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NOTICE OF REVISED SERVICE CHARGES

MAY 2020

GENERAL

Pursuant to Section 36 of the *Civil Air Navigation Services Commercialization Act*, S.C. 1996, c. 20 (the *ANS Act*), the following document provides notice of **NAV CANADA's proposed revised charges to become effective September 1, 2020** (the **"Notice**"). A document setting out additional details in relation to these proposals, including a justification in relation to the charging principles established under Section 35 of *the ANS Act,* is available upon request from NAV CANADA.

Persons interested in making representations to NAV CANADA about the proposals set out in this Notice may do so by writing to the address set out under Section 4. Such representations must be received by NAV CANADA no later than July 24, 2020.

NAV CANADA applies service charges to the following categories of air navigation services: (i) Terminal, (ii) Enroute, (iii) North Atlantic Enroute, and (iv) International Communications.

Except for the revisions proposed in this Notice, all the existing charges and related terms and conditions, as set out in earlier Announcements pertaining to charges, remain in effect.

This Notice consists of four Sections:

(1) Proposed Revision to Service Charge Rates;

(2) Proposed Implementation of the Proposed Revised Service Charges;

(3) Proposed Modification to Terms and Conditions; and

(4) Additional Information Regarding the Notice and on Making Representations to NAV CANADA.

1. PROPOSED REVISION TO SERVICE CHARGE RATES

1.1 Summary

NAV CANADA proposes to increase customer service charge rates, on average, by 29.5%, effective September 1, 2020.

The COVID-19 pandemic has required NAV CANADA to seek additional liquidity. Customer service charge increases are proposed in order to generate the incremental revenues that are required by NAV CANADA to meet the additional indebtedness covenant of its General Obligation Indenture (the "**GOI**"). This covenant must be met before NAV CANADA can secure additional debt financing to provide it the necessary liquidity. Alternatives to this proposal, including financial assistance from the Canadian Federal Government, have been thoroughly explored and utilized but are not sufficient to meet NAV CANADA's revenue requirements and obviate the need for this increase. All available alternatives, including further government assistance will however continue to be explored and utilized in order to minimize or avoid the proposed rate increase.

NAV CANADA acknowledges that this proposal comes at a time when its customers are experiencing exceptionally difficult circumstances caused by the COVID-19 pandemic. Accordingly, in order to mitigate the financial impact of this proposal on customers, measures are proposed herein to defer payment of the incremental charges generated by the proposed revisions.

1.2 Background

When establishing a new charge for air navigation services or revising an existing charge, NAV CANADA must follow the charging principles set out in the *ANS Act*. These principles prescribe that, among other things, charges must not be set at a level that, based on reasonable and prudent projections, would generate revenues exceeding NAV CANADA's current and future financial requirements in relation to the provision of civil air navigation services. Pursuant to the charging principles, NAV CANADA's Board of Directors (the "**Board**") approves the amount and timing of changes to customer service charges. The Board also approves NAV CANADA's annual budget where the amounts to be recovered through customer service charges for the ensuing year are determined. As a general business rule, and consistent with its operations as a not-for-profit organization, NAV CANADA plans its operations to result in an annual financial breakeven position after recording adjustments to its rate stabilization account.

In late December 2019 and early 2020, a novel coronavirus was confirmed in multiple countries throughout the world and on March 11, 2020, was declared as a pandemic by the World Health Organization (the "**Pandemic**"). The pandemic and resulting global economic contraction has had, and is expected to continue to have, an unprecedented negative impact on demand for air travel globally.

Starting in the latter part of February and continuing throughout its third quarter of 2020, NAV CANADA has seen a significant decline in air traffic movements as compared to the same period in fiscal 2019. The impact on air traffic movements is due to flight and route cancellations and the introduction of fleet groundings, travel advisories and restrictions occasioned by the Pandemic.

The decline in air traffic movements will impact NAV CANADA's revenue and cash flow in both the current and next fiscal year. Forecast air navigation service revenue for the current fiscal year is $909.2 million which represents a shortfall of $566.6 million (38.4%) from NAV CANADA's approved fiscal 2020 budget. Forecast air navigation service revenue for the fiscal year beginning on September 1, 2020, before giving effect to the proposed customer service charge revision, is $820.3 million, which represents a 9.8% decline from current year forecast revenue, and a 44.4% shortfall from the current year budget.

NAV CANADA has and will continue to meet this enormous challenge in a balanced way, with contributions from all stakeholders – suppliers, employees and customers. NAV CANADA is proposing this rate action only after having actively pursued all available alternatives, including government assistance. All available alternatives, including further government assistance will continue to be explored and utilized in order to minimize or avoid the proposed rate increase. To date however, while the Government has made support available through wage subsidy programs, the level of support provided does not obviate the need for the proposed increase to customer service charges.

NAV CANADA, in concert with the entire aviation industry, is facing an unprecedented event. It has responded to this crisis by taking all possible actions to reduce and defer cash outflows, both for this year and next, while at the same time continuing to fulfill its statutory mandate to safely operate and maintain the Canadian air navigation system as an essential service.

Approximately 70% of NAV CANADA's costs relate to labour. Given NAV CANADA's mandate, these costs are largely fixed in nature, even when there are significant variations in levels of air traffic. Nonetheless, for the current fiscal year, labour cost reductions of $130.4 million are forecast relative to its approved fiscal 2020 budget. This amount includes $68.5 million from the Canadian Federal Government pursuant to its Canadian Emergency Wage Subsidy program (the "**CEWS**") but does not include any amounts relating to the Large Employer Emergency Financing Facility ("**LEEFF**"), recently announced by the Federal Government, on the basis that this program does not provide the relief required in relation to the GOI covenant as assistance under LEEFF would be in the form of a loan and would therefore constitute additional indebtedness as defined under the GOI.

Other operating expense savings of $20.9 million are also forecast, bringing total operating cost reductions to $151.3 million. Capital spending has also been curtailed, with only projects necessary to ensure the safe operation of the system including the infrastructure necessary to support the system proceeding. The cancellation and deferral of capital projects will result in a reduction of spending of $55 million relative to NAV CANADA's approved capital budget for fiscal 2020.

Forecast 2021 operating costs are $149.2 million lower than NAV CANADA's approved fiscal 2020 budget. Capital spending is forecast to be $110 million which is $5 million less than in the current year, and is again restricted to safety related projects and necessary infrastructure spending.

The operating expense savings noted above have been achieved through a detailed and comprehensive review of spending throughout NAV CANADA. Notable amongst the many actions taken to reduce and defer spending are the following: reduction of Board of Directors' fees, escalating reductions of management salaries at all levels of management, deferrals of negotiated and retroactive salary increases across all represented staff, elimination of most term employees, permanent headcount reductions through early retirement incentive programs, suspension and elimination of various employee benefit and human resource programs, reductions in all variable expense categories, cancellation of all non-contractual discretionary spending, temporary reduction of air traffic controller training programs, temporary closure of selected air space, deferral of preventative maintenance where that can be done without compromising safety, and renegotiation of selected supplier terms and conditions including rate reductions and payment deferrals. NAV CANADA will continue to pursue all opportunities for additional operating and capital spending reductions.

These are the most drastic actions NAV CANADA has taken to reduce spending in its history, far surpassing those precipitated by the crisis that arose from the events of September 11, 2001, which at the time was regarded as the most serious ever faced by the aviation industry. However, the current crisis is expected to have a broader and deeper impact on the aviation industry and it is accepted that recovery will take much longer than was the case pursuant to the events of September 11, 2001. Whereas recovery from that crisis was referred to as "V shaped", emergence from the Pandemic is widely expected to be "U shaped" with many industry participants publicly stating expectations of 2 to 5 years before air traffic volumes return to levels achieved in 2019.

Despite the unprecedented actions taken by NAV CANADA to reduce and defer spending and NAV CANADA's commitment to continue to pursue additional operating and capital spending reductions, the resulting cash outflow reductions achieved do not offset the reductions in cash inflows experienced by NAV CANADA pursuant to the decline in air traffic movements. This is because, as noted above, the majority of NAV CANADA's costs are fixed despite large variations in levels of air traffic and NAV CANADA is mandated to provide the safe movement of air traffic as an essential service, even in times of a global Pandemic.

As a result, NAV CANADA has experienced, beginning in February 2020, significant monthly net cash outflows. Net cash outflows for the current fiscal year are forecast at $382.6 million, and for the 2021 fiscal year at $487.4 million, before giving effect to the proposed service charge revisions and additional borrowings. These amounts, which total $870.0 million, exceed NAV CANADA's available lines of credit. NAV CANADA can address this liquidity issue through a combination of increased customer service charge revenues and additional debt financing.

To provide NAV CANADA with adequate liquidity to meet its operating requirements additional debt financing is required. While details of the LEEFF program are not yet available, the intent of the program is to provide loan guarantees or debt financing facilities. While accessing LEEFF might be an option, NAV CANADA already has an established GOI debt program with adequate capacity to meet its financial requirements. In order to obtain additional debt financing, regardless of whether it is under the GOI or under LEEFF, it must comply with the additional indebtedness covenant of its GOI which requires that it meet the rate covenant requirements for fiscal 2020 and 2021 as defined in Section 503(b) of the GOI. The rate covenant test is met if forecast operating revenues are sufficient to cover certain forecast costs. Given the decline in air traffic volume, the rate covenant calculation for fiscal 2021 cannot be met without reflecting a customer service charge rate increase for fiscal 2021.

The rate covenant formula allows NAV CANADA to estimate its fiscal 2021 operating revenue using either 2020 or 2021 forecast air traffic volumes. Using 2020 air traffic volumes in the calculation is advantageous in the current context because air traffic volumes for 2021 are expected to be lower. The covenant shortfall for fiscal 2021, using 2020 traffic volumes, is $242 million. This shortfall must be covered by customer service charge rate increases. Accordingly, this proposal is to increase customer service charge rates to generate incremental revenues of $242 million in fiscal 2021.

In seeking alternatives to increasing customer service charges and as contemplated under its debenture agreements, NAV CANADA sought the support of the Canadian Federal Government with a request to fund an amount up to this revenue shortfall. However, to date, while the Government has made available support through wage subsidy programs, that level of support does not obviate the need for the proposed increase to customer service charges.

The following provisions set out the rates proposal. Additional information (including supporting calculations) is provided in the document “Details and Principles Regarding Proposed Revised Service Charges (May 2020)”. Refer to provision 4 for information on how to obtain a copy of this document.

1.3 Proposed Customer Service Charge Rate Revisions Effective September 1, 2020

For base rates effective September 1, 2020, NAV CANADA proposes revisions to increase revenue by $242 million, based on reasonable and prudent projections of forecast air traffic volumes for its 2021 fiscal year. This is the amount needed to increase NAV CANADA’s forecast revenues to the amount required to meet the debt covenant requirements.

NAV CANADA’s costs and revenues relate to four services that it provides: Terminal, Enroute, North Atlantic Enroute Facilities and Services (NAT), and International Communications (Int’l Com). The proposed revisions for each of the services are as follows: Terminal: 30.8% increase, Enroute: 26.4% increase, NAT: 48.5% increase, and Int’l Com: 41.0% increase. Overall, the proposed rate revisions represent an average increase of 29.5% in base rates, which relates entirely to the requirement to achieve the level of revenue required to secure new debt financing. The revisions to rates for service charges are to be effective September 1, 2020, except for the Annual, Daily – Major Airports, and Annual Minimum charges, which are to be effective on March 1, 2021, consistent with the revision cycle for these charges.

Movement-Based Charges

Charge	Base Rates Prior to September 1, 2020	Proposed Base Rates Effective September 1, 2020
Terminal Charge	$ 24.36	$ 31.86
Enroute Charge (including Overflight)	$ 0.03008	$ 0.03802
NAT	$ 155.03	$ 230.22
International Communications		
Data Link	$ 19.99	$ 28.19
Voice	$ 53.14	$ 74.93

Daily Charges

Category and Weight Group* (in Metric Tonnes)	Base Rates Prior to September 1, 2020	Proposed Base Rates Effective September 1, 2020
Propeller Aircraft		
Over 3.0 to 5.0	$ 41.65	$ 54.19
Over 5.0 to 6.2	$ 83.32	$ 108.40
Over 6.2 to 8.6	$ 330.30	$ 429.72
Over 8.6 to 12.3	$ 766.73	$ 997.52
Over 12.3 to 15.0	$ 1,142.65	$ 1,486.59
Over 15.0 to 18.0	$ 1,372.77	$ 1,785.97
Over 18.0 to 21.4	$ 1,850.87	$ 2,407.98
Over 21.4	$ 2,401.36	$ 3,124.17
Maximum Helicopters	$ 83.32	$ 108.40
Small Jet Aircraft		
Up to 3.0	$ 157.72	$ 205.19
Over 3.0 to 6.2	$ 203.34	$ 264.55
Over 6.2 to 7.5	$ 330.30	$ 429.72

* Maximum permissible take-off weight.

Annual Charges*

Weight Group** (in metric tonnes)	Base Rates Prior to March 1, 2021	Proposed Base Rates Effective March 1, 2021	Proposed Base Rates Effective March 1, 2022	Additional 5 Year Temporary Rate Adjustment Effective March 1, 2022
0.617 up to 2.0	$ 67.40	$ 67.40	$ 87.69	$ 4.06
Over 2.0 up to 3.0***	$ 225.12	$ 225.12	$ 292.88	$ 13.55

* For foreign-registered aircraft, the corresponding Quarterly Charge is equal to 25% of the Annual Charge.

** Maximum permissible take-off weight.

*** The existing provisions regarding private aircraft used exclusively for recreational purposes (regardless of aircraft weight) and for aircraft restricted to aerial agricultural spraying remain with a rate of $67.40 as at March 1, 2021.

Daily Charge at Seven Specified International Airports

Aircraft Category	Base Rate Prior to March 1, 2021	Proposed Base Rate Effective March 1, 2021	Proposed Base Rate Effective March 1, 2022	Additional 5 Year Temporary Rate Adjustment Effective March 1, 2022
Daily Charge for Propeller Aircraft up to 3.0 Metric Tonnes*	$ 9.92	$ 9.92	$ 12.91	$ 0.60

* Maximum permissible take-off weight.

Annual Minimum Charges*

Aircraft Category	Base Rate Prior to March 1, 2021	Proposed Base Rate Effective March 1, 2021	Proposed Base Rate Effective March 1, 2022	Additional 5 Year Temporary Rate Adjustment Effective March 1, 2022
Annual Minimum for Propeller Aircraft over 3.0 Metric Tonnes and Jet Aircraft **	$ 225.12	$ 225.12	$ 292.88	$ 13.55

* Applicable to aircraft not subject to the Annual Charge or the Quarterly Charge. For foreign-registered aircraft, the corresponding Quarterly Minimum Charge is equal to 25% of the Annual Minimum Charge.

** Except for aircraft restricted to Agricultural Spraying, for which the existing provisions remain with a rate of $67.40 as at March 1, 2021.

2. PROPOSED IMPLEMENTATION OF THE PROPOSED REVISED SERVICE CHARGES

NAV CANADA acknowledges the tremendous challenges currently facing its customers and the entire aviation industry. It also acknowledges that the quantum of the proposed service charge increases is unprecedented in NAV CANADA's history and represents an additional financial challenge to its customers at a time when they are also experiencing exceptionally difficult circumstances. These increases are, however, necessary for NAV CANADA to continue to fulfill its mandate and are being proposed only after all other alternatives have been exhausted.

NAV CANADA seeks to mitigate the immediate cash flow impact of these service charge increases on its customers, while at the same time generating the required revenue increase for NAV CANADA to be positioned to obtain. To this end NAV CANADA is proposing the following measures:

2.1 Movement-Based and Daily Charges

NAV CANADA is proposing to defer the payment of the incremental charges generated by the proposed service charge increases in its fiscal 2021 year over a five-year period.

To effect this, beginning with invoices capturing September 2020 flight activity, and continuing throughout the Company's 2021 fiscal year, only charges generated at current rates (i.e., the rates in effect prior to the proposed revisions) will be invoiced as "Current" due. The portion of the total charges that are calculated by applying the proposed service charge increases will be shown separately on the invoice(s) and will be payable in equal amounts over the next five-year period.

Interest will not be charged on these deferred amounts provided they are paid when due. If they are not paid when due then interest charges will be applied at the rate set out in NAV CANADA's *Customer Guide to Charges*, beginning the day following the due date.

Example for Customers that are Invoiced Monthly:

- For customers that are invoiced monthly, amounts that relate to September 2020 flight activity will be invoiced in October 2020.
- The portion of the total invoiced amount that is calculated on current rates will be due in November 2020.
- The portion of the total invoiced amount that is calculated based on the application of the proposed service charge increases will be due in equal amounts in October 2021, October 2022, October 2023, October 2024 and October 2025.
- Invoices that relate to October 2020 flight activity will be invoiced in November 2020.
- The portion of the total invoiced amount that is calculated on current rates will be due in December 2020.
- The portion of the total invoiced amount that is calculated based on the application of the proposed service charge increases will be due in equal amounts in November 2021, November 2022, November 2023, November 2024 and November 2025.
- Invoices for flight activity in the remaining 10 months of NAV CANADA's 2021 fiscal year will follow the same pattern as is set out above for September and October.
- Invoices for flight activity that occurs after NAV CANADA's fiscal 2021 year, being September 2021, will reflect the proposed revised rates, until they are again revised, with the full amounts of invoices being payable as the "Current" due.

2.2 Annual Charges, Daily Charge at Seven Specified International Airports and Annual Minimum Charges

To ease the administrative burden on both NAV CANADA and its customers, and to minimize the cash flow impact to customers of the proposed service charge revisions, invoices will not reflect the proposed revised charges until March 1, 2022. Invoices generated as at March 1, 2022, and thereafter for the following five years will reflect the proposed revised charges plus a temporary charge equivalent to 1/5 of the currently proposed increase to recover the amount that would otherwise have been invoiced if the proposed revised charges had been invoiced effective March 2021, (plus whatever other service charge revisions become effective in the interim). The temporary charge structure is intended to replicate the effect of the five-year cash payment deferral for Movement-Based and Daily charges (as set out in Section 2.1 above) and will be removed from invoices generated after March 2027.

Example for Customers Invoiced Annually:

- Using the Annual Charge as an example, the proposed service charge increases represent an increase of 30.1% over the current rate of $67.40 per annum for aircraft up to 2 metric tonnes. This equates to an increase of $20.29 per annum.
- Invoices will reflect the current rate until March 1, 2022.
- Effective from March 1, 2022, and for the following five years, invoices will reflect an annual rate of $91.75, adjusted for whatever other customer service charge revisions become effective in the interim. This amount is calculated as $67.40 plus $20.29 plus 1/5 of $20.29.
- Effective with invoices generated after March 1, 2027, the charge will be reduced to $87.69 (adjusted for whatever other customer service charge revisions become effective in the interim), reflecting the removal of the temporary charge.

3. PROPOSED MODIFICATION TO TERMS AND CONDITIONS

Terms and Conditions for the incremental Movement-Based and Daily Charges generated by the application of the proposed revised charges throughout NAV CANDA's 2021 fiscal year are subject to the following modifications:

Payment: Beginning with invoices pursuant to September 2020 flight activity and continuing throughout NAV CANADA's 2021 fiscal year, only the charges generated at the rates in effect prior to the proposed September 1, 2020 revisions will be invoiced as "Current" due. The portion of the total charges that are calculated by the application of the proposed service charge increases will be payable in equal amounts over the following five-year period (i.e., the deferred payment amounts).

Interest Charges: If payment of the deferred payment amounts is not received by the due date then NAV CANADA shall charge interest on the amount outstanding from the amount that is due and such interest shall be calculated commencing on the first day after the due date and continuing until all outstanding amounts are paid in full.

Refundable Deposit and Credit Security: The deferred payment amounts are excluded from the determination of the $4 million limit set out in Section F5.1 and the credit security payments set out in Section F5.2 of NAV CANADA's *Customer Guide to Charges*.

4. ADDITIONAL INFORMATION REGARDING THE NOTICE AND ON MAKING REPRESENTATIONS TO NAV CANADA

Further details of this proposal, including a justification for the proposal in relation to the charging principles, are provided in a document entitled *Details and Principles Regarding Proposed Revised Service Charges* (Details and Principles) which is available on request. The Notice and the Details and Principles documents are posted on NAV CANADA's Internet site (*www.navcanada.ca*).

Information on the existing charges is provided in NAV CANADA's announcements on service charges and *Customer Guide to Charges*, which are also available on NAV CANADA's Internet site.

A hard copy of the Details and Principles document may be obtained by contacting NAV CANADA:

In writing: NAV CANADA
P.O. Box 3411, Station "T"
Ottawa, Ontario
Canada K1P 5L6
Attention: AVP Stakeholder and Commercial Relations

By e-mail: service@navcanada.ca
By telephone: 1-613-563-5588
1-800-876-4693 (Toll Free North America)

Pursuant to Section 36 of the *ANS Act*, persons interested in making representations to NAV CANADA about the proposals contained in this Notice may do so in writing to the following address:

NAV CANADA
P.O. Box 3411, Station "T"
Ottawa, Ontario
Canada K1P 5L6
Attention: Director Finance, Rates and Systems

By e-mail Paul.McDonald@navcanada.ca

Note: Representations must be received by NAV CANADA not later than the close of business on July 24, 2020.

Caution Concerning Forward-looking Information

This document contains certain statements about NAV CANADA's future expectations. These statements are generally identified by words like "anticipate", "plan", "believe", "intend", "expect", "estimate", "approximate" and the like, as well as future or conditional verbs such as "will", "should", "would" and "could", or negative versions thereof. Because forward-looking statements involve future risks and uncertainties, actual results may be quite different from those expressed or implied in these statements. Examples include geopolitical unrest, terrorist attacks and the threat of terrorist attacks, war, epidemics or pandemics, natural disasters, weather patterns, environmental concerns, cyber security attacks, labour negotiations, arbitrations, workforce recruitment, training and retention, general aviation industry conditions and trends, 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, the success of our investment in space-based aircraft surveillance through Aireon, investment returns or losses, 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 2019 Annual Information Form. The forward-looking statements contained in this document represent our expectations as of May 20, 2020 and are subject to change after this date. Readers of this document 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 statements 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.