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NOTICE OF REVISED SERVICE CHARGES

OCTOBER 2, 2002

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 for air navigation services and proposed charges for aeronautical publications to become effective January 1, 2003, 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 4 so as to be received by NAV CANADA not later than December 2, 2002.

NAV CANADA applies service charges to the following categories of air navigation services: (i) terminal, (ii) enroute, and (iii) oceanic.

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 Increase in Service Charges;
- (2) Other Modifications to Service Charges;
- (3) Charges for Aeronautical Publications; and
- (4) Additional Information Regarding the Notice and on Making Representations to NAV CANADA.

1. PROPOSED INCREASE IN SERVICE CHARGES

1.1 Background

The air transportation sector is facing its worst financial crisis in history, triggered by the terrorist attacks in the U.S. on September 11th, 2001, the slowdown in the economy and structural issues in the aviation industry. To deal with the impact on NAV CANADA in fiscal year 2001/02, a loss of some 15% of anticipated revenues due to the drop in traffic, the Company developed a Mitigation Plan based on a contribution from all stakeholders - customers, suppliers and employees - to manage this unprecedented problem. This Plan has been successfully implemented except for the proposed wage freeze to August 31st, 2002. As of early September 2002, only one labour union had accepted the wage freeze.

Going forward, the revenue impact of the reduced traffic volumes will continue to present a major challenge for NAV CANADA, although the world economy and air travel are slowly recovering. When compared to the pre-September 11th traffic forecast, the cumulative revenue loss for fiscal years 2001/02 - 2004/05 could reach \$360 million at existing fee levels based on current traffic forecasts. In this regard, it is also important to recognize that the Rate Stabilization Account has been fully drawn down.

To face this challenge, the Company will continue its focus on reducing costs and improving productivity, wherever feasible. In this regard, it is important to bear in mind that NAV CANADA just completed a major, multi-year restructuring program in fiscal year 2000/01, resulting in an annual cost level more than \$100 million below what it would otherwise have been. Also, the Company has been able to reduce flight restrictions and delays as well as facilitate better flight profiles through more efficient air traffic control tools and procedures and a customer-oriented capital investment program.

The further evolution of costs will largely be determined by the outcome of the current labour negotiations, as labour costs make up nearly three-quarters of the operating costs. As all collective agreements have expired and negotiations are still ongoing, forecasting operating costs is naturally difficult given that the level of the largest cost component cannot be determined at this time.

Capital projects worth \$20 million were deferred in fiscal year 2001/02. For fiscal year 2002/03, it is planned to postpone \$38 million in capital expenditures.

Any potential cost reduction or deferrals, whether in operating costs or in the capital program, that would result in increased operating costs to customers (e.g., flight restrictions or delays), will be avoided.

This austerity program has been developed within the overriding objective of maintaining or improving safety.

On the revenue side, NAV CANADA is actively pursuing initiatives to generate revenues from non-aeronautical sources, such as sales of technology. This type of revenue will help offset costs, resulting in lower customer service charges than would otherwise be required.

However, the anticipated shortfall in revenues for fiscal year 2002/03 at existing rates is such that it is necessary to propose an increase in charges. The total costs for fiscal year 2002/03 are anticipated to be approximately \$1,000 million, while revenues from existing charges are expected to be approximately \$900 million. This leaves an expected shortfall in the range of \$100 million. Given the financial situation of the air transportation sector, every reasonable effort has been made to keep the increase as low as possible at this time.

1.2 Proposed Increase and New Daily Charge Weight Group

It is proposed to increase customer service charges by 3% effective January 1, 2003, except for the Annual and Quarterly charges for which the increase will be effective March 1, 2003. This is expected to generate additional revenues of approximately \$20 million in fiscal year 2002/03.

To balance revenues and expenses, including variances in traffic, costs and potential new non-aeronautical revenues from those anticipated, it is planned that approximately \$80 million of expenses will be recovered from customers over time.

It should be noted that even with the proposed 3% increase, on average, the charges will still be lower than they were on March 1, 1999, and fully one-third below the Federal Government's Air Transportation Tax which was replaced by the NAV CANADA service charges in 1998.

In addition to the proposed rate adjustments, a new weight group and rate are proposed for the Daily Charge applicable to propeller aircraft. Currently, the top weight group for this charge is "over 18.0 metric tonnes", with a rate of \$1,450 per day. It was necessary to revisit this top weight group as larger propeller aircraft, with significantly larger capacities, have entered the marketplace since the Daily Charge was first established on March 1, 1999.

It is proposed to limit the existing charge of \$1,450 for the weight group of "over 18.0 metric tonnes" by changing it to "over 18.0 metric tonnes up to 21.4 metric tonnes". It is further proposed to add a new weight group of "over 21.4 metric tonnes" with a rate of \$1,950 per day under the existing rate levels. The 3% rate increase would also apply to this rate, bringing it to a total of \$2,009.

The following tables set out the current rates along with the proposed revised rates. It will be noted that the rate of \$0.45 for the Airport Surface Detection Equipment (ASDE) Charge at L.B. Pearson International Airport (LBPIA) will remain unchanged. This charge was put in place on March 1, 2000, to recover the capital cost of the ASDE over an estimated period of four years at a fixed rate, and will be terminated once the total cost has been recovered.

Movement-Based Charges

Charge	Rates Prior to January 1, 2003	Rates Effective January 1, 2003
Terminal	\$13.38	\$13.78
ASDE – LBPIA	\$0.45	\$0.45
Enroute	\$0.03204	\$0.03300
North Atlantic Enroute	\$77.44	\$79.76
International Communication		
Data Link	\$23.43	\$24.13
Voice	\$46.33	\$47.72

Daily Charges

Category and Weight Group* (in metric tonnes)	Rates Prior to January 1, 2003	Rates Effective January 1, 2003
<i>Propeller Aircraft</i>		
Over 3.0 up to 5.0	\$29	\$30
Over 5.0 up to 6.2	\$58	\$60
Over 6.2 up to 8.6	\$240	\$247
Over 8.6 up to 12.3	\$580	\$597
Over 12.3 up to 15.0	\$870	\$896
Over 15.0 up to 18.0	\$1,060	\$1,092
Over 18.0	\$1,450	N/A**
Over 18.0 up to 21.4	N/A***	\$1,494
Over 21.4	N/A***	\$2,009
Maximum for Helicopters	\$58	\$60
<i>Small Jet Aircraft</i>		
Over 3.0 up to 6.2	\$145	\$149
Over 6.2 up to 7.5	\$240	\$247

* Maximum permissible take-off weight.

** Weight group replaced by the “Over 18.0 up to 21.4” and “Over 21.4” weight groups effective January 1, 2003.

*** These new weight groups become effective January 1, 2003.

Annual Charges*

Weight Group** (in metric tonnes)	Rates Prior to March 1, 2003	Rates Effective March 1, 2003
0.617 up to 2.0	\$58	\$60
Over 2.0 up to 3.0***	\$195	\$201

* 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 and for aircraft restricted to aerial agricultural spraying remain with the exception of the increased rates.

Annual Minimum Charges*

Aircraft Category	Rate Prior to March 1, 2003	Rate Effective March 1, 2003
Annual Minimum for Aircraft over 3.0 Metric Tonnes **	\$195	\$201

* 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 over 3 metric tonnes (maximum permissible take-off weight) restricted to Agricultural Spraying, for which the existing minimum of \$58 will increase to \$60.

2. OTHER MODIFICATIONS TO SERVICE CHARGES

2.1. Modification to the Application of the Enroute Charge and Daily Charge for International Flights

Currently, the Enroute Charge is applied to international flights of aircraft over 3 metric tonnes where the flight lands or takes off from an airport staffed by NAV CANADA personnel or by a person acting under the authority of the Minister of National Defence (DND). Since air navigation services are provided or made available, it is proposed to extend the application of the Enroute Charge to all international flights of aircraft over 3 metric tonnes that land or take off from any Canadian aerodrome.

The existing application is set out in Section 3.2 of the Announcement of New and Revised Service Charges, dated September 1998, as follows:

“...With respect to flights which land or take off in Canada, the Enroute Charge applies to flights between two airports, at least one of which is an airport where NAV CANADA applies the Terminal Services Charge...”

This will be replaced by the following:

“...With respect to flights which land or take off in Canada, the Enroute Charge applies:

- (a) to flights between two Canadian airports, at least one of which is an airport where NAV CANADA applies the Terminal Services Charge; and
- (b) to international flights.”

With this change, a consequential, parallel modification is required in the application of the Daily Charge. The existing application is set out in Section 2 of the Announcement of New and Revised Service Charges, dated September 1998, as follows:

“...a daily charge will be applied to propeller aircraft ...for each day (hereafter referred to as “chargeable day”) it makes one or more departures from one or more aerodromes with air navigation facilities staffed either by NAV CANADA or by a person acting under the authority of the Minister of National Defence.”

This will be replaced by the following:

“...a daily charge will be applied to propeller aircraft ... for each day (hereafter referred to as “chargeable day”) the aircraft makes one or more departures as follows:

- (a) from one or more aerodromes with air navigation facilities staffed either by NAV CANADA or by a person acting under the authority of the Minister of National Defence, in the case of flights between two Canadian aerodromes; and/or

(b) from one or more Canadian aerodromes, in the case of international flights.”

The Daily Charge for jet aircraft weighing 7.5 metric tonnes or less will also be subject to the revised application.

This proposed modification is expected to generate an estimated \$200,000 annually in additional revenues, much of which will come from flights by larger jet aircraft.

2.2 Modification to the Application of the Quarterly Charge

The application of the Enroute Charge includes overflights by foreign-registered aircraft weighing 3 metric tonnes or less (except U.S. domestic flights). Where these same aircraft fly into Canada or within Canada, the Quarterly Charge, covering all such flight activity for three months, applies. It is more consistent to apply the Quarterly Charge to the above-noted overflights as well, instead of the Enroute Charge.

It is proposed to extend the application of the Quarterly Charge to overflights by aircraft weighing 3 metric tonnes or less, except U.S. domestic flights. The existing application of this charge is set out in Section 1.2 of the Announcement of New and Revised Service Charges, dated September 1998, as follows:

“The aircraft will be charged on the basis of the first recorded arrival into a Canadian aerodrome during each quarter of the annual fee period...”

This will be replaced by the following:

“The aircraft will be charged on the basis of the first recorded arrival into a Canadian aerodrome or entry into Canadian airspace, excluding flights between two points in the U.S., during each quarter of the annual fee period...”

This proposed modification is expected to reduce revenues by a negligible amount.

2.3 Clarification of Services Included in the Annual and Quarterly Charges

The Annual Charge for Canadian-registered aircraft weighing 3 metric tonnes or less, and the corresponding Quarterly Charge for foreign-registered aircraft in the same weight category are for terminal and enroute air navigation services. When such aircraft are flown through oceanic airspace, where oceanic air navigation services are provided or made available, the appropriate oceanic charges are also applied.

To clarify that the Annual and Quarterly charges do not include oceanic services, the references to “air navigation services” in Sections 1.1 and 1.2 of the Announcement of New and Revised Service Charges, dated September 1998, will be replaced by “Terminal and Enroute Services”.

2.4. Interim Invoicing for Movement-Based and Daily Charges

NAV CANADA may wish to invoice a customer more frequently than the normal monthly billing cycle where NAV CANADA, acting reasonably and in good faith, is of the opinion that NAV CANADA charges will not be paid when due.

In addition, in the event of system problems or delays in receiving the flight data required for billing purposes, NAV CANADA may wish to issue interim invoices based on the total billing for the most recent billing period of complete data. Once the flight data becomes available, the appropriate adjustments for any overpayments or underpayments would be made when the final invoice for the period is issued. Any such interim billing would apply to Movement-Based and Daily Charges and would be limited to commercial aircraft operators, as they provide service on an ongoing basis.

It is proposed to amend Section 7.2 of the Announcement of New and Revised Service Charges, dated September 1998. This section currently states:

“7.2.3 Daily and Other Charges (Sections 2, 3 and 4)

Invoices are issued every month for flights occurring in the preceding month.”

This will be replaced by the following:

“7.2.3 Daily Charges and Movement-Based Charges (Sections 2, 3 and 4)

Invoices are normally issued every month for flights occurring in the preceding month. However, NAV CANADA may issue invoices more frequently to any customer where NAV CANADA, acting reasonably and in good faith, is of the opinion that NAV CANADA charges will not be paid when due.

In the event that the flight data required for billing is delayed or that system problems preclude normal billing, invoices may be issued to commercial aircraft operators based on their total billings for the most recent billing period of complete flight data. Any adjustments for overpayments or underpayments will be incorporated when the final invoice for the period is issued.”

3. CHARGES FOR AERONAUTICAL PUBLICATIONS

Effective January 1, 2003, NAV CANADA anticipates being responsible for the sale and distribution of aeronautical information, following the transfer of this function from the CANADA Map Office of Natural Resources Canada (NRCan). With this proposed transfer, NAV CANADA will also be responsible for the pricing of the publications.

It is proposed to adopt NRCan’s prices for the aeronautical publications in effect at the time of the transfer to NAV CANADA. This approach will facilitate a seamless

transition. The publications and the proposed NAV CANADA prices, effective January 1, 2003, are set out below. The prices are the same as those that NRCAN has indicated it will charge on December 31, 2002.

ITEM DESCRIPTION	PRICE
<u>Subscription Prices¹</u>	
Enroute Charts ²	\$12.00 per Chart
Canada Air Pilot ²	\$45.00 per Volume
Canada Flight Supplement ²	\$99.00
Canada Water Aerodrome Supplement (one issue)	\$45.00
<u>Individual Copy Prices³</u>	
VFR Navigation Charts	\$16.50 per Chart
World Aeronautical Charts	\$16.50 per Chart
VFR Terminal Area Charts	\$16.50 per Chart
Enroute Charts	\$6.00 per Chart
Canada Air Pilot	\$20.00 per Volume
Canada Flight Supplement	\$29.00
Canada Water Aerodrome Supplement	\$45.00

Notes:

- (1) Handling charges of \$30 for Canada and \$35 for other countries will be charged for each subscription order and for subscription renewals.
- (2) These products are updated every 56 days and the subscription price is for 7 updates.
- (3) Individual copies would typically be purchased from distributors at various locations across Canada. Copies can be ordered directly from NAV CANADA at the prices listed plus a handling charge per order of \$10 for Canada and \$12 for other countries.

NAV CANADA plans to review the charges for aeronautical publications in 2003.

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 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 Relations

by e-mail: service@navcanada.ca
by facsimile: 1 - 613 - 563 - 3426
by telephone: 1 - 800 - 876 - 46934 (within North America, disregard the last digit)

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 Revenues
By facsimile 1 - 613 - 563 - 7994

Note: Representations must be received by NAV CANADA not later than the close of business on December 2, 2002.

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Caution Concerning Forward-looking information

Certain statements made in this document are of a forward-looking nature and are subject to risks and uncertainties. The results indicated in these statements may differ materially from actual results. The forward-looking information contained in this document represents NAV CANADA's expectations as of August 15, 2002, and are subject to change after such date. However, NAV CANADA disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.