastructure, maintenance and modernization.

In our Q2 fiscal 2025 MD&A, we disclosed anticipated operating expenses and other (income) and expenses, including other regulatory adjustments, before rate stabilization of $1,773 for fiscal 2025. The decrease of $15 is mainly due to delays in timing of activities and cost management measures.

Rate Stabilization Account

The Company projects that the rate stabilization account will decline by $92 to a debit or shortfall balance of $83 as at August 31, 2025.

In our Q2 fiscal 2025 MD&A, we disclosed an anticipated rate stabilization account debit balance of $120 as at August 31, 2025. The higher decrease in the debit balance of $37 is primarily driven by higher anticipated revenue from customer service charges and the projected increase in the positive variance in operating expenses.

Cash Flows

The Company's cash and cash equivalents are expected to increase to $692 as at August 31, 2025. Net cash inflow of $45 is projected, reflecting lower debt repayments and higher cash receipts from customer service charges, partially offset by higher payments to employees and suppliers and higher capital expenditures.

In our Q2 fiscal 2025 MD&A, we disclosed an anticipated cash and cash equivalents balance of $655 as at August 31, 2025. The increase in the projected cash and cash equivalents balance of $37 is largely due to lower payments to employees and suppliers and higher cash 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.

During a fiscal year, quarterly revenue from customer service charges will reflect seasonal or other fluctuations in the airline industry and therefore our net results vary from quarter to quarter. Our mandate to operate on essentially a financial breakeven basis, after the application of rate regulated accounting, results in a planned earnings coverage ratio – calculated on the basis of earnings before interest divided by interest expense – that is close to one-to-one. However, the seasonal nature of our revenue may result in an earnings coverage ratio of less or more than one-to-one for any interim period.

(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		2025		2024
Net earnings	$	**47**	$	12
Interest costs		**74**		85
Consolidated earnings [(1)] before interest	**$**	**121**	**$**	97
Depreciation and amortization expense	**$**	**142**	**$**	139
Consolidated earnings [(1)] before interest and depreciation	**$**	**263**	**$**	236
Earnings coverage ratio		**1.64**		1.14
Cash flow coverage ratio		**3.55**		2.78

(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 2024 annual MD&A.

Accounting Policies

Material accounting policies applied in the Q3 fiscal 2025 financial statements are disclosed in note 3 of the fiscal 2024 financial statements.

Critical Accounting Estimates and Judgments

The preparation of our Q3 fiscal 2025 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 2024 financial statements.

The Company's critical accounting estimates and judgments applied in the preparation of the Company's Q3 fiscal 2025 financial statements are consistent with those applied and disclosed in our fiscal 2024 financial statements and as described in the fiscal 2024 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, 2025 that have materially affected or are reasonably likely to materially affect the Company's ICFR.