



NOTICE OF REVISED SERVICE CHARGES

APRIL 2016

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 (the Notice) of **NAV CANADA's proposed revised charges and terms and conditions relating to such charges for air navigation services to become effective September 1, 2016, except as otherwise noted.** 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 with regard to the proposals set out in this Notice may do so by writing to the address set out under Section 3 so as to be received by NAV CANADA not later than July 6, 2016.

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 three sections:

- (1) Proposed Revision to Service Charges;
- (2) Proposed Modification to Terms and Conditions; and
- (3) Additional Information Regarding the Notice and on Making Representations to NAV CANADA.

1. PROPOSED REVISION TO SERVICE CHARGES

1.1 Background

When establishing a new charge for air navigation services or revising an existing charge, the Corporation 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 the Corporation's current and future financial requirements in relation to the provision of civil air navigation services. Pursuant to the charging principles, the Corporation's Board of Directors (Board) approves the amount and timing of changes to customer service charges. The Board also approves the Corporation's annual budget where the amounts to be recovered through customer service charges for the ensuing year are determined. The Corporation plans its operations to result in an annual financial breakeven position after recording adjustments to the rate stabilization account.

NAV CANADA last changed overall rate levels for service charges on August 1, 2007.

NAV CANADA's fiscal year runs from September 1 to August 31. At the end of fiscal 2015, the Corporation's rate stabilization account (RSA) was very close to its target balance. In addition, prior years' pension contributions had been fully recovered by that time.

During the first six months of fiscal year 2016, the Corporation has achieved positive financial performance as compared to its approved budget, resulting in the RSA being \$41 million above its target balance. The Corporation's current forecasts are that the RSA will be approximately \$50 million above its target by the end of fiscal 2016, and that the RSA will continue to grow in fiscal 2017 unless customer service charges are adjusted.

1.2 Proposed Customer Service Charge Rate Revisions

There are two elements in this proposal to revise rates: (i) adjust base rates to the levels required in order to recover the Corporation's anticipated costs, by service, during fiscal 2017, and (ii) set one-year temporary rate adjustments to return to customers approximately \$50 million, representing the amount by which the notional balance of the rate stabilization account (RSA) is currently expected to exceed its target balance by the end of fiscal 2016.

Base Rate Revision

Based on the Corporation's financial forecasts, base rates need to be revised to generate 3.9 per cent less ANS revenue in fiscal 2017 than would be generated by the existing base rates. The revisions in base rates must vary by service, to ensure that rates are aligned with the anticipated costs and traffic by service. NAV CANADA's costs and revenues relate to four services provided by the Company: Terminal, Enroute, North Atlantic Enroute (NAT), and International Communications (Int'l Com).

An imbalance in the rates has developed, primarily due to stronger growth in overflight traffic, which has increased revenues from the Enroute, NAT and Int'l Com services.

Traffic growth in terminal service has not been as strong. As a result, while decreasing rates for the other services, it is appropriate to increase the rate for terminal service in order to ensure that terminal charges continue to represent a reasonable allocation of the costs of providing terminal service as required by the charging principles in the ANS Act.

The proposed base rate revisions for each of the services are as follows, effective September 1, 2016: Terminal: 1.0% increase, Enroute: 7.3% decrease, NAT: 6.5% decrease, and Int'l Com: 13.7% decrease. Overall, the proposed base rate revisions represent an average 3.9 per cent decrease in NAV CANADA's ANS revenues.

One-Year Temporary Rate Adjustment

It is proposed to return to customers approximately \$50 million by way of temporary one-year rate adjustments during fiscal 2017, representing an estimate of the amount by which the notional balance of the RSA will exceed its target balance by the end of fiscal 2016.

The proposed rate adjustments are calculated as a 3.9% reduction from the proposed new base rates.

The revised base rates will be effective September 1, 2016, except for the Annual, Quarterly and Daily-Major Airport charges, which will be implemented March 1, 2017, consistent with the revision cycle for these charges.

Temporary rate adjustments will be effective from September 1, 2016 to August 31, 2017 inclusive, except for the Annual, Quarterly and Daily-Major Airport charges, which will be effective from March 1, 2017 to February 28, 2018 inclusive.

Once the temporary rate adjustments expire, the base rates will be the only component to the charges, unless charges are modified again prior to that time.

The following tables set out the current and proposed base rates, as well as the proposed temporary adjustments.

Movement-Based Charges

Charge	Base Rates Prior to September 1, 2016	Base Rates Effective September 1, 2016	Additional Rate Adjustments[†]
Terminal	\$23.90	\$ 24.14	-\$ 0.93
Enroute	\$ 0.03445	\$ 0.03194	-\$ 0.00124
North Atlantic	\$93.24	\$ 87.18	-\$ 3.37
International Communication			
Data Link	\$22.04	\$ 19.02	-\$ 0.74
Voice	\$58.56	\$ 50.54	-\$ 1.96

[†] These temporary rate adjustments will be effective September 1, 2016 to August 31, 2017.

Daily Charges

Category and Weight Group* (in metric tonnes)	Base Rates Prior to September 1, 2016	Base Rates Effective September 1, 2016	Additional Rate Adjustments[†]
Propeller Aircraft			
Over 3.0 up to 5.0	\$ 42	\$ 41.79	-\$ 1.63
Over 5.0 up to 6.2	\$ 84	\$ 83.58	-\$ 3.26
Over 6.2 up to 8.6	\$ 333	\$ 331.34	-\$ 12.92
Over 8.6 up to 12.3	\$ 773	\$ 769.14	-\$ 30.00
Over 12.3 up to 15.0	\$ 1,152	\$ 1,146.24	-\$ 44.70
Over 15.0 up to 18.0	\$ 1,384	\$ 1,377.08	-\$ 53.71
Over 18.0 up to 21.4	\$ 1,866	\$ 1,856.67	-\$ 72.41
Over 21.4	\$ 2,421	\$ 2,408.90	-\$ 93.95
Maximum for Helicopters	\$ 84	\$ 83.58	-\$ 3.26
<i>Small Jet Aircraft</i>			
Up to 3.0	\$ 159	\$ 158.21	-\$ 6.17
Over 3.0 up to 6.2	\$ 205	\$ 203.98	-\$ 7.96
Over 6.2 up to 7.5	\$ 333	\$ 331.34	-\$ 12.92

* Maximum permissible take-off weight.

[†] These rate adjustments will be effective September 1, 2016 to August 31, 2017.

Annual Charges*

Weight Group** (in metric tonnes)	Base Rates Prior to March 1, 2017	Base Rates Effective March 1, 2017	Additional Rate Adjustments[†]
0.617 up to 2.0	\$ 68	\$ 67.64	-\$ 2.64
Over 2.0 up to 3.0***	\$ 227	\$ 225.84	-\$ 8.80

* 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 the exception of the revised rates.

† These temporary rate adjustments will be effective March 1, 2017 to February 28, 2018.

Daily Charge at Seven Specified International Airports

Aircraft Category	Base Rates Prior to March 1, 2017	Base Rates Effective March 1, 2017	Additional Rate Adjustments[†]
Daily Charge for Propeller Aircraft up to 3.0 Metric Tonnes	\$ 10	\$ 9.95	-\$ 0.39

* Maximum permissible take-off weight.

† These temporary rate adjustments will be effective March 1, 2017 to February 28, 2018.

Annual Minimum Charges*

Aircraft Category	Base Rates Prior to March 1, 2017	Base Rates Effective March 1, 2017	Additional Rate Adjustments[†]
Annual Minimum for Propeller Aircraft over 3.0 Metric Tonnes and Jet Aircraft **	\$ 227	\$ 225.84	-\$ 8.80

* 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 the exception of the revised rates.

† These temporary rate adjustments will be effective March 1, 2017 to February 28, 2018.

1.3 Proposed Revision to Annual Maximum for the Daily Charge at Seven Specified International Airports for Propeller Aircraft Weighing up to 3.0 Tonnes

This daily charge is currently set at \$10 per day per aircraft, with an annual maximum established at \$1,200 per year per aircraft. This annual maximum of \$1,200 per aircraft equates to 120 daily charges per aircraft at the existing unit rate of \$10 per day. The revision to the base rate, and the introduction of a temporary adjustment, proposed in the previous subsections would require a consequential change to the annual maximum dollar limit. However, in the interests of simplicity, it is preferred that the annual maximum dollar value be replaced with an annual maximum number of charges.

It is proposed that:

- the existing annual maximum of \$1,200 per year per aircraft be eliminated, and
- an annual maximum of 120 daily charges per year per aircraft be established

2. PROPOSED MODIFICATION TO TERMS AND CONDITIONS

The Company's current credit security arrangements require that, in certain circumstances, customers provide pre-payments equal to two months of estimated flying. It has been determined that this amount does not fully mitigate the Company's credit risk. Depending on the customer's billing cycle, the Company's credit exposure is typically in the range of 70 to 80 days of flying. The proposed revisions in the credit security arrangements will provide the Company with the flexibility needed to fully mitigate its exposure.

There are also minor changes proposed to the credit security arrangements to improve wording and add clarity.

Current Credit Security Arrangements

Credit security arrangements were set out in the Announcement of Revised Service charges dated August 18, 2000 and subsequently modified in Announcements dated December 21, 2001; July 21, 2003; April 2006; and October 2013. They are currently set out as follows:

Where an aircraft operator has significant and/or overdue charges or where NAV CANADA, acting reasonably and in good faith, is of the opinion that NAV CANADA charges will not be paid when due, NAV CANADA may seek credit security arrangements from the operator in a form and substance satisfactory to NAV CANADA.

The amount of outstanding charges, including both amounts billed and amounts accrued for unbilled charges, for any customer shall not exceed \$4 million at any time. When NAV CANADA determines that the maximum of \$4 million may be exceeded, it shall advise the customer that its billing and/or payment frequency shall be increased and/or a refundable deposit may be required as necessary to ensure the maximum is not exceeded. Where the customer makes a refundable deposit, the amount must remain on deposit for a minimum of six (6) months and

NAV CANADA will remit to the depositor every six (6) months the interest earned based on the six (6) month Canadian Dollar Offered Rate (CDOR) or similar market rate at time of deposit or renewal. In appropriate circumstances, NAV CANADA may also require advance payments or deposits on account of charges.

A customer shall be required to pay for the provision or availability of air navigation services in advance or provide satisfactory security for such payment on the basis of an estimate of charges to be incurred, in the following circumstances:

- A customer fails to make a payment or any part of a payment in accordance with NAV CANADA's payment terms and conditions on three occasions or more;
- The customer's Dun & Bradstreet Financial Stress Score Risk Class is a 4 or 5, or the failure score equivalent, as amended from time to time;
- A customer's credit is rated and its credit rating is below or falls to below B as determined by Standard & Poor's or B2 as determined by Moody's;
- If a customer is under creditor protection (e.g., Companies' Creditors Arrangement Act (CCAA) in Canada or Chapter 11 in the United States) or any other form of financial restructuring in accordance with applicable insolvency legislation or the customer has publicly announced that it may file for creditor protection or bankruptcy; or
- The customer has not provided NAV CANADA, upon request, with financial information such as credit ratings, credit reports, analyst reports, current audited or unaudited financial statements, etc. which NAV CANADA deems sufficient to enable it to assess and conclude that the creditworthiness of the customer is satisfactory.

Without limiting NAV CANADA's general discretion to require security arrangements, where a customer has not been invoiced previously by NAV CANADA for ANS services, or has not been invoiced within the previous six months, and where total monthly charges are expected to exceed \$1,000, the customer will be required to make a pre-payment, which will remain on account for a minimum of two years, in an amount equal to twice the estimated monthly total charges. The pre-payment amount will be subject to adjustments based on changes in the level of the estimated monthly total charges.

Proposed Credit Security Arrangements

It is proposed that the current credit security arrangements be replaced with the following:

Where a customer has significant and/or overdue charges or where NAV CANADA, acting reasonably and in good faith, is of the opinion that NAV CANADA charges will not be paid when due, NAV CANADA may seek credit security arrangements from the customer in a form and substance satisfactory to NAV CANADA.

The amount of outstanding charges, including both amounts billed and amounts accrued for unbilled charges, for any customer shall not exceed \$4 million at any

time. When NAV CANADA determines that the maximum of \$4 million may be exceeded, it shall advise the customer that its billing and/or payment frequency shall be increased and/or a refundable deposit may be required as necessary to ensure the maximum is not exceeded. Where the customer makes a refundable deposit, the amount must remain on deposit for a minimum of six (6) months and NAV CANADA will remit to the depositor every six (6) months the interest earned based on the six (6) month Canadian Dollar Offered Rate (CDOR) or similar market rate at time of deposit or renewal. In appropriate circumstances, NAV CANADA may also require advance payments or deposits on account of charges.

A customer shall be required to pay for the provision or availability of air navigation services in advance or provide satisfactory credit security for such payment on the basis of an estimate of charges to be incurred, in any of the following circumstances:

- A customer fails to make a payment or any part of a payment in accordance with NAV CANADA's payment terms and conditions on three occasions or more;
- The customer's Dun & Bradstreet Financial Stress Score Risk Class is a 4 or 5, or the failure score equivalent, as amended from time to time;
- A customer's credit is rated and its credit rating is below or falls to below B as determined by Standard & Poor's or B2 as determined by Moody's;
- If a customer is under creditor protection (e.g., Companies' Creditors Arrangement Act (CCAA) in Canada or Chapter 11 in the United States) or any other form of financial restructuring in accordance with applicable insolvency legislation or the customer has publicly announced that it may file for creditor protection or bankruptcy; or
- The customer has not provided NAV CANADA, upon request, with financial information such as credit ratings, credit reports, analyst reports, current audited or unaudited financial statements, etc. which NAV CANADA deems sufficient to enable it to assess and conclude that the creditworthiness of the customer is satisfactory.

Without limiting NAV CANADA's general discretion to require credit security arrangements, where a customer has not been invoiced previously by NAV CANADA for ANS services, or has not been invoiced within the previous six months, and where total monthly charges are expected to exceed \$1,000, the customer will be required to provide a credit security pre-payment, which will remain on account for a minimum of two years, in an amount equal to the level of financial exposure determined by the estimated maximum monthly total charges. The credit security pre-payment amount will be subject to adjustments based on changes in the level of the estimated maximum monthly total charges.

The proposed revised credit security arrangements are also presented in the Details and Principles Regarding Proposed Revised Service Charges - April 2016 document, which is available on our web site www.navcanada.ca. The presentation in that document highlights the specific changes from the current credit security arrangements.

3. 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 the 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 "D"
 Ottawa, Ontario
 Canada K1P 5L6
 Attention: Director, Customer and Commercial Services

By e-mail: service@navcanada.ca
By facsimile: 1-613-563-3426
By telephone: 1-800-876-4693

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

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

By facsimile: 1-613-563-7994

Note: Representations must be received by NAV CANADA not later than the close of business on July 6, 2016.

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 terrorist attacks, war, epidemics or pandemics, natural disasters, weather patterns, environmental concerns, 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, the success of our investment in space-based aircraft surveillance through Aireon LLC (Aireon), credit losses on investments, 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 2015 AIF. The forward-looking statements contained in this document represent our expectations as of April 8, 2016 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.