

2022 ANNUAL REPORT



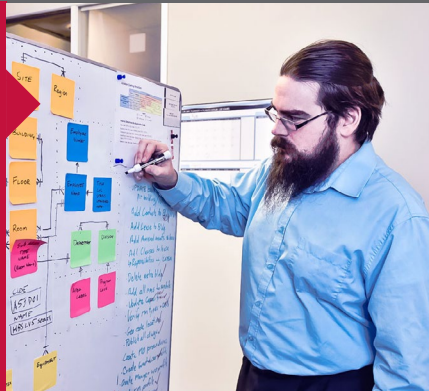
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CATSA AT A GLANCE

448

CATSA
employees



25.1

million passengers
screened



216

active standard
screening lines



114

active pre-board
screening
checkpoints



89

designated airports



83

CATSA Plus
screening lines



6,451

active screening
personnel



CORPORATE PROFILE

Established on April 1, 2002, the Canadian Air Transport Security Authority (CATSA) is an agent Crown corporation funded by parliamentary appropriations, and accountable to Parliament through the Minister of Transport.

MISSION

CATSA's mission is to protect the public by securing critical elements of the air transportation system.

VISION

CATSA's vision is to be a recognized global leader in aviation security screening, achieved through:

► Our service

We use innovative technology and an agile approach to maintain the highest level of security and provide the best possible passenger experience. We deliver value to Canadians with an optimal use of our resources.

► Our people

We cultivate and support a diverse and engaged workforce.

► Our partnerships

We work collaboratively with our partners toward common goals and interests.





CORE RESPONSIBILITY

As per the *Treasury Board of Canada Secretariat Policy on Results*, Crown corporations are expected to comply with the requirement to identify Core Responsibilities in order to support the publication of the Main Estimates and the Public Accounts.

As CATSA's mandate is very specific, the organization has one Core Responsibility.

SECURITY SCREENING AT DESIGNATED AIRPORTS

CATSA is mandated to deliver effective, efficient and consistent screening at designated airports. CATSA fulfils this responsibility by way of its mandated activities.

MANDATED ACTIVITIES

CATSA delivers the mandate of security screening at 89 designated airports across the country through a third-party screening contractor model. Playing a key role in Canada's civil aviation system, CATSA is responsible for the delivery of the following four mandated activities:



PRE-BOARD SCREENING (PBS)

The screening of passengers, their carry-on baggage and their belongings prior to their entry to the secure area of an air terminal building.

HOLD BAGGAGE SCREENING (HBS)

The screening of passengers' checked (or hold) baggage for prohibited items such as explosives, prior to being loaded onto an aircraft.

NON-PASSENGER SCREENING (NPS)

The random screening of non-passengers such as flight personnel, ground crew and airport employees, and their belongings (including vehicles and their contents) entering restricted areas at the highest-risk airports.

RESTRICTED AREA IDENTITY CARD (RAIC)

The system which uses iris and fingerprint biometric identifiers to allow non-passengers access to the restricted areas of airports. The final authority that determines access to the restricted areas of an airport is the airport authority.



OTHER KEY ACTIVITIES

COST RECOVERY AND OTHER DESIGNATED AIRPORTS

The *Transportation Modernization Act* introduced authorities allowing CATSA to provide supplemental screening services to both designated and non-designated airports, so long as the provision of these services remains cost neutral and subject to Transport Canada approval. Based on this authority, CATSA has previously provided additional screening services to airports through supplemental screening agreements and will continue to work with interested stakeholders. However, CATSA did not provide supplemental screening in 2021/22 due to the absence of demand from designated and non-designated airports resulting from the ongoing impacts of the COVID-19 pandemic.

CARGO

CATSA has an agreement with Transport Canada to screen cargo at small airports where capacity exists. This program was designed to screen limited amounts of cargo during off-peak periods and involves using existing resources, technology and personnel.

MESSAGE FROM THE CHAIRPERSON

The theme of this year's annual report, "Resilience and Adaptation" describes CATSA's commitment to fulfilling its mandate during a period of change as the pandemic pressed on for a second year. The resilience and adaptation with which CATSA has responded is a direct testament to the dedication of its employees, screening contractors and screening officers. On behalf of the Board of Directors, I extend my gratitude and appreciation for this collective resolve as we continue to support the air travel industry's recovery efforts.

The impact of the pandemic has been immense – not just from an industry or operational perspective, but a personal one as well. Over the last year, the Board has been especially focused on the health and well-being of CATSA employees within an environment that is equitable and inclusive. The importance of a diverse workforce cannot be understated and we are striving to establish a foundation for success that allows CATSA's employees to work and thrive in a culture where diverse perspectives and experiences lead their work forward and where uniqueness is celebrated.

This was very much in mind, as we focused on maintaining momentum in achieving CATSA's corporate priorities while planning for the future. Board members, in collaboration with CATSA's Senior Management team, industry stakeholders and Transport Canada, came together to discuss industry recovery and to plan for the immediate and longer-term future. While we can only hope that the worst of the pandemic is behind us, one thing is certain. CATSA's commitment to the safety of those working in and travelling through Canadian airports remains unchanged and is very much at the forefront of its renewed five-year corporate plan.



While it is important to look ahead, I would like to recognize and thank our board members for their unwavering commitment and contributions over the past year. As chairperson, I am continually impressed with their work and their dedication to ensuring CATSA is well positioned for the future.

I would also like to acknowledge CATSA's partners in the air travel industry and underline the importance of our continued collaboration and mutual support as we work together to ensure our collective success.

Finally, I once again thank CATSA's entire staff, including those at CATSA headquarters and those working in airports at CATSA's regional offices, along with front-line screening personnel. The Board is impressed by all those employees who demonstrated agility and strong work ethic over the course of the past year and, indeed, throughout these challenging times.

I look forward to the coming year and alongside of the Board, we stand ready to continue our work of ensuring that CATSA remains positioned at all times. We also look forward to celebrating CATSA's 20th anniversary, which will present an opportunity to reflect on past achievements and build momentum for continued success.

Marguerite Nadeau
Chairperson

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER



The annual report presents an opportunity to reflect on both the challenges and the accomplishments witnessed over the last year. As I look back, I am proud of CATSA's ability to remain agile as we navigated yet another challenging year.

With ongoing travel restrictions and the emergence of new COVID-19 variants, our continued focus at CATSA – alongside security – was the health and safety of all those working in and travelling through Canadian airports. The completion of an ultraviolet germicidal irradiation (UV-C) system trial is but one example of this commitment. CATSA also conducted temperature screening at 15 designated airports until the program ended in August 2021 and quickly took up the verification of vaccination status of passenger and non-passengers shortly thereafter.

Other efforts centered on ways to enhance security screening such as the use of the Full Body Scanner (FBS) as a primary screening tool. This process reduces overall false alarm rates and the requirement for additional physical searches. The FBS Primary initiative also contributes to Canada's goal of continued harmonization with international counterparts.

Though the last year was greatly focused on air travel recovery, our responsibility and commitment to Truth and Reconciliation remained a priority. In 2021, CATSA – in collaboration with an Indigenous training firm – worked to develop a robust learning program aimed to educate staff and screening

contractor employees on the cultural and historical experiences of First Nations, Inuit and Métis Peoples. As an organization, we recognize the importance of this knowledge and the need for each of us to apply our learning professionally and personally going forward.

Our success in meeting our mandate requires efforts on a number of fronts. First, I extend my thanks for the dedication and adaptability of our screening contractors and screening officers, who in a time of uncertainty continued to provide an essential service while protecting the health, safety and security of others.

Thank you to our Board of Directors for your support and experience while leading us through yet another challenging year.

I am also especially grateful for the trust and support of our stakeholders and partners. Finally, thank you to all CATSA staff for your unwavering commitment, flexibility and hard work. These traits are a hallmark of all successful organizations and CATSA is no exception. I am honoured to be leading CATSA as we celebrate our 20th year of operations, and I look forward to the new goals, challenges and achievements we will face together in the year ahead.

Michael Saunders
President and Chief Executive Officer

OPERATING ENVIRONMENT

PASSENGER TRAFFIC AND SCREENING OPERATIONS



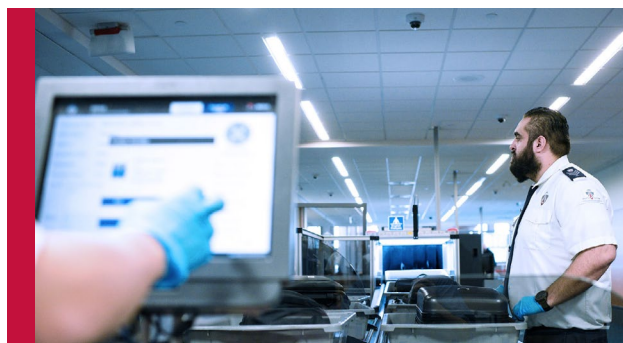
The COVID-19 pandemic had an unprecedented impact on the aviation industry. Passenger volumes reached a historic low in April 2020, when screened traffic saw a reduction of over 97% compared to April 2019. As such, some checkpoints and screening lines were temporarily closed, however operations continued in order to support the industry.

With a gradual increase of passenger traffic, CATSA began reopening checkpoints and screening lines in 2021. By March 2022, only 6.3% of PBS checkpoints remained closed. In addition, Class 2 and 3 airports were able to re-open as passenger volumes increased. Out of the 89 designated airports, 81 had active screening operations, three remained closed as a direct result of the COVID-19 pandemic while another five were inactive due to an absence of commercial operations as at March 31, 2022.

The emergence and rapid transmission of various COVID-19 variants may have an impact on passenger traffic. As an example, the Omicron variant resulted in a downturn in the number of passengers screened at CATSA checkpoints. However, in March 2022, screened traffic recorded only a 39.4% decrease when compared to March 2019.

Due to the ever-evolving and volatile nature of the pandemic on passenger traffic, CATSA continuously re-assessed its forecasts using a variety of third-party data sources to ensure the latest trends and indicators are factored into the organization's planning and resourcing activities.

LEGISLATIVE AND REGULATORY FRAMEWORK



Responsibility for civil aviation security in Canada is shared among several federal government departments and agencies, as well as airlines and airport authorities. Transport Canada is designated as Canada's national civil aviation security authority. CATSA, as the civil aviation security screening authority for Canada, is regulated by Transport Canada.

CATSA is subject to domestic legislation and regulations in the way that it conducts its business and screening activities. These acts and regulations include, but are not limited to, the *CATSA Act*; the *Financial Administration Act* (FAA), Part X; the *Aeronautics Act*; and the Canadian Aviation Security Regulations, 2012.

To stay abreast of emerging matters that impact civil aviation, CATSA engages with domestic and international partners and is focussed on staying adaptable in order to respond efficiently to evolving responsibilities. The organization's Standard Operating Procedures, including the training program for screening officers, are regularly updated to ensure CATSA stays ahead of the changing aviation environment.

CATSA's responsibilities have continuously evolved since its inception in 2002. As a recent example, during the COVID-19 pandemic, additional responsibilities were imposed to support public health measures, including temperature screening and vaccination verification. At no time was CATSA's core security mandate compromised.



I started working at CATSA as an administrative assistant in September 2002, when there were less than 50 employees. I have since had the opportunity to work in many parts of CATSA, watching the organization grow to over 400 employees, and I witnessed numerous organizational changes over the past 20 years. During my early few years, I supported the first equipment deployments at PBS and HBS; in 2004 I had the opportunity to travel to Vancouver International Airport to assist in testing their new HBS system; and in 2006, I organized a reception with our Board of Directors to celebrate attaining 100% HBS at eighty nine airports across Canada. I have had the pleasure of working with and learning from some incredible colleagues, which has been one of the main highlights for me. Going forward, I expect the organization will continue to shift and adapt to the unknown challenges that lie ahead. That is one thing for sure: there is never a dull moment working at CATSA.

ERIN MAYHEW

Manager, Program
Coordination

A portrait of Howard Lum, a middle-aged man with short, graying hair, smiling slightly. He is wearing a light blue button-down shirt and dark trousers. The background is a blurred indoor setting with warm lighting.

HOWARD LUM

Specialist, Portfolio
Management

I am proud to work for CATSA, an organization with great leadership that empowers its employees. I was fortunate to start near the beginning of CATSA. My journey started 19 years ago, in the initial Training and Certification team. Through hard work, our team successfully deployed the National Training and Certification Program for screening officers. During this period, I saw the deployment of programs such as HBS, PBS, RAIC, and NPS. CATSA has been resilient throughout its existence by timely deploying programs stipulated by the government, implementing new projects (liquids, aerosols and gels restrictions, security screening for the Vancouver 2010 Olympic and Paralympic Games), formalizing policies and procedures, and building strong relationships with stakeholders. During the challenging COVID-19 pandemic, CATSA was adaptive in managing its programs and projects, and working remotely with effective communication technology. Looking to the future, I see CATSA continuing to be adaptive to the new regulations and technologies for secure air transport and adapting to the needs of the stakeholders, employees and customers.

GOVERNANCE MODEL

In 2019, the Government of Canada enacted the *Security Screening Services Commercialization Act* (SSSCA), which enables the commercialization of Canadian aviation security screening services. The SSSCA provides for the Governor in Council designation of a corporate body under the *Canada Not-for-profit Corporations Act* as the designated screening authority to assume legal responsibility for security screening services at Canada's designated airports.

Formal negotiations with stakeholders related to the sale of CATSA's assets and liabilities were put on hold in March 2020 as the Government of Canada and the various private entities that comprise the designated screening authority (airport authorities and airlines) responded to the COVID-19 pandemic. While the timeline for the potential sale remains undetermined, CATSA will continue to deliver aviation security screening services, while supporting the seamless transfer of responsibility to a private not-for-profit entity, if and when requested by the Government of Canada.

ALIGNING WITH GOVERNMENT OF CANADA PRIORITIES

As CATSA's regulator, Transport Canada is responsible for developing civil aviation security screening requirements. In addition, Transport Canada regularly monitors changes introduced by international partners such as the International Civil Aviation Organization (ICAO), and continuously assesses the impact of future regulations on Canada's aviation security system. This allows CATSA's screening operations to remain adaptable to the evolving aviation landscape.

Over the past year, CATSA has continued to collaborate with Transport Canada on various key files, such as ongoing efforts to enhance sanitization of screening checkpoints, and the implementation of the full body scanner (FBS) as the primary security screening tool for passengers at PBS.

As a Crown corporation regulated by Transport Canada, CATSA is fully committed to aligning its policies to support the federal government's social, economic, and environmental priorities, including: supporting reconciliation with Indigenous Peoples; improving accessibility for all travellers; combatting climate change; and further promoting diversity and inclusion for both the hiring and retention of employees and in its screening operations. Such federal priorities are undertaken wherever it can be achieved without compromising CATSA's core security mandate.

► Indigenous Reconciliation - Engagement with Indigenous Elders

CATSA has engaged an advisory group of Indigenous Elders, which will inform changes to screening procedures such as the treatment of sacred items in 2022, and will also result in the launch of Indigenous cultural awareness learning. Fostering an awareness of Indigenous cultures will enable CATSA to provide a more inclusive and positive screening experience for all Indigenous travellers and respond to the Truth and Reconciliation Commission's Call to Action 57, which calls upon the Government of Canada to educate public servants on the experiences of Indigenous Peoples.

CATSA contracted the First People's Group, an Indigenous education firm, to develop and deliver this learning. In 2021/22, the pandemic delayed the delivery of this learning program, but CATSA has maintained ongoing engagement with Elders to seek their feedback and input on learning material that has been developed. Indigenous cultural awareness learning will launch in spring 2022.

► Improving the Accessibility of Security Screening for all Travellers

In June 2020, the Canadian Transportation Agency (CTA) published regulations that uphold higher standards for accessibility in the transportation sector. As such, CATSA is working actively to eliminate and prevent barriers in the security screening process for all passengers, consistent with the *Accessible Canada Act*. Moreover, CATSA has been focused on implementing training for screening officers for the provision of safe, sensitive and effective security screening of persons with disabilities. The organization is also working towards eliminating and preventing barriers in its internal hiring and employment practices, in support of the Accessible Canada Regulations.

► Compliance with Federal Policy on Mandatory Vaccination

In August 2021, the Government of Canada announced COVID-19 vaccination requirements for the federal workforce and the federally regulated transportation sector. CATSA enacted a mandatory vaccination policy for all employees, effective November 1, 2021. The mandatory vaccination policy remained in effect at the end of the fiscal year 2021/22. In addition to the federal regulations on mandatory vaccination for the transportation sector which apply to screening officers, CATSA issued a mandatory vaccination directive for its contractors that access CATSA's workspaces. The organization has also confirmed that the President and Chief Executive Officer (CEO) and all members of the Board of Directors are compliant with vaccination requirements for Governor in Council appointments.

► Climate-related Disclosures

Budget 2021 announced that Crown corporations with less than \$1 billion in assets would demonstrate climate leadership by adopting the Task Force on Climate-related Financial Disclosures recommendations, which include the disclosure of climate-related risks and opportunities, by 2024. In 2021/22, CATSA began working towards adoption.

► Culture of Diversity and Inclusion

CATSA is committed to fostering and reinforcing inclusive and respectful behaviours in the workplace by ensuring policies, processes and practices are in place to meet the needs of its employees and to celebrate diversity. CATSA has developed a comprehensive Diversity and Inclusion Framework, which will enable the organization and its employees to integrate diversity and inclusion values and practices into all existing and future corporate processes. For example, current professional development strives to raise greater awareness and sensitivity to gender orientation. As such, the organization strives to achieve an inclusive workplace that is reflective of Canada's diversity. Other measures have included enhanced anti-harassment training for employees in addition to the development of a new policy to encourage the integration of gender-based analysis plus into decision making. Furthermore, CATSA will continue to review its policies to ensure they do not contain inherent barriers or biases.



LISA RUSSO

HR Administrator

CATSA was created quickly in reaction to the terrorist attacks on September 11, 2001; it initially only existed on paper. The people who built the organization worked at Transport Canada, which is where I found myself in April of 2002. I remember my first day in our real office as if it was yesterday. My office was at the reception desk, but since we did not even have a receptionist, I pulled double duty. My first job was to verify contact information for 89 airports. We had to walk before we could run, and we needed to move fast, because governments in Canada and around the world feared copycat terrorist attacks like the one on September 11, 2001. Twenty years since that fateful day in 2001, CATSA is better than ever. We carry out our core responsibilities to a high standard. I expect that to continue as travel resumes, as long as we never forget why we work here and the importance of what we do!



MARY PUSKARIC

Analyst, Accounts Payable

I have worked at CATSA for 17 years. I have had the opportunity to work among some great people. The longevity of our collective careers shows the pride in what CATSA accomplishes to ensure the safety of the travelling public everyday. At CATSA, we work as a team in every branch. I work in the Corporate Affairs and Finance branch, and I have the pleasure to collaborate with every group at headquarters and in the regions. As we are in an ever-changing world, we need to act efficiently and effectively to provide security and the best service possible for travellers. One of the highlights of my career is the Vancouver 2010 Winter Games. This was one of the biggest events in CATSA history and required all hands on deck, and I feel fortunate to have played a role in it. Moving forward, I see CATSA being an integral part of the future of security for travellers.

TRANSPARENCY AND OPEN GOVERNMENT

The Government of Canada has committed to set a high bar for openness and transparency. This begins with consistent and timely compliance *with obligations under the Access to Information Act*, the *Privacy Act*, and related Treasury Board of Canada directives.

In order to maintain transparency and openness with the public, CATSA discloses its wait times and passenger traffic volumes, and publishes critical bulletins, information materials and periodic reports on CATSA policies, procedures and evolving issues online. Data sharing has facilitated industry recovery efforts by allowing stakeholders to efficiently access real-time data and perform analysis to identify passenger traffic changes and trends.

CATSA also conducts quarterly passenger surveys, and recently completed a survey to gain further insight into the attitudes of the travelling public during the pandemic. In addition, CATSA hosts a website with mechanisms for enquiries and feedback, and participates in active consultations to engage industry representatives and other stakeholders. This permits CATSA to enhance its positive impact in the aviation industry, and expand the opportunities for passengers to provide meaningful input.

In order to remain accountable and maintain transparency, CATSA holds annual Public Meetings and its Corporate Plan Summaries and Annual Reports are tabled in Parliament. CATSA also provides responses to enquiries and requests for information from Parliament, the Auditor General of Canada and other government authorities.

OFFICIAL LANGUAGES REQUIREMENTS

CATSA is committed to meeting its obligations under the *Official Languages Act* and has previously updated its three year Official Languages Plan, which demonstrates the organization's commitment to:

- Enhancing the vitality of the English and French linguistic minority communities in Canada and supporting and assisting their development; and
- Fostering the recognition and use of both English and French in Canadian society.

Official Languages Maturity Model Initiative

CATSA was selected by the Office of the Commissioner of Official Languages to participate in an Official Languages Maturity Model (OLMM) initiative, which began in the fall of 2021. The OLMM is a tool for assessing and improving organizational processes with respect to official languages obligations. The OLMM will influence all of CATSA's business, from its hiring and leadership practices, to the services it provides to the public. It is expected that feedback from this initiative will further contribute to CATSA's Official Languages Plan and enable continuous improvement.

IMPACT OF INTERNATIONAL STANDARDS ON CATSA OPERATIONS

In 2020, ICAO issued a 100% screening standard for non-passenger screening for civil aviation security screening authorities whereby all non-passengers entering secure areas of airports for all international flights would be screened. This has led to ongoing engagements between CATSA and Transport Canada in order to support this 100% NPS screening standard, including testing new screening solutions through operational trials. Moreover, CATSA began testing proofs of concept in April 2021 at a number of Class 1 airports with international operations, including Toronto, Vancouver, Calgary and Edmonton.



SUPPORTING INDUSTRY PARTNERS

CATSA operates in an integrated, complex and evolving environment with different entities assigned to specific security responsibilities, including governmental partners, airport authorities, airlines, law enforcement agencies and international partners. Activities, such as the scheduling of flights, passenger check-in, screening of passengers and their baggage, loading of checked baggage and boarding of aircraft, must operate seamlessly to ensure the efficient and secure movement of people and goods.

This integration requires a high degree of coordination between CATSA and industry partners, not only to ensure the effective and efficient screening of passengers and their belongings, but also to aid their continuous movement through the security screening

process. As such, CATSA has established itself as a credible authority on security screening through the development of collaborative relationships with its third-party screening contractors, stakeholders, government departments, and international partners.

During the most volatile moments of the COVID-19 pandemic, CATSA has been able to leverage its relationships with industry partners to share information concerning matters of security, passenger traffic and wait times, labour market challenges and screening technology innovations while supporting the recovery of the civil aviation industry. Leading up to the summer months, a number of airports experienced longer wait times at certain checkpoints due to various factors. CATSA will continue to leverage its relationships with industry partners and work collaboratively in order to find solutions to challenges of joint interest aimed at supporting the recovery of the civil aviation industry.



ONGOING HARMONIZATION – UNITED STATES TRANSPORTATION SECURITY ADMINISTRATION (TSA)

As part of the *"Beyond the Border Action Plan"*, Canada and the United States signed a Memorandum of Understanding aimed at achieving harmonization in screening procedures at airports with United States Customs and Border Protection Preclearance. Continued harmonization will ensure that both country's screening operations provide a comparable level of security, as well as a common passenger experience.

ANNUAL HIGHLIGHTS



1

COVID-19 Pandemic Response and Recovery Efforts:

CATSA collaborated with the Government of Canada, screening contractors, airport authorities and airlines to ensure safety measures were in place during the second year of the pandemic. Such measures included: temperature screening of passengers, CATSA's vaccination verification program for passengers and non-passengers, continued enhanced sanitization procedures, deployment of acrylic barriers at airports, and personal protective equipment for CATSA staff and screening officers.

2

Strengthening Indigenous Engagement and Awareness:

CATSA aims to align with Call to Action 57 of the Truth and Reconciliation Commission, which calls upon the Government of Canada to educate public servants on the history and experiences of Indigenous Peoples. CATSA is collaborating with an Indigenous training firm to deliver Indigenous cultural awareness learning to screening officers and supervisors, and CATSA employees.

3

Adapting the Workplace for a Post-pandemic Landscape:

To facilitate a flexible workplace, improvements were made to CATSA's communications tools, telework policies, and workspace. All of these measures will contribute to the transition to a hybrid workplace in 2022/23.

4

NPS-Vehicle Screening:

Due to the lower traffic at smaller checkpoints, CATSA took the opportunity to conduct 100% screening at select NPS vehicle (NPS-V) checkpoints. This allowed CATSA to garner invaluable lessons applicable to future 100% screening at all NPS-V checkpoints.

5

FBS at Primary:

CATSA completed the relocation of FBS to a primary screening position at several airports in Canada.

6

Informing the Future and Data Sharing:

CATSA has deployed several analytical models to help the organization prepare for the aviation industry's recovery from the pandemic, and has continued to enhance data sharing with key stakeholders.

REPORTING ON RESULTS

PRE-BOARD SCREENING

PBS Wait-Time Service Levels

CATSA screened an estimated 25.1 million passengers in 2021/22, which represents a 258% increase from 2020/21 traffic. CATSA operations have remained resilient and have continued to adapt to the dynamic travel patterns and evolving domestic and international health measures.

In 2021/22, CATSA delivered a wait-time service level (WTSL) where, on average, approximately 91.6% of passengers waited less than 15 minutes to be screened at Class 1 airports on an annual basis. It is important to consider that this performance reflects an average of the WTSL at Class 1 airports across the country. Longer wait times will occur during peak periods, when checkpoints experience higher traffic volumes, or as a result of the implementation of new health and safety measures at security screening checkpoints. CATSA worked collaboratively with industry partners, such as airport authorities and airlines in order to limit the impact of new health and safety measures on screening operations and wait times.



CATSA Plus

CATSA Plus security screening lines enable a more streamlined and effective security screening process and improved passenger experience, as compared to standard PBS screening lines. The benefits of CATSA Plus lines include higher passenger throughput, which directly contributes to creating a more seamless security screening experience for travellers. There are now 83 CATSA Plus lines deployed across seven of the Class 1 airports; more than 60% of the travelling public is now being screened on CATSA Plus screening lines. During 2021/22, one new CATSA Plus line was installed in Calgary, and new CATSA Plus software was installed on screening lines at several airports.

Full Body Scanner as a Primary Screening Tool

CATSA has continued with its important initiative to enhance security screening by using FBS as the primary screening tool for passengers (also known as FBS Primary). The project has focused on relocating existing FBS machines into primary screening positions at PBS checkpoints. Used in combination with walk-through metal detectors, the FBS Primary screening process enables an efficient flow of passengers through even the busiest checkpoints. It is anticipated that this initiative will reduce the proportion of physical searches required and that close contacts will decrease at the checkpoint when traffic levels are higher. As well, the FBS Primary initiative contributes to Canada's goal of continued harmonization with CATSA's international counterparts, including the United States Transportation Security Administration.

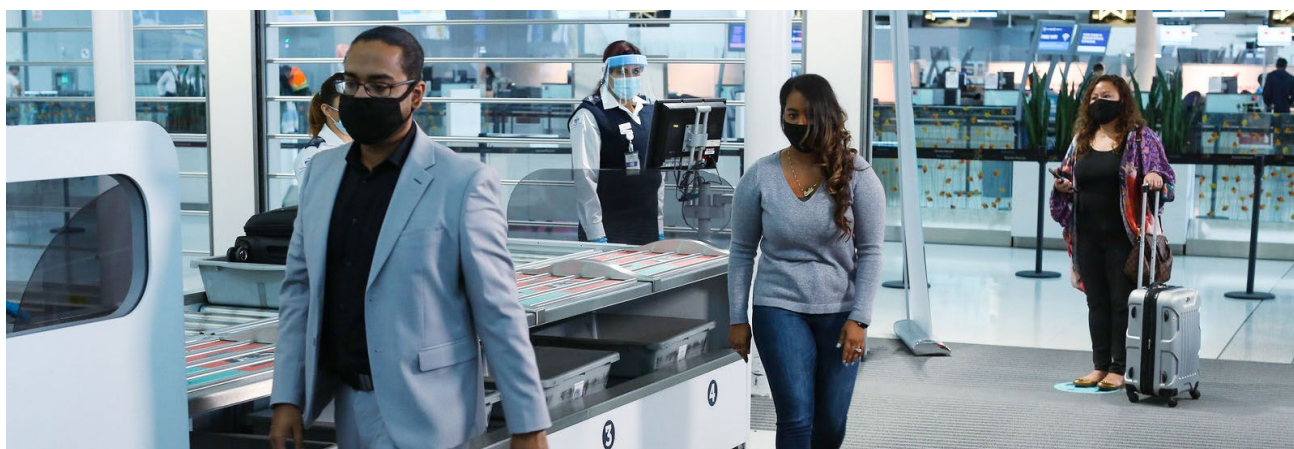


In 2021/22, FBS units were relocated as the primary screening tool at checkpoints at Billy Bishop Toronto City Airport. Additional FBS Primary units also became operational at Edmonton, Ottawa and Halifax international airports as checkpoints reopened.

PBS Innovations and Recapitalization Lifecycle Management Project

CATSA relies on a variety of technological components at PBS checkpoints to ensure the safety and security of passengers travelling. These critical components must be maintained and replaced in accordance with CATSA's lifecycle management practices to ensure a high level of effectiveness in security screening and to stay abreast of changing trends in screening technology. One such trend in security screening is the use of computed tomography (CT X-ray). CATSA conducted the evaluation of CT X-ray on a CATSA Plus line at its test facility and will move the equipment to an airport to conduct an operational trial in early 2022/23.

As CATSA is preparing to embark on the next stage of its PBS lifecycle management plan, it will take advantage of technology advancements to heighten security effectiveness, building on the successes of CATSA Plus. More specifically, the recapitalization of PBS equipment is expected to lead to the procurement of new equipment that will have improved detection capabilities and lower false alarm rates. In turn, this could also result in a reduction in divesting requirements. CATSA will start replacing its fleet of FBS units with a newer model in 2022/23 and the organization intends to start replacing its fleet of PBS X-rays the following year.



NON-PASSENGER SCREENING

In support of changes made to the NPS-V Traffic Management System, CATSA has developed a training simulator to facilitate more effective training. In addition, the use of advanced analytics have allowed CATSA to better understand the impacts of procedural changes being considered for both PBS and NPS. More specifically, detailed simulation models were developed to evaluate potential screening bottlenecks, which has supported CATSA's ongoing efforts to provide more efficient and uninterrupted screening.

Restricted Area Identity Card

CATSA's RAIC program allows airport authorities to maintain care and control of the restricted areas of airports. This system employs biometric scanners to identify those authorized to enter restricted areas, and enables the implementation of random screening at NPS checkpoints.

RAIC Enrolment System

CATSA completed the design and development of the next generation RAIC Enrolment System. Although the pandemic related travel restrictions impacted the project timelines, deployment was successfully completed at several airports and will continue through 2022/23.

CATSA'S RESPONSE TO THE COVID-19 PANDEMIC

CATSA continues to align its health and safety measures with guidance provided by federal and provincial public health officials. The organization has implemented biosecurity measures including enhanced sanitization at checkpoints, physical enhancements to checkpoints, revised screening procedures, physical distancing measures, and personal protection equipment for screening officers and CATSA staff, as well as other measures to anticipate and mitigate COVID-19 risks.



Acrylic Barriers

CATSA employed the use of acrylic barriers to limit close-proximity contact between screening officers and the travelling public. The organization has deployed acrylic barriers at 73 airports across the country

Ultraviolet Germicidal Irradiation (UV-C) Systems

CATSA completed a successful airport trial of a UV-C sanitization system for a CATSA Plus screening line in 2021. The trial tested short-wavelength ultraviolet light to kill or inactivate micro-organisms, including bacteria and viruses on bins used by passengers at PBS. CATSA is currently working with the supplier and Health Canada to ensure the UV-C system meets all the regulatory requirements. Once the UV-C system is authorized for use in Canada, CATSA will install it on all CATSA Plus lines.

Federal Government Vaccine Requirements

In October 2021, the Government of Canada announced a mandatory vaccination requirement for passengers and non-passengers. Transport Canada instructed CATSA to verify that passengers and non-passengers possess proof of vaccination for an interim period. CATSA's role in this regard ended on or before February 2022, depending on the airport.

Temperature Screening

In 2020, Transport Canada directed CATSA to conduct temperature screening of all passengers and non-passengers entering restricted areas of 15 designated airports. Nearly nine million individuals were screened as part of this program between July 2020 and August 2021, when the program ended. All temperature screening equipment has since been removed from the airports



Screening Workforce Recovery Plan

In early 2020, CATSA developed a screening workforce recovery plan which continued to evolve throughout the pandemic. The plan includes a multitude of measures and initiatives aimed at hiring and retaining screening officers. More specifically, the organization worked closely with its screening contractors and Transport Canada to retain a large percentage of its screening officer workforce in spring 2020, and commenced additional efforts in May 2021 to bring back the screening officers that were laid off, in preparation for the eventual recovery of the civil aviation industry. Furthermore, screening contractors have offered various incentives since winter 2021 in preparation to the rebound of passenger traffic.

CATSA Workforce

Since March 2020, the majority of CATSA's headquarters workforce shifted to working from home, as a result of the COVID-19 pandemic. To ensure the workforce remains resilient, CATSA has focussed on modernizing its workplace, including exploring innovative solutions to improve the employee experience in the digital environment.



In 2021, CATSA completed a Flexible Workplace Strategy targeted for implementation in spring 2022. As such, CATSA has undertaken a project to consolidate its headquarters workspace to ensure it enables future collaboration, provides a seamless technology experience and accommodates ergonomic needs and wellbeing.

CATSA's regional employees have continued to carry out their duties at designated airports throughout the COVID-19 pandemic. They effectively responded to a dynamic environment by implementing health and safety measures including physical distancing and the use of personal protective equipment. CATSA regional employees continued to demonstrate dedication, resilience and agility.



TRAINING AND CERTIFICATION

CATSA implemented modifications to screening officer training during the COVID-19 pandemic, suspending the delivery of non-essential training while assessing opportunities to reduce the need for in-person contact during the delivery of training, minimize employee travel and respect physical distancing protocols. These methods included reducing class sizes and reviewing options for delivering training and assessments remotely. Further, CATSA created training programs to explain the new screening and personal protective equipment requirements for all screening officers, supervisors and CATSA regional staff. This training has been integrated into the training for all new screening officers, and as part of the return-to-work activities for returning officers.

CATSA continues to explore measures to onboard returning screening officers as efficiently as possible, including the development of an expedited return to work program.

CONTINUED OPTIMIZATION OF SCREENING EQUIPMENT AND PROCEDURES

In late 2021, CATSA issued a request for proposal for its maintenance service provider contract. The necessary transition planning is well underway to ensure the ongoing and high quality maintenance of CATSA's security screening equipment. CATSA also continued its efforts to improve the performance of its security screening equipment. For example, additional work was done to explore the use of artificial intelligence (AI) in CATSA's screening operations as it relates to maintenance.



CYBER SECURITY

CATSA continues to evolve and enhance its cyber security capabilities, awareness initiatives and program maturity in an effort to meet the demands of the ever-changing cyber security landscape. The organization conducts regular software patching and updates to workstations to address potential vulnerabilities. In addition, threat risk assessments are regularly conducted to ensure key systems remain secure. CATSA is expanding its training and awareness campaign for employees and will include targeted training to educate employees on emerging threats and the evolving cyber security landscape.

A number of IT security initiatives are regularly undertaken including maturity and readiness assessments as well as tabletop exercises. Tabletop exercises were conducted in early 2022, in which the objective was to provide CATSA with the opportunity to test its business continuity and incident response plans and procedures in order to improve the organization's cyber and operational resilience, and incident preparedness plans.



TARA TOST

Advisor, Service Delivery,
Prairies Region

I look back at the past sixteen years that I have been working at CATSA and I am proud of all that we have accomplished. During my time at CATSA, I have witnessed the implementation of hold-baggage screening, non-passenger terminal and vehicle screening, full body scanners, the Boarding Pass Security System and vaccination verification. With each new security requirement that CATSA is responsible for implementing, we research and purchase new equipment, and provide screening officer training. We develop communications, and meet with stakeholders. We ensure that the processes and training are being deployed correctly, providing oversight and follow-up. In my opinion, CATSA's greatest accomplishment is the team of employees who have been able to come together in all branches to deliver these changes over the years in such a short timeframe. I have no doubt that CATSA will be able to adapt and respond to whatever future challenges come our way, and I am very proud to be part of such a resilient organization.



MARC VACHON

Manager, Service Delivery,
East Region

I remember when I first started working at CATSA, back in January 2003, we were only about a hundred employees. Our organization has evolved over the years, as it rose up to numerous challenges related to civil aviation and terrorism, namely the 2006 terrorist plot in the United Kingdom that targeted airliners heading to North America involving liquid explosives. Everything changed after events such as this one. In fact, CATSA implemented the liquids, aerosols and gels restrictions in record time. Most recently, we had to respond to the COVID-19 pandemic. Once again, we had to put in place unprecedented health measures. In the regions, that meant providing and wearing masks and other personal protective equipment, instituting sanitizing practices, and implementing temperature screening of passengers and non-passengers as well as vaccination status verification. Because of its resilience and adaptability, our organization is a great place to evolve in.

LOOKING AHEAD



CONTINUE SUPPORTING INDUSTRY RECOVERY

CATSA will continue to work diligently with Transport Canada, airport authorities, airlines, screening contractors and other industry partners to provide effective and efficient security screening services while being a critical partner in the recovery of the industry.

The organization's priority focus will continue to be security effectiveness while increasing screening officer capacity. As seen across many labour markets, there are prolonged challenges in hiring new screening officers while simultaneously facing the resurgent demand in air travel at certain airports. Screening contractors will continue to respond to these pressures by recruiting new screening officers. In addition to facilitating training for new screening officers, CATSA will review the National Training and Certification Program to explore options for segmented or modular training, which will enable the organization to onboard new screening officers more expeditiously.

FUTURE PROJECTS

CATSA will continue to monitor developments in emerging technologies and conduct evaluations and trials to enhance screening operations. With the protracted impacts of the COVID-19 pandemic on the civil aviation industry, CATSA will improve cleaning effectiveness at airports with the automated disinfection of bins on CATSA Plus lines. Moreover, CATSA will strengthen the integrity of its service delivery through investments in such areas as cyber security. Future key priorities include:

► **CT X-rays at PBS:**

In the coming years, CATSA will undertake the replacement of the current PBS X-rays with CT X-rays that will improve security effectiveness and detection capabilities, while also reducing the need for passengers to divest items such as large electronics, thereby advancing CATSA's objective to enhance the customer experience. To prepare for this major initiative, CATSA will be conducting a trial of a PBS CT X-ray on a CATSA Plus line in spring 2022 and plans to incorporate findings from the trial into the procurement process.

► **FBS Replacement:**

Starting in 2022/23, CATSA will undertake the replacement of the current fleet of FBS units with new equipment that will strengthen detection and processing capabilities. With improvements in reducing false alarm rates with AI algorithms, it is anticipated that the newer FBS units will also contribute to improvements in the customer experience.

► **Airport Security Screening Agreements and Maintenance Services Provider Contract:**

CATSA has begun preparing for the Request for Proposal for the Airport Security Screening Agreements. The new agreements will be in place by 2024. In addition, the organization has undertaken the necessary planning work for the next Maintenance Services Provider contract, which is expected to be successfully completed by the end of fiscal 2022/23.

► **Boarding Pass Security System (BPSS):**

CATSA's BPSS enables electronic scanning of boarding passes at PBS checkpoints to ensure their validity and to detect duplicate passes. BPSS is used to monitor passenger volumes, calculate wait times, and facilitate security incident resolution. It is instrumental for decision-making and the management of CATSA's operations. As such, CATSA plans to deploy BPSS at Hamilton and Abbotsford international airports in 2022/23.

► **Strengthening the CATSA Workforce:**

The past fiscal year has provided the opportunity for CATSA to further reflect on the tools for a productively engaged and enriched workforce in a post-pandemic labour market. Action will be taken to continue to focus on equity, diversity, inclusion and mental health support and resources. Fiscal year 2022/23 will also mark the beginning of CATSA's flexible workplace journey, as the organization evolves to meet the changing needs of its workforce.

RISK PROFILE

Risk management is embedded into strategic decision-making and resource allocation within CATSA, thereby allowing the organization to make informed decisions at the corporate and operational levels. Risk management allows an organization to be more innovative and adaptable in its approach to operations and meeting strategic objectives. This is particularly true in a sector that is as fluid as civil aviation.

CATSA's risk attitude and risk culture allow the organization to accept certain levels of risk, enabling CATSA and its workforce to respond to the changing environment in creative ways.

MANDATED SERVICES RISK

Detection capabilities and maintaining care and control of screening checkpoints

Due to the evolving, unpredictable nature of the aviation security threat environment, there is a risk that CATSA may not have the technology, threat and risk information, processes or human factor capability to detect all high risk threat items or new and emerging threats, and prevent screening circumventions at operating screening checkpoints. This may result in substantial consequences to the civil aviation system.

Risk Mitigation and Controls:

CATSA has established programs, processes, procedures and systems, which support its overall detection capabilities. CATSA monitors the effectiveness of all its operational programs on a continuous basis through the use of testing, oversight programs and performance measurement. The organization also ensures that it remains apprised of Transport Canada regulations, and any aviation security equivalency requirements stemming from its national and international counterparts.

SERVICE DELIVERY THROUGH THIRD PARTY RISK

Legal and Illegal labour disruption

Given CATSA's third party service provider model, there is a risk that CATSA may have limited influence to prevent a legal labour disruption event, or to maintain service levels during an illegal labour disruption event initiated by the unionized screening officer workforce. Labour disruptions of this nature may result in longer wait times, increased passenger complaints and harm to CATSA's reputation with its stakeholders.

Dependence on outsourced screening services, equipment maintenance services or major suppliers

In the event that a contractor may no longer be able or willing to provide the agreed upon contracted services or goods, there is a risk that CATSA's dependence on outsourced screening services, equipment maintenance services, or major suppliers may result in negative service delivery impacts.

Risk Mitigation and Controls:

CATSA conducts continuous monitoring of labour market conditions in all of its regions in order to identify potential labour disruption events. The organization also has existing policies and procedures related to procurement and contracting that provide it with recourse should a contractor or service provider become unable

to provide the agreed-upon services. CATSA also continually monitors for any potential impacts related to vulnerabilities to the organization's supply chain, as well as industry consolidation of key vendors.

CAPACITY RISK

CATSA staff capacity

There is a risk that CATSA's current staff capacity, in certain areas, may be inadequate to sustain workloads and to support a healthy work environment resulting in employee dissatisfaction and a decrease in corporate performance over time. Similarly, CATSA's screening contractors have experienced recruitment and retention challenges, which is a reflection of the broader commercial aviation industry and a volatile global labour market. These challenges have been further exacerbated as a proportion of laid off screening officers furloughed during earlier stages of the pandemic due to low passenger traffic, opted not to return when provided the opportunity.

Level of government funding

Due to the ongoing impacts of the COVID-19 pandemic and the Government of Canada Budget process, there is a risk that the organization may not receive adequate levels of government funding to maintain operations and to effectively support the recovery and stabilization of the air transportation sector.

Risk Mitigation and Controls:

CATSA monitors employee satisfaction through regular touchpoint surveys and closely monitors vacancy levels, attrition, and turnover rates. As for ensuring adequate levels of government funding, CATSA works closely with the Government of Canada to ensure that it has the necessary resources to perform its mandated responsibilities.

Recognizing the lengthy process to hire and train new screening officers, and the volatile nature of the civil aviation industry recovery, the organization collaborated with screening contractors and Transport Canada to retain a large percentage of its screening officer workforce, and to recall screening

officers who had been laid off. Screening officer recruitment has proven to be more challenging in certain regions, which has required screening contractors to take additional measures to ensure effective recruitment. In some instances, CATSA has flown in resources from other airports. CATSA continues to engage with its screening contractors to ensure they are prioritizing recruitment.

COMPLIANCE RISK

Compliance with the *Financial Administration Act*

There is a risk that through the failure of internal controls, CATSA inadvertently make inappropriate financial commitments for goods and services, resulting in non-compliance with the *Financial Administration Act*.

Risk Mitigation and Controls:

CATSA has a comprehensive framework in place to ensure that the organization remains compliant with all legislative requirements.

STAKEHOLDER RELATIONS RISK

Reputational risk

There is a risk that CATSA may encounter events that the organization is not able to effectively manage, which may cause damage to its reputation with its stakeholders, resulting in loss of public trust in CATSA and/or confidence in air transportation security.

Risk Mitigation and Controls:

CATSA conducts regular passenger surveys in order to respond to the needs of the travellers across the country, and has ongoing engagement with Transport Canada and stakeholders. These mechanisms help the organization to ensure that it maintains public trust and confidence as it conducts its mandated activities.

HUMAN RESOURCES RISK

Employee recruitment and retention

Due to labour market conditions for talent, or due to CATSA's overall corporate human resources strategies, there is a risk that CATSA may experience challenges in regards to recruitment and retention, resulting in a potential loss of corporate memory or a decrease in overall corporate performance.

Risk Mitigation and Controls:

CATSA's human resources policies, frameworks and programs allow the organization to ensure that current and potential employees have all the tools and resources required to promote overall employee satisfaction, such as the Performance Management Program, talent management program, respectful workplace program, and leadership excellence program. CATSA also promotes enrolment in professional development training programs, hosts a social committee, and conducts employee surveys on a regular basis.

IT RISK

Cyber Attacks on IT Infrastructure

Due to the evolving nature of the cyber threat environment, there is a risk that cyber threats and/or attacks may negatively impact CATSA's information technology infrastructure and/or compromise organizationally sensitive information resulting in a loss of public confidence and potential damage to CATSA's reputation.

Risk Mitigation and Controls:

CATSA's IT Security Program implements tools, controls, policies, processes, and security practices to protect its IT infrastructure, systems and digital assets. As part of the program, the organization remains abreast of emerging threats by conducting daily reviews of security system alerts, by monitoring newscasts and bulletins on security breaches and threats, and by collaborating with other federal partners through the Canadian Centre for Cyber Security.



CORPORATE PERFORMANCE

TABLE 1: Results for the Implementation of CATSA's Mandate:

The following table identifies key performance indicators (KPIs), which correspond to the organization's performance in the management of its mandated operations. These KPIs are reported to the Senior Management Committee and the Board of Directors on a quarterly basis for their oversight and management of the organization's performance.

Effectiveness					
Given the sensitivity of this performance category and its associated results, this data cannot be included in a public document.					
Efficiency					
Performance measure	Target	2019/20	2021/22	2021/22	Comments
Wait Time Service Level (WTSL)	85.0%	94.0%	98.2%	91.6%	Overall, 91.6% of passengers waited 15 minutes or less to be screened in 2021/22, which is well above the annual target of 85%.
<i>Definition: Wait Time Service Level is the percentage of passengers, on average, who waited less than 15 minutes to be screened at Class 1 airports, on an annual basis.</i>					
Consistency					
Performance measure	Target	2019/20	2020/21	2021/22	Comments
Security Screening Procedures	96.0%	95.3%	96.2%	94.8%	Overall, 2021/22 results for consistency in Security Screening Procedures were slightly below target. CATSA continues to work with Screening Contractors to achieve and maintain a high level of consistency.
<i>Definition: The evaluation by Performance Officers of screening officer performance according to SOPs and regulations related to Canada's eight busiest airports' PBS screening equipment (explosive trace detection, hand-held metal detector, walk-through metal detector and X-Ray) and screening techniques (physical search of persons and bags).</i>					
In the Public Interest					
Performance measure	Target	2019/20	2020/21	2021/22	Comments
Overall Experience	85.0%	87.0%	90.7%	89.4%	CATSA concluded its year with an average Overall Experience of 89.4% over the last 9 months. Note that due to the pandemic, no surveys were conducted in Q1 of 2021/22.
<i>Definition: The percentage of passengers surveyed who express satisfaction with their overall experience with security screening at select busiest airports. Calculated from results of completed passenger surveys. Satisfaction is defined as answering 5, 6 or 7 on a 7-point scale survey questionnaire.</i>					

TABLE 2: Results for CATSA's Corporate Objectives

The following table identifies CATSA's key performance indicators, which correspond to the organization's performance in the pursuit of its main corporate objectives.

A. SERVICE EXCELLENCE			
Performance measure	Comments		
Effectiveness	Given the sensitivity of this performance category and its associated results, this data cannot be included in a public document.		
Screening Efficiency	See table 1 - Efficiency		
Passenger Experience	See table 1 – In the Public Interest		
Performance measure	Target	2021/22	Comments
Availability of Screening Equipment	99.63%	99.68%	Screening equipment availability exceeded the target in 2021/22.
<i>Definition: The percentage availability for all major screening technology platforms at Class 1 airports calculated as the overall average of: average by platform, by month of [(Available time – Unscheduled outages) / Available time].</i>			
B. DIVERSE AND ENGAGED WORKFORCE			
Inclusive and Diverse Environment			
Performance measure	Target	2021/22	Comments
Turnover rate by designated groups	Women: 44.2% Aboriginal Peoples: 2.2% Members of Visible Minorities: 20.9% Persons with Disabilities: 1.8%	Women: 50.0% Aboriginal Peoples: 2.8% Members of Visible Minorities: 22.2% Persons with Disabilities: 2.8%	This measure is aimed at monitoring whether employees of designated groups are exiting the organization at a rate disproportionate to their proportional representation within the entire employee population as at December 31, 2020. CATSA's Employment Equity Plan details strategies for awareness and to promote and retain employees of designated groups.
<i>Definition: The distribution of members of a designated group (Women, Aboriginal Peoples, Members of Visible Minorities, and Persons with Disabilities) among indeterminate and fixed term employees who left voluntarily, this excludes students.</i>			
Performance measure	Target	2021/22	Comments
Workforce demographics	Women: 48.7% Aboriginal Peoples: 2.5% Members of Visible Minorities: 24.8% Persons with Disabilities: 9.0%	Women: 45.8% Aboriginal People: 2.0% Members of Visible Minorities: 21.7% Persons with Disabilities: 1.8%	As compared to the previous year, representation increased in three out of the four designated groups, with the exception of Aboriginal Peoples with a slight decrease. CATSA will continue its efforts in 2022 to further reduce the underrepresentation of the designated groups. CATSA's Employment Equity Plan details strategies for awareness and to promote and retain employees of designated groups. Data is collected on a voluntary basis from CATSA employees. The current participation rate is 98%.
<i>Definition: Representation rates of a designated group (Women, Aboriginal Peoples, Members of Visible Minorities, and Persons with Disabilities) among indeterminate and fixed term employees, with the exclusion of employees on long-term disability and students.</i>			

Performance measure	Target	2021/22	Comments
Effective use of both Official Languages in CATSA workplaces	75.0%	70.5%	CATSA has seen an increase of 2.1% of employees who meet the language requirement of their position over the last year.
<i>Definition: The percentage of fixed-term and indeterminate employees that meet the language requirements in positions designated as bilingual.</i>			
Employee Engagement and Support			
Performance measure	Target	2021/22	Comments
Employee Satisfaction	Stable or upward trend	Stable	Nearly nine in ten (89%) employees who completed the most recent survey in 2021 indicate they are satisfied with their job. The results have remained comparable to results observed during the previous three rounds conducted.
<i>Definition: Through employee surveys, CATSA employees have the opportunity to provide comments and feedback, share ideas and ask questions of senior management.</i>			
Performance measure	Target	2021/22	Comments
Absenteeism	12 days/employee	7.3	CATSA is well below target with its absenteeism rate which can be explained by an increased number of employees working from home and having more flexibility on their overall schedule for appointments and caring for family members.
<i>Definition: Average number of work days missed due to illness by indeterminate employees during the year. Illness includes days taken on short-term disability but does not include long-term disability.</i>			
Performance measure	Target	2021/22	Comments
Annual Attrition Rate	8.0%	8.0%	Although CATSA has historically been below the target rate of 8.0% per year, this year we closed the year exactly on target. Attrition has increased recently in light of the current labour market.
<i>Definition: The percentage of employees who left the organization voluntarily.</i>			
Transformative Leadership			
Performance measure	Target	Comments	
Active support of creative approaches to continuous improvement, innovation and collaboration	N/A	<ul style="list-style-type: none"> The successful launch of CATSA's Innovation Centre will enable the organization to embed more innovation best practices across its business to further improve efficiency, effectiveness, and passenger experience. Completed a major update to the Performance Measurement Framework, which is intended to improve the corporate reporting to senior management and the Board of Directors. Completed the evaluations of various UV-C bin disinfecting technologies and bin cleaning solutions. A new system will be integrated with the bin return such that the CATSA Plus line will automatically turn on the UV-C system only when the bin system is running. 	

C. EFFECTIVE PARTNERSHIPS

Industry and Government Collaboration

Performance measure	Target	Comments
	N/A	<ul style="list-style-type: none"> CATSA's Board of Directors held a strategic retreat with industry stakeholders and Transport Canada to discuss industry recovery and priorities for the next five years. CATSA engaged Transport Canada and industry on COVID-19 issues and CATSA's role in the verification of passenger and non-passenger's vaccination status. CATSA consulted with the Public Health Agency of Canada (PHAC) on COVID-19 related health and safety measures.

Community Relations

Performance measure	Target	Comments
Information, Outreach, Collaboration and Cooperation	N/A	<ul style="list-style-type: none"> To improve the accessibility of screening operations, CATSA continued to work with advocacy groups for persons with disabilities to ensure that the organization's processes and procedures address the needs of all members of the travelling public. CATSA continues to educate passengers on current biosecurity measures through public communications. Engaged Heathrow Airport on efforts related to COVID-19 and future plans for equipment deployments in both countries.

CORPORATE GOVERNANCE

CATSA is accountable to Parliament through the Minister of Transport and is governed by a Board of Directors appointed by the Governor in Council. Two of the Directors are nominated by the airline industry and two from the airport industry.

The Board of Directors is responsible for overall stewardship of CATSA, including:

- Drafting, amending or repealing corporate by-laws;
- Approving CATSA's Annual Report and Corporate Plan for recommendation to the Minister;
- Monitoring and providing strategic direction to support corporate performance;
- Approving the President and CEO's objectives for the year and evaluating his/her performance;
- Ensuring the principal risks of CATSA's business are identified and that appropriate systems to manage these risks have been implemented;
- Reviewing and approving management's succession plan for senior management;
- Ensuring the fulfillment of the Corporation's mandate; and
- Establishing CATSA's strategic direction through its annual Corporate Plan and safeguarding the resources of the Corporation.

As of March 31, 2022, CATSA's Board of Directors included:

Marguerite Nadeau, Chairperson

Patricia Kennedy

Diane Trenn, Vice-Chairperson, and Chair
of the Audit Committee

Gilles Lalonde

Jean-Philippe Brunet

William Restall

Melissa Coulson

Allan Rowe

Sharon Duggan, Chair of the Governance,
Human Resources and Pension Committee

Penny Westman

In 2021/22, the Board continued to oversee CATSA's strategic direction through the monitoring of the operational and financial performance of the organization, the organization's alignment with operating and financial plans as outlined in CATSA's Corporate Plan, as well as the corporation's key risks and quarterly financial information. The Board is supported by two standing committees; the Audit Committee and the Governance, Human Resources and Pension Committee.

Board of Directors Strategic Retreat

In 2021/22, CATSA's Board of Directors invited senior officials from Transport Canada as well as civil aviation industry representatives to partake in strategic discussions surrounding the state of the aviation industry, including the post-pandemic recovery.

Board Remuneration and Meeting Attendance

Directors and the Chairperson are paid an annual retainer and per diem set by the Governor in Council and pursuant to the *Financial Administration Act*. The retainer for the Chairperson is \$10,800; for Directors, it is \$5,400. The Chairperson is paid a per diem rate of \$420 and Directors are paid a per diem rate of \$390 for time spent preparing for and attending meetings, as well as events such as conferences. Board members are also reimbursed for expenses related to travel, accommodation and meals while performing their duties. These expenses are posted quarterly online.

Board and committee attendance is based on the number of meetings attended out of the total number of meetings that occurred while the director was a member of the Board and/or committee. In 2021/22, the Board committees met a total of 13 times and the Board in its entirety met a total of 10 times. All meetings were held virtually.

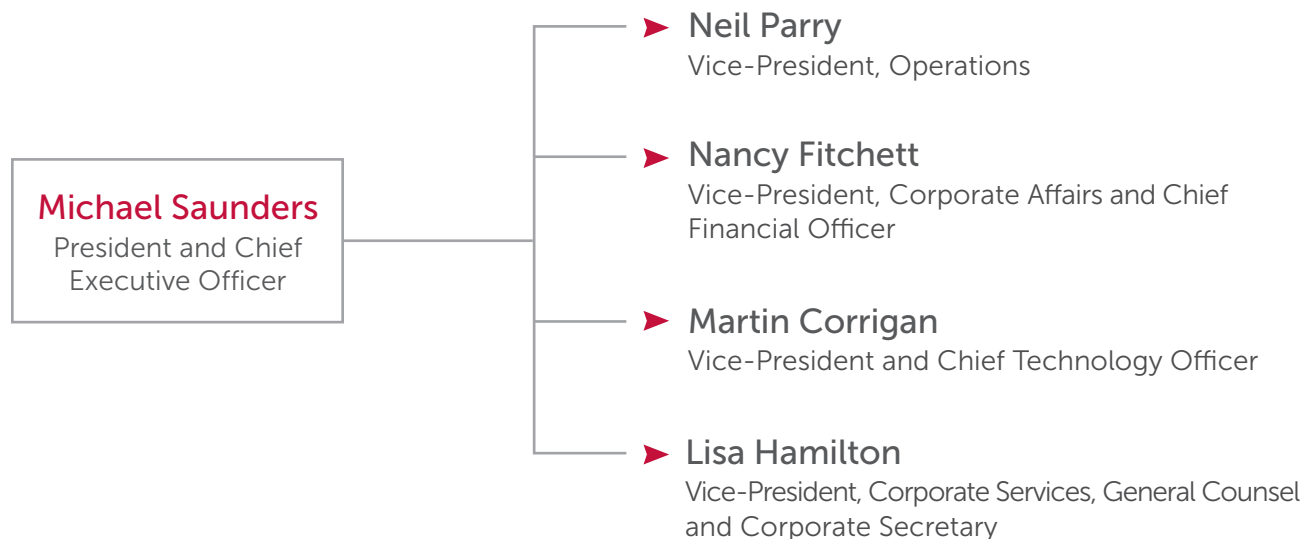
Board Member	Total Remuneration	Board Meetings	Committee Meetings
Nadeau, Marguerite (Chairperson)	\$22,140	10	13
Trenn, Diane (Vice-Chairperson)	\$15,735	10	13
Brunet, Jean-Philippe	\$14,760	9	13
Coulson, Melissa	\$15,150	9	12
Duggan, Sharon	\$15,930	10	13
Kennedy, Patricia	\$15,540	10	13
Lalonde, Gilles	\$16,320	10	13
Restall, William	\$15,540	10	13
Rowe, Allan ¹	\$2,416	1	2
Westman, Penny	\$16,320	10	13

Total remuneration paid to Directors and the Chairperson was \$154,372 in 2021/22, compared to \$167, 610 in 2020/21.

¹ Mr. Allan Rowe took a leave of absence in 2021/22.

CATSA MANAGEMENT TEAM

CATSA is led by President and Chief Executive Officer (CEO), Michael Saunders. Michael Saunders was re-appointed CATSA's CEO by Order in Council effective April 3, 2021, for a term of two years. The President and CEO is supported by a senior management team, as shown below:



DISCLOSURES

Report of CATSA's *Official Languages Act* Requirement

Under Part IV of the *Official Languages Act*, CATSA is required to provide screening services to the travelling public in both official languages at airports with one million or more passengers, and at airports where there is a significant demand for services in the minority language.

In an effort towards continuous improvement, CATSA surveys passengers across the country on a quarterly basis to verify if they were served in their preferred language. Survey results, along with compliance measurement reports and complaints, are analyzed and used to improve front-line performance.

CATSA remains committed to promoting a bilingual work environment. CATSA continues to remind its employees that promoting an inclusive, bilingual culture in the workplace is a team effort.

Report of *Access to Information Act* and *Privacy Act* Requests

CATSA strives to incorporate the legislative obligations under the *Privacy Act* and the ten principles of the Canadian Standards Association Model Code into every program and activity that it develops. CATSA is subject to the *Access to Information Act* and the *Privacy Act* and strives to meet both the spirit and the legal requirements of these two Acts.

Accessible Canada Act

The *Accessible Canada Act* came into force in 2019. CATSA continues to work with the CTA and Employment and Social Development Canada to ensure that the organization is prepared to meet the requirements once the associated regulations come into effect. During this process, it has become clear that CATSA is well positioned to meet the future regulations, and in fact has set a positive example for delivery of accessible services to the public.

CATSA has been working with the CTA to ensure the organization's compliance with new regulations under the *Accessible Canada Act*. These regulations will guide efforts to further strengthen delivery of accessible services to the public.

MANAGEMENT'S DISCUSSION AND ANALYSIS



FOR THE YEAR ENDED MARCH 31, 2022

Management's Discussion and Analysis (MD&A) outlines CATSA's financial results and operational changes for the year ended March 31, 2022. This MD&A should be read in conjunction with CATSA's audited annual financial statements and accompanying notes for the year ended March 31, 2022, which have been prepared in accordance with International Financial Reporting Standards (IFRS). The information in this report is expressed in thousands of Canadian dollars and is current to June 16, 2022, unless otherwise stated.

Forward-looking statements

Readers are cautioned that this report includes certain forward-looking information and statements. These forward-looking statements contain information that is generally stated to be anticipated, expected or projected by CATSA. They involve known and unknown risks, uncertainties and other factors which may cause the actual results and performance of the organization to be materially different from any future results and performance expressed or implied by such forward-looking information.

Materiality

In assessing what information is to be provided in this report, management applies the materiality principle as guidance for disclosure. Management considers information material if it is probable that its omission or misstatement, judged in the surrounding circumstances, would influence the economic decisions of CATSA's stakeholders.

GOVERNMENT FUNDING

CATSA, as an agent Crown corporation, is funded by parliamentary appropriations and accountable to the Parliament of Canada through the Minister of Transport. Consequently, CATSA's financial plan is prepared in accordance with the resources it is assigned by the Government of Canada and as approved by Parliament.

Over the past several years, CATSA has received one-year incremental funding from the Government of Canada to supplement its base funding level in order to carry out its mandate. In 2021/22, CATSA was granted incremental funding of \$291.7M, which allowed CATSA to continue to deliver its mandate.

CATSA developed its 2021/22 funding request early in the COVID-19 pandemic. The pandemic continues to have an impact on CATSA's operating environment, as discussed below, and has delayed some capital projects at airports. As a result, \$149.3M of the funding granted to CATSA for operating and capital expenditures in 2021/22 was unused and returned to the Government of Canada, including \$60.3M of funding related to the temperature screening program which ended in August 2021.

In May 2022, CATSA was granted \$329.7M of incremental funding for 2022/23, in addition to its base funding of \$567.5M, for a total funding envelope of \$897.2M. This funding will allow CATSA to continue to deliver its mandated activities.

COVID-19 PANDEMIC

As a result of the COVID-19 pandemic, there has been a reduction in passenger volumes at Canadian airports. Statistics from CATSA's Boarding Pass Security System indicated that screened traffic across Canada decreased by 62% and 89.2% for 2021/22 and 2020/21, respectively, compared to 2019/20. CATSA's screening operations and screening equipment have been impacted, as some screening lines remain temporarily closed.

Given the impact on screening operations, CATSA entered into temporary arrangements with its third party screening contractors. These arrangements have resulted in a reduction in screening hours purchased that does not fully reflect the decline in passenger volumes, ensuring that CATSA maintains the certified screening officer workforce at a level deemed appropriate to contain costs while allowing CATSA some flexibility to respond as the aviation industry recovers. In April 2022, passenger volumes began to increase significantly, resulting in reductions in the utilization of these temporary arrangements.

In June 2020, TC instructed CATSA to commence temperature screening of passengers and non-passengers entering restricted areas at certain airports. In August 2021, Transport Canada removed the requirement for CATSA to perform temperature screening.

In October 2021, the Government of Canada announced a mandatory COVID-19 vaccination requirement for passengers and non-passengers entering restricted areas at airports. TC instructed CATSA to validate proof of vaccinations during the phase-in period, which ended in February 2022.

CATSA continued to perform increased biosecurity measures, including enhanced sanitization procedures at checkpoints and personal protective equipment for the organization's airport personnel, including CATSA staff and screening officers.

In prior years, CATSA provided screening services on a cost recovery basis to certain airports. In light of the COVID-19 pandemic, no such services have been provided since April 1, 2020.

FOREIGN EXCHANGE

The Canadian dollar closed with a yearly Canada-U.S. exchange rate average of 0.80¹, compared to an average exchange rate of 0.76¹ in 2020/21.

CATSA is exposed to foreign exchange risk, as it purchases equipment and services denominated in U.S. dollars. A weakening of the Canadian dollar could result in the cost of U.S. denominated transactions exceeding budgeted amounts. CATSA has a hedging strategy in place to help mitigate its foreign exchange risk and minimize the impact of fluctuations in the Canada-U.S. exchange rate. CATSA will continue to monitor the fluctuations of the Canada-U.S. exchange rate and apply its hedging strategy accordingly.

¹ Bank of Canada, *Daily Exchange Rates Lookup*. (<https://www.bankofcanada.ca/rates/exchange/daily-exchange-rates-lookup>)

INTERNAL CONTROLS

Management is responsible for establishing and maintaining a system of internal controls over financial reporting. An integral part of this responsibility is CATSA's internal controls certification program, which involves a periodic assessment of the design and effectiveness of key internal controls over financial reporting. The program is based on the Committee of Sponsoring Organizations of the Treadway Commission framework, and Treasury Board of Canada Secretariat's (TBS) *Certification and Internal Control Regime for Crown Corporations*.

The assessment provides management with regular feedback regarding the state of internal controls. Following the assessment, management develops action plans for all opportunities for improvement. CATSA's Board of Directors receives updates on management's work with respect to enhancing internal controls and management action plans.

ANALYSIS OF FINANCIAL RESULTS

STATEMENT OF COMPREHENSIVE INCOME

The following section provides information on key variances within the Statement of Comprehensive Income for 2021/22 compared to 2020/21.

Key Financial Highlights – Statement of Comprehensive Income				
(Thousands of Canadian dollars)	2021/22	2020/21	\$ Variance	% Variance
Expenses¹				
Screening services and other related costs	\$ 548,646	\$ 500,988	\$ 47,658	9.5%
Equipment operating and maintenance	39,923	39,215	708	1.8%
Program support and corporate services	86,184	88,650	(2,466)	(2.8%)
Depreciation and amortization	80,662	76,126	4,536	6.0%
Total expenses	755,415	704,979	50,436	7.2%
Other expenses (income)	2,230	3,251	(1,021)	(31.4%)
Financial performance before revenue and government funding	757,645	708,230	49,415	7.0%
Revenue	268	718	(450)	(62.7%)
Government funding				
Parliamentary appropriations for operating expenses	677,463	626,410	51,053	8.2%
Amortization of deferred government funding related to capital expenditures	78,986	73,208	5,778	7.9%
Parliamentary appropriations for lease payments	3,876	3,973	(97)	(2.4%)
Total government funding	760,325	703,591	56,734	8.1%
Financial performance	\$ 2,948	\$ (3,921)	\$ 6,869	175.2%
Other comprehensive income	21,320	41,329	(20,009)	(48.4%)
Total comprehensive income	\$ 24,268	\$ 37,408	\$ (13,140)	(35.1%)

¹ The Statement of Comprehensive Income presents operating expenses by program activity, whereas operating expenses above are presented by major expense type, as disclosed in note 13 of the audited annual financial statements for the year ended March 31, 2022.

Screening Services and Other Related Costs

Screening services and other related costs consist of payments to screening contractors, uniforms and other screening-related costs, and trace and consumables.

Payments to screening contractors (refer to note 13 in CATSA's audited annual financial statements) represent the most significant expenditures for CATSA at approximately 78.4% of total expenses (excluding depreciation and amortization) in 2021/22. These expenses consist of payments to screening contractors for the delivery of services performed by screening officers, as well as for screening officer training and recurrent learning requirements. Key variables impacting these costs include the number of screening hours purchased and billing rates.

The number of screening hours purchased is mainly driven by passenger volumes and traffic patterns. New directives to CATSA, such as the performance of temperature screening, or new or modified security regulations arising from evolving threats and security incidents or alignment with other jurisdictions, can also drive screening hours.

Billing rates are based on all-inclusive rates paid to screening contractors as set forth under the terms of CATSA's Airport Screening Services Agreements. These agreements also include a performance program that remunerates screening contractors for contractual compliance and achievement of specified performance targets.

Screening services and other related costs increased by \$47.7M (9.5%) in 2021/22. The increase is primarily attributable to increased passenger volumes, which resulted in the purchase of additional screening hours totaling \$34.4M, partially offset by the purchase of fewer hours associated with temperature screening totaling \$13.4M. The increase is also attributable to annual screening contractor billing rate increases of \$11.5M, and payments to screening contractors for training, management personnel, and to support screening officer retention and recruitment efforts, totaling \$10.7M. Lastly, other screening related costs, consisting of screening officer uniforms, checkpoint sanitization services and trace and consumables, increased by \$4.5M.

Equipment Operating and Maintenance

Equipment operating and maintenance consist of costs associated with maintenance and support services for CATSA's equipment and systems, including the usage and warehousing of Explosives Detection System (EDS) spare parts. It also includes the cost of biometric security cards and costs associated with the training and certification of CATSA's equipment maintenance service provider for new technology deployed at airports across Canada.

Equipment operating and maintenance costs increased by \$0.7M (1.8%) in 2021/22. The increase is mainly attributable to higher maintenance and spare parts costs for EDS equipment totaling \$2.0M, as the majority of CATSA's screening equipment is back in service, and equipment training activity at the airports of \$0.5M, as training on new equipment resumes. The increase was partially offset by lower spare parts write-downs in 2021/22, as compared to 2020/21, of approximately \$2.0M.

Program Support and Corporate Services

Program support and corporate services represent the costs to support the delivery of CATSA's mandated activities and its corporate infrastructure. These costs consist mainly of employee salaries and benefits, lease related costs at corporate headquarters and in the regions that are not capitalized under IFRS 16, office and computer costs, and professional services.

Program support and corporate services costs decreased by \$2.5M (2.8%) in 2021/22. The decrease is mainly attributable to lower employee-related costs, including costs associated with CATSA's defined benefit pension plan.

Depreciation and Amortization

Depreciation of property and equipment, as well as amortization of intangible assets, is recognized on a straight-line basis over the estimated useful lives of the assets. Depreciation of right-of-use assets is recognized on a straight-line basis over the related lease term.

Depreciation and amortization increased by \$4.5M (6.0%) in 2021/22. The increase is primarily attributable to depreciation relating to new HBS equipment deployments as part of the HBS recapitalization program of \$5.7M, as well as new non-EDS assets of \$1.6M. This increase was partially offset by a decrease of \$3.2M related to assets becoming fully depreciated during the year.

Other Expenses (Income)

Other expenses (income) consist of the gain or loss on disposal of property and equipment, write-off of property and equipment and intangible assets, finance costs, impairment of property and equipment, foreign exchange gain or loss, and net gain or loss on fair value of derivative financial instruments.

Other expenses (income) decreased by \$1.0M (31.4%) in 2021/22. The decrease is primarily due to net gains on the fair value of derivative financial instruments. The decrease is partially offset by impairment losses relating to temperature screening equipment and net foreign exchange losses.

Revenue

Revenue consists mainly of finance income earned on cash balances.

Revenue decreased by \$0.5M (62.7%) in 2021/22. The decrease is attributable to lower finance income earned on cash balances.

Government Funding

CATSA is funded by appropriations from the federal Consolidated Revenue Fund for operating and capital expenditures. Payments for CATSA's leases that are capitalized under IFRS 16 are funded through capital appropriations, as opposed to operating expenditures.

Parliamentary Appropriations for Operating Expenses

Operating expenditures are funded on a near-cash accrual basis. Certain expenditures, including employee benefits, inventories and prepaid expenses, are funded when a cash outflow is required, as opposed to when the expense is recognized under IFRS.

Parliamentary appropriations for operating expenses increased by \$51.1M (8.2%) in 2021/22. The increase is primarily attributable to increased spending for screening services and other related costs, as discussed above.

Amortization of Deferred Government Funding Related to Capital Expenditures

Capital expenditures are funded when assets are purchased. The appropriations are recorded as deferred government funding related to capital expenditures and are amortized on the same basis and over the same period as the related assets.

Amortization of deferred government funding related to capital expenditures increased by \$5.8M (7.9%) in 2021/22. The increase is primarily attributable to increased depreciation and amortization, as well as impairment losses relating to temperature screening equipment.

Parliamentary appropriations for lease payments

CATSA's lease payments are typically made in the same month that appropriations are received, therefore there is no deferred funding related to these appropriations.

Parliamentary appropriations for lease payments are comparable to the prior year.

Other Comprehensive Income

Other comprehensive income consists of the net actuarial gains associated with CATSA's defined benefit plans. The 2021/22 net gain of \$21.3M is attributable to an actuarial gain of \$24.8M related to changes in financial assumptions and experience adjustments, partially offset by a remeasurement loss of \$3.5M resulting from a lower actual rate of return on plan assets than the rate used in CATSA's assumptions.

In 2020/21, the net gain of \$41.3M was primarily attributable to an actuarial gain of \$34.8M resulting from a higher actual rate of return on plan assets than the rate used in CATSA's assumptions. The net gain was also due to an actuarial gain of \$11.4M related to changes in demographic assumptions and experience adjustments, partially offset by a remeasurement loss of \$4.9M related to changes in financial assumptions.

For further details, please refer to the Employee Benefits section.

LIQUIDITY AND CAPITAL RESOURCES

CATSA's financial management framework relies on parliamentary appropriations to finance operating and capital requirements, and to settle financial obligations as they become due. In determining the amount of cash reserves to carry for operating requirements, the organization considers its short-term funding requirements in accordance with relevant TBS directives.

The following table represents CATSA's liquidity and capital resources:

Liquidity and Capital Resources			
(Thousands of Canadian dollars)	March 31, 2022	March 31, 2021	\$ Variance
Cash	\$ 7,581	\$ 14,086	\$ (6,505)
Trade and other receivables	100,670	118,529	(17,859)
Trade and other payables	(106,748)	(110,191)	3,443
Current portion of holdbacks	(1,637)	(22,352)	20,715
Current portion of provisions	(200)	(200)	–
Current portion of lease liabilities	(3,129)	(3,667)	538
Non-current portion of lease liabilities	(14,107)	(7,007)	(7,100)

Cash decreased by \$6.5M primarily due to the timing of disbursements to suppliers for goods and services. Trade and other receivables decreased by \$17.9M attributable to a decrease in parliamentary appropriations receivable. Trade and other payables decreased by \$3.4M as a result of the timing of disbursements associated with obligations outstanding with suppliers. Current portion of holdbacks decreased by \$20.7M attributable to the substantial completion of CATSA's HBS recapitalization program. Non-current lease liabilities increased by \$7.1M primarily due to CATSA's amendments to its corporate headquarters and warehouse lease agreements.

CAPITAL EXPENDITURES

CATSA's capital plan is comprised of EDS and non-EDS expenditures and a portion of lease payments.

EDS capital expenditures consist of the acquisition of screening equipment for PBS, HBS and NPS and the associated installation and integration costs. Non-EDS capital expenditures consist of the acquisition of equipment and systems to support screening operations, the RAIC program, and CATSA's network infrastructure and corporate management systems. Lease payments relate to leases capitalized under IFRS 16.

Property and equipment, intangible assets and right-of-use assets (refer to the Statement of Financial Position) represent 69.8% of total assets as at March 31, 2022. The section below provides a breakdown of the capital expenditures for EDS, non-EDS and lease payments.

Capital Expenditures				
(Thousands of Canadian dollars)	2021/22	2020/21	\$ Variance	
EDS	\$ 4,968	\$ 42,522	\$ (37,554)	
Non-EDS	1,287	11,182	(9,895)	
Lease payments	3,876	3,973	(97)	
Total capital expenditures	\$ 10,131	\$ 57,677	\$ (47,546)	

An overview of the key capital projects undertaken over the course of the fiscal year is as follows:

EDS

- Upgrade of X-ray units to improve threat detection capabilities;
- Ongoing deployment of CATSA Plus in Class 1 airports; and
- Life cycle management of various EDS equipment including the purchase of training simulators.

Non-EDS

- Development of a solution to provide real-time analysis of cyber security threats and notifications; and
- Life cycle management of CATSA's IT network infrastructure including RAIC equipment.

EMPLOYEE BENEFITS

CATSA maintains two funded pension plans to provide retirement benefits to its employees. The first is a registered pension plan (RPP), which includes two components: a defined benefit component for employees hired before July 1, 2013, and a defined contribution component for employees hired on or after July 1, 2013. The second is a supplementary retirement plan (SRP), which supplements the defined benefit component of the RPP for benefits limited by the *Income Tax Act* (Canada). CATSA also sponsors an unfunded post-employment benefits plan, the other defined benefits plan (ODBP), which includes life insurance and eligible health and dental benefits. The employee benefits financial position is summarized below:

Employee Benefits				
(Thousands of Canadian dollars)	March 31, 2022	March 31, 2021	\$ Variance	
Employee benefits asset	\$ 56,950	\$ 34,525	\$	22,425
Employee benefits liability	(19,107)	(20,054)		947
Net employee benefits asset	\$ 37,843	\$ 14,471	\$	23,372

CATSA's independent actuary determines each plan's net position as at March 31 of each year. The net position fluctuates annually due to a combination of variables, including the discount rate, inflation rate, number of plan members and their demographics, expected average rate of salary increases, expected average remaining service lifetime of active employees, returns on plan assets and contributions. Note 9 of the annual audited financial statements provides further details regarding the underlying assumptions used in determining the net position.

As at March 31, 2022, the employee benefits asset represents the net position of CATSA's RPP and SRP. The employee benefits liability consists of the present value of the defined benefit liability of the ODBP.

The increase in the employee benefits asset is primarily attributable to a remeasurement gain of \$22.3M on the defined benefit obligation of the RPP and SRP arising from changes to financial assumptions and experience adjustments. The increase is also due to required contributions made by CATSA exceeding non-cash defined benefit costs (based on IAS 19) by \$3.6M for these plans. The increase is partially offset by a net remeasurement loss of \$3.5M resulting from a lower actual rate of return on plan assets than the rate used in CATSA's assumptions.

The decrease in the employee benefits liability is primarily attributable to a remeasurement gain of \$2.5M on the defined benefit obligation of the ODBP arising from changes to financial assumptions. This is partially offset by non-cash defined benefit costs (based on IAS 19) exceeding CATSA required contributions by \$1.6M for the ODBP.

FINANCIAL PERFORMANCE AGAINST CORPORATE PLAN

CATSA's operations are funded by parliamentary appropriations from the Government of Canada. CATSA's funding, as reflected in the *Summary of the 2021/22 to 2022/23 Corporate Plan*, was developed early in the COVID-19 pandemic. Actual operating and capital appropriations used are lower than the amounts reflected in the Corporate Plan.

PARLIAMENTARY APPROPRIATIONS USED

Appropriations used are reported on a near cash accrual basis of accounting.

Operating Expenditures

The table below serves to reconcile financial performance before government funding reported under IFRS and operating appropriations used:

Reconciliation of Financial Performance to Operating Appropriations Used			
(Thousands of Canadian dollars)	2021/22	2020/21	\$ Variance
Financial performance before revenue and government funding	\$ 757,645	\$ 708,230	\$ 49,415
Revenue	(268)	(718)	450
Financial performance before government funding	757,377	707,512	49,865
Non-cash items			
Depreciation and amortization	(80,662)	(76,126)	(4,536)
Impairment of property and equipment	(1,940)	(177)	(1,763)
Non-cash (loss) gain on foreign exchange recognized in financial performance	(211)	355	(566)
Write-off of property and equipment and intangible assets	(196)	(840)	644
Non-cash finance costs related to leases	(194)	(348)	154
Employee benefits expense ¹	2,052	(1,904)	3,956
Change in fair value of financial instruments at fair value through profit and loss	1,237	(2,123)	3,360
Gain on disposal of property and equipment	–	70	(70)
Spare parts expense funded from capital ²	–	(9)	9
Appropriations used for operating expenses	\$ 677,463	\$ 626,410	\$ 51,053
Other items affecting funding			
Net change in prepaids and inventories ³	(2,838)	1,659	(4,497)
Total operating appropriations used	\$ 674,625	\$ 628,069	\$ 46,556

¹ Employee benefits are accounted for in the Statement of Comprehensive Income in accordance with IFRS. The reconciling item above represents the difference between cash payments for employee benefits and the accounting expense under IFRS.

² Spare parts expense funded from capital represents items that were funded through capital appropriations in prior years but were used as spare parts and expensed during the current year, creating a reconciling item.

³ Prepaid expenses and inventories are expensed as the benefit is derived from the asset by CATSA. They are funded by appropriations when purchased, creating a reconciling item.

The table below provides a reconciliation between financial performance before government funding reported under IFRS and operating appropriations used in 2021/22, presented by major expenditure category. The table also provides a comparison between operating appropriations used in 2021/22 and the operating budget as reported in CATSA's *Summary of the 2021/22 to 2022/23 Corporate Plan*:

Operating Appropriations Used Compared to Corporate Plan						
(Thousands of Canadian dollars)	IFRS 2021/22	Non-cash Adjustments	Operating Approp. Used 2021/22	Corporate Plan Budget 2021/22	\$ Variance	% Variance
Screening services and other related costs	\$ 548,646	\$ (166)	\$ 548,480	\$ 674,853	\$ (126,373)	(18.7%)
Equipment operating and maintenance	39,923	(1,789)	38,134	44,493	(6,359)	(14.3%)
Program support and corporate services	86,184	2,030	88,214	92,461	(4,247)	(4.6%)
Depreciation and amortization	80,662	(80,662)	–	–	–	–
Other expenses	2,230	(2,165)	65	–	65	–
Revenue	(268)	–	(268)	–	(268)	–
Total	\$ 757,377	\$ (82,752)	\$ 674,625	\$ 811,807	\$ (137,182)	(16.9%)

Operating appropriations used were \$137.2M (16.9%) lower than the Corporate Plan budget, mainly as a result of the COVID-19 pandemic. The Analysis of Financial Results section discusses the impact of COVID-19 on financial performance.

CAPITAL EXPENDITURES

The table below serves to reconcile capital expenditures reported under IFRS and capital appropriations used.

Reconciliation of Capital Expenditures to Capital Appropriations Used			
(Thousands of Canadian dollars)	2021/22	2020/21	\$ Variance
EDS	\$ 4,968	\$ 42,522	\$ (37,554)
Non-EDS	1,287	11,182	(9,895)
Lease payments	3,876	3,973	(97)
Total capital expenditures	\$ 10,131	\$ 57,677	\$ (47,546)
Proceeds on disposal of property and equipment ¹	–	(99)	99
Non-cash adjustment on foreign exchange related to capital expenditures	4	115	(111)
Total capital appropriations used	\$ 10,135	\$ 57,693	\$ (47,558)

¹ Proceeds on disposal of property and equipment include non-cash proceeds received in the form of credit notes from suppliers.

The table below provides a comparison between capital appropriations used in 2021/22, the capital budget as reported in CATSA's *Summary of the 2021/22 to 2022/23 Corporate Plan*, and adjustments resulting from the capital reprofile in progress:

Capital Appropriations Used Compared to Corporate Plan							
(Thousands of Canadian dollars)	Capital Approp. Used 2021/22	Corporate Plan Budget 2021/22	Capital Reprofile in Progress	Adjusted Corporate Plan Budget 2021/22	\$ Variance	% Variance	
EDS							
PBS	\$ 3,394	\$ 19,905	\$ (13,042)	\$ 6,863	\$ (3,469)	(50.5%)	
HBS	1,571	17,603	(10,070)	7,533	(5,962)	(79.1%)	
NPS	3	277	–	277	(274)	(98.9%)	
Total EDS	\$ 4,968	\$ 37,785	\$ (23,112)	\$ 14,673	\$ (9,705)	(66.1%)	
Non-EDS	5,163	9,948	(2,356)	7,592	(2,429)	(32.0%)	
Total capital asset acquisitions¹	\$ 10,131	\$ 47,733	\$ (25,468)	\$ 22,265	\$ (12,134)	(54.5%)	
Non-cash adjustment on foreign exchange related to capital expenditures	4	–	–	–	4	–	
Total	\$ 10,135	\$ 47,733	\$ (25,468)	\$ 22,265	\$ (12,130)	(54.5%)	

¹ CATSA's Corporate Plan budget includes \$3,876 of lease payments in appropriations for Non-EDS.

Total capital appropriations used were \$12.1M (54.5%) lower than the adjusted Corporate Plan budget, primarily due to delays in airport projects as a result of the COVID-19 pandemic.

FINANCIAL STATEMENTS OF

CANADIAN AIR TRANSPORT SECURITY AUTHORITY



YEAR ENDED MARCH 31, 2022

MANAGEMENT'S RESPONSIBILITY STATEMENT

Year ended March 31, 2022

The financial statements contained in this annual report have been prepared by management in accordance with International Financial Reporting Standards (IFRS). The integrity and objectivity of the data in these financial statements are management's responsibility. Some of the information in the financial statements is based on management's best estimates and judgments and gives due consideration to materiality. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management maintains a system of financial management and internal control designed to provide reasonable assurance that the financial information is reliable, assets are safeguarded, and transactions are in accordance with Part X of the *Financial Administration Act* and the *Canadian Air Transport Security Authority Act*, executed in accordance with prescribed regulations within parliamentary authorities, and properly recorded to maintain accountability of government funds. The Canadian Air Transport Security Authority's (CATSA's) Internal Auditor has the responsibility for assessing its network of risk management, control and governance processes.

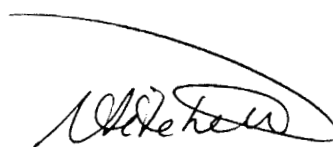
The Board of Directors is responsible for overseeing our business and activities. In particular, the Board provides oversight to ensure that management fulfills its responsibilities for financial reporting and internal control, and exercises this responsibility through the Audit Committee, which is composed of directors who are not employees of CATSA. The Audit Committee meets regularly with management, the Internal Auditor and with the Office of the Auditor General of Canada (OAG). The OAG has full and unrestricted access to the Audit Committee to discuss their findings. The Board of Directors, upon recommendation of the Audit Committee, reviews and approves the financial statements.

The Auditor General of Canada conducts an independent audit, in accordance with Canadian generally accepted auditing standards, and expresses an opinion on the financial statements. The Independent Auditor's Report is presented on the following pages.



Michael Saunders

President and Chief Executive Officer



Nancy Fitchett, CPA, CA

*Vice-President, Corporate Affairs
and Chief Financial Officer*

June 16, 2022



INDEPENDENT AUDITOR'S REPORT

To the Minister of Transport

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Canadian Air Transport Security Authority (CATSA), which comprise the statement of financial position as at 31 March 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CATSA as at 31 March 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of CATSA in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report is management's discussion and analysis included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing CATSA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate CATSA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing CATSA's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is

higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CATSA's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on CATSA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause CATSA to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the financial statements, we have audited transactions of the Canadian Air Transport Security Authority coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Canadian Air Transport Security Authority Act* and regulations, the by-laws of the Canadian Air Transport Security Authority, and the directives issued pursuant to section 89 of the *Financial Administration Act*.

In our opinion, the transactions of the Canadian Air Transport Security Authority that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Canadian Air Transport Security Authority's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Canadian Air Transport Security Authority to comply with the specified authorities.

Auditor's Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.

A handwritten signature in black ink, appearing to read 'M Venema', with a horizontal line extending to the right.

Mimma Venema, CPA, CA, CGA
Principal
for the Auditor General of Canada

Ottawa, Canada
16 June 2022

Statement of Financial Position

(In thousands of Canadian dollars)

	As at March 31	
	2022	2021
Assets		
Current assets		
Cash	\$ 7,581	\$ 14,086
Trade and other receivables (note 4)	100,670	118,529
Inventories (note 5)	11,406	14,067
Prepays	6,835	7,012
Derivative financial assets (note 15)	34	–
	126,526	153,694
Non-current assets		
Property and equipment (note 6)	392,726	463,569
Intangible assets (note 7)	14,745	16,834
Right-of-use assets (note 8)	16,569	9,937
Employee benefits asset (note 9)	56,950	34,525
Derivative financial assets (note 15)	6	–
	480,996	524,865
Total assets	\$ 607,522	\$ 678,559
Liabilities and Equity		
Current liabilities		
Trade and other payables (note 15)	\$ 106,748	\$ 110,191
Holdbacks (note 15)	1,637	22,352
Provisions (note 10)	200	200
Lease liabilities (note 11)	3,129	3,667
Deferred government funding related to operating expenses (note 12)	18,241	21,079
Derivative financial liabilities (note 15)	–	1,127
	129,955	158,616
Non-current liabilities		
Lease liabilities (note 11)	14,107	7,007
Deferred government funding related to capital expenditures (note 12)	406,579	479,306
Employee benefits liability (note 9)	19,107	20,054
Derivative financial liabilities (note 15)	–	70
	439,793	506,437
Equity		
Accumulated surplus	37,774	13,506
Total liabilities and equity	\$ 607,522	\$ 678,559

Contingencies (note 10) and contractual arrangements (note 16)
The accompanying notes are an integral part of these financial statements.
Approved by the Board and authorized for issue on June 16, 2022:


Marguerite Nadeau
Chairperson


Michael Saunders
President and Chief Executive Officer

Statement of Comprehensive Income

(In thousands of Canadian dollars)

	Years ended March 31	
	2022	2021
Expenses		
Pre-Board Screening	\$ 391,517	\$ 351,143
Hold Baggage Screening	161,558	151,750
Non-Passenger Screening	149,831	148,688
Restricted Area Identity Card Program	3,598	2,957
Corporate services	48,911	50,441
Total expenses (note 13)	755,415	704,979
Other expenses (income)		
Impairment of property and equipment (note 6)	1,940	177
Foreign exchange loss (gain)	1,128	(173)
Finance costs	203	354
Write-off of property and equipment and intangible assets	196	840
Net (gain) loss on fair value of derivative financial instruments	(1,237)	2,123
Gain on disposal of property and equipment	–	(70)
Total other expenses (income)	2,230	3,251
Financial performance before revenue and government funding	757,645	708,230
Revenue		
Finance income	266	718
Miscellaneous income	2	–
Total revenue	268	718
Government funding		
Parliamentary appropriations for operating expenses (note 12)	677,463	626,410
Amortization of deferred government funding related to capital expenditures (note 12)	78,986	73,208
Parliamentary appropriations for lease payments (note 14)	3,876	3,973
Total government funding	760,325	703,591
Financial performance	\$ 2,948	\$ (3,921)
Other comprehensive income		
Item that will not be reclassified to financial performance		
Remeasurement of defined benefit plans (note 9)	21,320	41,329
Total comprehensive income	\$ 24,268	\$ 37,408

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Equity

(In thousands of Canadian dollars)

	Accumulated surplus (deficit)
Balance, March 31, 2020	\$ (23,902)
Financial performance	(3,921)
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 9)	41,329
Balance, March 31, 2021	\$ 13,506

	Accumulated surplus (deficit)
Balance, March 31, 2021	\$ 13,506
Financial performance	2,948
Item that will not be reclassified to financial performance	
Remeasurement of defined benefit plans (note 9)	21,320
Balance, March 31, 2022	\$ 37,774

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

(In thousands of Canadian dollars)

	Years ended March 31	
	2022	2021
Cash flows provided by (used in)		
Operating activities		
Financial performance	\$ 2,948	\$ (3,921)
Items not involving cash		
Depreciation and amortization (note 13)	80,662	76,126
Impairment of property and equipment (note 6)	1,940	177
Other non-cash transactions	1,515	3,603
Write-off of property and equipment and intangible assets	196	840
Amortization of deferred government funding related to capital expenditures (note 12)	(78,986)	(73,208)
Change in net employee benefits asset/liability	(2,052)	1,904
Change in fair value of financial instruments at fair value through profit and loss	(1,237)	2,123
Gain on disposal of property and equipment	–	(70)
Net change in working capital balances (note 19)	24,497	16,627
	29,483	24,201
Investing activities		
Parliamentary appropriations received for capital funding	16,217	41,627
Purchase of property and equipment	(47,997)	(64,273)
Purchase of intangible assets	(526)	(2,336)
	(32,306)	(24,982)
Financing activities		
Lease principal payments	(3,682)	(3,625)
	(3,682)	(3,625)
Decrease in cash	(6,505)	(4,406)
Cash, beginning of year	14,086	18,492
Cash, end of year	\$ 7,581	\$ 14,086

Interest expense paid and interest income received approximate finance costs and finance income, respectively, in the Statement of Comprehensive Income.

Supplementary cash flow information (note 19)

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

1. Authority, mandate and programs

CATSA was established pursuant to the CATSA Act on April 1, 2002. CATSA is a Crown corporation listed under Part I, Schedule III of the *Financial Administration Act* (FAA) and is an agent of Her Majesty in right of Canada.

CATSA's mandate is to provide effective and efficient screening of persons who access aircraft or restricted areas through screening points, the property in their possession or control and the belongings or baggage that they give to an air carrier for transport. CATSA is also responsible for ensuring consistency in the delivery of screening across Canada and for air transport security functions that the Minister of Transport may assign to it, subject to any terms and conditions that the Minister may establish. In carrying out its responsibilities, CATSA must do so in the public interest, having due regard to the interest of the travelling public.

To achieve this, CATSA conducts screening in the following four areas:

1. **PBS** – the screening of passengers, their carry-on baggage and their belongings prior to their entry to the secure area of an air terminal building;
2. **HBS** – the screening of passengers' checked (or hold) baggage for prohibited items such as explosives, prior to being loaded onto an aircraft;
3. **NPS** – the random screening of non-passengers such as flight personnel, ground crew and airport employees, and their belongings (including vehicles and their contents) entering restricted areas at the highest-risk airports; and
4. **RAIC Program** – the system which uses iris and fingerprint biometric identifiers to allow non-passengers access to the restricted areas of airports. The final authority that determines access to the restricted areas of an airport is the airport authority.

In addition to its mandated activities, CATSA has an agreement with Transport Canada (TC) to conduct screening of cargo at smaller airports where capacity exists. This program was designed to screen limited amounts of cargo during off-peak periods and involves using existing resources, technology and procedures.

In June 2020, TC instructed CATSA to commence temperature screening of passengers and non-passengers entering restricted areas at certain airports. In August 2021, Transport Canada removed the requirement for CATSA to perform temperature screening.

In prior years, CATSA provided screening services on a cost recovery basis to certain airports. In light of the COVID-19 pandemic, no services have been provided since April 1, 2020.

CATSA is in compliance with Order in Council P.C. 2019-783, a directive issued pursuant to Section 89 of the FAA, which outlines certain principles with regards to CATSA's pension plans.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

CATSA's Travel, Hospitality, Conference and Event Expenditures Policy is in compliance with Order in Council P.C. 2015-1114, a directive issued pursuant to Section 89 of the FAA, which requires CATSA's policies, guidelines and practices to be aligned with Treasury Board policies, directives and related instruments on travel, hospitality, conference and event expenditures in a manner that is consistent with its legal obligations.

CATSA is not subject to income tax under the provisions of the *Income Tax Act* (Canada). CATSA is subject to the *Excise Tax Act* (Canada), which includes the federal Goods and Services Tax (GST) and Harmonized Sales Tax (HST). CATSA is also subject to all provincial sales taxes (PST) applied by the provinces and territories in which it operates. CATSA is a GST/HST registrant. As a GST/HST registrant, CATSA is obligated to collect and remit taxes on taxable services supplied to external parties and CATSA's pension plans.

2. Basis of preparation

The financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and approved by the Accounting Standards Board of Canada (AcSB).

3. Summary of significant accounting policies

(a) Basis of measurement

These financial statements were prepared under the historical cost convention, except as required or permitted by IFRS and as indicated within this note. Historical cost is generally based on the fair value of the consideration given up in exchange for goods and services at the transaction date.

(b) Use of estimates and judgments

The preparation of these financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions based on existing knowledge that affect the reported amounts and disclosures in the financial statements and accompanying notes. Actual results may differ from judgments, estimates and assumptions.

In making estimates and using assumptions, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and assumptions have been applied in a manner consistent with prior periods. There are no known commitments, events or uncertainties that management believes will materially affect the methodology or assumptions utilized in making these estimates in the financial statements.

Estimates and underlying assumptions are regularly reviewed by management and changes in those estimates are recognized prospectively in the period of change, if the change affects that period only; or the period of the change and future periods, if the change affects both.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

The critical estimates and assumptions utilized in preparing these financial statements include:

- note 3(d), note 3(f), note 6 and note 7 – Property and equipment and intangible assets

Key estimates used for property and equipment include the determination of their useful lives and the valuation of work-in-progress. The key estimate used for intangible assets includes the determination of their useful lives. In determining the expected useful lives of these assets, CATSA takes into account past experience, industry trends and internally-specific factors, such as changing technologies and expectations for the in-service period of the assets. Changes to estimates of useful life would affect future depreciation or amortization expenses and future carrying values of assets. In determining the value of work-in-progress, CATSA takes into account estimates provided by internal and external experts with respect to the stage of completion of an equipment integration project. Changes to the stage of completion would affect trade and other payables and the values of assets.

- note 3(h), note 8 and note 11 – Right-of-use assets and lease liabilities

Key estimates used for right-of-use assets and lease liabilities include the determination of an appropriate incremental borrowing rate to discount the lease payments, when the interest rate implicit in the lease is not readily determinable. As CATSA does not have borrowing authority and, in practice, does not have readily observable approved or granted borrowing rates from a financial institution, CATSA's approach to determining its incremental borrowing rate is based on the Bank of Canada zero-coupon bond rate, CATSA's entity-specific credit spread, and the lease-specific spread. CATSA's entity-specific credit spread and lease-specific spread are based on a publicly available yield curve that reflects Canadian agencies with investment grade ratings. The rate used to discount CATSA's lease payments is also based on the identified lease term.

- note 3(j) and note 9 – Employee benefits

Key estimates used for employee benefits include the discount rate, mortality rate, inflation rate, long-term rate of compensation increase and assumed medical cost trend rates. In determining the assumptions, CATSA takes into account past experience, the expertise of its actuaries, and current market conditions and rates. Changes to these assumptions would affect its employee benefits asset and liability, as well as financial performance and other comprehensive income or loss. A sensitivity analysis of changes in primary assumptions is presented in note 9.

The critical judgments made by management in preparing these financial statements include:

- note 3(f) and note 7 – Intangible assets

Judgments are required in determining when internally generated intangible assets enter the development phase. In determining when to recognize costs as intangible assets, management makes judgments about when the criteria for capitalization are met as described in note 3(f). Changes to management's judgments would affect the carrying amount of its intangible assets as well as future amortization.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

- note 3(h), note 8 and note 11 – Right-of-use assets and lease liabilities

Judgments are required in determining whether it is reasonably certain that an extension or termination option will be exercised for contracts that contain a lease. In making this assessment, management considers a number of factors, including the nature of CATSA's work, proximity of other locations, lease extensions exercised in the past, market conditions, recent leasehold improvements and contract specific termination clauses.

Judgments are required in determining whether variable lease payments are in-substance fixed. In-substance fixed lease payments are payments that may, in form, contain variability but that, in substance, are unavoidable. Such payments are included in the measurement of the lease liability. In determining whether variable lease payments are in-substance fixed, CATSA reviews lease contracts to assess the nature of the payments, specifically identifying if payments are subject to adjustments based on actual costs incurred, or payments are based on services that are variable in nature.

- note 3(k) and note 10 – Provisions and contingencies

Judgments are required in determining the existence of a legal or constructive obligation and in assessing the probability of an outflow of future economic benefits. In determining when to record a provision, management makes assumptions about the amount and likelihood of outflows and their timing. Factors affecting these assumptions include the nature of the provision, opinions and views of legal counsel and other advisors, experience in similar circumstances, and any decision of management as to how CATSA intends to handle the obligation. Changes to these assumptions would affect the recording of the provision and financial performance.

- note 3(l) – Revenue

The measurement and recognition of revenue requires the use of estimates and judgment in identifying whether a contract exists, identifying performance obligations, the allocation of the transaction price and the method used to measure progress in satisfying the performance obligation and thus determining the timing of revenue recognition.

In determining whether a contract with a customer exists for the purposes of recognizing revenue, CATSA determines whether certain criteria are met, including whether it is more likely than not that the consideration will be collected from the customer. In making this assessment at contract inception, CATSA considers a number of factors, which may include results from customer credit checks, the customer's credit history, and CATSA's ability to limit losses by ceasing to provide services in the case of non-payment.

The nature of CATSA's promise in its contracts with the airport authorities is to provide supplemental and other screening services at designated and non-designated airports, respectively. This screening includes a number of different activities, none of which individually provides a benefit to the airport authority. All activities are inputs into the combined output of these screening services. Consequently, CATSA has determined that the promise in the contract, which is the provision of screening services for the contract period, constitutes one performance obligation.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

The consideration for screening services is variable in nature and requires two key judgments to determine when to recognize revenue:

- (i) the method used to measure progress in satisfying the single performance obligation, and
- (ii) the measurement and allocation of any variable consideration.

Given that the services, when provided, are on an ongoing basis and are substantially the same, CATSA has determined a time-based measure of progress best depicts the transfer of services to the customer. Further, since the variable consideration is compensating CATSA for its efforts in providing the services, the variable consideration is allocated to increments of time and recognized as the service is delivered to the customers over time.

(c) Inventories

Inventories consist of spare parts acquired for equipment maintenance, screening officer uniforms and RAIC. Inventories are stated at the lower of cost and net realizable value. Cost is determined using a weighted average cost formula and net realizable value is defined as replacement cost.

(d) Property and equipment

Property and equipment consists of screening equipment, RAIC equipment, computers, integrated software and electronic equipment, office furniture and equipment, leasehold improvements and work-in-progress.

(i) Recognition and measurement

Property and equipment are recorded at cost less accumulated depreciation, except for work-in-progress, which is recorded at cost but not depreciated until the asset is available for use. Cost includes expenditures that are directly attributable to the acquisition and installation of the assets, including integration costs related to the installation of the assets at the airports to ensure they are in a condition necessary for their intended use. These costs include conveyor systems, platforms and other structures required to connect screening equipment to existing airport infrastructures.

Work-in-progress includes costs related to integration projects that remain incomplete at year-end. The value of work-in-progress at year-end is determined based on estimates performed by independent experts or management, depending on management's assessment of risk.

When significant components of an item of property and equipment have different useful lives, they are depreciated separately.

The carrying amount of an item of property and equipment is derecognized on disposal, or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of an item of property and equipment are determined by comparing proceeds, if any, to the carrying amount and are recognized in financial performance.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

(ii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to CATSA and that the cost of the item can be measured reliably. The cost of day-to-day servicing of property and equipment is recognized in financial performance as incurred.

(iii) Depreciation

Depreciation is calculated using the straight-line method and is applied over the estimated useful lives of the assets.

Asset class	Useful life
PBS equipment	10 years
HBS equipment	10 years
NPS equipment	10 years
RAIC equipment	5 years
Computers, integrated software and electronic equipment	3 to 10 years
Office furniture and equipment	5 years

Leasehold improvements are depreciated on a straight-line basis over the shorter of the related lease term or estimated useful life.

Depreciation methods, estimated useful lives and residual values are reviewed at least annually.

(e) Assets held for sale

CATSA classifies property and equipment as held for sale if its carrying amount will be recovered principally through a sale rather than through continuing use. This condition is only met when the asset is available for immediate sale in its present condition and the sale is highly probable. An asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Depreciation is not recorded while an asset is classified as held for sale.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

(f) Intangible assets

Separately acquired computer software licences are capitalized based on the costs incurred to acquire and bring the licences to use.

Certain costs incurred in connection with the development of software to be used internally or for providing screening services are capitalized once a project has progressed beyond a conceptual, preliminary stage to that of application development. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by CATSA are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development of the software product and to use it are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Costs that qualify for capitalization include both internal and external costs, but are limited to those that are directly related to the specific project. All other costs associated with developing or maintaining computer software programs are expensed as incurred.

Intangible assets are amortized using the straight-line method over their estimated useful lives of five to 10 years.

(g) Impairment

The carrying amounts of CATSA's property and equipment and intangible assets are reviewed at each reporting period at the cash-generating unit (CGU) level to determine whether there is any indication of impairment. For the purpose of impairment testing, a CGU is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets.

Under CATSA's business model, there are no assets that generate cash flows largely independent of the cash flows of other assets and liabilities. Instead, all assets interact to support its mandated activities. These operations are primarily funded by parliamentary appropriations. Overall levels of cash flow reflect public policy requirements and decisions, and budgetary funding is provided to CATSA in its entirety. Therefore, CATSA is considered one CGU. Assets are tested at the CGU level when they cannot be tested individually.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

Property and equipment and intangible assets are reviewed at each reporting date to determine whether there is any indication of impairment, and are considered to be impaired if they are no longer able to contribute to CATSA's mandate. When the assets continue to contribute to the fulfillment of CATSA's mandate, the estimated useful lives of that property and equipment and intangible assets are reviewed and adjustments to amortization/depreciation are recorded on a prospective basis, if necessary.

(h) Leases

At the inception of a contract, CATSA assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. If a lease is identified, CATSA recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost based on the following:

- amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset, or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently measured at cost less accumulated depreciation.

The carrying amount of the right-of-use asset may be reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability, if any.

The right-of-use asset is depreciated using the straight-line method over the shorter of the lease term or the estimated useful life of the underlying asset. The lease term includes periods covered by an option to extend if CATSA is reasonably certain to exercise that option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, CATSA's incremental borrowing rate, as identified above in note 3(b).

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

The lease payments included in the measurement of the lease liability are comprised of the following, where applicable:

- fixed payments (including in-substance fixed payments, if any), less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under residual value guarantees;
- exercise price of a purchase option if it is reasonably certain that CATSA will exercise that; and
- payments of penalties for terminating the lease, if the lease term reflects CATSA exercising an option to terminate the lease.

CATSA's entity-specific credit spread and lease-specific spread are based on a publicly available yield curve that reflects Canadian agencies with investment grade ratings.

Variable lease payments that do not depend on an index or rate, and are not in-substance fixed, are not included in the measurement of the lease liability and, subsequently, the right-of-use asset. These payments are recognized as an expense in the period in which they occur.

The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured whenever:

- there is a change in the lease term, including a change in the assessment of whether an extension option will be exercised, in which case the lease liability is remeasured by discounting the revised lease payments on the basis of the revised lease term using a revised discount rate;
- the payments change due to changes in an index or rate, or a change in expected payments under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate; and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Based on the nature and use of CATSA's right-of-use assets, CATSA has two classes of underlying assets: office space and data centres. CATSA accounts for lease components and any non-lease components as a single lease component for its office space asset class. For its data centre asset class, CATSA separates non-lease components from lease components and accounts for them separately.

CATSA does not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value. The lease payments associated with these leases are recognized as an expense on straight-line basis over the lease term.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

(i) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial assets include cash and receivables related to supplemental and other screening services. The remaining receivables are not classified as non-derivative financial assets because they are not contractual rights but, rather, created as a result of statutory requirements of the federal and provincial governments.

CATSA classifies non-derivative financial assets into the category of financial assets measured at amortized cost. These financial assets are recognized initially at fair value. Subsequent to initial recognition, these financial assets are measured at amortized cost using the effective interest rate method. Measurement is based on CATSA's business model for managing financial assets and the contractual terms of the cash flows (financial assets are held with the intent of collecting contractual cash flows and the contractual cash flows of the financial asset represent solely payments of principal and interest). If CATSA's business model were to change, its classification would be reassessed.

At each reporting date, CATSA assesses, on a forward-looking basis, the expected credit losses on any financial assets measured at amortized cost. For trade receivables, CATSA applies the simplified approach required by IFRS 9, *Financial Instruments*, which requires lifetime expected losses to be recognized from the initial recognition of the receivables. CATSA has not recorded a credit loss provision on cash because of the high credit quality of the financial institutions in which CATSA holds such instruments.

CATSA derecognizes a non-derivative financial asset when the contractual rights to the cash flows from the asset are either collected, expire or are transferred to another party.

Non-derivative financial liabilities include trade and other payables and holdbacks.

CATSA classifies non-derivative financial liabilities into the category of financial liabilities measured at amortized cost. Non-derivative financial liabilities are recognized on the trade date at which CATSA becomes a party to the contractual provisions of the instrument. These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

CATSA derecognizes a non-derivative financial liability when its contractual obligations are discharged, cancelled or expired.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

(ii) Derivative financial instruments

Derivative financial instruments include foreign exchange forward contracts entered into by CATSA for the purpose of managing its exposure to foreign currency risk. CATSA does not apply hedge accounting to its derivative financial instruments.

Derivative financial instruments are classified at fair value through profit and loss. These derivative financial instruments are initially recognized at fair value at the date at which CATSA enters into the derivative contracts. Subsequent to initial recognition, derivative financial instruments are measured at fair value. The resulting change in fair value is recognized in financial performance on the Statement of Comprehensive Income. CATSA derecognizes a derivative financial instrument upon settlement of the instrument.

The fair values of derivative financial instruments are presented in the Statement of Financial Position; the positive fair values are reported as derivative financial assets and the negative fair values are reported as derivative financial liabilities. If a derivative financial asset or a derivative financial liability has a maturity date of more than 12 months after the reporting period, they are classified as non-current.

(j) Employee benefits

(i) Post-employment benefit plans – defined benefit

The employee benefits asset and liability presented in the Statement of Financial Position represent the actual surplus or deficit of each of CATSA's defined benefit pension plans and its other defined benefits plan. The surplus or deficit is determined by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years. The future benefit is then discounted to determine its present value, using a discount rate established at the end of the reporting period. The obligation is recognized over the period of employee service determined actuarially using the projected unit credit method. To the extent applicable, the fair value of any plan assets is deducted from the present value of the future benefit obligation. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Defined benefit costs are categorized as follows:

- service costs;
- net interest on the net defined benefit asset or liability;
- administration costs; and
- remeasurements.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

Service costs are determined separately for each plan using the projected unit credit method, with actuarial valuations for accounting purposes being carried out at the end of each annual reporting period. Current service cost is recognized as employee costs in determining financial performance. Employee contributions are recorded as a reduction to service cost in the period in which the related service is rendered. Past service cost is recognized as an employee cost in financial performance in the period of plan amendment or when the related restructuring costs or termination benefits are recognized, whichever is earlier. Administration costs paid from the plan assets during the period exclude the costs of managing plan assets, as those costs are recorded against the actual return on plan assets.

Net interest is calculated by applying the discount rate used to discount the post-employment benefit obligation to the net defined benefit asset or liability, taking into account any changes in the net defined benefit asset or liability during the period as a result of contribution and benefit payments. The discount rate is determined by reference to the yield, at the beginning of the period, on high quality corporate and provincial bonds that:

- a) have an overall duration equal to the respective duration of the defined benefit obligations; and
- b) are denominated in the same currency in which the benefits are expected to be paid.

Net interest is recognized as employee costs in determining financial performance.

Remeasurement of defined benefit plans consists of actuarial gains and losses, the return on plan assets (excluding interest) and the effect of changes in the asset ceiling (if applicable). When a funded plan gives rise to a net pension benefit asset, a remeasurement for the effect of the asset ceiling may occur if it is established that the surplus will not provide future economic benefits with respect to future service costs. Those future economic benefits are available under the terms of CATSA's defined benefit pension plans, which allow CATSA to take contribution holidays when certain funding thresholds are met.

Remeasurement of defined benefit plans is recognized in other comprehensive income or loss and is included immediately in accumulated surplus (deficit) without reclassification to financial performance in a subsequent period.

(ii) Post-employment benefit plan – defined contribution

Employer contributions to the defined contribution pension plan are recognized as an employee cost in financial performance when employees have rendered service entitling them to the contributions.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

(iii) Termination benefits

Termination benefits result from either CATSA's decision to terminate employment or an employee's decision to accept the entity's offer of benefits in exchange for termination of employment. CATSA recognizes termination benefits at the earliest of when the entity can no longer withdraw the offer of those benefits or when restructuring costs are accrued if termination benefits are part of a restructuring plan. If benefits are payable more than 12 months after the reporting period, the liability is determined by discounting the obligation to its present value.

(iv) Short-term employee benefits

Short-term employee benefit obligations, such as salaries, annual leave and bonuses, are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized in trade and other payables for the amount expected to be paid when CATSA has a present legal or constructive obligation to pay the amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(k) Provisions and contingencies

A provision is a liability of uncertain timing or amount. A provision is recognized if, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle a present legal or constructive obligation, and the obligation can be estimated reliably.

Contingent liabilities are not recognized in the Statement of Financial Position. They may arise from uncertainty as to the existence of a liability, or represent an existing liability in respect of which settlement is not probable or, in extremely rare cases, the amount cannot be reliably measured. A liability is recognized when its existence is confirmed by a future event, settlement becomes probable and reliable measurement becomes possible. Unless the possibility of an outflow of resources embodying economic benefits is remote, a contingent liability is disclosed when:

- a possible obligation has arisen from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of CATSA; or
- a present obligation has arisen from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

(i) Disputed claims

In the normal course of operations, CATSA receives claims requesting monetary compensation from various parties. A provision is accrued to the extent management believes it is probable that a disputed claim arising from a past event results in a present legal or constructive obligation, and the obligation can be estimated reliably. If the timing of the cash outflows associated with the disputed claim can be reasonably determined to be more than 12 months after the reporting period, the provision is determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

(ii) Decommissioning costs

CATSA has future obligations associated with the disposal of certain screening equipment in an environmentally responsible manner, and the restoration of leased premises to an agreed upon standard at the end of the lease. To the extent that it is probable that these obligations will result in an outflow of economic benefits, CATSA recognizes a provision for decommissioning liabilities, and the costs are capitalized as part of the carrying amount of the related asset and depreciated over the asset's estimated useful life.

(I) Revenue

(i) Supplemental and other screening services

CATSA's revenue from contracts with customers is for supplemental and other screening services at designated and non-designated airports, respectively, on a cost recovery basis. A contract for these screening services exists when collection of consideration is probable, the contract has commercial substance, the rights to screening services and payment terms are identifiable, and the contract is approved and all parties are committed to their obligations. The contracts may have varying stated terms, but are cancellable at any time by either party, subject to a notice period. Payments for services are due within 30 days of invoicing.

Revenue from these screening services is recognized in financial performance as the customer obtains control of the service, which occurs over time as the screening services are provided. A time-based measure is used to measure the progress of transferring services to the customer.

Revenue is measured at the transaction price, which is the amount that CATSA expects to be entitled to in exchange for these screening services. The transaction price is based on screening services provided by CATSA and rates specified in the contract and excludes taxes collected on behalf of third parties. Since the screening service is a single performance obligation, no other allocation is required.

(ii) Finance income

Finance income is comprised primarily of interest income derived from cash balances and is recognized in financial performance in the year it is earned.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

(m) Government funding

CATSA's primary source of funding is parliamentary appropriations received from the Government of Canada. Parliamentary appropriations are accounted for as Government of Canada grants and are recognized in financial performance on a systematic basis over the periods in which CATSA recognizes as expenses the related costs for which the grants are intended to compensate.

Appropriations related to operating expenses for future periods are recorded as deferred government funding related to operating expenses and are recognized in financial performance in the period in which the related expenses are incurred. Appropriations used for the purchase of property and equipment and intangible assets are recorded as deferred government funding related to capital expenditures and are amortized on the same basis as the related assets.

Upon the disposal of funded depreciable assets, the related remaining deferred government funding is recognized in financial performance in the period of disposal.

Appropriations used for lease payments are recognized in financial performance in the period in which lease payments are made.

Unused parliamentary appropriations at year-end are lapsed or reprofiled to future years.

(n) Finance cost

Finance cost, which is comprised primarily of interest expense associated with CATSA's lease liabilities, is recognized in financial performance in the period in which it is incurred.

(o) Foreign currency translation

Transactions in foreign currency are translated using exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, using the exchange rates at the end of the reporting period, are recognized in financial performance. Non-monetary assets and liabilities are translated using exchange rates prevailing at the dates the assets are acquired or the obligations are incurred.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

4. Trade and other receivables

Trade and other receivables are comprised of:

	March 31, 2022	March 31, 2021
Parliamentary appropriations (note 17)	\$ 91,760	\$ 110,788
GST and HST recoverable	6,937	5,329
PST recoverable	1,973	2,072
Other	–	340
	\$ 100,670	\$ 118,529

Credit terms on trade receivables are 30 days. As at March 31, 2022, and March 31, 2021, there were no amounts included in trade and other receivables that were past due. CATSA has historically collected all of its trade receivables in full. For more information on CATSA's credit risk, refer to note 15(c).

5. Inventories

Inventories are comprised of:

	March 31, 2022	March 31, 2021
Spare parts	\$ 9,733	\$ 11,575
RAIC	854	1,502
Uniforms	819	990
	\$ 11,406	\$ 14,067

During the year, inventories totalling \$5,350 (2021 – \$6,672) were charged to expenses. This includes \$1,514 (2021 – \$3,603) resulting from a net write-down of inventories for spare parts relating to equipment taken out of service due to the HBS recapitalization program and the removal of the requirement for temperature screening.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

6. Property and equipment

A reconciliation of property and equipment is as follows:

	PBS equipment	HBS equipment	NPS equipment	RAIC equipment	Computers, integrated software and electronic equipment	Office furniture and equipment	Leasehold improvements	Work-in- progress	Total
Cost									
Balance, March 31, 2020	\$ 156,408	\$ 712,085	\$ 20,857	\$ 4,683	\$ 28,706	\$ 129	\$ 9,914	\$ 55,049	\$ 987,831
Additions	3,680	31,915	265	502	6,446	–	258	8,583	51,649
Disposals	(298)	(121,645)	–	–	(663)	–	–	–	(122,606)
Write-offs	(3,177)	(127)	(203)	(16)	(4,115)	–	(124)	–	(7,762)
Impairments	–	–	–	–	(177)	–	–	–	(177)
Reclassifications	3,854	40,056	–	167	848	–	65	(44,990)	–
Balance, March 31, 2021	\$ 160,467	\$ 662,284	\$ 20,919	\$ 5,336	\$ 31,045	\$ 129	\$ 10,113	\$ 18,642	\$ 908,935
Balance, March 31, 2021	\$ 160,467	\$ 662,284	\$ 20,919	\$ 5,336	\$ 31,045	\$ 129	\$ 10,113	\$ 18,642	\$ 908,935
Additions	400	1,016	–	226	118	–	–	4,017	5,777
Disposals	(2,394)	(5,630)	–	–	–	–	–	–	(8,024)
Write-offs	(616)	(736)	(200)	(1,736)	(2,092)	–	–	(54)	(5,434)
Impairments	–	–	–	–	(1,582)	–	–	(358)	(1,940)
Reclassifications	4,992	1,077	3	163	1,443	–	–	(7,704)	(26)
Balance, March 31, 2022	\$ 162,849	\$ 658,011	\$ 20,722	\$ 3,989	\$ 28,932	\$ 129	\$ 10,113	\$ 14,543	\$ 899,288
Accumulated depreciation									
Balance, March 31, 2020	\$ 103,190	\$ 355,535	\$ 14,029	\$ 3,769	\$ 19,191	\$ 48	\$ 8,873	\$ –	\$ 504,635
Depreciation	9,817	54,704	1,186	453	3,638	24	399	–	70,221
Disposals	(298)	(121,616)	–	–	(663)	–	–	–	(122,577)
Write-offs	(3,119)	664	(203)	(16)	(4,115)	–	(124)	–	(6,913)
Balance, March 31, 2021	\$ 109,590	\$ 289,287	\$ 15,012	\$ 4,206	\$ 18,051	\$ 72	\$ 9,148	\$ –	\$ 445,366
Balance, March 31, 2021	\$ 109,590	\$ 289,287	\$ 15,012	\$ 4,206	\$ 18,051	\$ 72	\$ 9,148	\$ –	\$ 445,366
Depreciation	8,971	59,943	1,115	383	3,649	23	379	–	74,463
Disposals	(2,394)	(5,630)	–	–	–	–	–	–	(8,024)
Write-offs	(555)	(706)	(154)	(1,736)	(2,092)	–	–	–	(5,243)
Balance, March 31, 2022	\$ 115,612	\$ 342,894	\$ 15,973	\$ 2,853	\$ 19,608	\$ 95	\$ 9,527	\$ –	\$ 506,562
Carrying amounts									
As at March 31, 2021	\$ 50,877	\$ 372,997	\$ 5,907	\$ 1,130	\$ 12,994	\$ 57	\$ 965	\$ 18,642	\$ 463,569
As at March 31, 2022	\$ 47,237	\$ 315,117	\$ 4,749	\$ 1,136	\$ 9,324	\$ 34	\$ 586	\$ 14,543	\$ 392,726

Notes to the Financial Statements

(In thousands of Canadian dollars)
Year ended March 31, 2022

As at March 31, 2022, the estimated useful lives of some screening equipment and its associated centralized network software assets, were assessed and revised from 10 years to 15 years, to better reflect their anticipated lifecycles. The change in accounting estimate will be accounted for on a prospective basis starting April 1, 2022, and will decrease the 2022/23 depreciation expense by \$34,753. This decrease will be completely offset by a decrease in the amortization of deferred government funding related to capital expenditures.

During the year, CATSA recognized impairment losses of \$1,940 (2021 – \$Nil) relating to temperature screening equipment that was no longer able to contribute to the fulfilment of CATSA's mandate. The assets were considered fully impaired and the remaining net book value was recorded as an impairment loss. The recoverable amount was deemed to be \$Nil, which represents the equipment's value in use to CATSA.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

7. Intangible assets

A reconciliation of intangible assets is as follows:

	Externally acquired software	Internally developed software	Under development	Total
Cost				
Balance, March 31, 2020	\$ 11,627	\$ 16,919	\$ 4,729	\$ 33,275
Additions	39	1,943	73	2,055
Write-offs	(512)	(2,747)	–	(3,259)
Reclassifications	–	4,729	(4,729)	–
Balance, March 31, 2021	\$ 11,154	\$ 20,844	\$ 73	\$ 32,071
Balance, March 31, 2021	\$ 11,154	\$ 20,844	\$ 73	\$ 32,071
Additions	439	39	–	478
Write-offs	(776)	(395)	–	(1,171)
Reclassifications	26	73	(73)	26
Balance, March 31, 2022	\$ 10,843	\$ 20,561	\$ –	\$ 31,404
Accumulated amortization				
Balance, March 31, 2020	\$ 4,722	\$ 11,524	\$ –	\$ 16,246
Amortization	1,058	1,192	–	2,250
Write-offs	(512)	(2,747)	–	(3,259)
Balance, March 31, 2021	\$ 5,268	\$ 9,969	\$ –	\$ 15,237
Balance, March 31, 2021	\$ 5,268	\$ 9,969	\$ –	\$ 15,237
Amortization	1,028	1,560	–	2,588
Write-offs	(771)	(395)	–	(1,166)
Balance, March 31, 2022	\$ 5,525	\$ 11,134	\$ –	\$ 16,659
Carrying amounts				
As at March 31, 2021	\$ 5,886	\$ 10,875	\$ 73	\$ 16,834
As at March 31, 2022	\$ 5,318	\$ 9,427	\$ –	\$ 14,745

There were no research and development costs expensed for the years ended March 31, 2022, or 2021.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

8. Right-of-use assets

A reconciliation of right-of-use assets is as follows:

	Office space	Data centres	Total
Balance, March 31, 2020	\$ 20,573	\$ 1,638	\$ 22,211
Additions	5	–	5
Decreases	(8,624)	–	(8,624)
Depreciation	(3,388)	(267)	(3,655)
Balance, March 31, 2021	\$ 8,566	\$ 1,371	\$ 9,937
Balance, March 31, 2021	\$ 8,566	\$ 1,371	\$ 9,937
Additions	10,292	–	10,292
Decreases	(49)	–	(49)
Depreciation	(3,343)	(268)	(3,611)
Balance, March 31, 2022	\$ 15,466	\$ 1,103	\$ 16,569

During the year ended March 31, 2022, CATSA amended its corporate headquarters and warehouse lease agreements, resulting in an increase in right-of-use assets.

9. Employee benefits

(a) Post-employment benefit plans overview

CATSA maintains three post-employment benefit plans:

- A registered pension plan (RPP), which is registered with the Office of the Superintendent of Financial Institutions and with the Canada Revenue Agency (CRA) and contains both a defined benefit and a defined contribution component;
- A supplementary retirement plan (SRP), which supplements the defined benefit component of the RPP for benefits limited by the *Income Tax Act* (Canada) and is funded by a retirement compensation arrangement regulated by the CRA; and
- An other defined benefits plan (ODBP), which includes life insurance and eligible health and dental benefits.

CATSA's defined benefit pension plans consist of the defined benefit component of the RPP and the SRP. Pension benefits are based on the average of the best five consecutive years of pensionable salary and are indexed to the rate of inflation. CATSA's defined contribution pension plan consists of the defined contribution component of the RPP. All full-time and part-time indeterminate employees are eligible for the ODBP.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

The defined benefit pension plans' funds are held in external trusts that are legally separate from CATSA. Benefits are paid directly from the trusts. Both employer and employee contributions to the defined benefit pension plans are made in accordance with the provisions of the plans. In addition, contributions are determined by actuarial valuations in accordance with applicable legislation. Effective July 1, 2013, the defined benefit pension plans are closed to new employees.

CATSA maintains a defined contribution pension plan for employees hired after June 30, 2013. Enrollment in this plan is mandatory for full-time indeterminate employees, as well as part-time indeterminate employees working an average of more than 20 hours per week. Under this plan, CATSA and its employees are required to contribute a specified percentage of salaries to fund the benefits, with optional contributions for employees matched at various levels by the employer based on years of service. CATSA's financial obligation is limited to matching employee contributions, as outlined in the provisions of the plan.

The Board of Directors is responsible for the oversight of the post-employment benefit plans, including review of investment strategies and funding, review and approval of documents and reports required by law, and setting the policies of the plans. The Governance, Human Resources and Pension Committee, a committee of the Board, assists the Board in discharging its responsibilities. This Committee is responsible for overseeing the management and administration of the plans.

(b) Post-employment benefit plans' risks

The defined benefit plans expose CATSA to actuarial risks such as inflation risk, interest rate risk, investment risk, longevity risk, medical claim rates risk and salary risk. In addition, the closed nature of the defined benefit pension plans will create a rise in future service costs as the plan members age. Current cost sharing provisions also increased employee contributions to a level beyond what is permitted by the *Income Tax Regulations*. CATSA obtained a waiver to exceed permitted limits from the CRA up to December 31, 2023. In order to extend this period, CATSA must submit a new waiver request.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

(c) Employee benefits assets and liabilities

The following provides a reconciliation between the defined benefit plans' assets, the defined benefit plans' liabilities and the surplus or deficit status of the defined benefit plans, to the net employee benefits asset or liability presented in the Statement of Financial Position for the years ended:

	March 31					
	RPP		SRP		ODBP	
	2022	2021	2022	2021	2022	2021
Fair value of plan assets						
Balance, beginning of year	\$ 245,640	\$ 196,769	\$ 7,710	\$ 6,515	\$ –	\$ –
<i>Included in financial performance</i>						
Interest income	8,746	7,496	270	243	–	–
Administration costs	(375)	(375)	(15)	(15)	–	–
<i>Included in other comprehensive income</i>						
Remeasurement (losses) gains						
Return on assets excluding interest income	(3,721)	33,855	239	954	–	–
<i>Other</i>						
CATSA contributions	9,862	7,885	58	62	188	185
Plan participant contributions	3,483	3,366	58	62	–	–
Benefit payments and transfers	(3,543)	(3,356)	(121)	(111)	(188)	(185)
Balance, end of year	\$ 260,092	\$ 245,640	\$ 8,199	\$ 7,710	\$ –	\$ –
Present value of defined benefit liabilities						
Balance, beginning of year	\$ 213,582	\$ 202,596	\$ 5,243	\$ 5,033	\$ 20,054	\$ 20,609
<i>Included in financial performance</i>						
Current service cost	6,904	7,336	81	76	1,022	1,070
Interest expense	7,756	7,905	186	190	733	808
<i>Included in other comprehensive income</i>						
Remeasurement (gains) losses						
Actuarial (gains) losses arising from changes in demographic assumptions	–	(8,535)	–	103	–	(1,304)
Actuarial (gains) losses arising from changes in financial assumptions	(21,219)	5,760	(421)	65	(2,516)	(946)
Actuarial (gains) losses arising from experience adjustments	(471)	(1,490)	(177)	(175)	2	2
<i>Other</i>						
Plan participant contributions	3,483	3,366	58	62	–	–
Benefit payments and transfers	(3,543)	(3,356)	(121)	(111)	(188)	(185)
Balance, end of year	\$ 206,492	\$ 213,582	\$ 4,849	\$ 5,243	\$ 19,107	\$ 20,054
Net employee benefits asset (liability)	\$ 53,600	\$ 32,058	\$ 3,350	\$ 2,467	\$ (19,107)	\$ (20,054)

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

	March 31, 2022	March 31, 2021
Employee benefits asset, end of year		
RPP	\$ 53,600	\$ 32,058
SRP	3,350	2,467
	56,950	34,525
Employee benefits liability, end of year		
ODBP	(19,107)	(20,054)
	(19,107)	(20,054)
Employee benefits – net asset, end of year	\$ 37,843	\$ 14,471

(d) Employee benefits costs

The elements of employee benefits costs are as follows for the year ended:

	March 31							
	RPP		SRP		ODBP		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
Defined benefit cost recognized in financial performance								
Current service cost	\$ 6,904	\$ 7,336	\$ 81	\$ 76	\$ 1,022	\$ 1,070	\$ 8,007	\$ 8,482
Administration costs	375	375	15	15	–	–	390	390
Interest cost on defined benefit obligation	7,756	7,905	186	190	733	808	8,675	8,903
Interest income on plan assets	(8,746)	(7,496)	(270)	(243)	–	–	(9,016)	(7,739)
	\$ 6,289	\$ 8,120	\$ 12	\$ 38	\$ 1,755	\$ 1,878	\$ 8,056	\$ 10,036
Remeasurement of defined benefit plans recognized in other comprehensive income								
Return on plan assets excluding interest income	\$ (3,721)	\$ 33,855	\$ 239	\$ 954	\$ –	\$ –	\$ (3,482)	\$ 34,809
Actuarial gains	21,690	4,265	598	7	2,514	2,248	24,802	6,520
	\$ 17,969	\$ 38,120	\$ 837	\$ 961	\$ 2,514	\$ 2,248	\$ 21,320	\$ 41,329

Defined benefit cost is recognized in employee costs in note 13, and allocated among the program expenses in the Statement of Comprehensive Income.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

(e) Composition of plan assets

Based on the fair value at March 31, defined benefit plans' assets are comprised of:

	RPP		SRP		Total	
	2022	2021	2022	2021	2022	2021
Investment funds						
Equity securities						
Canadian equity funds	\$ 37,774	\$ 36,920	\$ 1,744	\$ 1,435	\$ 39,518	\$ 38,355
U.S. equity fund	–	–	1,576	1,553	1,576	1,553
International equity funds	100,000	99,740	1,491	1,468	101,491	101,208
Debt securities						
Canadian bond fund	90,674	86,332	–	–	90,674	86,332
Real estate	31,644	22,860	–	–	31,644	22,860
Canada Revenue Agency (CRA) refundable tax account	–	–	3,388	3,254	3,388	3,254
Cash and cash equivalents¹	–	(212)	–	–	–	(212)
Total plan assets, end of year	\$ 260,092	\$ 245,640	\$ 8,199	\$ 7,710	\$ 268,291	\$ 253,350

¹ Cash and cash equivalents consist of in-transit deposits and disbursements.

The fair value of all equity, debt, and real estate securities is determined based on quoted market prices in active markets. The assets held by the CRA in the refundable tax account are held in a non-interest bearing account. The fair value is based on the amounts transferred into the refundable tax account held by the CRA.

On a regular basis, an asset-liability modelling study is performed, which analyzes the timing and magnitude of future cash outflows of the defined benefit component of the RPP. It suggests an optimal investment structure to maximize investment returns while minimizing risk associated with the fluctuation of the benefit obligation due to variations in interest rates. As the obligation has similar characteristics to debt securities, the de-risking of the funded position is achieved via investments in debt securities while other types of investments are selected to increase the returns of the plan. Given the characteristics of the defined benefit component of the RPP, the optimal investment structure was to have 35% of plan assets invested in debt securities that have similar characteristics to the obligation. This reduces the risk associated with the volatility of the funded position while not impairing future investment returns.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

(f) Actuarial assumptions and sensitivity analysis

The actuarial assumptions used to determine the present value of the obligations are management's best estimates. They are established based on market expectations at the end of the reporting period, for the period over which the obligations are to be settled. The significant weighted average assumptions used to determine CATSA's liabilities are as follows:

	RPP		SRP		ODBP	
	2022	2021	2022	2021	2022	2021
Present value of defined benefit liability						
Discount rate	4.00%	3.50%	4.00%	3.50%	4.00%	3.50%
Long-term rate of compensation increase	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%
Inflation	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Mortality table ¹	CPM2014 Publ	CPM2014 Publ	CPM2014 Publ	CPM2014 Publ	CPM2014 Publ	CPM2014 Publ
Benefit costs						
Discount rate	3.50%	3.75%	3.50%	3.75%	3.50%	3.75%
Inflation	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Assumed medical cost trend rates						
Initial medical cost trend rate					5.14%	5.19%
Ultimate medical cost trend rate					3.92%	3.93%
Year ultimate reached					2040	2040

¹ Canadian Pensioners' Mortality 2014 – Public Sector, projected with improvement scale CPM-B.

The sensitivity analysis below was determined based on changes to the respective assumptions occurring at March 31, 2022, while holding all other assumptions constant:

	Change	Impact on defined benefit liabilities
Increase in discount rate	1%	\$ (39,517)
Decrease in discount rate	1%	52,165
Increase in long-term rate of compensation increase	1%	13,398
Decrease in long-term rate of compensation increase	1%	(11,945)
Increase in inflation	1%	34,367
Decrease in inflation	1%	(27,935)
Increase in life expectancy	1 year	5,612
Decrease in life expectancy	1 year	(5,461)
Increase in assumed medical cost trend rate	1%	3,124
Decrease in assumed medical cost trend rate	1%	(2,357)

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that a change in assumptions would occur in isolation of one another, as some of the assumptions may be correlated.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

(g) Future expected contributions

Under current legislation and regulations, the funding valuation of CATSA's RPP is required to be filed annually, unless the ratio of the solvency plan assets to solvency liabilities is 1.2 or greater, in which case it would be required at least every three years. In the event of a solvency or going-concern deficit, regulatory authorities require special contributions to be made over specified future periods.

There is no current legislative or regulatory requirement to file a funding valuation for CATSA's SRP or ODBP. However, CATSA's internal policy expects that a funding valuation for the SRP will be performed whenever CATSA performs a funding valuation for the RPP.

The most recent actuarial valuations for funding purposes, and the next required actuarial valuations, are as follows:

	Most recent actuarial valuation for funding purposes	Next required actuarial valuation for funding purposes
RPP	December 31, 2020	December 31, 2021
SRP	December 31, 2020	December 31, 2021
ODBP	N/A	N/A

CATSA estimates that cash payments to be made to its funded defined benefit pension plans for the year ending March 31, 2023, will total \$9,717, and consist of CATSA contributions of \$6,314 and plan participant contributions of \$3,403.

Cash payments to be made to the unfunded ODBP for the year ending March 31, 2023, will be equal to the benefits paid to plan participants. CATSA estimates that cash payments to be made to the ODBP for the year ending March 31, 2023, will total \$297.

As at March 31, 2022, the weighted average duration of the defined benefit obligation for the RPP, the SRP and the ODBP was 19.6 years (2021 – 20.9 years), 16.4 years (2021 – 18.1 years) and 20.4 years (2021 – 21.2 years), respectively.

(h) Employee costs

The following table provides a breakdown of employee costs for the years ended:

	March 31, 2022	March 31, 2021
Employee costs (excluding post-employment and termination benefits)	\$ 55,037	\$ 55,466
Post-employment benefits		
Defined benefit pension plans and other defined benefits plan	8,056	10,036
Defined contribution pension plan	879	783
Termination benefits	206	11
Total employee costs (note 13)	\$ 64,178	\$ 66,296

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

10. Provisions and contingencies

(a) Provisions

Several claims, audits and legal proceedings have been asserted or instituted against CATSA. By nature, these amounts are subject to many uncertainties and the outcome of the individual matters is not always predictable. The provisions were determined by taking into account internal analysis, consultations with external subject matter experts, and all available information at the time of financial statement preparation.

The provision amount as at March 31, 2022, relates to amounts assessed by Transport Canada and is unchanged from March 31, 2021.

(b) Contingencies

CATSA's contingent liabilities consist of claims and legal proceedings and decommissioning costs for which no provision is recorded.

(i) Claims and legal proceedings

As at March 31, 2022, there were no significant legal claims outstanding against CATSA.

(ii) Decommissioning costs

CATSA has identified contingent liabilities associated with the removal of Explosives Detection Systems equipment from airports across Canada, some of which contain hazardous materials, as well as the restoration of facilities contractually required under lease agreements. Since it is not probable that an outflow of economic resources will be required to settle these legal obligations, no provision has been recorded in the financial statements. Should the probabilities change in the future, the maximum undiscounted cash flow required to settle these liabilities between 2022/23 and 2036/37 (2021 – 2021/22 and 2030/31) is estimated to be \$3,391 (2021 – \$3,754).

Notes to the Financial Statements

(In thousands of Canadian dollars)

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11. Lease liabilities

CATSA has leases that are for office space and data centres. CATSA has included extension options in the measurement of its lease liabilities when it is reasonably certain to exercise the extension option.

A reconciliation of lease liabilities is as follows:

	March 31, 2022	March 31, 2021
Balance, beginning of year	\$ 10,674	\$ 22,927
Additions	10,430	5
Decreases	(49)	(8,624)
Lease payments	(4,014)	(3,973)
Finance costs	194	348
Foreign exchange revaluation	1	(9)
Balance, end of year	\$ 17,236	\$ 10,674
Balance, end of year		
Current	\$ 3,129	\$ 3,667
Non-current	14,107	7,007

During the year ended March 31, 2022, CATSA amended its corporate headquarters and warehouse lease agreements, resulting in an increase in lease liabilities.

CATSA recognized the following expenses not included in the measurement of the lease liabilities for the years ended:

	March 31, 2022	March 31, 2021
Variable lease payments	\$ 2,148	\$ 2,659
Low value leases	58	57
Short-term leases	–	64
Other lease costs (note 13)	\$ 2,206	\$ 2,780

Variable lease payments include operating costs, property taxes, insurance, and other service-related costs.

For the year ended March 31, 2022, CATSA recognized a total cash outflow for leases of \$6,220 (2021 – \$6,753).

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

The following table presents the undiscounted cash flows for contractual lease obligations:

	March 31, 2022	March 31, 2021
No later than 1 year	\$ 5,931	\$ 7,262
Later than 1 year and no later than 5 years	13,852	5,368
Later than 5 years	3,387	213
	\$ 23,170	\$ 12,843

12. Deferred government funding

A reconciliation of the deferred government funding liability is as follows:

	March 31, 2022	March 31, 2021
Deferred government funding related to operating expenses		
Balance, beginning of year	\$ 21,079	\$ 19,420
Parliamentary appropriations used to fund operating expenses (note 14)	674,625	628,069
Parliamentary appropriations for operating expenses recognized in financial performance	(677,463)	(626,410)
Balance, end of year	\$ 18,241	\$ 21,079
Deferred government funding related to capital expenditures		
Balance, beginning of year	\$ 479,306	\$ 498,794
Parliamentary appropriations used to fund capital expenditures (note 14)	6,259	53,720
Amortization of deferred government funding related to capital expenditures recognized in financial performance	(78,986)	(73,208)
Balance, end of year	\$ 406,579	\$ 479,306
Total deferred government funding, end of year	\$ 424,820	\$ 500,385

For additional information on government funding, see note 14.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

13. Expenses

The Statement of Comprehensive Income presents operating expenses by program activity. The following table presents operating expenses by major expense type for the years ended:

	March 31, 2022	March 31, 2021
Screening services and other related costs		
Payments to screening contractors	\$ 528,801	\$ 485,644
Uniforms and other screening costs	10,439	8,674
Trace and consumables	9,406	6,670
	548,646	500,988
Equipment operating and maintenance		
Equipment maintenance and spare parts	38,714	38,695
RAIC	663	503
Training and certification	546	17
	39,923	39,215
Program support and corporate services		
Employee costs (note 9)	64,178	66,296
Office and computer expenses	6,964	6,568
Other administrative costs ¹	6,256	6,939
Professional services and other business related costs ²	5,707	5,122
Other lease costs (note 11)	2,206	2,780
Communications and public awareness	873	945
	86,184	88,650
Depreciation and amortization		
Depreciation of property and equipment (note 6)	74,463	70,221
Depreciation of right-of-use assets (note 8)	3,611	3,655
Amortization of intangible assets (note 7)	2,588	2,250
	80,662	76,126
	\$ 755,415	\$ 704,979

¹ Other administrative costs include insurance, network and telephone expenses, and facilities maintenance.

² Other business related costs include travel expenses, conference fees, membership and association fees, and meeting expenses.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

Included in the previous table are costs directly associated with the impact of the COVID-19 pandemic. The following table summarizes CATSA's significant COVID-19 transactions, and the allocation of these amounts in the Statement of Comprehensive Income:

	March 31							
	PBS		HBS		NPS		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
Payments to Screening Contractors								
Temporary arrangements ¹	\$ 36,262	\$ 89,891	\$ 6,809	\$ 19,909	\$ 11,231	\$ 20,028	\$ 54,302	\$ 129,828
Temperature screening ²	7,341	14,119	–	–	9,781	17,299	17,122	31,418

¹ Payments to screening contractors under temporary arrangements to maintain the certified screening officer workforce at levels deemed appropriate for CATSA to respond as the aviation industry recovers. These amounts have been allocated in the Statement of Comprehensive Income based on the historical distribution of payments to screening contractors.

² Payments to screening contractors to conduct temperature screening of passengers and non-passengers at 15 designated airports. These amounts have been based on the number of screening stations open and screening officers scheduled to operate them. In August 2021, Transport Canada removed the requirement for CATSA to perform temperature screening.

14. Government funding

Parliamentary appropriations were as follows for the years ended:

	March 31, 2022	March 31, 2021
Main estimates	\$ 567,829	\$ 562,700
Supplementary estimates	291,711	355,029
Total voted appropriations	859,540	917,729
Capital reprofile to future year-in progress ¹	(25,468)	(14,001)
Unused portion of parliamentary appropriations	(149,312)	(217,966)
Total parliamentary appropriations used	\$ 684,760	\$ 685,762

¹ The capital reprofile in progress for the year ended March 31, 2021, was approved during the year ended March 31, 2022.

Parliamentary appropriations used to fund operating expenses and capital expenditures were as follows for the years ended:

	March 31, 2022	March 31, 2021
Parliamentary appropriations used to fund operating expenses (note 12)	\$ 674,625	\$ 628,069
Parliamentary appropriations used to fund capital expenditures (note 12)	6,259	53,720
Parliamentary appropriations for lease payments	3,876	3,973
Total parliamentary appropriations used	\$ 684,760	\$ 685,762

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(In thousands of Canadian dollars)

Year ended March 31, 2022

15. Fair values and risks arising from financial instruments

FAIR VALUES OF FINANCIAL INSTRUMENTS AND FAIR VALUE HIERARCHY

Derivative financial instruments are recorded at fair value on the Statement of Financial Position. The fair values of cash, receivables related to screening services, trade and other payables, and current holdbacks approximate their carrying amount due to the current nature of these instruments.

Financial instruments recorded at fair value on the Statement of Financial Position use a hierarchy to categorize the inputs to valuation techniques used to measure them. The fair value hierarchy gives the highest priority to quoted prices and the lowest priority to unobservable inputs as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

The carrying amounts and corresponding fair values using the fair value hierarchy of CATSA's remaining financial assets and liabilities are as follows:

	March 31, 2022		March 31, 2021	
	Carrying Amount	Fair Value (Level 2)	Carrying Amount	Fair Value (Level 2)
Financial instruments measured at fair value				
Derivative financial assets ¹	\$ 40	\$ 40	\$ –	\$ –
Derivative financial liabilities ¹	–	–	1,197	1,197

¹ The fair value is based on a discounted cash flow model based on observable inputs.

There were no transfers between levels during the years ended March 31, 2022, or 2021.

Notes to the Financial Statements

(In thousands of Canadian dollars)

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FINANCIAL RISK FACTORS

CATSA is exposed to a variety of financial risks: market risk, liquidity risk and credit risk.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. CATSA's key market risk relates to currency risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. CATSA is exposed to currency risk on its trade and other payables denominated in a currency other than the Canadian dollar (CAD), which is the functional currency of CATSA. The risk arises mainly from transactions denominated in United States dollars (USD). CATSA's policy on currency risk requires that CATSA minimize currency risk to protect the value of foreign cash flows, both committed and anticipated, from the impact of exchange rate fluctuations. To that end, CATSA has implemented a strategy to help mitigate this risk by entering into foreign exchange forward contracts.

The following table provides the total foreign currency exposure related to amounts recorded in trade and other payables denominated in the USD and their CAD equivalent:

	USD		CAD	
March 31, 2022	\$	1,542	\$	1,929
March 31, 2021		3,582		4,499

Assuming all other variables remain constant, a 5% depreciation or appreciation of the USD against the CAD would result in an increase or decrease in financial performance of \$96 (2021 – \$225).

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are to be settled by delivering cash or another financial asset. Liquidity risk is low since CATSA does not have debt instruments to service and receives regular funding from the Government of Canada. CATSA manages its liquidity risk by preparing and monitoring forecasts of cash flows for anticipated operating and investing activities. Also, the Board of Directors reviews and approves CATSA's operating and capital budgets.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

The carrying value of trade and other payables, holdbacks and derivative financial liabilities represent the maximum liquidity risk exposure for CATSA. The following table summarizes the contractual maturities of these financial liabilities:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total at March 31, 2022
Trade and other payables	\$ 92,124	\$ 14,624	\$ –	\$ 106,748
Holdbacks	58	1,579	–	1,637
	Less than 3 months	3 months to 1 year	Greater than 1 year	Total at March 31, 2021
Trade and other payables	\$ 92,664	\$ 17,527	\$ –	\$ 110,191
Holdbacks	12,116	10,236	–	22,352
Derivative financial liabilities	423	704	70	1,197

CATSA's strategy for managing liquidity risk remains unchanged from March 31, 2021.

(c) Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to CATSA. As a means of mitigating risk of financial loss from defaults, CATSA has adopted a practice of only extending credit to creditworthy counterparties. CATSA's exposure and the creditworthiness of its counterparties are continuously monitored. As required, CATSA establishes a credit loss provision that reflects the estimated lifetime credit loss of receivables.

CATSA is exposed to credit risk through its cash, screening services receivables and foreign exchange forward contracts. The maximum exposure to credit risk of CATSA at March 31, 2022, and 2021, was the carrying value of these assets.

(i) Screening services – supplemental and other

Prior to extending credit to a new customer, CATSA performs a formal credit review to determine a customer's credit-worthiness and the appropriate terms. An external credit-scoring agency is used to perform this assessment. In addition, CATSA performs credit reviews at regular intervals or if triggered by information that a customer's financial or corporate circumstances have changed.

CATSA had no supplemental or other screening services receivables at March 31, 2022, or 2021.

(ii) Foreign exchange forward contracts

CATSA's policy on currency risk requires that all significant foreign exchange forward contracts used to economically hedge a foreign currency exposure are entered into with counterparties holding credit ratings equivalent to or better than that of the major Canadian banks.

	March 31, 2022		March 31, 2021	
	Notional	Fair Value	Notional	Fair Value
Foreign exchange forward contracts ¹	\$ 17,901	\$ 17,941	\$ 20,408	\$ 19,211

¹ As at March 31, 2022, the foreign exchange forward contracts' rates are between 1.2389 and 1.3286 for foreign exchange forward contracts in USD and the maturity dates are between April 6, 2022 and April 6, 2023.

Notes to the Financial Statements

(In thousands of Canadian dollars)

Year ended March 31, 2022

16. Contractual arrangements

In the normal course of operations, CATSA enters into contractual arrangements for the supply of goods and services. These contractual arrangements are subject to authorized appropriations and termination rights which allow CATSA to terminate the contracts without penalty at its discretion. The most significant arrangements relate to contracts signed with screening contractors for the provision of screening services, as well as with vendors for screening equipment and related maintenance.

The following table provides the remaining pre-tax balance on these contractual arrangements:

	March 31, 2022	March 31, 2021
Operating	\$ 1,816,147	\$ 2,283,534
Capital	5,814	10,688
	\$ 1,821,961	\$ 2,294,222

Subsequent to March 31, 2022, CATSA signed a contract with a new provider of screening equipment maintenance services. Transition from the incumbent to the new provider will commence in fiscal 2022/23. Amounts recorded in the table above exclude this contract as it was signed after the reporting period.

17. Related party transactions

CATSA had the following significant transactions with related parties during the year.

(a) Government of Canada, its agencies and other Crown corporations

CATSA is wholly owned by the Government of Canada, and is under common control with other Government of Canada departments, agencies and Crown corporations. CATSA enters into transactions with these entities in the normal course of operations. These related party transactions are based on normal trade terms applicable to all individuals and corporations.

CATSA's primary source of funding is parliamentary appropriations received from the Government of Canada. Government funding of \$760,325 (2021 – \$703,591), as recognized in the Statement of Comprehensive Income, includes parliamentary appropriations for operating expenses, parliamentary appropriations for lease payments, and amortization of deferred government funding related to capital expenditures. Parliamentary appropriations receivable of \$91,760 (2021 – \$110,788), are included in trade and other receivables on the Statement of Financial Position.

Notes to the Financial Statements

(In thousands of Canadian dollars)

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(b) Key management personnel

As at March 31, 2022, key management personnel of CATSA are composed of the 10 (2021 – 11) Board members and the five (2021 – five) members of the senior management team.

The compensation of Board members and other members of key management is as follows for the years ended:

	March 31, 2022	March 31, 2021
Salaries, other short-term employee benefits and termination benefits	\$ 1,674	\$ 1,730
Post-employment benefits	293	282
	\$ 1,967	\$ 2,012

Other than the above compensation, there were no other related party transactions involving key management personnel and their close family members for the years ended March 31, 2022, or 2021.

(c) Transactions with CATSA's post-employment benefit plans

Transactions with the RPP, SRP and ODBP are conducted in the normal course of business. The transactions with CATSA's post-employment benefit plans consist of contributions as determined by actuarial valuations, as disclosed in note 9. There were no other transactions during the years ended March 31, 2022, or 2021.

18. Capital management

As a federal Crown corporation, CATSA is subject to the FAA which, in general, restricts it from borrowing money. As a result, CATSA relies upon appropriations from Parliament to support its financial obligations and strategic requirements.

The primary objective in managing capital is to provide sufficient liquidity to support CATSA's financial obligations and its operating and strategic plans. CATSA manages its capital in accordance with relevant Treasury Board of Canada Secretariat directives, in that appropriated funds are drawn from the Consolidated Revenue Fund for the purpose of meeting short-term funding requirements.

CATSA's capital is comprised of cash, trade and other receivables, trade and other payables, current holdbacks, current lease liabilities and provisions.

CATSA's objectives, policies and processes for managing capital have not changed during the years ended March 31, 2022, or March 31, 2021.

CATSA is not subject to externally imposed capital requirements.

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Year ended March 31, 2022

19. Net change in working capital balances and supplementary cash flow information

The following table presents the net change in working capital balances for the years ended:

	March 31, 2022	March 31, 2021
Decrease in trade and other receivables	\$ 7,901	\$ 35,877
Decrease (increase) in inventories	1,147	(1,645)
Decrease (increase) in prepaids	177	(3,617)
Increase (decrease) in trade and other payables	18,140	(15,877)
Increase in provisions	–	200
(Decrease) increase in holdbacks	(30)	30
(Decrease) increase in deferred government funding related to operating expenses	(2,838)	1,659
	\$ 24,497	\$ 16,627

The change in trade and other receivables excludes an amount of \$9,958 (2021 – \$12,093) in relation to government funding for capital expenditures, as the amount relates to investing activities.

The change in inventories excludes an amount of \$1,514 (2021 – \$3,603) resulting from net write-downs of inventories. The amount is included as part of other non-cash transactions on the Statement of Cash Flows.

The change in prepaids excludes an amount of \$Nil (2021 – \$1,101) in relation to the acquisition of property and equipment, as the amount relates to investing activities.

The change in trade and other payables excludes an amount of \$21,583 (2021 – \$14,650) in relation to the acquisition of property and equipment and intangible assets, as the amount relates to investing activities.

The change in holdbacks excludes an amount of \$20,685 (2021 – \$545) in relation to the acquisition of property and equipment, as the amount relates to investing activities.

Notes to the Financial Statements

(In thousands of Canadian dollars)

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20. Security Screening Services Commercialization Act

As part of Budget 2019, the Government of Canada announced its intention to introduce legislation to enable the creation of an independent, not-for-profit entity, established by industry, which would assume the responsibility for aviation screening at Canada's airports. The *Security Screening Services Commercialization Act* (SSSCA) received Royal Assent in June 2019. The SSSCA allows for the sale of CATSA's assets and liabilities and the transfer of screening operations to the new entity.

These developments have not changed CATSA's mandate and CATSA intends to continue to realize its assets and discharge its liabilities in the normal course of business.

Formal negotiations related to the sale of CATSA's assets and liabilities were put on hold in March 2020 as the aviation industry responded to the COVID-19 pandemic. The timeline for the potential sale remains undetermined.

21. Impact of COVID-19 Pandemic

As a result of the COVID-19 pandemic, there has been a reduction in passenger volumes at Canadian airports for the years ended March 31, 2022, and 2021. CATSA's screening operations and screening equipment have been impacted, as some screening lines remain temporarily closed.

Given the impact on screening operations, CATSA entered into temporary arrangements with its third party screening contractors. These arrangements have resulted in a reduction in screening hours purchased that does not fully reflect the decline in passenger volumes, ensuring that CATSA maintains the certified screening officer workforce at a level deemed appropriate to contain costs while allowing CATSA the flexibility to respond as the aviation industry recovers.

For more information, please visit our website:

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