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MANAGEMENT'S DISCUSSION AND ANALYSIS

ON FORM 51-102F1

YEAR ENDED

AUGUST 31, 2022

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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, 2022 (fiscal 2022) 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, 2022 (fiscal 2022 financial statements) as well as our 2022 Annual Information Form dated October 20, 2022 (fiscal 2022 AIF). Additional information about NAV CANADA, including our financial statements for fiscal 2022 and the year ended August 31, 2021 (fiscal 2021) and our fiscal 2022 AIF are filed on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Our financial statements are prepared in Canadian dollars (CDN), in accordance with International Financial Reporting Standards (IFRS) and are comprised of the accounts of NAV CANADA and its subsidiaries. All information presented has been rounded to the nearest million dollars, unless otherwise indicated. Our Audit & Finance Committee reviewed this MD&A and our Board of Directors (the Board) approved it before it was filed.

Caution Concerning Forward-Looking Information

This MD&A and, in particular, but without limitation, the section "FINANCIAL OUTLOOK" of this MD&A, contain certain statements about NAV CANADA's future expectations. These statements are generally identified by words like "anticipate", "plan", "believe", "intend", "expect", "estimate", "approximate", "forecast" and the like, as well as future or conditional verbs such as "may", "will", "should", "would" and "could", or negative versions thereof. Because forward-looking statements involve future risks and uncertainties, actual results may be different from those expressed or implied in these statements and these differences may be material. Examples of risks and uncertainties the Company faces include geopolitical unrest, terrorist attacks and the threat of terrorist attacks, war, epidemics or pandemics, government interventions and related travel advisories and restrictions, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from manmade sources), cyber security attacks, labour negotiations, arbitrations, workforce recruitment, training and retention, general aviation industry conditions, air traffic levels, the use of telecommunications and ground transportation as alternatives to air travel, capital market and economic conditions, the ability to collect customer service charges and reduce operating costs, changes in interest rates, changes in laws, tax changes, adverse regulatory developments or proceedings and lawsuits. Some of these risks and uncertainties are explained under "Risk Factors" in our fiscal 2022 AIF.

The forward-looking statements contained in this MD&A represent our expectations as of October 20, 2022 and are subject to change after this date. Readers of this MD&A are cautioned not to place undue reliance on any forward-looking statement. We disclaim any intention or obligation to update or revise any forward-looking statement included in this document whether as a result of new information, future events or for any other reason, except as required by applicable securities legislation.

Our Business

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

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

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

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

Financial Strategy and Rate Regulation

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

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

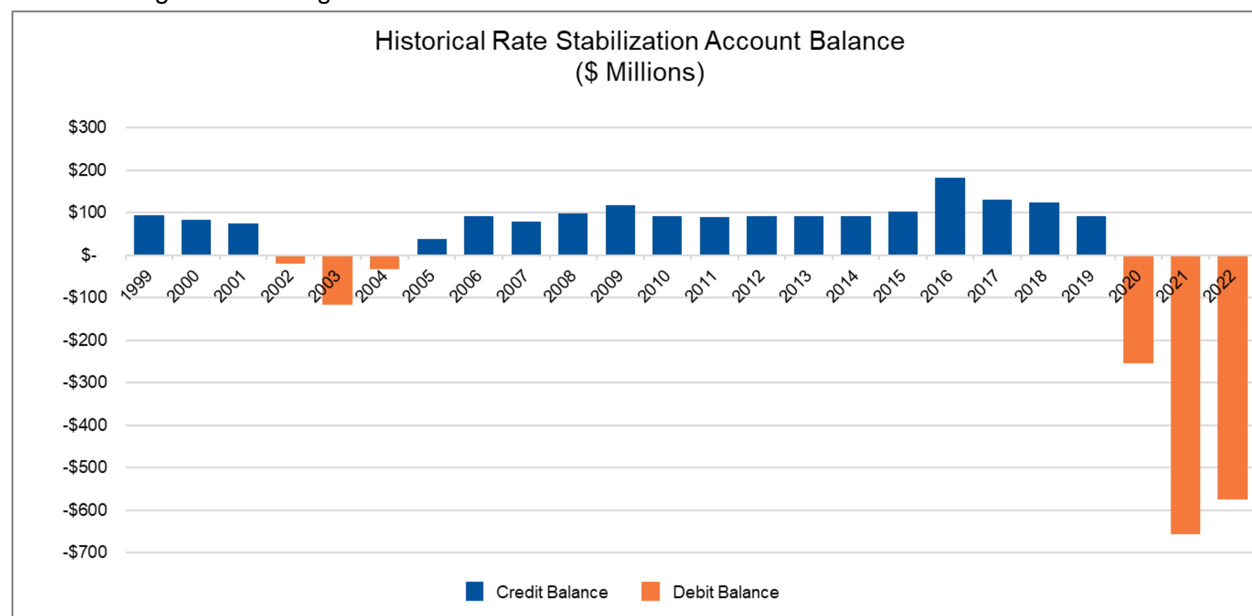
When establishing customer service charges, the Company monitors quarterly and considers, among other things:

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

Since actual revenue and expenses will differ from forecasts, a method to accumulate the variances is required so that they may be taken into account when setting future customer service charges. There is also a need to absorb the immediate effect of unpredictable factors – mainly fluctuations in air traffic levels resulting from unforeseen events. We meet these objectives through the use of a "rate stabilization" mechanism.

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

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



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

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

Significant Financial Matters[1]

The following items have significant financial importance to the Company:

1. Air Traffic and Customer Service Charges

The COVID-19 pandemic and the resulting economic contraction continues to have a negative impact on global air traffic and on the aviation industry. The COVID-19 pandemic began impacting air traffic levels in mid-fiscal 2020 and since then, air traffic levels, as measured in weighted charging units (WCUs) (a measure of the number of billable flights, aircraft size and distance flown in Canadian airspace and the basis for movement-based service charges), have continued to trend below levels seen in the fiscal year ended August 31, 2019 (fiscal 2019).

Air traffic levels in fiscal 2022 continue to reflect the impact of the COVID-19 pandemic however they are showing positive signs of recovery. While air traffic levels increased in comparison to fiscal 2021 by 76.8%, they remained lower (21.5%) than pre-pandemic levels experienced in fiscal 2019.

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

As compared to fiscal 2019, customer service charges revenue was 5.0% higher, reflecting the increase in customer service charges of 29.5% as of September 1, 2020, however, largely offset by lower air traffic levels.

It is expected that the COVID-19 pandemic and resulting economic contraction will continue to have a negative impact on global air traffic and the aviation industry in the near-term and the post-pandemic economic recovery may be gradual and uneven. While the full duration and scope of the COVID-19 pandemic cannot be known at this time, in the long-term the Company believes that full recovery will be achieved, and the pandemic will not have a material impact on our long-term financial sustainability.

2. Rate Stabilization Account

As at August 31, 2022, the rate stabilization account had a debit balance of $574. The rate stabilization account debit balance decreased by $82 due to $167 of net favourable variances from planned results, partially offset by the $85 initially approved adjustment to the rate stabilization account resulting from the planned shortfall in fiscal 2022. Rate stabilization adjustments are described under "RESULTS OF OPERATIONS – Movements in Rate Stabilization Account".

3. Strategic Divestments

In December 2021, the Company sold its investment in Searidge Technologies Inc (Searidge). Prior to the sale, the Company owned 50% of the issued and outstanding shares of Searidge. Proceeds were commensurate with the carrying value of $7 at the time of sale (August 31, 2021 - $7). In connection with the sale, the loan receivable from Searidge of $5 was repaid (August 31, 2021 - $3).

On July 4, 2022, the Company closed on the sale of assets related to its conference center facility in Cornwall, Ontario, formerly the NAV CENTRE, for $30, resulting in a net realized gain of $6.

4. Investment in Preferred Interests of Aireon

In June 2022, the agreement through which the Company's participation in Aireon LLC (Aireon) is set out (the Aireon Agreement) was amended to provide for an additional investment in preferred interests of $66 CDN ($50 U.S.) by Iridium Communications Inc. (Iridium). This investment is in addition to Iridium's existing common equity interests. Following the additional investment, the Company continues to be represented by five out of the eleven directors on Aireon's board of directors. The effect of this transaction reduces the Company's fully diluted common equity interest on a post-conversion basis to 35.0% (August 31, 2021 - 37.2%).

In accordance with the Aireon Agreement, a portion of Iridium's common equity interest in Aireon will be redeemed for a payment from Aireon of $158 CDN ($120 U.S.) to finalize the ownership interests of all of Aireon's investors. Upon this redemption and the related conversion of all preferred interests into common equity interests, in accordance with the provisions contained in the Aireon Agreement, NAV CANADA would hold 42.2% of the fully diluted common equity interests of Aireon (August 31, 2021 - 45.3%).

As at August 31, 2022, the Company measured the fair value of its investment in preferred interests at $229 CDN ($175 U.S.) (August 31, 2021 - $299 CDN ($237 U.S.)). The fair value reflects the continued impact of the COVID-19 pandemic and other critical uncertainties on the timing and amount of dividend payments expected to be received.

5. Collective Agreements

Approximately 86% of our workforce is unionized under eight collective agreements. As at August 31, 2022, the Company has ratified collective agreements in place with six bargaining agents, comprising 93% of our represented workforce. Agreements with the Canadian Federal Pilots Association and the Public Service Alliance of Canada expired on April 30, 2019 and December 31, 2020, respectively. Negotiations with these two unions are ongoing.

Selected Annual Financial Information

The following table shows selected annual information of the Company for fiscal 2022, fiscal 2021 and the fiscal year ended August 31, 2020 (fiscal 2020). This information has been derived from the Company's financial statements.

Years ended August 31		2022		2021		2020
Revenue	**$**	**1,507**	$	870	$	1,000
Net income (loss) before rate stabilization adjustments	**$**	**82**	$	(401)	$	(348)
Net income (loss) after rate stabilization adjustments	**$**	**-**	$	-	$	-
Total assets	**$**	**2,473**	$	2,423	$	2,951
Total regulatory deferral account debit balances	**$**	**1,341**	$	1,757	$	2,112
Total bonds and notes payable (including current portion) [(1)]	**$**	**2,488**	$	2,512	$	2,288
Total regulatory deferral account credit balances	**$**	**119**	$	146	$	184

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

Revenue

In fiscal 2022, the Company's customer service charges revenue increased by $638 as compared to fiscal 2021 primarily due to easing of travel restrictions and rising consumer demand during the year. Air traffic levels, as measured in WCUs, increased 76.8% on a year-over-year basis. See "RESULTS OF OPERATIONS - Revenue" for the breakdown of our revenue by categories of customer services charges.

During fiscal 2021, the Company's customer service charges revenue decreased by $115 as compared to fiscal 2020. Air traffic levels, as measured in WCUs, decreased 32.7% on a year-over-year basis and 55.7% as compared to fiscal 2019. In addition, other revenue decreased by $15 as compared to fiscal 2020 primarily due to lower revenue from service and development contracts and closure of the NAV CENTRE to the general public as a result of the COVID-19 pandemic.

Net income (loss) before rate stabilization adjustments

During fiscal 2022, the Company's net income before rate stabilization adjustments increased by $483 as compared to fiscal 2021 primarily due to higher revenue as a result of higher air traffic levels and lower other (income) and expenses, partially offset by higher operating expenses. See "RESULTS OF OPERATIONS – Operating Expenses" and "RESULTS OF OPERATIONS – Other (Income) and Expenses".

During fiscal 2021, the Company's net loss before rate stabilization adjustments increased by $53 as compared to fiscal 2020 primarily due to lower revenue as a result of the impact of the COVID-19 pandemic on air traffic levels, partially offset by lower operating expenses as the Company focused on cost management, particularly with respect to discretionary expenditures, and received $114 under the Canada Emergency Wage Subsidy (CEWS) program.

In keeping with the Company's financial strategy and the use of the rate stabilization mechanism, net (income) loss, after the application of rate regulated accounting, in the statement of operations was $nil in fiscal 2022, fiscal 2021 and fiscal 2020.

Total assets

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

Total assets as at August 31, 2021 decreased as compared to August 31, 2020 primarily due to lower cash and cash equivalents and short-term investments, reduction of the fair value of the Company's investment in preferred interests of Aireon to reflect the continued impact of the COVID-19 pandemic, lower capital assets as a result of depreciation and amortization exceeding investment, partially offset by higher long-term receivables as a result of the fiscal 2021 payment deferral mechanism related to the September 1, 2020 customer service charge increase.

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 2022 financial statements and current year changes are discussed under the heading "RESULTS OF OPERATIONS – Net Movement in Regulatory Deferral Accounts" and "RESULTS OF OPERATIONS – Other Comprehensive Income (Loss)".

Financial Highlights

Results of Operations

Years ended August 31	2022	2021	$ Change
Revenue	**$ 1,507**	$ 870	$ 637
Operating expenses	**1,416**	1,278	138
Other (income) and expenses	**183**	176	7
Income tax recovery	**(13)**	(7)	(6)
Net income (loss), before net movement in regulatory deferral accounts	**(79)**	(577)	498
Rate stabilization adjustments:			
(Favourable) unfavourable variances from planned results	**(167)**	106	(273)
Initial approved adjustment [1]	**85**	295	(210)
	(82)	401	(483)
Other regulatory deferral account adjustments:			
Employee benefit pension contributions	**106**	147	(41)
Other employee benefits	**(7)**	(13)	6
Investment in preferred interests, before tax	**70**	37	33
Investment in equity-accounted investee	**4**	-	4
Income tax	**(12)**	(9)	(3)
Allowance for expected credit losses	**(3)**	12	(15)
Other	**3**	2	1
	161	176	(15)
Net movement in regulatory deferral accounts [2]	**79**	577	(498)
Net income (loss), after net movement in regulatory deferral accounts	**$ -**	$ -	$ -

(1) In order to achieve breakeven results of operations after the application of rate regulated accounting, the Board approved the fiscal 2022 budget with an increase to the debit position of the rate stabilization account as a result of a planned shortfall of $85 (fiscal 2021 - $295), which has been reflected in the rate stabilization account evenly throughout the fiscal year.

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

Cash Flows

As shown below, cash and cash equivalents increased by $73 during fiscal 2022 (fiscal 2021 - decreased by $370), excluding an increase in short-term investments of $80 (fiscal 2021 - $nil). The Company experienced positive free cash flow of $175 (fiscal 2021 - negative free cash flow of $509), which is a non-GAAP (Generally Accepted Accounting Principles) financial measure. Non-GAAP financial measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. The Company defines free cash flow as cash generated from operations, less capital expenditures, investments in regulatory assets, investments in Aireon and equity related investments and principal payments of lease liabilities. Management places importance on this indicator as it assists in measuring the impact of its investment program on the Company's financial resources and provides users a more stable indication of the Company's ability to meet its debt obligations and continue to invest in the ANS.

Years ended August 31	2022	2021	$ Change [1]
Cash flows from (used in)			
Operating	**$ 267**	$ (425)	$ 692
Investing	**(166)**	64	(230)
Financing	**(27)**	(3)	(24)
Cash flows from (used in) operating, investing and financing activities	**74**	(364)	438
Effect of foreign exchange on cash and cash equivalents	**(1)**	(6)	5
Increase (decrease) in cash and cash equivalents	**73**	(370)	443
Cash and cash equivalents, beginning of period	**319**	689	(370)
Cash and cash equivalents, end of period	**$ 392**	$ 319	$ 73
Free cash flow (non-GAAP financial measure)			
Cash flows from (used in) [2]:			
Operations	**$ 267**	$ (425)	$ 692
Capital expenditures	**(119)**	(80)	(39)
Investment in regulatory assets [3]	**(8)**	(5)	(3)
Proceeds from sale of property, plant and equipment	**30**	4	26
Proceeds from sale of investment in subsidiary	**7**	-	7
Payment of lease liabilities	**(2)**	(3)	1
Free cash flow	**$ 175**	$ (509)	$ 684

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

(2) See the statement of cash flows in our fiscal 2022 financial statements.

(3) See "ADDITIONAL INFORMATION – Accounting Policies" for discussion of the change in accounting for cloud-computing arrangements. Investments in these arrangements are included in free cash flow as they are viewed by the Company similarly to capital expenditures from an operational perspective.

RESULTS OF OPERATIONS

Revenue

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

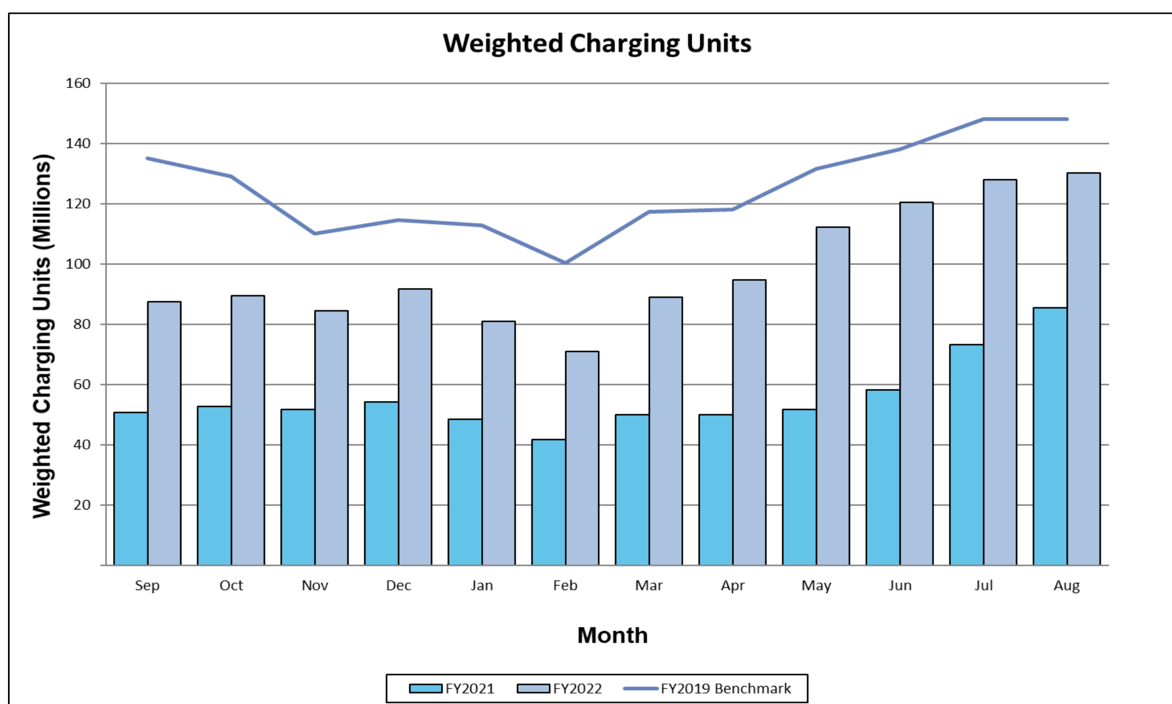
Years ended August 31	2022	2021	$ Change
Enroute	**$ 739**	$ 455	$ 284
Terminal	**562**	284	278
Daily / annual / quarterly	**53**	22	31
North Atlantic and international communication	**99**	54	45
Total customer service charges	**1,453**	815	638
Other [1]	**54**	55	(1)
	$ 1,507	$ 870	$ 637

[1] Other revenue consists of service and development contracts, conference centre sales at the NAV CENTRE, the sale of civil aeronautical publications and other miscellaneous revenue.

Air Traffic

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

In response to the conflict in Ukraine, Canadian airspace was closed to all Russian and Belarusian aircraft operators on February 27, 2022 and March 16, 2022, respectively. These actions have not had a significant impact on air traffic revenue.



Future air traffic levels may be influenced by numerous factors, including the speed of recovery of air traffic following the COVID-19 pandemic, new COVID-19 variants, other epidemics or pandemics, rate of economic growth or decline, changing air passenger demand or willingness to fly, aircraft capacity utilization levels, fuel costs, changes in air carrier operations and behaviours, general aviation industry conditions, air carrier competition, airline restructurings and insolvencies, terrorist activities, geopolitical uncertainty and in particular increased volatility relating to the conflict in Ukraine, government interventions, travel restrictions and closings of borders to air travel, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from manmade sources) and demographic patterns.

Customer Service Charges

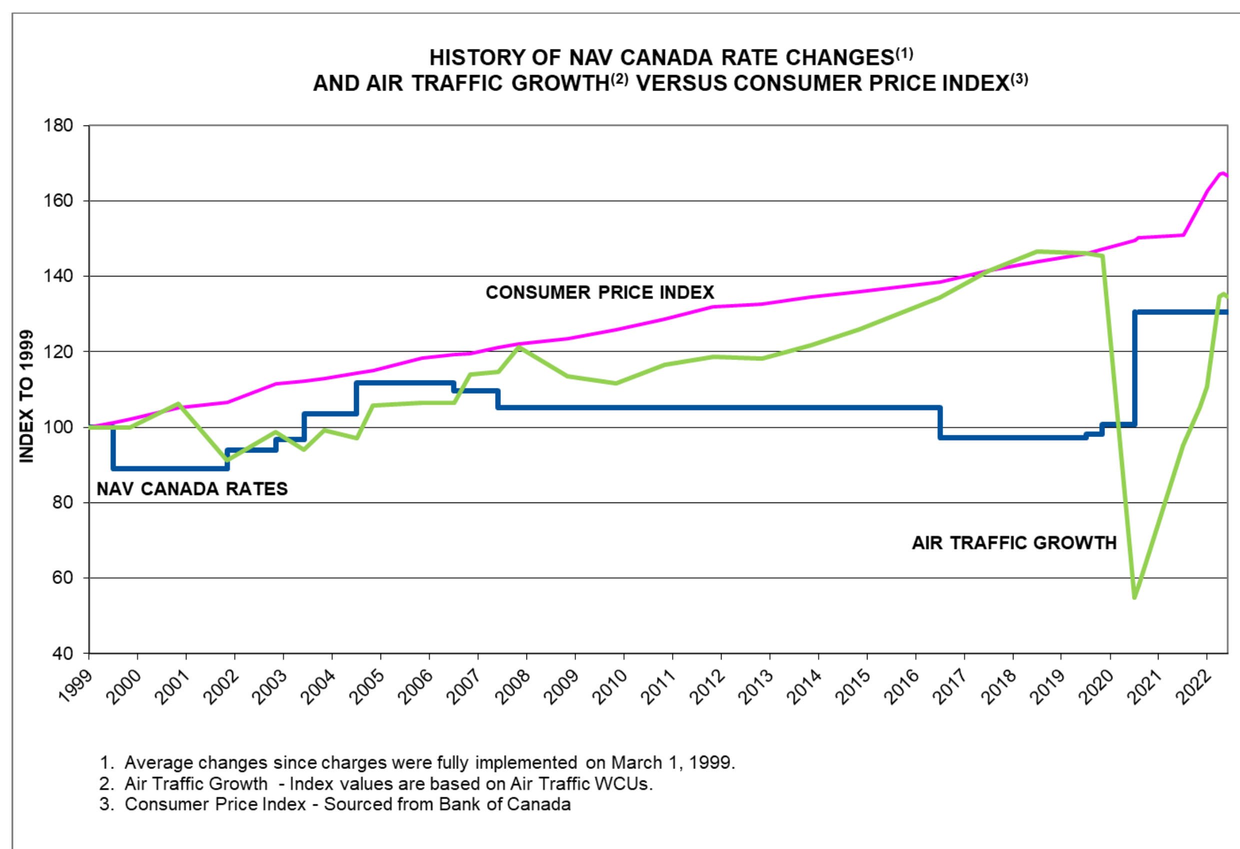
The level of our customer service charges is a function of our costs, financial requirements, the required level of service, air traffic levels and revenue from non-aeronautical sources (see "INTRODUCTION – Financial Strategy and Rate Regulation").

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

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

The Company revised its customer service charges effective September 1, 2020, increasing charges by an average of 29.5% on base rate levels. This increase was necessitated by the financial impact that the COVID-19 pandemic had on the Company. Including this revision, service charges as at August 31, 2022 are on average 30.5% higher than when they were fully implemented in 1999, however the cumulative change in customer service charges since 1999 remains below the change in the Consumer Price Index by approximately 36.3%.

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



Operating Expenses

Years ended August 31		2022		2021		$ Change
Salaries and benefits	$	**987**	$	841	$	146
Technical services		**157**		161		(4)
Facilities and maintenance		**66**		59		7
Depreciation and amortization		**144**		151		(7)
Other		**62**		66		(4)
	$	**1,416**	$	1,278	$	138

Salaries and benefits expenses for fiscal 2022 increased by $146 compared to fiscal 2021 primarily due to the end of the CEWS program in October 2021. In fiscal 2022, the Company received $4 under the CEWS program as compared to $114 in fiscal 2021. The remaining variance is attributed to higher overtime costs, partially offset by lower severance and termination costs and curtailment expense on pension benefits. These costs were incurred in fiscal 2021 as a result of the workforce reductions undertaken to mitigate the impact of COVID-19 and no similar costs were incurred in fiscal 2022. In addition, pension current service costs were lower as a result of an increase in the discount rate to 3.1% at August 31, 2021 (August 31, 2020 – 2.8%).

Facilities and maintenance expenses increased by $7 in fiscal 2022 compared to fiscal 2021 primarily due to the recognition of certain decommissioning liabilities.

Depreciation and amortization expenses for fiscal 2022 decreased by $7 compared to fiscal 2021 primarily due to the disposal of property, plant and equipment associated with the sale of the NAV CENTRE.

While our operating expenses have historically demonstrated a stable pattern, cost-saving measures taken to address the significant impact of the COVID-19 pandemic altered that pattern. Savings related to workforce adjustments and cost mitigations undertaken in the first half of fiscal 2021 began to be realized in the third quarter of fiscal 2021. During the fourth quarter of fiscal 2021, these savings were offset by the recognition of a curtailment expense related to pension benefits and higher overtime costs as a result of increasing air traffic levels and coverage for leaves over the summer months. During fiscal 2022, operating expenses increased mainly due to higher salary and overtime costs as a result of the end of the CEWS program and increased staffing, air traffic levels and leave coverage.

Other (Income) and Expenses

Years ended August 31	2022	2021	$ Change
Finance income			
Interest income	**$ (5)**	$ (3)	$ 2
Net change in fair value of financial assets at FVTPL			
Other investments	**-**	1	1
Total finance income	**(5)**	(2)	3
Net interest expense relating to employee benefits	**36**	55	19
Other finance costs			
Interest expense	**84**	89	5
Net change in fair value of financial assets at FVTPL			
Investment in preferred interests [1]	**82**	24	(58)
	166	113	(53)
Other			
Foreign exchange (gains) and losses	**(11)**	11	22
Other net gains	**(3)**	(1)	2
	(14)	10	24
	$ 183	$ 176	$ (7)

[1] The net change in fair value of financial assets at fair value through profit or loss (FVTPL) is based on discounted future cash flows, which include preferred and common dividends.

The net change in fair value of the investment in preferred interests of Aireon in fiscal 2022, was a loss of $82 as compared to a loss of $24 for fiscal 2021.

Net interest expense relating to employee benefits decreased by $19 in fiscal 2022 as compared to fiscal 2021 due to higher interest income partially offset by higher finance costs as a result of the increase in discount rates at August 31, 2021 compared to August 31, 2020.

The Company experienced net foreign exchange gains of $11 in fiscal 2022 as compared net losses of $11 in fiscal 2021 primarily due to the impact of the fluctuation of the Canadian dollar against the U.S. dollar on the Company's investment in preferred interests of Aireon.

Movements in Rate Stabilization Account

Our rate stabilization mechanism and accounting are described at the beginning of this MD&A and in notes 1 and 7 of our fiscal 2022 financial statements. The table below shows the net movements in the rate stabilization account.

Years ended August 31	2022	2021	$ Change
Debit balance, beginning of period	**$ (656)**	$ (255)	$ (401)
Variances from planned results:			
Revenue higher (lower) than planned	**190**	(228)	418
Operating expenses (higher) lower than planned	**(38)**	95	(133)
Other (income) and expenses lower (higher) than planned	**(53)**	(35)	(18)
Net movement in other regulatory deferral accounts	**68**	62	6
Total variances from planned results	**167**	(106)	273
Initial approved adjustment	**(85)**	(295)	210
Net movement recorded in net income (loss)	**82**	(401)	483
Debit balance, end of period	**$ (574)**	$ (656)	$ 82

The rate stabilization account debit balance decreased by $82 during fiscal 2022 primarily due to:

- revenue that was $190 higher than planned primarily due to higher than anticipated air traffic levels; and
- net movement in other regulatory deferral accounts that was $68 higher than planned primarily due to regulatory adjustments of:
    - $94 related to the net reduction of the fair value in the investment in preferred interests of Aireon;
    - $12 for actuarial losses on the Company's long-term disability plans and annual plan deficit accruals; and
    - $4 to recognize the previously unrealized gain upon disposal of the Company's investment in Searidge; partially offset by
    - $12 related to foreign exchange gains on our investment in preferred interests of Aireon;
    - $12 to defer income tax recoveries related to the decrease in fair value of the investment in preferred interests of Aireon;
    - $10 as a result of lower than planned pension current service costs due to an increase in the discount rate; and
    - $8 for actuarial gains recognized on the Company's vested sick leave plan.

partially offset by:

- the planned adjustment of $85, representing the anticipated annual net loss at the time the fiscal 2022 budget was approved;
- other (income) and expenses that were $53 higher than planned, primarily due to:

- reduction of $94 in the fair value of the investment in preferred interests of Aireon; partially offset by
- income tax recoveries of $13 related to the reduction of the fair value of the investment in preferred interests of Aireon;
- foreign exchange gains of $12 on the Company's investment in preferred interests of Aireon due to the impact of the fluctuation of the Canadian dollar against the U.S. dollar;
- net finance costs relating to employee benefits $9 lower than planned as a result of changes in discount rates;
- interest income $4 higher than planned due to a higher cash balance and interest rates than planned; and
- net gains of $3 on disposal of fixed assets during the year, largely related to the sale of the NAV CENTRE.

- operating expenses that were $38 higher than planned, primarily due to higher overtime costs.

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		2022		2021		$ Change
Rate stabilization account [1]	**$**	**(82)**	$	401	$	(483)
Other regulatory deferral accounts						
Employee benefit pension contributions		**106**		147		(41)
Other employee benefits		**(7)**		(13)		6
Investment in preferred interests, before tax		**70**		37		33
Investment in equity-accounted investee		**4**		-		4
Income tax		**(12)**		(9)		(3)
Allowance for expected credit losses		**(3)**		12		(15)
Other		**3**		2		1
	$	**79**	$	577	$	(498)

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

The decrease in the employee benefit pension contributions regulatory deferral account, which is used to adjust the total pension benefit expense to reflect the cash contributions to be recovered through rate setting, is largely due to the decrease in pension current service costs as a result of an increase in the discount rate to 3.1% at August 31, 2021 (August 31, 2020 – 2.8%).

The net movement in the other employee benefits regulatory deferral accounts for fiscal 2022 of $7 is largely due to actuarial gains related to the Company's sick leave plans and the recovery of net re-measurement losses previously deferred related to the Company's supplemental pension and other post-employment benefits plans. Annual re-measurements are deferred and recovered over the expected average service period of plan members. The regulatory adjustments for these favourable results were partially offset by the change in actuarial estimates for the Company's long-term disability plan and the annual plan deficit accrual as at August 31, 2022.

The change in the net movement of the Company's investment in preferred interests regulatory deferral account, before tax of $33 is due to the fair value reduction recorded in fiscal 2022 as compared to fiscal 2021, as well as the change in foreign exchange impacts due to fluctuation of the Canadian dollar against the U.S. dollar.

The net movement in the investment in equity-accounted investee regulatory deferral account of $4 for fiscal 2022 is a result of the recognition, for rate setting purposes, of the gain related to the Company's 50% ownership in Searidge, which was realized when the investment was sold.

The change in the net movement of income tax regulatory deferral account during fiscal 2022 of $3 relates to the decrease in the net deferred tax liability as a result of the fair value reduction of the investment in preferred interests of Aireon recorded in fiscal 2022 as compared to fiscal 2021.

The change in the net movement of the allowance for expected credit losses during fiscal 2022 of $15 is a result of the reversal of a portion of the expected credit loss provision. As the Company continues to receive payments from customers related to the fiscal 2021 deferred customer service charges, the expected credit loss provision is reduced. See note 16(b) of the fiscal 2022 financial statements for further discussion of the Company's credit risk.

Other Comprehensive Income (Loss)

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

Years ended August 31	2022	2021	$ Change
Items that will not be reclassified to income or (loss)			
Re-measurements of employee defined benefit plans	**$ 466**	$ 933	$ (467)
Net movement in regulatory deferral accounts	**(466)**	(933)	467
	-	-	-
Items that will be reclassified to income or (loss)			
Amortization of net losses on cash flow hedges	**1**	1	-
Change in fair value of cash flow hedges	**2**	3	(1)
Net movement in regulatory deferral accounts	**(3)**	(4)	1
	-	-	-
Total other comprehensive income (loss)	**$ -**	$ -	$ -

Net re-measurement gains on employee defined benefit plans of $466 were recorded during fiscal 2022. This was primarily due to actuarial gains of $1,696 largely due to a 170 basis point increase in the discount rate to 4.80% at August 31, 2022, partially offset by a return on plan assets $1,211 lower than expected based on the discount rate of 3.10% at August 31, 2021 and experience adjustments of $19. For fiscal 2021, the net re-measurement gains of $933 were primarily due to a return on plan assets $446 greater than expected based on the discount rate of 2.80% at August 31, 2020, actuarial gains of $470 largely due to a 30 basis point increase in the discount rate to 3.10% at August 31, 2021 and experience adjustments of $17.

FINANCIAL AND CAPITAL MANAGEMENT

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

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

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

As at August 31, 2022, we had $392 of cash and cash equivalents, $80 of short-term investments and undrawn committed credit facilities for general purposes of $849, all of which provide the Company with available liquidity. In addition, we had letter of credit facilities for pension funding purposes of $810 of which $126 was undrawn (see "FINANCIAL AND CAPITAL MANGEMENT – Liquidity and Financing Strategy").

Cash Flows

Years ended August 31	2022	2021	$ Change
Cash flows from (used in)			
Operating	**$ 267**	$ (425)	$ 692
Investing	**(166)**	64	(230)
Financing	**(27)**	(3)	(24)
Cash flows from (used in) operating, investing and financing activities	**74**	(364)	438
Effect of foreign exchange on cash and cash equivalents	**(1)**	(6)	5
Increase (decrease) in cash and cash equivalents	**73**	(370)	443
Cash and cash equivalents, beginning of period	**319**	689	(370)
Cash and cash equivalents, end of period	**$ 392**	$ 319	$ 73

Cash flows from operations for fiscal 2022 were inflows of $267 compared to an outflow of $425 for fiscal 2021, primarily due to higher receipts from customer service charges as a result of air traffic recovery and the receipt of deferred customer service charges along with lower pension current service contributions, partially offset by lower receipts from the CEWS program and higher payments to employees and suppliers largely due to higher overtime costs.

Cash flows from investing activities for fiscal 2022 were outflows of $166 compared to inflows of $64 for fiscal 2021. The net outflows in fiscal 2022 were largely a result of higher capital expenditures and the purchase of $79 in short-term investments, partially offset by proceeds from the sale of the NAV CENTRE and the Company's investment in Searidge. In fiscal 2021, the net cash inflows were largely due to proceeds of $145 from the maturity of short-term investments, partially offset by capital expenditures.

During fiscal 2022, the Company invested $128 in capital and regulatory assets (cash outflows of $127, excluding capitalized interest of $3) compared to $91 in fiscal 2021 (cash outflows of $85, excluding capitalized interest of $2). Regulatory assets are investments in cloud-computing arrangements as described in "ADDITIONAL INFORMATION – Accounting Policies". Investments were made in systems enhancements, functional upgrades, equipment upgrades or replacements, facility replacements or refurbishment and other projects to meet safety and other operational requirements.

Cash outflows from financing activities for fiscal 2022 were $27 compared to $3 for fiscal 2021. In fiscal 2021, the Company issued $500 of General Obligation Notes and this issuance was partially offset by the repayment of the $250 Series MTN 2011-1 General Obligation Notes and repayment of $223 under the Company's syndicated credit facility in fiscal 2021. No similar transactions occurred in fiscal 2022.

Liquidity and Financing Strategy

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

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

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

The Company received temporary relief from compliance with the rate covenants and certain provisions under the additional indebtedness covenants under each of the MTI and the GOI, as the case may be, in respect of its fiscal years ending August 31, 2021, 2022 and 2023.

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

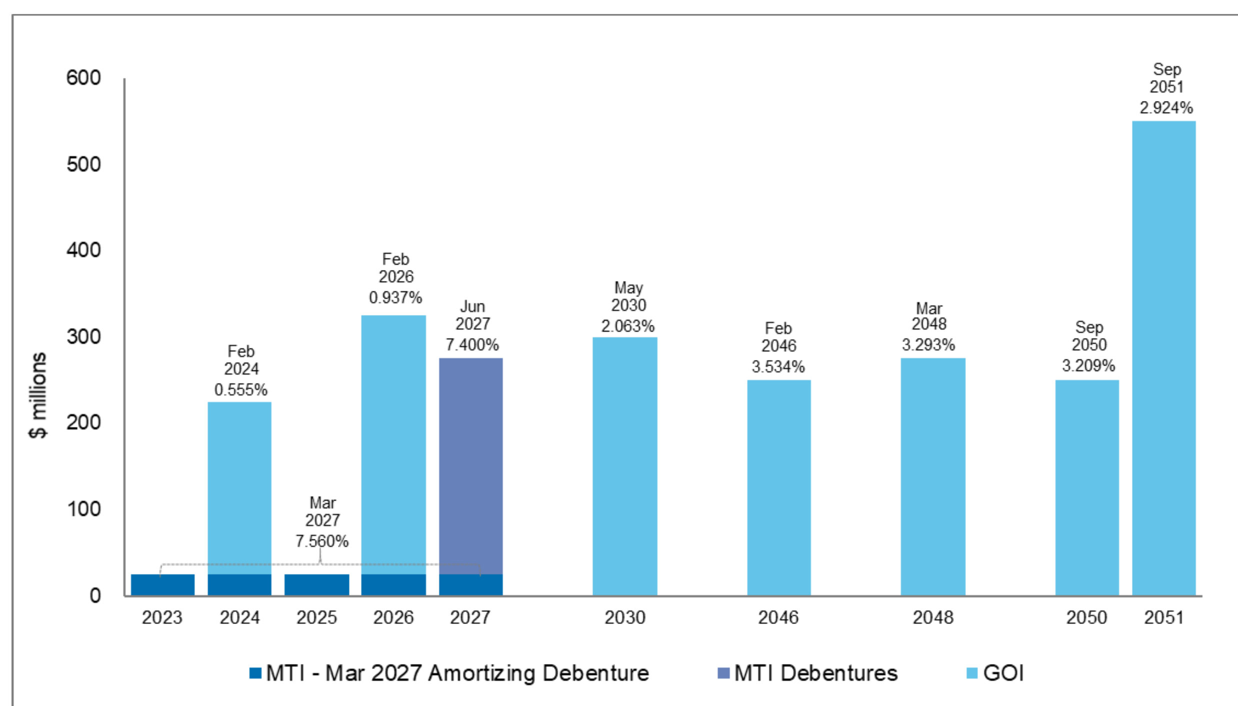
The debt service reserve fund also counts toward our minimum cash liquidity level requirement under the GOI, which is equal to one year's interest on all debt. The GOI also requires a minimum liquidity level to be maintained which is equal to the minimum cash liquidity level plus the operations and maintenance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

As at August 31, 2022 we were in full compliance with our debt indentures.

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

As at August 31	2022	2021
LONG-TERM DEBT		
Bonds and notes payable		
Under the MTI	**$ 375**	$ 400
Under the GOI	**2,125**	2,125
	2,500	2,525
Adjusted for deferred financing costs	**(12)**	(13)
Total bonds and notes payable	**2,488**	2,512
Less: current portion of long-term debt	**(25)**	(25)
Total long-term debt	**$ 2,463**	$ 2,487
LIQUIDITY		
Cash and cash equivalents	**$ 392**	$ 319
Short-term investments	**80**	-
Debt service reserve fund	**74**	73
Undrawn committed borrowing capacity	**849**	848
Total Liquidity	**$ 1,395**	$ 1,240

The chart below shows our debt maturity profile:



We are exposed to refinancing risk with respect to our bond and note maturities, including the $25 annual amortizing payment due on the Series 97-2 amortizing revenue bonds issued under the MTI. 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 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		2022
Credit facilities for general purposes:		
Credit facility with a syndicate of Canadian financial institutions [1], [2]	$	850
Less: Outstanding letters of credit for other purposes [2]		(1)
Undrawn committed borrowing capacity		849
Less: Operations and maintenance reserve allocation [3]		(303)
Available for unrestricted use	$	546
Credit facilities for pension funding purposes:		
Letter of credit facilities for pension funding purposes [4]	$	810
Less: Outstanding letters of credit for pension funding purposes [4]		(684)
Undrawn committed letter of credit facility	$	126

[1] The Company's credit facility with a syndicate of Canadian financial institutions is comprised of two equal tranches maturing on March 26, 2025 and March 26, 2027, respectively. The credit facility agreement provides for loans at varying rates of interest based on certain benchmark interest rates, specifically the Canadian prime rate and the Canadian bankers' acceptance rate, and on the Company's credit rating at the time of drawdown. The Company is required to pay commitment fees, which are dependent on the Company's credit rating. The Company is in compliance with the credit facility covenants as at August 31, 2022.

[2] At August 31, 2022, $1 was drawn from an uncommitted revolving credit facility. In connection with this facility, an allocation of $25 with a Canadian financial institution has been made under the $850 committed credit facility.

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

[4] The letter of credit facilities for pension funding purposes are comprised of four facilities with Canadian financial institutions, of which $400 will mature on December 31, 2022 and $410 will mature on December 31, 2023, unless extended.

Contractual Obligations and Commitments

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

Contractual Obligations

A breakdown of contractual obligations as at August 31, 2022 for the next five fiscal years and thereafter is presented in the following table. Total contractual obligations exclude commitments for goods and services in the ordinary course of business.

		Remaining payments – for years ending August 31					
	Total	**2023**	**2024**	**2025**	**2026**	**2027**	**Thereafter**
Derivative liabilities	**$ 1**	$ 1	$ -	$ -	$ -	$ -	$ -
Long-term debt (including current portion) [(1), (2)]	**2,500**	25	225	25	325	25	1,875
Interest payments [(2)]	**1,328**	80	78	75	72	69	954
Capital commitments	**113**	64	14	8	5	7	15
Lease liability	**59**	2	3	3	3	3	45
Related party loan [(3)]	**14**	14	-	-	-	-	-
Total contractual obligations	**$ 4,015**	$ 186	$ 320	$ 111	$ 405	$ 104	$ 2,889

[(1)] Payments represent principal of $2,500. 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 14 of the fiscal 2022 financial statements.

[(3)] See "ADDITIONAL INFORMATION – Related Party Transactions".

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

Pension Plan

The Company has established and maintains defined benefit pension plans for its employees. The plans provide benefits based on age, length of service and best average earnings. Employee contribution rates vary by position and by plan. The Company is the administrator and sponsoring employer for the funded defined benefit registered pension plan, the NAV CANADA Pension Plan (the Plan). In addition, the Company maintains a Supplemental Retirement Plan (the Supplemental Plan) that is not funded (together with the Plan, the pension plans).

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). On February 23, 2022, the Company received approval from OSFI to proceed with the merger of the NAV CANADA Executive Pension Plan (the Executive Plan) into the Plan, effective January 1, 2021. The Executive Plan assets of $9, which were being held separately prior to approval, were transferred in May 2022. Given the relative sizes of the two plans, the merger had minimal impact on the Plan and no impact on the Company's aggregate obligations.

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), including the impact of the merger, was performed as at January 1, 2022 and filed with OSFI in June 2022.

Pension Plan Accounting Deficit: The Company's pension plans had an accounting deficit of $687 as at the annual measurement date of August 31, 2022 ($992 as at August 31, 2021). The decrease is primarily due to actuarial gains of $412 partially offset by actuarial accounting expense exceeding Company contributions by $107. The $412 of net actuarial gains are primarily due to actuarial gains of $1,646 largely due to a 170 basis point increase in the discount rate to 4.80% at August 31, 2022, partially offset by a return on plan assets $1,211 lower than expected based on the discount rate of 3.1% at August 31, 2021.

The market-based discount rate used to determine pension obligations is based on the yield on long-term high quality corporate bonds, with maturities matching the estimated cash flows of the pension plans. A 0.25% decrease in the discount rate would increase the accounting deficit by approximately $270. Conversely, a 0.25% increase in the discount rate would decrease the deficit by approximately $255.

Pension Expenses: Annual pension benefit costs, determined in accordance with IAS 19 *Employee Benefits*, can increase by approximately $18 from a 0.25% decrease in the discount rate used in actuarial calculations or decrease by approximately $18 from a 0.25% increase in the discount rate.

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

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

Years ended August 31		2022		2021
Consolidated statements of operations				
Pension current service expense [1]	**$**	**181**	$	198
Curtailment expense [2]		**-**		12
Net interest expense [1]		**25**		45
Less: Regulatory deferrals		**(106)**		(147)
	$	**100**	$	108
Company cash pension contributions				
Going concern current service - cash payment	**$**	**97**	**$**	108
Going concern current service - accrued		**3**		-
	$	**100**	$	108

(1) Pension current service expense does not include $2 related to the Supplemental Plan (fiscal 2021 - $3) and net interest expense does not include $4 related to the Supplemental Plan (fiscal 2021 - $4).

(2) The Company recorded a curtailment expense which is included in salaries and benefits in fiscal 2021. The curtailment expense results from workforce reductions in the first half of fiscal 2021 which resulted in a significant reduction of active employees covered by the Plan.

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, 2022, including the impact of the merger, reported a going concern surplus of $1,346 (January 1, 2021 - $1,297) and a statutory solvency deficiency of $405 (January 1, 2021 - $501).

Once the valuation report is filed, pension contributions are based on the January 1, 2022 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, 2022, the Company has put in place letters of credit totaling $684 to meet its cumulative pension solvency funding requirements, including $90 in the current fiscal year. At January 1, 2022, outstanding letters of credit represented 8% of solvency liabilities (January 1, 2021 – 6%)

Risks Associated with the Defined Benefit Plans: The nature of these benefit obligations exposes the Company to a number of risks, the most significant of which is funding risk. See note 15(g) to the fiscal 2022 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 2022 financial statements for information on our financial instruments, including the exposure to and how we manage each of these risks as well as sensitivity analysis. Further discussion on liquidity risk is included under the heading "FINANCIAL AND CAPITAL MANAGEMENT – Liquidity and Financing Strategy".

The following risks may also impact the Company's cash and capital resources:

Air Traffic Levels

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 financial difficulties, changes in air carrier operations (Boeing 737 Max grounding – 2019) and changing weather patterns that may cause flights to move into or out of Canadian air space. Future traffic levels could be influenced by a number of factors, including:

- Economic climate – Air traffic generally is influenced by economic growth, decline or uncertainty. For example, during an economic downturn, growth rates in air traffic generally decline. Since a substantial portion of air traffic is international, traffic levels are influenced by both Canadian and global economic circumstances. On an annual basis (using typical air traffic levels, excluding the impact of COVID-19), a 1.0% change in air traffic levels flown in Canadian airspace corresponds to approximately a $14 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.

- Terrorist activities, epidemics, pandemics, passenger willingness to travel, government restrictions on air travel, natural disasters, environmental concerns or weather patterns may all affect air traffic levels within the airspace for which the Company provides air navigation services.

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 last renewed on November 15, 2021 for a one-year period. This insurance covers all of our ANS liabilities to third parties. The Company also carries other lines of insurance at levels deemed to be appropriate by management for the nature of our business. The cost of this insurance is not material to the Company.

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

Legal Proceedings

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

Credit Ratings

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

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

On December 6, 2021, S&P revised its outlook on the Company from negative to stable, reflecting S&P's view that the Company's key financial metrics will materially improve in the next two years as air traffic activity recovers towards pre-pandemic levels.

QUARTERLY RESULTS

Quarterly Financial Information (unaudited)

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

	Three months ended			
	Q4 August 31 2021	Q3 May 31 2021	Q2 February 28 2021	Q1 November 30 2020
Revenue	. 293	$ 196	$ 179	$ 202
Operating expenses	348	305	316	309
Other (income) and expenses	19	86	40	31
	(74)	(195)	(177)	(138)
Income tax expense (recovery)	-	(9)	2	-
Net income (loss) before net movement in regulatory deferral accounts	(74)	(186)	(179)	(138)
Net movement in regulatory deferral accounts				
Rate stabilization adjustments	159	119	81	42
Other regulatory deferral account adjustments	34	75	41	26
	193	194	122	68
Net income (loss) after net movement in regulatory deferral accounts	$ 119	$ 8	$ (57)	$ (70)

Discussion of Quarterly Results

Historically, the quarterly variations in revenue have mainly reflected seasonal fluctuations. Typically, revenue is highest in our fourth quarter (June to August) as a result of increased air traffic in the summer months, and the second quarter (December to February) has the lowest air traffic levels. While the normal seasonality pattern can be seen in fiscal 2022, its impact is muted in comparison to pre-pandemic fiscal years.

Revenue from customer service charges during the fourth quarter of fiscal 2022 increased significantly compared to the same period in fiscal 2021, reflecting a year-over-year increase in air traffic levels of 74.7%, as measured in WCUs. However, in comparison to pre-pandemic levels experienced over the same period of fiscal 2019, air traffic levels were lower by 12.8%.

The majority of our operating expenses are incurred evenly throughout the year. The increase in operating expenses for the fourth quarter of fiscal 2022 as compared to the same period of fiscal 2021 is driven by higher salaries and benefits expenses as discussed in "RESULTS OF OPERATIONS – Operating Expenses."

Other (income) and expenses were higher during the fourth quarter of fiscal 2022 primarily due to the reduction of the fair value of the Company's investment in preferred interests of Aireon. The negative fair value adjustment was partially offset by the income tax recovery recognized as a result of the fair value reduction, lower net interest costs relating to employee benefits as a result of changes in discount rates, the recognition of a net gain on the sale of the NAV CENTRE as well as higher interest income due to a higher cash balance and higher interest rates.

Net movement in regulatory deferral accounts related to net income (loss) were higher during the fourth quarter of fiscal 2022 as a result of regulatory adjustments related to the reduction of the fair value of the investment in preferred interests of Aireon, actuarial losses on the Company's long-term disability plans and annual deficit accruals for those plans as at August 31, 2022. The regulatory adjustments for these negative results were partially offset by regulatory adjustments related to the income tax recovery recognized as a result of the fair value reduction of the investment in preferred interests of Aireon, foreign exchange gains on the investment in preferred interests of Aireon due to the impact of the fluctuation of the Canadian dollar against the U.S. dollar, lower pension current service costs and actuarial gains on sick leave plans as a result of changes in discount rates, and reduction of the estimated credit loss provision for fiscal 2021 deferred customer service charges.

FINANCIAL OUTLOOK[2]

As government restrictions on air travel are relaxed, the willingness to resume air travel has increased resulting in an upward trend in movement-based air traffic revenue. While critical uncertainties affecting future air traffic growth continue to be present (industry impediments, ongoing pandemic, geo-political tensions and economic constraints), the Company remains cautiously optimistic about the recovery in air traffic and is positioning itself to support the recovery in the aviation industry.

During fiscal 2022, we launched a new strategic direction focused on improving the Company's resilience and enhancing safety, efficiency and operational predictability over the long-term. Our strategic direction will transform air navigation services while keeping pace with the evolving needs of our customers, partners and stakeholders, including our employees, and support the aviation industry's environmental efforts. As we move into the fiscal year ending August 31, 2023 (fiscal 2023), we will continue to focus on safety and service delivery while progressing on the strategic priorities identified in support of our strategic direction.

	Fiscal 2023	Fiscal 2022	$ Change
Results of operations (before rate stabilization)			
Revenue	**$ 1,672**	$ 1,507	$ 165
Operating expenses and other (income) and expenses, including other regulatory adjustments	**1,543**	1,425	118
Net income before rate stabilization adjustments	**$ 129**	$ 82	$ 47
Air traffic levels (year-over-year growth)	**13.1%**	76.8%	
Rate stabilization account debit balance	**$ (445)**	$ (574)	$ 129
Pension plan funding contributions	**$ 94**	$ 100	$ (6)
Investment in capital and regulatory assets	**$ 143**	$ 127	$ 16
Cash and cash equivalent at end of year	**$ 554**	$ 392	$ 162
Short-term investments (including accrued interest)	**100**	80	20
Cash, cash equivalents and short-term investments	**$ 654**	$ 472	$ 182

Revenue

In our Q3 fiscal 2022 MD&A, we had disclosed anticipated revenue of $1,485 for fiscal 2022, representing 23.0% lower air traffic levels as compared to fiscal 2019. The positive variance was mainly driven by higher than expected average air traffic levels (21.5% lower than fiscal 2019 levels).

Revenue in fiscal 2023 is expected to increase by $165 primarily due to a forecasted increase in air traffic levels of 13.1% on a year-over-year basis, as measured in WCUs. In comparison to fiscal 2019, however air traffic levels are expected to remain 11.2% lower on average.

Operating Expenses and Other (Income) and Expenses

In our Q3 fiscal 2022 MD&A, we had disclosed anticipated operating expenses and other (income) and expenses, before rate stabilization of $1,435 for fiscal 2022, slightly above actual expenses of $1,425.

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

Operating expenses and other (income) and expenses before rate stabilization are expected to increase by $118. The expected increase compared to fiscal 2022 is primarily due to increased compensation and other operating costs as we invest in a growing workforce to meet service delivery requirements and progress on strategic initiatives.

Rate Stabilization Account

In our Q3 fiscal 2022 MD&A, we had disclosed an anticipated rate stabilization account debit balance of $606 as at August 31, 2022. The lower actual balance of $574 is largely due to the positive variance in air traffic revenue.

The Company anticipates that the rate stabilization account will decline to a debit balance of $445 as at August 31, 2023, reflecting the expected net income as air traffic recovers. The current and anticipated balance in the rate stabilization account is a consideration in the rate setting process (see "INTRODUCTION – Financial Strategy and Rate Regulation").

Cash Flows

In our Q3 fiscal 2022 MD&A, we had disclosed an anticipated cash and cash equivalents balance of $364 as at August 31, 2022 and anticipated short-term investments of $80. The increase in cash and cash equivalents is largely due to higher receipts from customer service charges, lower payments to employees and suppliers, partially offset by increased investment in capital and regulatory assets.

The Company's cash, cash equivalents and short-term investments are expected to reach $654 as at August 31, 2023. This primarily reflects increased cash inflows from operating activities as air traffic levels continue to increase at a pace that exceeds the growth in costs and capital investment.

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

ADDITIONAL INFORMATION

Earnings and Cash Flow Coverage

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

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

For the twelve months ended August 31, 2022, consistent with the nature of our operating structure, the Company net (income) loss of $nil on the statement of operations. Our interest costs were $84 (twelve months ended August 31, 2021 - $89). Consolidated earnings (after rate stabilization) before interest costs were $84 (twelve months ended August 31, 2021 - $89), which equals our requirement for the fiscal year and meets our one-to-one earnings coverage ratio target. Depreciation and amortization expense for this period was $144 (twelve months ended August 31, 2021 - $151). Our cash flow coverage was 2.71 times our interest requirement for this period (twelve months ended August 31, 2021 – 2.70).

Related Party Transactions

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

The Company previously held a 50% interest in Searidge, which was classified as a joint venture. The Company sold its investment in December 2021. Transactions with Searidge are as disclosed in "INTRODUCTION – Significant Financial Matters: Investment in Equity-Accounted Investee".

Additional details of these transactions are disclosed in note 20 of our fiscal 2022 financial statements.

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

Years ended August 31	2022	2021
Key management personnel compensation	**$ 9**	$ 9
Purchase of data services [1]	**$ 53**	$ 55
Pension plan contributions [2]	**$ 100**	$ 108
Cost recoveries from pension plan	**$ (21)**	$ (10)

[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 $512 CDN ($399 U.S.).

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

Outstanding balances were:

As at August 31	2022	2021
Receivable from pension plan	**$ 2**	$ 9

The Company also entered into an agreement with Aireon in January 2020 to provide a subordinated loan up to a total of $14 CDN ($11 U.S.) through June 2026 or the date on which the senior credit facility is paid in full and terminated or refinanced. Nothing was drawn as at August 31, 2022 or August 31, 2021.

Accounting Policies

The Company's significant accounting policies are described in note 3 to the fiscal 2022 financial statements.

The following new standards, amendments or interpretations were adopted by the Company effective September 1, 2021:

Implementation costs associated with Software as a Service (or cloud computing) arrangements

As a result of the IFRS Interpretations Committee's agenda decision entitled "Configuration or Customization Costs in a Cloud Computing Arrangement (IAS 38)", the Company reviewed its accounting policy with respect to implementation costs associated with cloud computing arrangements. The Company assessed whether these costs would give rise to a software intangible asset over which the Company has control, and in applying the guidance in the agenda decision, it was determined that they generally do not give rise to such an asset. Accordingly, the implementation costs of cloud computing arrangements are recorded within operating expenses in the statements of operations as incurred.

The Board, acting as rate regulator, has approved the creation of regulatory deferral account debit balances for these costs. These balances will be recovered over time by amortizing them over the terms of the cloud computing arrangements.

These changes have been applied retrospectively.

As a result of this accounting policy change, intangible assets have decreased by $43 and regulatory deferral account debit balances have increased by $43 as at August 31, 2021, from that previously reported in the 2021 annual financial statements. There is no net impact to net income (loss) after the application of regulatory accounting.

Critical Accounting Estimates and Judgments

The preparation of financial statements in conformity with IFRS 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 15 of the fiscal 2022 financial statements.

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

Investment in Preferred Interests of Aireon

The Company's investment in Aireon is in preferred interests, which are redeemable and convertible to common equity interests. Until the Company exercises its right to convert its preferred interests to common interests, it does not have access to Aireon's residual net assets and accordingly this investment is accounted for as a financial instrument classified and measured at FVTPL. The fair value methodology and underlying assumptions are discussed in note 2(d), note 12 and note 16 of the fiscal 2022 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, 2022.

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. 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, 2022.

Changes to ICFR

There have been no changes to the Company's ICFR during the year ended August 31, 2022 that have materially affected or are reasonably likely to materially affect the Company's ICFR.