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MANAGEMENT'S DISCUSSION AND ANALYSIS

ON FORM 51-102F1

YEAR ENDED

AUGUST 31, 2024

October 24, 2024

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INTRODUCTION

This management's discussion and analysis (MD&A) relates to the consolidated financial position, results of operations, comprehensive income (loss) and cash flows as at and for the year ended August 31, 2024 (fiscal 2024) of NAV CANADA (also referred to in this MD&A as we, our, us or the Company). It should be read in conjunction with our audited consolidated financial statements (financial statements) and the accompanying notes for the year ended August 31, 2024 (fiscal 2024 financial statements) as well as our 2024 Annual Information Form dated October 24, 2024 (fiscal 2024 AIF). Additional information about NAV CANADA, including our financial statements for fiscal 2024 and the year ended August 31, 2023 (fiscal 2023) 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 Standards Board (IFRS Accounting Standards) and are comprised of the accounts of NAV CANADA and its subsidiaries. All information presented has been rounded to the nearest million dollars, unless otherwise indicated. Our Audit & Finance Committee reviewed this MD&A and our Board of Directors (the Board) approved it on October 24, 2024, 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 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, 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 October 24, 2024, and are subject to change after this date. Readers of this MD&A are cautioned not to place undue reliance on any forward-looking statement. We disclaim any intention or obligation to update or revise any forward-looking statement included in this document whether as a result of new information, future events or for any other reason, except as required by applicable securities legislation.

Our Business

NAV CANADA is the private sector, non-share capital company that operates Canada's civil air navigation system (ANS) throughout Canada. The ANS was acquired from the Government of Canada in 1996 for a purchase price of $1.5 billion. Our services are provided to aircraft owners and operators within Canadian-controlled airspace and include air traffic control, flight information, weather briefings, airport advisories, aeronautical information and navigation aids.

Our core business is to manage and operate the ANS and related services in a safe, efficient and cost-effective manner. Our mandate covers both Canadian airspace and airspace delegated to Canada under international agreements.

We have captured our mandate in a Shared Purpose statement: Keeping Canada's skies safe: *Shaping the future of air navigation services*. Our Shared Purpose is supported by the following four pillars:

- Safety is at the core – It is integral to everything we do and continues to mature as the industry evolves.
- Innovation is key – We are passionate about modernizing Canada's air navigation system to deliver value to our customers.
- Expertise is the cornerstone – The skill, agility, leadership and collaboration of our people make the difference.
- Partnerships are essential – Our partnerships help the aviation industry improve efficiency and support an environmentally sustainable future.

Financial Strategy and Rate Regulation

Our financial strategy is to fulfil our essential services mandate based on a sound financial foundation, reflected in part through high credit ratings in the financial markets. Maintaining this strong foundation requires a prudent approach that balances the interests of our key stakeholders while complying with our statutory and contractual obligations.

In establishing new customer service charges or revising existing charges, we must follow the charging principles set out in our governing legislation, the *Civil Air Navigation Services Commercialization Act* (ANS Act), which prevents us from setting customer service charges higher than what is needed to meet our financial requirements for the provision of air navigation services. Pursuant to these principles, the Board approves the amount and timing of changes to customer service charges. The Board also approves the Company's annual budget where amounts to be recovered through customer service charges for the ensuing year are determined.

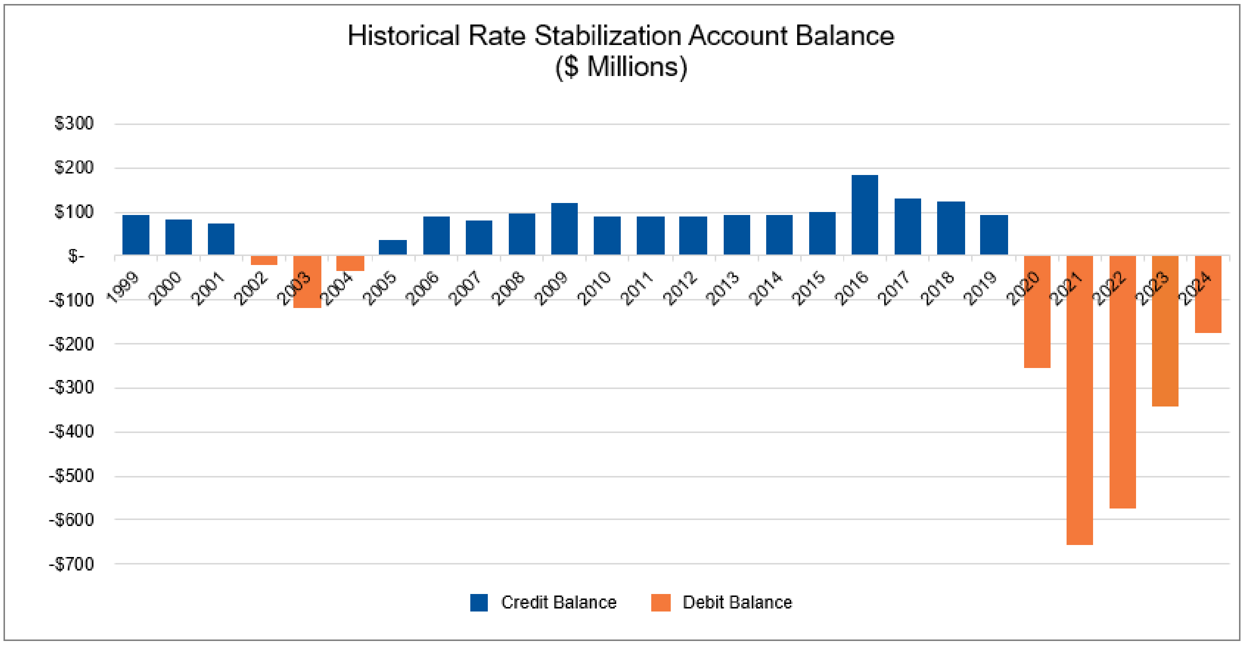
When establishing customer service charges, the Company monitors quarterly and considers, among other things:

(a) The statutory requirement to provide air navigation services;
(b) Air traffic results and forecasts;
(c) Financial and operating requirements, including our current and anticipated balance in the rate stabilization account and the extent to which our operating costs are variable and can be contained;
(d) The recovery of pension contributions on a cash basis; and
(e) Updates to our financial forecasts, debt servicing and financial requirements, and resulting financial coverage ratios.

Since actual revenue and expenses will differ from forecasts, a method to accumulate the variances is required so that they may be 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 in order to adjust the accounting recognition to the period in which they will be considered for rate setting. (see "RESULTS OF OPERATIONS – Net Movement in Regulatory Deferral Accounts").

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

Significant Financial Matters[1]

The following items have significant financial importance to the Company:

1. Air Traffic and Customer Service Charges

During fiscal 2024, air traffic levels, as measured in weighted charging units (WCUs) (a measure of the number of billable flights, aircraft size and distance flown in Canadian airspace and the basis for movement-based service charges), increased by 6.4% as compared to fiscal 2023. Excluding the effect of an extra day for the leap year, air traffic levels in fiscal 2024 increased by 6.2%. The outlook for fiscal 2025 reflects year-over-year air traffic growth of 2.4%.

Subsequent to August 31, 2024, the Company announced a proposed revision of its customer service charges effective January 1, 2025, increasing overall charges by an average of 3.73%. The rates proposal enables 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.

This proposal is subject to a mandatory 60-day consultation period required by the ANS Act that expires on the close of business on November 21, 2024. Input received during the consultation period will be considered by NAV CANADA's management and Board, prior to a final decision being made on the proposal.

2. Rate Stabilization Account

As at August 31, 2024, the rate stabilization account had a debit balance of $175. During fiscal 2024, the rate stabilization account debit balance decreased by $167 due to $65 of net favourable variances from planned results and the $102 initially approved adjustment to the rate stabilization account resulting from the planned recovery in fiscal 2024. Rate stabilization adjustments are described under "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account".

3. Asset Impairment

During fiscal 2024, the Company recorded an asset impairment in relation to ending a purchase agreement in March 2024 for the replacement of certain surveillance equipment. As at August 31, 2024, $35 of the $39 impact of the impairment was recorded as a regulatory deferral to be recovered through customer service charges over the next four fiscal years.

4. Collective Agreements

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

During fiscal 2024, new collective agreements were ratified with the Air Traffic Specialists Association of Canada (ATSAC) (15% of our represented workforce), for the five-year period ending April 30, 2028, and with the International Brotherhood of Electrical Workers (IBEW) (14% of our represented workforce), for the five-year period ending December 31, 2028. In addition, an arbitration award was issued concerning the classification system in the collective agreement with the Professional Institute of the Public Service of Canada (PIPSC) (12% of our represented workforce). The arbitration award is effective retroactively to November 1, 2023, and provides a new wage table. The new wage table was ratified by the membership in December 2023 with revised wages effective May 1, 2023 through April 30, 2026.

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

(in millions of dollars)

As of the date of this MD&A, the Company has expired agreements with four unions, comprising 14% of our represented workforce (April 30, 2022 with the Canadian Federal Pilots Association (CFPA) (1%); June 30, 2023, with the Canadian Air Navigation Specialists Association (CANSA) (6%); December 31, 2023, with the Public Service Alliance of Canada (PSAC) (7%); and February 6, 2024, with the Association of Canadian Financial Officers (ACFO) (1%)). The Company is currently in active negotiations with CFPA, PSAC and ACFO. On February 1, 2024, CANSA filed a Notice of Dispute with the Minister of Labour pursuant to Section 71(1)(b) of Part I of the Canada Labour Code, requesting conciliation assistance to reach a settlement. The parties were unable to reach a settlement and the conciliation period ended on April 12, 2024. As of August 31, 2024, both CANSA and NAV CANADA have filed submissions and subsequent replies on Maintenance of Activities with the Canada Industrial Relations Board (CIRB). This matter is now with the CIRB for a decision.

5. Financing Activities

During fiscal 2024, the Company repaid the $185 Series 2021-2 General Obligation Notes upon maturity in addition to the annual repayment of the Series 97-2 amortizing revenue bonds, reducing the Company's bonds and notes payable balance to $2,155.

Selected Annual Financial Information

The following table shows selected annual Company information for fiscal 2024, fiscal 2023 and the fiscal year ended August 31, 2022 (fiscal 2022). This information has been derived from the Company's financial statements.

Years ended August 31		2024		2023		2022
Revenue	**$**	**1,800**	$	1,778	$	1,507
Net income before rate stabilization adjustments	**$**	**167**	$	232	$	82
Net income (loss) after rate stabilization adjustments	**$**	**-**	$	-	$	-
Total assets	**$**	**2,561**	$	2,625	$	2,473
Total regulatory deferral account debit balances	**$**	**1,139**	$	1,213	$	1,341
Total bonds and notes payable (including current portion) [1]	**$**	**2,155**	$	2,354	$	2,488
Total regulatory deferral account credit balances	**$**	**444**	$	361	$	119

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

Revenue

In fiscal 2024, the Company's revenue increased by $22 compared to fiscal 2023. The increase in revenue reflects increases in air traffic levels, as measured in WCUs, of 6.4%, on a year-over-year basis, partially offset by the average 5.57% decrease in customer service charges effective January 1, 2024. See "RESULTS OF OPERATIONS - Revenue" for the breakdown of our revenue by categories of customer service charges.

During fiscal 2023, the Company's revenue increased by $271 as compared to fiscal 2022. The increase in revenue reflects an increase in air traffic levels, as measured in WCUs, of 18.1% on a year-over-year basis.

Net income before rate stabilization adjustments

During fiscal 2024, the Company's net income before rate stabilization adjustments decreased by $65 compared to fiscal 2023 primarily due to higher operating expenses and lower other revenue, partially offset by lower other (income) and expenses, and higher revenue from customer service charges. See "RESULTS OF OPERATIONS - Revenue", "RESULTS OF OPERATIONS – Operating Expenses" and "RESULTS OF OPERATIONS – Other (Income) and Expenses".

For fiscal 2023, the Company had net income before rate stabilization adjustments of $232 compared to $82 in fiscal 2022. The favourable results in fiscal 2023 compared to fiscal 2022 were primarily due to higher revenue as a result of higher air traffic levels and lower other (income) and expenses, partially offset by higher operating expenses.

In keeping with the Company's financial strategy and the use of the rate stabilization mechanism, net income, after the application of rate regulated accounting, in the statement of operations was $nil in fiscal 2024, fiscal 2023 and fiscal 2022.

Total assets

Total assets as at August 31, 2024, decreased compared to August 31, 2023, primarily due to lower short-term investments and long-term receivables, partially offset by higher cash and cash equivalents. (see "FINANCIAL AND CAPITAL MANAGEMENT – Cash Flows").

Total assets as at August 31, 2023, increased as compared to August 31, 2022, primarily due to higher cash and cash equivalents and short-term investments, partially offset by the reduction of the fair value of the Company's investment in preferred interests of Aireon Holdings LLC (together with its wholly-owned subsidiary Aireon LLC, "Aireon") in fiscal 2023.

Total regulatory deferral account debit and credit balances

Changes in the Company's regulatory deferral account balances are presented in detail in note 7 of the fiscal 2024 financial statements. Current year changes are discussed under the heading "RESULTS OF OPERATIONS – Net Movement in Regulatory Deferral Accounts" and "RESULTS OF OPERATIONS – Other Comprehensive Income (Loss)".

(in millions of dollars)

Financial Highlights

Results of Operations

Years ended August 31	2024	2023	$ Change
Revenue	**$ 1,800**	$ 1,778	$ 22
Operating expenses	**1,638**	1,493	145
Other (income) and expenses	**80**	124	(44)
Income tax expense	**1**	-	1
Net income, before net movement in regulatory deferral accounts	**81**	161	(80)
Rate stabilization adjustments:			
Favourable variances from planned results	**(65)**	(103)	38
Initial approved adjustment [1]	**(102)**	(129)	27
	(167)	(232)	65
Other regulatory deferral account adjustments:			
Employee benefit pension costs	**48**	55	(7)
Other employee benefits	**(2)**	(12)	10
Investment in preferred interests, before tax	**-**	26	(26)
Asset impairment	**35**	-	35
Other	**5**	2	3
	86	71	15
Net movement in regulatory deferral accounts [2]	**(81)**	(161)	80
Net income (loss), after net movement in regulatory deferral accounts	**$ -**	$ -	$ -

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

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

(in millions of dollars)

Cash flows

Years ended August 31	2024	2023	$ Change [1]
Cash flows from (used in)			
Operating	**$ 363**	$ 485	$ (122)
Investing	**(100)**	(151)	51
Financing	**(204)**	(144)	(60)
Cash flows from operating, investing and financing activities	**59**	190	(131)
Effect of foreign exchange on cash and cash equivalents	**2**	4	(2)
Increase in cash and cash equivalents	**61**	194	(133)
Cash and cash equivalents, beginning of period	**586**	392	194
Cash and cash equivalents, end of period	**$ 647**	$ 586	$ 61
Free cash flow (non-GAAP financial measure) [2]			
Cash flows from (used in) [3]:			
Operations	**$ 363**	$ 485	$ (122)
Capital expenditures	**(199)**	(128)	(71)
Investment in regulatory assets	**(13)**	(10)	(3)
Government grants received	**15**	6	9
Payment of lease liabilities	**(3)**	(3)	-
Income tax payments on investment in preferred interests	**(1)**	-	(1)
Free cash flow	**$ 162**	$ 350	$ (188)

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

(2) Free cash flow is a non-GAAP (Generally Accepted Accounting Principle) financial measure. Non-GAAP financial measures do not have any standardized meaning prescribed by IFRS Accounting Standards and therefore may not be comparable to similar measures presented by other issuers. The Company defines free cash flow as cash generated from operations, less capital expenditures (net of government grants received), investments in regulatory assets, investments in Aireon 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 in our fiscal 2024 financial statements.

(in millions of dollars)

RESULTS OF OPERATIONS

Revenue

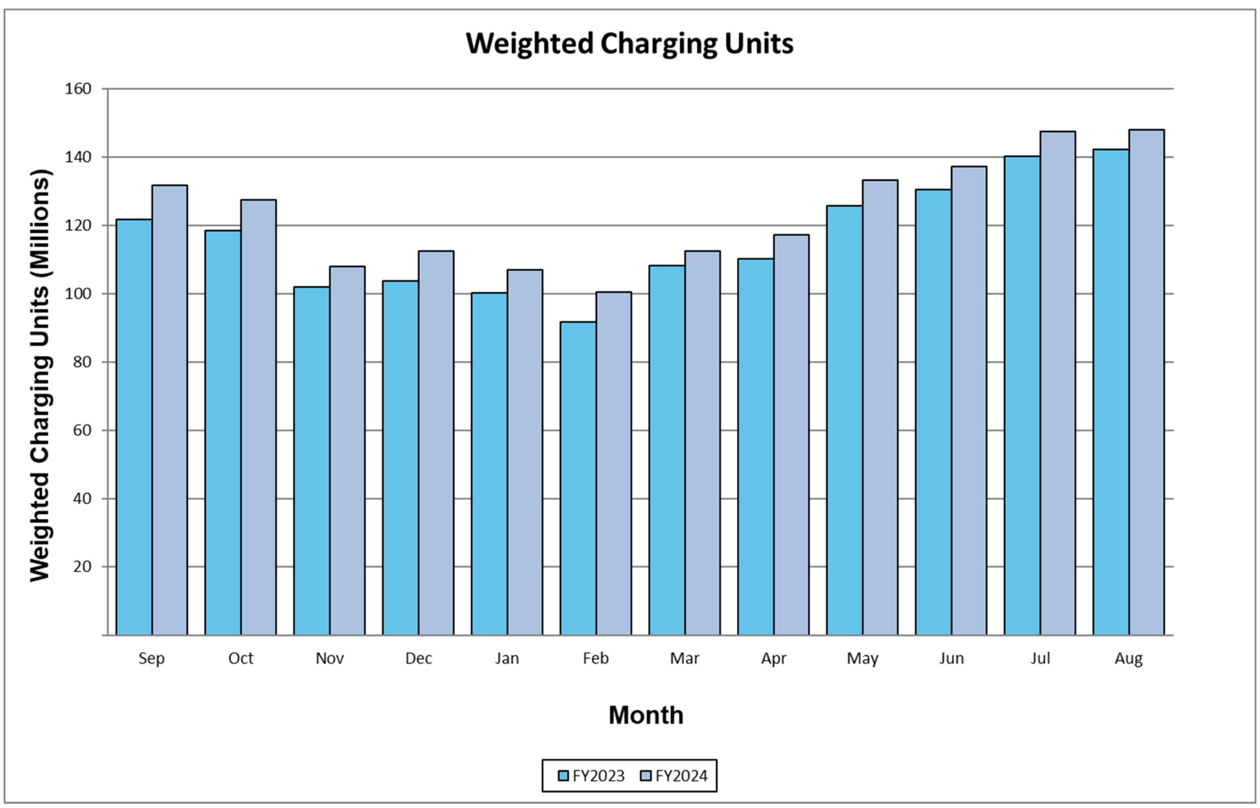
The following table provides a summary of revenue by category. Our fiscal 2024 AIF and the notes to our fiscal 2024 financial statements provide more information about the different categories of our customer service charges.

Years ended August 31	2024	2023	$ Change
Enroute	**$ 853**	$ 856	$ (3)
Terminal	**743**	687	56
Daily / annual / quarterly	**52**	60	(8)
North Atlantic and international communication	**112**	120	(8)
Total customer service charges	**1,760**	1,723	37
Other [(1)]	**40**	55	(15)
	$ 1,800	$ 1,778	$ 22

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

Air Traffic

As discussed in "INTRODUCTION – Significant Financial Matters", air traffic levels (as measured in WCUs) increased by 6.4% compared to fiscal 2023 as illustrated below. Excluding the effect of an extra day for the leap year, air traffic levels in fiscal 2024 increased by 6.2%.



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

Customer Service Charges

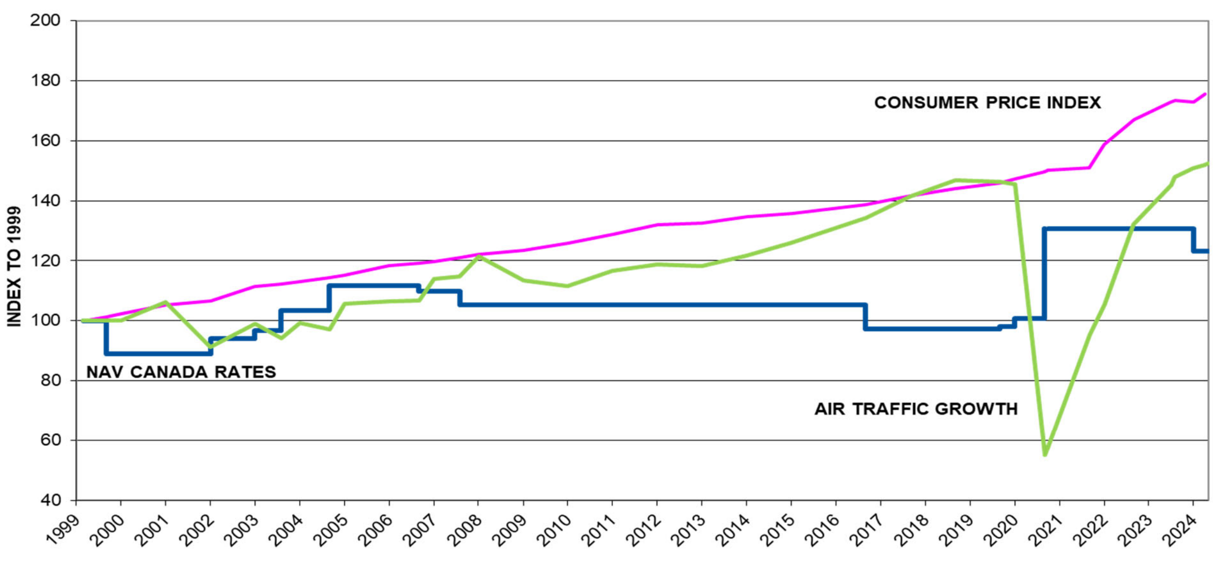
Our customer service charges are a function of our costs, financial requirements, required levels of service, air traffic levels and revenue from non-aeronautical sources (see "INTRODUCTION – Financial Strategy and Rate Regulation").

Our business operates 24 hours a day, 365 days a year, providing an essential, national and international safety infrastructure. Given that the majority of our costs are predominantly fixed and are directly related to service delivery, we have relatively few opportunities to significantly reduce costs further without compromising our service, which is not acceptable in most cases. We are focused on meeting our safety and service obligations effectively while managing the impact on customer service levels through cost management efforts and productivity improvements.

Service charges as at August 31, 2024, are on average 23.3% 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. Subsequent to August 31, 2024, the Company announced a proposed revision of its customer service charges effective January 1, 2025, increasing overall charges by an average of 3.73% (see "INTRODUCTION – Significant Financial Matters").

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

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



1. Average changes since charges were fully implemented on March 1, 1999.
2. Air Traffic Growth - Index values are based on Air Traffic WCU.
3. Consumer Price Index: Sourced from Bank of Canada.

(in millions of dollars)

Operating Expenses

Years ended August 31	2024	2023	$ Change
Salaries and benefits	$ **1,166**	$ 1,037	$ 129
Technical services	**192**	164	28
Facilities and maintenance	**62**	64	(2)
Depreciation and amortization	**143**	144	(1)
Other	**75**	84	(9)
	$ **1,638**	$ 1,493	$ 145

Salaries and benefits expenses for fiscal 2024 increased by $129 compared to fiscal 2023 primarily due to increased staffing levels to support service delivery improvements and strategic initiatives, higher wage levels and $10 relating to the asset impairment.

Technical services in fiscal 2024 increased by $28 compared to fiscal 2023 primarily due to the net impact of the asset impairment of $18.

Other operating expenses in fiscal 2024 decreased by $9 compared to fiscal 2023 primarily due to the partial reversal in fiscal 2024 of an onerous revenue contract provision of $13 that was recorded in fiscal 2023, partially offset by higher travel costs and the asset impairment of $2.

Other (Income) and Expenses

Years ended August 31	2024	2023	$ Change
Finance income	**$ (39)**	$ (28)	$ 11
Net interest expense relating to employee benefits	**36**	40	4
Other finance costs	**83**	119	36
Other	**-**	(7)	(7)
	$ 80	$ 124	$ 44

Total finance income increased by $11 in fiscal 2024 compared to fiscal 2023 primarily as a result of higher cash balances and an increase in interest rates earned on interest-bearing cash balances.

Other finance costs decreased by $36 in fiscal 2024 compared to fiscal 2023 primarily due to a decrease of $33 in fair value of the investment in preferred interests of Aireon in fiscal 2023 and lower interest expense due to the decline in debt partially offset by the asset impairment of $7.

Other gains and losses were $nil in fiscal 2024 compared to an unfavourable variance of $7 in fiscal 2023 primarily due to the impact of the fluctuation of the U.S. dollar exchange rate on the Company's investment in preferred interests of Aireon.

(in millions of dollars)

Movements in Rate Stabilization Account

Our rate stabilization mechanism and accounting are described at the beginning of this MD&A and in notes 1 and 7 of our fiscal 2024 financial statements. The table below shows the net movements in the rate stabilization account.

Years ended August 31	2024	2023	$ Change
Debit balance, beginning of period	**$ (342)**	$ (574)	$ 232
Variances from planned results:			
Revenue higher than planned	**5**	106	(101)
Operating expenses lower than planned	**23**	13	10
Other net expenses lower (higher) than planned	**8**	(38)	46
Net movement in other regulatory deferral accounts	**29**	22	7
Total variances from planned results	**65**	103	(38)
Initial approved adjustment	**102**	129	(27)
Net movement recorded in net income (loss)	**167**	232	(65)
Debit balance, end of period	**$ (175)**	$ (342)	$ 167

The rate stabilization account debit balance decreased by $167 during fiscal 2024 primarily due to:

- the planned adjustment of $102, representing the anticipated annual net income per the fiscal 2024 approved budget;
- net movement in other regulatory deferral accounts that was $29 higher than planned primarily due to regulatory adjustments of:
  - $35 related to the net asset impairment; partially offset by
  - $5 related to lower than planned pension current service costs due to an increase in the discount rate;
- operating expenses that were $23 lower than planned, primarily due to:
  - lower salaries and benefits due to fewer staff than planned, lower professional services, a partial reversal of the onerous revenue contract provision, lower systems maintenance, travel and other costs; partially offset by
  - $32 related to the net asset impairment;
- other net expenses that were $8 lower than planned, primarily due to higher interest income earned on interest-bearing cash balance, partially offset by the asset impairment of $7; and
- revenue that was $5 higher than planned due to higher other revenue, partially offset by lower air traffic levels (an increase of 6.4% compared to a budgeted increase of 7.1%).

(in millions of 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.

Years ended August 31	2024	2023	$ Change
Rate stabilization account [1]	**$ (167)**	$ (232)	$ 65
Other regulatory deferral accounts			
Employee benefit pension costs	**48**	55	(7)
Other employee benefits	**(2)**	(12)	10
Investment in preferred interests, before tax	**-**	26	(26)
Asset impairment	**35**	-	35
Other	**5**	2	3
	$ (81)	$ (161)	$ 80

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

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

The change in net movement in deferrals of other employee benefits of $10 is largely due to a higher payment in fiscal 2024 to fund the long-term disability plan and fiscal 2024 annual long-term disability plan deficit accruals.

The change in the net movement of the investment in preferred interests deferral, before tax of $26 is due to the fair value reduction recorded in fiscal 2023 as well as the effect of foreign exchange due to fluctuation of the Canadian dollar against the U.S. dollar.

The deferral of the asset impairment during fiscal 2024 of $35 relates to the net impact of the $39 asset impairment that was initially recorded during the second quarter offset by the recovery of $4 during the year.

(in millions of dollars)

Other Comprehensive Income (Loss)

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

Years ended August 31	2024	2023	$ Change
Items that will not be reclassified to income or (loss)			
Re-measurements of employee defined benefit plans	**$ 74**	$ 208	$ (134)
Net movement in regulatory deferral accounts	**(74)**	(208)	134
	-	-	-
Items that will be reclassified to income or (loss)			
Amortization of net losses on cash flow hedges	**2**	2	-
Change in fair value of cash flow hedges	**-**	(1)	1
Net movement in regulatory deferral accounts	**(2)**	(1)	(1)
	-	-	-
Total other comprehensive income (loss)	**$ -**	$ -	$ -

Net re-measurement gains on employee defined benefit plans of $74 were recorded during fiscal 2024. This was primarily due to a return on plan assets of $414 higher than expected based on the discount rate of 5.20% at August 31, 2023, and experience adjustments of $18, partially offset by actuarial losses of $358 largely due to a 30 basis point decrease in the discount rate to 4.90% at August 31, 2024.

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

FINANCIAL AND CAPITAL MANAGEMENT

The following sections explain how we manage our cash and capital resources.

Our non-cash current assets are less than our current liabilities. This results from accounts receivable collections that are more rapid than the settlement of accounts payable and accrued liabilities. Should our working capital requirements increase, the Company has adequate credit facilities and cash as noted below.

The inclusion of non-cash depreciation and amortization expenses in the calculation of service charge rates typically leads to positive cash flows from operations. Our strategy is to use these positive cash flows to fund capital expenditures. In addition, our strategy is to maintain a financial structure and credit ratings that will allow the Company to access the capital markets to meet debt maturities as they come due and fund required investments in the business. Should we believe that conditions are not appropriate to undertake a refinancing at a particular time or should we experience a temporary downturn in revenue from seasonal or other factors, the Company has sufficient cash and committed credit facilities at its disposal.

(in millions of dollars)

As at August 31, 2024, we had $647 of cash and cash equivalents and undrawn committed credit facilities for general purposes of $850, all of which provide the Company with available liquidity. In addition, we had letter of credit facilities for pension funding purposes of $860 of which $23 was undrawn (see "FINANCIAL AND CAPITAL MANAGEMENT – Liquidity and Financing Strategy").

Cash flows

Years ended August 31	2024	2023	$ Change
Cash flows from (used in)			
Operating	**$ 363**	$ 485	$ (122)
Investing	**(100)**	(151)	51
Financing	**(204)**	(144)	(60)
Cash flows from operating, investing and financing activities	**59**	190	(131)
Effect of foreign exchange on cash and cash equivalents	**2**	4	(2)
Increase in cash and cash equivalents	**61**	194	(133)
Cash and cash equivalents, beginning of period	**586**	392	194
Cash and cash equivalents, end of period	**$ 647**	$ 586	$ 61

Lower cash inflows from operations for fiscal 2024 compared to fiscal 2023 were primarily due to higher payments to employees and suppliers, largely due to higher compensation costs, including retroactive payments related to collective agreements concluded in fiscal 2023.

Lower cash outflows from investing activities for fiscal 2024 compared to fiscal 2023 were driven by the maturity of short-term investments partially offset by higher capital expenditures.

During fiscal 2024, the Company invested $221 in capital and regulatory assets related to cloud-computing arrangements (cash outflows of $212, excluding capitalized interest of $5) compared to $143 in fiscal 2023 (cash outflows of $138, excluding capitalized interest of $2). Investments were made to progress on key strategic initiatives, facility replacements or refurbishment, equipment upgrades and replacements and operational and business system enhancements.

Higher cash outflows from financing activities for fiscal 2024 compared to fiscal 2023 is due to the repayment of the $185 Series 2021-2 General Obligation Notes upon maturity as compared to the Company's partial repurchase of its revenue bonds and certain general obligation notes in fiscal 2023.

Liquidity and Financing Strategy

As a corporation without share capital, the Company finances its operations with borrowed money. When the Company was created, we developed a financing plan called the Capital Markets Platform. All borrowings were incurred and secured under a Master Trust Indenture (MTI), which initially provided a total drawn and undrawn borrowing capacity of $3 billion. The MTI provides for a gradually escalating reduction of the initial borrowing capacity over 33 years.

In February 2006, we entered into a separate trust indenture, the General Obligation Indenture (GOI), which established a borrowing program that qualifies as subordinated debt under the MTI. As subordinated debt, General Obligation Notes are not subject to the mandatory annual debt reduction provisions of the MTI. Provided we meet an additional indebtedness test, we are not limited in the amount of debt we can issue under the GOI. Under the terms of the GOI, no new indebtedness may be incurred under the MTI. Therefore, as bonds mature or are redeemed under the MTI, they will be replaced with General Obligation Notes or borrowings under our credit facility described below.

(in millions of dollars)

Borrowings under the MTI are secured by an assignment of revenue and a security interest over the debt service reserve fund and revenue account maintained under the MTI. The GOI is unsecured but contains positive and negative covenants similar to the MTI.

Under the MTI, we maintain a debt service reserve fund and an operations and maintenance reserve. We are also required to meet certain minimum liquidity levels under the GOI. The debt service reserve fund is maintained in cash and qualified investments deposited with our Trustee. It's required that we maintain an amount equal to or greater than one year's debt service on MTI debt is required to be maintained.

The debt service reserve fund also counts toward our minimum cash liquidity level requirement under the GOI, which is equal to one year's interest on all debt. The GOI also requires a minimum liquidity level to be maintained equal to the minimum cash liquidity level plus the operations and maintenance reserve requirement. This is defined as one-quarter of the previous year's operating and maintenance expenses. The operations and maintenance reserve requirement is met with an allocation of undrawn availability under our committed credit facility.

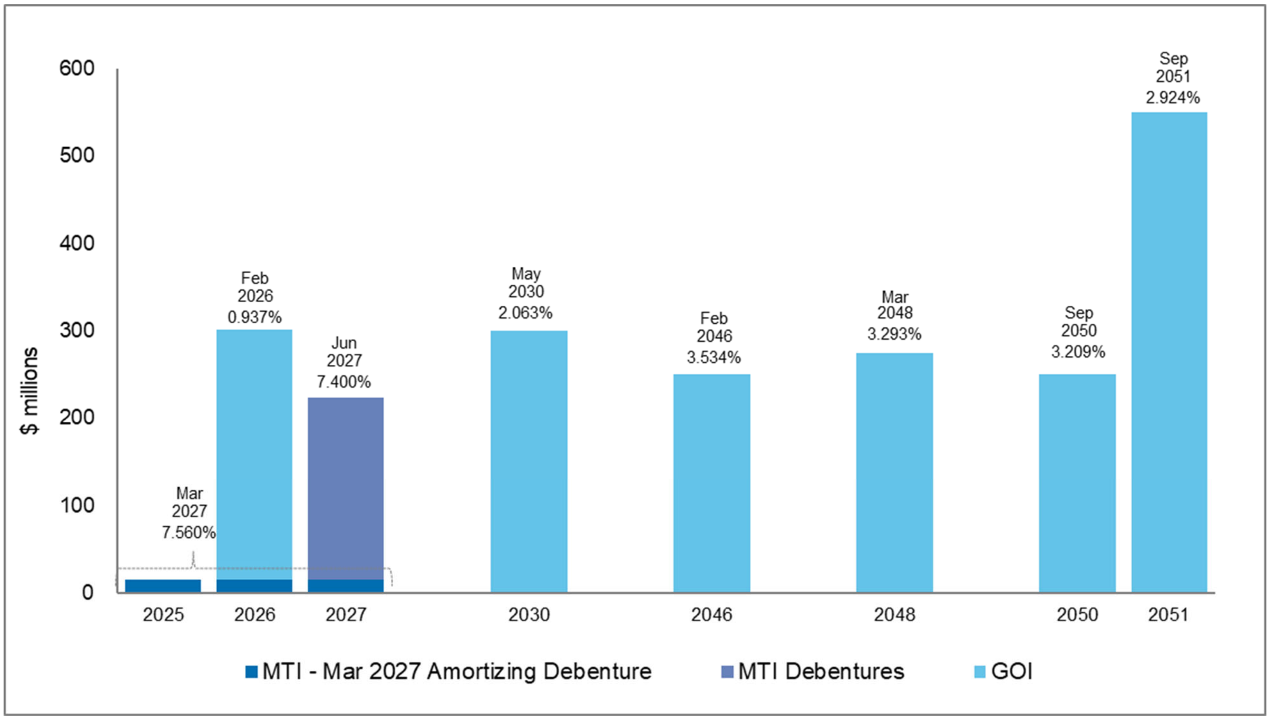
As at August 31, 2024, we were in full compliance with our debt indentures.

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

	August 31 2024	August 31 2023
LONG-TERM DEBT		
Bonds and notes payable		
Under the MTI	**$ 255**	$ 270
Under the GOI	**1,910**	2,095
	2,165	2,365
Adjusted for deferred financing costs	**(10)**	(11)
Total bonds and notes payable	**2,155**	2,354
Less: current portion of long-term debt	**(16)**	(201)
Total long-term debt	**$ 2,139**	$ 2,153
LIQUIDITY		
Cash and cash equivalents	**$ 647**	$ 586
Short-term investments	**-**	99
Debt service reserve fund	**81**	77
Undrawn committed borrowing capacity	**850**	849
Total Liquidity	**$ 1,578**	$ 1,611

(in millions of dollars)

The chart below shows our debt maturity profile as at August 31, 2024:



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

As at August 31		2024
Credit facilities for general purposes:		
Credit facility with a syndicate of Canadian financial institutions - undrawn [(1), (2)]	$	850
Less: Operations and maintenance reserve allocation [(3)]		(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)]		(837)
Undrawn committed letter of credit facilities	**$**	**23**

(1) The Company's credit facility with a syndicate of Canadian financial institutions comprises two equal tranches maturing on March 26, 2027 and March 26, 2029, respectively. The credit facility agreement provides for loans at varying rates of interest based on certain benchmark interest rates, specifically the Canadian prime rate and the 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.

(in millions of dollars)

(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 comprises four facilities with Canadian financial institutions, whereby $450 will mature on December 31, 2024 and $410 will mature on December 31, 2025, unless extended. As at August 31, 2024, $795 was drawn for solvency funding (August 31, 2023 - $751) for the registered pension plan and $42 for supplemental retirement arrangements (August 31, 2023 - $38).

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 August 31, 2024, and for the next five fiscal years and thereafter is presented in the following table. Total contractual obligations exclude commitments for goods and services in the ordinary course of business.

	Remaining payments – for years ending August 31						
	Total	2025	2026	2027	2028	2029	Thereafter
Long-term debt (including current portion) [1], [2]	**$ 2,165**	$ 16	$ 301	$ 223	$ -	$ -	$ 1,625
Interest payments [2]	**1,157**	70	67	65	48	48	859
Capital commitments [3]	**253**	136	60	33	10	9	5
Lease liability	**54**	3	3	3	3	3	39
Related party loan [4]	**15**	15	-	-	-	-	-
Total contractual obligations	**$ 3,644**	$ 240	$ 431	$ 324	$ 61	$ 60	$ 2,528

(1) Payments represent principal of $2,165. 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 $253 as at August 31, 2024 (August 31, 2023 - $151). During fiscal 2024, the Company reached an important milestone towards Trajectory-Based Operations by signing an agreement to develop new Air Traffic Management systems.

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

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

(in millions of dollars)

Pension Plan

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

The Company continues to meet the funding requirements of the Plan in accordance with the regulations of the Office of the Superintendent of Financial Institutions Canada (OSFI). Required pension contributions to the Plan are determined by the annual actuarial valuation for funding purposes performed as at January 1 (see below under "Pension Contributions (Going Concern and Solvency)"). Our latest actuarial valuation of the Plan (for funding purposes) was performed as at January 1, 2024, and filed with OSFI in May 2024.

Pension Plan Accounting Deficit: The Company's pension plans had an accounting deficit of $519 as at the annual measurement date of August 31, 2024 ($536 as at August 31, 2023). The decrease is primarily due to actuarial gains of $72, partially offset by actuarial accounting expense exceeding Company contributions by $55. The net actuarial gains are primarily due to return on plan assets of $414 higher than expected based on the discount rate of 5.2% at August 31, 2023, and experience adjustments of $6, partially offset by actuarial losses of $348 largely due to a 30 basis point decrease in the discount rate to 4.90% at August 31, 2024.

The market-based discount rate used to determine pension obligations is based on the yield on long-term high quality corporate bonds, with maturities matching the estimated cash flows of the pension plan. A 0.25% decrease in the discount rate would increase the accounting deficit by approximately $286. Conversely, a 0.25% increase in the discount rate would decrease the deficit by approximately $270.

Pension Expenses: Annual pension benefit costs, determined in accordance with IAS 19 *Employee Benefits*, can increase by approximately $21 from a 0.25% decrease in the discount rate used in actuarial calculations or decrease by approximately $21 from a 0.25% increase in the discount rate.

Regulatory Recovery of Pension Costs: The Company uses a regulatory approach for pension costs to determine the net impact charged to net income (loss). The objective of this approach is to recover the Company's going concern cash contributions to the Plan. In the fiscal year ended August 31, 2017, the Company made solvency deficiency cash contributions of $44 which were deferred. During the fiscal year ended August 31, 2018, $10 was recorded as a regulatory expense to recover part of the solvency contributions. The remaining balance of $34 is expected to be recovered through future customer service charges.

The funding of employee benefits as compared to the expense, net of regulatory adjustments, recorded in the consolidated statement of operations for the Plan is as follows:

Years ended August 31		2024		2023
Consolidated statements of operations				
Pension current service expense [(1)]	**$**	**113**	$	113
Net interest expense [(1)]		**17**		25
Less: Regulatory deferrals		**(48)**		(55)
	$	**82**	$	83
Company cash pension contributions				
Going concern current service - cash payment	**$**	**85**	**$**	77
Going concern current service - accrued		**(3)**		6
	$	**82**	$	83

(1) For fiscal 2024, pension current service expense does not include $3 related to the Company's unfunded pension plan (fiscal 2023 - $1) and net interest expense does not include $8 related to the Company's unfunded pension plan (fiscal 2023 - $5).

Pension Contributions (Going Concern and Solvency): The regulations governing the funding of federally regulated pension plans require actuarial valuations to be performed on both a going concern and a solvency basis. The actuarial valuations performed as at January 1, 2024, reported a going concern surplus of $1,325 (January 1, 2023 - $1,049) and a statutory solvency deficiency of $98 (January 1, 2023 - $291).

Once the valuation report is filed, pension contributions are based on the January 1, 2024 actuarial valuation. The Company has the option of meeting its pension solvency funding requirements with letters of credit or cash contributions, with the maximum letters of credit based on 15% of solvency liabilities. As at August 31, 2024, the Company has put in place letters of credit totaling $795 to meet its cumulative pension solvency funding requirements, including $44 in the current fiscal year. At January 1, 2024, outstanding letters of credit of $775 represented 10.3% of solvency liabilities (January 1, 2023 - $717 and 10.1%). These letters of credit are considered an asset of the Plan in determining the statutory solvency deficiency shown above.

Risks Associated with the Defined Benefit Plans: The nature of these benefit obligations exposes the Company to several risks, the most significant of which is funding risk. See note 14(g) to the fiscal 2024 financial statements for further discussion of these risks.

Financial Risk Management

The Company is exposed to several risks as a result of holding financial instruments, including interest rate risk, foreign exchange risk, price risk, credit risk and liquidity risk. See note 16 to the fiscal 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

We are exposed to unpredictable changes in air traffic levels that directly affect the Company's cash flows, such as terrorist attacks (2001), recessions (2009), epidemics and pandemics (COVID-19 - 2020; SARS - 2004), air carrier and industry-specific constraints, changes in air carrier operations (Boeing 737 Max grounding – 2019) and changing weather patterns that may cause flights to move into or out of Canadian air space. Future traffic levels could be influenced by several factors, including:

- Economic climate – Air traffic generally is influenced by economic growth, decline or uncertainty. For example, during an economic downturn, growth rates in air traffic generally decline. Since a substantial portion of air traffic is international, traffic levels are influenced by both Canadian and global economic circumstances. On an annual basis (using typical air traffic levels), a 1.0% change in air traffic levels flown in Canadian airspace corresponds to approximately a $18 change in our revenue before rate stabilization.

- Aviation fuel prices – As fuel represents a major portion of airline operating costs, a change in the price of fuel can affect air traffic demand to the extent that the change is passed on to consumers.

- Changes in air carrier operations and behaviours, aviation industry-specific conditions such as cost, supply and capacity constraints, as well as air carrier competition, restructurings and insolvencies may all impact air traffic levels.

- Terrorist activities, epidemics, pandemics, passenger willingness to travel, government restrictions on air travel, natural disasters, environmental concerns or weather patterns may also affect air traffic levels.

Our strategy is to mitigate the immediate impact of a sudden decline in air traffic with the least disruption possible to our customer base. We do this with our rate stabilization mechanism, which reduces short-term volatility in customer service charges. Our rate stabilization account tracks and accumulates revenue and expense variances from planned levels (whether positive or negative), so that they may be factored into the setting of future customer service charges.

We also mitigate the impact of sudden declines in air traffic by maintaining substantial liquidity in the form of our reserve funds and unrestricted available credit facilities as discussed under “FINANCIAL AND CAPITAL MANAGEMENT – Liquidity and Financing Strategy”.

Insurance

Our aviation liability insurance program was renewed on November 15, 2023. 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 March 21, 2024, S&P issued its credit opinion affirming the Company’s AA long-term issuer credit and senior secured debt ratings, and its AA- subordinated debt rating with a stable outlook. The stable outlook reflects S&P’s expectation that ongoing growth in air traffic activity will support revenue growth and allow NAV CANADA to maintain strong debt service coverage and a debt burden of less than 10.0x EBIDA in the next two fiscal years.

On September 18, 2024, S&P reaffirmed the Company’s credit ratings with a stable outlook.

On August 29, 2024, Moody’s issued its update to its credit opinion affirming NAV CANADA’s baseline credit assessment at Aa2 and its senior and subordinated ratings at Aa2. The stable rating outlook reflects Moody’s expectation that NAV CANADA will continue its prudent strategy, taking into account its overall financial position and upcoming obligations when contemplating a rate decrease and, vice versa, that it will implement the necessary rate increases if air traffic growth slows or declines and/or if expenses increase.

(in millions of dollars)

QUARTERLY RESULTS

Quarterly Financial Information (unaudited)

	Three months ended			
	Q4 August 31 2024	Q3 May 31 2024	Q2 February 29 2024	Q1 November 30 2023
Revenue	$ 510	$ 433	$ 393	$ 464
Operating expenses	404	418	435	381
Other (income) and expenses	20	19	24	17
	86	(4)	(66)	66
Income tax expense	-	1	-	-
Net income (loss) before net movement in regulatory deferral accounts	86	(5)	(66)	66
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	(45)	(39)	(26)	(57)
Other regulatory deferral account adjustments	6	12	56	12
	(39)	(27)	30	(45)
Net income (loss) after net movement in regulatory deferral accounts	$ 47	$ (32)	$ (36)	$ 21

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

(in millions of dollars)

Discussion of Quarterly Results

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

Revenue from customer service charges during the fourth quarter of fiscal 2024 decreased compared to the same period in fiscal 2023 due to the reduction in customer service charges.

The majority of our operating expenses are incurred evenly throughout the year. The increase in operating expenses for the fourth quarter of fiscal 2024 compared to the same period of fiscal 2023 is driven by higher salaries and benefits expenses as discussed in "RESULTS OF OPERATIONS – Operating Expenses."

Other (income) and expenses were lower during the fourth quarter of fiscal 2024 primarily due to the reduction of the fair value of the investment in preferred interests of Aireon in fiscal 2023.

Net movement in regulatory deferral accounts related to net income (loss) were lower during the fourth quarter of fiscal 2024 primarily as a result of lower regulatory adjustments related to the fair value of the investment in preferred interests of Aireon and pension current service costs during the year. The regulatory adjustments for these results were partially offset by higher regulatory adjustments related to payments to fund the long-term disability plan and annual long-term disability plan deficit accruals.

FINANCIAL OUTLOOK[2]

Throughout fiscal 2024, we continued to focus on improving the Company's resilience and enhancing safety and service delivery while advancing key longer term strategic initiatives. As we move into the fiscal year ending August 31, 2025 (fiscal 2025), our budget reflects the increased investment required to support our core business, our continuing work on key strategic initiatives and the need to restore the Company's financial resilience through the recovery of the rate stabilization account.

	Fiscal 2025	Fiscal 2024	$ Change
Results of operations (before rate stabilization)			
Customer service charges	**1,814**	1,760	54
Other revenue	**42**	40	2
	$ 1,856	$ 1,800	$ 56
Operating expenses and other (income) and expenses, including other regulatory adjustments	**1,835**	1,633	202
Net income before rate stabilization adjustments	**$ 21**	$ 167	$ (146)
Air traffic levels (year-over-year growth)	**2.4%**	6.4%	
Rate stabilization account debit balance	**$ (154)**	$ (175)	$ 21
Investment in capital and regulatory assets (1)	**$ 288**	$ 197	$ 91
Cash, cash equivalents at end of fiscal year	**$ 583**	$ 647	$ (64)

(1) Investment in capital and regulatory assets is presented net of $26 of government funding under the National Trade Corridors Fund (fiscal 2024 - $15).

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

Revenue

In our Q3 fiscal 2024 MD&A, we disclosed anticipated revenue from customer service charges of $1,752 for fiscal 2024, representing a year-over-year increase of 5.8%. The increase of $8 is driven by higher average air traffic levels than forecast.

Revenue from customer service charges in fiscal 2025 is expected to increase by $54 compared to fiscal 2024, which reflects a forecasted increase in air traffic levels of 2.4%, as measured in WCUs, along with an average increase in customer service charges of 3.73% effective January 1, 2025.

Operating Expenses and Other (Income) and Expenses

In our Q3 fiscal 2024 MD&A, we disclosed anticipated operating expenses and other (income) and expenses, including other regulatory adjustments, before rate stabilization of $1,649 for fiscal 2024. The decrease of $16 is primarily due to lower staffing and activity levels than planned.

Operating expenses and other (income) and expenses, including other regulatory adjustments, before rate stabilization are expected to increase by $202 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 meet service delivery requirements and progress on strategic initiatives.

Rate Stabilization Account

In our Q3 fiscal 2024 MD&A, we disclosed an anticipated rate stabilization account debit balance of $199 as at August 31, 2024. The lower actual debit balance is primarily driven by the positive variances in revenue from customer service charges and operating expenses as compared to our forecast.

The budget for fiscal 2025 reflects a decline in the rate stabilization account debit of $21 to a debit balance $154 as at August 31, 2025. This decline reflects a planned historical rate stabilization account shortfall recovery of $57, partially offset by the allocation of $36 of fiscal 2024 surplus to recover a portion of the Company's anticipated costs in fiscal 2025. The current and anticipated balance in the rate stabilization account is a consideration in the rate setting process (see "INTRODUCTION – Financial Strategy and Rate Regulation").

Cash Flows

In our Q3 fiscal 2024 MD&A, we disclosed an anticipated cash and cash equivalents balance of $580 as at August 31, 2024. The higher actual balance is largely due to higher revenue from customer service charges and lower payments to employees and suppliers compared to our forecast.

The Company's cash and cash equivalents are expected to decline to $583 as at August 31, 2025. Net cash outflow of $64 is projected, reflecting higher capital expenditures partially offset by higher cash inflows from operations.

(in millions of dollars)

ADDITIONAL INFORMATION

Earnings and Cash Flow Coverage

Earnings coverage ratio and cash flow coverage are non-GAAP ratios and do not have any standardized meaning prescribed by IFRS Accounting Standards. The earnings coverage ratio and cash flow coverage are provided pursuant to and in compliance with National Instrument 44-102 Shelf Distributions of the Canadian Securities Administrators. The Company calculates the earnings coverage ratio on the basis of earnings before interest expense on financial liabilities at amortized cost (interest expense) divided by interest expense. Cash flow coverage is calculated on the basis of earnings (after rate stabilization) before interest expense, depreciation and amortization divided by interest expense. Under the Income Tax Act (Canada), NAV CANADA, excluding its subsidiaries, is not subject to income taxes and accordingly, no deduction for income taxes has been made. After the application of rate regulated accounting, the provision for income taxes related to our taxable subsidiaries is not significant.

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

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

Twelve months ended August 31		2024		2023
Interest costs		**83**		86
Consolidated earnings [1] before interest	$	**83**	$	86
Depreciation and amortization expense	$	**143**	$	144
Consolidated earnings [1] before interest and depreciation	$	**226**	$	230
Earnings coverage ratio		**1.00**		1.00
Cash flow coverage ratio		**2.72**		2.67

(1) Consolidated earnings are presented after rate stabilization.

(in millions of dollars)

Related Party Transactions

The Company's related parties include its key management personnel, subsidiaries and associates and registered pension plan for its employees.

Additional details of these transactions are disclosed in note 20 of our fiscal 2024 financial statements.

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

Years ended August 31		2024		2023
Key management personnel compensation	**$**	**12**	$	11
Purchase of data services (1)	**$**	**59**	$	55
Pension plan contributions (2)	**$**	**82**	$	83
Cost recoveries from pension plan	**$**	**(18)**	$	(11)

(1) The Company has a 12-year commitment with Aireon to purchase data services, which commenced in March 2019. The estimated total remaining commitment is $420 CDN ($312 U.S.).

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

Outstanding balances were:

As at August 31		2024		2023
Receivable from pension plan	**$**	**3**	$	6

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

Accounting Policies

The Company's significant accounting policies are described in note 3 to the fiscal 2024 financial statements. New standards, amendments or interpretations adopted by the Company effective September 1, 2023, are described in note 2 to the fiscal 2024 financial statements.

Critical Accounting Estimates and Judgments

The preparation of financial statements in conformity with IFRS Accounting Standards requires management to make estimates and judgments that affect the reported amounts of revenue and expenses during the period, the reported amounts of assets and liabilities, and the disclosure of commitments and contingencies at the date of the financial statements. These estimates and judgments are based on historical experience, current conditions and various other assumptions made by management that are believed to be reasonable under the circumstances. By their nature, these estimates and judgments are subject to uncertainty and the amounts currently reported in the Company's financial statements could, in future, prove to be inaccurate.

The following accounting estimates and judgments are based on management's assumptions and are considered to be critical as they involve matters that are highly uncertain. Any changes from those estimates and judgments could have a material impact on our financial statements. The estimates and judgments are reviewed on an ongoing basis.

Employee Benefits

Defined benefit plans, other long-term employee benefits, termination benefits, and short-term employee benefits require significant actuarial assumptions to estimate the future benefit obligations and performance of plan assets. These assumptions are described in note 2(d) and note 14 of the fiscal 2024 financial statements.

While these assumptions reflect management's best estimates, differences in actual results or changes in assumptions could materially affect employee benefit obligations on the statement of financial position, salaries and benefits and net finance costs on the statement of operations, and re-measurements of employee defined benefit plans on the statement of comprehensive income.

Investment in Preferred Interests of Aireon

The Company's investment in Aireon is in preferred interests, which are redeemable and convertible to common equity interests. Until the Company exercises its right to convert its preferred interests to common interests, it does not have access to Aireon's residual net assets and accordingly, this investment is accounted for as a financial instrument classified and measured at fair value through profit or loss. The fair value methodology and underlying assumptions are discussed in note 2(d), note 12 and note 16 of the fiscal 2024 financial statements.

INTERNAL CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, the Company has filed certificates signed by the President and Chief Executive Officer and the Vice President and Chief Financial Officer that, among other things, report on the design and effectiveness of disclosure controls and procedures (DC&P) and the design and effectiveness of internal control over financial reporting (ICFR).

Disclosure Controls and Procedures

The Company has designed DC&P to provide reasonable assurance that material information relating to the Company is made known to the President and Chief Executive Officer and the Vice President and Chief Financial Officer, particularly during the period in which the annual filings are being prepared, and that information required to be disclosed to satisfy the Company's continuous disclosure obligations is recorded, processed, summarized and reported within the time periods specified by applicable Canadian securities legislation.

Management, under the supervision of the certifying officers, has evaluated the effectiveness of the DC&P and based on that evaluation, the certifying officers have concluded that the DC&P were effective as at August 31, 2024.

Internal Control over Financial Reporting

The Company has designed ICFR using the framework established in "Internal Control – Integrated Framework" issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS Accounting Standards. In designing and evaluating internal controls, it should be recognized that due to inherent limitations, any controls, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements.

Management, under the supervision of the certifying officers, has evaluated the effectiveness of ICFR and based on that evaluation, the certifying officers have concluded that the Company's ICFR were effective as at August 31, 2024.

Changes to Internal Control over Financial Reporting

There have been no changes to the Company's ICFR during the year ended August 31, 2024 that have materially affected or are reasonably likely to materially affect the Company's ICFR.