



# **2020 ANNUAL INFORMATION FORM 51-102F2**

**Year Ended August 31, 2020**

**October 22, 2020**

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# NAV CANADA

## 2020 ANNUAL INFORMATION FORM

### ON FORM 51-102F2

#### CAUTION CONCERNING FORWARD-LOOKING INFORMATION

This annual information form (AIF) contains certain statements about our 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 different from those expressed or implied in these statements. Examples of risks and uncertainties include geopolitical unrest, terrorist attacks and the threat of terrorist attacks, war, epidemics or pandemics and related travel advisories, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources), cyber security attacks, labour negotiations, arbitrations, workforce recruitment, training and retention, general aviation industry conditions, air traffic levels, government interventions or restrictions on or concerning air travel, 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), changes in interest rates, changes in laws, tax changes, adverse regulatory developments or proceedings, lawsuits and other risks detailed from time to time in our publicly filed disclosure documents. Some of these risks and uncertainties are explained under “Risk Factors” in this AIF. The forward-looking statements contained in this AIF represent our expectations as of October 22, 2020 and are subject to change after this date. In March 2020, the coronavirus (“COVID-19”) outbreak was declared a pandemic by the World Health Organization. The COVID-19 pandemic and the resulting economic contraction has had, and is expected to continue to have, a significant negative impact on global air traffic and on the aviation industry. Refer to “General Development of the Business - Recent Developments - COVID-19 Pandemic” for further discussion of the impact on NAV CANADA. Readers of this AIF 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 statement 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.

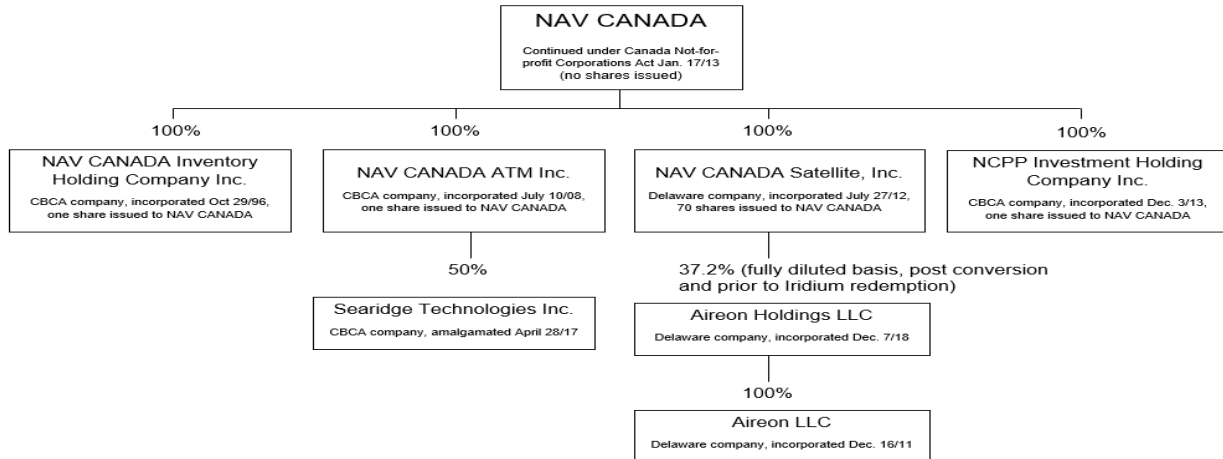
#### CORPORATE STRUCTURE

##### Name, Address and Incorporation

NAV CANADA (also referred to in this AIF as we, our, us or the Company) was continued under the *Canada Not-for-profit Corporations Act* on January 17, 2013. The Company was originally incorporated on May 26, 1995 as a non-share capital corporation under Part II of the *Canada Corporations Act*. Our head office is located at 77 Metcalfe Street, Ottawa, Ontario K1P 5L6.

##### Intercorporate Relationships

The following chart illustrates the corporate structure of the Company.



## BUSINESS OF THE COMPANY

### Introduction

NAV CANADA is the private sector, non-share capital company that operates Canada's civil air navigation system - the ANS. Our services are provided to aircraft owners and operators within Canadian-controlled airspace and include air traffic control (ATC), flight information, weather briefings, airport advisories, aeronautical information and navigation aids. As the ANS is an essential service for air transportation, we have operations throughout Canada. We acquired the ANS from the Government of Canada in 1996 for a purchase price of \$1.5 billion.

Our core business is to manage and operate the ANS and related services in a safe, efficient and cost effective manner. Our mandate covers both Canadian airspace and airspace delegated to Canada under international agreements.

### Corporate Vision, Objectives and Values

**Vision** - To be the world's most respected air navigation service.

**Overarching Objective** - 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 our employees. The Company will achieve this by:

- Being amongst the safest air navigation service providers (ANSPs) worldwide and driving continuous improvement in the reduction of operational safety risks;
- Maintaining ANS customer service charges among the lowest of major ANSPs worldwide, and ensuring over the long-term that the growth in operating costs does not exceed the growth in traffic;
- Providing value to our customers by contributing to improving their operational efficiency through the use of innovative technology and effective delivery of service, domestically and internationally;
- Having a work environment which places NAV CANADA amongst the best employers in Canada; and
- Introducing measurable projects and initiatives which support a reduction of the environmental footprint of the aviation industry, wherever feasible.

**Values** - Respect, excellence, customer service and diversity and inclusion.

### Business Principles

- Safety first
- Customer service focus
- Transparency and consultation
- A safe, challenging and rewarding workplace
- International leadership and co-operation
- Prudent financial management

### Safety Mandate

Our primary mandate is to deliver safe air navigation services in Canadian-controlled airspace.

Transport Canada regulates the safety aspects of our business. In support of safe operations, NAV CANADA and Transport Canada have established a joint Safety Oversight Committee. This and other forums support open communication on safety issues with the regulator. We consider our relationship with Transport Canada as a partnership committed to improving the safety of the ANS.

Along with the oversight provided by Transport Canada, NAV CANADA's management of safety includes oversight at multiple levels within the Company as follows:

- the Safety Committee of our Board of Directors (the Board) is responsible for monitoring the integrity and the effectiveness of the Company's operational risk management safety policies;
- our Safety and Quality department, which is the corporate safety office reporting directly to the President & Chief Executive Officer (CEO), is responsible for safety audit, investigation and other safety and quality oversight activities throughout the Company and monitors the application of the Safety Management System (SMS) at NAV CANADA; and
- senior managers in Service Delivery are responsible for safety within their groups, with assigned responsibilities and accountabilities.

The Company promotes a strong safety culture through the development and communication of safety initiatives by providing a clear understanding of the top safety risks; the SMS and its key elements and by promoting a broad sharing of information, with accountability for the safety performance. Many forums are used to share safety information including committees, working groups, newsletters, training, seminars and the NAV CANADA Safety Information System (NC-SIS).

### **Safety Management System**

Corporate safety policies define our SMS and identify the safety-related responsibilities and accountabilities for all officers and other senior managers of the Company. The five key elements of our SMS are safety planning, operational risk management, exchange of safety information, safety management assurance, and safety performance measurement.

Activities throughout the Company in support of the SMS include, but are not limited to, an annual corporate safety risk assessment to identify the top safety risks along with mitigations in place and action plans, corporate, group and project safety planning, incident and hazard reporting with a just culture, aeronautical studies, safety audits, safety investigations, safety reviews, and hazard identification and risk assessments (HIRAs) to manage the risks associated with changes with the potential to impact operational safety. The SMS is routinely assessed to assure the ongoing effectiveness of its processes.

The Company uses a confidential safety reporting system called ARGUS which provides any employee the opportunity to identify a safety concern that, in the employee's opinion, may not have been addressed appropriately.

In June 2019, Transport Canada closed the major non-conformance against NAV CANADA it assessed in February 2017 regarding a quality assurance program which Transport Canada held was not sufficiently connected across the Operations, Technical Operations, Engineering and Safety and Quality departments of the Company. The Company's corrective action plan (CAP) for this assessment included creating an Integrated Quality Assurance Program (IQA) and publishing a Quality Policy and Quality Manual. The IQA applies to all areas and functions covered under the Air Traffic Services (ATS) Operations Certificate issued to the Company by the Government of Canada, most of which can be found within but is not limited to the Company's Service Delivery group. The IQA has been implemented in all of the Flight Information Regions (FIRs) of the Company as well as at the Company's Head Office.

In March 2019, Transport Canada assessed that “NAV CANADA does not have a comprehensive and systematic approach to operational fatigue management as expressed in the SMS Policy and the Company is therefore non-compliant with Canadian Air Regulations.” The Company’s CAP for this assessment was accepted by Transport Canada in July 2019. As part of the CAP, 15 short-term and 11 long-term initiatives were presented and approved by Transport Canada. As of the date of this AIF, eleven short-term initiatives have been implemented and the remaining four are on track for being implemented. Four long-term initiatives have been implemented and the remaining seven are on track for being implemented. Despite some CAP items being delayed as a result of the ongoing COVID-19 pandemic, it is expected that the end date of August 31, 2021 remains attainable.

In the fiscal year ended August 31, 2020 (fiscal 2020), a Corrective Action Steering Committee (CASC) was established by the Company to provide executive management oversight in support of maintaining regulatory compliance with Canadian Aviation Regulations. Among other things, the CASC reviews Transport Canada findings, assigns resources for actioning, reviews and approves CAPs and oversees CAP implementation progress. The CASC reports on its activities to the President & CEO on at least a quarterly basis.

The maturity of our SMS is also assessed against the Civil Air Navigation Services Organization (CANSO) SMS Standard of Excellence, and over the years has been rated amongst the highest of ANSPs worldwide. CANSO has again recognized two of our practices as international best practices in safety management.

Along with regular SMS activities, NAV CANADA’s management has and will continue to focus on assuring that operational safety risks that have arisen due to the impacts of the COVID-19 pandemic are proactively managed. Safety risk management activities are being undertaken across the Company to assure that safety risks associated with these impacts are reduced to as low as reasonably practicable (ALARP). NAV CANADA has worked closely with industry stakeholders and Transport Canada in doing so. All of the necessary information is captured and tracked in NC-SIS. NAV CANADA has completed and is monitoring a Return to Normal Operations HIRA across the FIRs and Head Office to assure that as the recovery from COVID-19 progresses, the Company has the necessary risk controls in place to manage the potential risks.

## **Our Services**

All aircraft in Canadian-controlled airspace depend on the ANS for their safe and efficient movement. Our services include ATC, flight information, weather information and briefings, airport advisories, aeronautical communication and information, various navigation services and aids, and emergency assistance.

The *Civil Air Navigation Services Commercialization Act* (the ANS Act) governs many of the important aspects of our operations. Among other things, the ANS Act gives us a mandate that includes the right to provide civil air navigation services and the exclusive ability to set and collect customer service charges for civil air navigation services.

The ANS Act also appoints the Company as the Canadian authority responsible for providing ATC services and aeronautical information services for purposes of the *Chicago Convention*, which governs international civil aviation.

NAV CANADA provides air navigation services to aircraft in Canadian domestic airspace and in international oceanic airspace delegated to Canada by the International Civil Aviation Organization (ICAO). These services are delivered from various facilities located across the country, including, as of the date of this AIF:

- 7 area control centres (ACCs) located at Vancouver, Edmonton, Winnipeg, Toronto, Montreal, Moncton and Gander
- 41 control towers
- 56 flight service stations (FSS)
- 7 flight information centres (FIC)
- 30 maintenance centres
- 51 community aerodrome radio stations (mainly in northern Canada)
- 50 contract weather office stations
- 46 radar sites, 15 Automatic Dependent Surveillance-Broadcast (ADS-B) receiver sites, and 10 multilateration (MLAT) sensor sites (10 installations, each with 6 to 38 sensors)
- over 967 electronic aids to navigation

The ANS also includes a network of datalink and voice communication systems, flight/radar data processing systems and air traffic management systems, as well as navigation and surveillance facilities.

Our ANS customers fall into four categories:

- commercial airlines and commercial air cargo carriers;
- business aircraft;
- general aviation (which includes recreational aircraft); and
- state/military aircraft.

Air navigation services can be roughly divided into three categories.

### ***ATC Services***

ATC services ensure safe and appropriate spacing between aircraft, and between aircraft and obstructions, not only during flight but on the ground as well. They also maintain an orderly and efficient flow of air traffic. ATC services include issuing clearances for taxiing, take-off and landing, various in-flight instructions to aircraft and applying separation standards between aircraft in flight, i.e., preventing them from coming too close to each other.

### ***Flight Information Services***

Flight information services include traffic advisories to pilots, airport status information, weather data required for pre-flight planning and the operation of flights, and aeronautical information such as the supply of maps, charts and manuals.

In order to provide ANS services, we are dependent on Environment Canada for aviation weather forecasting.

### ***Air Traffic Operations Services***

Specialists are responsible for receiving and reviewing data for ATC operations, including flight plans. These specialists also coordinate search and rescue for Instrument Flight Rules (IFR) aircraft.

## **Customer Service Charges**

### ***Regulatory Framework***

The ANS Act contains charging principles that govern and direct how we set customer service charges. Our charges apply to all aircraft operators, except for a few limited exceptions set out in the ANS Act.

The charging principles are designed to enable NAV CANADA to generate sufficient revenues to meet its current and future financial requirements. They also ensure that the charges meet a number of conditions related to safety, transparency, non-discrimination, equity and international obligations.

In addition to these legislated principles, we engage in consultation with customers on a regular and open basis. Consultation, notices and announcements on new or revised charges are also required under the ANS Act. NAV CANADA may revise existing charges or introduce new customer service charges at any time as long as we follow the charging principles and the processes set out in the ANS Act.

### ***Rate Setting Policies for Customer Service Charges***

Rates are set with the intention that revenues will be sufficient to meet operating and maintenance expenses, depreciation and amortization expenses, and interest expenses. The established rates must also allow us to meet the requirements of the rate covenants contained in our Master Trust Indenture dated October 28, 1996 (MTI) and our General Obligation Indenture dated February 21, 2006 (GOI and together with the MTI, the Indentures), to fund reserves and contingency margins and, if necessary, to replenish the reserve funds established under the MTI and meet the liquidity levels required under the GOI.

Our policy is to monitor the Company's financial condition on a continuous basis and to adjust customer service charges when required. See "Cost-Effectiveness" below.

On August 12, 2020, the Company issued an announcement dealing with the implementation of revised service charges, taking effect on September 1, 2020. The announcement set out service charge increases averaging 29.5% on overall rate levels. These increases were required to allow the Company to achieve a minimum level of revenue in its fiscal year ending August 31, 2021 (fiscal 2021), thereby enabling the additional borrowings needed to provide NAV CANADA with liquidity to weather the COVID-19 pandemic. The announcement also included provisions to ease the cash flow impact of the increases on its customers through payment deferral mechanisms.

The Canadian Transportation Agency (the Agency) received an appeal by WestJet dated September 11, 2020 of the revised customer service charges set out in the Company's Announcement of Revised Service Charges dated August 12, 2020 (the Announcement) requesting, among other things, the cancellation of the revised charges. The appeal alleges that the Company did not comply with two of the charging principles in the ANS Act. The Company denies the allegations advanced by WestJet. The Company and WestJet are in the process of considering mediation. The Company will vigorously defend the appeal if mediation is not undertaken or if after mediation the Company and WestJet are unable to resolve the matter. The outcome of the appeal is not determinable at this time.

The Agency is the designated appeal body for the Company's charges pursuant to the provisions of the ANS Act. Appeals can be made only on the basis that the Company did not observe one or more of the charging principles in establishing the charges or the statutory notice and announcement requirements set out in the ANS Act. After considering the submissions of both WestJet and the Company, the Agency must decide the appeal within 60 days, unless it is of the opinion that there are special circumstances involved in the determination of the appeal, in which case it has a further 30 days to decide the appeal.



### **Service Categories for Customer Service Charges**

Customer service charges are divided into four broad categories:

<b>Charge</b>	<b>Description of Air Navigation Services Provided</b>	<b>Based on</b>	<b>Applies to</b>
Enroute charge	To aircraft in flight in Canadian-controlled airspace (excluding oceanic) when not in the take-off or landing phase.	Per-flight charge based on maximum take-off weight of the aircraft and distance flown.	Flights landing and taking off in Canada and to flights overflying Canada.
Terminal charge	To aircraft during the take-off or landing phase of a flight. ATC Towers and certain landing aids are dedicated to providing terminal services. Certain other facilities (FSSs and ACCs) are used for both terminal and enroute types of air navigation services.	Per-flight charge based on maximum take-off weight of the aircraft.	Flights on departure from staffed Canadian airports.
Daily/Annual/Quarterly	A flat annual, daily or quarterly fee is charged, in lieu of terminal and enroute charges described above.	Flat charge per day, year or quarter.	Certain categories of small aircraft.
North Atlantic (NAT) charge and International Communication (Int'l COM)	NAT charges apply for navigation services provided to aircraft flying through the NAT airspace. The Int'l COM charge applies to international flights where communication services are provided within the NAT as well as portions of the Canadian north.	Flat charge per flight.	Oceanic airspace outside of Canada but for which Canada has ATC responsibility under international agreements and, as applicable, in parts of the Canadian North.

The table below shows the revenues we earned from each category of customer service charges over the last three fiscal years.

<b>Revenues by Service Category 2018 – 2020</b>			
	Year ended August 31 (\$ millions)		
	2020	2019	2018
Enroute	476	706	704
Terminal	364	537	517
Daily/Annual/Quarterly charges	53	93	93
NAT and Int'l COM	37	48	45
<b>Total</b>	<b>930</b>	<b>1,384</b>	<b>1,359</b>

## Human Resources

We employed 4,855 people as of August 31, 2020 comprised of management staff, technical and administrative support personnel, and Service Delivery staff.

Service Delivery staff are those directly involved in providing air navigation services. They include air traffic controllers, flight service specialists, operational support specialists, electronics technologists, engineers and pilots.

The majority of our workforce is unionized (approximately 88%). Our unions have bargaining certificates that divide up the workforce into eight unique bargaining units, typically along job class lines:

Unionized Workforce	Bargaining Unit	Number of Employees Represented by Bargaining Unit as of August 31, 2020
Air Traffic Controllers	CATCA (Canadian Air Traffic Control Association - Unifor Local 5454)	1,991
Electronics Technologists	IBEW (International Brotherhood of Electrical Workers), Local 2228	611
Flight Service Specialists	ATSAC (Air Traffic Specialists Association of Canada - Unifor Local 2245)	625
Professional Engineers and Information Technology Staff	PIPSC (The Professional Institute of the Public Service of Canada)	453
Administrative Staff	PSAC (Public Service Alliance of Canada)	264
Operational and Training Support Specialists	CANSA (Canadian Air Navigation Specialists Association - Unifor Local 1016)	240
Flight Inspection and Service Design Pilots	CFPA (Canadian Federal Pilots Association)	49
Financial Staff	ACFO (Association of Canadian Financial Officers)	25

### **Recruitment and Training**

The recruitment and training of skilled operational personnel, especially licensed air traffic controllers and certified flight service specialists, are significant areas of focus for NAV CANADA. Enhancements to our recruitment and selection processes are being made to ensure that we are attracting and selecting the best talent. Significant improvements are also being made to the training curriculum to ensure a logical learning path. A formal mentorship program was also introduced for our new employees in operational training.

Prior to the onset of the COVID-19 pandemic, our staffing objective was evolving with a focus on attaining 100% of the required staffing levels as defined by each operational unit by 2021. Achievement of the 100% staffing target would ensure the availability of the appropriate number of staff in each of our operational units. Until such staffing target was achieved, the Company intended to utilize overtime as necessary to satisfy its staffing levels. Comprehensive planning would help ensure an appropriate number of licensed and certified workers would be available when and where required. In fiscal 2020, there were 62 new air traffic controller licenses issued and 44 new flight service specialist qualifications.

The recruitment and retention of other specialties such as engineering, computer science, and electronics technologists has also been a focus for management. See “General Development of the Business – Recent Developments – COVID-19 Pandemic” for further information on the impact that the COVID-19 pandemic has had on the Company’s operations and financial results.

## Environmental Matters

The Company is committed to providing air navigation services on a sustainable basis, to conducting all of its activities in accordance with applicable environmental laws and regulations, and to achieving levels of environmental protection and environmental performance beyond those required by law whenever reasonably achievable, including:

- identifying and, where feasible, introducing programs with measurable benefits which contribute to the reduction of the environmental footprint of the aviation industry;
- pre-screening the potential environmental impacts of all projects and activities and preventing or mitigating adverse effects;
- reducing the environmental risk associated with the management of the ANS and related facilities;
- maintaining, monitoring and continually improving environmental performance and environmental awareness through the implementation of our Environmental Management System;
- educating and training Company employees in environmental risk management; and
- communicating our environmental procedures and requirements to suppliers and contractors.

Recognizing that changes to airspace and airport operations can impact communities in different ways and with the aim of balancing safety, efficiency, noise and aircraft environmental emissions, the Company and the Canadian Airports Council have implemented measures to ensure effective public engagement on changes to flight paths. The *Airspace Change Communications and Consultation Protocol* provides the framework for improved dialogue and better consideration of community noise issues in the flight path design process along with safety, efficiency and environmental considerations. The protocol outlines the roles of various organizations in the aircraft noise issue, what type of airspace changes will be subject to consultation, and how that consultation will be undertaken. The protocol applies to proposed changes at airports with more than 60,000 IFR movements annually.

NAV CANADA is a signatory to Canada's *Action Plan to Reduce Greenhouse Gas Emissions from Aviation*. While the Company is a small user of aviation fuel, some of our decisions in operating the ANS can significantly impact our customers' environmental performance. The Company works hand in hand with industry partners to enable and prioritize technologies and procedures that can reduce Canada's greenhouse gas emissions from aviation.

As reported in our Corporate Social Responsibility Highlights Report for 2019, as a result of continued Required Navigation Performance (RNP) initiatives, it is estimated that our customers saved approximately 2.2 million litres of fuel with a corresponding reduction in greenhouse gas emissions of more than 6 million kg in the fiscal year ended August 31, 2019 (fiscal 2019). RNP is a technology that combines highly accurate satellite-based positioning with an aircraft's modern flight management system to enable it to fly a precise, pre-programmed three-dimensional approach path. With more aircraft becoming RNP-equipped, we plan to continue to publish RNP arrival procedures for Canadian airports over the next few years. By the end of fiscal 2019, procedures were published for Ottawa, Halifax, Calgary, Edmonton, Winnipeg, St. John's, Regina, Brandon, Saskatoon, Vancouver, Kelowna, Deer Lake, Quebec City, Thunder Bay, London and Kitchener/Waterloo. Improving operational efficiency through RNP initiatives depends on a coordinated approach with partners in the aviation industry.

NAV CANADA, Iridium Communications Inc. (Iridium) and the ANSPs from Ireland (IAA), Italy (ENAV), Denmark (Naviair) and the United Kingdom (NATS) are partners in a joint venture called Aireon.

Aireon's mandate is to provide global satellite-based surveillance capability for ANSPs around the world through ADS-B receivers built as an additional payload on the Iridium NEXT satellite constellation. 75 satellites are in orbit (66 operational and 9 spares) as part of the establishment of the infrastructure for Aireon's ADS-B global aircraft tracking and surveillance service. Trial use of space-based ADS-B coverage by the Company began in March 2019 in the Edmonton and Gander FIRs and, in conjunction with NATS, over the North Atlantic. Since then, the technology has been implemented in Moncton, Montreal and Winnipeg High Level airspace. In addition to all of the safety benefits brought by this technology, Aireon projects that airlines will save fuel costs and avoid greenhouse gas emissions by flying more preferred routes enabled by this technology. As Aireon services are offered worldwide, surveillance of other global airspaces (non-Canadian) have also been enabled, extending Canada's commitment to make aviation more environmentally efficient beyond our own borders.

## **Insurance**

NAV CANADA's fundamental focus on safety is our strength and our most important tool to help reduce risk. In addition to risk reduction strategies, to mitigate the impact of catastrophic events we maintain an insurance program that gives due regard to the risks inherent in aviation.

Our aviation liability insurance program was last renewed on November 15, 2019 for one year and we intend to renew it on November 15, 2020. This insurance covers all of our ANS liabilities to third parties. The Company also carries other lines of insurance at levels deemed appropriate by management for the nature of our business. The cost of this insurance is not material to the Company.

We are contractually obligated to indemnify the Government of Canada for any loss suffered by or claimed against it which is covered by our aviation operations liability insurance.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

The key performance drivers by which we assess the development of our business are:

- safety;
- service; and
- cost-effectiveness.

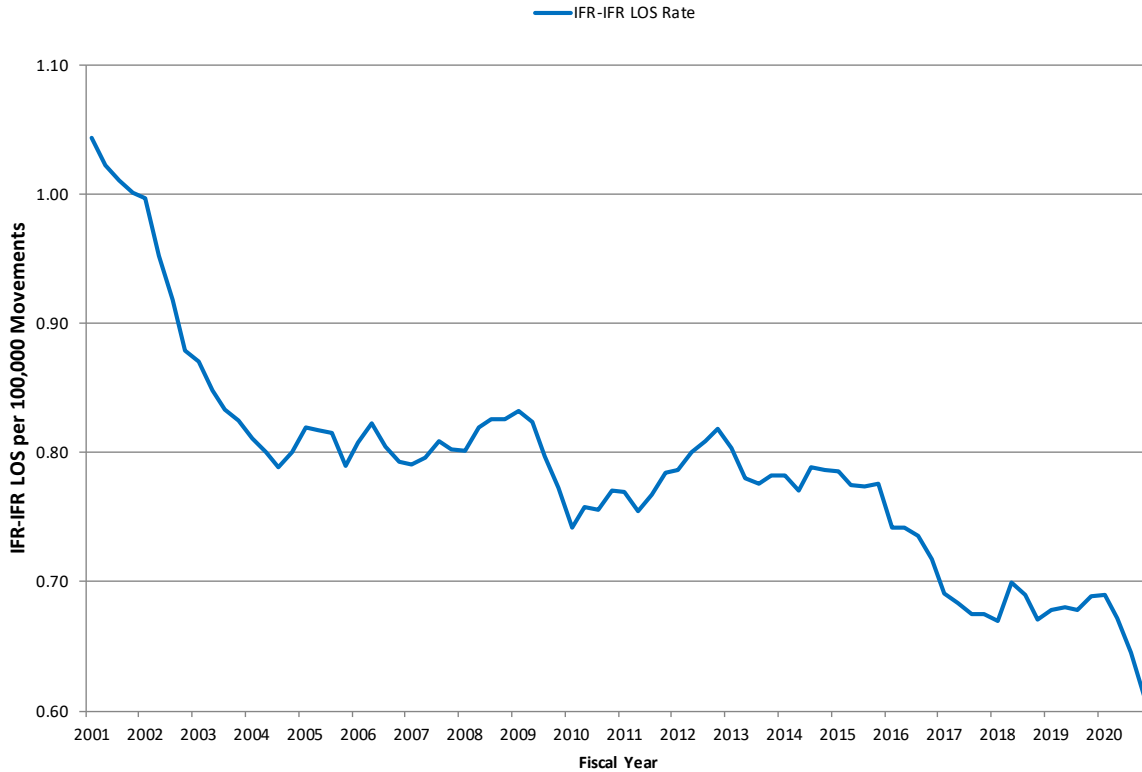
## **Safety**

Finding better and more efficient ways of safely servicing air navigation continues to be a corporate focus.

One measurement of safety performance is the number, type and risk level of potentially unsafe conditions – called “operating irregularities”. An ATC operating irregularity occurs when less than the minimum required separation existed between two aircraft or when safety was jeopardized in some other way. We track and provide reports on operating irregularities to Transport Canada and the Transportation Safety Board on a daily basis. Every operating irregularity, no matter how minor, is recorded, reported and investigated so that we can learn and improve.

The Company has reduced the five-year average rate of incidents involving a physical loss of separation between aircraft operating under IFR flight plans from 1.0 per 100,000 aircraft movements as of September 2002 to 0.61 per 100,000 aircraft movements as of August 31, 2020. This is well below the Company's benchmark rate of 1.0 losses per 100,000 aircraft movements and supports the Company's achievement of its overarching safety objective.

**Rate of IFR-IFR Losses of Separation per 100,000 Movements  
5-Year Moving Average**



Note: The data in the above chart reflects losses of separation between two aircraft operating under instrument flight rules.

**Customer and Operational Efficiency**

One of NAV CANADA’s major priorities is continuous improvement in the delivery of air traffic services, leading to increased operational efficiency for our customers. The ANS is a dynamic and complex system that must adapt to changing air traffic volumes and patterns, customer and system requirements, and global technologies in and around Canadian-controlled airspace. It is vital to ensure that our people, procedures, equipment and the systems that are involved in delivering services anticipate and respond to customer needs as they evolve.

Significant improvements continue to be made with the progression of space-based ADS-B through our participation in Aireon as described above. Until March 2019, ANSPs relied on ground-based radar communication which only covered approximately 30% of the globe to ‘see’ planes. Aireon’s space-based ADS-B system provides for 100% global surveillance coverage of ADS-B equipped aircraft. Trial use of space-based ADS-B coverage by the Company began in March 2019 in areas of each of the Edmonton and Gander FIRs that did not previously have surveillance coverage. Since then, the technology has been implemented in Moncton, Montreal and Winnipeg High Level airspace. The addition of space-based surveillance capability enables us to improve safety as well as service to customers in our airspace.

The ability to accurately see planes in real-time with space-based ADS-B allows for safer service, since it provides more timely and accurate conflict prediction and warnings about aircraft deviations. It also provides for more efficient service since more aircraft will be able to operate more closely to their most

optimal flight profile. The 100% global surveillance coverage of Aireon's space-based ADS-B system will also enable faster emergency response times, allowing rescue coordination centres to receive precise GPS location and real-time tracking data for any ADS-B equipped aircraft in an apparent alert, distress phase or emergency situation that is flying beyond the reach of existing surveillance.

Overall, space-based ADS-B delivers significant benefits in safety, airspace flexibility, predictability and reliability, flight tracking, flight efficiency, fuel savings and avoided greenhouse gas emissions.

In June 2019, the Company received the CANSO Award of Excellence in Air Traffic Management along with partners Aireon and NATS, for our joint efforts leading to the successful deployment of space-based ADS-B over the North Atlantic. The Air Traffic Control Association (ATCA) recognized the Company, Aireon and NATS with its Annual Industry Award in September 2019 for the successful deployment of space-based ADS-B over the North Atlantic. In March 2020, the Company, Aireon and NATS also received the World ATM Congress' 2020 Maverick Award for Collaboration for their work to transform how air traffic is managed in the North Atlantic through the innovative development and deployment of the world's first global, real-time space-based ADS-B service.

Other improvements continue to be made, including:

- continued collaboration with our customers and other ANSPs on international initiatives, and the implementation of reduced aircraft separation minima in oceanic airspace;
- the implementation of the ICAO Notice to Airmen (NOTAM) format;
- going paperless with the Canada Air Pilot effective November 2020 for our civilian customers;
- the development of Remote Piloted Aircraft Systems (RPAS) traffic management strategies within Canadian domestic airspace;
- the modernization of airspace focusing on the Vancouver Airspace Modernization Program; and
- the development and implementation of RNP arrivals at the Kamloops, Penticton, Toronto/Billy Bishop, Comox, Terrace and Prince George airports.

## **Cost-Effectiveness**

As a safety and service organization, it is critical that we manage our costs to ensure spending is prioritized towards our key goals.

Our business operates 24 hours a day, 365 days a year providing an essential, national and international safety infrastructure. Given that the majority of our costs are predominantly fixed in nature and are directly related to service delivery, we have relatively few opportunities to significantly reduce costs further without reducing service, which is not acceptable in most cases. We continue to focus on cost reduction and productivity improvements as well as opportunities for new revenue sources from licensing or sales of technology and other non-aeronautical sources. These efforts are assisting in keeping customer service charges as low as possible, while continuing to meet our safety and service obligations. See "General Development of the Business – Recent Developments – COVID-19 Pandemic" for further information on some of the actions taken by the Company to address the significant revenue shortfall caused by the impact that the COVID-19 pandemic has had on the Company's operations and financial results.

One of these actions is that the Company revised its customer service charges effective September 1, 2020, increasing charges by an average of 29.5% on overall rate levels. This revision was required to allow the Company to achieve a minimum level of revenue in fiscal 2021, thereby enabling the additional borrowings needed to provide NAV CANADA with sufficient liquidity to weather the COVID-19 pandemic. Including this revision, service charges on September 1, 2020 are on average 30.5% higher than when they were fully implemented in 1999. As a result of cost controls and increases in air traffic levels over that period, the change in customer service charges is below the change in the Consumer Price Index by approximately 19.3 percentage points.

## Recent Developments

### **COVID-19 Pandemic**

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The pandemic and the resulting economic contraction has had, and is expected to continue to have, a significant negative impact on global air traffic and on the aviation industry. As a private not-for profit company, our revenues come from our aviation customers, namely airlines, air cargo operators, other commercial air operators and general aviation.

NAV CANADA has seen the number of air traffic movements decline since March 2020 as a result of a decline in passenger demand given COVID-19 concerns, travel restrictions imposed by governments, the closing of international borders and the economic impact of the pandemic. As a result, the Company's customer service charges revenue declined significantly in the third and fourth quarters of fiscal 2020 as compared to the same periods in fiscal 2019. This is due to air carriers reducing their operations, grounding fleets and cancelling flights and routes.

The pandemic is expected to continue to have a negative impact on demand for air travel globally and this will likely continue until such time as travel restrictions are eased, airline passenger concerns about air travel due to COVID-19 subside, and consumer demand for air travel returns. Industry participants are indicating it may be some time before they fully return to pre-COVID-19 operating levels. We expect until this occurs that reduced air traffic activity will have a material negative impact on the Company's operations and revenues.

In response to the impact of the pandemic, the Company continues to review, monitor and take actions to reduce capital and operating spending and cash outflows, while at the same time ensuring the continued fulfillment of the Company's mandate to safely operate and maintain the Canadian air navigation system as an essential service and to protect the safety of its employees.

To address the significant revenue shortfall, some of the actions the Company has taken include:

- drawing \$225 million from its syndicated credit facility to address near-term liquidity needs and the subsequent issuance of \$850 million of general obligation notes;
- accessing the Canada Emergency Wage Subsidy government relief program;
- increasing customer service charges, effective September 1, 2020, by an average of 29.5% on overall rate levels; and
- implementing cost-cutting measures where possible, including the reduction of the fiscal 2020 capital spending program by nearly \$60 million and the elimination of more than 720 jobs through reductions in staffing of temporary and permanent positions along with early retirements. The job cuts were across all departments of the Company and included most of the then current cohort of operational students.

## CAPITAL STRUCTURE

As a corporation without share capital, NAV CANADA finances its operations with borrowed money. The Company developed a financing plan called the Capital Markets Platform in October 1996. All borrowings were incurred and secured under the MTI, which initially provided a total drawn and undrawn borrowing capacity of \$3 billion. The MTI provides for a gradually escalating reduction of the initial capacity over 33 years.

In February 2006, we entered into another trust indenture, the GOI, with BNY Trust Company of Canada as trustee, which established an unsecured borrowing program for our future long-term financing requirements. For so long as any indebtedness remains outstanding under the MTI, the general obligation notes issued pursuant to the GOI will be subordinate to such indebtedness. As subordinated debt, general obligation notes are not subject to the mandatory annual amortization provisions of the MTI. Under the terms of the GOI, no new indebtedness may be incurred under the MTI. Provided that we meet an additional indebtedness test, the Company is not limited in the amount of debt it can issue under the GOI. As bonds mature or are redeemed under the MTI, they may be replaced with general obligation notes.

The following tables set forth the outstanding total borrowings and available bank credit facilities of the Company as of the date of this AIF.

Total Borrowings		
Issued Under	Amount	Type
MTI	\$425 million	Bonds
GOI	\$1,875 million	Medium Term Notes

Available Bank Credit Facilities		
Total Available	\$1,390 million <sup>(1)</sup>	
Expiring (unless extended)	December 2020	\$250 million <sup>(2)</sup>
	December 2021	\$290 million <sup>(2)</sup>
	September 2022	\$425 million <sup>(3)</sup>
	September 2024	\$425 million <sup>(3)</sup>

<sup>(1)</sup> Some of this amount has been drawn or restricted for specific purposes.

<sup>(2)</sup> Letter of credit facilities for pension funding purposes.

<sup>(3)</sup> Credit facility with a syndicate of Canadian financial institutions.

Refer to Note 20 of our annual audited consolidated financial statements for fiscal 2020, for further discussion of our management of the Company's capital structure.

## CREDIT RATINGS

In July 2019, following a request of the Company, DBRS announced that it was discontinuing and withdrawing all of its ratings of the Company. This change was made in order to reduce costs and streamline our credit rating process, bringing the number of ratings for the Company from three to two which is in line with market practice.



The Company's debt obligations have been assigned the following ratings and outlooks:

Agency	Senior Debt	General Obligation	Outlook
Moody's Investors Service	Aa2	Aa2	Stable
Standard & Poor's	AA	AA-	Negative

### ***Explanatory Note on our Credit Ratings***

**Moody's Investors Service (Moody's)** defines obligations rated "Aa" to be of high quality and subject to very low credit risk. The Aa category is the second highest assigned by Moody's. The modifier 2 indicates that the Company's ratings are in the mid-range of the Aa category.

**Standard & Poor's (S&P)** defines an obligor rated "AA" as having a very strong capacity to meet its financial commitments. The AA category is the second highest assigned by S&P and it differs from the highest rating category only to a small degree. The AA rating with a "+" or "-" modifier indicates that the rating is in the upper or lower end of the AA category, respectively. The AA rating without a modifier indicates the rating is in the middle of the AA category.

On April 8, 2020, Moody's affirmed NAV CANADA's ratings and stable outlook. The ratings action reflects NAV CANADA's strong liquidity profile. Moody's stated that the "liquidity sources, combined with cost management measures, planned liquidity enhancement measures and capital expenditure reductions that are being considered, will provide NAV CANADA with the ability to withstand the material declines in passenger traffic that we expect in 2020 and possibly still into 2021."

On April 17, 2020, Moody's issued a credit opinion affirming NAV CANADA's base line credit assessment at Aa2 and its senior and subordinated ratings at Aa2. Moody's noted the Company's following credit strengths:

- Essential infrastructure asset for the Canadian air transportation system;
- Monopoly provider of civil air navigation services over a very large airspace;
- Legislated right to establish and levy rates and charges as needed to meet financial requirements resulting in a good degree of cash flow predictability; and
- Manageable capital expenditure program.

They also noted the following credit challenges:

- Material short-term negative impact of the coronavirus outbreak on revenues due to reduced air traffic activity; and
- Defined benefit pension plan creates recurring calls on cash.

Moody's stated that "the rating outlook is stable, reflecting our expectation that NAV CANADA will ultimately implement the necessary rate increases to compensate for lower levels of activity as a result of the coronavirus outbreak."

As a result of the COVID-19 pandemic, on April 1, 2020, S&P revised its outlook on the Company to negative from stable and affirmed its 'AA' long-term issuer credit and senior secured debt ratings, and 'AA-

' senior subordinated debt rating. In revising its outlook to negative, S&P noted that the revision reflects a one-in-three chance that they could lower the ratings over the next 12 to 24 months. S&P indicated they would consider doing so should a prolonged traffic downturn or slow traffic recovery post-pandemic lead to a large and sustained deterioration in financial metrics.

S&P noted that they “expect NAV CANADA to withstand the significant pressure that the traffic decline is exerting on its cash flows, as it possesses adequate liquidity and no large debt issues until February 2021”. S&P stated that they expect NAV CANADA will preserve strong relationships with domestic financial institutions, maintaining its track record of access to external liquidity. In assessing our ability to manage external shocks, S&P points to the Company’s legislated ability to fully adjust user charges to meet our financial obligations with the view that good debt service metrics provide additional financial capacity.

On May 26, 2020, S&P and Moody’s affirmed NAV CANADA’s credit ratings ahead of the Company’s issuance of \$850 million aggregate principal amount of general obligation notes.

*A credit rating of a security is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization.*

The Company has made payments to DBRS, Moody’s and S&P in connection with the assignment of ratings on each of NAV CANADA, its senior debt and general obligation debt during the last two fiscal years.

## **RISK FACTORS**

The Company has a formal enterprise risk management (ERM) program, which allows the Board and senior management to focus on and address the major business risks facing the Company. Set out below are risks identified as potentially affecting our ability to achieve the Company’s strategic objectives.

### **Safety**

The risk of a major aircraft accident with its attendant consequences, including potential significant financial losses and a significant negative impact on the Company’s reputation, is the most significant business risk facing the Company. While the consequences of this risk are significant, NAV CANADA has established an SMS to mitigate the likelihood of the risk occurring. The SMS is designed to:

- assign safety responsibilities and accountabilities to the appropriate groups;
- assure that personnel are trained for their safety responsibilities;
- promote the identification and mitigation of hazards and risks to operational safety;
- assure the consistent and rigorous application of safety programs; and
- measure the success of these programs.

The SMS is routinely assessed to assure the ongoing effectiveness of its processes for every staffed unit. In addition, we work in close partnership with aviation industry members in order to form strong working relationships for exchanging safety information and work together to address safety risks.

As previously noted in “Business of the Company - Safety Management System” above, the Company has implemented an IQA. The IQA is the foundation of a robust, repeatable, measurable and adaptable process network that ensures the integrity of our SMS. It has been developed in such a manner that processes can be reviewed and checked for correct functioning. Any discrepancies will be addressed by corrective action and follow-up action procedures.

In addition to risk reduction strategies, to mitigate the impact of catastrophic events we maintain an insurance program that gives due regard to the risks inherent in aviation. The availability of insurance is also a risk because the ANS cannot be operated without adequate aviation liability insurance coverage. These policies are generally contracted on an annual basis and are non-cancellable. If any required insurance coverage was cancelled or not renewed on expiry of our policies, we would be unable to operate until replacement coverage was obtained, either in the market or from the Government of Canada. Such an interruption of service would also have an adverse effect on our revenues.

## **Air Traffic**

We set our customer service charges based on estimates of future air traffic volumes. We prepare these estimates on the basis of economic indicators, trends and information gathered from various sources such as Transport Canada, air carriers, other industry sources and our own experience.

Air traffic volumes may be influenced by numerous factors. Examples include the speed of recovery of air traffic following the COVID-19 pandemic, other epidemics or pandemics, rate of economic growth or decline, changing air passenger demand or willingness to fly, aircraft capacity utilization levels, fuel costs, changes in air carrier operations and behaviours, general aviation industry conditions, air carrier competition, airline restructurings and insolvencies, terrorist activities, government interventions, travel restrictions and closing of borders to air travel, climate change and environmental factors (including weather systems and other natural phenomena and factors arising from man-made sources) and demographic patterns.

If actual air traffic volumes are lower than the estimates we used when preparing our budget and when establishing the level of customer service charges, our revenues will be negatively affected. Any revenue shortfalls, to the extent not absorbed by the Rate Stabilization Account will be offset by feasible cost reductions or deferrals and a rate increase, if necessary. For more information on the Rate Stabilization Account refer to the Company's *Management's Discussion and Analysis* (MD&A) for fiscal 2020, dated October 22, 2020. For further information on the impact that the COVID-19 pandemic has had on the Company's operations and financial results, see "General Development of the Business – Recent Developments – COVID-19 Pandemic."

## **Customer Service Charges**

As noted under "Business of the Company - Customer Service Charges - Regulatory Framework" above, WestJet appealed the revised charges set out by the Company in the Announcement. The Company denies the allegations advanced by WestJet. The Company and WestJet are in the process of considering mediation. The Company will vigorously defend the appeal if mediation is not undertaken or if after mediation the Company and WestJet are unable to resolve the matter. The outcome of the appeal is not determinable at this time. If the Agency were to ultimately rule against the Company in the appeal and disallow the revised charges or some portion thereof, the Company would potentially be at risk for approximately \$20 million of customer service charges recorded in September 2020 and \$242 million in anticipated customer service charges for fiscal 2021.

Pursuant to the payment structure set out in the Announcement, the Company deferred the collection of the additional amounts to be received pursuant to the revised charges until beginning in September 1, 2021. As such, no cash amount has been collected yet that may need to be refunded should the Agency ultimately rule against the Company in the appeal and disallow the revised charges or a portion thereof. In the event of a disallowance, the Company will be required to consider the then available options to determine how to finance or otherwise address the revenue shortfall in order to be able to comply with applicable debt covenants under its Indentures. Under the ANS Act, if the appeal is allowed and a refund of some amount

is ordered, the refund must be completed within two years by way of payment or credits of not less than 10% of the refundable amount at subsequent invoicing dates until the entire amount is refunded.

### **User Pay Model**

The Company operates on a cost recovery basis and because of its mandated function has a largely fixed expense base. However, the Company is exposed to a potentially variable user driven customer service charge revenue stream. The COVID-19 pandemic has demonstrated the limits of this pay-for-service model as the Company's ability to maintain sufficient liquidity during a sustained economic downturn is stretched. If the current economic environment brought about by the COVID-19 pandemic continues for an extended period of time, or if there is a further sustained shock to the economy generally or aviation in particular, raising customer service charges to cover the Company's costs, with low traffic levels, could become ineffective. The Company's financial viability would be at risk under such a scenario. For further information on the impact that the COVID-19 pandemic has had on the Company's operations and financial results, see "General Development of the Business – Recent Developments – COVID-19 Pandemic."

### **Pension Plans**

We have defined benefit pension plans for our employees. These plans provide benefits based on age, length of service and best average earnings, most of which are indexed for inflation. The cost of providing these pension benefits is a major part of our cost of operations.

The amount of the Company's pension costs and required contributions to the pension plans depend on the investment return on plan assets, as well as the discount rates and other economic and demographic assumptions used to determine plan obligations. It is difficult to predict future changes in these factors. A small variance in any of these factors could have a large impact on pension plan costs, the plan's surplus or deficit, and required contribution levels.

In setting customer service charges, we factor in estimates of future changes in pension contributions. If actual pension contributions turn out to be higher than our estimates, we may have to increase customer service charges and borrowings or both, to meet our financial requirements.

### **Collective Agreements and Labour Matters**

With approximately 88% of our workforce being unionized, there is an inherent risk that labour settlements will increase our costs to a level higher than anticipated. Labour disruptions such as strikes and work slowdowns may also adversely affect customer service and revenues.

As at the end of fiscal 2020, collective agreements for seven of eight bargaining units covering approximately 99% of our represented employees had been renewed. Negotiations are ongoing for the renewal of the final collective agreement.

### **Investment in Space-Based Aircraft Surveillance through Aireon LLC**

On November 19, 2012, the Company entered into an Amended and Restated Limited Liability Company Agreement of Aireon and a subscription agreement which set out the terms of its participation in Aireon. Aireon's mandate is to provide global satellite-based surveillance capability for ANSPs around the world through ADS-B receivers built as an additional payload on the Iridium NEXT satellite constellation. 75 satellites are in orbit (66 operational and 9 spares) as part of the establishment of the infrastructure for Aireon's ADS-B global aircraft tracking and surveillance service. Trial use of space-based ADS-B coverage by the Company began in March 2019 in the Edmonton and Gander FIRs and, in conjunction with

NATS, over the North Atlantic. Since then, the technology has been implemented in Moncton, Montreal and Winnipeg High Level airspace. The Company has entered into a Data Services Agreement with Aireon pursuant to which it commenced purchasing data services from Aireon in fiscal 2019.

As of the date of this AIF, the Company's cash investment in Aireon is US\$150 million (CDN\$196 million).

In December 2018, in connection with Aireon's entry into a debt facility with a major international bank (the Aireon Debt Facility), the Company and the other Aireon investors contributed their interests in Aireon into a new holding company, Aireon Holdings LLC (Aireon Holdings), and entered into an Amended and Restated Aireon Holdings LLC Agreement (LLC Agreement). Aireon Holdings holds 100% of the membership interests in Aireon, which remains the operating entity.

In accordance with the terms of the LLC Agreement, a portion of Iridium's existing common equity interest in Aireon Holdings will be redeemed for a payment from Aireon Holdings of US\$120 million to finalize the ownership interests of all of Aireon Holdings' investors. Upon this redemption and the related conversion of all preferred interests into common equity interests, NAV CANADA will hold 45.3% of the fully diluted common equity interests of Aireon Holdings, ENAV and NATS will each hold 11.1% and each of the IAA and Naviair will hold 5.3%, with the remaining 21.8% being retained by Iridium.

As of the date of this AIF, the Company's fully diluted common equity interest in Aireon Holdings on a post conversion basis and prior to the redemption of Iridium is 37.2%.

On December 31, 2019, the Company entered into an agreement with Aireon to provide a subordinated loan up to a total of US\$11 million (CDN\$14 million), with an annual interest rate of 11%. Aireon has not drawn upon this subordinated loan as of the date of this AIF.

The reduction in air traffic across the globe as a result of the COVID-19 pandemic, travel restrictions that are in place and the expectation that air traffic may not return to pre-COVID levels for some time, which will impact Aireon's revenue where billings are volumetric and reflect air traffic movements, are risks that have been identified with respect to the Company's investment in Aireon Holdings.

If our investment in space-based aircraft surveillance through Aireon is not successful, the extended benefits of ADS-B coverage over oceanic and remote areas will not be realized by the Company's customers, we could sustain a negative impact to our reputation and an economic loss of our entire investment in Aireon Holdings.

## **Business and Operational Technology Security**

The inherent cyber security risks related to both the Company's business and operational networks and systems remain high. With the ever-changing threat landscape and increased sophistication of techniques used by cyber criminals and state-run operatives, the likelihood of a security breach continues to be a reality for most large enterprises.

The Audit & Finance and Safety Committees of our Board are responsible for the oversight of our cyber security strategies and implementation as they relate to the Company's business systems and operational systems, respectively.

This past year, the Company continued to invest in technology countermeasures and employee awareness programs, which included testing employees through phishing simulations, our annual mandatory cyber security computer based training, and numerous cyber security related awareness campaigns.

The technology investments were mainly focused on upgrading our national data network, adding additional security sensors in our Operational Infrastructure (defined below) and maturing our use of third party security monitoring.

The Enterprise Cyber Security Governance Board established by the Company in fiscal 2018 continues to provide internal oversight on matters related to cyber security for the Company. The meeting cadence for the year was maintained and effective oversight was provided on various matters, including cyber insurance, ransomware, extortion payment philosophies and investment priorities.

In fiscal 2019, Internal Audit in conjunction with the Information Management and Engineering departments of the Company, conducted a third party maturity assessment with Deloitte. The assessment was completed in April 2019 and was reviewed with both the Audit & Finance and Safety Committees. The assessment concluded that the Company has (1) maintained an effective and reasonable level of maturity across four dimensions, (2) maintained pace of maturity in lieu of an ever-changing threat landscape and (3) in some areas, demonstrated a higher level of maturity than a peer group of organizations with similar risk profiles. This maturity assessment also identified areas for improvements. Good progress is being made to address the identified areas for improvement and quarterly progress reporting is provided by management to the Audit & Finance and Safety Committees.

In September 2020, the Company created a new Technology department bringing together the operational systems and business systems under the Vice President and Chief Technology and Information Officer. This reorganisation allowed the Company to consolidate all cyber resources into a single team under the leadership of the Chief Information Security Officer, who reports to the Vice President and Chief Technology and Information Officer. This consolidation allowed the Company to improve cyber security program efficiencies and drive commonality in goals, process, procedures and frameworks ultimately resulting in a single, unified approach to cyber security.

Despite our efforts, a significant data security breach or service disruption could result in liability or regulatory penalties under laws protecting the privacy of personal information, interrupt our operations, harm our reputation and have an adverse effect on our business.

### **Business Interruption**

The Company relies heavily on its business and operational networks and systems together with its operational facilities (collectively, the Operational Infrastructure) to operate its business. Any disruption in all or part of the Operational Infrastructure due to internal failures of technology or external interruptions, such as severe weather conditions, natural disasters and terrorist attacks, could interrupt our operations and have an adverse effect on our business.

### **Insufficient Staffing**

The Company's ability to manage and operate the ANS and related services in a safe, efficient and cost-effective manner depends largely upon the availability of licensed and experienced air traffic controllers and certified flight service specialists. The success of the Company's core business therefore depends in large measure on its ability to recruit, train and retain skilled operational personnel, especially air traffic controllers and flight service specialists, but also including other specialists such as engineering, computer science and electronics technologists.

Failure to recruit, train and retain the appropriate level of such skilled operational personnel could result in a frequent or prolonged reduction of the Company's services. The Company's operations could also be adversely impacted if its employees are unable or restricted in their ability to work, including by reasons of

being quarantined or becoming ill as a result of exposure to COVID-19, or if they are subject to government or other restrictions.

Sustained reduction of services could have an adverse effect on the Company's business and reputation.

Management has mitigation strategies in place for all ERM risks.

## CORPORATE GOVERNANCE

### Board of Directors Structure and Composition

The Company's overall approach to corporate governance follows best practices and keeps pace with evolving requirements, including those under applicable securities legislation.

The Board is comprised of 15 directors, at least two-thirds of whom, including the President & CEO, are required to be Canadian citizens. One director (the President & CEO) is an employee of the Company. All other directors are "independent" directors as that term is defined in National Instrument 52-110 *Audit Committees* (NI 52-110).

NAV CANADA represents a unique consensus among the major stakeholders in the ANS - the Government of Canada, the commercial air carriers, general aviation, and our unionized employees. Our governance structure reflects this consensus. All four of these major stakeholders are members of the Company together with a Director member (collectively, the Members).

The result is a board of directors where all stakeholder interests are represented but none dominates. The Board's committees are similarly constituted except for the Human Resources & Compensation Committee. The five Members elect the directors as follows:

Member	Number of Directors
Government of Canada	3
Commercial Air Carriers	4
General Aviation	1
Labour Unions	2
Directors	4

The Board discharges its responsibilities directly and through committees. The Board holds five scheduled meetings each year and unscheduled meetings are held from time to time as required. The mandate of the Board is set out in **Appendix A**.

Our By-laws disqualify from directorship any person elected to the Parliament of Canada or any provincial legislature or territorial legislative assembly; federal, provincial or territorial government employees; and directors or employees of an entity that has a material interest as a supplier, client or customer of the ANS. Every director and officer of the Company is required to sign and abide by our *Code of Conduct and Conflict of Interest Guidelines for Directors and Officers* (Code of Conduct).



### Directors

Directors are elected for terms not exceeding three years, with terms expiring at the Company's annual meeting. No director, other than the President & CEO, may serve as a director for more than twelve years



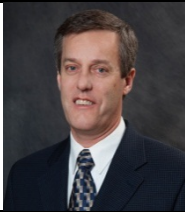





in total. Set out below is information on the current directors, including their Committee membership and meeting attendance records for fiscal 2020.




In order to streamline and reconstitute its Committees, the Board decided, on the recommendation of the Corporate Governance Committee, to dissolve its Customer Service Charges Committee (CSCC) and establish a new Committee, the Transformation Committee, in January 2020. The CSCC's responsibilities reverted to the Board. No meeting of the CSCC was held in fiscal 2020. The Transformation Committee is comprised of the former members of the CSCC. See "Board Committees" below for the mandate and other information related to the Transformation Committee.




<b>Marc Courtois</b>		
Director; Chair of the Board Québec, Canada Elected by: Board of Directors Director since: February 16, 2012 Current Term Expires: 2021		
Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
Board Audit & Finance Committee* Corporate Governance Committee Transformation Committee* Human Resources & Compensation Committee* Pension Committee* Safety Committee <i>*ex officio member.</i>	10/10 6/6 4/4 1/1 13/13 4/4 4/4	Corporate Director.
<b>Edward M. Barrett</b>		
Director; Chair of the Transformation Committee New Brunswick, Canada Elected by: Board of Directors Director since: February 7, 2013 Current Term Expires: 2022		
Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
Board Audit & Finance Committee* Corporate Governance Committee Transformation Committee Human Resources & Compensation Committee Pension Committee*  <i>*Mr. Barrett was a member of the Pension Committee until January 9, 2020 at which time he joined the Audit &amp; Finance Committee.</i>	10/10 3/3 4/4 1/1 12/13 2/2	Co-CEO and Chair of Barrett Corporation.




<b>Mary-Ann Bell</b>		
<p>Director; Chair of the Safety Committee            Québec, Canada            Elected by: Government of Canada            Director since: May 30, 2014            Current Term Expires: 2023</p>		
Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
<p>Board 10/10            Transformation Committee 1/1            Human Resources &amp; Compensation Committee 13/13            Safety Committee 4/4</p>	<p>Corporate Director.</p>	
<b>Jean Coté</b>		
<p>Director            Québec, Canada            Elected by: Commercial Air Carriers            Director since: January 14, 2015            Current Term Expires: 2021</p>		
Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
<p>Board 10/10            Human Resources &amp; Compensation Committee 3/3            Pension Committee 4/4            Safety Committee 4/4</p>	<p>Corporate Director.</p>	
<b>Robert J. Davis</b>		
<p>Director            Ontario, Canada            Elected by: Commercial Air Carriers            Director since: April 8, 2009            Current Term Expires: 2021*</p>		
Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
<p>Board 10/10            Audit &amp; Finance Committee 6/6            Human Resources &amp; Compensation Committee 13/13</p> <p><i>*As of January 13, 2021, Mr. Davis will have served his 12-year maximum term on the Board.</i></p>	<p>Corporate Director.</p>	

<b>Michael DiLollo</b>		
<p>Director Ontario, Canada Elected by: Commercial Air Carriers Director since: February 7, 2013 Current Term Expires: 2022</p>		
<b>Meeting Attendance/Committee Membership</b>		<b>Principal Occupation Held in Last Five Years</b>
<p>Board 10/10 Audit &amp; Finance Committee 6/6 Safety Committee 4/4</p>		<p>Managing Director, Specialty Finance, Fixed Income at Caisse de dépôt et placement du Québec (CDPQ). From June 2017 to April 2019, Senior Director, Investment, Specialty Finance, Fixed Income at CDPQ. Chief Executive Officer of Caribbean Airlines from May 21, 2014 until October 28, 2015.</p>
<b>Bonnie DuPont</b>		
<p>Director; Chair of the Human Resources &amp; Compensation Committee Alberta, Canada Elected by: Board of Directors Director since: February 7, 2013 Current Term Expires: 2022</p>		
<b>Meeting Attendance/Committee Membership</b>		<b>Principal Occupation Held in Last Five Years</b>
<p>Board 10/10 Corporate Governance Committee 4/4 Human Resources &amp; Compensation Committee 13/13</p>		<p>Corporate Director.</p>
<b>Marc Grégoire</b>		
<p>Director Québec, Canada Elected by: Government of Canada Director since May 13, 2019 Current Term Expires: 2022</p>		
<b>Meeting Attendance/Committee Membership</b>		<b>Principal Occupation Held in Last Five Years</b>
<p>Board 10/10 Audit &amp; Finance Committee 6/6 Transformation Committee 1/1</p>		<p>Corporate Director.</p>

<b>Linda Hohol</b>		
Director; Chair of the Audit & Finance Committee Alberta, Canada Elected by: Board of Directors Director since: February 16, 2012 Current Term Expires: 2021		
<b>Meeting Attendance/Committee Membership</b>		<b>Principal Occupation Held in Last Five Years</b>
Board Audit & Finance Committee Transformation Committee Pension Committee	10/10 6/6 1/1 4/4	Corporate Director.
<b>Robert Reid</b>		
Director; Chair of the Corporate Governance Committee Ontario, Canada Elected by: Commercial Air Carriers Director since: April 8, 2009 Current Term Expires: 2021*		
<b>Meeting Attendance/Committee Membership</b>		<b>Principal Occupation Held in Last Five Years</b>
Board Corporate Governance Committee Human Resources & Compensation Committee	9/10 3/4 12/13	Corporate Director.
<i>*As of January 13, 2021, Mr. Reid will have served his 12-year maximum term on the Board.</i>		
<b>Michelle Savoy</b>		
Director; Chair of the Pension Committee Ontario, Canada Elected by: Government of Canada Director since: December 15, 2015 Current Term Expires: 2021		
<b>Meeting Attendance/Committee Membership</b>		<b>Principal Occupation Held in Last Five Years</b>
Board Corporate Governance Committee Pension Committee	10/10 4/4 4/4	Corporate Director.

<b>Umar Sheikh</b>		
Director British Columbia, Canada Elected by: Labour Unions Director since: January 13, 2016 Current Term Expires: 2022		
Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
Board Audit & Finance Committee Safety Committee	10/10 5/6 3/4	Former Chief Executive Officer of the British Columbia Nurses' Union.
<b>Scott Sweatman</b>		
Director British Columbia, Canada Elected by: Labour Unions Director since: April 8, 2010 Current Term Expires: 2022		
Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
Board Corporate Governance Committee Transformation Committee Pension Committee	10/10 4/4 1/1 4/4	Partner at Dentons Canada LLP.
<b>David Weger</b>		
Director Saskatchewan, Canada Elected by: General Aviation Director since: January 10, 2018 Current Term Expires: 2021		
Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
Board Audit & Finance Committee* Pension Committee* Transformation Committee	10/10 3/3 2/2 1/1	Corporate Director. From January 2011 to May 1, 2018, Senior Director, Administration Services at Nutrien Ltd. (formerly Potash Corporation of Saskatchewan Inc.)
<i>*Mr. Weger was a member of the Audit &amp; Finance Committee until January 9, 2020 at which time he joined the Pension Committee.</i>		

Neil R. Wilson		
Director Ontario, Canada Director since: January 1, 2016 Current Term Expires: N/A		
Meeting Attendance/Committee Membership		Principal Occupation Held in Last Five Years
Board Pension Committee Safety Committee	10/10 4/4 4/4	President & CEO of the Company from January 1, 2016. From December 1, 2012 to December 31, 2015, Executive Vice President, Administration and General Counsel of the Company.

### Independent Functioning of the Board

All of the directors, other than the President & CEO, are independent. The responsibilities of the Chair of the Board are set out in the Terms of Reference for the Chair, attached as **Appendix B**. The By-laws of the Company do not allow the positions of Chair and President & CEO to be occupied by the same person. The structure and composition of the Board and its Committees have been designed to ensure that the Board functions independently of management. To further enhance the ability of the Board to function independently from management, a portion of each regularly scheduled Board meeting is reserved for discussion without the President & CEO or other representatives of management being present. For fiscal 2020, the Board held ten meetings.

The President & CEO is not a member of the Corporate Governance, Audit & Finance, Transformation or Human Resources & Compensation Committees. As a result, these Committees are composed entirely of independent directors.

### Directorships of Other Reporting Issuers

The following current directors are also directors of other reporting issuers:

Name of Director	Name of Other Reporting Issuer
Edward Barrett	Wajax Corporation
Mary-Ann Bell	Cogeco Inc. SNC-Lavalin Group Inc.
Marc Courtois	Pembroke American Growth Fund Inc. (formerly GBC American Growth Fund Inc.) TVA Group Inc.
Bonnie DuPont	Bird Construction Inc.
Linda Hohol	Canadian Western Bank
Michelle Savoy	Laurentian Bank of Canada Pizza Pizza Royalty Corp.

## Nomination of Directors

As described above, NAV CANADA has five Members - the Government of Canada, a commercial air carrier member, a general aviation member, a labour unions member, and the Director member. These Members elect a total of 14 of the 15 directors. The President & CEO is also a director.

The process for nominating and selecting those directors elected by the Director Member is led by the Corporate Governance Committee. As part of its mandate, this Committee develops and annually updates a long-term plan for the composition of the Board which takes into consideration the current strengths, skills and experience on the Board and the strategic direction of NAV CANADA, and recommends nominees to the Board for election.

In performing this mandate, the Committee seeks director nominees with the skills and experience needed to properly oversee the interests of the Company. The Committee carefully evaluates each candidate to ensure that they possess the necessary experience, skills and qualifications that the Committee has found contribute to being an effective member of the Board. Such key criteria include, among others:

- the highest level of personal and professional ethics, integrity and values;
- practical wisdom and mature judgment;
- an inquisitive and objective perspective;
- skills and experience that are complementary to the current Board and helpful with the Company's current activities and strategic direction; and
- willingness to serve as a helpful resource to the Board and to management, where necessary and appropriate, and to objectively appraise the performance of management.

In addition to the qualifications that each director nominee must have, the Board believes that one or more of the members of the Board should possess the experience and expertise listed below given their particular relevance to the business of the Company and its structure:

- Air Transportation Industry Experience
- Aviation Industry Experience
- Corporate Governance Experience
- Audit and Financial Accounting Expertise
- Legal Expertise
- Engineering Expertise
- Technological Expertise
- Strategic Planning and Risk Management Experience
- Corporate Finance and Investment Management Experience
- HR/Compensation Experience
- Pension Plan Expertise
- Government Experience
- Leadership Experience

The mandate of the Corporate Governance Committee is attached as **Appendix C**.

## Assessments

Biennial assessments are conducted of the effectiveness and contributions of the Board, the Chair of the Board and each Committee. In addition, recognizing that individual director development contributes to the overall effectiveness of the Board, each director participates in a peer review process, carried out every two years. The Corporate Governance Committee oversees the process of conducting the assessments and

makes recommendations to the Board on areas that may require improvement. Each Committee reviews its assessment and makes improvements as needed.

## Position Descriptions

The Board has developed position descriptions for the Chair of the Board, the President & CEO, and the Committee Chairs. These position descriptions are attached as **Appendices B, D and E**, respectively.

## Orientation and Continuing Education

An orientation program for new directors is in place to assist them in familiarizing themselves with the Company, the Board, its Committees, other directors and assisting them in understanding their responsibilities and enhancing their ability to contribute. The orientation program is designed to familiarize newly elected directors with their role, responsibilities and liabilities and provide them with an in-depth overview of the Company, the ANS and, the Board and its Committees. The program consists of written materials, meetings with the Chair of the Board, other directors, the President & CEO and executive team, corporate staff and visits to the Company's facilities. Each new director is assigned a mentor, a fellow director with similar Committee memberships and several years of service on the Board.

Director education is regarded as any manner in which directors obtain or enhance their knowledge that is useful to the director in the fulfillment of his or her obligation as an effective Board member and includes, but is not limited to, any form of

- course,
- seminar,
- conference,
- guest speaker,
- educational topic on meeting agendas,
- reading material provided in support of meeting material,
- tours of Company facilities,

or any other information or specific training. Directors have opportunities to receive continuing education at Committee and Board meetings where sessions are conducted on emerging issues and trends. Twice a year, the Board receives an in-depth presentation from management on current business issues. Directors are encouraged to attend seminars or courses on relevant subject matters provided by outside institutions or organizations. All directors are members of the Institute of Corporate Directors (ICD) and as such are able to leverage courses offered by the ICD. They are also encouraged to arrange individual tours at facilities at regular intervals to keep their knowledge of operations current. Subject to the nature of the education, directors are provided with funding by the Company for courses taken.

The following table provides details on certain director training initiatives undertaken in fiscal 2020.

Director Continuing Education Fiscal 2020		
Topic	Presentation By	Attendees
Liquidity Risk	Donna Mathieu, Vice President, Pension Investments & Treasurer	Pension Committee
Audit Regulatory Landscape and Best Practices for Audit Committees	Canadian Public Accountability Board	Audit & Finance Committee
Overview of S&P Global Ratings Methodology	Standard & Poor's	Audit & Finance Committee
The Anatomy of a Phishing Attack	Claudio Silvestri, former Vice President and Chief Information Officer and Tom Bornais, Director, Enterprise Technology Security Office & Infrastructure Planning	Audit & Finance Committee

Insights on Cyber Security	Mark Cooper, Senior Vice President, ANS Technology and Claudio Silvestri, former Vice President and Chief Information Officer	Board of Directors
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## Compensation

The Corporate Governance Committee reviews director compensation on a biennial basis and makes recommendations to the Board regarding changes, if any are deemed necessary or appropriate. Such review might include the retention of outside consultants to provide assistance. Compensation for directors is in cash for Board and Committee retainers, meeting fees, fees for chairing the Board or Committees, as well as reimbursement of travel and related business expenses. For more information on fees paid to directors refer to the Company's Form 51-102F6 *Statement of Executive Compensation* (Form 51-102F6) which is attached as **Appendix H**.

The Human Resources & Compensation Committee has responsibility for the review and updating of the executive compensation package to ensure it is competitive in the marketplace and meets the Company's compensation philosophy. Executive compensation is more fully described in the Form 51-102F6 which is attached as **Appendix H**.

The Human Resources & Compensation Committee is composed entirely of independent directors. The Committee's mandate is attached as **Appendix F**.

## Ethical Business Conduct

The Code of Conduct is designed to govern the conduct of all directors and officers, and the disclosure and avoidance of conflicts of interest. This disclosure is updated annually, or more frequently, as required. All of the Company's directors and officers have signed a Code of Conduct and Conflict of Interest declaration. During fiscal 2020, no proceedings were taken against any director or officer by the Board under the Code of Conduct.

In addition, NAV CANADA has a *Code of Business Conduct* (Code of Business Conduct) which applies to all directors, officers and employees of the Company. Copies of both the Code of Conduct and the Code of Business Conduct are available on the Company's website and on SEDAR at [www.sedar.com](http://www.sedar.com). The Corporate Governance Committee has responsibility for reviewing with the Board and management the results of an annual review of compliance with the Code of Conduct.

Directors and executive officers of the Company who hold office as a director, officer or elected official of another entity or who are an associate or employee of another entity that might be in conflict with their duty or interest towards the Company, must file a written declaration to this effect with the Company. No director or officer who is in such a position may participate in the consideration of any transaction or agreement in which such other entity has an interest.

The Code of Business Conduct, which applies to all employees, directors and officers of the Company is reviewed and approved by the Board and complies with the requirements of National Policy 58-201 *Corporate Governance Guidelines*. The Board is committed to bringing the highest degree of honesty, integrity and ethical conduct to the Company's operations and business relationships. This commitment is reflected in the NAV CANADA vision and values, as well as in all dealings with employees, customers, bargaining agents, suppliers, and other stakeholders. The Code of Business Conduct describes how that commitment is put into everyday practice.



The Code of Business Conduct is not simply a list of rules. It is intended to help employees, directors and officers maintain the very high standard of ethical behaviour expected of a company entrusted with public safety. Throughout the Code of Business Conduct, employees, directors and officers are directed to appropriate internal review and redress mechanisms available within the Company to address specific situations and potential violations. Examples of internal review and redress mechanisms include the Alternate Dispute Resolution Process, the Workplace Accommodation Right of Review Process, the Official Languages Internal Complaints Procedure, grievance processes available to unionized employees, and the Internal Complaints Resolution Process.

The Company has in place policies and processes on whistleblowing. The NAV CANADA whistleblowing system, called SENTINEL, is confidential and independently managed, and has procedures for the receipt, retention and treatment of complaints received regarding accounting, internal accounting controls, auditing or pension plan matters, as well as reporting of serious ethical, legal, fraudulent or other concerns that could harm the reputation and/or financial standing of the Company. SENTINEL ensures that employees have an outlet for reporting concerns relating to the Company that are not being addressed through existing channels, and that concerns regarding accounting, internal controls or auditing matters are directed to the Chair of the Audit & Finance Committee, concerns relating to pension plan matters are directed to the Chair of the Pension Committee and serious ethical, legal, fraudulent or other concerns are directed to the Chair of the Board.

In addition, the Company has a confidential safety reporting program, called ARGUS, which provides employees with the opportunity to identify potential hazards while remaining anonymous. ARGUS ensures that employees who recognize a potential hazard can report their concerns confidentially. Every employee and manager is encouraged to use the ARGUS program, without fear of recrimination.

The Board, officers and management of the Company are committed to an active disclosure culture. The Company's Corporate Disclosure Policy (available on the Company's website) ensures communications to the investing public are timely, accurate, consistent, informative, compliant with legal and regulatory requirements and are broadly disseminated.

## **Gender Diversity**

The Company and the Board recognize the importance of diversity, including gender, in the selection of directors and executive officers and believe that diversity enhances corporate and board discussion, viewpoints and, ultimately, performance.

While there are no targets in place regarding the representation of women on the Board or when hiring executive officers, the Company has an *Employment Equity and Diversity Policy* which applies when hiring and promoting executive officers. This policy sets out an objective that the Company's hiring practices are to be as much a reflection of the Canadian labour market as possible, while improving designated group representation within the workplace and supporting diversity in its business practices.

Two-thirds of the Board's members are elected by the Company's stakeholder members and while the Board cannot dictate requirements to those stakeholders, the Corporate Governance Committee of the Board regularly examines the experience, skills and attributes, including gender, required for filling Board vacancies, and communicates these requirements to our stakeholder members for their consideration when electing directors. The Corporate Governance Committee similarly identifies desirable competencies and attributes, including gender, while ensuring an appropriate mix of skills and experience with respect to those directors elected by the Board.

Currently, one quarter (26%) of the Board members are women, with 67% of the directors elected by the Government of Canada, and 50% of the Board-elected directors, being women. There are also four women (44%) on the Executive Management Committee (EMC) of the Company. Within the senior management group, which by definition includes individuals in policy-making functions, 32% are women.

## Board Committees

Our Board has six committees, as described below, which do not take action or make decisions on behalf of the Board unless specifically mandated to do so.

Audit & Finance Committee		
Mandate	Meetings held in fiscal year	Current Membership
Responsible for assisting the Board in fulfilling its oversight responsibilities relating to the Company's financial reporting and disclosure obligations, including review of annual and interim financial statements, the integrity of the Company's financial reporting and internal controls, the oversight of the Company's internal audit function, compliance with legal and regulatory requirements, and the qualifications, independence and performance of the Company's public accountants. The Committee also provides oversight on treasury matters and reviews and recommends to the Board any financing and/or financial risk management transactions proposed by management. In addition, the Committee provides oversight of the Company's cyber security strategies and implementation as they relate to the Company's business systems.	Six	Linda Hohol, Chair Edward Barrett Robert Davis Michael DiLollo Marc Grégoire Umar Sheikh

Corporate Governance Committee		
Mandate	Meetings held in fiscal year	Current Membership
Develops general policies relating to corporate governance to ensure that the Company has in force an effective corporate governance system that adds value and assists the Company in achieving its objectives.	Four	Robert Reid, Chair Edward Barrett Marc Courtois Bonnie DuPont Michelle Savoy Scott Sweatman

Human Resources & Compensation Committee		
Mandate	Meetings held in fiscal year	Current Membership
Provides oversight to ensure a high quality of leadership within NAV CANADA, an employee and labour relations strategy that provides for a productive and fulfilling work environment, and ongoing flexibility and productivity throughout the Company. As well, the Committee ensures that the human resources plans and programs reflect the Company's human resources values and principles.	Thirteen	Bonnie DuPont, Chair Edward Barrett Mary-Ann Bell Robert Davis Robert Reid

Pension Committee		
Mandate	Meetings held in fiscal year	Current Membership
Oversees the investment management of plan assets and the administration of the Company's retirement plans, which include two registered pension plans and supplementary retirement arrangements. At the invitation of the Chair, an observer member, nominated by the employees' unions, attends the meetings.	Four	Michelle Savoy, Chair Jean Coté Linda Hohol Scott Sweatman David Weger Neil Wilson Doug Best, Observer

Safety Committee		
Mandate	Meetings held in fiscal year	Current Membership
Oversees the safety of the Company's air navigation services and products, primarily by monitoring the integrity and effectiveness of our risk management safety policies. In addition, the Committee provides oversight of the Company's cyber security strategies and implementation as they relate to the Company's operational facilities and operational systems.	Four	Mary-Ann Bell, Chair Jean Coté Marc Courtois Michael DiLollo Umar Sheikh Neil Wilson

Transformation Committee		
Mandate	Meetings held in fiscal year	Current Membership
Responsible for the oversight of the implementation and progress of the technology and other business transformation initiatives outlined in the Company's Strategic Plan (collectively, the "Transformation Program") and for reviewing and recommending refinements to the Transformation Program from time to time to the extent necessary.	One	Edward Barrett, Chair Mary-Ann Bell Marc Grégoire Linda Hohol Scott Sweatman David Weger

## Audit & Finance Committee Information

The Company has an Audit & Finance Committee that meets the requirements of NI 52-110. The Terms of Reference for the Audit & Finance Committee are attached as **Appendix G**.

**Independence & Financial Literacy** - All of the members of the Audit & Finance Committee are independent and are financially literate within the meaning of NI 52-110.

The following describes the relevant education and experience of the current members of the Committee.

**Linda Hohol, FICB, Chair of the Audit & Finance Committee** - Ms. Hohol acquired significant experience and exposure to accounting and financial reporting issues as the former President of the TSX Venture Exchange, part of the TMX Group, as well as in her prior roles as Executive Vice President, Wealth Management and Senior Vice President, Alberta and NWT at Canadian Imperial Bank of Commerce, where she spent 26 years. Ms. Hohol currently sits on the boards of directors of the Canadian Western Bank,

serving as a member of its Risk Committee and serving as Chair of its Human Resources Committee, and the ICD, serving as Chair of its Board of Directors. She has past experience on many boards, including ATB Financial (Chair of the Risk Committee and member of the Audit Committee), EllisDon Construction (member of the Audit Committee) as well as The Calgary Airport Authority, Canada Foundation for Innovation and United Way of Calgary (Chair of all three Audit Committees). Ms. Hohol is a graduate of the Executive Development Program at the Kellogg School of Management, Chicago, Illinois. Ms. Hohol is a Fellow of the Institute of Canadian Bankers.

**Edward Barrett, F.ICD** - Mr. Barrett is Chair and Co-CEO of Barrett Corporation, a business with operations throughout Canada and the U.S. in the telecommunications, wholesale distribution, and refrigeration business sectors. In this position, the Chief Financial Officer reports directly to Mr. Barrett. He has been Chair of NB Power since 2010 and has also served on its Audit Committee. Mr. Barrett is currently an *ex officio* member of NB Power's Audit Committee and has also served on the Audit Committee of Wajax Corporation, a TSX listed company, since 2006. He previously served on the Audit & Finance Committee of NAV CANADA from February 2013 to May 2014 and on the Finance Committee of Medavie Blue Cross. Mr. Barrett is a Fellow of the ICD.

**Robert J. Davis, C.Dir** - Mr. Davis spent over 32 years in the aviation industry with 30 years of this time in the airline sector at the management and executive level. He was President & CEO of Bradley Air Services Ltd./First Air for over ten years, and Executive Vice President of Air Inuit Ltd. for 19 years. Mr. Davis reported to the board of directors at both airlines and was responsible for all aspects of the companies, including financial matters. During his tenure at these companies, the accounting department senior staff reported directly to him, he participated in all Audit Committee meetings and had oversight of financial information prepared and presented to the companies' boards of directors. He is a graduate of the Directors College Chartered Directors Program as well as the Human Resources and Compensation Committee Certified Program.

**Michael DiLollo, MBA, ICD.D** - Mr. DiLollo is currently Managing Director, Specialty Finance, Fixed Income at CDPQ, the Chairman of EINN Volant Aircraft Leasing Holdings Ltd., a joint venture between CDPQ and General Electric, and was the CEO of Caribbean Airlines Ltd. from May 2014 until October, 2015. He is a certified Aircraft Maintenance Engineer and Airline Transport Pilot. His business and financial experience spans over 30 years in the aerospace industry with broad financial responsibilities in senior management roles including President of Transat Tours Canada (2009-2011) with CDN \$2 billion in sales. Other senior management roles involved complex financial environments and initiatives throughout the multinational organization, for which he reported to the public board of directors for Transat AT Inc. Mr. DiLollo was a board member for the Air Transport Association of Canada from 2005 to 2007. He is a graduate of the ICD.

**Marc Grégoire** - Marc Grégoire brings with him extensive experience in the aviation sector, having spent 27 years at Transport Canada in various leadership roles, including as Assistant Deputy Minister, Safety and Security, where he obtained significant expertise in financial management and budgeting. Mr. Grégoire became Commissioner of the Canadian Coast Guard, Fisheries and Oceans in 2010 until his retirement from the Public Service in December 2014. As Commissioner, he managed a budget of over \$600 million and an organization of approximately 5,000 employees. He also participated in most of the meetings of the Fisheries and Oceans Audit Committee during his tenure as Commissioner. Given his experience with the Public Service, Mr. Grégoire is adept in reviewing and interpreting fiscal information and financial statements. He served as the Chairman for the review of the *Pilotage Act* for the Minister of Transport in 2017-2018. Mr. Grégoire has taken courses offered by the ICD dealing with financial literacy.

**Umar Sheikh, J.D., ICD.D.** - Mr. Sheikh studied tax law in both Canada and the United States. He is currently a labour law practitioner and is the former Chief Executive Officer of the British Columbia Nurses

Union, an organization comprised of 44,000 members. Mr. Sheikh has many years of experience in the public and private sector negotiating, auditing and litigating complex collective agreements. Mr. Sheikh has multiple years of experience negotiating corporate merger and acquisition agreements inclusive of due diligence on corporate financial statements. Mr. Sheikh has taken courses offered by the ICD dealing with financial literacy.

**Non-Audit Services** - The Audit & Finance Committee has adopted a policy for the pre-approval of the provision of audit-related, tax and other non-audit services by the Company's external auditors. The policy provides that all non-audit services provided by the Company's external auditors must be pre-approved by the Committee, and also incorporates a list of prohibited non-audit services.

Annually, the Committee updates and approves a list of pre-approved services including those that are recurring or otherwise expected to be provided. The Committee is subsequently informed quarterly of the services for which the auditors have been engaged and the related fees. Any additional requests for pre-approval are addressed on a case-by-case specific engagement basis as described below.

Recommendations in respect of each engagement are submitted by the Chief Financial Officer to either the Chair of the Audit & Finance Committee or to the full Committee. The engagement may commence upon approval of the Chair of the Committee (where aggregate fees are expected to be less than \$50,000) or of the full Committee (where the aggregate fees are expected to be greater than \$50,000).

**External Auditor Fees** - The aggregate fees billed by the Company's external auditors KPMG LLP during fiscal 2020 and fiscal 2019 were as follows:

	Year Ended August 31, 2020	Year Ended August 31, 2019
Audit Fees <sup>(1)</sup>	\$560,000	\$672,328
Audit-Related Fees <sup>(2)</sup>	\$50,000	\$50,000
Tax Fees <sup>(3)</sup>	\$33,819	\$60,913
Other Fees <sup>(4)</sup>	\$28,106	\$38,020
Total	\$671,925	\$821,261

- (1) **Audit Fees** - were paid for professional services rendered for the audit of the Company's annual financial statements and the review of the Company's interim financial statements in fiscal 2020. The 2020 fees also include the following amounts: fees of \$15,000 related to non-recurring audit work related to the Company's adoption of IFRS 16 – *Leases* on September 1, 2019.
- (2) **Audit-Related Fees** - were paid for assurance and related services that are reasonably related to the performance of the audit or review of the annual financial statements and are not reported under the audit fees item above. These services consisted of translation services.
- (3) **Tax Fees** - were paid for professional services related to tax compliance, tax advice and tax planning. These services consisted of the review of tax returns, assistance in the commodity tax area, tax assistance with respect to specific transactions, and other compliance services.
- (4) **Other Fees** - were paid for professional services related to direct assistance provided to Internal Audit for the audit of overtime.

## Executive Officers

The composition and structure of the EMC was adjusted effective September 1, 2020 following the retirements of Rudy Kellar, former Executive Vice President, Service Delivery, Larry Lachance, former

Vice President, Safety and Quality, Trevor Johnson, former Vice President, Air Traffic Services Service Delivery and Claudio Silvestri, former Vice President and Chief Information Officer which were effective August 31, 2020. The re-structuring of the EMC provided an opportunity to streamline operations and leverage synergies where possible. Certain EMC roles were amalgamated under the new structure and all executive positions, except for the President and CEO, now have the title of Vice President. The previous hierarchical titles were eliminated.

In addition to the President & CEO, we have eight other executive officers. All are appointed for non-fixed terms of office.

Neil R. Wilson, President and CEO, will retire effective January 30, 2021. A successor will be announced by the Company in due course.

Name, Residence and Date of Appointment	Position	Principal Occupation and Position Over Past Five Years
RAYMOND BOHN Ontario, Canada September 1, 2020	Vice President and Chief Human Resources Officer	From September 1, 2017 to August 31, 2020, Mr. Bohn was Executive Vice President, Human Resources, Communications & Public Affairs. From November 1, 2016 to August 31, 2017, Mr. Bohn was Senior Vice President, Human Resources, Communications & Public Affairs. From January 13, 2016 to October 31, 2016, Mr. Bohn was Senior Vice President, Human Resources. From December 1, 2012 to January 12, 2016, Mr. Bohn was Vice President, Revenue & Pension Administration.
ELIZABETH CAMERON Ontario, Canada January 13, 2016	Vice President, Labour Relations	From June 20, 2006 to January 12, 2016, Ms. Cameron was Assistant Vice President, Labour Relations.
MARK COOPER Ontario, Canada September 1, 2020	Vice President and Chief Technology and Information Officer	From September 3, 2019 to August 31, 2020, Mr. Cooper was Senior Vice President, Air Navigation Systems Technology. From January 2017 to August 2019, Mr. Cooper was the lead Partner for Aviation Technology at Deloitte. Prior thereto, Mr. Cooper was Managing Director of Lockheed Martin's Air Traffic Management and Airport business in the United Kingdom.
BEN GIRARD Ontario, Canada September 1, 2020	Vice President and Chief of Operations	From May 21, 2018 to August 31, 2020, Mr. Girard was Vice President, Operational Support. From March 31, 2016 to May 20, 2018, Mr. Girard was Assistant Vice President, Operational Support. From November 15, 2010 to March 30, 2016, Mr. Girard was the General Manager of the Montreal FIR.
DIANA KELLY Ontario, Canada September 1, 2020	Vice President, Chief Safety & Quality Officer	From September 17, 2018 to August 31, 2020, Ms. Kelly was Assistant Vice President, Corporate Planning and Performance. From July 1, 2016 to September 16, 2018, Ms. Kelly was the General Manager of the Edmonton FIR and from March 31, 2014 to June 30, 2016 she was Manager, ACC Operations at the Winnipeg ACC.
LEIGH ANN KIRBY Ontario, Canada September 1, 2020	Vice President, Chief Legal Officer & Corporate Secretary	From February 29, 2016 to August 31, 2020, Ms. Kirby was Vice President, General Counsel & Corporate Secretary. From October 1, 2014 to February 19, 2016, Ms. Kirby was Associate Vice President, Legal at the Toronto-Dominion Bank.

DONNA MATHIEU Ontario, Canada September 1, 2020	Vice President, Chief Investment Officer & Treasurer	From June 1, 2017 to August 31, 2020, Ms. Mathieu was Vice President, Pension Investments & Treasurer. From January 12, 2016 to May 31, 2017, Ms. Mathieu was Vice President, Pension Investments. From December 1, 2014 to January 11, 2016, Ms. Mathieu was Assistant Vice President, Pension Investments.
ALEXANDER N. STRUTHERS Ontario, Canada September 1, 2020	Vice President & Chief Financial Officer	From December 3, 2016 to August 31, 2020, Mr. Struthers was Executive Vice President, Finance & Chief Financial Officer. From November 17, 2014 to February 3, 2016, Mr. Struthers was the Chief Operating Officer and Executive Vice President, Strategic Planning at Hydro One Inc.
NEIL R. WILSON Ontario, Canada January 1, 2016	President & CEO	From December 1, 2012 to December 31, 2015, Mr. Wilson was Executive Vice President, Administration & General Counsel.

### Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Except as noted below, no director or executive officer of NAV CANADA is, as at the date of this AIF, or has within ten years prior to the date of this AIF:

- (a) been a director, chief executive officer or chief financial officer of any company (including the Company) that:
  - (1) was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation for a period of more than 30 consecutive days, where such order was issued:
    - (i) while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
    - (ii) after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer; or
  - (2) while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of such director or officer.

In January 2012, a receiver was appointed under the *Bankruptcy and Insolvency Act* (Canada) to hold the assets of Barrett Marketing Group (Barrett Marketing), a privately-held distribution company of which Edward Barrett is a director and executive officer. In November 2012, Barrett Marketing voluntarily filed for bankruptcy.

Michelle Savoy was serving as a director of 2172079 Ontario Inc., a private company operating a franchise restaurant, when the company initiated creditor protection proceedings under Section 49 of the *Bankruptcy and Insolvency Act* (Canada) on December 3, 2013.

## **LEGAL PROCEEDINGS**

The Company is party to legal proceedings in the ordinary course of its business. Management does not expect the outcome of any of these proceedings to have a material adverse effect on the consolidated financial position or results of operations of the Company.

## **INTERESTS OF EXPERTS**

KPMG LLP are our auditors. As such they have provided the audit report filed with our fiscal 2020 annual audited consolidated financial statements, which are filed on SEDAR. In connection with the audit of the Company's annual financial statements for fiscal 2020, the auditors confirmed that they are independent within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation.

## **MATERIAL CONTRACTS**

The following is the only material contract, other than contracts entered into in the ordinary course of business, which has been entered into by the Company within the most recent fiscal year, or was entered into before the most recently completed fiscal year and is still in effect:

- The GOI referred to above under the heading "Capital Structure".

A copy of this document has been filed as a material contract on SEDAR and is available at [www.sedar.com](http://www.sedar.com).

## **TRANSFER AGENT AND REGISTRAR**

The trustee and registrar for the Company is BNY Trust Company of Canada, located in Toronto, Ontario.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com). Additional financial information relating to the Company can be found in the annual audited consolidated financial statements and MD&A for fiscal 2020.



## **APPENDIX A**

### **TERMS OF REFERENCE FOR THE BOARD OF DIRECTORS**

#### **INTRODUCTION**

The primary responsibility of the board of directors is to foster the long-term success of NAV CANADA consistent with its fiduciary responsibility to NAV CANADA.

The board of directors operates by delegating certain of its tasks and responsibilities, including spending authorizations, to management and by reserving certain powers to itself. Subject to the Articles of Continuance and By-Laws of NAV CANADA, the board of directors retains the responsibility for managing the business and affairs of NAV CANADA, including the selection of Board-elected Directors, selecting its Chair, appointing officers and committees and determining director compensation.

The board of directors shall act in the best interests of the company and be accountable for the stewardship of the company, including, but not limited to, overseeing the conduct and operation of the company, reviewing and approving corporate strategies, plans and financial objectives, appointing, developing, monitoring, advising and supervising senior management, assessing the performance and results of management and the company, making reasonable efforts to maintain effective corporate communications with Members and the public as contemplated herein, making reasonable efforts to maintain the integrity of internal control and management/financial systems, exercising duty of care and preserving the company's assets; developing the company's approach to corporate governance, and to the extent feasible, satisfying itself as to the integrity of the President and other executive officers, and that the President and other executive officers create a culture of integrity throughout the company.

The duties and responsibilities of individual directors are contained in the Company's Corporate Governance Manual.

#### **SELECTION OF CHAIR, PRESIDENT AND OFFICERS**

The board of directors has the responsibility:

- (a) for the appointment and replacement of a President and the Chair, for monitoring and review (with and through the Human Resources and Compensation Committee) of the President's and the Chair's performance, approving President compensation and providing advice and counsel to the President in the execution of his duties;
- (b) acting upon the advice of the Human Resources and Compensation Committee, and the President concerning his direct reports, to approve the appointment and remuneration of all officers; and
- (c) for ensuring that plans have been made for management succession.

#### **MONITORING AND ACTING**

The board of directors has the responsibility:

- (a) to monitor NAV CANADA's progress towards its objects and policies, and to revise and alter its direction through management in light of changing circumstances;
- (b) for the identification of the principal risks of NAV CANADA's business and ensuring the implementation of appropriate systems to manage these risks; and

- (c) for taking appropriate steps to gain reasonable assurance that management has implemented sound internal controls and management information systems.

#### **STRATEGY DETERMINATION**

The board of directors has the responsibility to review with management the mission of the business, its objects and policies, and the strategy by which it proposes to reach those objects and policies, taking into account, among other things, the opportunities and risks of the business.

#### **POLICIES AND PROCEDURES**

The board of directors has the responsibility to take appropriate steps to gain reasonable assurance that management has put in place appropriate processes:

- (a) to approve and monitor compliance with all significant policies and procedures by which NAV CANADA is operated; and
- (b) to ensure that NAV CANADA operates at all times within applicable laws and regulations, and to the highest ethical and moral standards.

#### **COMMUNICATION**

The board of directors has the responsibility:

- (a) to ensure timely, informative and broad dissemination of material information, as outlined in the Company's Corporate Disclosure Policy and other communication policies;
- (b) to ensure that the financial performance of NAV CANADA is adequately reported to Members, other security holders and regulators, as applicable, on a timely and regular basis;
- (c) to ensure that the financial results are reported fairly and in accordance with generally accepted accounting standards;
- (d) to ensure the timely reporting of any other developments that have a significant and material impact on NAV CANADA;
- (e) to report annually to Members and others required by applicable law on its stewardship for the preceding financial year; and
- (f) to ensure that NAV CANADA has systems in place which accommodate feedback from Members and others required by applicable law.

#### **LEGAL REQUIREMENTS**

- A. The board of directors is responsible for ensuring that all applicable legal requirements have been met, and documents and records have been properly prepared, approved and maintained.
- B. Canadian law, including, without restriction, the By-laws of NAV CANADA, establishes the legal requirements for the board of directors:
  - i) to manage the business and affairs of NAV CANADA;
  - ii) to act honestly and in good faith with a view to the best interests of NAV CANADA;
  - iii) to exercise the care, diligence and skill that might reasonably be expected from a person of his knowledge and experience;

- iv) to act in accordance with its obligations contained in the *Canada Not-for-profit Corporations Act*, the *Securities Act* of each province and territory of Canada in which NAV CANADA is a “reporting issuer”, other relevant legislation and regulations, and NAV CANADA’s Articles of Continuance and By-laws;
- v) the following responsibilities cannot be delegated to management or to any Committee:
  - (a) any submission to the Members of a question or matter requiring approval of the Members;
  - (b) the filling of a vacancy among the directors, subject to the provisions of the By-laws of NAV CANADA, or in the office of the external auditor;
  - (c) the manner and the term for the issuance of securities of NAV CANADA;
  - (d) the payment of a commission to any person in consideration of the purchase or agreement to purchase securities of NAV CANADA from NAV CANADA or from any other person, or procuring or agreeing to procure purchasers for any such securities;
  - (e) the approval of all disclosure documents, including prospectuses, required under securities laws;
  - (f) the approval of the financial statements of NAV CANADA;
  - (g) the adoption, amendment or repeal of By-Laws of NAV CANADA; and
  - (h) the amendment of customer service charges charged by NAV CANADA in respect of the ANS.

## APPENDIX B

### TERMS OF REFERENCE FOR THE CHAIR

#### INTRODUCTION

The Company's Corporate Governance Policy Manual sets out the nature of the role of the Chair with specific reference to the By-laws of NAV CANADA in this regard. Given the broad statement of the powers of the office of the Chair, the Corporate Governance Committee, in conjunction with the Chair, has more specifically delineated the responsibilities of the Chair.

#### CHAIR RESPONSIBILITIES

##### A. Introduction

The overriding objective of the Chair is to provide strong leadership and facilitate highly effective performance of the board of directors. The board of directors has ultimate accountability for the management of NAV CANADA. Critical to meeting this accountability is the relationship between the board of directors, management, Members and other stakeholders. The Chair, as the presiding member of the board of directors, must ensure that these relationships are effective and efficient and further the best interests of NAV CANADA. In performing this role, the Chair shall work with management, manage the board of directors, and ensure effective relations with Members, other stakeholders and the public. In this regard, the Chair, in concert with the President, is responsible for public interaction with respect to the affairs of NAV CANADA.

##### B. Board of Director's Interface with Management

The Chair shall:

- i) ensure management is aware of concerns of the board of directors, Members and other stakeholders;
- ii) ensure that management strategy, plans and performance are appropriately conveyed to the board of directors; and
- iii) ensure the board of directors has exposure to the management team.

##### C. Managing the Affairs of the Board of Directors

The Chair shall:

- i) chair board of directors meetings;
- ii) ensure that the mechanisms for effective governance are in place and the board of directors is alert to its obligations to NAV CANADA, Members, management, and other stakeholders under applicable law;
- iii) provide strong leadership to the board of directors and assist in reviewing and monitoring the vision, strategy, and policies of NAV CANADA;
- iv) as a member of the Corporate Governance Committee, participate in recommending the committees of the board of directors and their composition, review the need for, and the

performance and suitability of, those committees and recommend such adjustments as are deemed necessary from time to time;

- v) in conjunction with the Corporate Governance Committee, ensure that the Board-elected Director selection process and composition of the Board-elected Directors are appropriate and serve the needs of NAV CANADA; and
- vi) conduct board of directors meetings in an efficient, effective and focused manner.

D. Relations with Members, Other Stakeholders and the Public

The Chair shall:

- i) assume the role of liaising with the Advisory Committee of NAV CANADA;
- ii) ensure NAV CANADA's management and, where applicable, the board of directors, are appropriately represented at official functions and meetings with Members and other stakeholders; and
- iii) ensure there are appropriate and effective channels of communications between the board of directors, management, Members and other stakeholders.

## **APPENDIX C**

### **TERMS OF REFERENCE OF THE CORPORATE GOVERNANCE COMMITTEE**

#### **PURPOSE**

At NAV CANADA, “board governance” means the process and structure used to supervise the business and affairs of NAV CANADA consistent with a view to discharging the Company’s objects contained in the Articles of Continuance. The process and structure define any delegation of power and establish mechanisms for achieving accountability by the Board and management.

The Statement of Purpose contained in the Articles of Continuance mandate NAV CANADA to acquire, own, manage, operate and develop the ANS in a safe, secure, efficient and cost effective manner, and include:

- (a) fostering and maintaining the highest professional standards;
- (b) facilitating service availability and reasonable fees;
- (c) operating as a good employer; and
- (d) meeting reasonable needs of remote communities.

Fundamental to these is ensuring the financial viability of the business of NAV CANADA.

The purpose of the Corporate Governance Committee (the “Committee”) is to provide a focus on board governance that will enhance the corporate performance of NAV CANADA. The Committee’s activities shall include reviewing, monitoring and making recommendations regarding the effectiveness of the Board of NAV CANADA, establishing and administering a process for the ongoing selection and development of its individual directors; and recommending the composition and Chairs of the various Board committees.

#### **COMPOSITION AND TERM OF OFFICE**

The Committee shall be composed of up to six directors comprising one director elected by the Government Member, one director elected by the User Members, one director elected by the Union Member and two Board-elected directors, provided that one of the members of the Committee shall be the Chair.

Members of the Committee are eligible for reappointment at the will of the Board.

A majority of the members of the Committee shall constitute a quorum.

#### **DUTIES AND RESPONSIBILITIES**

Subject to the powers and duties of the Board, and consistent with the Corporation’s By-laws, the Committee shall:

- (a) Develop and annually update a long term plan for the composition of the Board-elected directors that takes into consideration the current strengths, skills and experience on the Board, and the strategic direction of NAV CANADA;
- (b) Develop recommendations regarding the essential and desired experiences and skills for potential directors elected by the Members, taking into consideration the Board’s short-term needs and long-term succession plans;
- (c) Recommend to the Board nominees for election as Board-elected directors;

- (d) Review, monitor and make recommendations to the Board regarding new director orientation and the ongoing development of existing members of the Board;
- (e) Review as required, for Board approval, the Corporate Governance Manual outlining the policies and procedures by which the Board will operate and the terms of reference for the Board, the Board Chair, the President, directors and Board committees;
- (f) Assess the needs of the Board in terms of the frequency and location of Board and committee meetings, meeting agendas, discussion papers, reports and information, and the conduct of meetings and make recommendations to the Board as required;
- (g) Review the Corporation's structures and procedures to ensure the Board is able to, and in fact does, function independently of management;
- (h) Biennially implement an appropriate evaluation process for the Board, the Board Chair and Board committees and an individual director evaluation process;
- (i) Biennially review the By-laws of NAV CANADA and recommend changes to the Board;
- (j) Annually, in consultation with the Chair, review and recommend composition and Chairs of the various Board committees;
- (k) Annually recommend to the Board of Directors a Chair of the Board. In making each such recommendation, the Committee will ensure that the candidate shall have such skills and abilities that are appropriate to the appointment of the Chair, including: (i) exceptional business experience and acumen; (ii) held in high regard by his or her peers; (iii) an advanced understanding of NAV CANADA's values and strategic plans; and (iv) the respect and confidence of, and an effective and productive relationship with, each of the President and the Board;
- (l) Monitor and review with the Board and management the results of their review of NAV CANADA's compliance with the Conflict of Interest Guidelines and Code of Conduct for directors and officers;
- (m) Biennially review and make recommendations to the Board respecting directors' remuneration (fees, retainer and other amounts) and benefits to be provided or paid to directors and directors' and officers' insurance;
- (n) Prepare recommendations for the Board regarding any reports required or recommended on corporate governance (e.g. public reports required to meet Canadian Securities Administrators' guidelines);
- (o) Review and recommend revisions to its terms of reference to the Board;
- (p) Have authority to engage and compensate any outside advisor that it deems necessary to permit it to carry out its duties;
- (q) Conduct a portion of each meeting without management present; and
- (r) Have such other powers and duties as may be delegated to it by the Board from time to time.

#### **ACCOUNTABILITY**

The Committee shall report to the Board at each regular meeting all such action it has taken since the previous report.

#### **CORPORATE GOVERNANCE COMMITTEE TIMETABLE**

The major annual activities of the Committee are outlined in the Committee's Workplan.

## **APPENDIX D**

### **TERMS OF REFERENCE FOR THE PRESIDENT & CEO**

#### **INTRODUCTION**

The Company's Corporate Governance Policy Manual sets out the nature of the role of the President & CEO with specific reference to the By-laws of NAV CANADA. Given the broad statement of the powers of the office of the President & CEO, the Corporate Governance Committee, in conjunction with the Chair, has more specifically delineated the responsibilities of the President & CEO.

#### **PRESIDENT & CEO RESPONSIBILITIES**

The Board of Directors has ultimate accountability for the management of NAV CANADA. Critical to meeting this accountability is the relationship between the Board of Directors, management, Members and other stakeholders. The President & CEO is responsible for the customary duties of the president and chief executive officer of a corporation similar in size and operation to that of NAV CANADA and has ongoing responsibility for the accountability of management to the board of directors. In addition, the President & CEO, in concert with the Chair, is responsible for public interaction with respect to the affairs of NAV CANADA. The President & CEO shall liaise with the users of the ANS on major issues and shall adopt an ongoing consultative and resource role, internally, in respect of customer service charges, and a leading public role in the implementation of the same.

The President & CEO shall:

- (a) lead and manage NAV CANADA;
- (b) report to the board of directors;
- (c) keep the board of directors current on major developments, ensuring the board of directors has sufficient information to permit it to fully discuss potential issues and to make decisions;
- (d) recommend to the board of directors strategic directions for NAV CANADA's business and, when approved, successfully implement the corresponding strategic, business and operational plans;
- (e) direct and monitor the activities of NAV CANADA in a manner that strives towards the achievement of targets and ensures the assets of NAV CANADA are safeguarded and optimized in the best interests of NAV CANADA;
- (f) develop and implement operational policies to guide NAV CANADA within the limits prescribed by NAV CANADA's Articles of Continuance, By-Laws and other applicable laws, and the framework of the strategic directions adopted by the board of directors;
- (g) develop and recommend to the board of directors the overall corporate organization structure and staffing;
- (h) create, maintain and review with the board of directors an annual plan for the development and succession of management;
- (i) oversee the interfaces between NAV CANADA and the public;
- (j) meet regularly and as required with the board of directors to review material issues and to ensure that the board of directors is provided in a timely manner with all the information it requires to fulfil its statutory and other obligations;
- (k) provide the board of directors with exposure to the key management of NAV CANADA;



- (l) participate in and support international activities with respect to air navigation services including participation on the Boards of Directors of international air navigation services related associations and/or corporations; and
- (m) engage in public service as agreed with the board of directors in connection with NAV CANADA's charitable, educational and cultural activities.

## **APPENDIX E**

### **TERMS OF REFERENCE FOR COMMITTEE CHAIRS**

#### **CHAIR OF COMMITTEE RESPONSIBILITIES**

Chairs of Committee are selected by the full board of directors on the recommendation of the Corporate Governance Committee and the Chair of the Board. The roles and responsibilities of the Chairs of Board Committees include, but are not limited to:

- (a) ensuring that the work of the Committee is well organized and proceeds in a timely fashion;
- (b) in consultation with the Committee and management, determine the agenda, frequency and length of Committee meetings;
- (c) presiding at Committee meetings;
- (d) arranging for an alternate to chair a Committee meeting if he or she is absent from such meeting;
- (e) reporting to the full board of directors on all action taken by the Committee since its previous report to the board of directors;
- (f) reporting to the board of directors on matters arising which are determined important for full board of directors consideration.

## **APPENDIX F**

### **TERMS OF REFERENCE FOR THE HUMAN RESOURCES & COMPENSATION COMMITTEE**

#### **PURPOSE**

The purpose of the Human Resources & Compensation Committee (the “Committee”) is to assist the Board of Directors (the “Board”) in fulfilling its oversight role with respect to:

- (a) establishing the Company’s compensation philosophy and satisfying itself that the compensation structure and programs are consistent with its philosophy, strategy and prudent management of its operations and the risks to which it is exposed;
- (b) overseeing the hiring, promotion and compensation of the Officers of the Company (the “Officers”) and other Vice Presidents;
- (c) ensuring that an effective succession management program is in place;
- (d) ensuring there is an effective talent management strategy in place; and
- (e) ensuring other human resources and labour relations strategies, policies and programs are effective.

#### **COMPOSITION AND TERMS OF OFFICE**

The Committee shall consist of no more than six directors, at least two of whom shall be elected to the Board of Directors by Members other than the Union Member and one of whom shall be a Board-elected director. A majority of members of the Committee shall constitute a quorum.

The Committee shall meet not less than four times per year.

#### **DUTIES AND RESPONSIBILITIES**

The Board hereby delegates to the Committee the following powers and duties:

- (a) The Committee shall develop a NAV CANADA compensation philosophy and guidelines that are competitive and motivating, and that attract and retain all employees and management alike.
- (b) The Committee shall, on an annual basis, review the Company’s operating budget and assumptions with respect to employee costs prior to Board approval, and liaise with other committees as appropriate.
- (c) The Committee shall, on an ongoing basis as required, within the context of budgets and policies established by the Board, review the suitability of the Company’s labour negotiations strategy and give guidance as to overall costs.
- (d) The Committee shall review the design and recommend for approval by the Board, the benefits to be provided by the NAV CANADA Pension Plans and Supplemental Retirement Plans.
- (e) The Committee shall annually review certain relevant HR policies, including a Code of Conduct which shall be applicable to all employees, and when required, recommend changes for approval to the Board.

- (f) The Committee shall review submissions from the President and recommend approval to the Board, recruitment, appointments or terminations of Officers.
- (g) The Committee shall evaluate the President's performance. This evaluation will include:
- receipt from the President of his self-appraisal for the prior year's performance, and goals and objectives to be approved by the Committee for the upcoming year;
  - the conduct of interviews with the President's direct reports by the Chair of the Committee and the Chair of the Corporate Governance Committee;
  - an assessment of the President's performance by all directors, consolidated by an outside resource; and
  - feedback to the President on all aspects of the evaluation.

A consolidated assessment reflecting the evaluation carried out by the Committee will then be forwarded and approval will be recommended to the Board.

- (h) The Committee shall review performance evaluations and approve annually, compensation, incentive payments, perquisites and benefits of the President and Officers. Their review may include benchmarking analysis provided by an outside compensation expert.
- (i) The Committee shall review and update the design of the Executive Total Compensation Plan (base pay, Short-term Incentive and Long-term Incentive Plans, benefits, perquisites) biannually to ensure it is competitive in the marketplace and meets NAV CANADA's compensation philosophy. On an as-needed basis, the Committee shall conduct an in-depth Executive Total Compensation Plan review, using an outside compensation expert.
- (j) The Committee shall have the authority to engage and compensate any outside advisor that it deems necessary to permit it to carry out its duties, including the selection and terms of reference of outside consultants retained to provide advice.
- (k) The Committee shall review and approve annually, management's succession plans and career planning and development for Officers and ensure that appropriate succession management processes are in place for all other management levels.
- (l) The Committee shall review and recommend updates to its terms of reference to the Board annually and provide the Members with access to such terms of reference.
- (m) The Committee shall review and recommend approval to the Board, executive compensation disclosure before public disclosure of the information.
- (n) The Committee shall review and approve those severance payments for non-unionized employees, as required by the Company's Delegation of Financial Authorities.
- (o) The Committee shall regularly review the results of employee engagement surveys and management's strategy to maintain and/or improve employee engagement.
- (p) The Committee shall report to the Board at the next Board meeting, all such action it has taken since its previous report to the Board. The minutes of all meetings of the Committee shall be available to all Directors.
- (q) The Committee shall review, on a quarterly basis, a report from Management containing status updates of HR based "whistleblowing" complaints, including the resolution of any follow-up actions.
- (r) The Committee shall also have such other powers and duties as may be delegated to it from time to time by the Board.
- (s) The Committee shall conduct a portion of each meeting without management present.
- (t) The Committee shall review on a regular basis the specific business risks under the Enterprise Wide Risk Management program assigned to it by the Board.

- (u) The Committee Chair shall liaise with other Committee Chairs as necessary to achieve the Committee's purpose and execute its duties and responsibilities.

## **APPENDIX G**

### **TERMS OF REFERENCE FOR THE AUDIT & FINANCE COMMITTEE**

#### **1. Purpose of the Audit & Finance Committee**

The Board of Directors (“Board”) is responsible for administering the business and affairs of NAV CANADA (the “Corporation”) and exercising all of the powers of the Corporation. In discharging that responsibility, the Board delegates certain matters and powers to the senior officers of the Corporation (“Management”) but retains authority to supervise the management of the business and affairs of the Corporation. The Board’s supervisory function involves Board oversight of all significant aspects of the management of the Corporation’s business and affairs including its financial reporting and disclosure obligations. The Board has asked the Audit & Finance Committee (the “Committee”) to assist with its oversight of the financial reporting and disclosure obligations by overseeing the following:

- a) the Corporation’s financial reporting and disclosure processes;
- b) the external auditors’ qualifications, objectivity and independence;
- c) the performance of the Director, Internal Audit and the Corporation’s Internal Audit function;
- d) the Corporation’s Finance and Treasury functions; and
- e) other duties assigned by the Board.

#### **2. Establishment of the Committee**

The Board has established the Committee which complies with National Instrument 52-110 *Audit Committees* (the “Instrument”) of the Canadian Securities Administrators (“CSA”). The Committee is hereby empowered and required:

- a) to take all actions and make all inquiries which, in the opinion of the Board or the Committee, are necessary or desirable for the Committee to gain reasonable assurance as to whether the Corporation’s financial reporting obligations are being met by the Corporation; and
- b) to report to the Board the conclusions reached by the Committee.

#### **3. Composition of the Committee**

- A. The members of the Committee shall be appointed by the Board and, as required by the Corporation’s By-laws, shall consist of at least four, but not more than six, directors of the Corporation. Subject to the exemptions contained in the Instrument, each member of the Committee shall be “independent” and “financially literate”, as defined by the CSA with respect to Audit Committees. No officer of the Corporation or the Chair of the Board, may serve as a member of the Committee. The Board may remove any member of the Committee at any time.
- B. The Board shall appoint, and may remove, the Chair of the Committee from time to time.
- C. It is recognized that occasions may arise in which members of the Committee are in a position in which their duty to the Corporation actually conflicts or is perceived to conflict with their duty to

others. It is the responsibility of each member of the Committee and of the Committee as a whole to recognize and deal with such conflicts in a manner that provides the greatest assurance that the actions and decisions of the Committee are free from any conflict, whether perceived or real.

#### **4. Reliance on Management and Experts**

In contributing to the Committee's discharging of its duties under these terms of reference, each member of the Committee shall be entitled to rely in good faith upon:

- a) financial statements of the Corporation represented to him or her by one or more members of Management or in a written report of the external auditors to present fairly the financial condition of the Corporation; and
- b) any report of a lawyer, accountant, engineer, appraiser, actuary or other person whose profession lends credibility to a statement made by any such person.

#### **5. Operating Procedures**

- A. The Committee, in consultation with Management, the Director, Internal Audit and the external auditors, shall develop an annual Committee Work Plan that is responsive to the Committee's responsibilities set out in these terms of reference.
- B. In addition, the Committee, in consultation with Management, the Director, Internal Audit and the external auditors, shall develop and participate in a process for review of important financial topics that have the potential to impact the Corporation's accounting principles and policies and financial disclosure.
- C. To assist the Committee in discharging its responsibilities, the Committee may retain, in addition to the external auditors, at the expense of the Corporation, one or more persons having special expertise, including independent counsel and other advisors. The Committee shall be entitled to set and pay compensation for any advisors engaged by the Committee.
- D. The Committee shall meet four times annually, or more frequently as circumstances dictate. Meetings shall be held at the call of the Chair of the Committee, or upon the request of a member of the Committee or at the request of the external auditors.
- E. Seventy-two hours written notice of a meeting shall be given, other than by mail, to each Committee member and to the external auditor. If notice is given by mail, such notice shall be mailed at least 14 days prior to the meeting. No notice of a meeting of the Committee shall be required if all Committee members are present and waive notice, or if those absent have signified their consent to the meeting being held in their absence. No error or omission in giving notice of any meeting of the Committee or any adjourned meeting of the Committee (provided that such error or omission is not material) shall invalidate such meeting or make void any proceedings taken thereat and any Committee member may at any time waive notice of any such meeting and may ratify, approve and confirm any or all proceedings taken or had thereat.
- F. The Director, Internal Audit and the external auditors are entitled to attend each meeting of the Committee and be heard, and shall attend every meeting of the Committee if requested to do so by one of its members.

- G. A Committee member or the external auditors may participate in a meeting of the Committee by means of conference telephone or other communications facilities as permit all persons participating in the meeting to hear each other, and a person participating in such a meeting by such means is deemed to be present at the meeting.
- H. At any meeting of the Committee, a quorum shall be a majority of the members of the Committee.
- I. Each Committee member shall be entitled to exercise one vote on each motion at each meeting of the Committee. Except as expressly provided herein and unless otherwise expressly provided by the *Canada Not-for-profit Corporations Act*, at all meetings of the Committee every question shall be determined by a majority of votes cast at the meeting. A declaration by the Chair of the Committee that a resolution has been carried and an entry to that effect in the minutes shall be *prima facie* proof of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.
- J. A resolution in writing, signed by all members of the Committee entitled to vote on that resolution at a meeting of the Committee, is as valid as if it had been passed at a meeting of the Committee.
- K. Unless the Committee otherwise specifies, the Secretary or Assistant Secretary of the Corporation shall act as Secretary of all meetings of the Committee.
- L. In the absence of the Chair at any meeting of the Committee, the members shall appoint one of their members to serve as acting Chair at the meeting.
- M. A copy of the minutes of each meeting of the Committee shall be provided to each member of the Committee and be available to each other director of the Corporation in a timely fashion.
- N. The Chair of the Committee shall report on the proceedings from each meeting of the Committee to the next-following regularly scheduled meeting of the Board.
- O. The Committee shall be entitled to communicate directly with the external auditors and the Director, Internal Audit and, at each meeting of the Committee, to meet in private with them, the Chief Financial Officer (“CFO”) of the Corporation or such other parties as the Committee requests.

## **6. Duties and Responsibilities**

The Committee shall perform the functions customarily performed by an audit committee and any other functions assigned by the Board. The Committee’s oversight responsibility for the financial reporting and disclosure processes includes the following:

- i. to oversee Management in their efforts to establish and maintain internal control to provide reasonable assurance with regard to the reliability of financial reporting;
- ii. to oversee Management in their commitment to create a culture of honesty and ethical behaviour, including setting the proper tone and placing a strong emphasis on fraud prevention; and
- iii. at least biennially, oversee Management’s policies in respect to fraud and changes made to the Ethics Committee Charter.

In addition, the Committee shall have the following duties and responsibilities:



## A. Annual and Interim Financial Statements

For the purpose of gaining reasonable assurance as to whether the Corporation's financial statements for each interim financial quarter of the Corporation (the "Current Quarter") and each financial year of the Corporation (the "Current Year") present fairly, in all material respects, the financial position of the Corporation, the results of its operations and its cash flows in accordance with generally accepted accounting principles ("GAAP") as applicable to the Corporation and together with the interim Management's Discussion and Analysis ("MD&A") or year-end MD&A and Annual Information Form ("AIF") constitute a fair presentation of the Corporation's financial results and condition, before release to the public:

- a) review the Corporation's financial statements for the Current Quarter (the "Current Interim Statements") or Current Year (the "Current Annual Statements") with Management and the external auditors;
- b) review the reasonableness of material changes in accounting policies, estimates, accruals and reserves made since the end of the previous reporting period;
- c) review any unresolved items identified by the external auditors in preparing their review engagement report on the Current Interim Statements or identified during their audit of the Current Annual Statements and resolve any disagreements between Management and the external auditors regarding financial reporting;
- d) obtain a report, preferably in writing, from the external auditors, reflecting misstatements (whether corrected or uncorrected) identified during the performance of the review or audit engagements based on their materiality threshold;
- e) annually obtain a report from the external auditors, preferably in writing, on whether or in the course their audit of the Current Annual Statements, they became aware of any matters to be communicated to the Committee under generally accepted auditing standards or any other professional standards currently in place. This report will include, if relevant, any matters concerning accounting principles, policies or practices employed in preparing the Current Annual Statements and any change in reliance on internal control;
- f) obtain and review a copy of the representation letter provided by Management to the external auditors relating to the Current Interim Statements or Current Annual Statements;
- g) review with Management, the external auditors and the Corporation's legal counsel, material legal claims or other contingencies affecting the Corporation to gain reasonable assurance that all such claims and contingencies that could have a material effect upon the financial position or results of operations of the Corporation have been appropriately reflected in the Current Interim Statements or Current Annual Statements;
- h) on a quarterly basis, receive and review a report from Management's Disclosure Committee confirming compliance with the Corporation's Disclosure Policy and with its disclosure controls and procedures; and
- i) recommend approval of the Current Interim Statements or Current Annual Statements to the Board.

## B. Other Material Financial Information

For the purpose of gaining reasonable assurance as to whether material financial information concerning the Corporation is disseminated to the public in a timely manner and is accurate, complete and fairly presented:

- a) review with Management each annual and interim MD&A;
- b) review with Management all news releases and reports concerning the Corporation's annual or interim financial statements and subsequent news releases and reports that may have a material impact on such financial statements. In circumstances where events render it impractical to consult with the entire Committee prior to issuing such news releases or reports, authority to review and approve such news release or reports may be exercised by the Chair of the Committee or the Chair of the Board;
- c) review with Management all other core disclosure documents such as prospectuses, material change disclosures of a financial nature, AIFs, and related news releases; and
- d) recommend approval of the annual and each interim MD&A as well as all other core disclosure documents to the Board.

## C. Fair Presentation

For the purpose of gaining reasonable assurance as to whether the Corporation's financial statements for each financial year and for each interim financial quarter of the Corporation present fairly the financial position of the Corporation, the results of its operations and its cash flows and as to whether material financial information concerning the Corporation which is to be disseminated to the public is accurate, complete and fairly presented:

- a) review the competency requirements and review the competencies of all individuals serving in key financial reporting, treasury and internal control over financial reporting ("ICFR") roles;
- b) oversee the work of the external auditors in preparing or issuing an audit or other report in respect of the Corporation's financial statements or performing other audit, review or attest services for the Corporation;
- c) review the process relative to the quarterly certifications by the Chief Executive Officer & President ("CEO") and the CFO of the Corporation in respect of ICFR and disclosure controls and procedures ("DC&P"). On a quarterly basis receive and review a report from Management regarding:
  - i. the status of the work done to support the CEO and CFO certificates, including appropriate disclosure of conclusions in the Corporation's MD&A;
  - ii. the conclusions on design (and annually on the effectiveness) of ICFR and DC&P;
  - iii. the existence of any significant deficiencies or material weaknesses in the design or effectiveness of internal control that could adversely affect the Corporation's ability to record, process, summarize and report financial data; and

- iv. any significant changes in internal control or changes to the environment in which the internal controls operate, including corrections of previously reported significant deficiencies or material weaknesses;
- d) review and discuss the plans of the external auditors;
- e) receive timely reports from Management, the external auditors and the Director, Internal Audit on all indications or detection of significant fraud and the corrective activity undertaken in respect thereto;
- f) at least annually, receive a report from Management on the Corporation's fraud risk assessment; and
- g) review commentaries received from securities regulators pursuant to continuous disclosure reviews, if any, together with Management's responses.

#### D. External Auditors

The external auditors report directly to the Committee.

For the purpose of gaining reasonable assurance that the external auditors are objective and independent:

- a) obtain annually a written opinion of the external auditors that they are objective and independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario;
- b) obtain annually a report of the external auditors regarding,
  - i. all fees paid by the Corporation or any affiliate of the Corporation to the external auditors or any affiliate of the external auditors in the last financial year of the Corporation ended prior to the date of such report, and
  - ii. all relationships of any kind that existed between the external auditors or any affiliate of the external auditors and the Corporation or any affiliate of the Corporation;
- c) in advance of the external auditors' commencement of each audit of the Corporation's financial statements, review with the external auditors their approach to risk assessment, the proposed scope of the audit, the proposed areas of special emphasis to be addressed in the audit and the materiality levels that the external auditors propose to employ;
- d) inquire whether Management has placed restrictions on the scope or extent of the external auditors' audit examinations or the external auditors' reporting of their findings to the Committee;
- e) engage in an open and frank discussion with the external auditors on any matter that may have a significant effect on the understandability, relevance, reliability and comparability of the annual and interim financial statements; and

As part of the Committee's assessment of the external auditors:

- a) annually undertake a review of the external auditors' performance; and

- b) annually inquire of the external auditors regarding the existence of any material issues raised in the most recent reviews carried out by the Canadian Public Accountability Board that would have a material effect on the ability of the external auditors to provide quality audit services

#### E. Internal Auditor

To maintain independence, the Director, Internal Audit reports functionally to the Committee and administratively to the CEO.

To obtain reasonable assurance with respect to the work performed by the internal audit function, the Committee will:

- a) review and approve the Internal Audit Charter on an annual basis;
- b) review and provide input into the internal audit activity's strategic plan, objectives, performance measures and outcomes;
- c) review and discuss with the Director, Internal Audit their approach to using the risk assessment to develop the 12-month rolling internal audit plan and 24-month outlook;
- d) review and approve the proposed risk-based 12-month rolling internal audit plan and the annual budget;
- e) review internal audit's performance relative to its audit plan;
- f) review the recommendations arising from the internal audits and special projects. Review the adequacy and appropriateness of Management's responses to recommendations made by the internal auditors, including the remediation timetable thereof;
- g) review, approve and report to the Board together with the CEO on the appointment, reassignment or dismissal of the Director, Internal Audit;
- h) review and approve the competency requirements and evaluate the competencies of the Director, Internal Audit; and
- i) the Chair of the Committee together with the CEO will review the annual performance evaluation and salary recommendation for the Director, Internal Audit.

#### F. Finance and Treasury

For the purpose of overseeing the Finance and Treasury functions:

- a) review and discuss the quarterly Treasury Report including updates on debt covenant compliance, forecast liquidity and credit facility usage, discussions with credit rating agencies, reports by bond or debt market analysts, reserve fund and cash equivalent investments, and any other treasury matters that may arise;
- b) review and recommend to the Board financing transactions proposed by Management, as applicable, pursuant to the Treasury Policy;
- c) review and recommend to the Board interest rate hedging strategies presented as part of the annual budgeting process or separately to the Committee;

- d) review the Treasury Policy on an annual basis and recommend any changes for approval by the Board; and
- e) review at least annually the adequacy of capital and liquidity including reserve funds.

#### G. Other Duties and Responsibilities

The Committee shall:

- a) recommend to the Board a firm of public accountants that is a participating audit firm in the Canadian Public Accountability Board, to be nominated for appointment as the external auditors;
- b) recommend to the Board the compensation of the external auditors for the conduct of the annual audit, and in accordance with and subject to the applicable terms of the Instrument, grant pre-approval of all Management recommended fee estimates for permissible non-audit services (as that term is defined by the CSA) to be provided to the Corporation or its subsidiaries by the external auditors;
- c) review and approve, at least biennially, the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and any former external auditors of the Corporation in accordance with the applicable terms of the Instrument;
- d) review annually the external audit partner rotation plans;
- e) review the status of "whistle blowing" complaints on a quarterly basis, including the resolution of any follow-up actions, and at least biennially review and suggest appropriate changes, if any, to the Corporation's "whistle blowing" procedures for:
  - i. the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters including feedback on closure of these items, and
  - ii. the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
- f) review annually the expenses of the Chair of the Board for the purpose of gaining reasonable assurance as to the reasonableness of such expenses;
- g) obtain quarterly certificates from Management as to the Corporation's compliance with laws and regulations governing payroll withholdings, tax remittances and similar filings, workers compensation premiums and other such similar withholding obligations, and Management's compliance with the Corporation's Anti-Corruption Policy and the Code of Business Conduct;
- h) review and approve, at least biennially, any changes to the Corporation's Disclosure Policy and the composition of Management's Disclosure Committee;
- i) monitor and review Management's cyber security maturity and performance reports on a quarterly basis related to business systems, receive a report from the Vice President and Chief Technology and Information Officer on a semi-annual basis and receive a cyber security

- maturity assessment conducted by a third party on a biennial basis or as agreed by the Committee;
- j) review and discuss emerging accounting principles and issues, and new securities regulations that are applicable to the Corporation;
  - k) ensure that orientation is provided to new Committee members and that continuing education is provided for all Committee members on the business, accounting developments and other matters relevant to their responsibilities as Committee members;
  - l) review annually the Delegation of Financial Authorities (“DFA”) for appropriateness and recommend any changes for approval to the Board;
  - m) in accordance with the DFA, review with Management, as required, the financial statements of corporate entities to which financial support has been provided by the Corporation;
  - n) review the Corporation’s Credit Terms and Conditions on an annual basis and recommend any changes for approval to the Board;
  - o) review the financial implications of Management’s Preliminary Operating Budget and Capital Budget assumptions prior to its finalization and presentation to the Board for approval;
  - p) at least annually, review the provisions of these terms of reference for the purpose of recommending to the Board changes needed to meet new legislative or regulatory requirements to incorporate evolving best practices for audit committees or any other changes that are required;
  - q) at least annually, formally assess the effectiveness of the Committee in discharging its responsibilities, and report there on to the Board; and
  - r) annually confirm that all responsibilities outlined in these terms of reference have been carried out.

**APPENDIX H**

**2020 STATEMENT OF EXECUTIVE COMPENSATION  
FORM 51-102F6**

**Year Ended August 31, 2020**

**October 22, 2020**

## COMPENSATION DISCUSSION & ANALYSIS

The following Compensation Discussion & Analysis (CD&A) sets out the compensation philosophy and elements of executive compensation for the executive officers of NAV CANADA (also referred to herein as we, our, us or the Company), as well as the actual compensation paid to the Company's President & Chief Executive Officer (CEO), the Executive Vice President, Finance & Chief Financial Officer (CFO), and each of the Company's three other most highly compensated executive officers serving in such capacity as at August 31, 2020 (collectively, the Named Executive Officers). For the purposes of this CD&A, executive officers include the following positions: the President & CEO and the other executive officers set out in the table under the section entitled "Executive Officers" in the AIF (collectively, the Executive Officers).

The titles of specific Executive Officers referred to in this CD&A are to their titles which were in place in fiscal 2020. See the section entitled "Executive Officers" in the AIF for the current titles of the Executive Officers.

Human Resources is sometimes referred to in this CD&A as "HR".

Except as otherwise indicated, all dollar amounts in this CD&A are expressed in Canadian dollars and references to \$ are to Canadian dollars.

### Report of the Human Resources & Compensation Committee

The Human Resources & Compensation Committee (the Committee) of the Board of Directors of the Company (the Board), which is composed entirely of independent directors, has been delegated responsibility from the Board for the development of a compensation philosophy, including the review and approval of the executive compensation program to ensure it is competitive in the marketplace and supports the Company's executive compensation philosophy.

#### **Skills and Experience of Committee Members**

Members of the Committee are Bonnie DuPont (Chair), Edward Barrett, Mary-Ann Bell, Robert Davis and Robert Reid and each has experience with human resources issues and compensation policies.

*Bonnie DuPont* (Chair) is retired from Enbridge Inc. where she served for 12 years as the senior executive responsible for information technology, human resources, public and government affairs, corporate governance matters, and corporate social responsibility (CSR). She holds a Bachelor's degree (Great Distinction) from the University of Regina and earned her Master's degree at the University of Calgary. She is a Fellow of the Institute of Corporate Directors (ICD), and a 2006 graduate of the ICD Corporate Directors' Education Program. She is currently on the board of Bird Construction, a Toronto Stock Exchange (TSX) listed company and chairs its Human Resources, Safety and Governance Committee and is a member of its Audit Committee. She served as the Chair of the Board of Governors of the University of Calgary for four years, after having chaired its Human Resources and Governance Committee for four years. In addition, she was the chair of the Human Resources and Compensation Committee for the six years during which she was on the board of the Bank of Canada, and she served on the Board of SilverWillow Energy, a former TSX-Venture Exchange listed company, where she chaired the Governance and Compensation Committee. Ms. DuPont has lectured in the Directors' Education Program, specializing on the Management of Human Capital and Succession Planning. She also provides executive coaching services to several large Canadian organizations. Ms. DuPont has been a member of the Committee since February 2013.



*Edward Barrett* is Co-CEO and Chair of Barrett Corporation, a business with operations throughout Canada and the U.S. in the telecommunications, wholesale distribution, and refrigeration business sectors. As Co-CEO of Barrett Corporation, he has responsibilities for all aspects of senior management performance review and compensation. Mr. Barrett has served nine years as the Chair of NB Power, the New Brunswick provincial utility. In that capacity he has direct oversight, together with the HR Committee Chair, of annual CEO performance assessment, compensation, and development of goals and objectives. Prior to becoming Chair of the NB Power Board, he was Chair of its HR Committee. In addition, Mr. Barrett has served for ten years on the HR Committee of Wajax Corporation, a TSX listed company, which has responsibility for CEO and senior management compensation, short, mid-term and long-term compensation plans/incentives and all aspects of performance review. He also previously served on the HR and Governance Committee of Medavie Blue Cross and is a Fellow of the ICD. Mr. Barrett joined the Committee in January 2015.

*Mary-Ann Bell* retired from Bell Aliant in 2014. She served as an operational executive on the Bell Aliant and Bell Canada team for more than ten years. Ms. Bell was responsible for large functions such as the Bell Canada Customer Service team, which included more than 10,000 employees. During her career at Bell she led successful collective agreement negotiations and was involved with performance management and compensation decisions. Ms. Bell currently serves on the Boards of the Institute for Governance of Private and Public Organizations (IGOPP), SNC-Lavalin Group Inc. and Cogeco, where she also serves on its Human Resources Committee. Ms. Bell served on the Cominar Real Estate Investment Trust (Cominar) from November 2012 to May 2018. She was a member of the Compensation Committee of the Cominar Board from May 2013 and served as its Chair from August 2016 to May 2018. In addition, Ms. Bell was the Chair of the Board of the Québec University INRS for five years and served as a director on this board for another year. She holds an industrial engineering degree, a Masters in Science and has attended various leadership/management training sessions that included HR curriculums. She is an ICD.D member and has obtained a Director certification from College des administrateurs in 2008. Ms. Bell joined the Committee in January 2015.

*Robert J. Davis* spent over 32 years in the aviation industry with 30 years of this time in the airline sector at the management and executive level. He was President & CEO of Bradley Air Services Ltd./First Air for over ten years, and Executive Vice President of Air Inuit Ltd. for 19 years. Mr. Davis reported to the board of directors at both airlines and was responsible for all aspects of the companies, including human resources and compensation matters. During his tenure as a senior executive in the private sector and a board member in the public sector, he was involved with performance management, executive and staff development, succession planning, labour relations and compensation issues for executives, senior management and staff. He is a graduate of the Directors College Chartered Directors Program as well as the Human Resources and Compensation Committee Certified Program. Mr. Davis joined the Committee in January 2019.

*Robert Reid* retired after more than 30 years in the aviation industry, most of it with Air Canada. He began his career as a pilot. Mr. Reid held the positions of Executive Vice President and Chief Operating Officer, Air Canada; Senior Vice President, Air Canada; and President & CEO of Air Canada Technical Services. During his tenure as a senior executive, he was involved with performance management, executive and staff development, succession planning, labour relations and compensation issues for executives and senior management. Mr. Reid joined the Committee in February 2012.

## **Risk Oversight**

The Committee reviews and approves the Company's executive compensation policies and takes into account associated risks. As described below, the Company's executive compensation program is straightforward and consists of five elements: base salary, annual cash incentive, long-term cash incentive, pension plan, benefits and perquisites. The Committee believes that the executive compensation

philosophy, reflecting the balance in the Company's Overarching Objectives (set out below), does not encourage Executive Officers to expose the Company to excessive or inappropriate risks.

Certain elements of the executive compensation program are in place to mitigate risk, such as:

- an appropriate balance between fixed and variable pay, and long-term and annual incentives;
- no guaranteed minimum incentive payouts; and
- a significant portion of each Executive Officer's compensation is "at risk" either through the annual cash incentive or the long-term cash incentive.

As set out in its Terms of Reference (**Appendix F of the Company's Annual Information Form**), the Committee annually reviews the total compensation program for Executive Officers and ensures that the design and application of the total compensation program has a clear link between pay and performance and does not encourage excessive risk taking by Executive Officers. The Committee conducts biennial Executive Total Compensation Program reviews, retaining outside compensation experts for assistance when necessary.

The Committee believes that executive base salaries (the fixed compensation element) are sufficient and paid at approximately the median of comparator companies.

The Committee believes that the variable compensation elements (annual and long-term cash incentives) of the total executive compensation program represent a sufficient percentage of overall compensation to motivate Executive Officers to achieve short and long-term corporate goals. The annual and long-term cash incentives contain specific performance goals with minimum and maximum thresholds. Actual results are measured against pre-approved goals and objectives and are linked to the Company's performance against its Overarching Objectives. In addition, the annual and long-term cash incentive programs are designed such that each program provides a balance against the other, thus minimizing risks associated with the achievement of any one goal at the expense of others. This is achieved by establishing corporate cost management and safety plan goals, as well as functional goals in the short-term plan, with complementary financial, safety and productivity goals in the long-term plan, as described below.

In aid of its risk management, the Committee ensures that the corporate cost management award portion of the annual incentive plan is based on year-end audited financial statements. A review of certain parameters of the annual and long-term incentive awards is conducted by the Company's Director, Internal Audit.

The Committee has not identified any risks that might arise from the Company's executive compensation program that are reasonably likely to have a material adverse effect on the Company.

### **Compensation Consultants**

As part of its regular review of the executive compensation program, the Committee uses outside compensation experts as a resource when necessary. The Committee began engaging the services of Willis Towers Watson in fiscal 2018 to evaluate the market competitiveness of its total executive compensation, including base salaries, annual incentives, long-term incentives, pensions, benefits and perquisites. The decisions of the Committee are its own and may reflect factors other than the information and recommendations provided by Willis Towers Watson.

The Company also engages Willis Towers Watson for actuarial services. The actuarial services provided by Willis Towers Watson do not present any conflicts with the services provided as compensation advisor to the Committee.

The Committee is not required to pre-approve services other than services related to executive compensation, provided by Willis Towers Watson or its affiliates.

The table below sets out the fees billed by Willis Towers Watson for each of the last two fiscal years in respect of the services noted below.

Advisor	Fiscal Year	Executive Compensation Related Fees	All Other Fees
Willis Towers Watson	2020	\$26,034	\$1,087,137 <sup>(1)</sup>
	2019	\$154,652	\$1,328,223 <sup>(2)</sup>

<sup>(1)</sup> Includes fees paid for other matters such as consulting advice in respect of pension matters and benchmarking, and actuarial valuations. Of this total, \$443,594 was paid by the NAV CANADA Pension Plan (NCPP).

<sup>(2)</sup> Includes fees paid for other matters such as consulting advice in respect of pension matters and benchmarking, and actuarial valuations. Of this total, \$692,124 was paid by the NCPP.

### Executive Compensation Philosophy

The Company's executive compensation program is designed to support the Company's executive compensation philosophy and accomplish the following objectives:

- attract and retain qualified, committed and experienced Executive Officers;
- reward Executive Officers for their contribution to the overall success of the Company and for achievement of planned business and financial objectives within their own area of responsibility;
- implement a compensation program where variable pay is cost-efficient;
- compensate Executive Officers based on the market value of the type of job they perform, generally at the median of market value;
- support the Company's Overarching Objectives (set out below); and
- properly manage and balance opportunities and risks facing the Company.

### OVERARCHING OBJECTIVES

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 our employees.

The Company will achieve this by:

1. Being amongst the safest ANSPs worldwide and driving continuous improvement in the reduction of operational safety risks;
2. Maintaining ANS customer service charges among the lowest of major ANSPs worldwide, and ensuring over the long term that the growth in operating costs does not exceed the growth in traffic;
3. Providing value to our customers by contributing to improving their operational efficiency through the use of innovative technology and effective delivery of service, domestically and internationally;
4. Having a work environment which places NAV CANADA amongst the best employers in Canada; and

5. Introducing measurable projects and initiatives which support a reduction of the environmental footprint of the aviation industry wherever feasible.

## **Key Elements of Executive Compensation**

The executive compensation program at NAV CANADA consists of the following elements (referred to as the total compensation program):

- base salary;
- annual cash incentive;
- long-term cash incentive;
- pension plan; and
- benefits and perquisites.

The compensation of Executive Officers, other than the President & CEO, is recommended by the President & CEO and reviewed and approved by the Committee. The compensation of the President & CEO is recommended by the Committee and reviewed and approved by the Board.

### **Base Salaries**

Base salaries for all Executive Officers, including that of the President & CEO, are designed to be competitive and are determined on the basis of outside market data as well as individual performance, responsibilities and experience level. All Executive Officers receive base salaries. Base salaries are reviewed annually by the Committee.

In response to the COVID-19 pandemic, the Executive Officers volunteered to reduce their base salaries indefinitely effective April 2, 2020. This reduction, which was approved by the Committee, consists of a 10% reduction to the base salary of the President & CEO and a 5% reduction to the base salaries of each of the other remaining Executive Officers. However, their pension and benefits are based on compensation prior to these reductions.

### **Comparator Companies**

In setting total compensation for Executive Officers, the Committee reviews market compensation data for comparable positions at peer companies suggested by the Committee's external executive compensation advisors and approved by the Committee. The following peer groups were used to review the competitiveness of the Company's executive compensation in fiscal 2020:

Corporate Functions Peer Group: The Corporate Functions Peer Group includes twenty-eight Canadian companies who participate in the Willis Towers Watson General Industry Executive compensation survey who operate in a broad selection of industries with 1/3 to 3x the Company's revenue and greater than 500 employees. This peer group was constructed to ensure that it was comprised of no more than 33% publicly traded organizations, 10% wholly owned subsidiaries, approximately 10% government organizations and approximately 20% of organizations in any one industry.

<b>Corporate Functions Peer Group</b>		
Canadian Western Bank	Capital Power Corporation	Cineplex Inc.
Cogeco Inc.	Corix Group of Companies	Economical Mutual Insurance Company
Element Fleet Management	ENMAX Corporation	EPCOR Utilities Inc.
Equitable Bank	Equitable Life of Canada	Énergir Inc.
GE Aviation Canada	Graham Management Services	Greater Toronto Airport Authority
Husky Injection Molding Systems Ltd.	Laurentian Bank of Canada	Ledcor Group of Companies
Maxar Technologies Inc.	MCAP Financial Corporation	Moneris Solutions Corp.
Nova Scotia Power	Purolator Inc.	Samuel, Son and Co.
Seaspan ULC	The Co-operators Group Limited	TMX Group Limited
Toronto Hydro Electric		

**Service Delivery Peer Group:** The Service Delivery Peer Group includes twenty-eight Canadian organizations comprised of the Corporate Functions peer group with organizations that do not operate in industries directly comparable to the Company being removed and supplemented with larger organizations (in terms of revenue) that operate in directly related industries where the Company may source talent, level matched to roles within the Company. The roles matched to the Service Delivery Peer Group include the Executive Vice President, Service Delivery, the Vice President, Air Traffic Services Service Delivery, the Vice President, Operational Support and the Vice President, Engineering & Technical Operations.

<b>Service Delivery Peer Group</b>		
Air Canada	Bombardier Aerospace	Bombardier Transportation Canada
Bruce Power LP	Canadian National Railway	Canadian Pacific Railway Ltd.
Capital Power Corporation	Cogeco Inc.	Corix Group of Companies
Element Fleet Management	ENMAX Corporation	EPCOR Utilities Inc.
Federal Express Canada Ltd.	Ford Motor Company of Canada, Limited	FortisAlberta Inc.
GE Aviation Canada	General Dynamics Land Systems-Canada	Greater Toronto Airport Authority
Maxar Technologies Inc.	NB Power	Nissan Canada Inc.
Nova Scotia Power	Ontario Power Generation	Purolator Inc.
Seaspan ULC	Toronto Hydro Corporation	UAP Inc.
United Technologies Corporation Canada		

### **Annual Incentive Plan**

The Company provides an Executive Management Annual Incentive Plan (the Plan) which is administered by the Committee. Participants in the Plan are those officers occupying executive management positions (President & CEO, the Executive Vice Presidents and the Vice Presidents). The Vice President, Pension Investments & Treasurer has a different annual incentive and is not covered under the Plan.

The purpose of the Plan is to provide an incentive to the executive management team to achieve and exceed the Company's short-term strategic objectives.

The following terms used in this section have the following meanings:

“*Key Performance Area (KPA)*” means one of the Plan’s three corporate performance areas: KPA 1 - Operating Costs, KPA 2 - Safety Plan and KPA 3 - Business Plan.

“*Key Performance Indicator (KPI)*” means the performance measure(s) used to evaluate the success of a particular corporate KPA or functional goal.

“*KPI Maximum*” means the level of performance required to award the maximum payout for a particular KPI.

“*KPI Target*” means the level of performance required to award the target (100%) payout for a particular KPI.

“*KPI Threshold*” means the level of performance required to award any payout for a particular KPI.

Participants are eligible to earn an award according to their position and performance levels. For fully meeting performance goals, participants in the Plan are eligible to earn an annual incentive corresponding to their target award. For exceeding the performance goals, participants are eligible to earn an annual incentive up to their maximum award. Annual incentives are payable in cash within 90 days following the end of each fiscal year. No incentives are earned for performance below the KPI Threshold. If a participant’s employment is terminated for cause by the Company, or if the participant resigns voluntarily, other than by retirement pursuant to the Company’s retirement policy, no incentive is paid for the year in which the termination or resignation takes place, unless otherwise decided by the Company.

The following table sets forth the incentive entitlement of a participant in the Plan.

Position	Incentive Entitlements (as a % of base salary)	
	Target Award	Maximum Award
President & CEO	65.0%	97.5%
Executive Vice Presidents	50.0%	75.0%
Senior Vice Presidents and Vice President, Safety & Quality <sup>(1)</sup>	35.0%	52.5%
Other Vice Presidents	30.0%	45.0%

(1) For incumbent at August 31, 2020 only.

#### Determination of Performance Goals

The Plan has two categories of performance goals, which are defined at the beginning of each fiscal year.

- (1) Corporate goal(s) derived from:
  - (i) KPA 1 - Operating Costs: meeting the operating cost targets in the Company’s annual budget;
  - (ii) KPA 2 - Safety Plan: meeting the goals in the Company’s annual safety plan; and
  - (iii) KPA 3 - Business Plan: meeting the goals in the Company’s annual business plan.

- (2) Functional goal(s) related to the responsibilities of each major function of the Company (such as safety, operations, human resources, labour relations, finance, legal, information management, engineering, technical operations, communications and public affairs) and which are supportive of the Company's annual business plan and overarching objectives. Examples of functional goals might include improvement of operational efficiency and safety, increases in employee productivity and engagement, successful implementation of new technology, or maintenance of the Company's credit ratings.

The corporate and functional goals are to be measurable and quantifiable (for example in terms of dollars, timing, efficiency ratio, etc.). Weightings are assigned to each category of performance goal depending on the participants' positions, as set out below.

Goals Category		President and CEO	Executive VPs, Senior VPs, & Vice Presidents
Corporate	- Operating Costs	20%	20%
	- Safety Plan	10%	10%
	- Business Plan	40%	40%
Functional		30%	30%

#### Corporate Goals and Parameters

##### KPA 1: Operating Costs

KPI 1: Percentage positive variance against the annual operating costs budget as approved by the Board, which can be adjusted at the Committee's discretion

	Performance	Payout
KPI Threshold	-1.0%	50%
KPI Target	0.0%	100%
KPI Maximum	2.0%	150%

- No award will be achieved if there is a negative variance against the operating cost budget of more than 1.0%.
- 50% of the target award will be achieved if there is a negative variance against the operating cost budget of 1.0%.
- 100% of the target award will be achieved if the Company meets its operating cost budget.
- A further award equal to 50% of (c) will be achieved if there is a positive variance against the operating budget of at least 2.0%.

##### KPA 2: Safety Plan

KPI 2: Percentage completion of the Company's annual safety plan

	Performance			Payout
	Priority 1	Priority 2	Priority 3	
KPI Threshold	100%	0.75 X	0.50 Y	80%
KPI Target	100%	X	Y	100%
KPI Maximum	100%	100%	100%	150%

X, Y: Target percentage completion as determined by the Safety Committee of the Board:

- (a) No award will be achieved if less than the KPI Thresholds for strategic initiatives of priority 1, 2 and 3, as set out in the Company's annual safety plan, are successfully completed during the year (i.e., 100%, 75% of target and 50% of target for strategic initiatives with priority 1, 2 and 3 respectively).
- (b) 80% of the target award will be achieved if the KPI Thresholds for strategic initiatives of priority 1, 2, and 3, as set out in the Company's annual safety plan, are successfully completed during the year.
- (c) 100% of the target award will be achieved if the KPI Thresholds for strategic initiatives of priority 1, 2, and 3, as set out in the Company's annual safety plan, are successfully completed during the year.
- (d) A further award equal to 50% of (c) will be achieved if 100% of the Company's annual safety plan is successfully completed during the year.

### KPA 3: Business Plan

KPI 3: Performance levels for business plan goals as measured by percentage of maximum payout

	Performance	Payout
KPI Threshold	*	50%
KPI Target	*	100%
KPI Maximum	*	150%

\* Business Plan KPIs and related performance levels (KPI Thresholds, KPI Targets, KPI Maximums) are the same for all plan participants and are approved by the Committee on an annual basis.

### Functional Goals and Parameters

KPI: Performance levels for functional goals as measured by percentage of maximum payout

	Performance	Payout
KPI Threshold	*	50%
KPI Target	*	100%
KPI Maximum	*	150%

\* Performance levels for functional goals are approved on an annual basis by the President & CEO for participants other than himself, taking into account the actual performance of any participant as against their predetermined annual goals and objectives and other relevant factors where the participant has



impacted the ability of the Company to achieve its overall corporate objectives. The Committee approves the annual functional goals for the President & CEO and determines his functional goal performance.

### **Functional Goals**

*President & CEO* - The President & CEO is responsible for managing the affairs of the Company. In fiscal 2020, Mr. Wilson's priorities focused on implementing and achieving the goals in the Company's 2020 Strategic Plan: "Value for Stakeholders". In addition to the corporate goals described above, Mr. Wilson's functional objectives included developing and enhancing strength and performance in the executive team and the development of the strategic direction for the Company beyond 2021.

*Executive Vice President, Finance & CFO* - As CFO, Mr. Struthers has responsibility for management of the financial risks of the Company and its pension plans. Areas of responsibility include financial strategy and operations, forecasting, planning and analysis, financial reporting, internal controls, treasury and relations with investors and lenders. His functional objectives in fiscal 2020 included, among other things, enhancing the reward/risk profile of the Company's pension plans, providing strategic support for the Company's investments in Aireon and Searidge, proposing and implementing changes to customer service charges in accordance with the ANS Act, and successfully completing a debt issuance to address near-term liquidity requirements of the Company in light of the COVID-19 pandemic.

*Executive Vice President, Service Delivery* - As the former Executive Vice President, Service Delivery, Mr. Kellar had responsibility for the operational departments of the Company comprising Service Delivery, namely, Operations, Engineering, Technical Operations and Customer and Commercial Services. In fiscal 2020, Mr. Kellar's functional objectives included, among other things, continuing to strengthen and align the relationships within the Service Delivery departments, continuing to provide support for the enhancement of service at Canada's four major airports through the introduction of innovative technology and for the implementation of enhanced remote services prototypes integrating digital technology, and developing a plan for the implementation of space-based ADS-B through the Aireon service.

*Executive Vice President, Human Resources, Communications & Public Affairs* - Mr. Bohn's functional objectives in fiscal 2020 included, among other things, to implement transformational changes within the Human Resources and Communications & Public Affairs organizations that enable the strategic advancement of these functions to fully support NAV CANADA's strategic priorities, develop strategy through strategic priorities that ensure alignment with NAV CANADA's business strategy to build on our strength in people, implement HR technology to support the Human Resources strategy, evolve the maturity of the Company's corporate planning and operational training to reflect industry best practices, proactively manage NAV CANADA's reputation and brand, and reduce NAV CANADA's overall pension and benefit risk.

*Senior Vice President, ANS Technology* - Mr. Cooper has overall responsibility for the design, development, configuration, installation and maintenance of the operational technology used by NAV CANADA. Mr. Cooper also has responsibility for NAVCANatm, which is the international sales division of NAV CANADA, and the Construction and Facilities management organisation. In Fiscal 2020, Mr. Cooper's objectives included the introduction of innovative technology at the four major airports, the implementation of the digital towers, the cyber security of all operational systems, the re-organisation of the ANS Technology organization and developing the operational technology strategy and supporting product roadmaps.

### **Long-Term Incentive Plan**

The Company provides an Executive Long-Term Incentive Plan (the LTIP), in which each of the President & CEO and other Executive Officers participate. The LTIP consists of a cash award plan, with annual awards payable at the end of each three-year rolling performance cycle. The key performance areas of the LTIP are reviewed and confirmed or changed by the Committee at the commencement of each performance cycle.

The Vice President, Pension Investments & Treasurer participates in the LTIP in addition to her original long-term incentive plan given that her role also encompasses corporate responsibilities beyond those related to the Company's pension plans.

The Company also provides a supplemental long-term incentive plan (S-LTIP) for certain officers, to be determined by the Committee from time to time, which will be awarded in addition to and on the same basis as the LTIP as set out below. No portion of any supplementary payout will be included in the determination of pensionable earnings.

The target and maximum awards for the LTIP and the S-LTIP included in the tables below are expressed as a percentage of annual base salary.

<b>Position</b>	<b>Target LTIP Award</b>	<b>Target S-LTIP Award</b>
President & CEO	70% of base salary	50% of base salary
Executive Vice Presidents	45% of base salary	25% of base salary
Senior Vice Presidents and Vice President, Safety & Quality <sup>(1)</sup>	45% of base salary	
Vice President, Pension Investments & Treasurer <sup>(2)</sup>	10% of base salary	
Other Vice Presidents	35% of base salary	

<b>Position</b>	<b>Maximum LTIP Award</b>	<b>Maximum S-LTIP Award</b>
President & CEO	87% of base salary	62% of base salary
Executive Vice Presidents	56% of base salary	31% of base salary
Senior Vice Presidents and Vice President, Safety & Quality	56% of base salary	
Vice President, Pension Investments & Treasurer <sup>(1)</sup>	12% of base salary	
Other Vice Presidents	43% of base salary	

<sup>(1)</sup> For incumbent at August 31, 2020 only.

<sup>(2)</sup> This incentive entitlement came into effect on September 1, 2017.

In the absence of the availability of equity-related compensation plans, the LTIP and S-LTIP are intended to:

- tie executive rewards to stakeholder gains and satisfaction;

- motivate and reward Executive Officers for achieving long term performance goals;
- attract and retain key Executive Officers; and
- retain an element of pay at risk.

The LTIP is designed to reward the executive management of the Company for special effort, achievements and results over a three-year period to ensure alignment between the objectives of the stakeholders and those of management.

The following terms used and tables contained in this section relate to the Performance Cycle ended August 31, 2020 and have the following meanings:

“*CPI*” means the Consumer Price Index for all items, as published by Statistics Canada under the authority of the *Statistics Act*. The averaging methodology detailed in the NAV CANADA Pension Plan is to be used for calculation purposes.

“*General Customer Service Rates*” means the combination of terminal and enroute charges taken together, as described in the Company’s *Customer Guide to Charges*.

“*Key Performance Area (KPA)*” means one of the Plan’s four critical performance areas: KPA 1 - Safety; KPA 2 - Rate Changes; KPA 3 - Project and Technology Management; and KPA 4 - Other Net Revenue Growth.

“*Key Performance Indicator (KPI)*” means the performance measure(s) used to evaluate the success of a particular Key Performance Area.

“*KPI Maximum*” means the level of performance required to award the maximum payout for a particular KPI.

“*KPI Target*” means the level of performance required to award the target (100%) payout for a particular KPI.

“*KPI Threshold*” means the level of performance required to award any payout for a particular KPI.

“*Performance Cycle*” means the three-year period commencing on the first day of each fiscal year.

The LTIP and S-LTIP set out specific, measurable goals in the four KPAs set forth in the following table which also sets out the corresponding total percentage of the target award allocated to each such KPA.

<b>KPA</b>	<b>Percentage of Target Award</b>
KPA 1 - Safety	30%
KPA 2 - Rate Change	45%
KPA 3 - Employee Engagement	10%
KPA 4 - Customer Efficiency and Environment	15%

## Rationale, Goals and Parameters

### KPA 1: Safety

Safety is the primary KPA over the long term, with respect to which all ANS stakeholders expect management to be extremely diligent.

KPI 1: Rate of losses of IFR to IFR separation per 100,000 movements over a Performance Cycle.

	<b>Performance</b>	<b>Payout</b>
KPI Threshold	0.85 to 1.00	50%
KPI Target	Less than 0.85	100%
KPI Maximum	n/a	n/a

- (a) No award will be achieved if the rate of losses of IFR to IFR separation per 100,000 movements over a Performance Cycle is greater than 1.00.
- (b) 50% of the target award will be achieved if the rate is between 0.85 and 1.00.
- (c) 100% of the target award will be achieved if the rate is below 0.85.

### KPA 2: Rate Change

Rate change is a primary KPA upon which all ANS customers will judge the Company as it bears directly on the value received by its customers.

KPI 2: Percentage change in General Customer Service Rates as measured over a Performance Cycle.

	<b>Performance</b>	<b>Payout</b>
KPI Threshold	CPI Increase	50%
KPI Target	0%	100%
KPI Maximum	1% Decrease	125%

- (a) No award will be made if, during the Performance Cycle, increases in General Customer Service Rates occurred which exceeded the growth in CPI.
- (b) 50% of the target award will be achieved if, during the Performance Cycle, increases in General Customer Service Rates were equal to or less than the growth in CPI.
- (c) 100% of the Target Award will be achieved if, during the Performance Cycle, no increase in General Customer Service Rates occurred.
- (d) A further award equal to 25% of (c) will be achieved if, during the Performance Cycle, General Customer Service Rates were decreased by 1% or more.

KPA 3: Employee Engagement Employee engagement is a primary KPA as the Company works to continuously enhance its corporate culture in an effort to provide a professional and fulfilling work environment for all employees.

KPI 3: Employee Engagement as measured by the Aon Hewitt Best Employer Survey's Gold Standard.

	<b>Performance</b>	<b>Payout</b>
KPI Threshold	90.0% of Gold Standard	50%
KPI Target	95.0% of Gold Standard	100%
KPI Maximum	100.0% of Gold Standard	150%

- (a) No award will be made if overall employee engagement is less than 90% of Aon Hewitt’s Gold Standard to be measured during the final fiscal year of the Performance Cycle.
- (b) 50% of the Target Award will be achieved if overall employee engagement is at least 90% of Aon Hewitt’s Gold Standard to be measured during the final fiscal year of the Performance Cycle.
- (c) 100% of the Target Award will be achieved if overall employee engagement is at least 95% of Aon Hewitt’s Gold Standard to be measured during the final fiscal year of the Performance Cycle.
- (d) 150% of the Target Award will be achieved if overall employee engagement is at least 100% of Aon Hewitt’s Gold Standard to be measured during the final fiscal year of the Performance Cycle.

**KPA 4: Customer Efficiency and Environment**

Customer Efficiency and Environment is a primary KPA as the Company works towards improving customer efficiency through reduction in air carrier fuel burn and mitigating the environmental impact of air transportation through reduction in greenhouse gas emissions.

Space-based ADS-B provided ATC surveillance beginning in 2018. The technology is an important enabler. The introduction of space-based ADS-B will make possible improved procedures that will bring significant operational benefits for air traffic.

KPI 4: Average fuel burn savings per flight made available to the Company’s customers through its operational and technology implementation efforts, particularly space-based ADS-B.

	<b>Performance</b>	<b>Payout</b>
KPI Threshold	169 kg	50%
KPI Target	291 kg	100%
KPI Maximum	412 kg	125%

- (a) No award will be made if annual fuel burn savings made available to customers is less than the KPI Threshold to be measured during the final fiscal year of the Performance Cycle.
- (b) 50% of the Target Award will be achieved if annual fuel burn savings made available to customers is at least at the level of the KPI Threshold to be measured during the final fiscal year of the Performance Cycle.
- (c) 100% of the Target Award will be achieved if annual fuel burn savings made available to customers is at least at the level of the KPI Target to be measured during the final fiscal year of the Performance Cycle.
- (d) 150% of the Target Award will be achieved if annual fuel burn savings made available to customers is at least at the level of the KPI Maximum to be measured during the final fiscal year of the Performance Cycle.

### *Performance Cycles and Payments for LTIP and S-LTIP*

Since September 1, 2015 and on September 1 for every year through to September 1, 2019, a three-year Performance Cycle was established, with calculated awards under the LTIP and S-LTIP payable annually.

Effective September 1, 2020 and on September 1 every three years thereafter, a three-year Performance Cycle will be established, with calculated awards under the LTIP and S-LTIP payable following the three-year Performance Cycle.

Fifty percent of target amounts for outstanding portions of long-term incentive awards as of August 31, 2020 will be paid early in fiscal 2021 in order to close out outstanding Performance Cycles to support the transition from the current program with overlapping three-year performance periods and annual payments to the new program based on discrete three-year periods. The next LTIP and S-LTIP awards will be paid following the three-year period ending August 31, 2023.

Payouts under each of the LTIP and S-LTIP are calculated using a straight-line interpolation if realized results are between the KPI Threshold and KPI Target or between the KPI Target and KPI Maximum, as applicable.

The Committee reserves the right, acting reasonably and equitably, to increase or decrease total incentive awards to take into account, in whole or in part, occurrences when the plan does not produce intended results when considering factors like key performance indicators and the business environment in which the performance was achieved. At the start of each Performance Cycle, if certain major specified events are expected, to the extent possible, participants will be informed whether performance will be evaluated including or excluding the effect of extraordinary events that may occur during the Performance Cycle.

Executive Officers who are terminated for cause by the Company or who voluntarily resign their positions, other than by retirement pursuant to the Company's retirement policy, are not entitled to any LTIP or S-LTIP payments, unless otherwise determined by the Company.

### ***Special Performance Incentives***

From time to time, the Committee, in consultation with the President & CEO, may make available a special performance incentive for an individual Executive Officer based on specific, one-time achievements. If these achievements are met, an agreed upon amount is paid to the Executive Officer and disclosed in the Summary Compensation Table, if applicable.

### ***Clawback or Forfeiture***

The Company may require that any incentive compensation amount awarded or paid to current or former Executive Officer under any of the Plan, LTIP or S-LTIP, be cancelled or refunded by those Executive Officers if the award was based upon incorrect or inappropriate data or information where a material required restatement or correction is subsequently made, or where Executive Officers engaged in fraud, wilful misconduct or other malfeasance resulting in the need for the restatement or correction, up to the extent of the error in the award.

In considering any incentive award forfeiture or refunds, the Committee may consider:

- the value of the additional compensation paid that otherwise would not have been paid;
- whether the required restatement was due to malfeasance by any of the Plan participants; and

- the Company's best interests in the circumstances.

Refund requirements may be limited to certain Plan participants if it is determined that only those participants engaged in fraudulent activity or malfeasance that led to a restatement being required. Any refund or forfeiture requirements will be considered by the Committee and a recommendation may be made to the Board for approval. The Committee may also recommend appropriate action to the Board.

### **Benefits**

In order to attract and retain high quality talent and offer competitive levels of compensation, the Company provides benefits to its Executive Officers. The benefits are reviewed periodically to ensure an appropriate benefit level is maintained.

All Executive Officers are eligible for the Company-paid flexible benefits program, for the most part including life insurance, accidental death and dismemberment, short-term disability, long-term disability, an executive medical health assessment program, supplementary medical, dental and provincial health care, and pension plans.

### **Perquisites**

Executive Officers are eligible to receive direct or indirect personal benefits which are not generally available to all employees. Perquisites include a general auto allowance, club membership, financial planning assistance and parking. Perquisites are reviewed periodically in order to remain competitive.

### **Employment Agreements and Termination Benefits**

Each Named Executive Officer has an employment agreement with the Company providing for employment for an indefinite term, and providing for compensation that generally consists of:

- annual salary;
- annual cash incentive;
- long-term cash incentive;
- participation in a defined benefit pension plan; and
- benefits and perquisites.

In the event that the employment of a Named Executive Officer who entered into an employment agreement with the Company prior to January 1, 2016 is terminated by the Company without cause, severance compensation, in lieu of notice, is determined on a case-by-case basis at the time of termination. For Named Executive Officers who became officers of the Company on or after January 1, 2016, their employment agreements provide that in the event that their employment is terminated by the Company without cause, the Company will provide such Named Executive Officer with working notice equal to 18 months. In lieu of working notice, the Company may elect to provide a lump sum severance payment or may elect any combination of working notice and severance pay.

### **Fiscal 2020 Memorandum from the Human Resources & Compensation Committee**

The 2020 global pandemic has presented many challenges for NAV CANADA and its stakeholders given the unprecedented decline in air traffic. The Company's preparedness, prevention and response plans were key to ensure safe and efficient business continuity, maintain a safe and healthy workplace and contain overall costs. This multi-layered and multi-stakeholder effort required support and concessions from leaders, employees, bargaining units, suppliers and customers that was fully supported by NAV

CANADA's Board of Directors. Key performance achievements include reducing operating costs by \$131M (9.4%) and zero interruptions in service while ensuring operational and workplace safety.

When conducting the recent annual review of compensation for Executive Officers, the Human Resources & Compensation Committee has never been more challenged in balancing the Company's Executive Compensation Philosophy with the unprecedented impact of the pandemic on the aviation industry. Our objective was to motivate, reward and retain executive talent in the context of the very significant issues being experienced within NAV CANADA including workforce adjustment, liquidity and significant rate increases for our customers. These factors, in addition to similar issues being experienced by our stakeholders in the rest of the industry, have made our review more complex and challenging. It was a task that required thoughtful consideration and good judgement with a clear view to the future and the recovery of NAV CANADA as a pre-eminent Air Navigation Service Provider with responsibilities that have a global impact. Following are the executive compensation decisions taken by the Committee:

#### **Highlights:**

- **Executive compensation costs reduced by 38% that include restructuring of the Executive Management Committee, salary reductions and prospective changes to the Executive Long Term Incentive Plan ("LTIP") and executive pension arrangements.**
- **Annual Incentive Plan ("AIP") award for fiscal 2020 assessed at 36.2% of the 70% corporate award, including no award for the second half of the fiscal year.**
- **LTIP award for performance cycle 2020 assessed at 52.5% of target based on actual achievement over the three-year period.**
- **New LTIP program established for the next three year period ending August 31, 2023, with payment after the three years rather than annual payments. Outstanding LTIP amounts under the prior plan settled at 50% of target.**

Base salary reductions for Executive Officers effective April 2, 2020 will continue through to at least August 31, 2021. These adjustments, along with prospective changes to pension arrangements and the composition of the Executive Management Committee serve to reduce overall compensation costs at the Executive level by 38%.

Fiscal 2020 awards for the Annual Incentive Plan in respect of corporate achievements were split into two performance periods: 1) first half of the fiscal year ending February 29, 2020 and 2) second half of the fiscal year ending August 31, 2020 given the different performance dynamics through the year and the timing of the Company's fiscal year. For the first half of the fiscal year, the Company and industry had relatively strong performance pre-pandemic and the AIP was assessed based on actual results for previously established Key Performance Indicators ("KPA"s) at 102.4% of target. Cost management was a significant contributor to this positive result. Despite the Company's response to the pandemic, there were significant financial challenges faced by the Company and industry in the second half of the year as a result of the pandemic which resulted in the scoring of the corporate AIP award at 0% of target. Corporate AIP awards for the entire fiscal year, weighted at 70.0%, were therefore assessed at 36.2% of target and Functional AIP awards, weighted at 30%, were assessed based on individual Executive performance during the fiscal year.

Performance Cycle 2020 awards for the Long-Term Incentive Plan were based on achievements against the four LTIP KPAs for the three-year period ending August 31, 2020 with an overall result of 52.5% of target. The last six months of this three-year performance cycle had a significant impact on this result with no award for the customer service charges KPA, a proxy for customer value weighted at 45%, and no award for the employee engagement KPA, a measure of corporate culture weighted at 10%, that was not measured in fiscal 2020 as part of management's efforts to reduce costs. Excellent results were achieved with respect to the safety KPA as well as customer efficiency and the environment KPA.



A decision was also taken to transition the LTIP from an incentive program with annual payouts based on rolling three-year performance cycles to one with payouts every three years based on discrete three-year performance cycles. The new program enhances executive retention and ensures greater clarity related to key performance areas of focus, particularly important over the next few years of significant industry uncertainty. To support the transition to the new LTIP, the outstanding portions of long-term incentive awards at August 31, 2020 were settled at 50.0% of target. The next LTIP awards will be paid following the three-year period ending August 31, 2023.

Recognizing that these outcomes may not be optimal for particular stakeholder groups, the Committee is confident that these compensation decisions are a balanced reflection of what is in the best interest of the Company overall and reflect a thoughtful and effective governance process. We continue to review and monitor the Company's Executive Compensation Philosophy and design of our executive compensation programs for alignment with the Company's business strategy and industry dynamics.

### SUMMARY COMPENSATION TABLE

The following table sets forth all compensation paid to or earned by the Named Executive Officers during the fiscal years ended August 31, 2020, 2019 and 2018.

Non-Equity Incentive Plan Compensation								
Name and principal position	Fiscal year ending August 31	Salary (\$)	Annual Incentive Plan <sup>(1)</sup> (\$)	Long-Term Incentive Plan <sup>(2)</sup> (\$)	Terminated Long-Term Incentive Plan <sup>(3)</sup> (\$)	Pension Value <sup>(4)</sup> (\$)	All other compensation (\$)	Total compensation (\$)
Neil R. Wilson President & CEO	2020	608,628	285,629	383,340	366,811	327,000	0	1,971,408
	2019	616,800	392,100	746,043	0	235,000	0	1,989,943
	2018	600,000	382,980	714,491	0	615,000	0	2,312,471
Alexander N. Struthers Executive Vice President, Finance & CFO	2020	351,447	121,601	127,663	122,849	162,000	0	885,560
	2019	350,100	178,376	235,537	0	151,000	0	915,013
	2018	340,600	167,235	161,171	0	91,000	0	760,006
Rudy Kellar Executive Vice President, Service Delivery	2020	353,602	295,404 <sup>(5)</sup>	279,700 <sup>(7)</sup>	282,952 <sup>(7)</sup>	180,000	286,676 <sup>(8)</sup>	1,678,334
	2019	352,300	293,413 <sup>(6)</sup>	253,988	0	374,000	0	1,273,701 <sup>(6)</sup>
	2018	341,400	178,723	266,405	0	155,000	0	941,528
Raymond G. Bohn Executive Vice President, Human Resources, Communications & Public Affairs	2020	338,130	131,533	122,038	118,004	171,000	0	880,705
	2019	335,200	171,120	212,222	0	131,000	0	849,542
	2018	322,900	159,513	185,307	0	419,000	0	1,086,720

Mark Cooper	2020	308,459	81,186	24,291	46,269	46,000	252,000 <sup>(10)</sup>	758,205
Senior Vice	2019	0	0	0	0	0	0	0
President, ANS Technology <sup>(9)</sup>	2018	0	0	0	0	0	0	0

- (1) Represents amounts earned for performance in each fiscal year. Annual incentive awards under the Plan are paid in cash within 90 days following the end of each fiscal year.
- (2) Represents amount earned for the current three-year LTIP (September 1, 2017 to August 31, 2020), including amounts earned under the S-LTIP.
- (3) Fifty percent of target amounts for outstanding portions of long-term incentive awards as of August 31, 2020 in order to close out outstanding performance cycles to support the transition from the current program with overlapping three-year performance periods and annual payments to a new program based on discrete three-year periods. The next LTIP and S-LTIP awards will be paid following the three-year period ending August 31, 2023. Long-term incentive awards are paid in cash within 90 days following the completion of the third year of the relevant plan.
- (4) The fiscal 2020 year-over-year increases in pension values are explained in footnote 4 to the Defined Benefit Plans Table.
- (5) Mr. Kellar's Annual Incentive Plan amount for fiscal 2020 reflects the terms of his retirement agreement and are based on the average of historical results for fiscal 2017, 2018 and 2019. This amount also includes a \$100,000 Special Performance Incentive paid to Mr. Kellar based on specific, one-time achievements during fiscal 2020.
- (6) This amount has been restated to include a \$100,000 Special Performance Incentive paid to Mr. Kellar following the filing of the 2019 Statement of Executive Compensation based on specific, one-time achievements during fiscal 2019.
- (7) Mr. Kellar's LTIP and S-LTIP amounts for the three-year performance cycle ending August 31, 2020 and for the outstanding portions of long-term incentive awards as of August 31, 2020 described in note (3) to this table reflect the terms of his retirement agreement and are based on the average of historical results for fiscal 2017, 2018 and 2019.
- (8) This amount represents a retirement arrangement for Mr. Kellar and is payable in certain installments over the period September 1, 2020 to his retirement on December 31, 2020. Certain eligible portions (72%) of the retirement arrangement are pensionable.
- (9) Mr. Cooper commenced employment with the Company on September 2, 2019 and was appointed Senior Vice President, ANS Technology.
- (10) This amount represents a signing bonus which was paid to Mr. Cooper when he joined the Company to compensate for the loss of short-term incentives from his former employer.

## PENSION PLAN BENEFITS

NAV CANADA provides its Executive Officers who were appointed prior to January 1, 2019 with pension benefits under the NAV CANADA Executive Pension Plan and individual supplementary retirement arrangements (Executive Pension Plan). Pension benefits in respect of service prior to appointment as an Executive Officer are provided through the NAV CANADA Pension Plan and the NAV CANADA Supplemental Retirement Plan (Employee Pension Plan - Part A).

Executive Officers who are appointed after December 31, 2018 are provided with pension benefits through NAV CANADA Pension Plan - Part B and the NAV CANADA Supplemental Retirement Plan (Employee Pension Plan - Part B). Executives who are participating in Employee Pension Plan – Part A at the time of appointment may, at the discretion of the President and CEO, remain in that plan until March 31, 2022 at which time they will transition to Employee Pension Plan – Part B.

Effective April 1, 2022, all Executive Officers will accrue pension benefits under NAV CANADA Pension Plan - Part B and the NAV CANADA Supplemental Retirement Plan (Employee Pension Plan - Part B).

### Defined Benefit Plans Table

The pension obligations and reconciliations thereof detailed below are determined using the same actuarial assumptions as were used to determine the accounting information for pension plans as disclosed in the Company’s audited annual consolidated financial statements for the period ended August 31, 2020. The table details the years of credited service, estimated pension benefits as at August 31, 2020, projected benefits to age 65, and changes in the accrued pension obligations during the fiscal year for the Named Executive Officers.

Name	Number of Years Credited Service <sup>(1)</sup>	Annual Benefits Payable (\$)		Present Value of Defined Benefit Obligation at August 31, 2019 (\$)	Compensatory Change <sup>(4)</sup> (\$)	Non-Compensatory Change <sup>(5)</sup> (\$)	Present Value of Defined Benefit Obligation at August 31, 2020 (\$)
		At Aug. 31, 2020 <sup>(2)</sup>	At Age 65 <sup>(3)</sup>				
Neil R. Wilson President & CEO	18.13150	335,815	395,555	5,915,000	327,000	29,000	6,271,000
Alexander N. Struthers Executive Vice President, Finance & CFO	2.58082	24,814	50,311	276,000	162,000	7,000	445,000
Rudy Kellar Executive Vice President, Service Delivery <sup>(6)</sup>	15.04657	158,396	162,539	2,914,000	180,000	86,000	3,180,000
Raymond G. Bohn Executive Vice President, Human Resources, Communications & Public Affairs	26.28939	224,901	315,785	5,140,000	171,000	(43,000)	5,268,000
Mark Cooper Senior Vice President, ANS Technology <sup>(7)</sup>	0.99818	4,388	94,094	0	46,000	(2,000)	44,000

(1) The supplementary retirement arrangements for the Executive Officers, provide service credit of 1.00 years for each year of service.

Mr. Bohn's credited service includes approximately 5.8 years of elective service once recognized under the registered pension plans of previous employers and purchased in December 2005.

- (2) The annual lifetime benefits payable at year-end are calculated based on actual pensionable earnings as at the end of the current fiscal year and payable at the Named Executive Officer's normal retirement date.
- (3) The annual benefits payable at age 65 are based on current compensation levels and assume that the Named Executive Officer will receive 100% of the target payment under the Annual Incentive Plan and 65% of the maximum payment under the LTIP and that credited service from April 1, 2022 is under the Employee Pension Plan – Part B. The maximum pensionable earnings under the Canada Pension Plan are assumed to remain constant at the current level of \$58,700.
- (4) The change in benefit obligation that is attributable to compensation includes both the service cost and the difference in average annual salary in excess of or below what was assumed. The service cost is the estimated value of the benefits accrued during the fiscal year. Members are assumed to retire at age 65.
- (5) The change in benefit obligation that is not compensatory includes interest cost, change in assumptions and gains and losses other than for difference in earnings.
- (6) Mr. Kellar's pension at age 65 reflects credited service to December 31, 2020 as per his retirement agreement.
- (7) Mr. Cooper was hired on September 2, 2019 and all his credited service is under the Employee Pension Plan – Part B.

#### ***Defined Benefit Plans Description***

Benefits with respect to service under the non-contributory Executive Pension Plan are calculated as:

- 2% times average annual salary times executive pensionable service (average annual salary includes salary and 50% of the amount paid for annual cash incentives and LTIP and is based on the executive's highest paid 60 successive months of Company service)

Benefits with respect to service under the contributory Employee Pension Plan - Part A are calculated as:

- 2% times average annual salary times employee pensionable service (average annual salary includes salary and 100% of the amount paid for annual cash incentives and is based on the employee's highest paid 72, or 60 while represented by CATCA before being promoted as an Executive Officer, successive months of Company service)

Benefits with respect to service under the non-contributory Employee Pension Plan - Part B are calculated as:

- 1.1% times average annual salary times employee pensionable service (average annual salary includes salary and 100% of the amount paid for annual cash incentives and is based on the employee's highest paid 72 successive months of Company service)

Pensionable service under both the Executive Pension Plan and Employee Pension Plan may not exceed 35 years in total.

For the Executive Pension Plan and Employee Pension Plan - Part A, full benefits are available at age 60, or age 55 with at least 30 years of service. At age 65, benefits are integrated with the Canada Pension Plan by subtracting an amount equal to 0.7% per year of employment times the Canada Pension Plan's average

annual yearly maximum pensionable earnings for the year in which the member retires and the two immediately preceding calendar years.

For the Employee Pension Plan - Part B, full benefits are available at age 65, or age plus service of at least 85 points. At age 65, benefits are integrated with the Canada Pension Plan by subtracting an amount equal to 0.5% per year of employment times the Canada Pension Plan's average annual yearly maximum pensionable earnings for the year in which the member retires and the four immediately preceding calendar years.

Lifetime benefit amounts payable up to \$3,092.22 per year of service are paid from the federally registered pension plan(s). Lifetime benefit amounts in excess of \$3,092.22 per year of service are unsecured and payable from revenues of the Company.

Plan members who are within 10 years of normal retirement and not eligible for full benefits as described above, are entitled to a monthly pension upon retirement. However, the pension is reduced due to early retirement. For the Executive Pension Plan and Employee Pension Plan - Part A, the reduction is based on one-half of one percent for each tenth of a year (5% per year) that the member is short of the applicable full pension threshold. For the Employee Pension Plan Part B, the reduction is based on three-tenths of one percent for each tenth of a year (3% per year) that the member is short of the applicable full pension threshold.

Increases in Executive Pension Plan and Employee Pension Plan - Part B benefits are indexed on an ad-hoc basis at the discretion of the Board. All Employee Pension Plan - Part A benefits are protected against inflation at the rate of change in the Consumer Price Index calculated as the average of the Consumer Price Index for each month in the 12- month period ending on September 30<sup>th</sup> in the immediately preceding year.

In the event of death in service, 60% (50% for Employee Pension Plan - Part A) of the accrued benefit to date of death is payable to the individual's surviving spouse as a monthly lifetime pension or as a commuted lump sum in accordance with applicable federal pension legislation. For Employee Pension Plan - Part B, a commuted lump sum is payable in accordance with applicable federal pension legislation. In the event of death in retirement, 60% (50% for Employee Pension Plan - Part A) of the benefit is payable to the individual's surviving spouse as a monthly lifetime pension.

## **Director Compensation**

The By-laws of the Company provide that reasonable remuneration be paid to directors (other than the President & CEO) for attendance and participation at meetings of the Board and committees as fixed by resolution of the Board. Board members receive annual retainers, meeting fees, travel fees, and have the option of participating in an executive medical health assessment program, which program is a taxable benefit. Board members are also entitled to per diems when they are required to conduct business on behalf of the Board. Directors' compensation is reviewed every two years. Since September 1, 2015 until the end of fiscal 2019, the annual retainer for Board members was \$56,000. After retaining Willis Towers Watson in fiscal 2019 to review director compensation at the companies in our Corporate Functions Peer Group, the Corporate Governance Committee recommended and the Board approved an increase to the annual retainer for Board members which was to be implemented in two phases. Effective September 1, 2019, the annual retainer for Board members was increased from \$56,000 to \$65,500 and was scheduled to be increased from \$65,500 to \$75,000 effective September 1, 2020. Since September 1, 2015, the Chair of the Board's Annual Fee is \$182,750.

In light of the impact of the COVID-19 pandemic on the Company, the Corporate Governance Committee recommended to the Board, which the Board unanimously approved, that all director fees, including

retainer, meeting and travel fees, be reduced by 20% effective April 1, 2020 and that the increase to the annual retainer for directors which was scheduled to become effective September 1, 2020 be eliminated. This fee reduction will be reviewed by the Corporate Governance Committee and the Board in the fall of calendar year 2021 or earlier if economic circumstances warrant.

<b>Board of Directors Fees - Fiscal 2020</b>		
	September 1, 2019 - March 31, 2020	April 1, 2020 - August 31, 2020
Annual Retainer	\$65,500	\$52,400
Board Meeting Attendance Fee	1,500	1,200
Board Teleconference Meeting Fee <ul style="list-style-type: none"> <li>• for meetings more than one hour</li> <li>• for meetings less than one hour</li> </ul>	1,000 500	800 400
Travel Fee (if required to travel across two provinces for the purpose of attending directors' or committee meetings)	1,500	1,200
Per Diem <sup>(1)</sup> <ul style="list-style-type: none"> <li>• full day</li> <li>• half day</li> </ul>	1,250 750	1,000 600
<b>Committee Fees</b>		
Committee Member Annual Retainer per Committee	\$4,000	\$3,200
Audit & Finance Committee Member Annual Retainer	5,000	4,000
Audit & Finance Committee Chair Annual Retainer	15,000	12,000
Human Resources & Compensation Committee Chair Annual Retainer	10,000	8,000
Annual Retainer for other Committee Chairs	7,500	6,000
Committee Meeting Attendance Fee	1,500	1,200
Committee Teleconference Meeting Fee <ul style="list-style-type: none"> <li>• for meetings more than one hour</li> <li>• for meetings less than one hour</li> </ul>	1,000 500	800 400
<b>Other</b>		
Chair of the Board Annual Fee <sup>(2)</sup>	\$182,750	\$146,200

(1) Per diems are paid to directors when they are required to conduct business on behalf of the Board other than attendance at seminars, trade association meetings, training, or for preparation for Board and/or committee meetings.

(2) The Chair of the Board is entitled to reimbursement for "Travel Fees" but receives no additional meeting fees or other retainers or fees except in respect to Aireon LLC (Aireon), a joint venture that the Company has an interest in. See "Directors' Compensation Fiscal 2020" below.

<b>Directors' Compensation Fiscal 2020</b>			
<b>Name</b>	<b>Fees Earned (\$)</b>	<b>All Other Compensation<sup>(3)</sup> (\$)</b>	<b>Total (\$)</b>
Edward Barrett	\$125,900	\$7,500	\$133,400
Mary-Ann Bell	\$115,250	\$750	\$116,000
Jean Coté	\$93,725	-	\$93,725
Marc Courtois <sup>(1)</sup>	\$182,021	-	\$182,021
Robert Davis	\$106,775	\$750	\$107,525
Michael DiLollo	\$97,375	-	\$97,375
Bonnie DuPont	\$112,925	\$7,500	\$120,425
Marc Grégoire	\$93,175	-	\$93,175
Linda Hohol	\$115,125	\$6,000	\$121,125
Robert Reid	\$106,050	-	\$106,050
Michelle Savoy	\$101,150	-	\$101,150
Umar Sheikh	\$93,475	\$6,000	\$99,475
Scott Sweatman	\$99,025	\$4,500	\$103,525
David Weger	\$91,525	\$7,200	\$98,725
Neil Wilson <sup>(2)</sup>	-	-	-

- (1) Mr. Courtois receives an annual fee as Chair of the Board and no other additional fees for attendance of meetings. He is entitled to reimbursement for travel fees. As Chair of the Aireon Board, Mr. Courtois receives an annual retainer and fees for attendance of meetings.
- (2) As President & CEO, Mr. Wilson does not receive directors' fees.
- (3) Includes travel fees paid to directors who are required to travel across two provinces for meetings, and per diems, which are paid when a director is required to conduct business on behalf of the Board other than attendance at seminars, trade association meetings, training, or for preparation for Board and/or committee meetings.