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DETAILS AND PRINCIPLES REGARDING PROPOSED REVISED SERVICE CHARGES

MAY 2020

GENERAL

This document (Details and Principles) ("**Document**") provides additional details to expand upon the *Notice of Revised Service Charges* dated May 2020 (the Notice). Under Section 36 of the *Civil Air Navigation Services Commercialization Act*, S.C. 1996, c. 20 (the ***"ANS Act"***), NAV CANADA is required to produce a document containing more details in relation to the proposed revised charges set forth in the Notice, including a justification in relation to the charging principles set out in Section 35 of the ANS Act.

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

This Document sets out the following: (1) general overview of NAV CANADA, (2) traffic outlook, (3) amounts to recover, (4) customer service charge rate analysis, (5) description of how the revised charges are proposed to be implemented, (6) justification of the proposal in relation to the charging principles, and (7) information regarding the Notice and on making representations to NAV CANADA.

Persons interested in making representations in writing to NAV CANADA about the proposals set out in the Notice may do so by forwarding their submissions to the address set out in the Notice. Submissions must be received by NAV CANADA no later than July 24, 2020.

1. GENERAL OVERVIEW OF NAV CANADA

NAV CANADA is a non-share capital, private sector corporation which is responsible for the provision of civil air navigation facilities and services for aircraft in Canadian airspace or any other airspace for which Canada is responsible for providing air navigation services.

The system of governance at NAV CANADA is the result of a unique corporate structure intended to make the company a self-sustaining commercial enterprise. NAV CANADA is governed by a 15-member Board of Directors (the "**Board**") consisting of 10 directors elected by stakeholders representing aviation users, bargaining agents and the federal government, four independent directors and the President & CEO. The Board oversees the governance of NAV CANADA including operational, technology, investment, financial and strategic decisions. NAV CANADA also has an Advisory Committee elected by associates, empowered to analyze and make reports and recommendations to the Board on any matter affecting the air navigation system.

The fundamental elements governing the mandate conferred on NAV CANADA by the *ANS Act* include the exclusive right to provide certain air navigation services, the exclusive ability to set and collect charges for air navigation services provided or made available by NAV CANADA or a person acting under the authority of the Minister of National Defence, and the obligation of NAV CANADA to provide these services.

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, 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. NAV CANADA plans its operations to result in an annual financial breakeven position after recording adjustments to the Rate Stabilization Account.

The financial statements and Management's Discussion and Analysis, issued quarterly and annually, and the Annual Information Form provide extensive information on the revenues and expenses of NAV CANADA. These documents are available electronically at www.navcanada.ca.

2. TRAFFIC OUTLOOK

Historically, in developing the outlook for air traffic, the primary sources of information considered have been airline schedules as reported in the Official Airline Guide, a time series analysis of historical charging units for different service charges, forecasts of macro-economic indicators, and available passenger and/or aircraft movement forecasts, such as from IATA, FAA and Eurocontrol.

However, 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 outbreak and resulting economic contraction has had, and is expected to continue to have, a negative impact on demand for air travel globally.

Starting in the latter part of February 2020 and continuing throughout NAV CANADA's third quarter, NAV CANADA has experienced 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 impact of the pandemic on global air traffic is unprecedented in the history of the aviation industry. The rapid decline in NAV CANADA's traffic levels is evident in the table below, where percentage changes in charging units are compared to the previous year. Presently, airlines around the world have either large portions of their fleets, or their entire fleets, grounded. Moreover, at the current time, there are no indications as to when many governments will ease travel restrictions, and even when they do uncertainty exists as to when, and to what extent, consumers will feel that air travel is safe enough for them to return to a semblance of their normal travel patterns.

Historical methods and inputs to traffic forecasting are not useful for purposes of developing traffic forecasts while the aviation industry is in the midst of a global pandemic. For example, many airlines are not currently updating their schedules in the Official Airline Guide. In the face of this unprecedented event, the usefulness of an analysis of historical charging units is limited as an input to reasonable and prudent traffic projections. NAV CANADA has therefore developed a new traffic forecasting approach and the forecast set out in the table below reflects this new approach. The forecasting approach used is described in the following paragraphs.

The approach can be described as a scenario-based approach. As a first step, four pandemic outcome scenarios were defined. Data was then collected on propensity to fly following the conclusion of the pandemic for each of the four outcome scenarios. Minimum traffic levels were forecasted. Economic impact scenarios were then reviewed for each of the four outcome scenarios and compared to historic events. Potential "new normal' scenarios were reviewed and their impacts evaluated. Pessimistic, moderate and optimistic scenarios were then run for all combinations of the outcome, impact and new normal scenarios which generated over 700 possible sub-scenario forecast outcomes. One of the four outcome scenarios was then selected as most probable and a moderate outcome of the scenario was selected for the forecast.

The scenario selected for the forecast reflects the pandemic isolation and containment strategy utilized by Canada and much of the world. It incorporates scenario specific forecast impacts to propensity to fly, a new normal with reduced business travel, and economic influences on air traffic demand.

The 2020 annual forecast reflects actual traffic results to the end of April and a forecast for the remainder of the fiscal year. NAV CANADA's fiscal year runs from September 1 to August 31. The preliminary budget for fiscal 2021 is based on forecast growth relative to fiscal 2020 forecast traffic volumes.

The following table presents NAV CANADA's traffic growth assumptions. Overall, the year-over-year traffic growth forecasts for the 2020 and 2021 fiscal years are -35.8% and -10.9%, respectively. Third quarter and fourth quarter 2020 forecasts highlight the impacts of the pandemic on air traffic. Despite an annual 2020 forecast reduction of 35.8% versus 2019 levels, air traffic growth is forecasted to decline an additional 10.9% in NAV CANADA's fiscal 2021 year relative to 2020.

Charge	Actual YTD Q2 FY2020	Forecast Q3 FY2020	Forecast Q4 FY2020	Forecast Annual FY 2020	Preliminary Budget FY 2021
Terminal	0.8%	-56.7%	-72.8%	-33.7%	-12.6%
Enroute	-0.3%	-58.3%	-72.8%	-36.5%	-7.0%
Overflight	0.5%	-60.1%	-72.8%	-35.8%	-12.4%
NAT	-0.7%	-63.8%	-72.9%	-37.6%	-9.3%
Int'l Comm	-1.6%	-64.2%	-72.9%	-38.2%	-8.3%
Daily	-4.4%	-72.5%	-88.0%	-43.6%	-4.4%
Weighted	0.0%	-59.5%	-73.7%	-35.8%	-10.9%

3. AMOUNTS TO RECOVER

Fiscal 2021 Amounts to Recover from Customers – Debt Covenant Revenue Shortfall

Section 35 of the *ANS Act* sets out the Charging Principles that underlay NAV CANADA's customer service charges. Subsection 35(1)(i) of the *ANS Act* states that "charges must not be set at a level that, based on reasonable and prudent projections, would generate revenues exceeding the Company's current and future financial requirements in relation to the provision of civil air navigation services". Section 35 of the *ANS Act* defines financial requirements, which include "debt servicing requirements and financial requirements arising out of contractual agreements, relating to the borrowing of money", as per Subsection (d) of Section 5 of the *ANS Act*.

Net cash outflows for fiscal 2020 are projected at $382.6 million and for fiscal 2021 at $487.4 million, before giving effect to the proposed revised service charges and additional borrowings.

Currently available sources of liquidity are insufficient to fund these negative cash outflows, leaving NAV CANADA the following alternatives: to increase service charges and cash obtained from increased revenues, or to increase borrowings – or some combination thereof.

Fiscal 2021 Recoverable Amounts from Customers – 2021 Preliminary Budget Costs and Projected Revenue Stabilization Account (RSA) Deficit

NAV CANADA is empowered by the *ANS Act* to set customer service charges at a level sufficient to cover its costs, based on reasonable and prudent projections of both costs and air traffic. This has been the approach that NAV CANADA has historically taken with respect to setting customer service charges. However, if NAV CANADA were to take that approach with respect to the proposed revised customer service charges effective September 1, 2020, charges would have to increase by $846.5 million in total. This is set out in the table below.

2021 Preliminary Budget in $ Millions

Operating Expenses			
Salaries, Benefits and Allowances	$ 962.8		
Other Operating Expenses	300.6		
Depreciation and Amortization	157.3		
Total Operating Expenses		$ 1,420.7	
Other Expenses	141.0		
Regulatory Deferrals Excluding RSA	(144.5)		
Total Other Expenses and Regulatory		(3.5)	
Total Expenses		$ 1,417.2	
Other Revenues		(75.7)	
Net 2021 Recoverable Expenses			$ 1,341.5
Projected RSA Deficit from 2020			325.3
Total Recoverable in 2021			$ 1,666.8
Forecast 2021 Revenue at Current Rates			820.3
2021 Customer Service Charge Increase Required to Recover 2021 Net Expenses and 2020 Projected RSA Deficit			$ 846.5

NAV CANADA recognizes that the setting of customer service charge increases at a level required to generate additional revenues of $846.5 million would have serious negative consequences for its customers at this time. Accordingly, NAV CANADA has instead decided to propose the minimum increase that enables it to meet its financial obligations as set out in the *ANS Act* under Subsection 35(5)(d).

The proposed revised customer service charges, effective September 1, 2020, are based on NAV CANADA's financial requirement to generate revenue at a level necessary to comply with the financial obligations of NAV CANADA. Compliance with these provisions provides NAV CANADA with financial flexibility and allows NAV CANADA to meet its objective which is to be a world leader in the provision of safe, efficient and cost-effective air navigation services on a sustainable basis while providing a professional and fulfilling work environment for its employees.

Specifically, by increasing service charges as proposed, NAV CANADA would be able to comply with the debt service covenant imposed under the General Obligation Indenture (the "**GOI**") for the 2021 fiscal year. The covenant requires that NAV CANADA generate enough revenue in 2021 to cover operating, maintenance and interest expenses, as they are defined by the covenant, and using the methodology prescribed by the covenant.

As shown in the table below, compliance with the revenue provision of the GOI under Subsection 503(b) requires customer service charges to be set at amounts which generate incremental revenues of $242 million.

			$ Millions
Operating and Maintenance Expenses of prior year (2020 forecast)			$ 1,272
Adjustment pursuant to MTI definition of Operations & Maintenance			
	Deduct:		
	Pension expense		(219)
	Other post-employment expense		(36)
	Add:		
	Pension contributions		97
	Other post-employment contributions		38
Adjusted Operating and Maintenance Expenses			$ 1,152
Forecast Debt Service Amount for 2021			
	Net interest		86
2021 Revenue Required to meet terms of GOI			$ 1,238
Less:	2021 Revenue Forecast from Sources Other than ANS Customer Service Charges		76
	Forecast 2020 Air Traffic Volume at Current ANS rates		920
Revenue Requirement of Proposed Customer Service Charge Increase			$ 242

Accordingly, NAV CANADA proposes to increase fiscal year 2021 customer service charges in amounts sufficient to generate additional revenues of $242 million. This equates to an average increase of 29.5% in customer service charge rates, based on projected fiscal 2021 traffic levels. NAV CANADA notes that the proposed increase is $604.5 million less than the increase which would be required if NAV CANADA proposed service charge increases to recover its projected 2020 fiscal year deficit plus its forecast 2021 net expenses.

Implementation of the proposed customer service charges revision will bring NAV CANADA into compliance with the provisions of the GOI and will allow it the necessary flexibility to borrow the funds needed to ensure its financial sustainability.

4. CUSTOMER SERVICE CHARGE RATE ANALYSIS

As noted in Section 3 above, based on the analysis of the NAV CANADA's current and future financial requirements it has opted to only increase rates to the level necessary for it to comply with GOI debt covenants.

4.1. Fiscal 2021 Base Rate Calculations

To determine the rate changes required in fiscal 2021, by service, the forecast revenues are compared to amounts to recover by service.

The amount to be recovered by each service is determined by the allocation of costs to services, i.e., to Terminal, Enroute, North Atlantic Enroute Facilities and Services (NAT) and Int'l Com services. NAV CANADA's cost allocation methodology was developed in 1997, and an allocation exercise occurs annually. NAV CANADA has employed the same cost allocation methodology used in prior years to the fiscal 2021 requirements.

NAV CANADA has decided to limit the recovery of its preliminary 2021 budget costs to the amount needed to cover its GOI debt covenant shortfall plus its forecast 2021 customer service charge revenue (at current rates). These amounts are $242.0 million and $820.3 million respectively. Accordingly, NAV CANADA proposes to recover $1,062.3 million of its total costs in customer service charges in fiscal 2021.

4.2. Proposed Changes to Customer Service Charges

Proposed changes to service charges are calculated for each service in the table set out below.

Fiscal		Terminal	Enroute	NAT	Int'l Comm.	Total
2021	Costs to Recover	$ 462,325,434	$ 530,951,866	$ 60,127,802	$ 8,923,561	$ 1,062,328,663
	Cost Allocation -->	43.52%	49.98%	5.66%	0.84%	100.00%
2021	Total Revenue at Existing Base Rates	$ 353,555,975	$ 419,942,443	$ 40,502,450	$ 6,327,795	$ 820,328,663
	Shortfall (Surplus)	$ 108,769,459	$ 111,009,423	$ 19,625,352	$ 2,595,766	$ 242,000,000
	Sept 01, 2020 Rate Change Required	**30.8%**	**26.4%**	**48.5%**	**41.0%**	**29.5%**
	Domestic Flat Fees	**30.1%**				

Comparison of Current Rates to Proposed Revised Rates

The following table sets out and compares the existing rates and proposed revised 2021 rates.

		Proposed Base Rates Effective September 1, 2020		Proposed Rates Effective March 1, 2022	
	Current Rates (FY2020)	Proposed Base Rates	% Change VS Existing Base Rates	Proposed Base Rates	Additional 5 Year Temporary Rate
Movment Based Charges					
Terminal Charge	$ 24.36	$ 31.86	30.8%		
Enroute Charge (including Overflight)	$ 0.03008	$ 0.03802	26.4%		
NAT	$ 155.03	$ 230.22	48.5%		
International Communications					
Data Link	$ 19.99	$ 28.19	41.0%		
Voice	$ 53.14	$ 74.93	41.0%		
Aircraft Based Charges					
Daily Charges					
Weight Group (in Tonnes)					
Propellers					
Over 3.0 to 5.0	$ 41.65	$ 54.19	30.1%		
Over 5.0 to 6.2	$ 83.32	$ 108.40	30.1%		
Over 6.2 to 8.6	$ 330.30	$ 429.72	30.1%		
Over 8.6 to 12.3	$ 766.73	$ 997.52	30.1%		
Over 12.3 to 15.0	$ 1,142.65	$ 1,486.59	30.1%		
Over 15.0 to 18.0	$ 1,372.77	$ 1,785.97	30.1%		
Over 18.0 to 21.4	$ 1,850.87	$ 2,407.98	30.1%		
Over 21.4	$ 2,401.36	$ 3,124.17	30.1%		
Maximum for Helicopters	$ 83.32	$ 108.40	30.1%		
Jets					
Up to 3.0	$ 157.72	$ 205.19	30.1%		
Over 3.0 to 6.2	$ 203.34	$ 264.55	30.1%		
Over 6.2 to 7.5	$ 330.30	$ 429.72	30.1%		
Annual Minimum Charges					
Propeller Aircraft over 3.0 Tonnes and Jet Aircraft	$ 225.12	$ 225.12	0.0%	$ 292.88	$ 13.55
General Aviation Charges:					
Annual Charge					
Under 2.0	$ 67.40	$ 67.40	0.0%	$ 87.69	$ 4.06
2.0 to 3.0	$ 225.12	$ 225.12	0.0%	$ 292.88	$ 13.55
Quarterly Charge					
Under 2.0	$ 16.85	$ 16.85	0.0%	$ 21.92	$ 1.01
2.0 to 3.0	$ 56.28	$ 56.28	0.0%	$ 73.22	$ 3.39
Daily - Specified 7 Major Airports	$ 9.92	$ 9.92	0.0%	$ 12.91	$ 0.60

5. 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.

Significant operating expense savings have been achieved by NAV CANADA in the face of the Pandemic through a detailed and comprehensive review of spending throughout the business. 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.

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 Federal Government has made available wage subsidy support through its Canadian Emergency Wage Subsidy program ("**CEWS**"), its recently announced Large Employer Emergency Financing Facility ("**LEEFF**"), does not provide, even in combination with CEWS, what would be required in order to obviate the need for the proposed increase to customer service charges.

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.

NAV CANADA seeks however, 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:

5.1 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.

5.2 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 5.1 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.

6. PRINCIPLES GOVERNING NAV CANADA'S SERVICE CHARGES

The principles governing the establishment of new charges or the revision of existing charges by NAV CANADA are set out in Section 35 of the *ANS Act*. Each of the principles is presented below in italics, followed by an explanation of how the Notice complies with that particular principle.

35(1)(a) *Charges must be in accordance with a methodology established and published by the Corporation that is explicit and that also includes the terms and conditions affecting charges;*

The Notice, required under Section 36 of the *ANS Act*, has been posted on the Internet, on the NAV CANADA website, and sent to aviation associations. On the basis of this information, any person subject to NAV CANADA's charges can calculate the amount that would be payable for a given flight.

35(1)(b) *Charges must not be structured in such a way that a user would be encouraged to engage in practices that diminish safety for the purpose of avoiding a charge;*

For any given flight, NAV CANADA's charges are not structured in such a manner that safety may be affected. For example, any flight of any given aircraft between two points (e.g., Ottawa and Québec City) is subject to the same charges, regardless of whether the flight is IFR or VFR.

35(1)(c) *Charges for the same services must not differentiate between domestic and international flights of air carriers;*

There is no differentiation in the proposed revised charges between domestic and international flights of air carriers.

35(1)(d) *Charges for the same services must not differentiate among Canadian air carriers or among foreign air carriers;*

There is no differentiation in the proposed revised charges for a flight based on which domestic or foreign carrier provides the flight.

35(1)(e) *Charges must differentiate between the provision of services in relation to the landing and take-off of aircraft and the provision of services in relation to aircraft in flight, and must reflect a reasonable allocation of the costs of providing the services in those circumstances;*

The charges are based on an allocation of costs among the Enroute, Terminal and Oceanic services. The rules for the attribution of costs to the services were arrived at by considering workloads, statistics based on activity reports, management judgment and ICAO guidelines.

35(1)(f) *Charges in respect of recreational and private aircraft must not be unreasonable or undue*;

The charges reflect the need for recreational and private aircraft to contribute, along with other users, to the costs of operating the Canadian civil air navigation system. NAV CANADA believes the charges are neither unreasonable nor undue.

35(1)(g) *Charges for designated northern or remote services and for services directed to be provided under Subsection 24(1) must not be higher than charges for similar services utilized to a similar extent elsewhere in Canada;*

Since NAV CANADA's charges are uniform throughout Canada, northern or remote services are subject to the same charges as services utilized elsewhere in Canada.

35(1)(h) *Charges must be consistent with the international obligations of the Government of Canada; and*

The most relevant international obligations are the Convention on International Civil Aviation of 1944 (the Chicago Convention) and bilateral air services agreements between Canada and other states.

Article 15 of the Chicago Convention deals with charges for air navigation facilities and establishes the principle that fees charged for the use of airport and air navigation services not be higher for foreign compared to domestic users engaged in similar international air services. The charges comply with Article 15 because: (i) the charges in respect of international air services are not higher for foreign air carriers than they are for Canadian carriers engaged in similar international air services (i.e., the charges do not differentiate according to the flag of the carrier), and (ii) the charges relate to the availability or provision of air navigation services and are not imposed for the right of entry into Canadian airspace.

Charges imposed are generally consistent with the themes included in ICAO Doc 9082, a non-binding document which provides guidance that States are encouraged to follow. ICAO Doc 9082 itself does not form part of the Government of Canada's international obligations under Subsection 35(1)(h) of the *ANS Act*.

The charges are also consistent with bilateral air services agreements between Canada and other states.

35(1)(i) *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*.

NAV CANADA's charges are set to recover its expenses net of other revenues determined in accordance with International Financial Reporting Standards and the costs of complying with certain financial requirements, as described in detail in Subsection 35(5) of the *ANS Act.* For fiscal 2021 NAV CANADA has proposed that it not recover in service fees increases all costs that it will incur in the fiscal year. Proposed service fee increases have been limited to the amount needed to increase revenues to the level required for it to comply with debt covenants, thereby providing it with the flexibility required to ensure its financial sustainability. In fact, NAV CANADA's proposed service charges are forecast to be insufficient to recover expenses (net of other revenues) in both fiscal 2020 and fiscal 2021. With the proposed customer service charges increases in fiscal 2021 NAV CANADA forecasts that the RSA balance will decline from a positive balance of $92.6 million at the beginning of the 2020 fiscal year to a negative balance of $604.5 million at the end of the 2021 fiscal year.

35(2) *The charging methodology may recognize that the value of the services differs among users.*

NAV CANADA's charging methodology does recognize that the value of the services differs among users, e.g., charges that vary with aircraft weight.

35(3) *Where the Corporation's charging methodology recognizes the value of the services and aircraft weight is used as a measure of the value of the services, the principle referred to in paragraph (1)(a) is deemed not to have been observed if aircraft weight is taken into account either directly proportionally or greater than directly proportionally.*

The International Communication Services charges and NAT charges are levied on a per flight basis and do not take weight into account. The Enroute and Terminal Services charges take weight into account, but less than proportionally. The Enroute Charge is based on a unit rate multiplied by the square root of aircraft weight multiplied by distance. The Terminal Services Charge is based on a unit rate multiplied by aircraft weight raised to the 0.8 power.

Pursuant to Subsection 35(7), Subsection 35(3) does not apply to flat fees. The Annual, Quarterly and Daily Charges represent flat fees.

35 (4) *For the purpose of Subsection (3), "weight", in relation to an aircraft, means the maximum permissible take-off weight specified in the aircraft's certificate of airworthiness or in a document referred to in that certificate.*

Weight calculations are based on the maximum permissible take-off weight specified in the aircraft's certificate of airworthiness or in a document referred to in that certificate. For more information, please refer to the January 1, 2020 *Customer Guide to Charges*.

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

The Notice and this Document are available on-line and a copy may be downloaded from 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 posted on the Internet site.

Additional copies 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 in writing to NAV CANADA with regard to the 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.