NAV CANADA

NOTICE OF REVISED SERVICE CHARGES

MAY 15, 2003

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 August 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 3 so as to be received by NAV CANADA not later than July 14, 2003.

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 three sections:

(1) Proposed Increase in Service Charges;

(2) Other Modifications to Service Charges; and

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

1. PROPOSED INCREASE IN SERVICE CHARGES

1.1 Background

The reduced traffic level due to events of September 11, 2001, the global economic slowdown, the war in Iraq and the SARS (Severe Acute Respiratory Syndrome) outbreak has a major impact on NAV CANADA. It has been estimated that the traffic reduction from the pre-September 11 forecast represents a cumulative revenue shortfall in the order of $450 million over the fiscal years 2001/02 to 2004/05.

The Company has and will continue to meet this enormous challenge in a balanced way, with contributions from all stakeholders – suppliers, employees and customers. The difficulties for the aviation industry in struggling through the worst crisis in its history is fully recognized. Every effort is being made to reduce or defer costs while maintaining or improving safety, improving productivity and increasing revenue from non-aeronautical sources.

With respect to the potential for cost reductions and deferrals, it is important to bear in mind that before September 11, 2001, NAV CANADA had just completed a major multi-year restructuring program resulting in annual cost savings of more than $100 million, including a reduction in non-operational staff of approximately 47%. It should also be noted that, as the necessary capacity of air navigation services (ANS) is largely the same within a fairly wide range of traffic levels, the cost of the services are mostly fixed.

The Company responded quickly to the downturn in traffic following the September 11 terrorist attacks by adopting a mitigation plan which included $85 million of proposed cost reductions in fiscal year 2001/02. Of these reductions, about $42 million were realized quickly, with the implementation of the balance depending on the conclusion of collective bargaining. Capital expenditures of over $20 million were also deferred. Capital spending was limited to projects required for safety or to projects providing net savings to customers (e.g., through fewer flight delays and restrictions and better flight routing). In addition, the payment period for invoices was increased temporarily from 30 days to 45 days until April 2003.

The strictest cost control and focus on productivity improvements will continue to be maintained with renewed efforts. For the current fiscal year (2002/03), the Company has established an operating cost reduction target of $34 million, including a hiring freeze. Going forward into next fiscal year (2003/04), plans are still under development, but the hiring freeze will be retained, and a wage freeze for non-unionized employees has already been announced running through to August 31, 2004.

Labour represents over 70% of the Company's operating costs. All collective agreements have expired and new ones are in the process of being negotiated, except for two that were recently concluded. In arriving at appropriate wage settlements, every effort is being made to achieve a reasonable recognition of the financial difficulties of the aviation industry, and the need for all stakeholders, including labour, to contribute to the solution.

At the request of the aviation industry, NAV CANADA has initiated a process to determine whether the existing level of service policy, established in 1997, remains appropriate or should be modified. All stakeholder groups, including the ANS safety regulator – Transport Canada, have been invited to participate in this review. It should be noted that any modification that may be found warranted for further examination would require an aeronautical study before Transport Canada would decide whether to approve a change or not, and would therefore take some time to implement. Also, while such changes would produce cost savings in the long run, the related restructuring would typically result in cost increases in the short term.

NAV CANADA is pursuing initiatives to generate new non-aeronautical revenue, such as a cross border lease involving Qualified Technological Equipment (QTE) and the sale or licensing of the ANS technology the Company has developed and is operating. Significant additional revenue is anticipated from these initiatives, which will help offset the ANS costs that would otherwise have to be recovered through the customer service charges. The QTE transaction would generate a one-time benefit in the order of $200 million, while other non-aeronautical revenue is expected to total $19 million for fiscal 2002/03 and $18 million for fiscal 2003/04 (up from $13 million in fiscal 2000/01). These amounts have been reflected in the development of the fee proposal.

Notwithstanding the efforts to reduce or defer costs, the full drawdown of the Rate Stabilization Account and the removal of the temporary adjustment in customer service charges on January 1, 2002, the Company still incurred a loss of approximately $19 million in fiscal year 2001/02. For the current fiscal year (2002/03), taking into account expected cost reductions and the 3% fee increase on January 1, 2003, a loss of approximately $157 million is anticipated. These shortfalls reflect fees not having been increased to full cost recovery levels, including provision for bad debts. While this has helped customers with their liquidity problems, NAV CANADA's credit rating has been downgraded. For next fiscal year (2003/04), the current rates for customer service charges would result in continued major shortfalls.

It is not possible to solve the financial problem facing NAV CANADA through cost control and productivity improvements alone. Unfortunately, an increase in service charges is also required, as set out in this fee proposal.

1.2 Proposed Increase

Under this proposal, $126 million of the anticipated $200 million one-time benefit from the QTE transaction will be applied against the anticipated cumulative shortfall of $176 million to the end of the current fiscal year (2002/03). The $126 million contribution will offset the shortfall, except for provisions for bad debt, but taking into account the increase in revenue in August 2003 ($5 million) from implementing this fee proposal, effective August 1, 2003. This leaves a remaining shortfall of $45 million.

The rest of the QTE benefit, $74 million, will be used to reduce the anticipated shortfall for next fiscal year (2003/2004).

The proposed increase in service charges provides for sufficient additional revenue to:

- Achieve breakeven in fiscal year 2003/04 through an increase in base rates averaging 4.9%.

- Recover the remaining cumulative shortfall of $45 million to the end of the current fiscal year and replenish the Rate Stabilization Account to its target balance of $50 million, both within five years, through an additional adjustment to the service charges representing a further increase averaging 2.0%.

In total, the proposal represents an average increase of 6.9%, with individual fee increases as follows: 8.3% for the terminal service charge, 5.2% for the enroute charge, 18.3% for the North Atlantic charge, 3.1% for the International Voice Communication charge, 3.0 % for the International Data Link Communication charge and 7.9% (rounded to the nearest dollar) for the flat charges (daily, quarterly and annual).

The revised charges will be effective August 1, 2003, except for the annual and quarterly charges which will be implemented March 1, 2004.

It should be noted that the existing customer service charges are lower than they were in March 1999 by an average of 3%. The proposed increase would result in charges that, on average, are only 4% higher than in March 1999. By comparison, the Consumer Price Index (CPI) has increased by about 12% since then.

The following tables set out the current rates along with the proposed revised rates. The revised rates have two components:

- Base rates, which are set to achieve breakeven for fiscal year 2003/04.

- An additional rate adjustment related to recovery of the past shortfall and replenishment of the Rate Stabilization Account.

The rate increases vary by charge, as noted above, depending on how far each charge is currently below its breakeven level. It will also 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	Base Rates Prior to August 1, 2003	Base Rates Effective August 1, 2003	Additional Rate Adjustments Effective August 1, 2003
Terminal	$ 13.78	$ 14.65	$ 0.28
ASDE – LBPIA	$ 0.45	$ 0.45	Nil
Enroute	$ 0.03300	$ 0.03406	$ 0.00065
North Atlantic	$ 79.76	$ 91.00	$ 3.35
International Communication			
Data Link	$ 24.13	$ 24.85	Nil
Voice	$ 47.72	$ 49.18	Nil

Daily Charges

Category and Weight Group* (in metric tonnes)	Base Rates Prior to August 1, 2003	Base Rates Effective August 1, 2003	Additional Rate Adjustments Effective August 1, 2003
Propeller Aircraft			
Over 3.0 up to 5.0	$ 30	$ 32	$ 1
Over 5.0 up to 6.2	$ 60	$ 64	$ 1
Over 6.2 up to 8.6	$ 247	$ 262	$ 5
Over 8.6 up to 12.3	$ 597	$ 632	$ 12
Over 12.3 up to 15.0	$ 896	$ 949	$ 18
Over 15.0 up to 18.0	$ 1,092	$ 1,156	$ 22
Over 18.0 up to 21.4	$ 1,494	$ 1,582	$ 30
Over 21.4	$ 2,009	$ 2,128	$ 40
Maximum for Helicopters	$ 60	$ 64	$ 1
Small Jet Aircraft			
Over 3.0 up to 6.2	$ 149	$ 158	$ 3
Over 6.2 up to 7.5	$ 247	$ 262	$ 5

* Maximum permissible take-off weight.

Annual Charges*

Weight Group** (in metric tonnes)	Base Rates Prior to March 1, 2004	Base Rates Effective March 1, 2004	Additional Rate Adjustments Effective March 1, 2004
0.617 up to 2.0	$ 60	$ 64	$ 1
Over 2.0 up to 3.0***	$ 201	$ 213	$ 4

* 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 increased rates.

Annual Minimum Charges*

Aircraft Category	Base Rates Prior to March 1, 2004	Base Rates Effective March 1, 2004	Additional Rate Adjustments Effective March 1, 2004
Annual Minimum for Aircraft over 3.0 Metric Tonnes **	$ 201	$ 213	$ 4

* 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 provisions remain with the exception of the increased rates.

2. OTHER MODIFICATIONS TO SERVICE CHARGES

Some modifications to Terms and Conditions are proposed, effective August 1, 2003. In order to reduce the Company's exposure to the possibility of unpaid customer service charges, the following conditions will be added to the Company's existing billing and payment terms and other credit terms:

a) The amount of outstanding charges, including both amounts billed and amounts accrued for unbilled charges, for any one customer or group of affiliated companies 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 frequency and/or payments shall be increased as necessary to ensure the maximum is not exceeded. In appropriate circumstances NAV CANADA may also require advance payments or deposits on account of charges.

b) If a customer's credit is rated and its credit rating falls to below B as determined by Standard & Poors' and/or B2 as determined by Moodys', or if it is not rated and NAV CANADA otherwise determines that the customer's financial position and/or payment history require more frequent billing and payment, the customer shall be placed on weekly billing and payment terms, such that payment will be received on the basis of estimates of charges based on prior period usage levels.

c) If a customer is under creditor protection (CCAA or Chapter 11) 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, the customer shall be placed immediately on weekly billing and payment terms, such that payment will be received in advance of the provision of services, on the basis of estimates of charges based on prior period usage levels, subject to or in accordance with any applicable insolvency legislation or court orders made thereunder.

Failure by a customer to adhere to these terms may result in immediate denial of service with 24 hours notice (see paragraph F7 of the Customer Guide to Charges and Section 3.3 of the Announcement of Revised Service Charges dated December 21, 2001).

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 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 July 14, 2003.

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 May 13, 2003, 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.