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To: This message is being sent to all ATC employees within Operations

From: Ben Girard

RE: ATC Workforce Adjustment

The purpose of this memo is to provide further information to you about NAV CANADA's financial situation and traffic forecasts to assist you in understanding the reasons for the need to move into workforce adjustment strategies for Air Traffic Controllers in the FIRs.

I apologize that this will be the first communication that some will have had from me since I assumed my new functions this past September. Please believe me when I say that these are difficult times for all of us that require very difficult decisions to be made.

The persisting reduction in air traffic activity continues to have a negative impact on the Company's operations and revenues. In the first weeks of November alone, average traffic levels by FIR were down 54% to 42% compared to the same period in 2019. Over the summer and fall months, the outlook for the aviation industry has deteriorated significantly and it has become increasingly clear that we're facing years of a downturn in air traffic that is much larger and broader in scope than we all initially believed, and will be much deeper and longer than any downturn in the history of the industry.

In response to the impact the pandemic is having on our business and the industry, we have focused much of our attention on ensuring we have sufficient cash flow and liquidity to meet our immediate short term needs. Let me remind you of the three significant initiatives in this regard:

- **First, an increase in Service Charges** - After consultation with all carriers who will have to pay this increase, we announced that effective September 1, 2020, we would increase customer service charge base rates by an average of 29.5%.
- **Then, we issued Bonds** - In March 2020, the Company accessed its available syndicated credit facility to address near-term liquidity requirements and on May 29, 2020, the Company issued $850 million of General Obligation Notes. The net proceeds of these notes will be used to provide short term operating liquidity, allow for the repayment of borrowings under the syndicated credit facility and has enhanced the Company's short-term cash reserves. I basically compare this to getting a line of credit to pay your mortgage.

- **Finally, the Canadian Emergency Wage Subsidy** (CEWS)- Up to 75% of wages or a maximum of $847 per week per employee, retroactive to March 15, 2020. This program, for which payment are being reduced, will run through December. While an extension for the CEWS program through June 2021 was recently announced, NAV CANADA's eligibility is uncertain.

In addition, since the onset of the pandemic, we individually, and collectively, with everyone involved in the aviation sector in Canada have been pressing the Government of Canada for assistance. Unlike other Countries, in Canada, government has not provided specific support for the ANSP despite significant lobbying from all stakeholders, notwithstanding, such lobbying will continue.

In terms of our cost cutting and cost containment measures, let me outline some of the measures we have taken to date:

- Neil Wilson, our President and CEO, has reduced the size of EMC- with 6 EMC members retired or departing
- EMC and management salary have been reduced up to 10% - with all measures thus far, this represents a 39% reduction in the compensation cost of executives.
- The Board of Directors did their share and reduced their fees by up to 20%
- As you would know, overtime has significantly been reduced
- Travel for anything other than required maintenance is significantly restricted
- Capital programs have been reduced by about 60 million and kept for essential work only (keep the lights on)
- Many programs and strategic initiatives are on hold
- Professional services and contract work are at a minimum
- We have reduced headcount through the ending of terms, contracts and ERI
    - 61 terms have been ended with more to come
    - 226 employees have accepted an ERI
- As of September 22nd, we have sadly seen 14% of our workforce, more than 700 managers and employees across most bargaining units depart through early retirement incentives, end of terms, terminations or lay offs.
- In addition to 26 already announced level of service studies (mostly at FSS sites and St-Jean Tower) on November 13th we announced Level of Service Studies for six additional ATC Towers
- Earlier, we terminated 159 students and on November 19th we terminated another group of ATC Students leaving just a few in the system.

Despite these cost-containment efforts, we find ourselves in a situation where we expect our revenues to continue falling far short of our costs for several years and we continue to require further cost-containment measures and indeed, a full restructuring of our business.

A few more details on the financial situation:The lower staffing levels, funds from the CEWS program and cost savings enabled us to save around $200 million since March 1, however that number still pales in comparison to the $518 million reduction in revenues as compared to budget.

- In the last six months of FY20, the year cash outflow was approximately $1.3M per day over the 180 days since March 1 or close to $230M. That amount was after the CEWS program; before the CEWS program that would have been closer to $1.8M per day – these are large numbers and difficult to sustain on an extended basis. We anticipate that until air traffic returns to higher levels, which will not occur until the end of this fiscal year, we will continue to operate in a daily cash negative position and this will be made worse as funding from the CEWS program is ratcheted back.
- In FY21 we are starting 66% below the FY19 traffic levels – a third of FY19's revenues, and we are forecasting to see revenue return to about 72% of that level by the end of the year – still down around 28%.
- Even with a 29.5% increase that only gives us revenues of close $1.1B with a forecast cost structure of close to $1.4B and thus we can easily see revenue losses of another $300M in FY21 and cash losses that are much higher.
- Our CFO advises that we will need to go back to the bond market by early next year to refinance a bond issue that matures and, if needed, to raise additional liquidity. Keep in mind that the borrowing we have done since March 2020 and any additional borrowing will all need to be paid back and the only way to do that is by passing it through in even higher service charges to customers that are currently struggling financially.

In addition to all the cost cutting measures detailed above, we asked every bargaining agents for some concessions in relation to forgoing salary increases from the previous negotiated contract, put together, this represented a substantial amount. Unfortunately, to date, we have not been successful in this effort.

NAV CANADA will continue to restructure and to pursue cost-saving opportunities where safely possible. In an environment where 30% of costs are associated with "things" and 70% of costs are associated with "people", when all possible cuts with "things" have been done, any further cuts will directly affect people.

Unfortunately, in addition to the LOS studies, we will now also be looking to reduce the number of IFR controllers. Over the next few weeks, we will be consulting with CATCA as we implement these difficult measures to try to minimize the negative impacts to employees as much as possible.

Although unfortunate, the reduction in number of IFR controllers is directly tied to the forecasted traffic levels of the next several years. ATC Unit staffing levels have recently been revised as part of the Optimal Staffing Strategy. In doing so, staffing levels have been associated with varying traffic levels. As traffic recovery forecasts emerge, the right staffing levels in each specialty and tower have been associated. The methodology used to perform these forecasts and assess appropriate staffing levels are comprehensive and mindful of the resources needed throughout the recovery and in future years.

1. **Targeted voluntary departures** (DIPs) will be offered to a limited number of employees eligible for unreduced pensions who may be interested in retiring with a departure incentive payment. Specialties where it is deemed that a surplus of employees to accommodate current traffic exist will be targeted;

2. **Unpaid leaves of absence** will be available in the same specialties – the leaves will be offered for up to two years with the possibility of being recalled during the two-year period if traffic levels recover sooner than expected. This offers many advantages over a lay off or, just as a DIP acceptance would, offers the opportunity for someone else not to be declared surplus;

3. **Deployments** – in some ACCs, a number of air traffic controllers will be redeployed within the Centre to balance the staffing levels of the specialties;

4. **Lay-Off** – Although the outcome of the measures above will lessen the requirement to do so, it is likely that we will proceed with involuntary lay offs of staff in some ACCs based on reverse order of seniority. The surplus period is six (6) months, during which the Company will work with CATCA to try to find positions for as many surplus employees as possible. If, after six months, no appropriate position is available, surplus employees will have the option of terminating their employment with a departure incentive payment or accepting lay-off with recall rights for twelve (12) months.

I know this is very difficult news to hear, it is also very difficult news to deliver. Although the local managers will be directed to implement this decision, they will have no control over the final numbers; this is a decision that has been made at my level based on what needs to be done to ensure NAV CANADA’s financial sustainability.

I also recognize the impact this decision will have for many years in the future as well as for those who remain and will be required to work in the aftermath of this difficult restructuring. Although not soon enough, this horrible pandemic will end, we will get through this financial crisis and will need to rebuild a strong and vibrant ANSP, leading the world as we have in the past. To do so, and if available to return, we will need to recall those controllers being laid off, hopefully in a near future.

Although this will not console anyone affected by this news, it is by far the most unpleasant decision I have ever made, but I am convinced with the information in front of me that this is the right decision. We have arranged for EAP support for employees during this difficult situation.

Please note that this information be treated as confidential and not be disclosed outside of the Company.

Ben Girard
Vice-President and Chief of Operations